Bissonnette v. Comm'r, 127 T. C. 124 (U. S. Tax Court 2006)

In Bissonnette v. Comm'r, the U. S. Tax Court ruled that a ferryboat captain was entitled to deduct meals and incidental expenses (M&IE) incurred during layovers of 6-7 hours, as he was considered 'away from home' under IRS rules. The decision clarified the 'sleep or rest rule' for travel deductions, allowing full per diem rates for days worked, but subjecting them to a 50% limitation. This case is significant for defining the parameters of deductible travel expenses for transportation workers.

Parties

Marc G. Bissonnette and Lillian I. Cone, petitioners, v. Commissioner of Internal Revenue, respondent. Bissonnette was the primary party involved in the dispute over the deductibility of his travel expenses.

Facts

Marc G. Bissonnette was employed as the director of marine operations and senior captain for Clipper Navigation, Inc. , operating ferryboats on Puget Sound. His workdays typically lasted 15-17 hours, consisting of turnaround voyages completed within 24 hours. During peak travel seasons, Bissonnette captained voyages to Friday Harbor and Victoria, B. C. , with layovers ranging from 30 minutes to over 5 hours. In the off-peak season, he captained the ferry to Victoria with a 6-7 hour layover. Bissonnette paid for his M&IE during these layovers and sought to deduct these expenses using the Federal per diem rates. The Commissioner of Internal Revenue denied these deductions, arguing Bissonnette was not 'away from home' under section 162(a)(2) of the Internal Revenue Code.

Procedural History

The Commissioner issued a notice of deficiency for the tax years 2001, 2002, and 2003, disallowing Bissonnette's claimed deductions for M&IE. Bissonnette and Cone timely filed a petition with the U. S. Tax Court, contesting the Commissioner's determination. The court considered whether Bissonnette was 'away from home' under section 162(a)(2), and if so, whether he should prorate his M&IE deductions and apply the 50% limitation under section 274(n).

Issue(s)

Whether Marc G. Bissonnette was 'away from home' within the meaning of section 162(a)(2) of the Internal Revenue Code during his turnaround voyages completed within 24 hours?

Whether Bissonnette, if considered 'away from home,' must prorate and reduce his allowable M&IE for a partial day of travel?

Whether Bissonnette, if considered 'away from home,' must further reduce his

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allowable M&IE by 50 percent pursuant to section 274(n) of the Internal Revenue Code?

Rule(s) of Law

Section 162(a)(2) of the Internal Revenue Code allows taxpayers to deduct travel expenses while away from home in the pursuit of a trade or business. The 'sleep or rest rule' articulated in Williams v. Patterson, 286 F. 2d 333 (5th Cir. 1961), states: "If the nature of the taxpayer's employment is such that when away from home, during released time, it is reasonable for him to need and to obtain sleep or rest in order to meet the exigencies of his employment or the business demands of his employment, his expenditures (including incidental expenses, such as tips) for the purpose of obtaining sleep or rest are deductible traveling expenses under section 162(a)(2). " Section 274(d) requires substantiation of travel expenses, but section 1. 274-5(g) and (j) of the Income Tax Regulations allow the use of Federal per diem rates in lieu of actual expense substantiation. Section 274(n)(1) limits the deduction for food and beverage expenses to 50% of the otherwise allowable amount.

Holding

The court held that Bissonnette was 'away from home' for purposes of section 162(a)(2) during the off-peak season voyages with 6-7 hour layovers in Victoria, as he needed sleep or rest to meet the exigencies of his employment. Bissonnette was allowed to use the full Federal M&IE rate for these days, without proration. However, the court ruled that his M&IE deductions were subject to the 50% limitation under section 274(n)(1).

Reasoning

The court reasoned that Bissonnette's 15-17 hour workdays, responsibility for passenger safety, and the potential for extended travel times due to various factors justified his need for sleep or rest during the 6-7 hour layovers in Victoria. The court applied the 'sleep or rest rule,' finding that Bissonnette's layover was of sufficient duration to relate to a significant increase in expenses, even though he did not incur lodging costs due to sleeping on the ferryboat. The court rejected the Commissioner's argument that the layover was solely due to scheduling, focusing instead on Bissonnette's need for rest. Regarding the proration of M&IE, the court found that Bissonnette's consistent use of the full Federal M&IE rate was in accordance with reasonable business practice, as allowed under section 6. 04(2) of the relevant revenue procedures. However, the court upheld the application of the 50% limitation under section 274(n)(1), as Bissonnette's M&IE were computed using the per diem method and did not qualify for any exceptions under section 274(n)(2).

Disposition

The court's decision allowed Bissonnette to deduct M&IE at the full Federal per

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diem rate for the days he was away from home during the off-peak season, but subject to the 50% limitation under section 274(n)(1). The case was to be resolved under Rule 155 of the Tax Court Rules of Practice and Procedure.

Significance/Impact

Bissonnette v. Comm'r clarifies the application of the 'sleep or rest rule' to transportation workers, particularly those on turnaround voyages. The decision expands the understanding of what constitutes being 'away from home' for tax deduction purposes, focusing on the need for sleep or rest rather than the mere duration of absence from the home terminal. It also reinforces the IRS's position on the use of Federal per diem rates for substantiation of M&IE and the applicability of the 50% limitation under section 274(n). This case has implications for other transportation industry employees seeking to deduct travel expenses and may influence future interpretations of 'away from home' status in tax law.

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