Michaels v. Commissioner, 53 T. C. 269 (1969)

Employees can deduct meal and lodging expenses under IRC Section 162(a)(2) if their employment away from home is temporary.

Summary

Emil J. Michaels, employed by Boeing, was assigned to Los Angeles for a year, which he believed to be temporary. He moved his family and rented out his Seattle home. The Tax Court held that his meal and lodging expenses in 1964 were deductible under IRC Section 162(a)(2) because he was "away from home" due to the temporary nature of his assignment. However, his additional automobile expenses were disallowed due to lack of substantiation. This case clarifies the conditions under which employees can claim deductions for expenses incurred during temporary work assignments away from their primary residence.

Facts

Emil J. Michaels worked for Boeing as a cost analyst in Seattle. In June 1964, Boeing assigned him to Los Angeles for approximately one year to audit suppliers. Michaels moved his family, rented his Seattle home for a year, and brought some furniture to Los Angeles. In March 1965, Boeing made his Los Angeles assignment permanent. During 1964, he received a per diem allowance from Boeing, which he spent on meals and lodging. He also claimed automobile expenses but lacked records to substantiate business use.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Michaels' 1964 income tax. Michaels contested this in the U. S. Tax Court, arguing for deductions of meal, lodging, and automobile expenses. The court ruled on the deductibility of these expenses based on the temporary nature of his assignment and the substantiation of his claims.

Issue(s)

1. Whether Michaels' expenditures for meals and lodging in Los Angeles in 1964 were deductible under IRC Section 162(a)(2) as being incurred while "away from home. "
2. Whether Michaels established that his unreimbursed expenditures for the business use of his automobile exceeded the amount allowed by the Commissioner.

Holding

1. Yes, because Michaels' employment in Los Angeles was temporary in 1964, and he maintained a home in Seattle, his meal and lodging expenses were deductible.
2. No, because Michaels failed to provide sufficient evidence to substantiate his

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automobile expenses beyond the amount reimbursed by Boeing.

Court’s Reasoning

The court applied IRC Section 162(a)(2), which allows deductions for travel expenses while away from home in pursuit of business. The key legal issue was defining “home” and “temporary” employment. The court cited prior cases to establish that “home” generally means the principal place of employment, but an exception exists for temporary assignments. Michaels’ assignment was initially for one year, which the court deemed temporary, especially since he retained his Seattle home and furniture. The court emphasized the importance of the taxpayer’s intent and the temporary nature of the assignment over the mere duplication of living expenses. For the automobile expenses, the court required substantiation, which Michaels failed to provide, thus disallowing the excess claimed over the reimbursement from Boeing.

Practical Implications

This decision guides the deductibility of expenses for employees on temporary work assignments away from their primary residence. It emphasizes the importance of the duration and perceived temporariness of the assignment, as well as the maintenance of a home at the original location. Legal practitioners should advise clients to retain evidence of their intent to return home and the temporary nature of their work away from home. Businesses should be aware that employees may claim deductions for temporary assignments, affecting their tax planning. Subsequent cases have built upon this ruling to further define “temporary” and “indefinite” employment for tax purposes.

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