

LUCAS WILLIAMS	§	STATE OF ALABAMA
P.O. BOX 13		DEPARTMENT OF REVENUE
FORKLAND, AL 36740-0013,	§	ADMINISTRATIVE LAW DIVISION
Taxpayer,	§	DOCKET NO. INC. 05-301
v.	§	
STATE OF ALABAMA	§	
DEPARTMENT OF REVENUE.		

FINAL ORDER

The Revenue Department assessed Lucas Williams (“Taxpayer”) for 2001 Alabama income tax. The Taxpayer appealed to the Administrative Law Division pursuant to Code of Ala. 1975, §40-2A-7(b)(5)a. A hearing was conducted on April 21, 2005. The Taxpayer attended the hearing. Assistant Counsel David Avery represented the Department.

The Taxpayer failed to file a 2001 Alabama income tax return. The Department received IRS information that the Taxpayer received lawsuit proceeds of \$12,500, interest of \$3,500, and \$500 from General Motors in 2001. The Department consequently assessed the Taxpayer for the tax due, plus penalties and interest. The Taxpayer appealed.

The Taxpayer claims that the \$12,500 settlement proceeds he received in 2001 was not taxable. I disagree.

Alabama income tax is imposed on the taxable income of any person subject to Alabama income tax. Code of Ala. 1975, §40-18-2. “Taxable income” is defined as gross income less the deductions allowed in the income tax law. Code of Ala. 1975, §40-18-15.1. “Gross income” is defined at Code of Ala. 1975, §40-18-14 to include income from all sources, which would include the lawsuit settlement proceeds in issue in this case. Such proceeds are not deductible or exempt from tax under Alabama law. Consequently, they

constituted taxable income and are subject to Alabama tax.

The Administrative Law Division also inquired with the law firm handling the lawsuit, Chestnut, Sanders, Sanders, Pettaway & Campbell, LLC, and was informed that the lawsuit proceeds are taxable pursuant to the Consent Decree in *Pigford v. Veneman*, (D.C.C. 97-1978).

A penalty may be waived for reasonable cause. Code of Ala. 1975, §40-2A-11(h). Reasonable cause includes a one-time, honest mistake. Rev. Proc. 97-003. The Taxpayer in this case was unaware that tax was due on the lawsuit proceeds. His failure to report the income also constituted a one-time, good faith mistake. Consequently, the penalties are waived for reasonable cause.

The final assessment, less the penalties, is affirmed. Judgment is entered against the Taxpayer for \$699.73. Additional interest is also due from the date of entry of the final assessment, February 9, 2005.

This Final Order may be appealed to circuit court within 30 days from the date of this Order pursuant to Code of Ala. 1975, §40-2A-9(g).

Entered April 21, 2005.

BILL THOMPSON
Chief Administrative Law Judge