20 T.C. 746 (1953)

Retirement pay received by a state employee is not excludable from gross income under Section 22(b)(5) of the Internal Revenue Code unless it constitutes compensation for personal injuries or sickness received under a workmen's compensation act or its equivalent, or it is compensation for injuries or sickness incurred in the line of duty.

Summary

The U.S. Tax Court considered whether the petitioner's annual retirement payments from the Commonwealth of Massachusetts were excludable from gross income under Section 22(b)(5) of the Internal Revenue Code, which excludes from gross income amounts received under workmen's compensation acts, as compensation for personal injuries or sickness. The court held that the retirement pay, based on state law for veteran public servants, was not excludable because it was not received under a workmen's compensation act nor was it explicitly tied to an incapacitating injury incurred in the line of duty. The court also addressed a stock exchange transaction, finding that the gain was taxable as a long-term capital gain as no nonrecognition provision applied.

Facts

George E. Murphy, the petitioner, was employed by the Commonwealth of Massachusetts in various roles from 1931 to 1941. He was retired at age 42 due to arterial hypertension, and he received an annual retirement allowance of $3,250. The retirement was granted under Massachusetts General Laws, Chapter 32, Section 57, which provided for the retirement of veterans after 10 years of service if they were found to be incapacitated for active service. Murphy's retirement was not directly linked to his duties, although his condition may have arisen in connection with his service. Murphy was also a shareholder in two corporations, T.F. Kelley Company, Inc. and Lowell Liquor Mart, Inc. He exchanged his shares in T.F. Kelley Company, Inc., for shares in Lowell Liquor Mart, Inc., as part of a settlement of a lawsuit. The Commissioner of Internal Revenue determined deficiencies in Murphy's income tax, including the retirement pay in gross income and taxing the gain from the stock exchange.

Procedural History

The petitioner filed returns with the collector of internal revenue for the district of Massachusetts. The Commissioner of Internal Revenue determined income tax deficiencies for the years 1947-1950. The petitioner disputed the tax assessments, arguing that his retirement pay was exempt from income tax under section 22(b)(5) of the Internal Revenue Code, which deals with exclusions from gross income. The petitioner also argued that the gain from the stock exchange should not be recognized. The case was brought before the United States Tax Court for a decision.

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Issue(s)

1. Whether the $3,250 annual payments received by the petitioner from the Commonwealth of Massachusetts were exempt from income tax under Section 22(b)(5) of the Internal Revenue Code.

2. Whether the gain from the exchange of stock was taxable.

Holding

1. No, because the retirement pay was not received under a workmen's compensation act, nor was it compensation for incapacitating injury incurred in the line of duty.

2. Yes, because the stock exchange transaction was a taxable event and no nonrecognition provision applied.

Court's Reasoning

The court focused on the interpretation of Section 22(b)(5) of the Internal Revenue Code. The court determined that for the retirement pay to be excluded from gross income, it must meet the requirements of being:

a) Received under workmen's compensation acts,

b) Or compensation for personal injuries or sickness incurred in the line of duty.

The court found that Murphy's retirement pay was received under a Massachusetts state law that was distinct from the state's workmen's compensation act. The Court also determined that the evidence did not establish that Murphy's retirement was the result of an injury or sickness incurred in his official duties, even though his condition may have been related to his employment. The court noted, "The medical witness merely said that the petitioner's condition could have been brought about by his duties.

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