Drews v. Commissioner, 25 T.C. 1354 (1956)

Gambling losses are deductible only up to the amount of gambling winnings, and the Tax Court may estimate gambling losses using the Cohan rule when precise records are unavailable if there is sufficient evidence the taxpayer incurred losses.

Summary

The case concerns the deductibility of gambling losses under the Internal Revenue Code of 1939. The taxpayer, Herman Drews, reported substantial gambling winnings from a pool but also claimed a deduction for gambling losses. Due to a lack of detailed records, the Commissioner disallowed the deduction. The Tax Court applied the Cohan rule, allowing an estimated deduction for gambling losses based on Drews's credible testimony, even though precise documentation was missing. The court determined the deductible amount, limiting it to the extent of the reported gambling winnings.

Facts

Herman Drews received $9,000 from a newspaper pool. During the same year, he gambled at racetracks and through bookies. He did not maintain records of his gambling gains or losses. He claimed a deduction of $3,140 for gambling losses, which the Commissioner disallowed. Drews testified that he used his pool winnings as a gambling fund and incurred losses that exceeded his winnings. He estimated his losses at $3,140, the difference between his winnings and the amount remaining from that fund at the end of the year.

Procedural History

The Commissioner of Internal Revenue disallowed Drews's claimed deduction for gambling losses, leading to a deficiency in his income tax. Drews petitioned the United States Tax Court to challenge the disallowance. The Tax Court heard the case and issued a ruling.

Issue(s)

1. Whether a taxpayer can deduct gambling losses in excess of gambling winnings.

2. Whether the Tax Court may estimate gambling losses when a taxpayer lacks precise records.

Holding

1. No, because the Internal Revenue Code limits the deduction of gambling losses to the extent of gambling winnings.

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2. Yes, because in the absence of precise records, the Tax Court can estimate the amount of gambling losses if the taxpayer presents credible evidence of losses, applying the Cohan rule.

Court's Reasoning

The court noted that section 23(h) of the Internal Revenue Code of 1939 allowed for the deduction of gambling losses, but only to the extent of gambling gains. Drews's reported gambling winnings exceeded his estimated gambling losses; therefore, the losses were deductible up to the amount of winnings. Because Drews could not provide detailed records of his losses, the court addressed whether an estimated deduction was permissible. The court cited Cohan v. Commissioner to support its application of the

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