6 T.C. 454 (1946)

Traveling expenses are deductible only if incurred in pursuit of a trade or business, and a voluntary surrender of partially worthless securities does not create a deductible loss.

Summary

The petitioner, an attorney, sought to deduct travel expenses between his residence and a distant law office, and a loss claimed from surrendering partially worthless bonds. The Tax Court disallowed both deductions. It found that the travel expenses were not incurred in pursuit of business but were for personal convenience. The court also held that the voluntary surrender of bonds did not create a deductible loss, especially since the bonds were only partially worthless and the statute disallowed deductions for partially worthless securities. The surrender was considered a capital investment, not a deductible loss.

Facts

The petitioner maintained a law office in New York City but resided in Middleport, New York. He traveled between Middleport and New York City regularly. He sought to deduct these travel expenses, including meals and lodging, as business expenses. Additionally, the petitioner voluntarily surrendered certain bonds to the debtor. These bonds were not entirely worthless at the time of surrender.

Procedural History

The Commissioner disallowed the deductions claimed by the petitioner for travel expenses and the loss from the bond surrender. The petitioner appealed the Commissioner's decision to the Tax Court.

Issue(s)

1. Whether the petitioner's travel expenses between his residence and his law office are deductible as business expenses under Section 23(a)(1)(A) of the Internal Revenue Code.

2. Whether the voluntary surrender of partially worthless bonds constitutes a deductible loss under Section 23(k) of the Internal Revenue Code.

Holding

1. No, because the travel expenses were not incurred "in pursuit of [his] business" and were primarily for personal convenience.

2. No, because the bonds were only partially worthless and the statute does not allow a deduction for partially worthless securities when surrendered gratuitously.

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Court’s Reasoning

Regarding the travel expenses, the court relied on the principle that expenses must be incurred “in pursuit of [his] business” to be deductible. The court found insufficient evidence that the petitioner engaged in substantial business activity in or around Middleport. The court inferred that his trips to Middleport were primarily personal, stating, “The inference is at least as readily drawn that petitioner returned to his family and place of residence in Middleport whenever his professional activity permitted as that he went to Middleport or Lockport for business reasons or engaged in business activities there.” Therefore, the expenses were deemed non-deductible personal expenses.

As for the bond surrender, the court noted that the bonds were only partially worthless and that Section 23(k) of the Internal Revenue Code does not permit a deduction for partially worthless securities. The court emphasized that the surrender was voluntary and gratuitous. The court stated, “The gratuitous forgiveness of a debt furnishes no ground for a claim of worthlessness.” The court further reasoned that even if the surrender aimed to enhance the value of remaining bonds, it constituted a capital investment, not a deductible loss for the current year.

Practical Implications

This case clarifies that travel expenses between a taxpayer’s residence and principal place of business are not deductible if the travel is primarily for personal reasons. It reinforces the principle that “away from home” requires a business purpose for the travel. Additionally, it highlights that voluntary surrender of partially worthless securities generally does not create an immediate deductible loss. Instead, such actions may be considered capital investments, affecting future tax implications upon the disposition of remaining assets. The case serves as a reminder of the importance of substantiating business purpose for travel expenses and understanding the specific requirements for deducting losses related to securities.

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