Jackson v. Commissioner, 28 T.C. 33 (1957)

Employer-funded disability retirement payments can qualify as amounts received through health insurance for exclusion from gross income under Section 22(b)(5) of the Internal Revenue Code of 1939, if the payments compensate for sickness and are made pursuant to a plan that functions akin to health insurance.

Summary

In this Tax Court case, Charles J. Jackson challenged the Commissioner's determination that disability retirement payments he received from his former employer, New York Life Insurance Company, were not excludable from gross income as amounts received through health insurance under Section 22(b)(5) of the 1939 Internal Revenue Code. The court, relying on the Supreme Court's decision in *Haynes v. United States*, held that the disability payments, made pursuant to a company retirement plan, were indeed received through health insurance because they compensated for disability, thus allowing for exclusion from Jackson's taxable income.

Facts

Charles J. Jackson was employed by New York Life Insurance Company from 1908 to 1950. During his employment, the company established a retirement and death benefit plan covering its employees. The plan provided for retirement due to age and total and permanent disability. Jackson retired in 1950 due to permanent and total non-occupational disability and received annual payments under the plan in 1952. These payments were calculated based on his salary and years of service, similar to age-based retirement benefits. The plan was entirely funded by the company, and employees made no contributions. The company withheld income tax on these payments, but Jackson excluded them from his gross income, arguing they were received through health insurance.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Jackson's income tax for 1952, asserting that the disability retirement payments were not received through health insurance and were therefore taxable income. Jackson petitioned the Tax Court to contest this determination.

Issue(s)

1. Whether the amounts received by the petitioner upon his retirement for permanent and total disability were "received through accident or health insurance" within the meaning of section 22(b)(5) of the Internal Revenue Code of 1939, and thus excludable from gross income.

Holding

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1. Yes, the amounts were received through health insurance because the employer's retirement plan, in its provision for disability retirement, functioned as health insurance by providing compensation for sickness or injury resulting in permanent disability.

Court's Reasoning

The Tax Court, Judge Raum presiding, explicitly followed the precedent set by the Supreme Court in *Haynes v. United States*, which broadened the interpretation of "health insurance" under Section 22(b)(5). The court acknowledged factual differences between *Haynes* and the present case but found the underlying principle to be the same. The court reasoned that although the New York Life plan was labeled a "retirement plan," it provided benefits for disability which were indistinguishable in function from health insurance in this context. The payments were triggered by disability, were designed to compensate for loss of earning capacity due to health reasons, and thus fell within the exclusion. The court noted that the payments were not required by statute and were solely provided by the employer's plan. The court emphasized the purpose of Section 22(b)(5) to exclude compensation for sickness or injury, and found that the disability retirement payments in this case served that purpose. The opinion does not detail dissenting or concurring opinions as it is a Tax Court memorandum opinion and appears to be unanimous.

Practical Implications

Jackson v. Commissioner, in line with *Haynes v. United States*, provides a taxpayer-favorable interpretation of Section 22(b)(5) of the 1939 IRC (and similar provisions in subsequent tax codes) regarding the exclusion of amounts received through health insurance. It clarifies that employer-provided disability retirement plans can qualify as health insurance for tax purposes, even if they are part of a broader retirement scheme. This decision emphasizes a functional approach: if a plan compensates employees for disability and functions like health insurance in that respect, the payments can be excluded from gross income. For legal practitioners, this case highlights the importance of analyzing the substance of benefit plans, rather than merely their titles, when determining taxability of disability-related payments. It suggests that in similar cases, the focus should be on whether the payments are intended to compensate for loss of health and earning capacity due to sickness or injury. Later cases would likely distinguish *Jackson* based on the specific terms and design of different employer-provided benefit plans, but the core principle of functional equivalence to health insurance for disability payments remains relevant.

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