Brubakken v. Commissioner, 67 T. C. 249 (1976)

Payments received by a clinical psychology intern are taxable compensation if they primarily serve as payment for services rendered rather than as a scholarship or fellowship grant.

Summary

David Brubakken, a clinical psychology Ph. D. candidate, sought to exclude payments received during his required internship at Mendota State Hospital as a scholarship under section 117 of the Internal Revenue Code. The Tax Court held that these payments were taxable compensation because they were primarily for services rendered to the hospital, not for educational purposes. The court considered the nature of the services, the level of payment, and the employment-like characteristics of the internship, including benefits and tax withholdings, in reaching its decision.

Facts

David Brubakken was pursuing a Ph. D. in clinical psychology at Washington State University, requiring a one-year internship at an APA-approved institution. From September 1971 to September 1972, he served at Mendota State Hospital, where he performed various psychological services under supervision. He received payments totaling $3,051. 23 in 1971 and $9,200. 77 in 1972. Brubakken was classified as an employee of the Wisconsin Department of Health and Social Services, receiving benefits and subject to tax withholdings.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in Brubakken’s federal income taxes for 1971 and 1972, asserting that the internship payments were taxable income. Brubakken petitioned the U. S. Tax Court, which heard the case and ultimately ruled that the payments constituted taxable compensation.

Issue(s)

1. Whether the payments received by Brubakken during his clinical psychology internship at Mendota State Hospital qualify as a scholarship or fellowship grant excludable from gross income under section 117 of the Internal Revenue Code.

Holding

1. No, because the primary purpose of the payments was to compensate Brubakken for services rendered to the hospital, not to further his education.

Court’s Reasoning

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The court applied the legal standard that payments are not excludable as scholarships or fellowships if they represent compensation for services. The court analyzed the nature and extent of Brubakken's services, finding they were substantial and valuable to the hospital. The court noted the high level of payment, the employment-like characteristics of the internship (including tax withholdings and benefits), and the absence of scholarship-like features. The court distinguished Brubakken's case from others where payments were deemed non-taxable, citing the significant contribution Brubakken made to patient care. The court rejected the argument that the internship was primarily educational, emphasizing the hospital's use of interns' services. Key quotes include: "The primary purpose of the stipend he received was to compensate him for such services" and "the payments to the petitioner had none of the characteristics usually associated with a scholarship or fellowship grant. "

Practical Implications

This decision clarifies that payments to interns are taxable if they primarily compensate for services, even if the internship is required for a degree. Legal practitioners should carefully assess the nature of payments in similar cases, considering factors like the value of services, payment levels, and employment-like characteristics. This ruling impacts how educational institutions and internship providers structure their programs to ensure tax compliance. It also affects interns who must now consider the tax implications of their stipends. Later cases, such as *Weinberg* and *Fisher*, have reinforced this principle, distinguishing between payments for services and those for educational purposes.

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