Valentine E. Macy, Jr., et al. v. Commissioner, 19 T.C. 227 (1952)

Executors and trustees actively managing and operating business enterprises as part of their fiduciary duties can deduct settlement payments made to resolve objections to their accountings as ordinary and necessary business expenses.

Summary

Valentine E. Macy, Jr., and J. Noel Macy, as executors and trustees of the estate of Valentine E. Macy, Sr., sought to deduct payments made to settle objections to their accountings. The Tax Court held that because the executors were actively engaged in operating and managing the decedent's business enterprises, their activities constituted carrying on a trade or business. Consequently, the settlement payments, incurred in the conduct of that business and not involving bad faith or dishonesty, were deductible as ordinary and necessary business expenses under Section 23(a)(1)(A) of the Internal Revenue Code.

Facts

Valentine E. Macy, Sr., before his death, controlled several business enterprises through his stock holdings in Hudson Company, Hathaway Holding Corporation, and Westchester Publishers. After his death, Valentine E. Macy, Jr., and J. Noel Macy became executors of his estate and continued to operate, manage, and direct these corporations. The executors devoted a considerable amount of time to these enterprises from their appointment in 1930 until their accountings in 1942, first as executors and then as trustees after distributions to the residuary trusts in 1937 and 1938. Objections were raised to their accountings, which were eventually settled with payments by the executors/trustees.

Procedural History

The Commissioner of Internal Revenue disallowed the deductions claimed by the executors/trustees for the settlement payments. The Tax Court reviewed the Commissioner's determination, considering evidence regarding the scope and nature of the executors'/trustees' activities.

Issue(s)

Whether the activities of the petitioners as executors and trustees constituted "carrying on a trade or business" within the meaning of Section 23(a)(1)(A) of the Internal Revenue Code. Whether the payments made by the petitioners to settle objections to their accountings constituted "ordinary and necessary expenses" incurred in carrying on that business.

Holding

1. Yes, because the executors went beyond merely conserving estate assets and

actively managed and operated the decedent's business enterprises. 2. Yes, because the payments were incurred in the conduct of that business, without bad faith, improper motive, or dishonesty on the part of the executors/trustees.

Court's Reasoning

The court distinguished this case from *Higgins v. Commissioner*, 312 U.S. 212 (1941), and *United States v. Pyne*, 313 U.S. 127 (1941), noting that the executors' activities extended beyond merely collecting income and conserving assets. The executors actively directed and controlled operating enterprises. Citing *Commissioner v. Heininger*, 320 U.S. 467 (1943), the court reasoned that even "if unethical conduct in business were extraordinary, restoration therefor is ordinarily expected to be made from the person in the course of whose business the wrong was committed." The court emphasized the referee's finding that the contestants did not claim bad faith, improper motive, or dishonesty. Therefore, the payments were ordinary and necessary expenses, analogous to those in cases like *Kornhauser v. United States*, 276 U.S. 145 (1928), where legal fees for defending a business-related suit were deductible.

Practical Implications

This case provides a practical illustration of when fiduciary activities rise to the level of "carrying on a trade or business" for tax purposes. It suggests that executors or trustees who actively manage and operate businesses can deduct expenses, including settlement payments, as ordinary and necessary business expenses, provided there is no evidence of bad faith or dishonesty. This ruling clarifies that the nature and scope of the activities, rather than the fiduciary status alone, determines whether expenses are deductible as business expenses. Later cases may distinguish *Macy* based on the level of active management and control exerted by the executors/trustees over the underlying businesses. This case highlights the importance of documenting the extent of fiduciary involvement in business operations to support expense deductions.