COMMISSIONER OF INTERNAL REVENUE, PETITIONER v. NADER E. SOLIMAN

506 U.S. 168; 113 S. Ct. 701

January 12, 1993

JUDGES: KENNEDY, J., delivered the opinion of the Court, in which REHNQUIST, C. J., and WHITE, BLACKMUN, O'CONNOR, and SOUTER, JJ., joined. BLACKMUN, J., filed a concurring opinion, post, p. 179. THOMAS, J., filed an opinion concurring in the judgment, in which SCALIA, J., joined, post, p. 180. STEVENS, J., filed a dissenting opinion, post, p. 184.

OPINION BY: KENNEDY

OPINION

[*170] JUSTICE KENNEDY delivered the opinion of the Court.

We address in this decision the appropriate standard for determining whether an office in the taxpayer's home qualifies as his "principal place of business" under *26 U.S. C. § 280A(c)(1)(A)*. Because the standard followed by the Court of Appeals for the Fourth Circuit failed to undertake a comparative analysis of the various business locations of the taxpayer in deciding whether the home office was the principal place of business, we reverse.

I

Respondent Nader E. Soliman, an anesthesiologist, practiced his profession in Maryland and Virginia during 1983, the tax year in question. Soliman spent 30 to 35 hours per week with patients, dividing that time among three hospitals. About 80 percent of the hospital time was spent at Suburban Hospital in Bethesda, Maryland. At the hospitals, Soliman administered the anesthesia, cared for patients after surgery, and treated patients for pain. None of the three hospitals provided him with an office.

Soliman lived in a condominium in McLean, Virginia. His residence had a spare bedroom which he used exclusively as an office. Although he did not meet patients in the home office, Soliman spent two to three hours per day there on a variety of tasks such as contacting patients, surgeons, and hospitals by telephone; maintaining billing records and patient logs; preparing for treatments and presentations; satisfying continuing medical education requirements; and reading medical journals and books.

On his 1983 federal income tax return, Soliman claimed deductions for the portion of condominium fees, utilities, and depreciation attributable to the home office. Upon audit, the Commissioner disallowed those deductions based upon his determination that the home office was not Soliman's principal place of business. Soliman filed a petition in the Tax Court seeking review of the resulting tax deficiency.

[*171] The Tax Court, with six of its judges dissenting, ruled that Soliman's home office was his principal place of business. *94 T.C. 20 (1990)*. After noting that in its earlier decisions it

identified the place where services are performed and income is generated in order to determine the principal place of business, the so-called "focal point test," the Tax Court abandoned that test, citing criticism by two Courts of Appeals. *Id., at 24-25* (noting *Meiers v. Commissioner, 782 F.2d 75 (CA7 1986)*; *Weissman v. Commissioner, 751 F.2d 512 (CA2 1984)*; and *Drucker v. Commissioner, 715 F.2d 67 (CA2 1983))*. Under a new test, later summarized and adopted by the Court of Appeals, the Tax Court allowed the deduction. The dissenting opinions criticized the majority for failing to undertake a comparative analysis of Soliman's places of business to establish which one was the principal place. *94 T.C. at 33, 35*.

The Commissioner appealed to the Court of Appeals for the Fourth Circuit. A divided panel of that court affirmed. *935 F.2d 52 (1991)*. It adopted the test used in the Tax Court and explained it as follows:

> "[The] test . . . provides that where management or administrative activities are essential to the taxpayer's trade or business and the only available office space is in the taxpayer's home, the 'home office' can be his 'principal place of business,' with the existence of the following factors weighing heavily in favor of a finding that the taxpayer's 'home office' is his 'principal place of business:' (1) the office in the home is essential to the taxpayer's business; (2) he spends a substantial amount of time there; and (3) there is no other location available for performance of the office functions of the business." *Id., at 54*.

For further support, the Court of Appeals relied upon a proposed IRS regulation related to home office deductions for salespersons. Under the proposed regulation, salespersons [*172] would be entitled to home office deductions "even though they spend most of their time on the road as long as they spend 'a substantial amount of time on paperwork at home.'" *Ibid.* (quoting proposed Treas. Reg. § 1.280A-2(b)(3), *45 Fed. Reg. 52399 (1980)*, as amended, *48 Fed. Reg. 33320 (1983))*. While recognizing that the proposed regulation was not binding on it, the court suggested that it "evinced a policy to allow 'home office' deductions for taxpayers who maintain 'legitimate' home offices, even if the taxpayer does not spend a majority of his time in the office." *935 F.2d at 55*. The court concluded that the Tax Court's test would lead to identification of the "true headquarters of the business." *Ibid.* Like the dissenters in the Tax Court, Judge Phillips in his dissent argued that the plain language of *§ 280A(c)(1)(A)* requires a comparative analysis of the places of business to assess which one is principal, an analysis that was not undertaken by the majority. *Ibid.*

Although other Courts of Appeals have criticized the focal point test, their approaches for determining the principal place of business differ in significant ways from the approach employed by the Court of Appeals in this case, see *Pomarantz v. Commissioner, 867 F.2d 495, 497 (CA9 1988)*; *Meiers v. Commissioner, supra, at 79*; *Weissman v. Commissioner, supra, at 514-516*; *Drucker v. Commissioner, supra, at 69*. Those other courts undertake a comparative analysis of the functions performed at each location. We granted certiorari to resolve the conflict. *503 U.S. 935 (1992)*.

