



FOOTNOTES

THE TAXPAYER PERSONALLY LOANED MONEY TO HIS C CORPORATION IN WHICH HE OWNED 100% OF THE STOCK. THE LOANS WERE MADE IN FURTHERANCE OF THE TAXPAYERS BUSINESS. THE CORPORATION IS NOW INSOLVENT. IN 2005, THE TAXPAYER'S S CORPORATION WAS AUDITED BY THE INTERNAL REVENUE SERVICE. THE AUDIT DETERMINED THAT THERE WAS NO BUSINESS PURPOSE ASSOCIATED WITH THE TRANSACTIONS BETWEEN THE S CORPORATION AND THE C CORPORATION. AT THE TIME OF THE DETERMINATION, THE TAXPAYER STATED TO THE IRS AUDITOR THAT AS A RESULT OF THIS DETERMINATION, THE C CORPORATION LOST ITS ABILITY TO REPAY THE TAXPAYER'S LOAN, THUS CREATING A BUSINESS BAD DEBT FOR THE AMOUNT OWED HIM BY THE C CORPORATION. THE AUDITOR STATED THAT HE COULD NOT GIVE TAX ADVICE, BUT THAT A BAD DEBT COULD BE RECOGNIZED EITHER WHEN IT OCCURED OR AT THE TIME OF A TRIGGERING EVENT, WHICH IN THIS CASE WAS THE AUDIT.

