P & X Markets, Inc. v. Commissioner, 106 T. C. 441 (1996)

Settlement proceeds received by a corporation cannot be excluded from gross income under IRC § 104(a)(2) as they do not constitute damages for personal injuries or sickness.

Summary

P & X Markets, Inc. settled a lawsuit against multiple defendants for $850,000, alleging various business-related claims. The company sought to exclude the settlement from its gross income under IRC § 104(a)(2), arguing the damages were for personal injury due to its status as a closely-held corporation. The Tax Court disagreed, ruling that corporations cannot claim personal injury exclusions under this section. The court's rationale emphasized the legal distinction between corporations and individuals, stating that a corporation cannot suffer a personal injury. This decision impacts how damages received by corporations are treated for tax purposes, reinforcing that such proceeds are generally taxable.

Facts

P & X Markets, Inc. , a corporation operating a retail grocery store, filed a lawsuit against several defendants alleging breach of contract, malicious prosecution, intentional interference with business relationship, fraud, and violation of fiduciary and statutory duties. The lawsuit was settled for $850,000, with P & X incurring $198,367 in legal fees. On its tax return, P & X included only $83,608 of the settlement in its gross income, claiming the remainder was excludable under IRC § 104(a)(2) as damages for personal injury. The IRS disagreed and assessed a deficiency, leading to the dispute.

Procedural History

P & X Markets, Inc. petitioned the U. S. Tax Court to redetermine the IRS's deficiency determination. The Commissioner moved for summary judgment, arguing the settlement proceeds were not excludable from gross income under IRC § 104(a)(2). The Tax Court granted the Commissioner's motion for summary judgment, holding that no genuine issue of material fact existed regarding the tax treatment of the settlement proceeds.

Issue(s)

1. Whether settlement proceeds received by a corporation can be excluded from gross income under IRC § 104(a)(2) as damages received on account of personal injuries.

Holding

1. No, because a corporation cannot suffer a personal injury for the purposes of IRC

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§ 104(a)(2).

Court’s Reasoning

The Tax Court applied the legal rule that IRC § 104(a)(2) excludes from gross income only damages received on account of personal injuries or sickness. The court reasoned that a corporation, by its nature, cannot suffer a personal injury, as it is a business entity and not a human being. The court cited prior cases, including *Roemer v. Commissioner* and *Threlkeld v. Commissioner*, which supported this view. It also referenced *Boyette Coffee Co. v. United States*, where a similar ruling was made. The court rejected P & X’s argument that its status as a closely-held corporation should allow for the exclusion, emphasizing that the corporate form’s benefits and burdens must be respected. The court concluded that the settlement proceeds were fully taxable, as they did not qualify for exclusion under IRC § 104(a)(2).

Practical Implications

This decision clarifies that corporations cannot exclude settlement proceeds from gross income under IRC § 104(a)(2), regardless of their ownership structure. Legal practitioners must advise corporate clients that settlement proceeds are generally taxable, even if the underlying claims involve tort-like actions. This ruling may influence how corporations structure settlements and negotiate terms, potentially affecting business practices and litigation strategies. Subsequent cases, such as *Banks v. United States*, have reaffirmed this principle, and it remains a key consideration in corporate tax planning.

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