17 T.C. 1456 (1952)

An employee can deduct unreimbursed expenses that are ordinary and necessary for their business, even if the employer does not require them, provided the expenses are aimed at increasing the employee's compensation and benefiting the employer's business.

Summary

Harold Christensen, a field manager for Parke-Davis, sought to deduct $600 in unreimbursed expenses incurred entertaining salesmen under his supervision. These expenses, including bowling, theater tickets, and meals, were intended to build rapport and increase sales, thereby boosting his bonus. The Tax Court, finding that the Commissioner's complete disallowance was incorrect, held that $300 of these expenses were deductible as ordinary and necessary business expenses. The court emphasized that these expenditures were made in a legitimate effort to improve business relations and increase the manager's earnings.

Facts

Harold Christensen worked as a field manager for Parke-Davis, overseeing 15 salesmen across six states. His compensation included a salary of $5,400 plus a bonus based on the increased sales generated by his team. Christensen made 32 trips within his territory each year to visit his salesmen. While Parke-Davis reimbursed his travel and lodging, Christensen personally spent money on entertainment for the salesmen and their families, such as bowling, theater tickets, meals, and small gifts. He did this to foster better relationships, boost morale, and increase sales, believing it would ultimately increase his bonus. Christensen estimated these unreimbursed expenses at $600 annually.

Procedural History

Christensen deducted $600 on his 1947 tax return for unreimbursed business expenses. The Commissioner of Internal Revenue disallowed the deduction, citing a lack of substantiation and questioning whether the expenses were ordinary and necessary. Christensen appealed to the Tax Court.

Issue(s)

Whether the Tax Court erred in disallowing the taxpayer's deduction for business expenses related to developing and maintaining relationships with employees where the expenses were unreimbursed by the employer?

Holding

No, the Tax Court did err. The court held that a portion of the unreimbursed expenses, specifically $300, was deductible because they were ordinary and

© 2025 SCOTUSreports.com. All rights reserved.

necessary business expenses aimed at improving business relations and increasing the manager's earnings.

Court's Reasoning

The Tax Court acknowledged that Christensen's record-keeping was imperfect but found his testimony credible regarding the nature and purpose of the expenses. The court recognized that these expenses were incurred in an "honest and legitimate effort to do a better job by creating and maintaining friendly relations between himself and the salesmen upon whom he had to depend not only for his bonus, but for the selling in the territory under his supervision." While Christensen may have lacked precise records, the court found that some expenditure clearly qualified as ordinary and necessary business expenses. The court referenced the principle of *Cohan v. Commissioner*, acknowledging it was appropriate to approximate deductible expenses where the taxpayer proves they incurred some deductible expense but lacks exact documentation. The court deemed the Commissioner's complete disallowance incorrect and determined $300 to be a reasonable deduction.

Practical Implications

Christensen illustrates that employees can deduct unreimbursed business expenses, even if not required by their employer, if these expenses are ordinary, necessary, and directly related to improving their job performance and increasing their income. This case reinforces the principle that expenses aimed at building business relationships can be deductible. It underscores the importance of substantiating such expenses, even if an exact record is not possible, while also allowing for reasonable estimations when some evidence of the expense exists. It serves as a reminder to tax practitioners that a complete disallowance of a deduction might be erroneous, even when the taxpayer's records are imperfect.

© 2025 SCOTUSreports.com. All rights reserved.