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Isaac M. O'Bannon • Mar. 26, 2014

While most watching the Supreme Court on Tuesday were paying attention to oral arguments in the Affordable Care Act-related case of *Hobby Lobby v. Sebelius*, a case relating to employer mandates on health insurance and contraception, another ruling went largely unnoticed, yet could have implications for many businesses of all sizes.

The Court ruled that severance packages and payments that are given to involuntarily laid-off workers are taxable not only as individual income, but also with regard to FICA employment taxes. It was a unanimous 8-0 ruling, with Justice Elena Kagan recusing herself from the case. Oral arguments were heard by the court last October.

The case, *United States v. Quality Stores, Inc., et al*, focused on whether the retailer could receive a refund for payments it had made to nearly 2,000 employees the company had laid off when it initiated bankruptcy action, citing the payments were not subject to employer taxes.

The Supreme Court's decision that the payments are so overturns a ruling by a federal district court and the Court of Appeals, both of which considered the payments to not be taxable wages for FICA purposes.

Justice Anthony Kennedy delivered the opinion on the case, which read, in part:

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for can qualify, Secretary of the IRS (e) including, which refers to certain payments other than wages.”

Income Tax • Payroll

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