Carey v. Commissioner, 56 T. C. 477 (1971)

Campaign expenses for union office are not deductible, but legal fees incurred in defending actions related to union duties are deductible as business expenses.

Summary

James Carey, former president of the International Union of Electrical, Radio, and Machine Workers, sought to deduct expenses from an unsuccessful reelection campaign and legal fees from defending a lawsuit related to his union duties. The Tax Court denied the deduction for campaign expenses, aligning them with the non-deductibility of political campaign costs due to public policy considerations. However, it allowed the deduction of legal fees as they were directly tied to Carey's performance of union duties. This decision clarifies the distinction between expenses aimed at securing office and those incurred in the course of fulfilling union responsibilities.

Facts

James Carey, a long-time labor leader, served eight consecutive terms as president of the International Union of Electrical, Radio, and Machine Workers. In 1964, he ran for reelection but was defeated. Carey and his wife claimed deductions on their 1965 tax return for expenses related to his campaign and legal fees incurred defending a lawsuit filed by his opponent, Paul Jennings, who alleged Carey would not act impartially in the election process. The IRS disallowed these deductions, leading to the case.

Procedural History

The Commissioner of Internal Revenue disallowed the deductions claimed by Carey, prompting him to file a petition with the U. S. Tax Court. The Tax Court heard the case and issued its decision on June 14, 1971.

Issue(s)

1. Whether campaign expenses incurred by Carey in his attempt to be reelected as union president are deductible under IRC sections 162 or 212.
2. Whether legal fees Carey paid to defend against an action arising from his duties as union president are deductible under IRC section 162.

Holding

1. No, because campaign expenses for union office are not deductible as they are akin to political campaign expenses, which are not deductible due to public policy considerations.
2. Yes, because the legal fees were incurred in the course of Carey's duties as union president and thus are deductible as ordinary and necessary business expenses

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under IRC section 162.

Court’s Reasoning

The court distinguished between campaign expenses and legal fees. For campaign expenses, it relied on *McDonald v. Commissioner*, which disallowed deductions for political campaign costs due to public policy concerns. The court extended this reasoning to union elections, noting the significant public interest in union governance as evidenced by federal legislation like the Labor-Management Reporting and Disclosure Act of 1959. The court found that Carey’s campaign expenses did not meet the criteria for deductibility under IRC sections 162 or 212 because they were not “ordinary and necessary” for the business of being a union president but rather were aimed at securing the position.

Conversely, the court allowed the deduction of legal fees, reasoning that they were incurred in defending against allegations related to Carey’s performance of his union duties, not merely his candidacy. The court cited *Commissioner v. Tellier* and other cases to support the deductibility of legal fees as business expenses under IRC section 162. The decision emphasized that the legal action stemmed from Carey’s role as president, not solely his status as a candidate.

Practical Implications

This case establishes that expenses incurred in campaigning for union office are not deductible, aligning them with the treatment of political campaign expenses. Legal practitioners advising union officials should note that while campaign costs are not deductible, costs related to defending actions arising from the performance of union duties are deductible as business expenses. This decision may influence how union officials approach campaign financing and legal defense strategies, ensuring that only expenses directly tied to their duties as officers are considered for tax deductions. Subsequent cases like *Primuth* and *Graham* have continued to refine the boundaries of what constitutes deductible expenses in similar contexts.

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