

## Individual's Ministry and Writing Activities Not Deductible

Recently the tax courts disallowed the losses a minister claimed on his income tax return for ministry and book writing expenses. The Court ruled that because the minister did not engage in his ministry and book writing activities primarily for profit, the deductions attributable to the activities were limited to the gross income he derived from those activities. Further, because he admitted at trial that he "did not charge" for the services he performed as a minister and he did not provide any evidence of income from his writing activities, the Court ruled he was not entitled to deduct any of the expenses related to those activities. And finally, because the minister failed to maintain adequate records of substantiation (the summary schedule he produced was not an adequate record for purposes of the strict substantiation rules because it was not created at or near the time the expenses were incurred, and it did not contain the business purpose of the expense), no deduction could have been claimed anyway.

As a result, the minister and his wife were liable for an accuracy-related penalty.

*(W. Lewis, TC Memo. 2017-117, Dec. 60,940(M))*

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This case is an important reminder to anyone in ministry who operates a sole proprietorship, whether it be your primary source of income or something done to supplement your income. *If you do not carry on your activity to make a profit<sup>1</sup>, expenses associated with the activity are not deductible and you cannot use a loss from the activity to offset other income.*

In determining whether you are carrying on an activity for profit, several factors need to be considered. No one factor alone is decisive. Among the factors to consider are whether:

- You carry on the activity in a businesslike manner,
- The time and effort you put into the activity indicate you intend to make it profitable,
- You depend on the income for your livelihood,
- Your losses are due to circumstances beyond your control (or are normal in the start-up phase of your type of business),
- You change your methods of operation in an attempt to improve profitability,
- You (or your advisors) have the knowledge needed to carry on the activity as a successful business,
- You were successful in making a profit in similar activities in the past,

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<sup>1</sup> An activity is presumed carried on for profit if it produced a profit in at least 3 of the last 5 tax years, including the current year.

- The activity makes a profit in some years, and
- You can expect to make a future profit from the appreciation of the assets used in the activity.

If you have questions about whether your business activities are deductible or being properly accounted for, please contact us. We are always glad to be of assistance where we can. And if you need a tax professional we can help refer you to a qualified individual in your area.

Resources:

<https://www.irs.gov/pub/irs-pdf/i1040sc.pdf>

[https://www.irs.gov/publications/p535/ch01.html#en\\_US\\_2016\\_publink1000208643](https://www.irs.gov/publications/p535/ch01.html#en_US_2016_publink1000208643)

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