***Roco v. Commissioner, 121 T. C. 160, 2003 U. S. Tax Ct. LEXIS 32 (U. S. Tax Court 2003)***

In Roco v. Commissioner, the U. S. Tax Court ruled that a $1. 5 million qui tam award received by Emmanuel L. Roco under the False Claims Act was taxable income. Roco had initiated a successful qui tam action against New York University Medical Center for overcharging the government. The court found no legal basis to exclude such awards from gross income, aligning them with taxable rewards. Additionally, the court upheld an accuracy-related penalty against Roco for failing to report the income, emphasizing the lack of good faith in his actions.

**Parties**

Emmanuel L. Roco, the petitioner, filed a petition pro se against the Commissioner of Internal Revenue, the respondent, before the United States Tax Court.

**Facts**

Emmanuel L. Roco, an accountant formerly employed by New York University Medical Center (NYUMC), was terminated in 1992 after alleging that NYUMC had overcharged the United States for various services. Roco then initiated a qui tam action against NYUMC under the False Claims Act (FCA), 31 U. S. C. §§ 3729-3733. The case settled in 1997, with NYUMC agreeing to pay $15. 5 million to the United States. Roco received $1,568,087 as his share of the settlement. He did not report this amount on his 1997 federal income tax return, leading to an IRS audit and subsequent litigation.

**Procedural History**

The Commissioner of Internal Revenue determined a deficiency in Roco’s 1997 federal income tax and assessed an accuracy-related penalty under 26 U. S. C. § 6662(a). Roco petitioned the U. S. Tax Court for a redetermination of the deficiency and penalty. The Tax Court reviewed the case de novo, applying the preponderance of the evidence standard.

**Issue(s)**

Whether the $1,568,087 qui tam payment Roco received in 1997 is includable in his gross income under 26 U. S. C. § 61?

Whether Roco is liable for the accuracy-related penalty under 26 U. S. C. § 6662(a) for failing to report the qui tam payment on his 1997 federal income tax return?

**Rule(s) of Law**

Gross income includes all income from whatever source derived, unless excluded by law. 26 U. S. C. § 61. Rewards are generally includable in gross income. 26 C. F. R. §

© 2025 SCOTUSreports.com. All rights reserved. 

1. 61-2(a). The False Claims Act does not provide an exclusion for qui tam awards from gross income. An accuracy-related penalty applies to underpayments attributable to substantial understatements of income tax. 26 U. S. C. § 6662(a), (b)(2). This penalty may be avoided if the taxpayer shows reasonable cause and good faith. 26 U. S. C. § 6664(c)(1).

**Holding**

The $1,568,087 qui tam payment is includable in Roco's gross income for 1997, as it constitutes a reward analogous to those taxable under 26 C. F. R. § 1. 61-2(a). Roco is liable for the accuracy-related penalty under 26 U. S. C. § 6662(a) due to his substantial understatement of income tax and lack of good faith in not reporting the qui tam payment.

**Reasoning**

The court reasoned that the qui tam payment was akin to a reward for Roco's efforts in recovering overcharges from NYUMC, and thus taxable under the broad definition of gross income in 26 U. S. C. § 61. The court rejected Roco's argument that the payment was not derived from capital or labor, citing the expansive interpretation of income in Commissioner v. Glenshaw Glass Co. , 348 U. S. 426 (1955), which includes all accessions to wealth unless excluded by law. The court also dismissed Roco's reliance on Eisner v. Macomber, 252 U. S. 189 (1920), noting its limited applicability to stock dividends and not to qui tam awards. Regarding the penalty, the court found Roco's actions lacked good faith; he did not disclose the payment on his return despite receiving a Form 1099-MISC and expecting an audit. The court held that Roco's research and consultation with his wife, an accountant, did not constitute substantial authority or reasonable cause to exclude the payment from income.

**Disposition**

The Tax Court entered a decision for the respondent, affirming the inclusion of the qui tam payment in Roco's gross income and upholding the accuracy-related penalty.

**Significance/Impact**

Roco v. Commissioner established that qui tam awards under the False Claims Act are taxable as gross income, treating them similarly to rewards. This ruling clarified the tax treatment of such awards, impacting potential relators under the FCA. The decision also reinforced the IRS's authority to impose accuracy-related penalties for substantial understatements of income tax, emphasizing the importance of good faith in tax reporting. Subsequent cases have cited Roco for these principles, affecting both tax law and the practice of qui tam litigation.

© 2025 SCOTUSreports.com. All rights reserved. 