29 T.C. 450 (1957)

For an informer's award to qualify for special tax treatment under Section 107(a) of the Internal Revenue Code, the services leading to the award must span a period of 36 calendar months or more.

Summary

The U.S. Tax Court considered whether an informer's award received by Elmer J. Faul qualified for favorable tax treatment under Section 107(a) of the Internal Revenue Code of 1939. The court determined that the award, received for providing information about tax fraud, did not meet the requirements of the statute because the services performed by Faul did not span a period of at least 36 months. The court focused on the timeline of Faul's interactions with the government and the nature of the services rendered, concluding that the crucial period of service ended well before the required 36-month mark. Therefore, the court ruled in favor of the Commissioner, disallowing the special tax treatment.

Facts

Elmer J. Faul worked as an office manager for the R. E. Myers Company. In 1944, Faul sought advice from a government representative regarding his employer's alleged tax fraud. From February 1944 to March 1946, Faul compiled records related to the alleged fraud. He was discharged in March 1946. On February 22, 1947, Faul submitted a memorandum of alleged violations and filed a claim for a reward with the Internal Revenue Service. Over the following months, he provided additional information. An IRS agent audited the company and received information from Faul until the fall of 1947. Faul received an informer's award in April 1952. The IRS contended that the award did not qualify for the favorable tax treatment under Section 107(a).

Procedural History

The Commissioner of Internal Revenue determined a deficiency in the taxpayers' joint income tax return for 1952. The taxpayers challenged this determination in the United States Tax Court. The Tax Court considered whether the informer's award qualified for treatment under Section 107(a) of the Internal Revenue Code.

Issue(s)

1. Whether the informer's award received by Faul qualified for tax treatment under Section 107(a) of the Internal Revenue Code of 1939?

Holding

1. No, because the services Faul provided did not extend over a 36-month period as required by Section 107(a).

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Court’s Reasoning

The court explained that for Section 107(a) to apply,

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