



of out of pocket expenses to the method of treating such expenditures as loans to clients. This method change would have been effective beginning with the taxable year beginning B, and would have resulted in a positive § 481(a) adjustment (increase in taxable income) of \$C.

Expenses incurred by an attorney on behalf of a client are not deductible if the attorney expects to be reimbursed, even if the reimbursement is contingent upon the success of the case. *Boccardo v. United States*, 12 Ct. Cl. 184, 186 (1987); *Herrick v. Commissioner*, 63 T.C. 562 (1975); *Canelo v. Commissioner*, 53 T.C. 217 (1969), aff'd, 447 F.2d 484 (9th Cir. 1971); *Silverton v. Commissioner*, T.C.M. 1977-198, aff'd, 647 F.2d 172 (9th Cir. 1981). This is because expenditures or advances made under an agreement that the taxpayer will be reimbursed therefor by another are in the nature of loans to that person. *Boccardo* at 186; See also *Electric Tachometer Corp. v. Commissioner*, 37 T.C. 158 (1961) (reimbursed corporate expenses held nondeductible loans).

At the time of the withdrawal, we had formed a tentatively adverse position on A's proposed change in accounting treatment for reimbursable services charges. We had tentatively concluded that the reimbursable service charges should also be treated as loans to clients. The proposed accounting treatment for out-of-pocket expenses was viewed as correct. However, the partnership withdrew its entire application without changing the accounting treatment for out-of-pocket expenses.

If you have any questions on this matter, do not hesitate to call \_\_\_\_\_ at \_\_\_\_\_

Sincerely yours,

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cc:

Changes in Methods of Accounting  
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