

## ***Carter v. Commissioner, 51 T. C. 932 (1969)***

Expenses for seeking new employment or preparing to engage in a business are not deductible as business expenses.

### **Summary**

In *Carter v. Commissioner*, Eugene Carter, an Air Force officer preparing for retirement, sought to deduct fees paid to an employment agency and home office expenses. The Tax Court denied these deductions, ruling that expenses incurred in seeking new employment or preparing for potential business activities do not qualify as ordinary and necessary business expenses under Section 162(a). The court emphasized that such expenses must be directly related to an existing business from which income is derived, and not to future or anticipated business activities.

### **Facts**

Eugene Carter, while still an active Air Force officer in 1964, paid a \$700 fee to an employment agency, Executive Career Development, Inc. , to assist in finding post-retirement employment. He also incurred \$187. 50 in travel expenses and \$36. 60 for other related costs. Carter retired in January 1965 and secured employment with Lockheed Missiles and Space, Inc. , without the agency's help. Additionally, he claimed a home office deduction for a room used for job seeking, tutoring, and managing his mother-in-law's estate, though he did not tutor or receive compensation for estate management in 1964.

### **Procedural History**

The Commissioner of Internal Revenue disallowed Carter's claimed deductions, leading to a deficiency notice. Carter petitioned the Tax Court for a redetermination of the deficiency. The Tax Court heard the case and issued its opinion on March 11, 1969, ruling in favor of the Commissioner.

### **Issue(s)**

1. Whether the fee paid to an employment agency and related expenses incurred in seeking post-retirement employment are deductible under Section 162(a).
2. Whether any portion of the cost of maintaining Carter's residence is deductible as a business expense under Section 162(a) or for the production of income under Section 212(1).

### **Holding**

1. No, because the expenses were incurred in seeking new employment and not in carrying on Carter's existing business as an Air Force officer.
2. No, because the home office was not used in an existing trade or business, and the expenses for managing his mother-in-law's estate were reimbursable and not

deductible.

### **Court's Reasoning**

The court applied Section 162(a), which allows deductions for expenses incurred in carrying on a trade or business. It distinguished between expenses related to an existing business and those incurred in seeking new employment or preparing for a future business. The court cited *McDonald v. Commissioner*, stating that deductible expenses must relate to the business from which income is derived. The employment agency fee and related expenses were deemed personal expenses under Section 262, as they pertained to future employment not secured through the agency. Regarding the home office, the court found no evidence of an existing business use, and the estate management was not a business activity since Carter could have been reimbursed but chose not to. The court also noted the lack of evidence to support a deduction under the Cohan rule.

### **Practical Implications**

This decision clarifies that expenses for seeking new employment or preparing for a business are not deductible under Section 162(a). Taxpayers must demonstrate a direct connection between expenses and an existing income-producing activity to claim deductions. The ruling impacts how employment agency fees and home office deductions are analyzed, requiring a clear link to current business activities. It also underscores the importance of seeking reimbursement for expenses when available, as unreimbursed expenses may not be deductible. Subsequent cases have reinforced this principle, affecting tax planning for individuals transitioning between careers or preparing to start a business.