20 T.C. 593 (1953)

Payments made to a retired minister by his former church are considered taxable income, not a tax-free gift, if the payments are intended as compensation for past services.

Summary

William S. Abernethy, a retired minister, received payments from his former church, Calvary Baptist Church. The IRS determined that these payments constituted taxable income. Abernethy argued that the payments were a gift and thus excludable from his gross income. The Tax Court held that the payments were compensation for past services, based on the church's resolutions and budget notations referencing "retirement" payments, and thus were taxable income. The court emphasized the taxpayer's failure to prove the payments were intended purely as a gift.

Facts

William S. Abernethy retired as pastor of Calvary Baptist Church in 1941 after serving for 20 years. Upon his retirement, the church's board of trustees suggested giving him one-half year's salary as a token of gratitude. The church membership unanimously approved this recommendation. Subsequently, the church continued monthly payments to Abernethy. In 1949, Abernethy received $2,400 from the church, which he considered a gift and excluded from his taxable income. The church's budget referred to these payments as a "Retirement" fund.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Abernethy's income tax for 1949, asserting the church payments were taxable income. Abernethy petitioned the Tax Court, arguing the payments were a gift. The Tax Court upheld the Commissioner's determination.

Issue(s)

Whether the $2,400 received by William S. Abernethy from Calvary Baptist Church in 1949 constituted a tax-free gift or taxable compensation for past services.

Holding

No, the payments were not a gift because the evidence indicated the payments were intended as compensation for past services.

Court's Reasoning

The court stated that the intent of the parties determines whether payments are a

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gift or compensation. If intended as a gift, the payments are tax-free; if intended as compensation, they are taxable income, citing *Bogardus v. Commissioner, 302 U.S. 34*. The court reviewed the church's resolutions, noting the initial description of the payment as a "token of gratitude and appreciation" but also noting the reference to "one-half year's salary." Most significantly, the court pointed out that the payments were carried under the heading "Retirement" in the church budget. The court concluded that the payments were consideration for Abernethy's "long and faithful pastoral services." The court emphasized the taxpayer's failure to overcome the presumption of correctness afforded to the Commissioner's determination. The court distinguished *Schall v. Commissioner*, noting factual differences and expressing continued disagreement with the reversal of its decision in that case by the Circuit Court.

Practical Implications

This case illustrates the importance of documenting the intent behind payments, especially in situations involving past employment or services. The language used in resolutions, contracts, and budget documents can significantly impact the tax treatment of such payments. The case underscores that even expressions of gratitude and appreciation may not be sufficient to characterize a payment as a tax-free gift if other evidence suggests compensatory intent. Attorneys advising churches or other organizations making payments to former employees or clergy should counsel them to carefully document the reasons for the payments to ensure the desired tax consequences are achieved and to avoid future disputes with the IRS. Later cases have cited Abernethy for the principle that the intent of the donor is a critical factor in distinguishing a gift from compensation.