
TAX - PENNSYLVANIA

O'Donnell v. Allegheny County North Tax Collection Committee

Supreme Court of Pennsylvania - December 27, 2021 - A.3d - 2021 WL 6111680

Taxpayer, who had received qui tam payment under False Claims Act (FCA), filed a petition for administrative appeal after tax servicer for the school district and the borough mailed him a notice that his local earned income tax was delinquent.

The Appeals Board of the Allegheny County North Tax Collection Committee denied the petition for administrative appeal, and taxpayer appealed. The Court of Common Pleas affirmed, and taxpayer appealed. The Commonwealth Court reversed, and school district and borough appealed.

The Supreme Court held that:

- Taxpayer's qui tam payment constituted "compensation" pursuant to Tax Reform Code's definition of "compensation" as including incentive payments; qui tam payment was taxpayer's incentive, and
- Taxpayer's qui tam payment was taxable as compensation under Tax Reform Code and, therefore, as earned income under the Local Tax Enabling Act (LTEA).

By the terms of the False Claims Act (FCA), taxpayer's qui tam payment was intended to incentivize whistleblowers like taxpayer to identify employer fraud, initiate the qui tam action, and provide valuable information to the federal government, and thus, taxpayer's qui tam payment constituted "compensation" pursuant to Tax Reform Code's definition of "compensation" as including incentive payments; qui tam payment was taxpayer's incentive.

Because taxpayer's qui tam payment under False Claims Act (FCA) was an incentive payment, it was taxable as compensation under the plain language of the Tax Reform Code and, therefore, as earned income under the Local Tax Enabling Act (LTEA), which authorized certain political subdivisions, such as school district, to impose a tax on the earned income of their residents.

While taxpayer's qui tam payment under False Claims Act (FCA) was categorized most aptly as a taxable incentive payment, it also met Tax Reform Code's definition of "compensation" for "similar remuneration for services rendered"; qui tam payment was rendered as remuneration for taxpayer's services in providing useful information to the federal government about his employer's fraud and for initiating the qui tam action.

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