Williamsen v. Commissioner, 32 T.C. 154 (1959)

Stipends received by student-employees from a private company operating a training program under contract with the Atomic Energy Commission are considered taxable compensation, not excludable scholarships, if the requirements of a qualifying scholarship under 26 U.S.C. § 117 are not met.

Summary

The case involved student-employees at the Oak Ridge School of Reactor Technology, operated by a private corporation under contract with the Atomic Energy Commission (AEC). The student-employees received monthly stipends, from which taxes were withheld. They claimed these stipends were excludable from gross income as scholarships under Section 117 of the 1954 Internal Revenue Code. The Tax Court held that the stipends were taxable compensation because the student-employees did not meet the requirements for a scholarship. The Court emphasized the employment relationship and the nature of the program, finding that the stipends were similar to salaries paid to industrial trainees, thus not qualifying as scholarships under the statute.

Facts

The petitioners, recent graduates, attended the Oak Ridge School of Reactor Technology (ORSORT) as Category A student-employees. ORSORT was part of the Oak Ridge National Laboratory (ORNL), operated by Carbide and Carbon Chemicals Company (Carbide) under contract with the AEC. Carbide paid the students monthly stipends, withheld taxes, and provided employee benefits like insurance and service credit. ORSORT's purpose was to train engineers and scientists for reactor research, development, and design, and its funding came from the AEC budget. ORSORT categorized students into Category A (recent graduates as student-employees) and Category B (experienced engineers from other organizations). The job descriptions and proposed salary rates were approved by the AEC.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in the income tax returns of the petitioners, asserting that the monthly stipends were taxable compensation and not excludable scholarships. The petitioners challenged these determinations in the United States Tax Court.

Issue(s)

1. Whether the stipends received by the petitioners while attending the Oak Ridge School of Reactor Technology qualify as "scholarships" or "fellowship grants" under section 117 of the 1954 Internal Revenue Code, thus excludable from gross income?

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Holding

1. No, because the stipends did not qualify as scholarships within the meaning of section 117, as the facts demonstrated the petitioners were treated as employees and the stipends were compensation for services.

Court's Reasoning

The court relied on the facts to determine the nature of the payments. Although the AEC was involved, the court emphasized the following:

a. The petitioners were categorized as student-employees, placed on the ORNL payroll, and granted service credit from the beginning of the course. Their job title was “Reactor Technology Student.”

b. Income and FICA taxes were withheld from the stipends, and the employer paid FICA and Federal unemployment taxes.

c. Petitioners were eligible for the same insurance and hospitalization benefits as regular employees.

d. The program was designed to train individuals for potential employment with the AEC or its contractors, much like an industrial training program.

The Court distinguished this situation from AEC fellowship programs which were explicitly presented as fellowships with different terms, and the Court determined the students did not meet all the requirements to qualify for the exclusion.

The court noted that, “The monthly stipends were paid to the petitioners by Carbide in accordance with its regular payroll procedure.” Further, the court stated, “Petitioners have failed to carry the burden of showing that the conditions presented by section 117 of the 1954 Code entitling them to exclusions from gross income have been met.”

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