Glynn v. Commissioner, 76 T. C. 114 (1981)

Settlement payments are taxable as income unless they are specifically for personal injuries or sickness, and wages must be included in gross income even if intended for donation.

Summary

William Glynn, former Superintendent of Schools in Foxborough, Massachusetts, received a $25,000 settlement from the school committee and $6,400 in wages from St. Michael's School. The Tax Court held that the settlement payment was taxable income because it was not for personal injuries but related to contractual disputes over employment terms. The wages from St. Michael's were also taxable since Glynn retained control over them without donating them to the school. The decision underscores the importance of the nature of claims settled and actual receipt of income for tax purposes.

Facts

William Glynn served as Superintendent of Schools for the Town of Foxborough, Massachusetts, from 1963 to January 30, 1973. The Foxborough School Committee sought his resignation due to dissatisfaction with his management and high salary. Glynn threatened legal action against the committee for denying him benefits and damaging his reputation. In January 1973, a settlement agreement was reached where Glynn resigned, dropped charges against the committee, and received $25,000 in lieu of "doctoral advantages. " Additionally, Glynn received $6,400 in wages from St. Michael's School, which he intended to donate to the school but retained control over.

Procedural History

The Commissioner of Internal Revenue determined a tax deficiency for Glynn's 1973 income tax. Glynn contested the inclusion of the $25,000 settlement and the $6,400 in wages in his gross income. The Tax Court reviewed the case and made its decision based on the nature of the settlement and the control over the wages.

Issue(s)

1. Whether the $25,000 payment received by Glynn from the Town of Foxborough is excludable from gross income under section 104(a)(2) as compensation for personal injuries or sickness.
2. Whether Glynn properly excluded $6,400 in wages from gross income.

Holding

1. No, because the payment was related to contractual disputes over employment terms, not personal injuries or sickness.

2. No, because Glynn retained control over the wages and did not donate them to St. Michael's School.

Court's Reasoning

The court determined that the $25,000 payment was not excludable under section 104(a)(2) because it was not made on account of personal injuries or sickness but rather stemmed from contractual disputes over employment terms, including Glynn's demand for payment for accrued sick leave and sabbatical leave. The court noted that Glynn's allegations of unethical conduct by the committee did not rise to the level of a tort claim that would qualify for exclusion. The court cited Seay v. Commissioner and Knuckles v. Commissioner to support its position that the nature of the claim settled, not its validity, determines taxability. Regarding the $6,400 in wages, the court found that since Glynn retained full control over these funds and had not donated them to St. Michael's School, they were includable in his gross income under section 61(a)(1). The court also denied a charitable deduction under section 170 because the funds were not actually or constructively received by the school.

Practical Implications

This decision clarifies that settlement payments are generally taxable unless they specifically address personal injuries or sickness, emphasizing the importance of the nature of the underlying claim. Attorneys and taxpayers must carefully draft settlement agreements to specify the basis for payments if exclusion from gross income is sought. The case also reinforces that wages are taxable income at the time of receipt, regardless of the recipient's intent to donate them. Legal practitioners should advise clients on the tax implications of retaining control over funds intended for donation. Subsequent cases have continued to apply these principles, impacting how settlements and wage income are treated for tax purposes.

