Smith v. Commissioner, 80 T. C. 1165 (1983)

Self-employed individuals must substantiate away-from-home travel expenses under the rigorous standards of section 274(d) of the Internal Revenue Code.

Summary

In Smith v. Commissioner, the U. S. Tax Court ruled on the substantiation requirements for business travel expenses of a self-employed individual. Courtney Smith, a self-employed lecturer, claimed per diem deductions for away-from-home travel expenses, which the IRS disallowed due to lack of substantiation. The Court upheld the IRS's position, emphasizing that self-employed taxpayers must meet the detailed substantiation requirements of section 274(d) for travel expenses, including meals and lodging. However, the Court allowed deductions for Smith's business mileage, as he provided sufficient evidence of the time, place, and business purpose of his travel.

Facts

Courtney Smith, a self-employed community relations director for Liberty Lobby, extensively traveled and lectured across the U. S. in 1977 and 1978. He claimed per diem deductions for away-from-home travel expenses based on IRS instructions for Form 1040. The IRS disallowed these deductions, as well as certain itemized deductions, asserting that Smith failed to substantiate his expenses under section 274(d) of the Internal Revenue Code. Smith provided evidence of his business travel through announcement letters, newspaper clippings, and a personal calendar.

Procedural History

The IRS issued a statutory notice of deficiency to Smith for the taxable years 1977 and 1978, disallowing his claimed travel and mileage expenses. Smith petitioned the U. S. Tax Court for review. The Court found in favor of the IRS regarding the per diem travel expenses due to insufficient substantiation but allowed deductions for business mileage based on the evidence provided.

Issue(s)

1. Whether a self-employed individual may deduct away-from-home travel expenses computed on a per diem basis without substantiation under section 274(d).
2. Whether the same substantiation requirements apply to away-from-home business mileage for self-employed individuals.

Holding

1. No, because self-employed individuals must substantiate away-from-home travel expenses under the strict requirements of section 274(d), which were not met by the taxpayer.

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2. Yes, because away-from-home business mileage is subject to the same substantiation requirements, but the taxpayer adequately substantiated the time, place, and business purpose of his travel.

Court's Reasoning

The Court reasoned that section 274(d) of the Internal Revenue Code requires taxpayers to substantiate away-from-home travel expenses by adequate records or corroborating evidence, detailing the amount, time, place, and business purpose of each expense. The Court rejected Smith's reliance on IRS instructions for Form 1040, noting that these informal publications are not authoritative and apply only to employees. The Court found that Smith failed to meet the substantiation requirements for his claimed per diem travel expenses. However, regarding business mileage, the Court held that Smith adequately substantiated the time and place of his travel through announcement letters, newspaper clippings, and a personal calendar, and the business purpose was evident from the nature of his travel. The Court applied the Commissioner's standard mileage allowances to determine the deductible amount.

Practical Implications

This decision underscores the importance of detailed substantiation for self-employed individuals claiming away-from-home travel expenses. Legal practitioners advising self-employed clients should emphasize the need for meticulous record-keeping to meet section 274(d) requirements. The ruling distinguishes between the substantiation needed for per diem expenses and business mileage, providing a clearer framework for deducting travel-related costs. Businesses employing independent contractors should be aware of the stricter substantiation rules applicable to them compared to employees. Subsequent cases have cited Smith v. Commissioner to reinforce the necessity of substantiating travel expenses, particularly for self-employed individuals.

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