30 T.C. 1330 (1958)

Expenses, including attorneys' fees and settlement payments, are deductible as ordinary and necessary business expenses if they arise directly from a taxpayer's legitimate business activities, even if those activities lead to personal accusations or legal actions.

Summary

In *Clark v. Commissioner*, the U.S. Tax Court addressed whether a branch manager could deduct legal expenses and a settlement payment as ordinary and necessary business expenses. The expenses stemmed from an assault charge and potential civil suit brought against him after an interview with a prospective employee. The court held that the expenses were deductible because they arose directly from the manager's legitimate business practices, which included interviewing potential employees. The court emphasized that the charges against the manager were dismissed, and his actions were part of his job duties. This case provides a helpful precedent for determining when business activities give rise to deductible expenses, even in cases involving allegations of personal misconduct.

Facts

John W. Clark was a branch manager for Periodical Publishers' Service Bureau, Inc. His duties included hiring and interviewing potential employees, including outside magazine subscription solicitors. Clark's policy was to interview the husbands of married female applicants for these positions. In September 1954, Clark interviewed a female applicant at her home after she requested the interview. The husband was not present. Later that day, the applicant swore out a warrant against Clark, charging him with assault with intent to rape, which was later changed to assault and battery and then dismissed. Clark retained attorneys to defend him and also made a payment to the applicant and her husband to settle any potential civil liability. Clark sought to deduct both the attorneys' fees and the settlement payment as ordinary and necessary business expenses.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Clark's income tax, disallowing the deduction for the legal fees and settlement payment. The case was brought before the U.S. Tax Court. The Tax Court ruled in favor of Clark, allowing the deduction. The dissenting opinions argued that the expenses were personal and nondeductible.

Issue(s)

1. Whether attorneys' fees paid for defense against criminal charges and for advice and settlement of related civil liability are deductible as ordinary and necessary business expenses.

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2. Whether the settlement payment made to release civil liability is deductible as an ordinary and necessary business expense.

Holding

1. Yes, because the attorneys' fees were incurred in connection with the petitioner's business activities.

2. Yes, because the settlement payment was made to avoid potential civil liability stemming from the petitioner's business activities.

Court's Reasoning

The court applied the principle that expenses are deductible if they are

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