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Dear IRS, Receipts Are Optional, And I'm Paying My Taxes In Cash

Paying in cash probably makes it less likely that you will have complete receipts. Of course, receipts are critical to good book-keeping and tax returns. But if you can't find a receipt, you are not necessarily out of luck on your taxes. That is a big surprise to most people, who are trained to think that no receipt or cancelled check means no deduction. Not necessarily. The possibility that you can talk your way out of having no documentation can be traced to a famous court case, [Cohan v. Commissioner](#).

[George M. Cohan](#) was a Broadway pioneer with hits like "Give My Regards to Broadway" and "Yankee Doodle Boy." It is easy to overlook today, but there is actually a [statue](#) of Mr. Cohan still standing in Times Square. The bright lights and chaos of Times Square can't hide the continuing importance of this case. The IRS is unlikely to tell you that receipts aren't mandatory. However, the case is still good law, and many a taxpayer has been saved by it.



The IRS disallowed Cohan's whopping travel and entertainment expenses because he didn't have receipts. He was a flashy guy and tended to pay in cash. A roll of cash was so much more satisfying! And he wasn't going to take no for an answer. So when the IRS denied all his deductions, he took the IRS to court. Mr. Cohan testified that he paid in cash. Other witnesses supported Cohan and also testified about big and expensive dinners.

Of course, this is a tough way to prove expenses. And it didn't work at first. The trial court upheld the IRS, saying that receipts were necessary for Cohan to prove his deductions. So, plucky George M. Cohan appealed to the Second Circuit Court of Appeals. It reversed the trial court and agreed with Mr. Cohan.

Since then, the Cohan Rule is as an exception to stringent IRS record-keeping requirements. It allows taxpayers to prove by "other credible evidence" that they actually incurred deductible expenses. Not surprisingly, the IRS hates the Cohan Rule, so you may have to go to court. Besides, the argument doesn't always work even there.

Still, the IRS or a court may be convinced by oral or written statements or other supporting evidence. If you get over that hurdle and can make a reasonable approximation of the expenses, your tax position may be sustained despite your lack of documentation. And curiously, maybe the latest IRS offering of allowing taxpayers to [pay their taxes in cash](#) might even help.

The IRS says it is offering the [cash deal](#) in partnership with ACI Worldwide's OfficialPayments.com and the PayNearMe Company. Individual taxpayers can now [make a payment without a bank account or credit card](#) at over 7,000 7-Eleven stores nationwide. You might think this is just paying in cash, but as with everything with the IRS, it's a little more complicated than that.

First, visit the IRS.gov [payments](#) page, select the cash option in the other ways you can pay section and follow the instructions. First you'll get an email from OfficialPayments.com confirming their information. After the IRS has verified the information, PayNearMe sends the taxpayer an email with a link to the payment code and instructions. At that point, you can print the payment code provided or send it to your smart phone, along with a list of the closest 7-Eleven stores.

The store provides a receipt after accepting the cash and the payment usually

posts to the taxpayer's account within two business days. But don't bring a suitcase full. There is a \$1,000 payment limit per day. There is also a \$3.99 fee per payment. PayNearMe is available at participating 7-Eleven stores in 34 states. Most stores are open 24 hours a day, seven days a week. For details about PayNearMe, the IRS offers a list of frequently asked questions on [IRS.gov](https://www.irs.gov).

Given that PayNearMe involves three steps, the IRS urges taxpayers to start early. Paying in cash isn't quite as simple as it sounds. But isn't that true with cash in general? IRS already has rules for reporting on IRS [Form 8300 for reporting cash payments over \\$10,000](#).

If you prefer plastic to cash, the IRS has been partnering with Official Payments since 1999 for taxpayers wanting to use a credit card to pay taxes. Check [IRS.gov/payments](https://www.irs.gov/payments) for the most current information.

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