Perez v. Commissioner, 144 T. C. 51 (2015)

In Perez v. Commissioner, the U. S. Tax Court ruled that payments received for undergoing egg donation procedures, designated as compensation for pain and suffering, were taxable income rather than excludable damages. The court clarified that such payments, agreed upon before the procedures, were for services rendered under a contract and not for damages resulting from personal injury or sickness. This decision impacts how compensation for consensual medical procedures is treated for tax purposes, distinguishing it from damages received due to legal action.

Parties

Nichelle G. Perez, the petitioner, was represented by Richard A. Carpenter, Jody N. Swan, and Kevan P. McLaughlin. The respondent, Commissioner of Internal Revenue, was represented by Terri L. Onorato, Robert Cudlip, Gordon Lee Gidlund, and Heather K. McCluskey.

Facts

Nichelle G. Perez, a 29-year-old single woman from Orange County, California, entered into two contracts with Donor Source International, LLC, and anonymous intended parents in 2009 to donate her eggs. Each contract promised her $10,000 for her time, effort, inconvenience, pain, and suffering. The contracts explicitly stated that the payments were not for the eggs themselves but for her compliance with the donation process. Perez underwent extensive and painful medical procedures, including hormone injections and egg retrieval surgeries, twice in 2009. She received a total of $20,000 for these donations but did not report this income on her 2009 tax return, believing it to be excludable as compensation for pain and suffering.

Procedural History

The Commissioner issued a notice of deficiency to Perez for failing to include the $20,000 in her gross income. Perez timely filed a petition with the U. S. Tax Court challenging the deficiency. The court conducted a trial in California, where Perez resided, and subsequently issued its decision.

Issue(s)

Whether compensation received for pain and suffering resulting from the consensual performance of a service contract can be excluded from gross income as “damages” under I. R. C. section 104(a)(2)?

Rule(s) of Law

I. R. C. section 104(a)(2) excludes from gross income “damages” received on

© 2025 SCOTUSreports.com. All rights reserved.

account of personal physical injuries or physical sickness. The regulations define "damages" as an amount received through prosecution of a legal suit or action, or through a settlement agreement entered into in lieu of prosecution. Section 61(a)(1) states that gross income means all income from whatever source derived, including compensation for services.

Holding

The Tax Court held that the payments Perez received were not "damages" under I. R. C. section 104(a)(2) and were therefore includable in her gross income. The court determined that the payments were compensation for services rendered under a contract and not for damages resulting from personal injury or sickness.

Reasoning

The court reasoned that Perez's compensation was explicitly for her compliance with the egg donation procedure and not contingent on the quantity or quality of eggs retrieved, distinguishing it from cases involving the sale of property. The court cited previous cases, such as Green v. Commissioner and United States v. Garber, to support its distinction between compensation for services and payments for the sale of property. The court emphasized that Perez's payments were for services rendered under a contract, which she voluntarily entered into and consented to the associated pain and suffering. The court analyzed the historical context and amendments to section 104 and its regulations, concluding that the exclusion for damages applies to situations where a taxpayer settles a claim for physical injuries or sickness, not for payments agreed upon before the occurrence of such injuries. The court also considered the policy implications of allowing such payments to be excluded, noting that it could lead to unintended consequences in other fields where pain and suffering are inherent risks of the job.

Disposition

The Tax Court entered a decision for the respondent, Commissioner of Internal Revenue, requiring Perez to include the $20,000 in her gross income for the tax year 2009.

Significance/Impact

Perez v. Commissioner clarifies the tax treatment of payments received for pain and suffering under service contracts, distinguishing them from damages received due to legal action or tort claims. This decision has implications for individuals who receive payments for undergoing medical procedures as part of a service contract, such as egg or sperm donors, and may affect how such payments are reported for tax purposes. The case also highlights the importance of contractual language in determining the nature of payments and the limitations of the exclusion under I. R. C. section 104(a)(2). Subsequent cases and tax practitioners may reference this

© 2025 SCOTUSreports.com. All rights reserved.

decision when addressing similar issues involving compensation for pain and suffering under consensual agreements.

© 2025 SCOTUSreports.com. All rights reserved.