***Davies v. Commissioner*, 23 T.C. 534 (1955)**

Settlement proceeds received in lieu of compensation for services rendered are taxable as income, not as a nontaxable inheritance or gift, even if the services were provided based on a promise of inheritance.

Summary

Gertrude Davies sued the estate of her former employer, Dr. Tivnen, claiming he had promised to provide for her in his will in exchange for her continued service. After a failed trial and subsequent settlement, Davies received $8,500. The IRS included this sum in her taxable income, arguing it was compensation, not a gift or inheritance. The Tax Court sided with the IRS, ruling that the settlement was related to the services Davies provided and, therefore, was taxable income. The court distinguished this from cases involving legitimate inheritance claims or gifts, emphasizing that Davies's claim was based on the value of her services.

Facts

- Gertrude Davies worked for Dr. Tivnen as a secretary, nurse, and general agent from 1931 until his death in 1946.
- Her salary was $25 per week.
- Davies performed additional work without extra compensation.
- Davies spoke with Dr. Tivnen about quitting, but he promised to provide for her in his will if she remained.
- Dr. Tivnen died intestate (without a will).
- Davies filed a claim against his estate for $60,000, alleging breach of contract to make a will and seeking compensation for services rendered.
- Her claim had multiple counts based on express and implied agreements for compensation.
- After a jury failed to reach a verdict, Davies settled the claim for $8,500.
- Davies incurred $3,150.09 in legal expenses related to her claim.

Procedural History

- Davies filed a claim in the Probate Court of Cook County, Illinois.
- A trial was held, but the jury failed to reach a verdict.
- Davies settled the claim with the estate for $8,500.
- The Commissioner of Internal Revenue included the $8,500 in Davies's taxable income for 1950.
- Davies petitioned the Tax Court, arguing the money was a nontaxable inheritance.
- The Tax Court ruled in favor of the Commissioner.

Issue(s)

1. Whether the $8,500 settlement payment received by Gertrude Davies from the

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estate of Dr. Tivnen is considered taxable income?

Holding

1. Yes, the $8,500 settlement payment is considered taxable income.

Court’s Reasoning

The court focused on the nature of the claim settled. Davies did not receive the money as a gift or inheritance; she was not related to Tivnen and he had no will. Her claim against the estate was rooted in the value of the services she provided for many years, arguing that the $8,500, together with her previous weekly salary, constituted compensation for those services. The court emphasized that the claim, regardless of whether it sounded in contract (breach of agreement to make a will) or quantum meruit (value of services), was ultimately about compensation for services rendered.

The court cited the facts that Davies’ claim against the estate was based on counts of services performed and an agreement for the services. Moreover, the $8,500 was not excessive when considering the duration and nature of services rendered. The court distinguished the case from those where the taxpayer claimed an inheritance. They noted that the taxpayer was not an heir, nor did she contest a will, thus further supporting the conclusion that the money she received was compensation and, therefore, taxable.

The court referenced the principle that

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