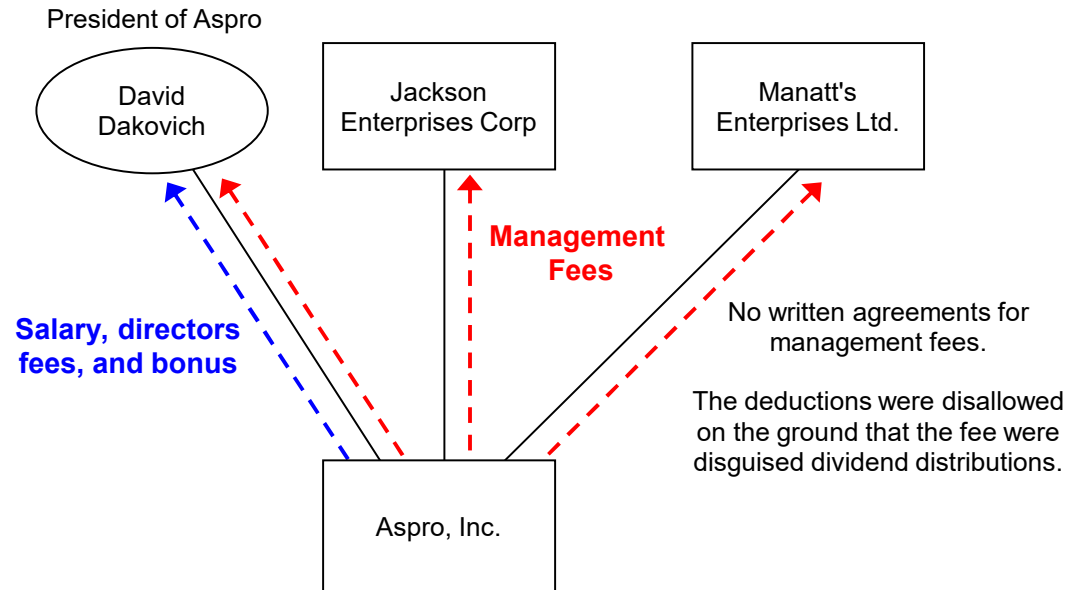


**Purported Management Fees  
Were Disguised Dividends**

Under section 162(a)(1), deductions are allowed for expenses that are ordinary and necessary in carrying on a trade or business, including reasonable allowance for salaries or other compensation for personal services actually rendered. Ordinary has the connotation of normal, usual, or customary, and describes expenses arising from transactions of common or frequent occurrence in the type of business involved. Necessary means appropriate and helpful to the development of the business.



- (1) Aspro produced no evidence:
  - (a) showing what like enterprises under like circumstances would ordinarily pay for like management services,
  - (b) of a written management-services agreement or other documentation of a service relationship,
  - (c) of how it determined the amount of the management fees, or
  - (d) that it was sent invoices for any the services performed.
- (2) Aspro paid the management fees:
  - (a) in amounts roughly proportional to the ownership interests of the stockholders, and
  - (b) as lump sums at the end of the tax year even though the purported services were performed throughout the year.
- (3) Aspro had an unstructured process of setting the management fees that did not relate to the services performed.
- (4) Aspro had a relatively small amount of taxable income after deducting the management fees.

The fees were not paid as compensation for services but were instead disguised distributions of corporate earnings.