Hills v. Commissioner, 72 T. C. 958 (1979)

Moving expense reimbursements can be excluded from income under the grandfather clause of section 911 if the right to such reimbursements existed prior to the 1962 statutory changes.

Summary

In Hills v. Commissioner, the Tax Court held that moving expense reimbursements received by retirees from Aramco upon their return to the United States from Saudi Arabia were excludable from income under section 911's grandfather clause. The court found that the petitioners had a pre-existing right to such reimbursements as of March 12, 1962, under their employment contract, which met the statutory requirements for exclusion. The decision underscores the importance of contractual rights established before statutory changes in determining tax treatment of subsequent payments.

Facts

Liston F. Hills and Edward G. Voss, both long-term employees of Aramco in Saudi Arabia, retired in 1973 and returned to the United States. Aramco reimbursed them for their moving expenses, which they excluded from their 1973 income tax returns under section 911. The Commissioner challenged these exclusions, arguing that moving expense reimbursements were not excludable. The petitioners' employment contract, effective on March 12, 1962, provided for such reimbursements upon retirement.

Procedural History

The petitioners filed their cases in the United States Tax Court after the Commissioner determined deficiencies in their 1973 federal income taxes due to the exclusion of moving expense reimbursements. The court consolidated the cases and issued a decision in favor of the petitioners, allowing the exclusions based on the grandfather clause of section 911.

Issue(s)

1. Whether the petitioners may exclude from gross income reimbursements paid to them for moving expenses, pursuant to section 911 of the Internal Revenue Code?

Holding

1. Yes, because the petitioners had a right to receive such reimbursements as of March 12, 1962, under their employment contract with Aramco, and the amounts were determinable within the meaning of the statute and regulations.

Court's Reasoning

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The court analyzed whether the petitioners' right to moving expense reimbursements met the requirements of the grandfather clause in section 911, which allowed exclusion for amounts received after December 31, 1962, attributable to services performed on or before that date, provided the right to such amounts existed on March 12, 1962. The court found that the employment contract with Aramco, in effect on March 12, 1962, provided for such reimbursements upon retirement, meeting the statutory test for a "right" to receive determinable amounts based on objectively determinable facts. The court rejected the Commissioner's argument that the amounts must have been determinable as of December 31, 1962, citing examples from the regulations that allowed for subsequent determination of amounts. The court emphasized that the petitioners' right to reimbursement was established before the statutory changes and was not affected by the passage of time until their retirement in 1973.

Practical Implications

This decision clarifies that moving expense reimbursements can be excluded from income under the grandfather clause of section 911 if the right to such reimbursements was established prior to the 1962 statutory changes. It underscores the importance of contractual rights in determining the tax treatment of payments received after statutory changes. Practitioners should review employment contracts and agreements for rights established before statutory amendments to assess potential exclusions. This case may influence how similar cases involving pre-existing contractual rights are analyzed, particularly in the context of foreign employment and retirement. Subsequent cases have applied this ruling to other types of payments where pre-existing rights were established, reinforcing the significance of the grandfather clause in tax law.

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