11 T.C. 512 (1948)

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Payments to former employees after a corporate reorganization may be considered gifts rather than compensation, especially when the payments are made long after the services were rendered, the recipient was fully compensated at the time of employment termination, and the payor does not deduct the payment as compensation.

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Summary

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Bert P. Newton, a former employee of Standard Steel Car Co., received $5,000 from Standard Car Finance Corporation twelve years after his employment ended following a corporate reorganization. The IRS determined the payment was taxable income. Newton argued it was a gift. The Tax Court, relying on *Bogardus v. Commissioner*, held that the payment was a gift, not compensation, because it was made long after Newton's employment ended, he had been fully compensated, and the payor corporation treated the payment as a gift.

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Facts

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Bert P. Newton worked for Standard Steel Car Co. until February 28, 1931, and was fully compensated. In 1930, Standard Steel Car Co. reorganized, transferring assets to Standard Car Securities Co., subject to liabilities, including pension obligations. Standard Car Securities Co. later transferred assets to Standcar Securities Corporation, and then Standcar Securities Corporation transferred assets to Standard Car Finance Corporation. In 1942, Standard Car Finance Corporation paid Newton $5,000, characterizing it as a "gratuitous allowance or gift." Newton had no agreement regarding this payment, and Standard Car Finance Corporation did not deduct the payment for tax purposes.

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Procedural History

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The Commissioner of Internal Revenue determined a deficiency in Newton's income tax, including the $5,000 payment as taxable income. Newton petitioned the Tax Court, arguing the payment was a gift. The Tax Court ruled in favor of Newton regarding the gift issue, and also addressed the issues of a loss on sale of real estate and depreciation deduction.

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Issue(s)

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1. Whether the $5,000 payment received by Newton from Standard Car Finance Corporation constituted taxable income or a nontaxable gift.

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Holding

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1. Yes, the $5,000 payment was a gift because the intent of the payor corporation, Standard Car Finance Corporation, was to make a gift, Newton had been fully compensated for his services years prior, and the payment was made long after the services were rendered.

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Court's Reasoning

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The court relied heavily on *Bogardus v. Commissioner*, emphasizing that gift and compensation are mutually exclusive. The court considered several factors: (1) the

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payment was made long after Newton's employment; (2) Newton had been fully compensated; (3) Standard Car Finance Corporation treated the payment as a gift, not claiming a deduction; (4) The directors of Standard Car Finance Corporation used the terms "gratuitous allowances" and "gifts"; (5) Newton was not a pensioner. The court rejected the IRS's argument that the prior setting up of pension reserves indicated an intent to compensate, as Newton was not a pensioner. The court also noted that although payments were sometimes based on length of service, Newton received the payment despite not meeting the length-of-service requirement. The court concluded that the intent was to make a gift, as expressed by the language used and the testimony of J. Frank Drake, an officer involved in the matter, who stated the purpose "was nothing more or less than to just make some gifts to these people."

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