***Anderson v. Commissioner, 54 T. C. 1547 (1970)***

Stipends received by medical interns and residents are taxable as compensation for services, not as nontaxable fellowship grants.

**Summary**

Irwin S. Anderson, a medical intern and resident at Freedmen's Hospital, sought to exclude part of his stipend as a fellowship grant under IRC Section 117(a)(1)(B). The Tax Court held that the stipend was compensation for services rendered to the hospital, not a fellowship grant. The decision hinged on whether the primary purpose of the stipend was to further Anderson's education or to compensate him for patient care services. The court found that patient care was the hospital's primary purpose, with education being incidental, and thus the stipend was fully taxable.

**Facts**

Irwin S. Anderson served as an intern at Freedmen's Hospital from July 1, 1966, to June 30, 1967, and then as a resident in internal medicine from July 1, 1967 onward. During 1967, he received a stipend of $6,501. 14. Freedmen's Hospital, affiliated with Howard University, was primarily focused on patient care, with interns and residents responsible for treating patients under the supervision of attending physicians. Anderson's stipend was based on his years of service, and he was eligible for vacation and sick leave benefits.

**Procedural History**

Anderson filed a joint Federal income tax return for 1967, reporting the stipend as wages. He later filed an amended return in 1969, seeking to exclude $3,600 of the stipend as a fellowship grant under IRC Section 117(a)(1)(B). The Commissioner disallowed the exclusion, asserting the stipend was compensation under IRC Section 61. The case proceeded to the U. S. Tax Court, which upheld the Commissioner's determination.

**Issue(s)**

1. Whether the stipend received by Anderson from Freedmen's Hospital in 1967 constitutes a fellowship grant under IRC Section 117(a)(1)(B), allowing for a tax exclusion of $3,600.

**Holding**

1. No, because the stipend was compensation for services rendered to the hospital, not a fellowship grant. The primary purpose of the stipend was to compensate Anderson for his work in patient care, not to further his education.

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## Court’s Reasoning

The Tax Court applied the definitions of fellowship grants from the Income Tax Regulations and the Supreme Court’s decision in *Bingler v. Johnson*, which stated that fellowship grants are “no-strings” educational grants without substantial quid pro quo. The court found that Anderson’s stipend was tied to his service in patient care, a primary function of the hospital, rather than his education. The court cited *Aloysius J. Proskey*, where a similar stipend was held to be compensation, emphasizing that training received during residency is incidental to patient care. The court noted that Anderson’s eligibility for vacation and sick leave, and the stipend’s variation based on years of service, further indicated the compensatory nature of the payments. The court concluded that the stipend was fully taxable under IRC Section 61.

## Practical Implications

This decision clarifies that stipends paid to medical interns and residents for services rendered to hospitals are taxable as compensation, not as fellowship grants. Attorneys advising clients in similar situations should ensure that any stipends are reported as income. Hospitals should be aware that structuring payments to residents and interns as compensation aligns with tax law, and any attempt to classify such payments as fellowship grants for tax purposes will likely fail. This ruling has influenced subsequent cases involving the tax treatment of stipends and may impact how medical institutions structure their compensation packages for training staff. It also underscores the importance of distinguishing between payments for services and educational grants in tax planning for healthcare professionals.

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