29 T.C. 813 (1958)

Under Section 119 of the Internal Revenue Code, the value of lodging provided by an employer is excluded from an employee's gross income only if the lodging is furnished in kind, without charge or cost to the employee.

Summary

The case addresses whether a Veterans' Administration physician could exclude from his gross income the rental value of lodging he was required to occupy on hospital grounds as a condition of employment. The physician's salary was reduced by the fair rental value of the quarters. The Tax Court held that the rental payments were not excludable under Section 119 of the Internal Revenue Code because the lodging was not furnished without charge. The court distinguished this situation from one where lodging is provided without cost to the employee. This case clarified the scope of Section 119, emphasizing the requirement that the lodging be provided without cost to the employee for the exclusion to apply.

Facts

J. Melvin Boykin, a physician employed by the Veterans' Administration, was required to live on hospital grounds as a condition of his employment. His salary was subject to deductions for the fair rental value of the quarters and a garage provided by the VA. The VA deducted the rent from his salary. The taxpayer contended that the rent should be excluded from his gross income under Section 119 of the Internal Revenue Code of 1954.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in Boykin's income tax for 1954 and 1955, disallowing the exclusion of rental payments from his gross income. Boykin petitioned the U.S. Tax Court, challenging the Commissioner's determination.

Issue(s)

1. Whether the fair rental value of lodging provided by an employer to an employee, where the employee's salary is reduced by the rental amount, is excludable from gross income under Section 119 of the Internal Revenue Code.

Holding

1. No, because Section 119 excludes only lodging furnished without charge or cost to the employee, and the lodging in this case involved a deduction from the employee's salary to cover the rental cost.

Court's Reasoning

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The court analyzed Section 119 of the Internal Revenue Code, which allows the exclusion from gross income of the value of lodging furnished by an employer for the employer's convenience. The court distinguished between situations where the employee received lodging free of charge (Type A) and those where the employee paid rent, even if the employer required the employee to live on the premises (Type B). The court found that Section 119 was intended to apply to Type A situations. The regulations promulgated under Section 119 explicitly state that the exclusion applies only to meals and lodging furnished "without charge or cost to the employee." The court reasoned that since the lodging was not furnished without charge, but rather the cost was deducted from the employee's salary, it did not qualify for the exclusion under Section 119. Furthermore, the legislative history of Section 119 indicated that Congress was primarily concerned with situations where meals and lodging were provided free of charge. The court quoted the legislative history to support this interpretation.

Practical Implications

This case is significant because it clarifies the interpretation of Section 119 of the Internal Revenue Code, specifically regarding employer-provided lodging. It sets a clear distinction: the exclusion applies only when lodging is provided without cost to the employee. Legal practitioners should note that if the employee's salary is reduced to cover the cost of lodging, the value of the lodging is taxable. This case should inform how tax advisors evaluate similar situations, impacting tax planning for both employers and employees, especially in industries requiring employees to live on the premises. Subsequent cases follow this interpretation of section 119, and have made it clear that the cost of lodging must be free for the exclusion to apply.

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