18 T.C. 256 (1952)

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Expenses incurred by a trustee and remainderman in defending and settling suits to set aside a trust are not deductible as trade or business expenses, non-business expenses, or losses from transactions entered into for profit under Section 23 of the Internal Revenue Code.

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Summary

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Frederic Seidler, an export businessman, was the trustee and remainderman of a trust established by his cousin. When a suit was filed to set aside the trust, Seidler incurred legal expenses and made settlement payments. He sought to deduct these amounts as business expenses, non-business expenses, or losses. The Tax Court denied the deductions, holding that acting as a trustee was not Seidler's trade or business, the expenses were not related to his export business, and the trust arrangement was not a transaction entered into for profit as contemplated by the tax code. The court emphasized that the income from the trust was primarily for the beneficiary, not Seidler, and his role as trustee didn't qualify as managing property for his own income production.

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Facts

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Louise Oswald, Seidler's cousin, inherited an estate. After a suicide attempt, Seidler introduced her to an attorney, Forlenza. Forlenza drafted a trust agreement with Seidler as trustee and remainderman, with Oswald receiving $75/week from the trust's income. The trust was irrevocable. Seidler's motive in accepting the trust was to ultimately acquire the trust corpus as remainderman. Seidler managed the trust property, consisting of real estate, mortgages, stocks, and bonds.

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Procedural History

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A suit was filed in the Court of Chancery of New Jersey to set aside the trust, alleging Oswald's incompetence and Seidler's fraud/undue influence. The Court of Chancery initially upheld the trust. The Court of Errors and Appeals of New Jersey reversed, finding Oswald didn't understand the trust's effect and lacked independent advice. Oswald sought a reconveyance of property and an accounting, objecting to Seidler's accounting and seeking to surcharge him for various expenses. A settlement agreement was reached, and Seidler made payments. He then sought to deduct legal and settlement expenses on his federal income tax return.

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Issue(s)

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1. Whether amounts expended in litigation and settlement of a controversy are deductible under the provisions of Section 23 of the Internal Revenue Code as ordinary and necessary business expenses?

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2. Whether the amounts can be deducted as losses incurred in a transaction entered into for profit, though not connected with his trade or business, as specified in Section 23(e)(2)?

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3. Whether the expenditures were ordinary and necessary non-trade or non-business expenses incurred for the management, conservation or maintenance of property held for the production of income under Section 23(a)(2)?

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Holding

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1. No, because Seidler was not in the business of acting as a trustee, and the expenses were not related to his export or real estate businesses.

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2. No, because Seidler’s undertaking of fiduciary obligations to obtain the trust corpus did not constitute a transaction entered into for profit as contemplated by the statute.

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3. No, because the property was not held for the production of income for Seidler himself, but primarily for the life beneficiary.

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Court’s Reasoning

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The court reasoned that Seidler’s single instance of acting as a trustee was too isolated to be considered a trade or business. It emphasized that the litigation expenses were incurred to protect his personal interest in the trust’s corpus, not his existing businesses. Regarding the

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