Keener v. Commissioner, 59 T. C. 302 (1972)

Payments by an employer to an employee to reimburse losses on the sale of a personal residence due to a job transfer are taxable as compensation under section 61(a) of the Internal Revenue Code.

Summary

In Keener v. Commissioner, the U. S. Tax Court ruled that payments made by the Insurance Company of North America (INA) to Seth Keener to cover losses on his home sale, following his job transfer, were taxable income. Keener had entered into INA's Appraisal Plan, which promised to compensate for any shortfall between the home's sale price and its appraised value. The court determined that these payments were additional compensation under IRC section 61(a), rejecting Keener's argument that the payments represented a non-taxable sale to INA. The decision underscores that employer reimbursements for personal losses related to employment transfers are taxable as income.

Facts

Seth E. Keener, Jr. , an employee of the Insurance Company of North America (INA) in Harrisburg, PA, was transferred to Philadelphia in 1966. Keener and his wife Jeanne participated in INA's Appraisal Plan, which appraised their Harrisburg home at $34,300. The plan required them to list their home for sale and reimburse them for any difference between the net sale price and the appraised value. Keener's home was sold in June 1967 for $26,000, resulting in a loss of $8,300, which INA covered. Additionally, INA paid for selling and real estate expenses related to the sale.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in the Keeners' 1967 income tax due to the inclusion of the INA payments as taxable income. The Keeners petitioned the U. S. Tax Court for a redetermination of this deficiency. The Tax Court, after reviewing the facts and applicable law, upheld the Commissioner's determination, ruling that the payments were taxable income.

Issue(s)

1. Whether payments made by INA to the Keeners in 1967, representing a reimbursement for loss on the sale of their residence, are income under section 61(a), I. R. C. 1954.
2. Whether selling expenses and real estate expenses paid by INA on behalf of the Keeners are income under section 61(a), I. R. C. 1954.

Holding

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1. Yes, because the payments were made to induce Keener to move and to ensure his continued high-quality service, thus constituting compensation for services under section 61(a).
2. Yes, because these expenses were paid for the Keeners' benefit and are therefore taxable as compensation under section 61(a).

Court's Reasoning

The court reasoned that the payments were compensatory in nature, designed to relieve Keener of the economic burden of selling his home due to his job transfer. The court rejected the argument that the payments were part of a sale to INA, emphasizing that Keener retained the burdens of homeownership until the sale and that INA acted as an agent, not a purchaser. The court cited precedents such as *William A. Lull* and *Bradley v. Commissioner*, which established that employer reimbursements for losses on home sales due to employment transfers are taxable income. The court also noted that indirect moving expenses paid by an employer are taxable, further supporting its conclusion.

Practical Implications

This decision affects how employer-provided benefits related to job transfers are treated for tax purposes. Employers and employees must consider that reimbursements for losses on the sale of personal residences and payments for related expenses are taxable as income. This ruling may influence how companies structure their employee transfer policies to account for the tax implications. Legal practitioners should advise clients on the tax consequences of such arrangements, and future cases involving similar employer benefits will likely reference Keener for guidance on the tax treatment of reimbursements for personal losses.

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