3 T.C. 565 (1944)

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To qualify for tax relief under Section 107 of the Internal Revenue Code (as it existed in 1940), at least 95% of compensation for services rendered over five or more years had to be received upon completion of the services and be taxable in a single taxable year.

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Summary

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Frank M. Slough and J. Helen Slough Juergens, a patent law partnership, sought tax relief under Section 107 of the Internal Revenue Code for compensation received for services rendered to a client over more than five years. The partnership received a portion of the fees in 1940 and the remainder in 1941. The Tax Court held that the taxpayers were not entitled to relief under Section 107 because they did not receive at least 95% of the total compensation in a single taxable year upon completion of the services. The Court emphasized that the purpose of the statute was to alleviate the hardship of taxing aggregated compensation in one year, a condition not met when payments were spread across multiple years.

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Facts

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Frank M. Slough and J. Helen Slough Juergens were partners in a patent law firm.r
From January 20, 1934, through September 1940, the firm provided continuous services to Alexander Rava, an inventor.r
The total fee for these services was $20,875.r
The firm received $1,500 on October 15, 1940, $10,000 on October 22, 1940, and $9,375 on January 21, 1941.r
Frank M. Slough received $7,667 and J. Helen Slough Juergens received $3,833 from the $11,500 received in 1940.r

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Procedural History

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The Commissioner of Internal Revenue determined income tax deficiencies for the petitioners for the 1940 calendar year.r
The petitioners contested the deficiencies in the Tax Court, claiming they were entitled to the benefits of Section 107 of the Internal Revenue Code.r
The Tax Court consolidated the proceedings.r

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Issue(s)

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Whether the taxpayers, who received less than 95% of the total fee for personal services in the taxable year after completing such services, are entitled to the benefits of Section 107 of the Internal Revenue Code.r

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Holding

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No, because Section 107 requires that at least 95% of the total compensation for the services be received upon completion and be taxable in a single taxable year to qualify for the tax relief provided.r

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Court’s Reasoning

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The court acknowledged that Section 107 was intended as a relief provision for taxpayers but emphasized that taxpayers must strictly adhere to the conditions prescribed by Congress to qualify for such relief.r
The court stated that the essence of the

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