



**Internal Revenue Service**  
**Small Business and Self-Employed**  
**Taxpayer Education and Communication**



# **Tax Information for Small Businesses**

*Consider it Done*



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**CONSTRUCTION**  
**Office In The Home**  
**IRC Section 280A**



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## Must Meet All

- **Exclusive Use**

Specific area of your home 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.



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## 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.



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## 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



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## 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).



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## 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)



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## **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.





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## 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.



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## 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.



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**Thank You!**