Mahler v. Commissioner, 12 T.C. 185 (1949)

The Current Tax Payment Act of 1943 does not permit a taxpayer to exclude income attributable to a prior year from their current year's income when calculating the benefits of income averaging under Section 107(a) of the Internal Revenue Code.

Summary

The petitioner, a lawyer, received lump-sum payments in 1943 for services rendered over several years. He sought to reduce his 1943 tax liability by excluding income attributable to 1942, recomputing his 1942 tax, and applying the Current Tax Payment Act of 1943. The Tax Court held that the 'forgiveness' features of the 1943 Act do not allow a taxpayer to exclude income attributable to a prior year from their current income when calculating the benefits of income averaging. The Court relied on the precedent set in *William F. Knox, 10 T.C. 550*.

Facts

The petitioner, a lawyer practicing in New York, received two fees in 1943 for services rendered over multiple years. One fee of $18,000 was from Wyandotte Worsted Co. for services performed between October 1, 1940, and November 7, 1943. Another fee of $9,850 was for services rendered in the Estate of William H. Gilmore, between June 24, 1940, and December 1, 1943. A portion of both fees was attributable to 1942, totaling $8,720.76.

Procedural History

The Commissioner determined a deficiency in the petitioner's 1943 income tax liability. The petitioner contested this determination, arguing that he should be allowed to exclude income attributable to 1942 when calculating his 1943 tax liability under Section 107(a) of the Internal Revenue Code and the Current Tax Payment Act of 1943. The case was brought before the Tax Court.

Issue(s)

Whether the "forgiveness" features of Section 6 of the Current Tax Payment Act of 1943 permit a taxpayer to exclude income received in a lump sum in 1943 that is attributable to prior years (specifically 1942) when calculating income averaging benefits under Section 107(a) of the Internal Revenue Code.

Holding

No, because the decision in *William F. Knox, 10 T.C. 550* is controlling on this issue and does not allow for such an exclusion.

Court's Reasoning

The Tax Court found that the facts of the case were substantially similar to those in *William F. Knox*. In *Knox*, the court held that the Current Tax Payment Act of 1943 does not allow a taxpayer to exclude income attributable to a prior year when calculating the benefits of income averaging under Section 107. The Court stated, "The decision in William F. Knox, 10 T. C. 550, is controlling on the sole contested issue here. Respondent's determination must be overruled." This means the taxpayer cannot recompute their 1942 tax liability in the way they propose to reduce their 1943 tax burden.

Practical Implications

This case clarifies the interaction between income averaging provisions (like Section 107, now largely superseded) and the one-time tax forgiveness provisions of the Current Tax Payment Act of 1943. It limits the ability of taxpayers to manipulate their tax liability by retroactively reallocating income and utilizing the forgiveness features of the 1943 Act. Attorneys advising clients on income averaging and tax planning strategies should be aware that the "forgiveness" features of temporary tax laws are narrowly construed and do not allow taxpayers to arbitrarily shift income between tax years to minimize their overall tax burden. Later cases would likely focus on analogous provisions in subsequent tax laws with similar intent.

