9 T.C. 549 (1947)

When an employer reimburses an employee for a loss incurred on the sale of a home, necessitated by a job-related relocation, the reimbursement is treated as part of the amount realized from the sale, rather than as additional compensation.

Summary

Otto Schairer sold his home at a loss after his employer, RCA, directed him to relocate closer to his new work location. RCA reimbursed him for the loss, pursuant to a prior agreement. The Tax Court had to determine whether the reimbursement constituted taxable income (additional compensation) or should be treated as part of the amount realized from the sale of the home. The court held that the reimbursement should be treated as part of the amount realized, resulting in no taxable gain or deductible loss, as it was intended to make the employee whole, not to compensate him.

Facts

Otto Schairer, a vice president at RCA, owned a home in Bronxville, New York. RCA constructed new laboratories near Princeton, New Jersey, and Schairer was directed to relocate to be readily available at the new labs at all times. RCA President David Sarnoff promised that if Schairer sold his Bronxville home at a loss due to the relocation, RCA would reimburse him. Schairer sold his home for $20,000, incurring a loss of $14,644.20 after accounting for depreciation and selling expenses. RCA reimbursed Schairer for this loss.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Schairer's income tax, arguing that the $14,644.20 reimbursement from RCA constituted taxable income. Schairer contested this determination in the Tax Court.

Issue(s)

Whether the reimbursement received by the taxpayer from his employer for the loss incurred on the sale of his home, due to a mandatory job relocation, constitutes taxable income under Section 22(a) of the Internal Revenue Code (as additional compensation) or should be treated as part of the "amount realized" under Section 111(a) and (b) of the Internal Revenue Code.

Holding

No, the reimbursement should be treated as part of the "amount realized" because the payment was intended to make the employee whole for the loss incurred due to the relocation, not as compensation for services.

Court's Reasoning

The court reasoned that the reimbursement was directly tied to the sale of the home and the resulting loss. The court emphasized that RCA's payment was intended solely to offset the financial detriment Schairer suffered by complying with the company's relocation directive. The court distinguished this situation from cases like *Old Colony Trust Co. v. Commissioner*, where employers directly paid employees' income taxes. In those cases, the payments were deemed additional compensation because they directly supplemented the employees' income. Here, the payment was contingent on the loss from the sale; if Schairer had sold his home at or above its adjusted basis, he would have received no payment from RCA. The court drew an analogy to an insurance policy: "Suppose that petitioner had some kind of a policy of insurance which insured him against a loss from the sale of his private residence and under such a policy collected $ 14,644.20 to reimburse him for such loss, could it be contended that petitioner would have to return such $ 14,644.20 as a part of his gross income? We think not. Such $ 14,644.20 would merely be a restoration of his capital and would not be taxable income." The court concluded that treating the reimbursement as part of the amount realized aligned with the economic reality of the situation.

Practical Implications

This case provides a framework for analyzing the tax implications of employer reimbursements related to employee relocations. It clarifies that reimbursements specifically designed to offset losses incurred during a mandatory move, and not tied to compensation for services, are generally treated as adjustments to the sale price of the property. The key takeaway for practitioners is to meticulously document the purpose and nature of such reimbursements to ensure proper tax treatment. Later cases have cited *Schairer* for the principle that the form of a transaction should be analyzed in light of its economic substance to determine its true tax consequences. This case highlights the importance of establishing that a payment is directly linked to mitigating a loss, rather than supplementing income.