Morgan v. Commissioner, 55 T. C. 376 (1970)

Medical expenses are not deductible under IRC § 213 if they are compensated for by insurance or otherwise, regardless of the timing of payment.

Summary

Benjamin Morgan, a New York police officer, sought a medical expense deduction for injuries sustained on duty. After settling a tort claim against the City of New York for $17,000, with $3,857. 50 of the settlement designated to cover his medical bills, the IRS disallowed the deduction. The Tax Court upheld the disallowance, ruling that since Morgan's medical expenses were compensated through the settlement, he could not claim them as a deduction under IRC § 213. This case clarifies that compensation, not the timing of payment, determines the deductibility of medical expenses.

Facts

Benjamin Morgan, a New York police officer, was injured in the line of duty on April 7, 1962, incurring $3,857. 50 in medical expenses. In 1963, he sued the City of New York for negligence, seeking $500,000 in damages. In 1967, a consent judgment was entered for $17,000, with a stipulation that $3,857. 50 of the settlement would be paid to the City to cover Morgan's medical expenses. Morgan claimed a medical expense deduction for these costs on his 1967 tax return, which the IRS disallowed.

Procedural History

Morgan filed a petition with the U. S. Tax Court challenging the IRS's disallowance of his medical expense deduction. The Tax Court, presided over by Judge Tietjens, heard the case and issued a decision on December 1, 1970, siding with the Commissioner of Internal Revenue.

Issue(s)

1. Whether Morgan is entitled to a medical expense deduction under IRC § 213 for expenses that were paid out of his tort settlement with the City of New York.

Holding

1. No, because Morgan's medical expenses were compensated for through the settlement, disallowing the deduction under IRC § 213.

Court's Reasoning

The Tax Court applied IRC § 213, which allows a deduction for medical expenses "not compensated for by insurance or otherwise. " The court rejected Morgan's argument that the deduction should be allowed because he had not initially paid the expenses himself. The court emphasized that the statute focuses on compensation, not the timing of payment. Since the settlement covered Morgan's medical expenses, he had no out-of-pocket costs and was therefore compensated. The court also dismissed Morgan's claim of an out-of-pocket loss, noting that the full settlement amount was received, with conditions on its use. The court concluded that Morgan's situation post-settlement was financially equivalent to his pre-accident state, thus no deduction was warranted. The court's decision was guided by the plain language of IRC § 213 and the policy of preventing double recovery for the same expenses.

Practical Implications

This ruling clarifies that for tax purposes, medical expenses are not deductible if they are compensated through any means, including tort settlements. Attorneys and tax professionals must advise clients that the timing of payment does not affect deductibility; only the fact of compensation matters. This case impacts how settlements are structured in personal injury cases, as parties may need to clearly delineate which portions of a settlement are for medical expenses to avoid tax issues. Businesses and insurers must also consider this ruling when negotiating settlements to ensure tax compliance. Subsequent cases like Threlkeld v. Commissioner have applied this principle, reinforcing its importance in tax law.