

Rev. Rul. 65-29

1965-1 C.B. 59

Sec. 61
Sec. 104

IRS Headnote

Income realized from the investment of a lump-sum payment representing the discounted present value of a damage award for personal injuries is not excludable from gross income under section 104 of the Internal Revenue Code of 1954.

Full Text

Rev. Rul. 65-29

Advice has been requested whether income realized from the investment of a damage award computed as stated below may be excluded from the taxpayer's gross income under section 104(a) of the Internal Revenue Code of 1954 for any period of time.

A sued B for tortious injury to his spouse. The Court found that due to B's negligence A's spouse was rendered 100 percent and permanently disabled, and that her life expectancy was thereby shortened to 10 years. The reasonable cost of care, medicine, and medical attention was found to be 1 x dollars per week, totaling 520 x dollars (1 x dollars times 52 weeks times 10 years).

The Court awarded A 416 x dollars, which amount represents the present value of 520 x dollars payable over a 10-year period. over a 10-year period. that except as otherwise provided in subtitle A, gross income means all income from whatever source derived, expressly including various types of investment income.

Section 104(a)(2) of the Code provides, in relevant part, that gross income does not include the amount of any damages received by suit or agreement on account of personal injuries or sickness.

As A has unfettered control over the lump-sum payment and over the income from the investment of such payment, it is concluded that only the lump-sum payment, payment, 416 x dollars, is received as damages within the meaning of section 104(a)(2) of the Code.

Accordingly, it is held that none of the investment income may be excluded from the gross income of A , under section 104 of the Code.