

QUALIFYING FOR A HOME OFFICE DEDUCTION

The IRS reviews home office claims very carefully. In fact, home office deductions will often trigger an IRS audit. To minimize your risk of an audit, make sure you meet the qualifications for the home office deduction.

QUALIFYING FOR THE DEDUCTION

1. The use of the home office must be:

- **Exclusive.** Your home office or other designated area must be used exclusively for your business. This means you must use your home office for the most important activities of your business and spend most of your business time in that office. In the case of inventory storage, an area of a room used exclusively for storage meets the test.

Day care businesses do not have to meet this exclusivity test. Business use is determined by hours of operation and rooms used by the children for whom care is provided.

- **Regular.** Occasional or incidental use is not sufficient for a home office deduction. The area must be used on a continuing basis.

- **For a trade or business.** The area must be used for business purposes. Hobbies and investment activities do not meet this test.

Employees must use the office for the convenience of the employer, and they can have no other office provided to them by the employer. In addition, employees are not allowed to rent any part of their home to their employer and claim a home office deduction.

2. In addition to the above requirements, the business part of your home must be:

- Your principal place of business, or
- A place where you meet or deal with patients, clients or customers in the normal course of your trade or business, or
- A separate structure (not attached to your home) that you use in connection with your trade or business.

Self-employed individuals calculate the home office deduction on Form 8829. The deduction is claimed on the business return. Employees must use the worksheet in IRS Publication 587, *Business Use of Your Home* to calculate the deduction. The deduction is claimed on Form 2106 if there are other employment expenses, or

directly on Schedule A, line 20, if there are no other deductible expenses.

For more information on the home office deduction, see IRS Publication 587, *Business Use of Your Home*.

BEWARE OF SCHEMES!

Unscrupulous promoters have taken advantage of unwary taxpayers by selling various kinds of supposedly audit-tested tax savings strategies. The truth is, the IRS is cracking down on such schemes, the individuals selling them, and the individuals claiming the deductions.

Here are just a few of the schemes to watch out for:

- Placing office-type furniture and equipment in various rooms through-out the house so that all or most of your otherwise

“A home office allows you to deduct otherwise nondeductible expenses, such as utilities, depreciation, insurance and repairs. But, to take advantage of this deduction, you need to meet all of the very strict IRS guidelines. Claiming a home office deduction often invites an IRS audit.”

— Jackie Perlman,
CPA, Senior Tax
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nondeductible expenses become deductible. Other than mortgage interest and taxes, only qualified expenses associated with a home office are deductible.

- Paying family members to do household chores, and deducting the expenses on their business returns. Any wages or contractor fees you deduct must be legitimate business deductions.
- Creating a “family residence trust.” This scheme includes a very official-looking trust document that could make even the wariest person think it’s legal. The taxpayer’s home

is transferred to a trust, and the person who sets up the trust acts as caretaker of the home in exchange for the right to live there. Supposedly this makes all repairs and other expenses deductible. It doesn’t. Because the trust does not have a legitimate purpose, it is disregarded for tax purposes.

For more information on home-based business tax avoidance schemes, read IRS Publication 4035, *Is It Too Good to be True*, available at <http://www.irs.gov/pub/irs-pdf/p4035.pdf>