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IRS Rejects Minister Tax Write-Offs For Lack Of Profit Motive

Taxes 7/06/2017

The U.S. Tax Court has agreed with the IRS that a minister and author could not deduct business expenses. Why? He was not engaged in a trade or business for profit. To top it off, the reverend also wasn't allowed any deductions under the more liberal hobby loss rules, because he had no gross income from these activities. The case is [Lewis v. Commissioner](#), involving a minister and author named Willie Lewis. He occasionally performed weddings, attended meetings, and conducted seminars. On his 2011 tax return, he claimed business expenses from these activities. The IRS said no, assessed more taxes, and added penalties. So Mr. Lewis went to Tax Court.



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The Tax Court found that Mr. Lewis was not engaged in a trade or business for profit. That meant the tax deductions he claimed for his ministry and book writing activities were limited to the amount of gross income he derived from those activities. It turned out that was zero, so he wasn't entitled to any deductions.

The court noted that Mr. Lewis admitted that he "didn't charge" for services he performed as a minister. Similarly, he didn't provide evidence showing that he had any income from his alleged book writing activity. He produced no accounting records, bank statements, invoices, or any other records traditionally associated with a business operating for a profit.

Instead, he merely submitted credit card statements and a summary of expenses. He also submitted a questionable employment contract with Goodnews Ministries which stated that he would be compensated \$1 per year for his services. Mr. Lewis did not testify or otherwise offer credible evidence that he was actually paid the \$1 or any other amount.

Even if any of his expenses were legit, he had no proof to substantiate them. A mere list of expenses prepared later did not suffice. A contemporaneous record with the business purpose of each one would be needed. The court agreed with the IRS about penalties too. Mr. Lewis didn't abide by IRS rules, and did not offer any evidence that he had reasonable cause for failing to keep decent records. In fact, he actually testified that he had previously been a tax return preparer for "one of the major companies." To the Tax Court, that showed that he *should* have been aware that he was required to support his deductions with adequate records. Taxpayers are also required to substantiate their claimed deductions. In addition, heightened substantiation requirements apply to:

1. Any traveling expense, including meals and lodging away from home;
2. Any item with respect to an activity in the nature of entertainment, amusement, or recreation;
3. Any expense for gifts; or
4. The use of "listed property", such as a passenger automobiles.

The taxpayer must substantiate these items by adequate records, or by sufficient evidence corroborating the taxpayer's own statement:

1. The amount of the expense;
2. The time and place of the travel, use of the property, etc.;
3. The business purpose of the expense, and
4. The business relationship to the taxpayer. To do this, a taxpayer must maintain records and documentary evidence that in combination are sufficient to establish each element of an expenditure or use.

If all of this sounds overly burdensome, it can be. In fact, it is pretty rare for a taxpayer to win a dispute with IRS having [no receipts, although it has been known to happen](#).

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