Taylor v. Commissioner, 71 T. C. 124 (1978)

Students pursuing education, even if they perform some work, are not considered employees for the purpose of moving expense deductions under Section 217(c)(2) of the Internal Revenue Code.

Summary

In Taylor v. Commissioner, the U. S. Tax Court ruled that Benjamin Taylor, a Ph. D. student at the University of Pennsylvania, could not deduct moving expenses after returning from military service to resume his studies. The court found that Taylor did not qualify as an "employee" under Section 217(c)(2) of the Internal Revenue Code because his primary activity was education, not employment. The court applied common law principles to determine that the absence of a mutual benefit relationship, where services are exchanged for remuneration, disqualified Taylor from the deduction. This decision clarifies that students, even those who perform some work, are not considered employees for tax purposes unless they receive compensation.

Facts

Benjamin Taylor, Jr. , was a Ph. D. candidate in biochemistry at the University of Pennsylvania. In June 1970, he took a leave of absence to fulfill his military obligation and was stationed at Walter Reed Hospital in Washington, D. C. , until his discharge in September 1972. Upon discharge, Taylor returned to Philadelphia to resume his studies and complete his degree, which he received in December 1973. While at the university, Taylor performed research under the supervision of his advisers, primarily for his thesis. He also performed some work at the request of his principal adviser, Dr. Rutman, though this was not related to his thesis. Taylor received no cash remuneration for his work at the university, nor did he receive benefits such as paid vacations, sick leave, or retirement credits.

Procedural History

Taylor claimed a moving expense deduction for his move from Washington, D. C. , to Philadelphia in 1972. The Commissioner of Internal Revenue disallowed the deduction and determined a deficiency in Taylor's 1972 income tax. Taylor petitioned the U. S. Tax Court for relief. The court's decision was entered for the respondent, disallowing Taylor's moving expense deduction.

Issue(s)

1. Whether a Ph. D. student, who performs research work at a university primarily for the purpose of completing his degree, qualifies as an "employee" under Section 217(c)(2) of the Internal Revenue Code for the purpose of claiming a moving expense deduction.

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Holding

1. No, because the student's primary activity at the university was education, not employment, and there was no mutual benefit relationship involving remuneration.

Court's Reasoning

The court applied common law principles to determine whether Taylor was an employee for tax purposes. The court noted that the relationship of employer and employee requires a mutual benefit where services are rendered in exchange for remuneration. In this case, Taylor received no remuneration for his work at the university, and his primary purpose was education, not employment. The court distinguished Taylor's situation from cases where individuals receive compensation for their services, emphasizing that the absence of a mutual benefit relationship disqualifies students from being considered employees under Section 217(c)(2). The court also referenced the common law test adopted by employment tax regulations, which further supported their conclusion that Taylor was not an employee.

Practical Implications

This decision has significant implications for students seeking to deduct moving expenses. It clarifies that students, even those who perform some work related to their studies, are not considered employees for tax purposes unless they receive compensation. Legal practitioners advising students on tax matters must ensure that any work performed by their clients is compensated to qualify for moving expense deductions. This ruling also affects universities and other educational institutions, as they must clearly delineate between student activities and compensated employment. Subsequent cases have applied this ruling to similar situations, reinforcing the principle that a mutual benefit relationship, including remuneration, is essential for an individual to be considered an employee for tax purposes.

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