

## Home-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.

Most taxpayers with home-based businesses accurately report their income and expenses, while 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.

The 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 some other business-related item in each room does not increase the amount that can be deducted.
- 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 is a potential client.

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 expenses. If you have questions on how to amend your return please contact the Internal Revenue Service at 1-800-829-1040 or refer to the [1040X Instructions](#). For questions regarding specifics on tax schemes or if you wish to report a possible scheme, call 1-866-775-7474 or email us at <mailto:irs.tax.shelter.hotline@irs.gov>.

Additional information is available here on [abusive tax shelters](#). And information on this and other related issues can be found on [IRS’s Criminal Investigation web site](#).

The following publications may also provide assistance on these issues:

[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

Applicable Internal Revenue Code sections surrounding this topic, including but not limited to 127, 162, 183, 195, 262, and 274, can be researched by selecting [United States Code \(USC\)](#).