Thompson v. Commissioner, 92 T. C. 282 (1989)

Back pay received under the Equal Pay Act is taxable income, while liquidated damages for sex discrimination are excludable as damages for personal injuries.

Summary

In Thompson v. Commissioner, the Tax Court addressed the tax treatment of back pay and liquidated damages awarded to a female employee under the Equal Pay Act and Title VII. The court ruled that the back pay, amounting to $66,795. 19, was taxable as it represented wages owed for work performed. However, the $66,135. 27 in liquidated damages was deemed excludable from income under Section 104(a)(2) as compensation for personal injuries due to sex discrimination. This decision clarifies the distinction between compensatory payments for work done and those for personal injuries, impacting how similar awards are taxed.

Facts

Petitioner, a female employee at the U. S. Government Printing Office (GPO), received $66,795. 19 in back pay and $66,135. 27 in liquidated damages following a successful class action lawsuit against GPO for sex discrimination. The lawsuit, Thompson v. Sawyer, established that petitioner’s work as a Grade 4 Smyth Sewing Machine Operator was substantially equal to that of male bookbinders, entitling her to back pay under the Equal Pay Act. The liquidated damages were awarded under the same Act due to GPO’s willful violation.

Procedural History

The initial lawsuit, Thompson v. Boyle, resulted in a finding of sex discrimination by GPO, upheld on appeal in Thompson v. Sawyer. The Tax Court case arose when the IRS assessed a deficiency in petitioner’s 1982 taxes for failing to report the liquidated damages as income. Petitioner amended her petition, claiming both the back pay and liquidated damages were excludable under Section 104(a)(2).

Issue(s)

1. Whether the back pay award of $66,795. 19 received under the Equal Pay Act is excludable from gross income under Section 104(a)(2) as damages received for personal injuries.
2. Whether the liquidated damages award of $66,135. 27 received under the Equal Pay Act is excludable from gross income under Section 104(a)(2) as damages received for personal injuries.

Holding

1. No, because the back pay was for wages owed for work performed, not for personal injuries.

© 2025 SCOTUSreports.com. All rights reserved.

2. Yes, because the liquidated damages were compensatory for the personal injury of sex discrimination, not merely for unpaid wages.

Court's Reasoning

The Tax Court distinguished between the back pay and liquidated damages. For back pay, the court applied Section 61, which includes all income unless specifically excluded. It determined that the back pay was for wages owed under the Equal Pay Act, not for personal injuries, citing the Act's language about "amounts owing" and "withheld" wages. The court referenced Hodge v. Commissioner and Fono v. Commissioner, which held similar wage-based payments were taxable.

For liquidated damages, the court relied on Bent v. Commissioner and Metzger v. Commissioner, which established that damages for violations of civil rights, including sex discrimination, could be considered damages for personal injuries under Section 104(a)(2). The court noted that the liquidated damages, though measured by the back pay, were intended to compensate for intangible losses due to sex discrimination, not merely as additional wages. The court emphasized that the purpose of the liquidated damages was to address the personal injury of discrimination, not to serve as interest on back pay.

Practical Implications

This decision clarifies that back pay awarded under the Equal Pay Act is taxable as income, while liquidated damages for sex discrimination are excludable. Attorneys should advise clients to report back pay as income but may claim an exclusion for liquidated damages under Section 104(a)(2). This ruling impacts how similar discrimination awards are treated for tax purposes, potentially affecting settlement negotiations and tax planning in employment discrimination cases. Subsequent cases, like Metzger v. Commissioner, have further refined these distinctions, emphasizing the need to carefully analyze the nature of each component of a discrimination award.

© 2025 SCOTUSreports.com. All rights reserved.