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THE TAX LAWYER

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### When Prostitutes Service Secret Service Are They Tax Deductible?

It's tax time and only natural to wonder what's deductible and what's not. See [Strange But Legit Tax Deductions](#). As you scurry to file your return or request an extension, you're wondering about some questionable deductions of your own. You may also wonder about the embarrassing flub of 11—not just one wayward outlier —[United States Secret Service Agents: Secret Service personnel, accused of hiring prostitutes, sent home from Colombia](#). What were they thinking?



Prostitute waiting for customers. (Photo credit: Wikipedia)

It's an appalling story, an embarrassment to an agency self-described as “one of the most elite law enforcement organizations in the world.” Tax lawyers, though, might naturally wonder if there is a tax deduction in this mess somewhere.

Amazingly, this story came to light because one of the prostitutes complained to the police she wasn't paid! The police alerted the State Department, which alerted the White House, which told the Secret Service. Stiffing prostitutes? Unwise. If you're guarding a President? Priceless.

If the elite bodyguards ***did*** pay, could they deduct the cost? You can't take a tax deduction for illegal substances or activities. That includes illegal drugs, hiring prostitutes, a hitman, bribes and kickbacks.

But many fees for prostitutes have probably slipped by described as entertainment or massages. Some people try to deduct everything so it should come as no surprise that there are a few tax cases on point. Neither the IRS nor the courts give much ground despite some pretty creative approaches.

Take [Ralph Louis Vitale, Jr.](#), who took on the IRS in Tax Court in 1999. He claimed he was in the business of writing about prostitution. How did he begin his research? You guessed it. He paid prostitutes in cash, apparently a kind of industry standard. Still, he kept a detailed journal of his numerous research visits.

Vitale submitted his manuscript to a vanity publisher, paying \$4,375 to publish it. All tolled, after he received \$2,600 in royalties, the publisher went bankrupt. The IRS said this was just a hobby and disallowed Vitale's deductions. Vitale went to Tax Court which ruled he did have a profit motive. Still, no receipts, he got no deduction. At least the court didn't impose penalties, ruling that Vitale made a reasonable attempt to comply with the tax laws.

In [United States v. Hoskins](#), Mr. and Mrs. Hoskins ran "Companions," a Salt Lake City Escort service. Although they filed tax returns they failed to report over \$1 million in income. That eventually led to [criminal charges](#). Mr. Hoskins plead [guilty](#) to tax evasion. Mrs. Hoskins claimed she was innocent but she too was convicted. One of the disputed items was fees paid to prostitutes, but the court seemed to allow them as deductions.

Finally, in [Halby v. Commissioner](#), a 78-year-old tax lawyer claimed medical deductions for therapeutic "treatments" from prostitutes. He deducted pornography too. The total: a whopping \$65,934. The Tax Court had an easy time backing the IRS. No doctor had prescribed this cure, which in any case was illegal.

For more, see:

[Final Frontier? Even Rocket Man Pays IRS](#)

[Lawyer's 'International Consulting' A Hobby, Says Tax Court](#)

[Still More Strange Tax Deductions](#)

[Follow Three Simple Tax Rules](#)

[Taxing Suicide Kits: Business Or Hobby?](#)

[More Strange Tax Deductions](#)

[Proprietors: To Avoid Audit, Avoid Schedule C](#)

[Dr. Faust Goes To Tax Court](#)

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