II

A

Section 162(a) of the Internal Revenue Code allows a taxpayer to deduct "all the ordinary and necessary expenses paid or incurred . . . in carrying on any trade or business." *26 U.S. C. § 162(a)*. That provision is qualified, however, by various limitations, including one that prohibits

otherwise allowable deductions "with respect to the use of a dwelling [*173] unit which is used by the taxpayer . . . as a residence." *§ 280A(a)*. Taxpayers may nonetheless deduct expenses attributable to the business use of their homes if they qualify for one or more of the statute's exceptions to this disallowance. The exception at issue in this case is contained in *§ 280A(c)(1)*:

> "Subsection (a) shall not apply to any item to the extent such item is allocable to a portion of the dwelling unit which is exclusively used on a regular basis --
>
> "(A) [as] *the principal place of business for any trade or business of the taxpayer[,]*
>
> "(B) as a place of business which is used by patients, clients, or customers in meeting or dealing with the taxpayer in the normal course of his trade or business, or
>
> "(C) in the case of a separate structure which is not attached to the dwelling unit, in connection with the taxpayer's trade or business.
>
> "In the case of an employee, the preceding sentence shall apply only if the exclusive use referred to in the preceding sentence is for the convenience of his employer." (Emphasis added.)

Congress adopted *§ 280A* as part of the Tax Reform Act of 1976. Pub. L. 94-455, 94th Cong., 2d Sess. Before its adoption, expenses attributable to the business use of a residence were deductible whenever they were "appropriate and helpful" to the taxpayer's business. See, *e. g., Newi v. Commissioner, 432 F.2d 998 (CA2 1970)*. This generous standard allowed many taxpayers to treat what otherwise would have been nondeductible living and family expenses as business expenses, even though the limited business tasks performed in the dwelling resulted in few, if any, additional or incremental costs to the taxpayer. H. R. Rep. No. 94-658, p. 160 (1975); S. Rep. No. 94-938, p. 147 (1976). Comparing the newly enacted section with the previous one, the apparent purpose of *§ 280A* is to provide a narrower scope for the [*174] deduction, but Congress has provided no definition of "principal place of business."

In interpreting the meaning of the words in a revenue Act, we look to the "'ordinary, everyday senses'" of the words. *Malat v. Riddell, 383 U.S. 569, 571, 16 L. Ed. 2d 102, 86 S. Ct. 1030 (1966)(per curiam)* (quoting *Crane v. Commissioner, 331 U.S. 1, 6, 91 L. Ed. 1301, 67 S. Ct. 1047 (1947))*.In deciding whether a location is "the principal place of business," the commonsense meaning of "principal" suggests that a comparison of locations must be undertaken. This view is confirmed by the definition of "principal," which means "most important, consequential, or influential." Webster's Third New International Dictionary 1802 (1971). Courts cannot assess whether any one business location is the "most important, consequential, or influential" one without comparing it to all the other places where business is transacted.

Contrary to the Court of Appeals' suggestion, the statute does not allow for a deduction whenever a home office may be characterized as legitimate. See *935 F.2d at 55*. That approach is not far removed from the "appropriate and helpful" test that led to the adoption of *§ 280A*. Under the Court of Appeals' test, a home office may qualify as the principal place of business whenever the office is essential to the taxpayer's business, no alternative office space is available, and the taxpayer spends a substantial amount of time there. See *935 F.2d, at 54*. This approach ignores the question whether the home office is more significant in the taxpayer's business than every

other place of business. The statute does not refer to the "principal office" of the business. If it had used that phrase, the taxpayer's deduction claim would turn on other considerations. The statute refers instead to the "principal place" of business. It follows that the most important or significant place for the business must be determined.

B

In determining the proper test for deciding whether a home office is the principal place of business, we cannot develop [*175] an objective formula that yields a clear answer in every case. The inquiry is more subtle, with the ultimate determination of the principal place of business being dependent upon the particular facts of each case. There are, however, two primary considerations in deciding whether a home office is a taxpayer's principal place of business: the relative importance of the activities performed at each business location and the time spent at each place.

Analysis of the relative importance of the functions performed at each business location depends upon an objective description of the business in question. This preliminary step is undertaken so that the decisionmaker can evaluate the activities conducted at the various business locations in light of the particular characteristics of the specific business or trade at issue. Although variations are inevitable in case-by-case determinations, any particular business is likely to have a pattern in which certain activities are of most significance. If the nature of the trade or profession requires the taxpayer to meet or confer with a client or patient or to deliver goods or services to a customer, the place where that contact occurs is often an important indicator of the principal place of business. A business location where these contacts occur has sometimes been called the "focal point" of the business and has been previously regarded by the Tax Court as conclusive in ascertaining the principal place of business. See *94 T.C. at 24-25*. We think that phrase has a metaphorical quality that can be misleading, and, as we have said, no one test is determinative in every case. We decide, however, that the point where goods and services are delivered must be given great weight in determining the place where the most important functions are performed.

