1 T.C. 738 (1943)

Campaign expenses incurred by a judge running for re-election are not deductible as business expenses, losses in a transaction entered into for profit, or non-trade or non-business expenses under the Internal Revenue Code.

Summary

Michael McDonald, a judge appointed to fill an unexpired term, ran for a full term and sought to deduct his campaign expenses. The Tax Court disallowed the deduction, holding that running for office is not a business, nor a transaction entered into for profit, and that campaign expenditures are personal expenses, not deductible as non-business expenses for the production of income. The court emphasized that public office should not be viewed as a means to profit, and campaign expenses are not related to managing income-producing property.

Facts

Michael F. McDonald, a lawyer, was appointed as a judge of the Court of Common Pleas in Pennsylvania to fill an unexpired term. He agreed to run for a full 10-year term. He incurred $13,017.27 in expenses related to his campaign, including contributions to the Democratic Party and direct expenditures for advertising and travel. He received a $500 contribution from his son to offset these expenses. McDonald lost the general election.

Procedural History

McDonald deducted the $13,017.27 in campaign expenses on his 1939 income tax return. The Commissioner of Internal Revenue disallowed the deduction, resulting in a deficiency assessment. McDonald petitioned the Tax Court for review.

Issue(s)

Whether campaign expenses incurred by a judge running for re-election are deductible: (1) as ordinary and necessary business expenses under Section 23(a)(1)(A) of the Internal Revenue Code; (2) as a loss sustained in a transaction entered into for profit under Section 23(e)(2); or (3) as non-trade or non-business expenses under Section 23(a)(2).

Holding

No, because: (1) running for office is not a business; (2) the expenditures were not part of a transaction entered into for profit; and (3) the expenses are personal in nature and not related to the production or collection of income or the management of property held for the production of income.

Court’s Reasoning

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The court reasoned that the expenses were not deductible as business expenses because running for office is preparatory to holding office, not the carrying on of the office itself. Citing *David A. Reed, 13 B.T.A. 513*, the court stated that "Running for office of and within itself is not a business carried on for the purpose of a livelihood or profit, but is only preparatory to the actual deriving of income from a subsequent holding of the office, if elected." The court rejected the argument that already holding the office distinguished this case. The expenses were not deductible as losses because the salary was for performing judicial duties, not for winning the election. Finally, the expenses were not deductible as non-business expenses under Section 23(a)(2) because the expenditures were personal in nature and not for the production or collection of income or the management of property held for the production of income. The court noted that allowing such a deduction would contradict the basic principles of government and public policy.

Practical Implications

This case clarifies that campaign expenses for public office are generally considered personal expenses and are not deductible for income tax purposes. This principle reinforces the idea that holding public office is a public service, not a business venture for personal profit. Later cases and IRS guidance continue to uphold this distinction, preventing candidates from deducting campaign-related costs as business or investment expenses. The ruling has implications for how candidates finance campaigns and highlights the tax treatment differences between seeking public office and engaging in business activities.

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