Dancer v. Commissioner, 73 T. C. 1103 (1980); 1980 U. S. Tax Ct. LEXIS 168

Settlement costs from an automobile accident are deductible as business expenses if the accident occurs while traveling between business locations.

Summary

Harold Dancer, a professional harness horse trainer, was involved in an automobile accident while traveling from his uncle's farm, where he trained horses, to his home, which served as his principal office. The court held that the $40,000 paid by Dancer to settle the lawsuit arising from the accident was deductible as an ordinary and necessary business expense under IRC section 162(a). The decision was based on the finding that Dancer was on a business trip at the time of the accident, as he was traveling between two locations integral to his business operations. This case clarifies that costs resulting from accidents during business travel are directly connected to the conduct of the trade or business and thus deductible.

Facts

Harold Dancer trained and drove harness horses, operating out of multiple locations. He trained horses at his uncle's farm in New Egypt, New Jersey, and managed administrative tasks from his home in Freehold, which also housed horses. On September 3, 1971, after training at the New Egypt farm, Dancer was driving home to conduct business when he collided with a child on a bicycle. Dancer settled a subsequent lawsuit for $140,000, paying $40,000 out of pocket. He claimed this amount as a business expense deduction on his 1974 tax return, which the Commissioner disallowed, asserting the trip was personal.

Procedural History

The Commissioner determined a deficiency in Dancer's 1974 income tax, disallowing the $40,000 deduction. Dancer petitioned the U. S. Tax Court, which heard the case and issued its opinion on March 13, 1980, ruling in favor of Dancer and allowing the deduction.

Issue(s)

1. Whether the $40,000 paid by Harold Dancer to settle a civil action resulting from an automobile accident is deductible as an ordinary and necessary business expense under IRC section 162(a).

Holding

1. Yes, because the accident occurred while Dancer was traveling between two business locations, making the settlement costs directly connected to his trade or business.

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Court’s Reasoning

The court applied the principle from *Kornhauser v. United States* that expenses must be directly connected with or proximately result from the trade or business to be deductible. It found that Dancer’s travel between his training facility and home office was necessitated by business exigencies, thus directly connected to his business. The court distinguished this case from *Freedman v. Commissioner*, where the taxpayer traveled between two separate businesses, noting that Dancer’s trip was between two locations of the same business. The court also considered the practical necessity of driving as part of Dancer’s business operations, acknowledging that accidents, though unfortunate, are an inseparable incident of driving. The concurring opinion emphasized that such costs are ordinary and necessary for continuing in business, akin to insurance premiums or vehicle repair costs incurred during business travel.

Practical Implications

This decision impacts how business-related travel and accident costs are treated for tax purposes. It clarifies that settlement costs from accidents occurring during business travel between locations integral to the same business are deductible, provided the travel is for business purposes. This ruling may affect legal practice by encouraging clearer delineations of business and personal travel in tax filings. For businesses involving travel between multiple locations, it underscores the importance of documenting the business nature of such trips. Subsequent cases like *Curphey v. Commissioner* have cited *Dancer* in affirming the deductibility of transportation costs to and from a home office used as a principal place of business. This decision may also influence business planning, particularly in industries where travel is inherent to operations, by validating the inclusion of potential accident costs as part of business expenses.

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