

## **23 T.C. 377 (1954)**

Expenses incurred to maintain an office are not deductible as business expenses if the taxpayer is not actively engaged in a trade or business, even if the intent is to resume the business in the future.

### **Summary**

The case concerns a government employee, Owen, who maintained a law office in North Dakota while working for the Department of Justice in Washington, D.C. He sought to deduct the expenses of maintaining his law office, even though he performed no legal services there during the tax year. The Tax Court held that these expenses were not deductible because Owen was not actively engaged in the practice of law during the tax year, and the office was merely being kept ready for a future resumption of the practice. The Court reasoned that maintaining an office available for the practice of law is distinct from actively practicing law.

### **Facts**

From 1944 to 1954, Owen worked as a special assistant to the Attorney General in Washington, D.C. Prior to this, he practiced law in Grand Forks, North Dakota, and maintained an office there. During 1947, he performed no legal services in his North Dakota office and received no income from the practice of law, only from his government job. Owen incurred expenses for office rent, utilities, and staff. He claimed these expenses as business deductions on his 1947 tax return. The IRS disallowed the deductions.

### **Procedural History**

The Commissioner of Internal Revenue determined a deficiency in Owen's income tax for 1947, disallowing the claimed business deductions. Owen petitioned the United States Tax Court to review the Commissioner's decision. The Tax Court heard the case and ultimately sided with the Commissioner.

### **Issue(s)**

Whether Owen was carrying on a trade or business in 1947 to which the expenses of maintaining his law office were attributable.

### **Holding**

No, because Owen was not actively engaged in the practice of law in 1947, the office expenses were not deductible as business expenses.

### **Court's Reasoning**

The Court noted that, while engaging in a profession constitutes carrying on a trade



or business, Owen was not actually practicing law during the relevant tax year. He performed no legal services in his North Dakota office and his sole income was from his government employment. The Court distinguished between actively practicing law and merely maintaining an office in anticipation of future practice. Quoting Owen’s testimony, the Court observed that Owen’s main purpose in maintaining the office was to “keep his contacts,” and have it ready for his return to practice. The court analogized Owen’s situation to expenses incurred in preparing for a trade or business, which are typically not deductible. The Court cited to prior cases to support the disallowance of expenses related to the maintenance of his office.

### **Practical Implications**

This case provides guidance on what constitutes being “engaged in a trade or business” for tax purposes, particularly for professionals. It indicates that a mere intention to resume a business at some point in the future is insufficient to allow deductions for related expenses. Practitioners should advise clients that expenses incurred in preparing to begin or resume a business are generally not deductible. This decision underscores the importance of actively engaging in income-generating activities for business expenses to be deductible. Additionally, the case highlights that deductions are not allowed when income is derived solely from employment, and not the intended business or profession, during the period of claimed business expense.