Heidel v. Commissioner, 56 T. C. 95 (1971)

The value of an athletic scholarship does not count as support furnished by the recipient for income averaging purposes, and a signing bonus received by a professional athlete is not attributable to work performed during college years.

Summary

James Heidel, a former college football player at the University of Mississippi, sought to use income averaging for his 1965 tax year after receiving a $50,000 signing bonus from the St. Louis Football Cardinals. The court ruled that Heidel was not eligible for income averaging because the value of his athletic scholarship could not be considered support furnished by him, and the bonus was not attributable to work performed during his college years. The decision hinged on interpretations of Internal Revenue Code sections related to scholarships and the nature of the bonus payment, emphasizing the narrow eligibility criteria for income averaging.

Facts

James Heidel received an athletic scholarship from the University of Mississippi for the 1961-1965 academic years. In 1965, after playing college football, Heidel signed a professional contract with the St. Louis Football Cardinals and received a $50,000 signing bonus. Heidel and his wife filed a joint tax return for 1965, electing to use income averaging. The Commissioner of Internal Revenue disallowed the election, leading to a deficiency determination. Heidel's parents claimed him as a dependent in 1961, and he relied on the scholarship value to meet the support test for income averaging eligibility.

Procedural History

The Commissioner of Internal Revenue determined a tax deficiency for Heidel's 1965 income due to the disallowance of income averaging. Heidel and his wife petitioned the U. S. Tax Court, which heard the case and issued its decision on April 20, 1971, ruling in favor of the Commissioner.

Issue(s)

1. Whether the value of a Southeastern Conference grant-in-aid athletic scholarship received by Heidel constitutes support furnished by him for himself in 1961 within the meaning of section 1303(c)(1), I. R. C. 1954?
2. Whether the $50,000 bonus Heidel received from the St. Louis Football Cardinals in 1965 was income attributable to work performed by him in substantial part during two or more of the base period years 1961 through 1964 within the purview of section 1303(c)(2)(B), I. R. C. 1954?
3. Whether Heidel was an "eligible individual" in 1965 within the meaning of section 1303, I. R. C. 1954, and thus entitled to the benefits of income averaging under sections 1301 through 1305, I. R. C. 1954?

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Holding

1. No, because the scholarship was considered a “no-strings educational grant” and not support furnished by Heidel himself.
2. No, because the bonus was not attributable to work performed during the base period years but was either an inducement to sign or an advance payment for future services.
3. No, because Heidel failed to meet the eligibility requirements under section 1303(c) due to the reasons stated above.

Court’s Reasoning

The court applied the rules under section 152 and the regulations thereunder to determine support for income averaging eligibility. It concluded that the scholarship could not be considered support furnished by Heidel himself because it was a “no-strings educational grant” and not taxable income. The court also found that the signing bonus was not attributable to work performed during the base period years, as it was either an inducement to sign or an advance payment for future professional services. The court emphasized the narrow scope of the income averaging provisions and the intent of Congress to grant relief only to those who work on a specific project for several years and receive payment in the final year. The court cited *Bingler v. Johnson* to distinguish between scholarships and compensation for services, and noted the lack of evidence that the bonus was related to Heidel’s college performance.

Practical Implications

This decision clarifies that athletic scholarships do not count as support furnished by the recipient for income averaging purposes, which could affect how student-athletes plan their financial strategies. It also establishes that signing bonuses in professional sports are not considered attributable to work performed during college, impacting how such income is treated for tax purposes. This ruling may influence how tax professionals advise clients in similar situations and how athletes structure their contracts and bonuses. Subsequent cases involving income averaging and the treatment of scholarships and bonuses may reference this case to distinguish between types of income and support. The decision underscores the importance of understanding the specific eligibility criteria for income averaging and the narrow interpretation of these provisions by the courts.

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