CPA

Practice **Advisor**

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reported losses for eight consecutive years on his tax returns. The losses went back to 2003. After initially examining three years of returns starting in 2006, the IRS originally considered the filer's activities as a hobby and disallowed his losses> The tax filer then challenged the ruling in the Tax Court.

Under U.S. tax laws, an activity that has no expectation of profit is considered a hobby and is not eligible for deductions of business losses above the extent of earnings. Gambling activities are generally considered in this same manner, with taxpayers only allowed to deduct losses up to the extent of winnings.

In the ruling, the court determined that the coach had approached his activities in a businesslike manner, actively advertising and expending resources in order to improve his business. In doing so, he traveled to more track meets and devoted time to meeting with more potential clients. He also sought and paid for the professional advice of professionals in his field.

According to the Tax Court: Although a reasonable expectation of profit is not required, the facts and circumstances must indicate that the taxpayer entered into the activity, or continued the activity, with the actual and honest objective of making a profit. Keanini v. Commissioner, 94 T.C. 41, 46 (1990); Dreicer v. Commissioner, 78 T.C. 642, 645 (1982), aff'd without published opinion, 702 F.2d 1205 (D.C. Cir. 1983); sec. 1.183-2(a), Income Tax Regs.

This ruling should not necessarily be taken as precedent. A general point of advice offered by tax professionals is that a business be profitable for at least two of the past five years in order to reduce the risk of being labled a hobby and facing an audit.

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