

Income Tax Return

(This is the sixth and last of a series of articles prepared by the Pennsylvania Institute of Certified Public Accountants on money-saving tax hints in preparing your Federal income tax return.)

Use Home for Business? — Then Claim Deduction!

In making out their Federal income tax returns, taxpayers often overlook expenses which may be tax deductible because they use their home for business purposes. Such deductions may be available whether the taxpayer owns his house, rents an apartment or owns a co-op.

Deductible items fall into two general categories: incidental and regular. The first would include, for example, expenses incurred for home entertainment of customers — of food, liquor, catering service. The taxpayer should be able to establish the bonafide business element in such entertainment.

The second category of expenses pertains to use of the home on a regular basis for business purposes, generally as an office. This may be either by an employee or a self-employed taxpayer.

Deductions under this category include not only direct expenses, such as telephone, stationery and office supplies, but also part of the cost of maintaining the residence.

The Internal Revenue Service takes the position that incidental use of the home, either to do work taken from the office or for entertainment, does not permit deduction of any part of the expenses of maintenance. But regular use of the home for business is recognized for deductions by a large variety of taxpayers including architects, lawyers, doctors, accountants, artists, inventors, consultants, authors, real estate agents, and others. For employees, as distinct from self-employed persons, the Internal Revenue Service requires that, in order to have any part of home maintenance deductible, use of the home for business purposes must be a condition of their employment.

The courts, however, have frequently taken a more lenient view, requiring only that use of the home be helpful to the conduct of the employer's business. An employee may be able to assure himself of additional deductions by making proper arrangements with his employer as to where he will be required to carry out his work assignments, particularly work done outside of usual business hours.

For self-employed persons other factors determining the deductibility of costs for business use of a home include whether or not there is reasonable expectation of profit from the activity, whether books of account are kept, and whether attempts are made to make the business profitable if it is not so already.

Once a taxpayer shows he is entitled to some deduction, he faces the problem of what items are deductible and in what amount.

For example, if one room in a six-room house is used for business, it might be reasonable to deduct one sixth the expenses of the house. But the number of rooms is not the only criterion — an allocation may be based on the total square feet of the house compared with the number of square feet used for business. Expenses to be apportioned can include light, heat, cleaning, insurance, and other costs applicable to the premises.

The amount of business cost assignable is affected if an area of a home is used for business only part of the time. Thus, if a study were used for business three hours out of 24 daily, the Internal Revenue Service would limit the deductible amount to

3/24ths of the total expenses applicable to that area.

The lesson to be learned here is that when a room has substan-

tial business use, it should not be put to other use. In that way, even though the room is used only three hours a day, all the cost applicable to that room can be deducted.

It should be emphasized that the taxpayer should keep in mind that it is up to him to prove (1) he uses his home for business, (2) the extent of the use, and (3) the expenses incurred. To support his tax return he should retain invoices, cancelled checks, receipts, and all other records.

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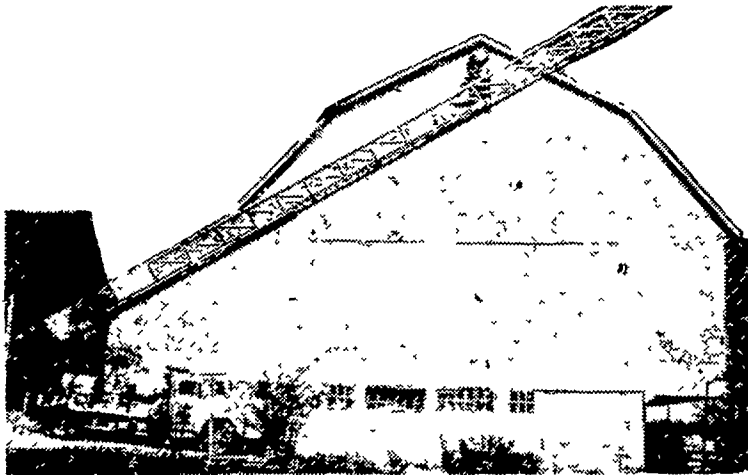
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