Richmond Television Corp. v. United States, 345 F.2d 901 (4th Cir. 1965)

Expenses incurred before a business begins operations are not deductible as ordinary and necessary business expenses, even if they would be deductible if incurred after operations begin.

Summary

The Richmond Television case addressed whether a corporation could deduct pre-operating expenses, specifically training costs for employees, as ordinary and necessary business expenses under the Internal Revenue Code. The Fourth Circuit held that such expenses were not deductible because they were incurred before the business commenced operations. The court reasoned that expenses incurred before a business is up and running are capital expenditures, not ordinary business expenses. This decision highlights the importance of the 'carrying on' a trade or business requirement for expense deductions and has implications for businesses incurring significant startup costs.

Facts

Richmond Television Corporation (RTV) was formed to operate a television station. Before the station began broadcasting, RTV incurred expenses for training employees and other preparatory activities. RTV claimed these expenses as ordinary and necessary business expenses under section 162(a) of the Internal Revenue Code of 1954 (the equivalent of the 1939 code used in the referenced case). The Internal Revenue Service (IRS) disallowed the deductions, and RTV sued for a refund.

Procedural History

RTV paid the tax and sued in the U.S. District Court, which sided with the IRS. RTV appealed to the Fourth Circuit Court of Appeals. The Fourth Circuit affirmed the district court's decision.

Issue(s)

Whether RTV's pre-operational expenses, specifically employee training costs, are deductible as ordinary and necessary business expenses under I.R.C. § 162(a) (or the corresponding section of the 1939 Code).

Holding

No, because expenses incurred before a business begins to function are not deductible as ordinary and necessary business expenses.

Court's Reasoning

The court's reasoning centered on the interpretation of

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