Dreicer v. Commissioner, 78 T. C. 642 (1982)

For tax deduction purposes, an activity is considered engaged in for profit if the taxpayer has an actual and honest objective of making a profit, regardless of the reasonableness of the expectation.

Summary

In Dreicer v. Commissioner, the U. S. Tax Court reevaluated Maurice Dreicer's activities as a writer and lecturer under the correct legal standard set by the Court of Appeals, which focused on the taxpayer's actual and honest profit objective rather than a reasonable expectation of profit. Despite Dreicer's claims of aiming for profit, the court found no evidence of such an objective based on his consistent large losses, lack of businesslike conduct, and personal enjoyment derived from his activities. Thus, the court upheld its prior decision that Dreicer's activities were not engaged in for profit, impacting the deductibility of his expenses under section 183 of the Internal Revenue Code.

Facts

Maurice Dreicer engaged in activities as a writer and lecturer, incurring significant losses over many years. He claimed these activities were conducted with the objective of making a profit, but the evidence showed he did not conduct his activities in a businesslike manner, did not realistically expect to offset his losses with income, and derived personal pleasure from his travels. Dreicer's financial status allowed him to sustain these losses without any apparent change in his approach or strategy to generate profit.

Procedural History

Initially, the Tax Court held that Dreicer's activities were not engaged in for profit. Dreicer appealed to the Court of Appeals for the District of Columbia Circuit, which reversed the decision based on the Tax Court's application of an incorrect legal standard. The case was remanded for reconsideration under the standard of an actual and honest profit objective. Upon reevaluation, the Tax Court reaffirmed its original decision that Dreicer's activities were not engaged in for profit.

Issue(s)

1. Whether Maurice Dreicer's activities as a writer and lecturer were engaged in for profit within the meaning of section 183 of the Internal Revenue Code.

Holding

1. No, because an examination of all the surrounding facts and circumstances failed to convince the court that Dreicer had an actual and honest objective to make a profit from his activities.

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Court’s Reasoning

The court applied the legal standard established by the Court of Appeals, emphasizing that the focus should be on the taxpayer’s actual and honest profit objective. The court relied on the factors outlined in section 1. 183-2(b) of the Income Tax Regulations to assess Dreicer’s intent. These factors included the manner in which the activity was carried out, the time and effort expended, the history of income or loss, the financial status of the taxpayer, and the presence of personal pleasure. The court found that Dreicer’s consistent large losses, lack of a businesslike approach, and the enjoyment he derived from his activities contradicted his claim of a profit objective. The court also noted that Dreicer’s financial resources allowed him to sustain these losses, further undermining his profit motive. The court concluded that Dreicer failed to meet his burden of proving an actual and honest profit objective.

Practical Implications

This decision clarifies that for tax purposes, the focus is on the taxpayer’s actual and honest objective to make a profit, not the reasonableness of their expectations. Taxpayers must demonstrate through their conduct and circumstances that their activities are profit-driven, not merely recreational or hobby-based. This ruling affects how similar cases are analyzed, emphasizing the importance of objective evidence of profit-seeking behavior. It also impacts legal practice by reinforcing the need for thorough documentation and businesslike conduct to support claims for tax deductions under section 183. Businesses and individuals must be cautious in claiming deductions for activities that may appear more recreational than profit-oriented. Subsequent cases have followed this precedent, focusing on the taxpayer’s objective intent rather than the potential for profit.

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