14 T.C. 1111 (1950)

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Taxpayers can’t deduct the value of forfeited stock bonuses, costs for permanent home improvements as medical expenses, or certain excise taxes when these expenses don’t meet specific statutory requirements.

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Summary

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John Seymour sought to deduct the value of forfeited stock bonuses, costs for installing an oil furnace, state excise taxes, and the value of stolen property from his 1944 income tax return. The Tax Court disallowed most deductions. It held the forfeited stock wasn’t deductible as a bad debt or loss because Seymour didn’t prove worthlessness or that he had reported the stock as income when granted. The oil furnace installation was a non-deductible capital expenditure. Most state excise taxes were deemed non-deductible as not imposed on the consumer. Only a small portion of Ohio sales tax on a watch was deductible. The theft loss was disallowed due to insufficient evidence.

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Facts

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Seymour worked for DuPont and received stock bonuses under a plan where shares vested over time. If employment ended before full vesting, unearned shares were forfeited. Seymour left DuPont in February 1944, forfeiting some shares. He also installed an oil furnace in his new home due to a doctor’s recommendation for his asthma, costing $800 plus $45 in plumbing, less $25 from selling the old furnace. Seymour also claimed deductions for Ohio sales tax, cigarette tax, and the loss of a gold coin and silver gravy ladle he believed were stolen.

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Procedural History

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The Commissioner of Internal Revenue determined a deficiency in Seymour's 1944 income tax return, disallowing several claimed deductions. Seymour petitioned the Tax Court, contesting the Commissioner's determination.

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Issue(s)

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1. Whether Seymour could deduct the forfeited stock bonus as a bad debt or loss.

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2. Whether the cost of installing the oil furnace was deductible as a medical expense.

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3. Whether the Ohio sales and cigarette taxes were deductible.

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4. Whether the loss of the gold coin and silver gravy ladle was deductible as a theft loss.

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Holding

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1. No, because Seymour failed to prove the stock became worthless, that he attempted to collect from DuPont, or that DuPont was not financially responsible. Furthermore, he failed to establish that he reported the stock as income when he received it.

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2. No, because the installation of the oil furnace was a capital expenditure, which is generally not deductible as a current expense, and the taxpayer did not demonstrate congressional intent to create an exception for medical reasons.

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3. No, except for $1.80 of Ohio sales tax on the watch. The federal excise tax on

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jewelry and state cigarette taxes are imposed on the vendor, not the consumer, and thus are not deductible by the consumer. The Ohio sales tax on the watch was deductible since the sales tax is paid by the consumer.

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4. No, because there was insufficient evidence to conclude that the items were lost due to theft, and there was no proof of the gravy ladle's value.

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Court's Reasoning

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The court reasoned that deductions are a matter of legislative grace and must fall within the specific terms of the statute. For the stock bonus, the court noted Seymour hadn't proven the stock's worthlessness or that he'd reported its value as income initially. As to the oil furnace, the court emphasized that capital expenditures providing permanent benefit are generally not deductible as current expenses. The court found no congressional intent to create an exception for medical reasons in this type of situation. Regarding the state taxes, the court cited precedent that taxes must be directly imposed on the consumer to be deductible. Finally, the court determined that the taxpayer failed to prove the gold coin and silver gravy ladle was lost due to theft, rather than being misplaced or lost in some other manner. The court stated, "The article may have been stolen, but the evidence does not justify a finding that theft was the exclusive possibility or probability."

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