Hale v. Commissioner, 16 T.C. 572 (1951)

To qualify as "back pay" under Section 107(d) of the Internal Revenue Code of 1939, the delayed compensation must have been prevented by a specific intervening event, such as bankruptcy, rather than a discretionary financial decision by the employer.

Summary

The case concerns whether a payment received in 1949 was "back pay" under Section 107(d) of the Internal Revenue Code of 1939, thus eligible for preferential tax treatment. The taxpayer, Hale, argued that a payment of $32,000 constituted back pay for services rendered from 1941-1944. He contended the delay in payment was due to the employer's financial difficulties, specifically tax liens and the State of California taking possession of land. The Tax Court held that the payment was not back pay because the delay was due to the company's discretionary use of funds, not a qualifying event like bankruptcy or receivership as defined in the statute. The court emphasized the company had funds available but chose to use them for dividends and other purposes, thus the delay wasn't caused by one of the qualifying events as defined in the statute.

Facts

- Hale was employed by a company from 1937, which continued through 1947, and was due $92,000 in compensation.
- He received $32,000 in the tax year.
- The company had properties in two counties that were subject to tax liens and were taken over by the State of California.
- The company did not pay Hale for services from 1941-1944 until 1949.
- The company paid dividends of $180,000 in 1946.

Procedural History

The case was heard before the Tax Court of the United States. The Commissioner determined a deficiency in the taxpayer's income tax. The taxpayer petitioned the Tax Court for a redetermination.

Issue(s)

1. Whether the $32,000 payment qualified as compensation under section 107(a) of the Internal Revenue Code of 1939.
2. Whether the $32,000 payment qualified as back pay under section 107(d) of the Internal Revenue Code of 1939.

Holding

1. No, because less than 80% of the total compensation for personal services was received or accrued in the taxable year.

2. No, because the delay in payment was not caused by an event, such as bankruptcy, but by the company's discretionary use of its funds.

Court's Reasoning

The court first addressed whether the payment was

