Stemkowski v. Commissioner, 76 T. C. 252 (1981), aff'd in part, rev'd in part 690 F. 2d 40 (2d Cir. 1982)

Taxpayers must substantiate off-season conditioning expenses to claim them as deductions under section 162 of the Internal Revenue Code.

Summary

Peter Stemkowski, a professional hockey player, sought to deduct off-season conditioning expenses incurred in Canada. The U. S. Tax Court initially disallowed these deductions due to lack of substantiation. The Second Circuit Court of Appeals reversed and remanded the case, directing the Tax Court to consider whether these expenses were deductible under section 162. Upon remand, the Tax Court found that Stemkowski failed to adequately substantiate his off-season conditioning expenses, leading to their disallowance. However, the court allowed deductions for expenses related to answering fan mail and subscribing to Hockey News, finding these to be ordinary and necessary business expenses.

Facts

Peter Stemkowski, a professional hockey player, claimed deductions for off-season conditioning expenses incurred in Canada on his 1971 tax return. The IRS disallowed these deductions, leading to a tax deficiency notice. Stemkowski appealed to the U. S. Tax Court, which initially held that the expenses were allocable to Canadian income and not deductible under section 862(b). The Second Circuit Court of Appeals reversed the Tax Court's decision on the allocation of income but remanded the case for further consideration of whether the off-season conditioning expenses were deductible under section 162.

Procedural History

Stemkowski's case was initially heard by the U. S. Tax Court, which disallowed his off-season conditioning expense deductions in 1981. He appealed to the U. S. Court of Appeals for the Second Circuit, which in 1982 affirmed the Tax Court's decision in part, reversed it in part regarding the allocation of income, and remanded the case for further consideration of the deductibility of the expenses under section 162. Upon remand, the Tax Court again reviewed the case and disallowed the deductions due to lack of substantiation.

Issue(s)

1. Whether Stemkowski adequately substantiated his off-season conditioning expenses to claim them as deductions under section 162 of the Internal Revenue Code?
2. Whether expenses incurred by Stemkowski in answering fan mail are deductible as ordinary and necessary business expenses under section 162?
3. Whether the cost of subscribing to Hockey News is deductible as an ordinary and

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necessary business expense under section 162?

Holding

1. No, because Stemkowski failed to provide sufficient evidence to substantiate his off-season conditioning expenses.
2. Yes, because the expenses for answering fan mail were found to be ordinary and necessary business expenses under section 162.
3. Yes, because the cost of subscribing to Hockey News was deemed an ordinary and necessary business expense under section 162.

Court's Reasoning

The Tax Court emphasized the importance of substantiation for claiming deductions under section 162. Stemkowski's failure to provide documentary evidence or specific testimony about his off-season conditioning expenses led to their disallowance. The court cited Welch v. Helvering and Rule 142(a) of the Tax Court Rules of Practice and Procedure, which place the burden of proof on the taxpayer. The court also referenced the Cohan rule but declined to apply it due to the lack of any evidence that the expenses were incurred. In contrast, the court allowed deductions for fan mail expenses and Hockey News subscription costs, finding these to be directly related to Stemkowski's profession and adequately substantiated. The court noted that section 274(d) did not require substantiation for fan mail expenses, and section 1. 162-6 of the Income Tax Regulations supported the deduction of professional journal subscriptions.

Practical Implications

This case underscores the necessity for taxpayers, especially professionals, to meticulously document and substantiate expenses claimed as deductions. For athletes and other professionals, off-season conditioning expenses must be clearly linked to their professional activities and supported by evidence to be deductible. The ruling also clarifies that certain expenses, such as those for fan mail and professional journals, are more readily deductible if they are directly related to the taxpayer's profession. Legal practitioners should advise clients on the importance of record-keeping and the specific requirements for substantiation under sections 162 and 274 of the Internal Revenue Code. Subsequent cases involving similar issues have reinforced the need for substantiation, with courts consistently requiring clear evidence of expenses before allowing deductions.

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