21 T.C. 374 (1953)

The value of living quarters provided by an employer is considered compensation for services and is includible in gross income, unless furnished for the employer's convenience and not as compensation.

Summary

In *Doran v. Commissioner*, the U.S. Tax Court addressed whether the value of living quarters provided to an employee by his employer, a military academy, constituted taxable income. The employee, a maintenance engineer, was required to live on-site for 24-hour availability. The court determined that, based on South Carolina law, the value of these quarters was part of his compensation and thus includible in his gross income. The court distinguished between situations where living quarters are provided as compensation versus those where they are for the employer's convenience.

Facts

Joseph L. Doran was employed as a maintenance engineer by the Citadel Military Academy. As a condition of employment, Doran was required to occupy living quarters on the academy grounds to be available for maintenance emergencies. His salary included a base pay and a rental allowance, which was deducted before payment. Doran deducted the rental allowance from his total wages on his income tax returns, but the Commissioner of Internal Revenue disallowed these deductions. The State of South Carolina's appropriation acts stated that salaries were "in full for all services rendered."

Procedural History

The Commissioner of Internal Revenue determined deficiencies in Doran's income tax for the years 1949, 1950, and 1951. Doran contested these deficiencies, arguing that the value of his living quarters was not compensation. The case was heard by the U.S. Tax Court.

Issue(s)

Whether the value of living quarters furnished to the petitioner by his employer is compensation for services rendered and therefore includible in the petitioner's gross income?

Holding

Yes, because the court determined that the living quarters were part of Doran's compensation, as indicated by the South Carolina statute, and therefore taxable.

Court's Reasoning

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The court referenced Section 22(a) of the Internal Revenue Code, defining gross income to include “compensation for personal service…of whatever kind and in whatever form paid.” The court acknowledged that living quarters provided to an employee are generally considered part of compensation, though exceptions exist. The court considered South Carolina’s appropriations acts, which stated that salaries paid were

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