Mooney v. Commissioner, 9 T.C. 713 (1947)

Bonus payments are considered earned in the year they are received, not necessarily the year the bonus was declared or the services were initially rendered, for the purpose of determining tax liability related to foreign residency.

Summary

The case addresses when bonus income is considered earned for tax purposes, particularly concerning the exclusion for income earned outside the United States. Mooney, a U.S. citizen working for General Motors, received bonus payments in 1939 but had been outside the U.S. for a significant portion of that year. The central dispute was whether the bonuses were earned in 1939, allowing for an exclusion based on his time spent abroad that year, or in prior years when the bonuses were declared. The Tax Court held that the bonuses were earned in 1939, the year of receipt, and therefore Mooney was entitled to exclude a portion of the bonus income based on his foreign residency during that year. The court emphasized the connection between continued employment and the earning of the bonus.

Facts

Mooney, a U.S. citizen, worked for General Motors. He received bonus payments in 1939. He was absent from the United States for 198 days in 1939. General Motors' bonus plan was designed to reward employees who significantly contributed to the corporation's success through inventions, ability, industry, loyalty, or exceptional service. Employees were credited with the bonus monthly, ratably, over a four-year period. Full payment was contingent on continued service for four years. If employment ceased earlier, the employee received a portion of the bonus based on their time of employment. Stock certificates were delivered to a custodian, who held an irrevocable power of attorney to retransfer the stock if undelivered.

Procedural History

The Commissioner of Internal Revenue assessed a deficiency against Mooney, arguing that the bonus payments were earned in prior years. Mooney petitioned the Tax Court for a redetermination of the deficiency. The Tax Court then heard the case to determine the proper tax treatment of the bonus income.

Issue(s)

Whether bonus payments received in 1939 should be considered earned in 1939, allowing for exclusion from gross income based on foreign residency during that year, or whether they should be attributed to prior years when the bonus was declared, thus affecting the amount of excludable income.

Holding

© 2025 SCOTUSreports.com. All rights reserved.

Yes, the bonus payments received in 1939 were earned in 1939 because the employee's continued service was a prerequisite to receiving the bonus, indicating that the bonus was being earned throughout the four-year period of the plan.

Court's Reasoning

The Tax Court reasoned that the bonus payments were earned ratably over the four-year period of the bonus plan, contingent upon continued employment. The court emphasized that the employee received the bonus in full only if they continued to serve for four years. This demonstrated a causal relationship between the earning and receipt of the bonus. The court rejected the argument that the bonus was earned in the year it was declared because the employee's contributions are not ascertained over only one year. The court stated, "Free from all restrictions' is the description of stock when delivered; therefore, prior to delivery, it was restricted… so long as he is employed (up to four years), the stock is not his, but is becoming his by virtue of such employment; in other words, is being earned." The court found that the bonus plan aimed "not only to compensate services rendered, but also to encourage further efforts by making its employees partners in the corporation's prosperity."

Practical Implications

This decision clarifies the timing of income recognition for bonus payments in the context of foreign income exclusions. It highlights the importance of the terms of the bonus plan, especially the conditions for receiving the bonus. The case suggests that if a bonus is contingent on continued employment or future performance, it is more likely to be considered earned when received, rather than when declared. This impacts how taxpayers calculate their foreign income exclusion under Section 116(a) (now Section 911) of the Internal Revenue Code. The ruling affects tax planning for individuals working abroad who receive bonus compensation, ensuring they can properly allocate income to the relevant tax year based on their residency status. Later cases may distinguish this ruling based on differing terms of compensation plans or different interpretations of when income is considered "earned."

© 2025 SCOTUSreports.com. All rights reserved.