Wright v. Commissioner, 31 T.C. 1264 (1959)</p>

To deduct expenses as “ordinary and necessary” business expenses under I.R.C. § 162(a), the taxpayer must demonstrate that the activity generating the expenses constitutes a trade or business, requiring more than just a hope of profit; there must be some continuity of activity and a genuine intention to engage in the activity as a business or profession.

<p>Summary</p>

The United States Tax Court denied Kerns and Margaret Wright’s deduction of expenses from a round-the-world trip and manuscript preparation as business expenses. The Wrights, an attorney and his wife, took the trip with the intention of writing a book based on Margaret’s daily observations. Despite their efforts to publish the manuscript, they were unsuccessful. The Court found that the trip, though undertaken with the hope of profit from a book sale, did not constitute a trade or business. Because the trip also served personal interests and lacked sufficient continuity or prior writing experience, the expenses were deemed non-deductible. The Court emphasized that merely hoping for profit is insufficient to qualify an activity as a trade or business, requiring a more substantial commitment and intent to engage in the activity for profit.

<p>Facts</p>

Kerns Wright, an attorney, and his wife, Margaret, took a trip around the world in 1954. The trip was partially motivated by a desire to visit their son in Japan and included sightseeing and gathering material for a book, to be written in the form of a daily diary. Kerns consulted with author’s and travel agents and decided to write a book titled “Margaret’s Diary.” Kerns took notes of Margaret’s reactions to places and events. After their return, they spent several months preparing a manuscript of the trip. The Wrights unsuccessfully attempted to have the manuscript published and Kerns returned to his law practice. The Wrights sought to deduct the expenses incurred during the trip and the preparation of the manuscript as ordinary and necessary business expenses, which had no connection to Kerns’ law practice.

<p>Procedural History</p>

The Commissioner of Internal Revenue disallowed the Wrights’ deduction of travel and manuscript preparation expenses. The Wrights petitioned the United States Tax Court to challenge the disallowance. The Tax Court ruled in favor of the Commissioner, denying the deduction. The court’s decision is reported at 31 T.C. 1264.

<p>Issue(s)</p>

Whether the expenses incurred by the Wrights for a trip around the world and subsequent attempts to publish a book about the trip were deductible as ordinary and necessary expenses of carrying on a trade or business under I.R.C. § 162(a).

<p>Holding</p>

No, because the expenses were not incurred in carrying on a trade or business.

<p>Court's Reasoning</p>

The court first defined “business” as an activity occupying time, attention, and labor for livelihood or profit. The court acknowledged that taxpayers may have multiple businesses and that losses don’t automatically disqualify an activity as a business. However, the court emphasized the requirement that the writing had to constitute a trade or business. The court determined the Wrights’ actions did not qualify, noting that the trip was undertaken for multiple purposes, including personal enjoyment, and that writing was not their sole, continuous activity. The court cited the lack of prior writing experience, lack of commitments from publishers, and lack of future writing plans as evidence against a genuine intent to engage in the activity as a trade or business. The court stated, “…there must be some conscientious intent and effort to engage in and continue in the writing field for the purpose of producing income and a livelihood in order to have writing qualify as a trade or business…”. The court found that, while the Wrights hoped to profit, the activity did not meet the threshold for a deductible business expense because it was not part of a continuous, profit-seeking enterprise.

<p>Practical Implications</p>

This case is important because it clarifies what is required for an activity to be considered a “trade or business” under the tax code. The court’s decision implies that simply hoping to make a profit is insufficient. Taxpayers seeking to deduct expenses must show a clear intent to engage in an activity with the regularity and consistency of a business or profession. The decision emphasizes the importance of demonstrating continuity of activity, prior experience, and future plans related to the income-generating activity. Attorneys should advise clients that a single project undertaken with profit in mind may not qualify for business expense deductions, especially if the activity mixes business and personal objectives. Later cases have cited Wright v. Commissioner for its stringent approach to what constitutes a trade or business.