Section 280A itself recognizes that the home office gives rise to a deduction whenever the office is regularly and exclusively used "by patients, clients, or customers in meeting or dealing with the taxpayer in the normal course of his trade or business." *§ 280A(c)(1)(B)*. In that circumstance, [*176] the deduction is allowed whether or not the home office is also the principal place of business. The taxpayer argues that because the point of delivery of goods and services is addressed in this provision, it follows that the availability of the principal place of business exception does not depend in any way upon whether the home office is the point of delivery. We agree with the ultimate conclusion that visits by patients, clients, and customers are not a required characteristic of a principal place of business, but we disagree with the implication that whether those visits occur is irrelevant. That Congress allowed the deduction where those visits occur in the normal course even when some other location is the principal place of business indicates their importance in determining the nature and functions of any enterprise. Though not conclusive, the point where services are rendered or goods delivered is a principal consideration in most cases. If the nature of the business requires that its services are rendered or its goods are delivered at a facility with unique or special characteristics, this is a further and weighty consideration in finding that it is the delivery point or facility, not the taxpayer's residence, where the most important functions of the business are undertaken.

Unlike the Court of Appeals, we do not regard the necessity of the functions performed at home as having much weight in determining entitlement to the deduction. In many instances, planning and initial preparation for performing a service or delivering goods are essential to the

ultimate performance of the service or delivery of the goods, just as accounting and billing are often essential at the final stages of the process. But that is simply because, in integrated transactions, all steps are essential. Whether the functions performed in the home office are necessary to the business is relevant to the determination of whether a home office is the principal place of business in a particular case, but it is not controlling. Essentiality, then, is but part of the assessment [*177] of the relative importance of the functions performed at each of the competing locations.

We reject the Court of Appeals' reliance on the availability of alternative office space as an additional consideration in determining a taxpayer's principal place of business. While that factor may be relevant in deciding whether an employee taxpayer's use of a home office is "for the convenience of his employer," § 280(c)(1), it has no bearing on the inquiry whether a home office is the principal place of business. The requirements of particular trades or professions may preclude some taxpayers from using a home office as the principal place of business. But any taxpayer's home office that meets the criteria here set forth is the principal place of business regardless of whether a different office exists or might have been established elsewhere.

In addition to measuring the relative importance of the activities undertaken at each business location, the decision-maker should also compare the amount of time spent at home with the time spent at other places where business activities occur. This factor assumes particular significance when comparison of the importance of the functions performed at various places yields no definitive answer to the principal place of business inquiry. This may be the case when a taxpayer performs income-generating tasks at both his home office and some other location.

The comparative analysis of business locations required by the statute may not result in every case in the specification of which location is the principal place of business; the only question that must be answered is whether the home office so qualifies. There may be cases when there is no principal place of business, and the courts and the Commissioner should not strain to conclude that a home office qualifies for the deduction simply because no other location seems to be the principal place. The taxpayer's house does not become a principal place of business by default.

[*178] Justice Cardozo's observation that in difficult questions of deductibility "life in all its fullness must supply the answer to the riddle," *Welch v. Helvering, 290 U.S. 111, 115, 78 L. Ed. 212, 54 S. Ct. 8 (1933),* must not deter us from deciding upon some rules for the fair and consistent interpretation of a statute that speaks in the most general of terms. Yet we accept his implicit assertion that there are limits to the guidance from appellate courts in these cases. The consequent necessity to give considerable deference to the trier of fact is but the law's recognition that the statute is designed to accommodate myriad and ever-changing forms of business enterprise.

III

Under the principles we have discussed, the taxpayer was not entitled to a deduction for home office expenses. The practice of anesthesiology requires the medical doctor to treat patients under conditions demanding immediate, personal observation. So exacting were these requirements that all of respondent's patients were treated at hospitals, facilities with special characteristics designed to accommodate the demands of the profession. The actual treatment was the essence of the professional service. We can assume that careful planning and study were required in advance of performing the treatment, and all acknowledge that this was done in the home office. But the actual treatment was the most significant event in the professional

transaction. The home office activities, from an objective standpoint, must be regarded as less important to the business of the taxpayer than the tasks he performed at the hospital.

A comparison of the time spent by the taxpayer further supports a determination that the home office was not the principal place of business. The 10 to 15 hours per week spent in the home office measured against the 30 to 35 hours per week at the three hospitals are insufficient to render the home office the principal place of business in light of all of [*179] the circumstances of this case. That the office may have been essential is not controlling.

The judgment of the Court of Appeals is reversed.

It is so ordered.