

Sjoroos v. Commissioner, 81 T. C. 971 (1983)

The tax exemption for cost-of-living allowances of Federal employees stationed in Alaska does not violate the equal protection rights of private sector employees.

Summary

In *Sjoroos v. Commissioner*, the taxpayers, employed in the private sector in Alaska, claimed a deduction for a cost-of-living allowance similar to that exempted for Federal employees under IRC section 912(2). The Tax Court upheld the denial of this deduction, ruling that the statutory exemption did not violate the taxpayers' equal protection rights under the Constitution. The court applied a rational basis test and found that the legislative classification was reasonable, aimed at compensating Federal employees for additional living costs in specific locations. Additionally, the court upheld a negligence penalty against the taxpayers for claiming the unauthorized deduction without seeking professional advice.

Facts

Gary E. Sjoroos and Shirley A. Sjoroos resided in Juneau, Alaska, and worked for private employers in 1979. On their joint federal income tax return, they deducted 20% of their income as an 'Alaska cost of living allowance.' The Commissioner of Internal Revenue disallowed this deduction and imposed a negligence penalty under IRC section 6653(a). The taxpayers argued that the tax exemption provided to Federal employees under IRC section 912(2) violated their equal protection rights.

Procedural History

The taxpayers filed a petition with the United States Tax Court challenging the Commissioner's disallowance of their deduction and the imposition of the negligence penalty. The Tax Court upheld the Commissioner's determination, finding no violation of the taxpayers' constitutional rights and affirming the penalty for negligence.

Issue(s)

1. Whether the tax exemption under IRC section 912(2) for Federal employees' cost-of-living allowances violates the taxpayers' equal protection rights.
2. Whether any part of the taxpayers' underpayment of tax was due to negligence or intentional disregard of rules and regulations under IRC section 6653(a).

Holding

1. No, because the legislative classification of exempting Federal employees' cost-of-living allowances in Alaska has a rational basis and does not deprive private sector employees of equal protection of the laws.
2. Yes, because the taxpayers failed to show they were not negligent or did not

intentionally disregard the tax laws when claiming the unauthorized deduction.

Court's Reasoning

The Tax Court applied the rational basis test to evaluate the constitutionality of IRC section 912(2), citing *Dandridge v. Williams* (397 U. S. 471 (1970)) and *United States v. Maryland Savings-Share Ins. Corp.* (400 U. S. 4 (1970)). The court reasoned that the exemption was a policy decision by Congress to compensate Federal employees for additional living costs in designated areas, a decision within its constitutional power. The court noted the historical context of the exemption, originating during World War II to offset increasing tax rates and living costs for Federal employees stationed abroad, and later extended to Alaska in 1960. The court also found that the taxpayers were negligent in claiming the deduction without seeking professional advice, as no competent attorney would have advised that the deduction was allowable.

Practical Implications

This decision reinforces the principle that legislative classifications in tax law are generally upheld if they have a rational basis, even if they result in different treatment of similarly situated taxpayers. It highlights the importance of seeking professional advice before claiming deductions without clear statutory authority, especially in complex areas like constitutional challenges. The ruling underscores that tax exemptions granted to Federal employees do not necessarily extend to private sector employees, even in similar circumstances. Subsequent cases involving tax exemptions and equal protection challenges should consider this precedent, focusing on whether the classification has a rational basis. The decision also impacts how practitioners advise clients on claiming deductions, emphasizing the need for a solid legal foundation.