Haar v. Commissioner, 78 T. C. 864 (1982)

Civil Service disability retirement payments are not excludable from gross income under IRC sections 104(a)(1), 104(a)(4), or 105(d).

Summary

In Haar v. Commissioner, the Tax Court ruled that payments received by Daniel Haar from the Civil Service Retirement and Disability Fund were not excludable from his gross income. Haar, a former GSA auditor, retired due to a hearing disability but continued working in another auditing position. The court held that these payments did not qualify for exclusion under IRC sections 104(a)(1), 104(a)(4), or 105(d). The decision clarified that Civil Service disability payments are not considered compensation for specific injuries, particularly those from military service, and thus are taxable. This ruling impacts how similar disability retirement payments should be treated for tax purposes.

Facts

Daniel S. Haar served in the U. S. Air Force from 1941 to 1946 and developed a hearing disability. He was employed by the General Services Administration (GSA) as an auditor from 1950 until his disability retirement on June 19, 1974, due to his hearing disability. Despite his disability, Haar worked as an auditor for the city of Kansas City from 1977 to 1979. He received annuity payments from the Civil Service Retirement and Disability Fund, which he did not report as income on his tax returns for 1976 through 1979. Haar contributed $14,985 to the fund and sought to exclude these payments from his gross income under IRC sections 104(a)(1), 104(a)(4), and 105(d).

Procedural History

The Commissioner of Internal Revenue determined deficiencies in Haar’s federal income tax for the years 1976 through 1979. Haar petitioned the U. S. Tax Court to contest these deficiencies. The court’s decision addressed only the issue of whether Haar’s disability retirement payments were excludable from income.

Issue(s)

1. Whether payments received by Haar from the Civil Service Retirement and Disability Fund are excludable from gross income under IRC section 104(a)(4)?
2. Whether these payments are excludable under IRC section 104(a)(1)?
3. Whether these payments are excludable under IRC section 105(d)?

Holding

1. No, because the payments were not made because of a disability incurred while serving in the military.

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2. No, because the Civil Service Retirement Act is not akin to a workers' compensation act, as it allows disability payments for reasons other than on-the-job injuries.
3. No, because Haar was not permanently and totally disabled as required by the amended section 105(d) for the years in question.

Court's Reasoning

The Tax Court reasoned that the Civil Service Retirement Act is a comprehensive retirement program, not designed to compensate for specific injuries, particularly those from military service. The court highlighted that the Act's definition of disability does not consider the cause of the disability, and the amount of annuity is calculated without regard to the extent of injury. The court also noted that section 104(a)(4) applies only to payments made because of military service injuries, which was not the case for Haar's disability payments. Furthermore, section 104(a)(1) was inapplicable because the Civil Service Retirement Act is not akin to a workers' compensation act. Lastly, the court determined that Haar did not meet the criteria for the section 105(d) exclusion post-1976, as he was not permanently and totally disabled, evidenced by his continued employment as an auditor.

Practical Implications

This decision establishes that Civil Service disability retirement payments are taxable and not excludable under the specified IRC sections. Legal practitioners should advise clients that such payments are subject to income tax unless they fall under a different exclusion provision. The ruling underscores the distinction between Civil Service retirement benefits and military disability compensation, affecting how similar cases are analyzed. Taxpayers and their advisors must carefully consider the source and nature of disability payments when determining their tax treatment. This case also informs future cases involving the taxability of government retirement benefits, guiding how courts interpret statutory language concerning disability exclusions.

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