Colwell v. Commissioner, 64 T. C. 584 (1975)

Union strike benefits paid without regard to the recipient's financial need and without restrictions on use are taxable income, not gifts.

Summary

James Colwell, a non-striking union member, honored a strike by another union and received regular payments from them. The U. S. Tax Court held that these payments, calculated as a percentage of his wages without consideration of his financial need or restrictions on use, were not gifts but taxable income under IRC section 102(a). The court emphasized that for strike benefits to be considered gifts, the union must inquire into the recipient's financial need, and the benefits must be restricted to basic necessities, not freely usable funds.

Facts

James E. Colwell, employed as a stereotyper by the Independent Journal, was a member of the International Stereotypers and Electrographers Union (ISEU). In 1970, the International Typographical Union (ITU) called a strike against the Journal. Colwell, not an ITU member, honored the picket line and received weekly payments from the ITU totaling $5,264. 58. These payments were calculated based on a percentage of wages, with no inquiry into Colwell's financial status or need, and no restrictions on how the funds could be used. Colwell did not include these payments in his 1970 income tax return.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Colwell's 1970 income tax and Colwell petitioned the U. S. Tax Court. The court heard the case and issued its opinion on July 17, 1975, deciding that the strike benefits were not excludable from gross income as gifts under IRC section 102(a).

Issue(s)

1. Whether the payments received by James Colwell from the ITU during the strike are excludable from his gross income as gifts under IRC section 102(a).

Holding

1. No, because the payments were made without regard to Colwell's financial need and without restrictions on use, indicating they were not motivated by detached and disinterested generosity but rather to further the economic feasibility of the strike.

Court's Reasoning

The court applied the principle that for a transfer to qualify as a gift, it must proceed from detached and disinterested generosity, as established in Commissioner v. Duberstein (1960). It considered several factors, including the union's obligation to pay, the recipient's financial need, union membership, strike duties, and restrictions on the use of payments. The court found that the ITU did not inquire into Colwell's financial need, the payments were calculated based on wages, and there were no restrictions on use, all of which indicated the payments were not gifts. The court distinguished this case from United States v. Kaiser (1960), where benefits were restricted to basic necessities and the recipient's need was considered. The court emphasized that without an initial inquiry into the recipient's need, strike benefits cannot be considered gifts, as they are inherently designed to meet economic needs arising from the strike.

Practical Implications

This decision clarifies that for union strike benefits to be considered gifts and thus excludable from income, they must be paid with consideration of the recipient's financial need and restricted to basic necessities. Unions and recipients must be aware that freely usable benefits calculated based on wages, without regard to need, are likely to be treated as taxable income. This ruling impacts how unions structure strike benefit programs and how recipients report such income on their tax returns. Subsequent cases have applied this principle to similar situations, reinforcing the need for unions to assess recipients' needs and restrict benefits' use to avoid tax liability.

