

## ***Weinberg v. Commissioner, 64 T. C. 771 (1975)***

Payments to medical interns and residents are taxable compensation, not excludable scholarships or fellowship grants, when they are for services rendered rather than purely educational purposes.

### **Summary**

Steven Weinberg, a medical intern and resident, sought to exclude payments received from hospitals as scholarships or fellowship grants under IRC Section 117 and meal allowances under Section 119. The Tax Court held that the payments were taxable compensation for services rendered, not educational grants. Additionally, the cash meal allowances were not excludable under Section 119 as they were not provided 'in kind.' This decision underscores the importance of distinguishing between compensatory payments and true educational grants for tax purposes.

### **Facts**

Steven Weinberg, after graduating from medical school, served as an intern and resident at hospitals affiliated with the University of Texas Southwestern Medical School. He received monthly payments from these hospitals, which he reported as income but sought to exclude a portion as scholarships or fellowship grants. Additionally, Weinberg received a monthly cash allowance for meals and housing, which he also sought to exclude under IRC Section 119. The hospitals required Weinberg to remain on duty during meal times and he used the allowance to purchase meals at the hospital cafeteria.

### **Procedural History**

The Commissioner of Internal Revenue determined deficiencies in Weinberg's federal income taxes for the years 1968 and 1969. Weinberg and his wife petitioned the Tax Court, which heard the case and issued its opinion on August 4, 1975, ruling in favor of the Commissioner.

### **Issue(s)**

1. Whether the amounts paid to Steven Weinberg by the hospitals during his internship and residency were excludable from gross income as scholarships or fellowship grants under Section 117 of the Internal Revenue Code of 1954?
2. Whether the cash allowances for meals and lodging provided by Parkland Memorial Hospital were excludable from income under Section 119, relating to meals or lodging furnished for the convenience of the employer?

### **Holding**

1. No, because the payments were compensation for services rendered, not educational grants. The court found that the primary purpose of the payments was

to compensate Weinberg for his services, which were valuable to the hospitals.

2. No, because the cash allowances were not provided 'in kind' and were additional compensation, not excludable under Section 119.

### **Court's Reasoning**

The court applied the test from the Income Tax Regulations, determining that the payments were not scholarships or fellowship grants because they were compensation for services under the direction and supervision of the hospitals. The court cited extensive case law supporting this view, emphasizing that the payments increased with Weinberg's experience and included typical employment benefits like income tax withholding and vacation time. The court also rejected the argument that the services of interns and residents were not necessary, noting their value to the hospitals. Regarding the meal allowances, the court held that they were not excludable under Section 119 because they were not provided 'in kind' and were not restricted to specific expenses. The court noted that even under the more lenient view of the Fifth Circuit, which would allow exclusion of reimbursements for specific expenses, Weinberg's allowances were not excludable because they were not tied to actual expenses incurred.

### **Practical Implications**

This decision clarifies that payments to interns and residents are generally taxable as compensation, not as scholarships or fellowship grants, unless they meet the strict criteria of being primarily for educational purposes without a substantial quid pro quo. Legal practitioners should advise clients in similar positions to report such payments as income. The ruling also reaffirms that cash allowances for meals and lodging are not excludable under Section 119 unless provided 'in kind' or as reimbursements for specific expenses. This case has been cited in subsequent decisions, reinforcing the distinction between compensatory payments and true educational grants in the tax treatment of medical training programs.