10 T.C. 581 (1948)

Tips received by a taxicab driver are considered taxable income, as they are compensation for services rendered, not gifts.

Summary

Harry Roberts, a taxicab driver, failed to report tips he received from passengers as income. The Commissioner of Internal Revenue determined a deficiency, including an estimate of unreported tip income and disallowing a deduction for the cost of uniforms. The Tax Court addressed whether the tips constituted taxable income and whether the Commissioner's estimation of the tip income was reasonable, and also whether the uniform costs were deductible. The court held that tips are indeed income and upheld the Commissioner's assessment due to the lack of taxpayer records and the voluntary nature of the uniform purchase.

Facts

Harry Roberts worked as a taxicab driver for Yellow Cab Co. in Los Angeles, California. As a driver, he received tips from approximately 50% of his passengers, in addition to the fare. Roberts was instructed not to solicit tips and kept no record of the tips he received. His compensation was 45% of his daily fares or $6, whichever was greater. Roberts worked approximately 240-250 days in 1943. The Commissioner determined Roberts should have reported tip income equal to 10% of his gross receipts. Roberts also sought to deduct the cost of a uniform he purchased, which was not required by Yellow Cab Co.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Harry and Ruth Roberts' income tax for 1943, including unreported tip income and disallowing a deduction for the cost of uniforms. Roberts petitioned the Tax Court, contesting the deficiency. The Tax Court upheld the Commissioner's determination.

Issue(s)

1. Whether tips received by a taxicab driver constitute taxable income.
2. Whether the Commissioner properly determined the amount of tip income when the taxpayer kept no records.
3. Whether the cost of uniforms is a deductible business expense when the employer did not require them.

Holding

1. Yes, because tips are considered compensation for services rendered.
2. Yes, because in the absence of records, the Commissioner's estimate of 10% of gross receipts was deemed reasonable based on the evidence.

© 2025 SCOTUSreports.com. All rights reserved.

3. No, because the uniforms were not a required expense, but rather a voluntary purchase.

Court’s Reasoning

The court reasoned that tips are not gifts but compensation for services. It stated, “It would, in our opinion, be decidedly unrealistic not to consider that one tips taxicab drivers for service and as part of the pay therefor.” The court relied on *F.L. Bateman, 34 B.T.A. 351*, where payments made as tips were deductible business expenses, indicating they were compensation for services. Regarding the amount of tips, the court found the Commissioner’s estimate of 10% of gross receipts reasonable, considering the lack of records. As to the uniform expense, the court noted that since the uniforms were not required by the employer, their cost was a personal expense, not a deductible business expense. Regulations 111, section 29.24-1 states that expenses are not deductible if they “take the place of an article required in civilian life.”

Practical Implications

This case establishes the principle that tips are considered taxable income, reinforcing the IRS’s position and influencing how service industry employees report income. It highlights the importance of keeping accurate records of income, as the IRS can estimate income in the absence of such records. The case also clarifies that clothing expenses are only deductible if required by the employer and not suitable for everyday wear. Later cases have cited *Roberts v. Commissioner* to support the treatment of various forms of compensation as taxable income and to distinguish between deductible business expenses and non-deductible personal expenses. This ruling affects tax planning and compliance for both employees receiving tips and businesses considering uniform policies.

© 2025 SCOTUSreports.com. All rights reserved.