

## ***Marshall v. Commissioner, 5 T.C. 1031 (1945)***

Legal fees incurred for tax advice and contesting income tax deficiencies are deductible as nonbusiness expenses under Section 23(a)(2) of the Internal Revenue Code, but such fees are not deductible if they relate to the income of a community in which the taxpayer has no interest.

### **Summary**

The case addresses whether legal fees paid by two petitioners, Herbert and Elizabeth Marshall, are deductible as nonbusiness expenses. Herbert sought to deduct legal fees for contesting income tax deficiencies, while Elizabeth sought to deduct fees related to conserving community income from a previous marriage in which she had no interest. Citing the Supreme Court's decision in *Bingham Trust v. Commissioner*, the Tax Court allowed Herbert's deduction but disallowed Elizabeth's, finding her expenses were related to a community income in which she had no vested interest.

### **Facts**

During the tax years in question, Herbert Marshall paid legal fees and expenses. He claimed these payments were ordinary and necessary for the conservation of property held for the production of income, specifically related to contesting income tax deficiencies. Elizabeth R. Marshall also claimed deductions for legal fees and expenses paid during the same period. These expenses were related to services rendered to someone other than Elizabeth to conserve community income from Herbert's previous marriage.

### **Procedural History**

The Commissioner of Internal Revenue disallowed the deductions claimed by both Herbert and Elizabeth Marshall, arguing that the expenditures were personal in nature. The case proceeded to the Tax Court of the United States for resolution.

### **Issue(s)**

1. Whether legal fees and expenses paid by Herbert Marshall for contesting income tax deficiencies are deductible as nonbusiness expenses under Section 23(a)(2) of the Internal Revenue Code.
2. Whether legal fees and expenses paid by Elizabeth R. Marshall for services rendered to conserve community income from Herbert Marshall's previous marriage are deductible as nonbusiness expenses.

### **Holding**

1. Yes, because based on *Bingham Trust v. Commissioner*, legal fees incurred to contest income tax deficiencies are deductible.

2. No, because the expenditures were for services rendered to someone other than Elizabeth Marshall to conserve community income in which she had no interest.

### **Court's Reasoning**

The Tax Court relied heavily on the Supreme Court's decision in *Bingham Trust v. Commissioner*, 325 U.S. 365, which established that trustees could deduct counsel fees and expenses paid in contesting an income tax deficiency as nonbusiness expenses under Section 23(a)(2) of the Internal Revenue Code. The court reasoned that Herbert Marshall's situation was analogous to that in *Bingham Trust*; therefore, his legal fees and expenses were deductible. The court also cited its own decision in *Howard E. Cammack*, 5 T.C. 467, which followed the Supreme Court's decision in *Bingham* and allowed the deduction of legal fees incurred in litigation for refund of income taxes. However, the court distinguished Elizabeth Marshall's situation, finding that her legal expenses were for services rendered to conserve community income related to Herbert's previous marriage, in which she had no vested interest. The court reasoned that these expenditures did not benefit Elizabeth, and they were therefore not deductible by her. The court stated, "The liability was related to the community of Herbert Marshall and his former wife. It had no connection with the community of petitioners."

### **Practical Implications**

This case, in conjunction with *Bingham Trust*, clarifies that legal fees related to tax advice and contesting tax deficiencies are generally deductible, even if they are not directly related to a business. However, the deduction is limited to situations where the taxpayer has a direct interest in the income or property being conserved. Legal practitioners should advise clients to maintain clear records distinguishing between deductible tax-related legal fees and non-deductible personal expenses. This ruling highlights the importance of establishing a clear connection between the legal expenses and the taxpayer's own income or property. Later cases would further refine the scope of deductible legal expenses, focusing on whether the origin of the claim was personal or related to income-producing activity.