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Make Your Castle into a Tax Deductible Gold Mine

The home office deduction can be worth thousands each year in your pocket. It is one of many reasons why everyone should have a home-based business. With the right knowledge, you can make tax day-payday!

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Beginning in 1999, Congress liberalized the home office rules to such an extent that many home based businesses and especially network marketing businesses can legally, morally and ethically claim the benefits of the deduction. In fact, when I analyzed the numbers, the benefit of claiming this deduction can result in thousands in your pocket every year. Thus, if you have an accountant that states that this deduction isn't worth it, they don't understand its immense benefit.

Requirements of a Home Office: To be eligible for the home office deduction for your home-based business, you must meet several requirements:

1. Use your home as your principal office,
2. Use your home regularly for business, and
3. Use an exclusive portion of your home for business

Principal Office requirement: Recently, Congress liberalized this in order to allow most home based businesses and network marketing businesses this deduction.

> ***To constitute a principal office, you must render significant management or administration for your business out of your***

home AND not have another office where you render significant services.

Significant management or administration means doing the paperwork for the business in a set spot of your home.

Example: Kara runs a network marketing business out of her home. She reviews all applications for her business in her home and inputs all her business expenses into Quicken in her home. Her home qualifies as her principal place of business for her networking business.

Caution: If Kara has another office that is used for her networking business, she may not be qualified for the home office deduction unless she does NOT render any significant services from the other office.

What is regular use? You must also work your business regularly out of your home. Although there is no hard and fast rule as to what this is,

case law generally requires 45 minutes a day, four to five days a week out of your home.

Thus, if you only work one hour a week, this may not be enough.

What constitutes exclusive use? You must use a portion of your home exclusively for business. This does not mean that a whole room must be used for business. In fact, you can use part of a room. However, the part used for business must be used exclusively for business.

Thus, if there are fiction or cookbooks in the home office book shelf, get them out. If you have a computer in your home office, don't play games on the computer, etc.

One big question that I get at most seminars is, "whether IRS will visit my home and see if I am playing games on the home office computer or have

non-business books in the home office bookshelf?" The answer is: Yes, they can.

Having a home office allows what type of deductions? The home office deduction applies to the real estate and not the furniture. Thus, if you qualify for the deduction, you may deduct part of your utilities, depreciate part of your home, deduct part of any cleaning service, part of any home owner's fees, part of any burglar alarm monitoring fees etc. No, you may not deduct any part of your guard dog!

However, even if you don't qualify for the deduction, it does not apply to any furniture that you use for business. Thus, the desk that you use, the chair, the bookshelf and file cabinet all can be depreciated to the extent that you use these items for business. They have nothing to do with the home office deduction. In fact, you may not be eligible to claim a home office deduction and still deduct your furniture and equipment to the extent used for business.

Cautionary Limits: The home office deduction, unlike any other type of business deduction, is limited to the net income from your business.

Example: Keith has a net income from his home based business of $600 per year not including any deduction attributable to a home office. If the home office deduction is $5000, he may only deduct $600, which is limited to his net income from his business.

> ***Tip: Take the home office deduction anyway even if your net income from your business doesn't justify it. You may carryover any excess to future years forever!***

There are more issues involved in dealing with a home office. I invite all readers to check out pages 99-110 in my workbook that accompanies my program,
" Wealth Building Tax Strategies For You Home Based Business ."

In short, the home office deduction can be worth thousands each year in your pocket. It is one of many reasons why everyone should have a home-based business. With the right knowledge, you can make tax day-payday!

Sandy Botkin is a CPA, attorney and former trainer of IRS attorneys nationwide. Sandy's book, *Lower Your Taxes Big Time!,* is the best-selling tax book at Amazon.com. He lectures all over the nation on tax planning for self-employed and corporate taxpayers... he's been written up in Newsweek and many other magazines. He is also a syndicated writer and noted author of this famed tape series *"Tax Strategies for Business Professionals"* and *"Tax and Financial Strategies for Residential Real Estate."* To find out more about Sandy and his products, visit his website with our affiliate link here: TaxReductionInstitute.com or e-mail Sandy at: info@taxreductioninstitute.com. Or, call at (800) TRI-0-TAX (800-874-0829 or (301) 972-3600.