

## ***Horace E. Podems v. Commissioner, 24 T.C. 29 (1955)***

An employee can deduct unreimbursed business expenses from gross income to arrive at adjusted gross income, but only to the extent those expenses were necessary, and the employee made reasonable efforts to obtain reimbursement from the employer.

### **Summary**

The case concerns the deductibility of employee business expenses for tax purposes. Horace Podems claimed deductions for unreimbursed automobile travel expenses incurred during his employment. The Commissioner disallowed some deductions, arguing that Podems could have been reimbursed for these expenses had he submitted proper vouchers, and thus they were not necessary. The Tax Court agreed, stating that expenses must be both ordinary and necessary to be deductible. However, it allowed a portion of the expenses, applying the *\*Cohan\** rule to estimate unreimbursed amounts. The court also addressed whether these expenses were incurred “while away from home,” holding that travel away from the employee’s home base, even if not overnight, qualified.

### **Facts**

Horace Podems was employed and incurred automobile travel expenses related to his job. He filed for reimbursement for some months but not for all. The IRS disallowed part of Podems’s claimed deductions for unreimbursed expenses, arguing that Podems could have been reimbursed if he had taken the trouble to file vouchers.

### **Procedural History**

The Commissioner of Internal Revenue disallowed certain deductions claimed by Podems. Podems petitioned the Tax Court to review the Commissioner’s decision.

### **Issue(s)**

1. Whether Podems’s unreimbursed automobile expenses were “ordinary and necessary” business expenses under Section 23(a)(1)(A) of the Internal Revenue Code, and thus deductible.
2. Whether Podems’s unreimbursed automobile expenses qualified as travel expenses “while away from home” under Section 22(n)(2) of the Internal Revenue Code, entitling him to deduct them from gross income to arrive at adjusted gross income.

### **Holding**

1. Yes, because expenses Podems *\*could\** have been reimbursed for, if he’d

submitted the proper vouchers, were not considered “necessary” expenses. However, since Podems *\*wasn’t\** reimbursed, a certain portion was considered to be deductible.

2. Yes, because the travel was away from Podems’s home, even if it didn’t involve overnight stays.

### **Court’s Reasoning**

The court examined whether the expenses were both “ordinary and necessary.” It cited that expenses are not considered necessary to the extent they could have been reimbursed had the taxpayer filed the necessary paperwork. The court held that, “Obviously, it was not necessary for Horace to remain unreimbursed for the expenses of his automobile to the extent that he could have been reimbursed had he taken the trouble to file a voucher and be reimbursed by his employer.” The court applied the *\*Cohan\** rule, which allows the court to estimate deductible expenses when the exact amount is difficult to determine, to determine the non-reimbursed expenses, because the reimbursements were not full covering all expenses.

The court then addressed whether the expenses met the “while away from home” requirement. Citing prior cases, it determined the travel was indeed “away from home,” even without an overnight stay, because it was away from Podems’s base of operations.

### **Practical Implications**

This case highlights the importance of employees taking reasonable steps to get reimbursed for business expenses. It reinforces that expenses are only deductible to the extent they are truly unreimbursed and necessarily incurred. Taxpayers and their advisors should: 1) ensure accurate record-keeping of all business-related travel expenses; 2) make every effort to obtain reimbursement from employers for all eligible expenses; 3) understand the definition of “home” for tax purposes (i.e., the employee’s tax home), to determine if the travel expenses qualify; 4) remember that the *\*Cohan\** rule may allow a court to estimate expenses if precise figures are unavailable. Legal practitioners handling tax matters need to advise their clients on proper documentation and reimbursement procedures to maximize legitimate deductions, minimizing disputes with the IRS. Subsequent cases would likely cite this case to emphasize the need for employees to seek reimbursement to render their business expenses deductible.