Noyce v. Commissioner, 96 T. C. 397 (1991)

Corporate officers can deduct business expenses incurred in their employment, even if those expenses exceed the amounts reimbursable by their employer, provided the expenses are ordinary and necessary and not voluntarily assumed.

Summary

Robert Noyce, a corporate officer at Intel, sought to deduct expenses and depreciation for a personal airplane used for business travel, which exceeded Intel's reimbursement policy. The Tax Court held that Noyce could deduct these expenses as they were ordinary and necessary for his employment, and not voluntarily assumed. However, deductions related to flight training and pre-operational maintenance flights were disallowed. The court also allowed depreciation deductions based on the airplane's business use percentage, and permitted a corresponding investment tax credit.

Facts

Robert Noyce, co-founder and vice chairman of Intel Corporation, purchased a Cessna Citation airplane in 1983 for $1,260,000. Noyce used the airplane for Intel business travel, which required frequent and extensive trips. Intel had a policy of reimbursing travel at commercial rates, and Noyce's use of the airplane resulted in expenses exceeding this reimbursement. In 1983, Noyce also used the airplane for personal flights, flight training, and in a charter business he started. Noyce deducted $139,369 in expenses and depreciation related to the airplane on his tax return. The IRS disallowed most of these deductions, leading to a deficiency determination.

Procedural History

Noyce and his wife filed a joint tax return for 1983 and claimed deductions related to the airplane. The IRS issued a notice of deficiency disallowing most of these deductions. Noyce petitioned the Tax Court for a redetermination of the deficiency. The Tax Court reviewed the case and issued its opinion in 1991.

Issue(s)

1. Whether Noyce may deduct operating expenses and depreciation with respect to the use of the airplane for Intel business travel.
2. Whether Noyce is entitled to deduct airplane expenses and depreciation related to his flight training.
3. Whether Noyce is entitled to deduct expenses and depreciation for flight time related to airplane maintenance.
4. What is the total allowable amount of deductible expense and depreciation on the airplane for 1983.
5. Whether Noyce is entitled to an investment tax credit for the airplane.

Holding

1. Yes, because the expenses were ordinary and necessary for Noyce's employment and not voluntarily assumed.
2. No, because Noyce failed to establish a nexus between the flight training and the skills required for his employment.
3. No, because the maintenance flights were startup expenses incurred before the charter business began operations.
4. The allowable deductions are based on the percentage of business use of the airplane, which was 36. 7% in 1983.
5. Yes, but only to the extent of the allowable depreciation.

Court's Reasoning

The court applied Section 162(a) of the Internal Revenue Code, which allows deductions for ordinary and necessary business expenses. It found that Noyce's use of the airplane was necessary for his employment at Intel, as it enabled him to meet the demands of his position. The court rejected the IRS's argument that Noyce voluntarily assumed the expenses, citing Intel's policy that expected officers to incur certain expenses without reimbursement. The court also distinguished between business expenses and depreciation, noting that depreciation under Section 168 is not dependent on the ordinary and necessary requirement of Section 162. For flight training and maintenance flights, the court found these expenses were not deductible because they did not meet the criteria for educational expenses or were startup costs, respectively. The business-use ratio was calculated to include all flight hours, with the numerator including only Intel and charter flight hours.

Practical Implications

This decision clarifies that corporate officers can deduct business expenses exceeding employer reimbursement if those expenses are ordinary and necessary to their employment. It underscores the importance of corporate policies in determining whether expenses are voluntarily assumed. For similar cases, attorneys should focus on the necessity of the expense for the employee's duties and whether the employer has a policy or expectation that such expenses be incurred by the employee. The ruling also affects how depreciation and investment tax credits are calculated for mixed-use assets, emphasizing the need to accurately determine the business-use percentage. Businesses should review their reimbursement policies to ensure they align with tax treatment of expenses incurred by employees. Subsequent cases have followed this precedent, reinforcing its impact on tax law regarding business expenses and depreciation.

