

Why You Would Be Brain Dead Not To Start a Home Based Business (If You Don't Already Have One)

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The catchy title to this article is the name of the first chapter of a book entitled "Lower Your Taxes Big Time". The book is authored by Sandy Botkin, CPA, JD, a former IRS attorney, founded a tax education company named Tax Reduction Institute. His theme in this chapter is that there are two tax systems in this country, one for employees and another for businesses. The system for business allows many deductions that are not available to individual employees who are not in business.

So what is all the fuss about? What are some of the tax benefits of owning a home-based business? Some or all of these may benefit you even if you already have a business. These are the key benefits that Mr. Botkin advocates, (generally taken from his chapter headings):

1. How to deduct your fun. Mr. Botkin's chapter description states: "How to deduct your golf, sporting tickets, movies, and plays—and audit-proof all these deductions. You will learn some IR inside secrets related to Dutch-treat meals and learn about the great \$75 exception to keeping receipts, as well as the home entertainment exception. You will be having twice as much fun if you know it's deductible."
2. How to turn your vacation into a tax-deductible write-off.
3. Income shifting and income splitting.
4. How to turn your car into a tax-deductible goldmine.
5. Home office: The misunderstood key to saving \$15,000 every five years.
6. Beating the dreaded IRS audit.
7. How to shield yourself from the IRS weapon of classifying a business as a hobby.
8. How to incorporate to shelter your wealth, finding the best corporate entity for your business, and how to eliminate up to 40% of your social security and medicare tax with an S corporation.
9. How to get assets and money into a corporation tax free.
10. Benefitting from fringe benefits, including payment for parking, transportation, exercise equipment, employee achievement awards, cafeteria plans, qualified profit-sharing plans, SEPs, SIMPLE IRAs, etc.
11. Real estate tax deductions.

Some of the other advantages include the opportunity to deduct losses from the home based business from other income so that the IRS shares the burden of helping you grow your business. Mr. Botkin describes an estimate from David D'Arcangelo that 37 million people work from their homes. He also quotes from Entrepreneur Magazine that 95% of the home based business succeed in the first year and achieve an average annual income of \$50,250, with many earning much more. In an audio tape called "Underpaid and Overtaxed?" Mr. Botkin states that a home-based business can generate an actual tax savings of \$5,000 per year if one of the spouses earns \$40,000 per year in a regular job. Mr. Botkin's conclusion is that "everyone should have a home-based business immediately."

This article is not an advertisement for a book or the audio tape, but is an

advocacy of using the business tools available to save money on taxes where legitimate. The book is available through amazon.com and Barnes & Noble and probably other book stores.

Now a word of caution on what the IRS calls Home Based Business Tax Avoidance Schemes. The IRS publication on the subject is available at irs.gov. It cautions about programs promoted by unscrupulous persons selling tax avoidance and audit assistance packages and taxpayers being advised they can deduct all or most of their home and other personal assets as business expenses. The key IRS test for deductibility of a portion of your home dedicated to business is that the use of the business part of your home must be exclusive, regular and for your trade or business AND that it must be (a) your principal place of business or (b) a place where you meet and deal with the customers in the normal course of your trade or business, or (c) a separate structure you use in connection with your trade or business. Some of the expenses the IRS considers not deductible as business expenses include “deducting all or most of the cost and operation of a personal residence”, “paying children a salary (e.g. for answering telephones, washing cars, etc.)”, and “deducting education expenses from salaries paid to children wrongfully claimed as employees.” The correct rule of thumb is “ordinary and necessary business expenses”.

Another important note is the importance of good record keeping. You must have receipts for nearly everything that is an expense. Canceled checks are generally not enough to establish the deduction as legitimate. In the case of travel, you may deduct \$0.36 per mile for business use of your car, but you must prove you were using the car for business purposes and the mileage used. If you don't use one, get a log book and record the beginning or ending odometer reading and the number of miles used as well as the business purpose of the travel. Not doing so is like throwing a \$1.00 bill out the window for every 3 miles traveled.

The key to successful starting and operation of a business is a combination of knowledge and action, including a good sense of what are reasonable tax deductions and what are scams. Self education is essential and together with a well thought out plan and sufficient capital can make a business, including a home-based business much more likely to succeed. Choose the best educational and business expense recording tools and put them to work so you can save on taxes and build your business into a solid and lasting source of success.