21 T.C. 630 (1954)

A cash allowance for meals provided to a state trooper is considered part of gross income, and meal expenses incurred while on duty are considered personal and non-deductible.

Summary

In *Saunders v. Commissioner*, the U.S. Tax Court addressed whether a cash allowance for meals received by a New Jersey State Trooper was includible in his gross income, and if so, whether his meal expenses were deductible. The court held that the cash allowance was part of gross income and that the trooper's meal expenses were personal and not deductible. The court distinguished this case from precedents involving in-kind food allowances, emphasizing that the cash allowance was akin to regular compensation. Furthermore, the court determined that the trooper's meal expenses were not deductible as business or travel expenses because his work inherently involved travel and the expenses were considered personal in nature.

Facts

Robert H. Saunders, a New Jersey State Trooper, received a salary that included a $665 cash allowance in lieu of rations. Prior to July 1, 1949, troopers received meals at their stations. This was replaced with a $70 monthly cash allowance for meals. Troopers were required to eat at public restaurants. The trooper deducted the $665 allowance from his salary on his income tax return, contending it was not income. The Commissioner of Internal Revenue determined this amount was includible in his gross income and disallowed the deduction of expenses incurred for meals while on duty.

Procedural History

The Commissioner of Internal Revenue determined a tax deficiency based on the inclusion of the meal allowance as income and the disallowance of the deduction for meal expenses. The taxpayer contested this determination in the United States Tax Court.

Issue(s)

1. Whether the $665 cash allowance paid to the trooper in lieu of rations is includible in gross income under Section 22(a) of the Internal Revenue Code.

2. Whether the trooper's meal expenses while on duty are deductible under Section 22(n) or 23(a)(1)(A) of the Internal Revenue Code.

Holding

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1. Yes, because the cash allowance constitutes compensation and is includible in gross income under Section 22(a).

2. No, because the meal expenses are personal expenses under Section 24(a)(1) and are not deductible under Section 22(n) or 23(a)(1)(A).

Court's Reasoning

The court first addressed whether the cash allowance was includible in the trooper's gross income under Section 22(a) of the Internal Revenue Code. The court distinguished the case from prior cases where food and quarters were furnished in kind, which were often excluded from gross income. The court reasoned that the cash allowance was similar to salary. As the court said, "We feel that we must hold under the doctrine of the *Hyslope* and the *Van Rosen* cases…that the $665 here in issue is not excludible from petitioner's gross income but that it must be included under the provisions of section 22(a) of the Internal Revenue Code."

Next, the court considered the deductibility of meal expenses. The court rejected the argument that these were business expenses under Section 23(a)(1)(A). The court cited *Louis Drill*, where the costs of meals eaten while working overtime were not deductible, holding that the expenses were personal. The court also rejected the idea that these expenses were travel expenses, since the trooper's work inherently involved travel.

Practical Implications

This case establishes that cash allowances for meals, even when provided to uniformed service members, are considered taxable income. The ruling also clarifies that meal expenses incurred during normal work duties, even if the job necessitates travel, are generally considered personal expenses and therefore not deductible. Lawyers advising clients on tax matters should be aware of this distinction. Additionally, the case underscores that state law or custom is not controlling in the determination of federal tax issues. It is important to distinguish between in-kind benefits and cash allowances. This case remains relevant when analyzing similar cases, especially when employees receive cash payments in lieu of traditional benefits. Subsequent cases have generally followed *Saunders* in treating cash allowances for meals as taxable income.

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