

Jennifer Woods is 32 years old and for the last six years has been employed as a manager by Ski USA, a distributor of ski equipment and boots. In the past two years as a professional bicycle racer she has participated in approximately 50 races annually. Although she has won some of them, Jennifer has incurred annual expenses that far exceed her annual income from racing. Jennifer trains extensively on a daily basis; she has sponsors who have provided her with the bicycles, clothing, and occasionally, entry fees required for participation in these races. Otherwise she pays her own expenses which include the costs of bicycle repairs, transportation, lodging, and most entry fees. During racing season, she works a lighter schedule at Ski USA and also utilizes her vacation time. The National Bike Racing Association ranked Jennifer in two events – the dual slalom and downhill races – for which she wears a full-face helmet, chest protector, knee protection, elbow pads, goggles, and heavy duty clothing.

Jennifer wants to know if she was correct in deducting her expenses as a deduction for AGI against the winnings from races in which she has won prize money and the sponsorship income she has received.

Submit a brief memorandum addressed to Jennifer, in which you report your findings. Identify any relevant statutory, regulatory, and judicial authorities, and discuss how these authorities affect your conclusion concerning the tax treatment of Jennifer's bicycle racing expenses.