Lull v. Commissioner, 51 T. C. 841 (1969)

Employer reimbursements for moving expenses and home sale losses are taxable as additional compensation to the employee, except for direct costs related to moving the employee, family, and household goods.

Summary

In Lull v. Commissioner, the U. S. Tax Court ruled on the tax treatment of reimbursements received by employees from IBM for moving and living expenses, as well as payments to cover losses on home sales due to employer-initiated transfers. The court held that these reimbursements, except for direct moving costs, were taxable income to the employees. The decision clarified that payments for incidental moving expenses and home sale losses were considered additional compensation, not part of the 'amount realized' upon sale, and thus taxable. This ruling emphasizes the distinction between direct moving costs, which are excludable, and other reimbursements, which are taxable.

Facts

William A. Lull and William H. Simpson were employees of IBM who were transferred to different locations. IBM reimbursed them for various moving expenses, including mover's fees, airfares, room and meals, and other costs. Additionally, IBM's Home Guarantee Policy covered the difference between the sale price and appraised value of their homes, which was paid to the employees upon sale. Lull received reimbursements in 1960 and 1961, while Simpson received them in 1959 and 1961. The employees did not report these reimbursements as income on their tax returns.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in the petitioners' income taxes, asserting that certain reimbursements were taxable income. The cases were consolidated due to common issues and were heard by the U. S. Tax Court. The court's decision was issued on February 26, 1969.

Issue(s)

1. Whether reimbursements for indirect moving expenses, such as babysitting, laundry, and house-hunting trips, are includable in the employees' gross income?
2. Whether payments under IBM's Home Guarantee Policy, covering the difference between the sale price and appraised value of the employees' residences, are includable in gross income?

Holding

1. Yes, because such reimbursements are considered additional compensation and

not deductible as business expenses.
2. Yes, because these payments are considered additional compensation and not part of the ‘amount realized’ upon the sale of the residence.

Court’s Reasoning

The court reasoned that payments by an employer to an employee, which are compensation for services, are taxable income under Section 61 of the Internal Revenue Code. The court distinguished between direct moving costs, which are excludable from income, and indirect expenses, which are considered personal or living expenses and thus taxable. The court relied on previous cases like Bradley, Ferebee, and Pederson to support its decision that reimbursements for indirect expenses and home sale losses are additional compensation. The court rejected the petitioners’ argument that these payments should be treated as part of the ‘amount realized’ upon the sale of their homes, citing that such payments were made pursuant to the employment contract, not the sales contract. The court also noted that nonrecognition of gain under Section 1034 did not apply as the payments were not part of the sale proceeds.

Practical Implications

This decision impacts how employer reimbursements for moving expenses and home sale losses are treated for tax purposes. Employers and employees should be aware that only direct moving costs (e. g. , transportation of the employee, family, and household goods) are excludable from income. Other reimbursements, including those for indirect moving expenses and home sale losses, are taxable as additional compensation. This ruling influences how companies structure their relocation policies and how employees report such income on their tax returns. Subsequent cases and IRS rulings have followed this precedent, reinforcing the tax treatment of such reimbursements.

