Moll v. Commissioner, 57 T. C. 579 (1972)

Payments to military interns cannot be excluded from gross income as scholarships or fellowships if they represent compensation for services.

Summary

Jacob T. Moll, an Air Force officer, sought to exclude part of his income as a scholarship or fellowship under IRC section 117 while serving as a senior medical student and intern. The Tax Court ruled that his payments from the Air Force were compensation for both present and future services, thus not excludable. The court emphasized the quid pro quo nature of the payments and the services rendered to patients, aligning with the regulations under section 117 that preclude such exclusions.

Facts

Jacob T. Moll, a medical student and Air Force officer, was commissioned in 1968 and participated in the Senior Medical Student Program. In 1969, he completed his senior year at medical school and served an internship at Wilford Hall Medical Center while on active duty. Moll received $7,329. 03 from the Air Force in 1969, which he reported as income but claimed a $3,600 exclusion as a scholarship or fellowship. Moll's service commitment extended five years, including his internship period, during which he treated patients and performed various medical duties under supervision.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Moll's 1969 federal income tax and denied the claimed exclusion. Moll petitioned the U. S. Tax Court, where the case was heard and decided against him, upholding the Commissioner's determination.

Issue(s)

1. Whether payments received by Moll from the Air Force during his internship can be excluded from gross income as a scholarship or fellowship grant under IRC section 117.

Holding

1. No, because the payments were compensation for both present and future services to the Air Force, and thus not excludable under the regulations of section 117.

Court's Reasoning

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The court applied the regulations under section 117, which disallow exclusions for payments representing compensation for services or primarily for the benefit of the grantor. Moll's payments were for his active duty service and future commitment, constituting a clear quid pro quo. The court cited Bingler v. Johnson to support its stance on the compensation aspect. Furthermore, Moll's internship involved rendering medical services to patients, which benefited Wilford Hall Medical Center, aligning with the court's view that the payments were primarily for services rendered. The court dismissed Moll's argument that his presence as an intern was not required for the hospital's function, noting the substantial patient load and the necessity of interns for effective patient care.

Practical Implications

This decision clarifies that payments to military interns or similar trainees cannot be excluded from gross income as scholarships or fellowships if they are tied to service obligations or represent compensation for services rendered. Legal practitioners should advise clients in similar situations that such exclusions are unlikely to be upheld, emphasizing the importance of understanding the nature of payments received during training programs. The ruling impacts how military and other institutional training programs are structured and how participants report income, potentially affecting recruitment and retention strategies. Subsequent cases have continued to reference Moll in analyzing the tax treatment of payments for educational programs linked to service commitments.

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