



## Robert W. Wood

THE TAX LAWYER

TAXES | 1/17/2014

# Travel The World, Write It Up, Write It Off

You have to admit it sounds *awfully* good. Travel the world, write your experiences, and write off all your expenses on your taxes. Trouble is, someone thought of it before you, and the IRS said no. Not only that, the courts said no too. Of course, your case could be different, but these are tough to win.

In a case called [Michael Oros](#), the Ninth Circuit Court of Appeals agreed with the Tax Court that Mr. Oros couldn't write off his big trip on his taxes. Oros was a full-time employee of Intel. But he got the idea that a trip around the world and writing about it wouldn't be bad. So in 2006, Mr. Oros began a long to South America, Asia, Africa, and Australia.

He traveled throughout South America in 2006, then to Asia, Africa, and Australia during 2007. Throughout the entire trip, Oros was on either paid vacation or paid sabbatical from his job at Intel. He did try to act business-like about it. In fact, he wrote up business plan and maintained a contemporaneous journal.



The bestsellers at London City Airport  
(Photo credit: Lars Plougmann)

Trouble was, he had never written a book before. Even worse, five years *after* the trip, he *still* hadn't completed it. To the IRS and both courts, that meant he simply wasn't in the business of being an author.

Will the IRS pay for *your* hobby? The short answer is no. The more nuanced answer is sometimes, provided that you make it enough of a *real* business. If you want to avoid any IRS hassles [my standard advice](#) is to keep your business and personal pursuits separate.

But it can be tempting, as Mr. Oros could attest. Just look at the math. Say you lose \$20,000 a year in the "business" of breeding, training and caring for whippets. You can report the loss on Schedule C to your Form 1040 and write it off against your salary. Assuming your combined state and federal tax rate is 40%, your whippet breeding really only costs you \$12,000. See [In Pictures: Convincing Uncle Sam To Subsidize Your Hobby](#).

If your whippets are a hobby, you can't claim a loss. But before you decide to turn your nondeductible hobby into a deductible business, be careful. This is an area of intense IRS scrutiny. The IRS [issued a manual](#) to help agents ferret out taxpayers improperly writing off hobbies. Here are tips for getting business tax treatment for a pursuit you enjoy.

**1. Match income and loss.** The IRS is less likely to question whether you're engaged in a business if your income from the activity exceeds your expenses.

**2. Keep good records.** It matters whether you conduct yourself in a businesslike manner. If you keep good records and hold yourself out as running a business, it will help.

**3. Show a profit three years in five.** If you can manage to eke out a profit three years out of every five (or two years out of seven, if your activity is horse breeding), the IRS will presume you're in business to make a profit. That presumption is worth a lot since you probably won't have to mud wrestle with the IRS over a more amorphous facts and circumstances test.

**4. Plan income and expenses.** Our tax system is annual and so are profit-and-loss determinations. You may have more control than you think over when you receive income and especially when you incur expenses. That control can help you make a profit three years out of five.

**5. Write a business plan.** The IRS looks for businesslike activity. One of the auditors' checklist items is a business plan. Write one up and try to look businesslike in all things.

**6. Hire experts and become one.** The more expert you become and the more you engage others the more businesslike you'll look. If you have advanced degrees or hire consultants to help you grow prize orchids, raise toucans, or race mopeds, it may be easier to convince the IRS.

**7. Don't enjoy it too much.** Do what you love? Maybe, but the IRS thinks personal pleasure is an indication your "business" is a hobby. Don't enjoy it too much.

*You can reach me at [Wood@WoodLLP.com](mailto:Wood@WoodLLP.com). This discussion is not intended as legal advice, and cannot be relied upon for any purpose without the services of a qualified professional.*