23 T.C. 90 (1954)

For an expense to be deductible as a business expense under section 23 of the Internal Revenue Code, there must be a profit motive.

Summary

The case of *White v. Commissioner* concerns the deductibility of business expenses for a ballistics laboratory owned and operated by the petitioner, Henry P. White. The laboratory consistently operated at a loss for seventeen years, and the IRS disallowed deductions claimed by White for business expenses. The Tax Court sided with the Commissioner, ruling that White did not operate the laboratory with a genuine profit motive, which is essential for claiming business expense deductions. The court emphasized the long history of losses, the disproportion between income and expenses, and White's personal wealth, concluding that the operation was driven by personal interest rather than a desire for financial gain.

Facts

Henry P. White, an engineer and trust beneficiary, established a ballistics laboratory in 1936. The laboratory specialized in guns and ammunition research, and operated continuously at a loss. White devoted significant time to the preservation and conservation of his estate, with a portion of his staff's time also allocated to his personal affairs. Despite efforts like publishing books and providing services to various organizations, the laboratory's income never offset its expenses. Losses were reported annually, and in the years in question, the income of the laboratory was significantly less than the expenses. White made a substantial capital investment in a new laboratory after the tax years in question, but it was determined that no profit was expected.

Procedural History

The petitioners, Henry and Nancy White, filed joint income tax returns for 1948 and 1949. The Commissioner of Internal Revenue determined deficiencies in their income taxes for these years, disallowing claimed deductions for business expenses related to the ballistics laboratory. The petitioners resisted the deficiency determinations and claimed an overpayment for 1948. The case was heard by the United States Tax Court.

Issue(s)

1. Whether the petitioners were entitled to deduct expenditures claimed to be ordinary and necessary expenses of a trade or business under section 23 of the Internal Revenue Code.

Holding

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1. No, because the court found that the ballistics laboratory was not operated with a profit motive, and therefore, the expenses were not deductible as business expenses.

Court’s Reasoning

The court’s decision hinged on the absence of a genuine profit motive. Judge Opper cited *Thacher v. Lowe*, emphasizing that the operation must be conducted for profit to qualify as a business under the tax code. The court considered several factors, including the consistent history of losses over 17 years, the disproportionately high expenses relative to income, and White’s significant personal wealth. These factors, coupled with the taxpayer’s burden of proof, led the court to conclude that White’s primary motivation was not profit, but rather personal interest or the fulfillment of a public service. The court noted that White’s activities were useful and beneficial, but this did not satisfy the requirement of a profit motive. The court referenced prior cases to support its view, especially where the taxpayer’s history of losses was extensive and the returns were very low.

Practical Implications

This case underscores the importance of demonstrating a profit motive to claim business expense deductions. Taxpayers engaged in potentially unprofitable ventures should maintain detailed records demonstrating their intent to generate profits, such as business plans, market analyses, and evidence of efforts to improve profitability. The decision clarifies that a

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