

**INTERNAL REVENUE SERVICE**

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The Honorable Dianne Feinstein  
United States Senate  
Washington, D.C. 20510

Dear Senator Feinstein:

This letter is in response to your inquiry dated August 3, 2001, on behalf of your constituent, Mr. [REDACTED] of [REDACTED]. Mr. [REDACTED] asked whether ex gratia payments made by the United Kingdom Government to civilians who were interned by the Japanese from 1943 to 1945 are taxable income to United States recipients.

The Internal Revenue Service has not taken a position on these payments specifically. Without examining the statute or legal authority pursuant to which the ex gratia payments will be made, we can make no definitive statements regarding the federal income tax treatment of such payments. However, I am pleased to provide you general information about the taxation of similar payments. The Internal Revenue Service has concluded that certain similar payments may be excluded from gross income under two legal theories. First, certain World War II and Korean War related payments made as reimbursement for loss of civil and personal rights are excludable.

For example, payments made under the War Claims Act by the United States Government to former World War II and Korean War prisoners of war for violation of their rights relating, for example, to labor or inhumane treatment of prisoners of war under the Geneva Convention are in the nature of reimbursement for the loss of personal rights and are not included in income. Rev. Rul. 55-132, 1955-1 C.B. 213, and Rev. Rul. 56-462, 1956-2 C.B. 20.

Certain payments made by the Federal Republic of Germany to former German citizens who are United States citizens or residents and who were persecuted by the National Socialist regime due to their race, faith, philosophy of life, or anti-Nazi persuasion, and thereby suffered damage to their life, body, health, liberty, or professional or economic development are in the nature of reimbursement for the deprivation of civil or personal rights and are not taxable income. Rev. Rul. 56-518, 1956-2 C.B. 25.

Second, the value of any property acquired by gift is excluded from gross income.

Section 102 of the Internal Revenue Code. In *Duberstein v. Commissioner*, 363 U.S. 278 (1960), 1960-2 C.B. 428, the Supreme Court held that amounts are excluded from gross income under § 102(a) only if they flow from “disinterested generosity.” An example of a gift under § 102 is bonus payments made by a state to qualified veterans who served in the Armed Forces of the United States during certain wars. Rev. Rul. 68-158, 1968-1 C.B. 47, superseding Rev. Rul. 56-610, 1956-2 C.B. 25.

If the payment made by the United Kingdom Government to Mr. [REDACTED] is similar to the payments in the prisoner of war or German reparations revenue rulings described above, or is a gift under § 102, he will not be required to pay federal income tax on the payment.

I am enclosing copies of the revenue rulings discussed above, and hope that this information is helpful. If you have any further questions, please call Sheldon A. Iskow, Identification Number 50-03546, at (202) 622-4920.

Sincerely,

Lewis J. Fernandez  
Deputy Associate Chief Counsel  
(Income Tax & Accounting)

Enclosures (3)