Jordan v. Commissioner, 60 T. C. 770 (1973)

An employee may deduct lobbying expenses incurred to secure employment benefits under IRC section 162(e) if such expenses are ordinary and necessary and directly related to the employee's trade or business.

Summary

James M. Jordan, a Georgia Highway Department chemist, formed the Georgia Highway Employees Association (GHEA) to lobby for better wages and working conditions for all department employees. He incurred various expenses in 1968 for these lobbying activities, which he claimed as deductions on his tax return. The Tax Court held that these expenses were deductible under IRC section 162(e) as they were directly related to Jordan's employment, ordinary and necessary, and aimed at legislation of direct interest to him. The court allowed deductions for substantiated expenses such as travel, telephone, ink, postage, and office supplies, totaling $631. 95.

Facts

In 1967, James M. Jordan, employed as a chemist by the Georgia Highway Department, co-founded the Georgia Highway Employees Association (GHEA) to lobby for better wages and working conditions for all department employees. In 1968, as a member, director, and treasurer of GHEA, Jordan engaged in lobbying activities aimed at establishing a grievance committee and extending State Merit System benefits to all Highway Department employees. He used his personal funds to purchase an electric mimeograph, office supplies, and to cover travel and communication expenses related to these activities. The Georgia Highway Department did not support his efforts and even attempted to discourage his involvement with GHEA.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Jordan's 1968 federal income tax, disallowing his claimed lobbying expense deductions except for $6. 50. Jordan petitioned the U. S. Tax Court for a redetermination of the deficiency. The Tax Court heard the case and issued its opinion on August 27, 1973.

Issue(s)

1. Whether Jordan's lobbying expenses were deductible under IRC section 162(e) as ordinary and necessary business expenses incurred in carrying on his trade or business.

Holding

1. Yes, because the expenses were directly related to Jordan's employment, ordinary

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and necessary, and aimed at legislation of direct interest to him, thus meeting the requirements of IRC section 162(e).

Court's Reasoning

The court reasoned that Jordan's lobbying efforts were directly connected to his trade or business as a Highway Department employee, as the proposed legislation would improve his working conditions and wages. The court applied IRC section 162(e), which allows deductions for expenses incurred in direct connection with lobbying activities related to the taxpayer's business. The court found that Jordan's activities were ordinary and necessary, as they were typical and reasonable for promoting his employment interests. The legislation Jordan sought was of direct interest to him, as it would affect his trade or business. The court also addressed the Commissioner's contention that the expenses were GHEA's, not Jordan's, but found that Jordan's activities were for his own business interests. The court allowed deductions for substantiated expenses but disallowed unsubstantiated claims and capital expenditures like the mimeograph machine. The court cited IRC section 274(d) and related regulations for the substantiation requirements of travel expenses.

Practical Implications

This decision allows employees to deduct lobbying expenses aimed at securing employment benefits if they meet the requirements of IRC section 162(e). Practitioners should advise clients to keep detailed records of lobbying expenses, as substantiation is crucial for deductibility. The ruling may encourage more individual lobbying efforts by employees for workplace improvements, as it clarifies that such expenses can be deductible if directly related to their employment. However, practitioners must ensure that clients understand the limitations, such as the prohibition on deducting expenses related to influencing the general public or political campaigns. This case has been cited in subsequent rulings to support the deductibility of lobbying expenses by employees for business-related purposes.

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