Example Research problem 6

**Facts:** Sammy owner of Spartan Materials, LLC. which operates two plants in the Tampa port area remake vehicle parts and batteries. The business started small, but now employs 100 people, with margin business reports annual income of between $800,000 and $1,500,000.

Sammy spends between 20 and 50 hours a week on Spartan Materials, LLC.

Sammy became the proud owner of 320-acre citrus farm.

The next ten years a series of disasters happened to Sammy's business.

Sammy spends at least three days a week working on restoration

the farm. He reported from the citrus farm each year on his tax return. The losses helped reduce Sammy’s taxable income for his claimed that both Spartan Materials and the citrus farm were activities engaged in for profit. The IRS disallowed the losses in 2015, and 2016 for the following reasons. Sammy only kept track of expenses, with no business plan or a separate entity for the farm operation. He never marketed the products, no crop insurance, and no advisors to assist him. The IRS also asserted that Sammy’s activities for personal pleasure. The IRS contended that the farm was not for making profit. Sammy responded to the IRS’ allegations that he produced time records to substantiate his work of attendance at “Citrus College” continuing education programs, and memberships attendance at the Florida Citrus Association’s meetings.

Sammy also commissioned an expert report from a UF professor who said that Sammy had done just about everything to make a successful citrus farm, but his bad luck of the disasters events in the ten years had prevented his success in the farm venture.

**Issue**: While the IRS this disallows the loss for Sammy's tax returns, he is claiming that he did everything to make the farm a successful business, so does he deserve the allows the losses in his tax return?

**Answer:** The IRS prevails over Sammy's claims because of the given factors, and one of the major factors is that the greater weight is given to objective facts than to the taxpayer's mere statement of his intent.

**Rationale:** According to Reg § 1.183-2. Activity not engaged in for profit defined. "For purposes of section 183 and the regulations thereunder, the term “activity not engaged in for profit” means any activity other than one with respect to which deductions are allowable for the taxable year under section 162 or under paragraph (1) or (2) of section 212."

So, in Sammy's case once he did not start the revenue generation stage. he did not deserve the allowed the losses for 2015, and 2016, even though he's had the intention to make business profit as referred in the law above.

**Authority:** Retrieved from https://checkpoint.riag.com Search Terms: Reg § 1.183-2. Activity not engaged in for profit defined.