Garrison v. Commissioner, 86 T. C. 764 (1986)

Authors must capitalize expenses related to book production under Section 280 of the Internal Revenue Code.

Summary

Lloyd McKim Garrison, an author, claimed deductions for expenses incurred while writing a book, which the IRS disallowed, asserting these expenses should be capitalized under IRC Section 280. The Tax Court held that Section 280 applies to authors' expenses in writing books, requiring capitalization and deduction over the income stream from the book. The court rejected arguments that the statute was aimed solely at tax shelters and determined that Garrison's book production began after the statute's effective date. The decision underscores the need for authors to capitalize production costs, even if not directly involved in tax shelter activities.

Facts

Lloyd McKim Garrison, a professional author since 1970, entered into a contract with Random House in 1972 to write "Still a Distant Drum. " He received advances in 1972 and 1978, which he reported as income. In 1980, Garrison incurred various expenses related to the book's production, including depreciation, office supplies, rent, and other costs totaling $3,055. He claimed these as deductions on his 1980 tax return. The IRS disallowed these deductions, arguing that under IRC Section 280, these costs should be capitalized and depreciated over the expected income period from the book.

Procedural History

The IRS issued a notice of deficiency to Garrison for the taxable year 1980, disallowing the claimed deductions. Garrison petitioned the U. S. Tax Court for review. The court heard the case and rendered its decision on April 22, 1986, ruling in favor of the Commissioner.

Issue(s)

1. Whether Section 280 of the Internal Revenue Code applies to expenses incurred by an author in writing a book.
2. Whether the effective date provision of Section 280 excludes Garrison from the statute's coverage.
3. Whether the IRS is precluded from applying Section 280 to authors by virtue of Section 2119.

Holding

1. Yes, because the plain language of Section 280 includes authors' expenses in writing books.

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2. No, because Garrison failed to prove that the principal production of his book began before the effective date of the statute.
3. No, because Section 2119 does not preclude the application of Section 280 to authors, as both sections were enacted concurrently.

Court's Reasoning

The court interpreted the clear language of Section 280, which requires capitalization of amounts attributable to the production of books, to include authors' expenses. Despite Garrison's argument that the statute was intended to target tax shelters, the court found no unequivocal legislative purpose to limit the statute's application exclusively to tax shelters. The court also determined that the principal production of Garrison's book did not begin before January 1, 1976, the effective date of the statute, as he had not finished writing the book by that time. Regarding Section 2119, the court noted that it was enacted to address a specific revenue ruling and did not mention Section 280, indicating Congress's intent for Section 280 to apply independently. The court emphasized that "where a statute is clear on its face, we would require unequivocal evidence of legislative purpose before construing the statute so as to override the plain meaning of the words used therein. "

Practical Implications

This decision requires authors to capitalize their book production expenses, impacting how they report income and expenses for tax purposes. Legal practitioners advising authors must ensure clients understand the need to capitalize these costs and depreciate them over the book's income period. The ruling may influence business practices in the publishing industry, encouraging more conservative accounting methods. Subsequent cases involving similar issues, such as *Faura v. Commissioner*, have referenced this decision but have not overturned its core holding. This case underscores the importance of adhering to statutory language, even when the underlying legislative intent might seem focused on a different context.

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