***10 T.C. 631 (1948)***

Income earned by a decedent, even if not legally enforceable during their lifetime, is taxable to the estate as "income in respect of a decedent" when the estate receives it after death.

**Summary**

The Estate of Edgar V. O'Daniel challenged a deficiency assessment by the Commissioner of Internal Revenue, arguing that a bonus awarded to the decedent's estate after his death was not taxable income because the decedent had no enforceable right to it during his lifetime. The Tax Court held that the bonus was taxable to the estate as income in respect of a decedent under Section 126 of the Internal Revenue Code, even though the decedent had no legal right to the bonus before death. The court reasoned that Congress intended to tax all income earned by the decedent, regardless of whether it was an enforceable right at the time of death.

**Facts**

Edgar V. O'Daniel was employed by American Cyanamid Co. and participated in its bonus plan for many years. Under the plan, employees had no enforceable right to a bonus until designated by a company officer. O'Daniel died on November 4, 1943. On March 14, 1944, the company designated a bonus of $28,143.65 for O'Daniel, which was paid to his estate on March 16, 1944.

**Procedural History**

The Estate did not report the bonus as income on its 1944 tax return. The Commissioner of Internal Revenue determined a deficiency, adding the bonus to the estate's income. The Estate petitioned the Tax Court for a redetermination of the deficiency.

**Issue(s)**

Whether a bonus awarded to a decedent's estate after death, for services rendered by the decedent but not legally enforceable during the decedent's lifetime, constitutes taxable income to the estate as "income in respect of a decedent" under Section 126 of the Internal Revenue Code.

**Holding**

Yes, because Section 126 of the Internal Revenue Code taxes income earned by the decedent but received by the estate after death, regardless of whether the decedent had a legally enforceable right to the income during their lifetime; the right to receive the amount was acquired by the decedent's estate from the decedent.

**Court's Reasoning**

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The Tax Court emphasized that Section 126 was enacted to address the hardship of including all uncollected income in the decedent's final taxable period. The court quoted the Finance Committee Report, stating that the section aimed to treat the right to income in the hands of the recipient (here, the estate) in the same manner as it would have been treated in the hands of the decedent. The court stated that "Congress meant that no income earned by the decedent should escape income tax and meant to tax to the estate amounts of such income received by it after the death of the decedent where the estate '[acquired] the right to such amounts by reason of the death of the decedent.'" The court found that the bonus was earned by the decedent's services and received by the estate as his representative, thus falling within the scope of Section 126(a)(1)(A).

**Practical Implications**

This case clarifies that "income in respect of a decedent" under Section 126 includes amounts earned by the decedent, even if the right to receive them was not legally enforceable during their lifetime. This is crucial for estate planning and tax compliance. It emphasizes that the focus is on whether the income was earned by the decedent's efforts, not on the existence of a legally binding claim at the time of death. Later cases have applied this principle to various forms of deferred compensation, such as stock options and retirement benefits, reinforcing the idea that such income is taxable to the recipient as income in respect of a decedent.

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