***T.C. Memo. 1952-208***

Cash allowances received by a civilian employee as part of their employment contract, even if designated for subsistence and quarters, are generally considered taxable income unless specifically excluded by law.

**Summary**

Reineman, a civilian employee of the Army Transportation Corps, received cash allowances for subsistence and quarters while working at a Brooklyn shipyard. He argued that these allowances were not taxable income because they were for the convenience of the government, similar to allowances for military personnel. The Tax Court disagreed, holding that the allowances were taxable income because Reineman, unlike military personnel, was a civilian employee with a negotiated contract, and the allowances were not explicitly excluded from gross income under the tax code. The court emphasized that civilian employees' terms of employment were substantially different and the inducements to accept such employment included substantially greater pay.

**Facts**

Reineman was employed by the Army Transportation Corps as a civilian. He received a salary plus cash allowances designated for "subsistence and quarters." During the tax year in question, he lived at home while working at a shipyard in Brooklyn. He argued the allowances were for the government's convenience because they ensured a master was in charge of the vessel throughout the conversion period. The Army Transportation Corps initially withheld taxes on these allowances but later discontinued doing so, based on internal regulations.

**Procedural History**

The Commissioner of Internal Revenue determined that the cash allowances received by Reineman constituted taxable income. Reineman petitioned the Tax Court for a redetermination of the deficiency.

**Issue(s)**

Whether cash allowances received by a civilian employee, designated for subsistence and quarters but without restrictions on their use, are excludable from gross income for federal income tax purposes.

**Holding**

No, because the cash allowances were part of Reineman's compensation for services rendered under his employment contract and are not specifically excluded from gross income under the Internal Revenue Code.

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## Court’s Reasoning

The court reasoned that all compensation for services, regardless of its form, is included in gross income under Section 22(a) of the Internal Revenue Code. The court distinguished Reineman’s situation from that of military personnel, whose allowances may be non-taxable due to the unique and restrictive nature of military service, referencing *Jones v. United States*. The court emphasized that Reineman was a civilian employee with a negotiated contract and greater freedom of action. The court also distinguished this situation from cases where subsistence and quarters are furnished in-kind, which may be excluded if they are primarily for the employer’s convenience and necessary for the employee to perform their duties, citing *Arthur Benaglia, 36 B. T. A. 838*, because Reineman received cash with no restrictions on its use. The court stated, “Exemptions from taxation are not to be enlarged by implication if doubts are nicely balanced,” quoting *Trotter v. Tennessee, 290 U. S. 354, at page 356*. They also noted that Congress specifically provided for exclusions of cost-of-living allowances for diplomatic personnel in Section 116(j) of the Internal Revenue Code, indicating that when it intends to exclude such allowances, it does so explicitly.

## Practical Implications

This case clarifies that cash allowances provided to civilian employees are generally considered taxable income unless a specific statutory exclusion applies. It highlights the distinction between cash allowances and in-kind benefits, which may be excluded from income if they primarily benefit the employer and are essential for the employee’s job performance. This decision emphasizes the importance of carefully scrutinizing the terms of employment contracts and the nature of allowances to determine their taxability. It also serves as a reminder that tax exemptions are narrowly construed, and taxpayers must demonstrate a clear basis for exclusion under the law. Later cases would refer back to this to analyze if something was considered a cash allowance for personal benefits or a tool needed for the employee to do their job.

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