United States v. Woodall, 255 F. 2d 370 (10th Cir. 1958)

Employer-provided relocation expenses, including subsistence allowances, are taxable as income to the employee.

Summary

In United States v. Woodall, the Tenth Circuit Court of Appeals ruled that relocation expenses provided by an employer, specifically subsistence allowances for meals and lodging while awaiting permanent quarters, are taxable income to the employee. The case centered on Woodall, who received such payments and argued that only the profit, not the total amount, should be taxed. The court, however, found these payments to be compensation, thus includable in gross income, and the related expenses non-deductible as personal living costs. This decision reinforced the IRS's position on the taxability of such employer payments and has been influential in subsequent tax law interpretations.

Facts

Woodall received $1,103. 33 from his employer as a relocation expense for moving from California to New Mexico. This sum included $903. 33 for subsistence while he and his family stayed in a motel before moving into their permanent home. Woodall contended that only the $300 profit from these expenses should be considered taxable income, not the entire amount received.

Procedural History

The case originated in the Tax Court, which initially ruled in favor of Woodall, holding that the subsistence allowances were not taxable income. The government appealed this decision to the Tenth Circuit Court of Appeals, which reversed the Tax Court's ruling.

Issue(s)

1. Whether the $903. 33 received by Woodall as a subsistence allowance for meals and lodging while awaiting permanent quarters at his new post of duty constitutes gross income under Section 61(a) of the Internal Revenue Code.
2. Whether the $903. 33 spent by Woodall on meals and lodging qualifies as deductible expenses under Section 262 of the Internal Revenue Code.

Holding

1. Yes, because the subsistence allowance was deemed compensation for services and thus falls within the broad definition of gross income.
2. No, because the expenses for meals and lodging were personal living expenses and therefore non-deductible under Section 262.

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Court’s Reasoning

The Tenth Circuit applied the broad definition of gross income under Section 61(a) of the Internal Revenue Code, which includes all income from whatever source derived. The court determined that the subsistence allowance received by Woodall was compensation for services rendered to his employer, hence taxable. The court rejected Woodall’s argument that only the profit should be taxed, stating that the entire amount received was income. Furthermore, the court held that the expenses for meals and lodging were personal living expenses as defined by Section 262, which are explicitly non-deductible. The court relied on Revenue Rulings and prior case law, such as the reversal of Starr by the Tenth Circuit, to support its decision. The court’s policy consideration was to maintain a broad and inclusive definition of gross income to prevent circumvention of tax obligations through employer reimbursements.

Practical Implications

This decision clarifies that employer-provided relocation expenses, including subsistence allowances, are taxable income to the employee. Attorneys advising clients on relocation should ensure that clients are aware of the tax implications of such benefits. This ruling has influenced subsequent tax law interpretations, reinforcing the IRS’s position on the taxability of these payments. Businesses must account for these tax implications when offering relocation packages, and employees should consider the after-tax value of such benefits. Subsequent cases, like England v. United States, have followed the Woodall precedent, solidifying its impact on tax law regarding employer reimbursements.

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