19 T.C. 409 (1952)

When executors and trustees actively manage business enterprises within an estate, their related expenses, including settlement payments for breach of fiduciary duty claims, can be deductible as ordinary and necessary business expenses.

Summary

Valentine and J. Noel Macy, along with a cousin, served as executors and trustees for their father's estate, which included significant business interests. After objections were raised regarding their management, a settlement was reached requiring payments to the trusts. The Macys sought to deduct these payments as business expenses. The Tax Court held that their extensive and ongoing management of the estate's business interests constituted a trade or business, and the settlement payments were deductible as ordinary and necessary expenses.

Facts

V. Everit Macy died in 1930, leaving a will naming his sons, Valentine and J. Noel, and a cousin, Carleton Macy, as executors and trustees. The estate included controlling interests in several businesses, including Hudson Company (a holding company), Hathaway Holding Corporation (real estate), and Westchester County Publishers, Inc. (newspapers). The executors continued to operate and manage these businesses. Objections were later filed to their accountings, alleging mismanagement and conflicts of interest. A settlement was reached requiring Valentine and J. Noel to make substantial payments to the trusts.

Procedural History

The Commissioner of Internal Revenue disallowed deductions claimed by Valentine and J. Noel Macy for payments made in settlement of claims against them as executors and trustees. The Macys petitioned the Tax Court for review.

Issue(s)

Whether the activities of Valentine and J. Noel Macy as executors and trustees in managing the business interests of the estate constituted the carrying on of a trade or business for tax purposes.

Whether the payments made by Valentine and J. Noel Macy in settlement of claims against them as executors and trustees were deductible as ordinary and necessary expenses of that trade or business.

Holding

Yes, because the scope and duration of their activities in the conduct and continued operation of the various business enterprises was sufficient to constitute these

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activities the conduct of business.

Yes, because the amounts paid by the petitioners in settlement of the objections to their accountings constituted ordinary and necessary business expenses deductible under section 23 (a) (1) (A) of the Internal Revenue Code.

Court's Reasoning

The Tax Court distinguished this case from *Higgins v. Commissioner*, which held that managing one's own investments does not constitute a trade or business. Here, the executors actively managed and controlled operating businesses, not merely passively collecting income. The court emphasized the continuous and extensive involvement of the Macys in the operation of the family's business enterprises. The court noted, "Following the decedent's death the part that the decedent had had in the supervision, direction and financing of the various enterprises passed to the petitioners and Carleton as executors. What theretofore had been the ultimate and final responsibility of the decedent with respect to his interests in the various enterprises became that of the executors." The court relied on the referee's certification that no bad faith was involved. These payments were a consequence of their business activities and were thus deductible. The Court cited *Kornhauser v. United States,* noting the attorney's fees paid in defense of a suit were ordinary and necessary business expenses.

Practical Implications

This case provides a framework for determining when the management of an estate's assets rises to the level of a trade or business. Attorneys and legal professionals should consider the extent and nature of the executor's involvement in actively managing business operations. The deductibility of expenses, including settlement payments, hinges on whether these activities constitute a genuine business undertaking. This ruling highlights that even payments made to resolve allegations of mismanagement can be deductible if they arise from the conduct of a business. It remains important that the expenses are ordinary and necessary, and not the result of deliberate wrongdoing or bad faith. Later cases will distinguish based on the level of active management undertaken by the fiduciaries.

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