William D. and Joyce M. Reimels v. Commissioner of Internal Revenue, 123 T. C. 245 (U. S. Tax Court 2004)

In Reimels v. Comm'r, the U. S. Tax Court ruled that Social Security disability benefits received by a Vietnam veteran, whose lung cancer was caused by Agent Orange exposure, are taxable and not excludable under I. R. C. § 104(a)(4). This decision upholds the principle established in Haar v. Commissioner that such benefits are not designed to compensate for military injuries, impacting veterans' tax planning and reinforcing the inclusion of Social Security benefits in gross income under I. R. C. § 86.

Parties

William D. Reimels and Joyce M. Reimels (Petitioners) filed a pro se petition against the Commissioner of Internal Revenue (Respondent) in the United States Tax Court. The case was docketed as No. 9182-02.

Facts

William D. Reimels served in the U. S. Armed Forces from September 25, 1968, to September 1, 1974, and was exposed to Agent Orange during his combat service in Vietnam. As a result, he developed lung cancer and was diagnosed in February 1993. Reimels applied for and was granted Social Security disability insurance benefits on January 13, 1994, and Veterans' Administration disability compensation on June 15, 1998. In 1999, he received $12,194 in Social Security disability benefits and $2,246 per month in Veterans' Administration benefits. On their 1999 joint Federal income tax return, the Reimels excluded both types of benefits from their gross income.

Procedural History

The Commissioner issued a notice of deficiency to the Reimels, determining a $2,376 deficiency for the 1999 tax year due to the inclusion of the Social Security disability benefits in their gross income. The Reimels petitioned the U. S. Tax Court for a redetermination of the deficiency. The case was submitted fully stipulated under Tax Court Rule 122, and the court reviewed the matter de novo.

Issue(s)

Whether Social Security disability insurance benefits received by William D. Reimels in 1999, stemming from a disability resulting from active service in the U. S. Armed Forces, are excludable from gross income under I. R. C. § 104(a)(4)?

Rule(s) of Law

I. R. C. § 86 requires the inclusion of up to 85% of Social Security benefits, including disability insurance benefits, in gross income. I. R. C. § 104(a)(4) excludes from

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gross income “amounts received as a pension, annuity, or similar allowance for personal injuries or sickness resulting from active service in the Armed Forces of any country. ” The court applied the precedent from Haar v. Commissioner, 78 T. C. 864 (1982), aff’d, 709 F. 2d 1206 (8th Cir. 1983), which held that non-military disability benefits are not excludable under § 104(a)(4) unless they are specifically designed to compensate for military injuries.

Holding

The court held that the Social Security disability insurance benefits received by William D. Reimels in 1999 are not excludable from gross income under I. R. C. § 104(a)(4). These benefits are includable in the Reimels’ gross income to the extent provided by I. R. C. § 86.

Reasoning

The court reasoned that Social Security disability insurance benefits, like the Civil Service benefits in Haar, are not designed to compensate for military injuries. The Social Security Act does not consider the cause or nature of the disability when determining eligibility or benefit amounts. The court emphasized the consistent application of Haar and its progeny, which have held that only benefits received under military compensation statutes qualify for exclusion under § 104(a)(4). The court also noted that Congress, through I. R. C. § 86, intended to include Social Security benefits in gross income to ensure equitable treatment of all income designed to replace lost wages. The court rejected the Reimels’ arguments that Haar was wrongly decided or distinguishable, citing the principle of stare decisis and the absence of Congressional action to overturn Haar. The court further clarified that § 104(b)(2) and (b)(4) do not provide an independent basis for exclusion and are subject to the requirements of § 104(a)(4).

Disposition

The court decided in favor of the Commissioner, holding that the Social Security disability insurance benefits are includable in the Reimels’ gross income under I. R. C. § 86. The decision was to be entered under Tax Court Rule 155.

Significance/Impact

The decision in Reimels reinforces the principle that Social Security disability benefits are taxable and not excludable under I. R. C. § 104(a)(4), regardless of the military origin of the disability. It upholds the longstanding interpretation of § 104(a)(4) established in Haar, emphasizing that only benefits under military compensation statutes are eligible for exclusion. The ruling has significant implications for veterans receiving Social Security disability benefits, as it affects their tax planning and underscores the need for Congressional action to change the tax treatment of such benefits if deemed appropriate. Subsequent courts have

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followed this precedent, and it remains a critical consideration in tax law related to disability benefits.

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