George B. Stone, 42, T.C. 192 (1942)

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Payments made by a father to support his son’s legal education, even with the expectation that the son will later join the father’s law practice, are considered personal expenses and are not deductible as ordinary and necessary business expenses.

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Summary

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George B. Stone sought to deduct expenses incurred in supporting his son’s legal education as ordinary and necessary business expenses. Stone argued that the agreement to finance his son’s education was a business necessity, ensuring the continuation of his law practice. The Tax Court disagreed, holding that the expenses were personal in nature. The court emphasized that the son was not an employee during the period in question, rendered no services to the firm, and the payments were primarily based on living expenses, not the value of any services. Thus, the expenses were not deductible.

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Facts

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George B. Stone, a practicing attorney, entered into an agreement with his son, George Jr., to finance the latter’s legal education.r
The agreement stipulated that George Jr. would attend law school, and after graduation, work in his father’s law practice for at least twelve months.r
Stone paid $1,419.65 in 1941 towards his son’s law school expenses, including living costs for his son and his son’s wife.r
George Jr. was not an employee of his father’s law practice during 1941 and rendered no services to the firm.r

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Procedural History

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Stone deducted the $1,419.65 as a business expense on his 1941 tax return.r
The Commissioner of Internal Revenue disallowed the deduction.r
Stone petitioned the Tax Court for a redetermination of the deficiency.r

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Issue(s)

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Whether payments made by a father to support his son’s legal education, under an agreement that the son would later join the father’s law practice, constitute ordinary and necessary business expenses deductible under Section 23(a) of the Internal Revenue Code.r

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Holding

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No, because the expenses were primarily personal expenses and not directly related to the operation of the father’s business or the production of his income during the tax year in question.r

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Court’s Reasoning

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The Tax Court relied on the principle established in *Deputy v. Du Pont*, which requires that expenses be both “ordinary” and “necessary” to be deductible.r
To be “ordinary,” an 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.r
The court found that Stone’s payments were primarily for the personal benefit of his son, enabling him to pursue a legal education.r

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George Jr. was not an employee and provided no services to the law firm during the tax year.r
The expenses were based on living expenses, not the value of services rendered to the father’s business.r
The court distinguished the case from situations where actual services were rendered by an employee, noting that here, the payments lacked a direct relation to the operation of the petitioner’s business or production of income.r
The court emphasized Stone’s own testimony that the arrangement was “unique” and without parallel in his kind of business, thus failing the “ordinary” test.r
Referencing Section 24(a) of the code, the court explicitly stated that

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