McAdow v. Commissioner, 12 T.C. 31 (1949)

The determination of whether a transfer of property constitutes a gift (excludable from gross income) or compensation for services (includible in gross income) depends on the intent of the transferor, gathered from the surrounding facts and circumstances.

Summary

Richard C. McAdow received securities from Henry R. Benjamin and Beatrice B. McEvoy. The IRS argued these were compensation for services and taxable income. McAdow contended they were gifts. The Tax Court held that the securities were gifts, based on the transferors' intent, as evidenced by gift tax returns, ledger entries, and testimony, outweighing the IRS's argument that past services warranted compensation. The court emphasized that the transferors consistently treated the transfers as gifts, and that McAdow's past services were incidental to his employment by the transferors' father, not direct compensation from them.

Facts

William E. Benjamin employed Richard C. McAdow for many years. McAdow also acted as trustee for Benjamin family trusts. After William E. Benjamin's death, his children, Henry and Beatrice, transferred securities to McAdow. The transferors documented the transfers as gifts. Henry testified he and Beatrice wanted to make a gift to McAdow because he was upset about not being named an executor-trustee in their father's will.

Procedural History

The Commissioner of Internal Revenue determined that the value of the securities received by McAdow should be included in his gross income as compensation for services. McAdow petitioned the Tax Court for a redetermination. The Tax Court reviewed the evidence and determined that the securities were gifts and not compensation.

Issue(s)

Whether the securities transferred to McAdow by Henry R. Benjamin and Mrs. McEvoy were in payment for services rendered (and therefore includible in income), or constituted gifts (and as such, were excludable from income).

Holding

No, because the evidence, including gift tax returns and testimony, demonstrated that the transferors intended the securities as a gift motivated by friendship and affection, not as compensation for services rendered. The court found the IRS's argument that the transfers were compensation for past services unpersuasive.

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Court’s Reasoning

The Tax Court emphasized that the key to determining whether the transfer was a gift or compensation was the intent of the transferors. The court considered several factors:

- The transferors expressly labeled the transfer as a

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