Green v. Commissioner, 74 T. C. 1229 (1980)

Income from selling blood plasma is taxable, and related expenses may be deductible as business expenses if they are ordinary and necessary.

Summary

Margaret Cramer Green sold her rare AB negative blood plasma, making 95 donations in 1976. The Tax Court held that the income she received was taxable as ordinary income from a trade or business. While health insurance was deemed a personal expense, certain additional costs for a high protein diet and travel to the donation site were deductible as business expenses. However, a depletion deduction for the loss of blood minerals and regeneration ability was denied, as it did not fit within statutory depletion provisions.

Facts

Margaret Cramer Green had been selling her AB negative blood plasma for about 7 years, making it her primary income source in 1976. She made 95 donations that year, receiving $6,695 in donor commissions and $475 in travel reimbursements. Green claimed business expense deductions for medical insurance, special drugs, high protein diet foods, travel, and a depletion allowance for blood minerals. The Commissioner of Internal Revenue disallowed most of these deductions.

Procedural History

The Commissioner issued a notice of deficiency for Green's 1976 tax return, disallowing most of her claimed business expense deductions. Green petitioned the U. S. Tax Court for a redetermination of the deficiency.

Issue(s)

1. Whether the payments Green received for her blood plasma were income from a trade or business?
2. Whether Green's health insurance premiums were deductible as business expenses?
3. Whether the costs of special drugs and high protein diet foods were deductible as business expenses?
4. Whether Green's travel expenses to the donation site were deductible as business expenses?
5. Whether Green could claim a depletion deduction for the loss of minerals and regeneration ability of her blood?

Holding

1. Yes, because Green regularly and continuously sold her blood plasma with the intent to profit, constituting a trade or business.

2. No, because health insurance premiums are inherently personal expenses deductible only as medical expenses under section 213.
3. Yes, because the additional costs of special drugs and high protein diet foods beyond personal needs were necessary for her business of selling blood plasma.
4. Yes, because the trips to the donation site were solely for business purposes, as Green was the necessary container for her product.
5. No, because depletion deductions apply to geological mineral resources, not to human blood components.

Court's Reasoning

The court found that Green's plasma sales constituted a trade or business under section 162 due to the regularity and continuous nature of her activity, aimed at profit. The court applied the broad definition of gross income under section 61, ruling that the payments for plasma were ordinary income. Health insurance was denied as a business deduction because it was primarily a personal expense, not solely related to her plasma sales. The court allowed deductions for special drugs and high protein foods that were beyond personal needs, as these were necessary for her business. Travel expenses were deductible because Green's presence was required to transport the plasma. The court rejected the depletion deduction, stating that statutory depletion provisions do not extend to human blood components. The court used the Cohan rule to approximate allowable deductions when exact substantiation was lacking but the taxpayer was credible.

Practical Implications

This decision clarifies that income from selling blood plasma is taxable and that related expenses can be deductible as business expenses if they are ordinary and necessary. It sets a precedent for distinguishing between personal and business expenses in unique situations involving the human body as a source of income. Practitioners should note that while health insurance remains a personal expense, additional costs for maintaining the quality of the blood product can be deductible. The ruling also limits the scope of depletion deductions to traditional geological resources, impacting how similar cases involving human resources are analyzed. This case has been cited in subsequent cases involving novel income sources and the distinction between personal and business expenses.