Jolitz v. Commissioner, 75 T. C. 748 (1980)

Scholarships must be included in calculating total support when determining eligibility for income averaging under section 1303(c)(1).

Summary

In Jolitz v. Commissioner, the Tax Court held that athletic scholarships received by Evan Jolitz should be included in calculating his support for the years 1970, 1972, and 1973, thus disqualifying him from income averaging relief under sections 1301 through 1305 for his 1974 tax liability. The case centered on whether scholarships should be excluded from support calculations, akin to dependency exemptions under section 152. The court rejected the petitioners' argument, emphasizing the distinct nature of income averaging provisions and the absence of a regulatory cross-reference to section 152's support test, aligning with prior cases like Heidel and Sharvy.

Facts

Evan C. Jolitz was a full-time student receiving athletic scholarships from Xavier University and the University of Cincinnati for his tuition, room, board, books, and fees during 1970-1974. These scholarships were excludable from income under section 117. Evan reported modest adjusted gross incomes for 1970, 1972, and 1973, while the value of his scholarships exceeded the total support otherwise furnished for those years. In 1974, Evan and his wife Virginia filed a joint return, reporting a significantly higher income, and sought to apply income averaging for that year.

Procedural History

The Commissioner determined a deficiency in the Jolitzes' 1974 federal income tax. The case was submitted to the Tax Court on a fully stipulated record, with the sole issue being Evan's eligibility for income averaging based on whether he furnished at least half of his support in the base period years.

Issue(s)

1. Whether athletic scholarships should be excluded from the calculation of support when determining eligibility for income averaging under section 1303(c)(1).

Holding

1. No, because the regulations under section 1303 do not reference the support test of section 152, and prior case law supports including scholarships in the total support calculation.

Court's Reasoning

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The Tax Court relied on the specific language of the income averaging provisions and the applicable regulations, which did not incorporate the support test from section 152. The court distinguished between dependency exemptions and eligibility for income averaging, noting that scholarships are considered support provided by the grantor, as established in Heidel and Sharvy. The court rejected the petitioners' attempt to apply legislative history that was deemed inapplicable to Evan's situation, emphasizing that income averaging is a relief statute requiring strict interpretation. The court concluded that Evan's scholarships must be included in calculating his total support, thus he did not meet the requirement of furnishing at least half of his support in the base period years.

Practical Implications

This decision clarifies that scholarships are to be included in support calculations for income averaging purposes, impacting how taxpayers with scholarships assess their eligibility for this tax relief. Practitioners must advise clients that scholarships cannot be excluded from support, even if they are excludable from income. This ruling may affect how students and recent graduates plan their tax strategies, particularly those who receive substantial scholarship aid. Subsequent cases have followed this precedent, reinforcing the distinct treatment of support for income averaging versus dependency exemptions.

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