

## ***Fleischli v. Commissioner, 123 T. C. 59 (U. S. Tax Ct. 2004)***

The U. S. Tax Court ruled in *Fleischli v. Commissioner* that for the purpose of the qualified performing artist deduction under IRC § 62(b)(1)(C), ‘adjusted gross income’ includes all income sources, not just income from performing arts. Jack A. Fleischli, a practicing attorney and actor, sought to deduct his acting expenses from his gross income but was denied due to his total income exceeding the statutory \$16,000 limit. This decision clarifies the scope of the deduction, impacting how performing artists with multiple income streams calculate their eligibility for tax benefits.

### **Parties**

Jack A. Fleischli, also known as Jack Forbes, was the Petitioner. The Commissioner of Internal Revenue was the Respondent. Fleischli represented himself, while John D. Faucher represented the Commissioner.

### **Facts**

In 2000, Jack A. Fleischli, a self-employed attorney, earned a net profit exceeding \$16,000 from his legal practice. Additionally, under his stage name Jack Forbes, he earned \$13,435 from acting activities but incurred \$17,878 in related expenses, resulting in a net loss from acting. Fleischli sought to deduct these acting expenses as adjustments to his gross income under IRC § 62(a)(2)(B) and § 62(b)(1), which allows such deductions for qualified performing artists whose adjusted gross income does not exceed \$16,000 before these deductions. The Commissioner denied this deduction, arguing that Fleischli’s total adjusted gross income from all sources exceeded the statutory limit.

### **Procedural History**

The case was brought before the U. S. Tax Court after the Commissioner determined a deficiency in Fleischli’s 2000 Federal income tax and an accuracy-related penalty under IRC § 6662(a). The Commissioner conceded the penalty during proceedings but maintained the deficiency. The court’s decision was based on the interpretation of ‘adjusted gross income’ under IRC § 62(b)(1)(C).

### **Issue(s)**

Whether, for the purposes of IRC § 62(b)(1)(C), ‘adjusted gross income’ includes only a taxpayer’s income from the performance of services as a performing artist, or whether it encompasses income from all sources as defined in IRC § 62(a)?

### **Rule(s) of Law**

IRC § 62(a) defines ‘adjusted gross income’ as gross income minus certain deductions. IRC § 62(b)(1)(C) imposes a ceiling on the adjusted gross income for an

individual to qualify as a performing artist eligible for deductions under IRC § 62(a)(2)(B). The court applied the principle that different statutory language implies different meanings (see *United States v. Gonzales*, 520 U. S. 1 (1997)).

## **Holding**

The court held that ‘adjusted gross income’ in IRC § 62(b)(1)(C) means the same as ‘adjusted gross income’ in IRC § 62(a), and thus must be computed based on a taxpayer’s gross income from all sources, not just income from performing arts activities.

## **Reasoning**

The court reasoned that the statutory language of IRC § 62(b)(1)(C) refers to ‘adjusted gross income’ without limitation to specific income sources, contrasting it with IRC § 62(b)(1)(B), which specifically refers to income from performing arts. The court emphasized the principle that when Congress uses different language, it intends different meanings (citing *United States v. Gonzales*, *Iraola & Cia, S. A. v. Kimberly-Clark Corp.*, and *Francisco v. Commissioner*). Additionally, the court rejected Fleischli’s argument that the Commissioner was estopped from contesting his status as a qualified performing artist due to prior allowances, citing *Lerch v. Commissioner* and *Hawkins v. Commissioner*. The court also addressed and dismissed constitutional concerns raised by Fleischli regarding the \$16,000 ceiling, affirming that the statutory provision has a rational basis and does not violate due process rights.

## **Disposition**

The court’s decision was to enter a decision under Rule 155 of the Tax Court Rules of Practice and Procedure, affirming the Commissioner’s determination that Fleischli’s total adjusted gross income exceeded the \$16,000 limit, thereby disallowing his deduction of acting expenses under IRC § 62(a)(2)(B).

## **Significance/Impact**

This case clarifies the scope of ‘adjusted gross income’ under IRC § 62(b)(1)(C), affecting how performing artists with multiple income sources calculate their eligibility for deductions. It reinforces the principle that tax deductions are to be interpreted strictly according to statutory language, and it upholds the constitutionality of income-based limitations on deductions. This ruling may influence future tax planning strategies for artists with diversified income streams and may impact how similar provisions are interpreted in other areas of tax law.