Proshey v. Commissioner, 51 T. C. 918 (1969)

The burden of proof is on the taxpayer to demonstrate that they have not exhausted the 36-month exclusion limit for fellowship grants under section 117 of the Internal Revenue Code.

Summary

In Proshey v. Commissioner, the taxpayer sought to exclude $1,500 received from an NSF grant from his 1964 gross income, arguing it was a fellowship grant under section 117. The court found that the taxpayer failed to prove he had not exhausted his lifetime 36-month exclusion limit, as he could not provide sufficient evidence regarding the taxability of a prior grant from Berkeley. The decision underscores the importance of taxpayers maintaining clear records and understanding the burden of proof when claiming exclusions for fellowship grants.

Facts

The petitioner received $1,500 from an NSF grant in 1964 and sought to exclude this amount from his gross income under section 117. He was not a degree candidate and needed to prove the grant was a fellowship, the grantor was a qualifying organization, and he had not exhausted the 36-month exclusion limit. The petitioner admitted to using the exclusion for 15 months between 1960 and 1963. During the trial, it emerged that he had also received a grant from Berkeley between 1952 and 1957, but he could not provide details on its taxability or duration.

Procedural History

The case was heard by the Tax Court. The petitioner argued that the 1964 grant was excludable, but the respondent contested that the petitioner had exhausted his 36-month exclusion limit. The Tax Court focused on the petitioner's burden to prove he had not exceeded the limit, leading to the decision in favor of the respondent.

Issue(s)

1. Whether the petitioner has proven that the $1,500 received in 1964 from the NSF grant was excludable as a fellowship grant under section 117?
2. Whether the petitioner has shown that he had not exhausted his 36-month exclusion limit for fellowship grants prior to 1964?

Holding

1. No, because the court could not determine if the grant was excludable without knowing whether the petitioner had exhausted his 36-month exclusion limit.
2. No, because the petitioner failed to provide sufficient evidence regarding the taxability and duration of a prior grant from Berkeley, which might have exhausted

his exclusion limit.

Court's Reasoning

The court applied section 117, which allows non-degree candidates to exclude fellowship grants up to $300 per month for 36 months total. The petitioner's burden was to prove he had not exhausted this limit. The court noted that the petitioner's memory of the Berkeley grant was unclear, and he could not substantiate its taxability or duration. The court emphasized the statutory language that any month for which a taxpayer was entitled to the exclusion counts against the 36-month limit, regardless of whether the exclusion was claimed. The court also referenced section 1. 117-2(b) of the regulations, which clarifies that entitlement to the exclusion in any month reduces the lifetime limit. The court concluded that without evidence on the Berkeley grant, it could not determine if the petitioner had any remaining exclusion available in 1964.

Practical Implications

This decision highlights the importance of maintaining detailed records for all grants received, especially when claiming exclusions under section 117. Taxpayers must be prepared to prove they have not exhausted their 36-month exclusion limit, which includes providing evidence on the taxability and duration of all prior grants. This case serves as a reminder to legal practitioners to advise clients on the necessity of keeping comprehensive records of all fellowship grants. It also impacts how similar cases are analyzed, emphasizing the taxpayer's burden of proof in tax exclusion cases. Subsequent cases have reinforced this principle, requiring clear documentation of all relevant grants to claim exclusions successfully.

