# Tax Information for Small Businesses

## *CONSTRUCTION - Office In The Home, IRC Section 280A*

### *Must Meet All*

Exclusive Use: Specific area of your home only for your trade or business.
Regular Use: Use the area on a continuing basis.
Trade or Business Use: Used in connection with a trade or business.

### *Must Meet One*

- Principal place of business
- Meet and deal with clients or customers in the normal course of your trade
- A separate structure used in connection with your trade

### *Determine Business Percentage*

- Divide the area used for business by the total area of the house
- Divide the number of rooms used for business by the total number of rooms in the house. Rooms have to be approximately equivalent in size

### *Other Considerations*

- Partial Year Usage:
  Only consider that portion of the year you actually start using your home for business.

- Deduction Limit:
  Your business use of home expenses are limited to the tentative profit (net income before taking business use of home expenses).

### *Type of Expenses*

- Direct:
  All expenses for the business part of your home are fully deductible. (Example: Painting or repairs to the business area only)

- Indirect:
  Expenses for running the entire home are deducted based on the business percentage. (Example: Insurance, utilities, and general home repairs)

### *CAUTION: Sale of Residence*

If you sell a home that had a portion used for any period of time for business purposes, and, as a result, depreciation deductions were taken on earlier federal income tax returns, the amount of gain subject to the gain exclusion must be reduced by the total of the depreciation deductions.

## *Form 8829*

Part I: Part of your Home Used for Business. Figures the business percentage to use for indirect expenses.
Part II: Figure Your Allowable Deduction. Figures the allowable deduction.
Part III: Depreciation of Your Home. Figures depreciation amount
Part IV: Carryover of Unallowable Expenses. Determines the amount that was not deducted due to tentative profit limitation.

## *Home-Based Business Tax Avoidance Schemes*

- Transforming non-deductible personal living expenses into business expenses
- Paying your child a "deductible salary" for merely answering your phone or washing your car
- Deducting the cost of your child’s education

## *Thank You!!!*