Groetzinger v. Commissioner, 82 T. C. 793 (1984)

Full-time gambling for one's own account can constitute a trade or business for tax deduction purposes.

Summary

Robert P. Groetzinger, a full-time gambler, challenged the IRS's determination that his gambling losses were subject to the minimum tax. The U. S. Tax Court ruled that Groetzinger's extensive and regular gambling activities constituted a trade or business, allowing him to deduct his gambling losses from his gross income to calculate adjusted gross income, thus exempting them from the minimum tax. This decision was based on a facts-and-circumstances test, rejecting the 'goods or services' requirement for defining a trade or business.

Facts

Robert P. Groetzinger was terminated from his job in February 1978 and subsequently engaged in full-time gambling, primarily parimutuel wagering on dog races. He devoted 60 to 80 hours per week to this activity, attending races six days a week and studying racing forms extensively. Groetzinger gambled solely for his own account, did not bet on behalf of others, and kept detailed records of his bets. In 1978, he had a net gambling loss of $2,032 and other income of $6,498. The IRS determined that his gambling winnings were additional income and his losses were subject to the minimum tax.

Procedural History

The IRS issued a deficiency notice to Groetzinger for $2,521. 89 for the 1978 tax year, asserting that his gambling winnings were taxable and his losses were subject to the minimum tax. Groetzinger filed a petition with the U. S. Tax Court, which ruled in his favor, holding that his gambling activities constituted a trade or business.

Issue(s)

1. Whether Groetzinger's full-time gambling activities constituted a trade or business under section 62(1) of the Internal Revenue Code.

Holding

1. Yes, because Groetzinger's gambling was regular, frequent, active, and substantial enough to be considered a trade or business.

Court's Reasoning

The Tax Court applied a facts-and-circumstances test to determine if Groetzinger

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was engaged in a trade or business, rejecting the 'goods or services' test proposed by the Second Circuit in Gajewski v. Commissioner. The court highlighted Groetzinger's full-time commitment, the regularity and extent of his gambling, and his reliance on gambling as his primary source of income. The court also drew parallels with cases involving active traders of securities, where frequent and substantial trading was deemed a trade or business despite not involving the sale of goods or services to others. The decision emphasized the Supreme Court's directive in Higgins v. Commissioner to examine all relevant facts in each case.

Practical Implications

This ruling has significant implications for full-time gamblers, allowing them to deduct gambling losses from gross income to arrive at adjusted gross income, thereby avoiding the minimum tax. Legal practitioners should analyze similar cases based on the regularity, frequency, and extent of the taxpayer's activities rather than solely on whether they offer goods or services. The decision may influence how other courts and the IRS evaluate gambling and similar activities as trades or businesses. Subsequent cases have followed this ruling, and it has been cited in discussions about the nature of a trade or business in various contexts, including securities trading.

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