

The purpose of this document is to provide information to help taxpayers recognize home-based business tax avoidance schemes.

*F*acts About Home-Based Businesses

In order to deduct expenses related to the business use of your home, you must carry-on a "bona fide" business, as well as meet other specific requirements. Even then, your deduction may be limited. To qualify to claim expenses for the business use of your home, you must meet both of the following tests:

- Your use of the business part of your home must be:
 - Exclusive,
 - Regular, and
 - For your trade or business,

AND

- The business part of your home must be one of the following:
 - Your principal place of business,
 - A place where you meet and deal with customers in the normal course of your trade or business, or
 - A separate structure you use in connection with your trade or business.

*H*ome Based Business Tax Avoidance Schemes

Scam home-based businesses and tax avoidance promotions have gained popularity over the last few years for a variety of reasons, including:

- The desire of individuals to reduce the amount of taxes they pay.
 - Unscrupulous promoters selling tax avoidance and audit assistance packages.
 - Taxpayers being advised they can deduct all or most of their home and other personal assets as business expenses.
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*P*ersonal Expenses or Business Expenses ?

Most taxpayers with home-based businesses accurately report their income and expenses, while still enjoying the benefits that a home-based business can offer.

However, some individuals have received advice that they can operate any type of unprofitable "business" out of their home and claim personal expenses as business expenses. Non-deductible personal living expenses cannot be transformed into deductible business expenses, regardless of how convincing the information in marketing materials may seem.

*T*he following are a few examples of items that are generally not deductible as business expenses:

- Deducting all or most of the cost and operation of a personal residence. For example, placing a calendar, desk, file cabinet, telephone or other business item in each room does not increase the amount that can be deducted. Taxpayers should also be aware of depreciation recapture rules when assets are later sold.
- Paying children a salary (e.g. for answering telephones, washing cars, etc.).
- Deducting education expenses from salaries paid to children wrongfully claimed as employees.

■ Deducting excessive car and truck expenses when the vehicle was used for both personal and business use.

■ Deducting personal furniture, home entertainment equipment, children's toys, etc.

■ Deducting personal travel, meals, and entertainment under the guise that everyone you encounter is a potential client.

For more information on home business expenses that are deductible, go to:

<http://www.irs.gov/smallbiz>

Search for: *business expenses*

Any investment scheme or promotion that claims to allow a person to deduct what would normally be personal expenses and not ordinary and necessary business expenses should be considered highly suspect. As always, a business must truly exist prior to claiming any business expenses.

Business Card

Need Additional Information?

If you have questions on how to amend your return, please contact the Internal Revenue Service at:
1-800-829-1040.

For questions regarding specifics on tax schemes, or if you wish to report a possible scheme, call:

1-866-775-7474 or send an e-mail to:
irs.tax.shelter.hotline@irs.gov

The following IRS web sites provide additional information on home-based business tax avoidance schemes and other related issues:

<http://www.ustreas.gov/irs/ci>

The following publications may also provide assistance on these issues and can be found at:

<http://www.irs.gov>

Publication 587, Business Use of Your Home

Publication 463, Travel, Entertainment, Gift, and Car Expenses

Publication 334, Tax Guide for Small Business

Publication 17, Your Federal Income Tax for Individuals



Department of the Treasury
Internal Revenue Service

Publication 4035 (6-2002)
Catalog Number 34333A

**IS IT
TOO**

GOOD

TO BE

TRUE

Home-Based Business Tax Avoidance Schemes



Internal
Revenue
Service

Working To Put Service First

**Small Business and
Self-Employed Division**