Greer v. Commissioner, 72 T. C. 100 (1979)

Use of a corporate aircraft for medical care under an informal health plan can be excluded from gross income if the plan's existence and coverage are reasonably known to employees.

Summary

In Greer v. Commissioner, the Tax Court ruled that John L. Greer's use of a corporate aircraft for his wife's medical transportation was excludable from income under section 105(b) of the Internal Revenue Code. The court determined that an informal health plan existed at Kern's Bakery of Virginia, Inc. , covering such use, despite the lack of written documentation. Additionally, the court held that Greer was engaged in the trade or business of farming for tax purposes due to his horse breeding activities, impacting his tax calculations. The case also addressed the timing of charitable deductions and the deductibility of rental expenses for medical care, setting precedents for future similar cases.

Facts

John L. Greer, a shareholder and former officer of Kern's Bakery of Virginia, Inc. , used the company's aircraft to transport his wife, Russell Z. Greer, for medical care during 1970-1972. The aircraft's use was not reimbursed, leading to a tax deficiency notice. Greer argued the use was covered under the company's health plan, which was informal and not written. Additionally, Greer engaged in horse racing and breeding, claiming deductions related to these activities. He also donated a race horse and bird prints, claiming charitable deductions, and sought to deduct Florida rental expenses as medical costs for his wife.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in Greer's federal income taxes for 1970-1972. Greer petitioned the Tax Court, which heard arguments on the aircraft use, farming activities, charitable deductions, and medical expenses. The court issued its decision in 1979, ruling on the issues presented.

Issue(s)

1. Whether Greer's use of the corporate aircraft for his wife's medical care was excludable from gross income under section 105(b).
2. Whether Greer was engaged in the trade or business of farming under section 1251(e)(4) due to his horse breeding activities.
3. Whether Greer's charitable deductions needed adjustment.
4. Whether Greer made a completed gift of J. Gould bird prints in 1972.
5. Whether Greer's Florida rental expenses were deductible as medical expenses under section 213.

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Holding

1. Yes, because the court found an informal health plan existed at Kern's Bakery, covering the aircraft's use for medical transportation.
2. Yes, because Greer's involvement in horse breeding qualified him as engaged in the trade or business of farming.
3. Yes, adjustments were needed due to the application of sections 170(e)(1)(A) and 1245 to the horse donations.
4. Yes, because Greer's intent, acceptance by the University of Tennessee, and attempted delivery in 1972 completed the gift.
5. No, because the rental expenses were deemed personal and not deductible under section 213, following Commissioner v. Bilder.

Court's Reasoning

The court applied section 105(b) and related regulations, determining that the use of the aircraft was covered under an informal health plan at Kern's Bakery. The court noted that the plan's existence was known to employees, satisfying the requirement for exclusion from gross income. For the farming issue, the court interpreted section 1251(e)(4) broadly, finding that Greer's breeding activities constituted farming, impacting his tax calculations. The charitable deductions were adjusted according to sections 170(e)(1)(A) and 1245. The gift of bird prints was deemed complete in 1972, based on Greer's intent and attempted delivery. Finally, the court distinguished the rental expense case from Kelly v. Commissioner, following Commissioner v. Bilder in disallowing the deduction as a personal expense.

Practical Implications

This decision clarifies that informal health plans can suffice for tax exclusion purposes if employees are reasonably aware of their existence and coverage. It impacts how corporations structure employee benefits and how the IRS audits such arrangements. The ruling on farming activities under section 1251(e)(4) affects tax planning for individuals with mixed business activities. The case also sets a precedent for determining the timing of charitable gift deductions and the deductibility of rental expenses as medical costs, influencing future cases in these areas.

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