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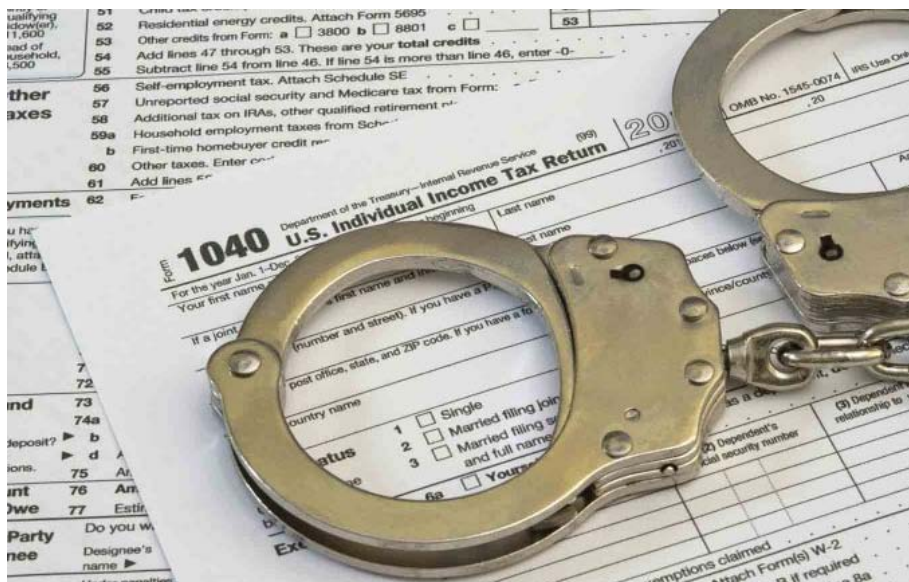
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Confusing Personal With Business On Your Taxes Can Mean IRS Penalties Or Jail

If you are searching for tax deductions, remember to keep business and personal affairs separate. Trying to morph personal matters into business is asking for trouble. For example, don't try to deduct the cost of your [divorce](#) because your business is at risk. It is still personal. Likewise, don't try to deduct a miserable vacation with your best client. It is still personal.

Try to avoid claiming that your [hobby activity](#) is really engaged in for profit. Don't try to write off the expenses against other income. Of course, the tax code doesn't entirely rule out double duty. There are many provisions in the tax law that recognize dual purposes. Still, try to avoid such dual-purpose goals, and do your best to categorize things appropriately. Your tax life will be easier—and safer.



Even criminal tax cases can spring from this fundamental rule. Surprisingly, a majority of criminal tax cases start with a regular civil audit. If the IRS

auditor thinks something is really amiss, he or she can refer the case the IRS Criminal Investigation Division. It can put you in a world of hurt.

Some cases start with sloppy record-keeping and a lack of respect for the line between business and personal. Take 59-year-old William Daddono of Palatine, Illinois, who pleaded guilty to failing to pay more than \$550,000 in personal income taxes. He is the owner of a Schaumburg, Illinois real estate appraisal company.

The case alleged that Mr. Daddono obscured his earnings by depositing money into a corporate account. Then, we would withdraw the money for personal use. But he neglected to report it as income on his individual federal tax returns. When he is sentenced, Mr. Daddono faces up to three years in prison.

Most tax cases do not go criminal, of course. But they can still be plenty expensive and even embarrassing. Take the case of [Hamper v. Commissioner](#), which involved the tax travails of a TV anchorwoman who deducted the cost of her [wardrobe](#). Her name fits too: Ms. Hamper.

The well-dressed anchor deducted about \$80,000 worth of clothes between 2005 and 2008. Her argument: as a TV anchor she was *required* to conform to the Women's Wardrobe Guidelines. Hamper may have kept meticulous records of the clothes she bought for business, but that wasn't enough for tax relief.

Where business clothes are suitable for general wear, there's no deduction even if these *particular* clothes would not have been purchased but for the employment. There are exceptions where clothing was useful only in the business environment, where:

1. The clothing is required or essential in the taxpayer's employment;
2. The clothing is not suitable for general or personal wear; and
3. The taxpayer doesn't wear the clothes for personal use.

The Tax Court pointed out that for Hamper to deduct the costs of her work clothes, she had to wear them as a condition of her employment and the clothes could not be suitable for everyday wear. Most professionals, the Tax Court noted in [Hamper's case](#), probably don't wear their business clothes on their personal time. Still, their business attire is *suitable* for other uses if they wanted to.

The judge ruled that most other items deducted by Hamper were personal, not business. They included contact lenses that helped her read the teleprompter, makeup, haircuts, manicures, teeth whitening and subscriptions to magazines and newspapers.

Popular reports, including a [this story](#) listed thong underwear among the items she deducted. She deducted lounge wear, a robe, sportswear, lingerie, an Ohio State jersey, jewelry, running shoes, dry cleaning, business gifts, cable TV, contact lenses, cosmetics, gym memberships, haircuts, Internet access, self-defense classes, and her subscriptions to Cosmo, Glamour, Newsweek, and *Nickelodeon*.

For alerts to future tax articles, email me at Wood@WoodLLP.com. This article is not legal advice.