Cohan v. Commissioner, 39 T. C. 1029 (1963)

Taxpayers must substantiate entertainment expenses with adequate records or sufficient evidence to claim deductions under I. R. C. § 274(d).

Summary

In Cohan v. Commissioner, the Tax Court addressed the substantiation requirements for entertainment expense deductions under I. R. C. § 274(d). The taxpayer, Cohan, failed to provide adequate records or direct evidence for entertainment expenditures over $25, as required by the regulations. The court upheld the Commissioner's disallowance of these deductions, emphasizing that without proper substantiation, such expenses cannot be claimed. This case underscores the necessity for taxpayers to maintain detailed records to support their deductions, highlighting the strict application of § 274(d) and the accompanying regulations.

Facts

Cohan claimed deductions for entertainment expenses but did not provide adequate records or direct evidence to substantiate expenditures of $25 or more, as required by the regulations under I. R. C. § 274(d). The Commissioner issued a notice of deficiency, partially disallowing these expenses for lack of proper substantiation.

Procedural History

The Commissioner issued a notice of deficiency to Cohan, disallowing certain entertainment expense deductions. Cohan petitioned the Tax Court for a redetermination of the deficiency. The Tax Court upheld the Commissioner's determination, finding that Cohan failed to meet the substantiation requirements of § 274(d).

Issue(s)

1. Whether a taxpayer can deduct entertainment expenses under I. R. C. § 274(d) without providing adequate records or sufficient evidence to substantiate the expenditures?

Holding

1. No, because the regulations under § 274(d) require taxpayers to substantiate entertainment expenses with adequate records or sufficient evidence, and Cohan failed to meet these requirements.

Court's Reasoning

The court applied the regulations under § 274(d), which mandate that taxpayers substantiate entertainment expenses with adequate records or sufficient evidence.

© 2025 SCOTUSreports.com. All rights reserved.

The court cited the regulations, specifically § 1. 274-5(c)(2)(i) and (iii), which require documentary proof for expenditures of $25 or more. The court also referenced the decision in William F. Sanford, 50 T. C. 823, affirming the validity of these regulations. Cohan's failure to produce such substantiation led the court to uphold the Commissioner's disallowance of the deductions. The court noted that § 274(d) is a disallowance provision, meaning it operates to disallow expenses that have not been substantiated, even if they might be allowable under other sections of the Code like § 162. The court did not need to address whether Cohan's expenses were ordinary and necessary under § 162, as the lack of substantiation under § 274(d) was dispositive.

Practical Implications

Cohan v. Commissioner has significant implications for taxpayers and tax practitioners. It establishes a strict standard for substantiating entertainment expenses, requiring detailed records or direct evidence for expenditures of $25 or more. This decision informs how similar cases should be analyzed, emphasizing the need for meticulous record-keeping to support deductions. Legal practice in this area has been impacted, as attorneys must advise clients on the importance of maintaining comprehensive documentation. Businesses and individuals must now be more diligent in recording their entertainment expenses to avoid disallowance of deductions. Subsequent cases, such as William F. Sanford, have reinforced the principles established in Cohan, further solidifying the substantiation requirements under § 274(d).

© 2025 SCOTUSreports.com. All rights reserved.