1947 Tax Ct. Memo LEXIS 319

Payments made by a father for his son's legal education, even with an agreement for future services in the father's law practice, are considered personal expenses and are not deductible as ordinary and necessary business expenses.

Summary

George B. Dorr, Sr., a practicing attorney, sought to deduct expenses paid for his son's legal education as business expenses. Dorr argued that a pre-existing agreement with his son, George Jr., obligating the son to work for him after graduation, transformed the educational expenses into necessary business costs. The Tax Court disagreed, holding that these expenses were primarily personal, aimed at equipping the son for his own future career, and therefore not deductible under Section 23(a) of the Internal Revenue Code.

Facts

- George B. Dorr, Sr., was a practicing attorney in New York City.
- Dorr and his son, George Jr., entered into an agreement where Dorr would finance George Jr.'s legal education.
- The agreement stipulated that after graduating, George Jr. would work for his father for at least twelve months at a stipulated compensation.
- Dorr paid $1,419.65 towards his son's law school expenses in 1941.
- George Jr. was not an employee of his father's firm during law school and provided no services related to the practice.
- Dorr claimed these payments as ordinary and necessary business expenses on his tax return.

Procedural History

The Commissioner of Internal Revenue disallowed the deduction claimed by Dorr. Dorr then petitioned the Tax Court for a redetermination of the deficiency.

Issue(s)

1. Whether payments made by a father for his son's legal education, pursuant to an agreement for future services, constitute ordinary and necessary business expenses deductible under Section 23(a) of the Internal Revenue Code.

Holding

1. No, because the expenses were primarily personal in nature, benefiting the son by enabling him to pursue a legal career, and did not directly relate to the father's current business operations or income production.

Court's Reasoning

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The Tax Court reasoned that to be deductible as a business expense, an expense must be both “ordinary” and “necessary” in relation to the taxpayer’s business. The court relied on *Deputy v. Du Pont*, stating that the expense must proximately result from and be related to the taxpayer’s own business and arise from a transaction of common occurrence in that type of business. The court found that Dorr’s payments were primarily for his son’s personal benefit, enabling him to pursue his own career, and were not directly related to Dorr’s law practice. The court emphasized that the son was not an employee, rendered no services during law school, and the payments were based on living expenses, not the value of services to the father’s business. The court also noted that the petitioner himself testified that it was a unique arrangement,

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