14 T.C. 494 (1950)

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An award received for winning a contest is taxable income when it represents compensation for services rendered, rather than a gift, especially when the contest benefits the payor’s business interests.

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Summary

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Herbert Stein won a $25,000 war bond prize in a contest sponsored by Pabst Brewing Co. The contest sought the best postwar employment plans. The Tax Court ruled that the award was taxable income, not a gift, because it compensated Stein for his economic expertise and directly benefited Pabst’s business by promoting its brand. The court also denied Stein’s deduction for alleged editorial assistance from his wife, finding no agreement for compensation and no actual payment.

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Facts

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Pabst Brewing Co., in celebration of its centennial, announced a contest in late 1943 offering $50,000 in awards for the best postwar employment plans. The announcement was widely publicized in paid advertisements. Herbert Stein, an economist, entered the contest and won the first prize of $25,000 in war bonds. The contest rules stipulated that all submitted plans became Pabst’s property, with the right to publish and distribute them. Pabst subsequently published the winning plans in a booklet, distributed it to government officials, and advertised its availability to the public.

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Procedural History

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Stein initially reported the $25,000 award as income but later filed a claim for a

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refund, arguing it was a gift. The Commissioner of Internal Revenue denied the refund, leading to a deficiency assessment. Stein petitioned the Tax Court, contesting the deficiency.

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Issue(s)

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1. Whether the $25,000 war bond award received by Stein from Pabst was taxable income or a tax-exempt gift?

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2. Whether Stein could deduct $2,500 for editorial assistance allegedly provided by his wife in preparing the winning plan?

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Holding

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1. No, because the award was compensation for services, not a gift, and thus constituted taxable income.

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2. No, because there was no agreement to compensate his wife, no actual payment made, and no basis for attributing a portion of the award to her services.

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Court’s Reasoning

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The Tax Court reasoned that the award represented

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