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Obama's Attorney General, Secret Service And Prostitutes? Ask IRS

The White House is facing rekindled questions about a Secret Service prostitution scandal two years ago. It could even impact the replacement for outgoing Attorney General [Eric Holder](#). Who knew what, and *when* did they know it? Now, two years later, we learn that [aides knew of a White House link to the prostitution scandal](#). Predictably, numerous Secret Service agents were punished or fired following the tawdry [2012 prostitution scandal in Colombia](#).

Yet Obama administration officials repeatedly insisted that no one from the White House was involved. Turns out senior White House aides knew yet didn't ask for an investigation, much less acknowledging they knew. Is it a big deal that one of President Obama's advance team allegedly had a prostitute in his hotel room? Probably, but it is a far bigger deal that no one seems to know anything, nor can they remember who said what to whom.

Two years on, the Obama administration has a good reminder. The investigation was conducted by White House Counsel Kathryn Ruemmler, now a leading candidate to replace Mr. Holder. She could be grilled over her role, which involved firing eight Secret Service employees.

The White House denied that the Secret Service was involved in misconduct. Still, even if they were just standing by, it's hard not to ask, 'what were they thinking?' It is a major embarrassment to an agency considered to be one of the most elite law enforcement organizations in the world. Security is paramount, well, sort of. Prostitutes? Crazies walking right into the White House and up the stairs?

Amazingly, the prostitution story came to light because one of the prostitutes complained to the police that she wasn't paid! Somehow, that makes the hubris even worse. But as a tax lawyer, I have to ask whether these elite professional bodyguards could deduct the cost. You can't take a tax deduction for illegal substances or activities, but you might be surprised at how such deductions slip through.

That includes illegal drugs, hiring prostitutes, a hitman, bribes and kickbacks. But many fees for prostitutes may slip by as 'entertainment' or 'massages.' Of course, some people are bold, extra truthful, or both. Take Ralph Louis Vitale, Jr., who took on the IRS in Tax Court, claiming he was in the business of writing about prostitution.

How did he begin his research? You guessed it. He paid prostitutes in cash, apparently an industry standard. Still, he kept a detailed journal of his numerous research visits. And he purported to record it all. Mr. 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, and considering all his 'research visits,' Mr. Vitale lost money. Predictably, the IRS said this was a hobby and disallowed Vitale's deductions. Undaunted, Mr. Vitale went to Tax Court which ruled that he *did* have a profit motive.

Yet with no receipts, he got no deduction. At least the court didn't impose penalties, ruling that Mr. Vitale made a reasonable attempt to comply with the tax laws. His case also brings to mind another tour of prostitution taxes 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 allowed them as deductions.

Finally, let's not forget [Halby v. Commissioner](#), where a 78-year-old lawyer claimed medical deductions for therapeutic "treatments" from prostitutes. Mr. Halby deducted pornography too. The total was a whopping \$65,934. The Tax Court had an easy time backing the IRS. No doctor had prescribed this 'cure,' said the court, which in any case was illegal.

All of these cases make me wonder if one way to get the truth about Cartagena would be in a tax case of the john, the prostitute or maybe some government official. After all, no one likes to pay taxes.

Contact me at 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.