Churchman v. Commissioner, 68 T. C. 696 (1977)

An artist's activities can be considered engaged in for profit even if they have not yet resulted in a profit, as long as there is a bona fide intention and expectation of making a profit.

Summary

In Churchman v. Commissioner, the Tax Court held that Gloria Churchman's artistic endeavors were engaged in for profit, allowing her to deduct art-related expenses under sections 162 and 165 of the Internal Revenue Code. Despite never having turned a profit from her art over 20 years, the court found that Churchman's dedication, businesslike approach, and efforts to market her work demonstrated a genuine profit motive. The decision emphasizes that the absence of profit does not preclude a finding of profit motive, particularly in fields like art where initial losses are common.

Facts

Gloria Churchman, an artist for 20 years, primarily engaged in painting but also sculpted, designed, and wrote. She operated a gallery in 1969 and exhibited her work annually at commercial galleries. Churchman maintained a mailing list, sent announcements of her shows, and attempted to have her work shown in New York and San Francisco. Despite her efforts, her art sales did not exceed expenses in any year. She claimed deductions for studio expenses on her tax returns for 1970, 1971, and 1972, which the IRS disallowed, arguing her activities were not profit-driven.

Procedural History

The IRS determined deficiencies in Churchman's federal income taxes for 1970-1972, disallowing her claimed deductions for art-related expenses. Churchman petitioned the U. S. Tax Court, which heard the case and rendered its decision in 1977.

Issue(s)

1. Whether Gloria Churchman's artistic activities were engaged in for profit, thus allowing her to deduct art-related expenses under sections 162 and 165 of the Internal Revenue Code.

Holding

1. Yes, because Churchman pursued her artistic activities with the objective of making a profit, despite not having achieved it yet.

Court's Reasoning

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The court applied the standard from section 183 of the Internal Revenue Code, which requires a bona fide intention and expectation of making a profit. While Churchman had a history of losses and did not depend on her art for income, these factors were outweighed by evidence of her businesslike approach. The court noted her efforts to market her work through galleries, publications, and direct sales, as well as her adaptation of techniques to make her art more salable. Churchman's dedication, training, and substantial time commitment further supported the court's finding of a profit motive. The court emphasized that in the art world, initial losses are common and do not preclude a finding of profit motive if the artist sincerely believes in future profitability.

Practical Implications

This decision clarifies that artists can deduct expenses even without immediate profit, as long as they demonstrate a genuine profit motive. Practitioners should advise clients to maintain records of marketing efforts and businesslike conduct to support their profit motive. The ruling may encourage artists to continue their work with the assurance that tax deductions can be claimed for legitimate business expenses. Subsequent cases have cited Churchman in analyzing the profit motive of creative professionals, emphasizing the importance of a businesslike approach and long-term profitability expectations.

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