7 T.C. 432 (1946)

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Payments received for services rendered over a period exceeding 36 months must be considered in determining if compensation received in one taxable year constitutes at least 80% of the total compensation for those services, as required by Section 107(a) of the Internal Revenue Code for income averaging.

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Summary

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Dr. Nast sought to apply Section 107(a) of the Internal Revenue Code to a lump-sum payment he received in 1943 for medical services rendered to a family over several years. The Tax Court ruled against him, holding that all payments received during the entire period the services were rendered must be considered when determining if the lump-sum payment met the 80% threshold for income averaging. Because Dr. Nast had received payments on the account before 1943, the 1943 payment did not constitute 80% of the total compensation; therefore, he could not average the income over previous years.

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Facts

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Dr. Jerome Nast provided medical services to a family from 1924 onwards, maintaining a running account of charges. Due to a close personal relationship, bills were rendered intermittently, and the patient made payments whenever convenient, despite being financially capable of paying at any time. From July 1, 1934, to April 22, 1939, charges accumulated. On September 13, 1937, $150 was paid. By April 22, 1939, the balance was $990. From April 22, 1939, to September 4, 1943, additional charges of $1,856 accrued. On September 4, 1943, a $1,946 payment was made, balancing the account.

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Procedural History

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The Commissioner of Internal Revenue determined deficiencies in Dr. and Mrs. Nast's 1943 income tax returns. The Nasts contested, arguing they were entitled to the benefits of Section 107(a) due to the lump-sum payment. The cases were consolidated in the Tax Court.

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Issue(s)

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Whether the Tax Court erred in not applying Section 107(a) of the Internal Revenue Code to a lump-sum payment received by Dr. Nast, where the payment represented less than 80% of the total compensation received for services rendered over a period exceeding 36 months, considering prior payments made on the account.

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Holding

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No, because Section 107(a) requires that all compensation received during the entire service period must be considered when determining if the 80% threshold is met. Since Dr. Nast received payments on the account before the lump-sum payment in 1943, the 1943 payment did not constitute 80% of the total compensation.

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Court's Reasoning

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The court reasoned that Section 107(a) requires consideration of the total compensation

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