Cohn v. Commissioner, 73 T. C. 443 (1979)

Section 83 of the Internal Revenue Code applies to the taxation of restricted stock received by independent contractors, not just employees.

Summary

In Cohn v. Commissioner, the Tax Court ruled that the receipt of restricted stock by independent contractors as compensation for services is taxable under Section 83 of the IRC. The petitioners, Elovich and Cohn, received stock from Integrated Resources, Inc. as payment for finder services. Despite not being employees, the court held that the broad language of Section 83, which covers "any person," included independent contractors. The decision emphasized the applicability of the statute beyond traditional employer-employee relationships, impacting how compensation in the form of property should be treated for tax purposes.

Facts

Harold Elovich and Maurice Cohn, shareholders of Mega Research Corp. , received 1,000 shares of Integrated Resources, Inc. stock on February 9, 1970, as payment for finder services. Neither Elovich nor Cohn were employees of Integrated. The shares were subject to an investment letter restricting their sale, and were subsequently assigned to Mega. Mega sold these shares on May 22, 1970, for $25,000, and Elovich and Cohn later repurchased them for $31,250. The petitioners argued that Section 83, which deals with property transferred in connection with the performance of services, did not apply to them as independent contractors.

Procedural History

The petitioners filed their tax returns for 1970 and were assessed deficiencies by the Commissioner of Internal Revenue. They contested these deficiencies in the U. S. Tax Court, asserting that Section 83 did not apply to independent contractors. The Tax Court, after hearing the case, ruled in favor of the Commissioner, holding that Section 83's language included independent contractors.

Issue(s)

1. Whether Section 83 of the Internal Revenue Code applies to the receipt of restricted stock by persons who are independent contractors and not employees.

Holding

1. Yes, because the language of Section 83, which states "any person," encompasses independent contractors, and the legislative history and regulations support this interpretation.

Court's Reasoning

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The court reasoned that while the primary impetus for Section 83 was to address restricted stock plans for employees, the statute's language was broad enough to cover transfers to "any person" in connection with services performed. The court emphasized the legislative history, which indicated Congress's awareness that the statute's coverage extended beyond employee stock plans. Additionally, the court cited Treasury Regulations that explicitly state Section 83 applies to both employees and independent contractors. The court rejected the petitioners' argument that pre-1969 tax rules should apply, affirming the applicability of Section 83 to the transaction at hand.

Practical Implications

This decision clarifies that independent contractors receiving property, such as restricted stock, in exchange for services must recognize income under Section 83. Legal practitioners must advise clients that the tax treatment of such compensation is similar to that of employees, affecting how compensation packages are structured and reported. Businesses offering stock to independent contractors should be aware of the immediate tax consequences for recipients. Subsequent cases have followed this ruling, reinforcing the broad application of Section 83 to various service providers beyond traditional employment relationships.

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