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Meet the Trainer



Keep More Commissions with Tax Breaks

Lesson 6.1: Home Office Equipment

Strategy 1: Depreciate Assets to the Extent Used in Business When You Fail to Qualify for the Home Office Deduction

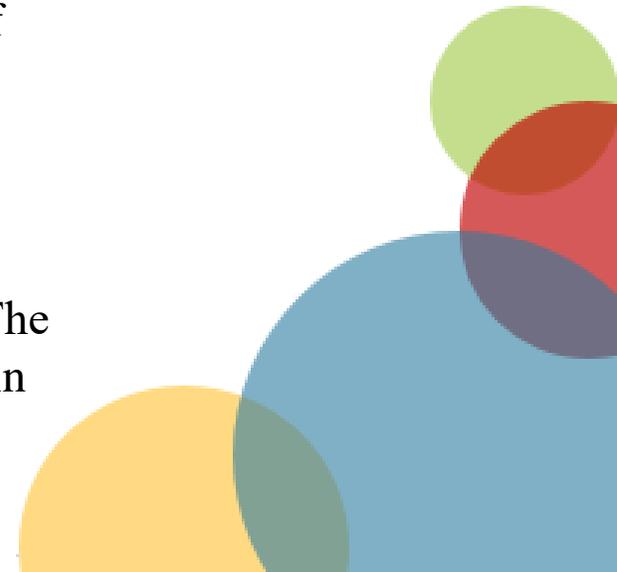
Example: You work in an office at your home, but do not qualify for the home office deduction because the office is not used exclusively for business. Your work adds up to 80% of the use.

Result: You may depreciate the assets used 80% for business. Convert to business use: If you purchased the desk, file cabinet, and chair 3 years ago, you must convert the assets to business use under the lower of cost or market rule.

Example: You have a desk you purchased 3 years ago. It cost \$500. It has a fair market value of \$550. You depreciate 80% of the \$500 because it is lower than \$550.

Strategy 2: Expense Purchased Home Office Assets to Speed Up Deductions

Special Expense Rule: Congress allows you to deduct immediately, rather than depreciate, up to \$510,000 worth of business assets that you purchase during 2017. The key word is “purchase”. The assets may be new or used. This is allowed if your total asset purchases are less than \$2,030,000 in 2017.



Limitation: In order to expense the asset, the asset must be used at least 50% for business. In addition, you cannot use the tax expense election if it will create a loss.

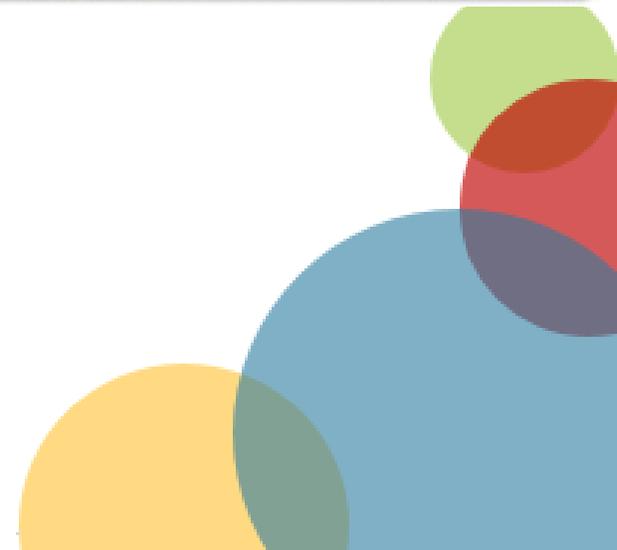
Example: You buy a new \$1,200 rug and spend \$3,000 on a used photocopier. Rather than depreciate the assets over 5 years or more, you may expense the entire \$4,200 this year.

Qualifying assets: Any asset that would have qualified for the old investment tax credit is eligible for the special asset expensing break. All home office depreciable equipment meets this test.

Recapture: If you expense an asset & then your business use drops 50% or less, you must recalculate the original expense amount as if straight line depreciation was claimed & report the difference as taxable income.

Expensive Purchase: If the newly purchase assets costs \$610,000, you can expense the first \$510,000 & depreciate the rest.

Hot Tip: If you are going to buy more than \$510,000 expense limit, but less than \$2,030,000, consider buying \$510,000 worth of equipment in 2017 & the rest in 2018. This way you can deduct \$510,000 in 2017 & the rest of your equipment in 2018 instead of depreciating the difference over 5-7 year.



Strategy 3: Qualify for the Home Office Deduction

The home office deduction could put from \$10,000 to \$30,000 after tax dollars in your pocket during the next 5 years.

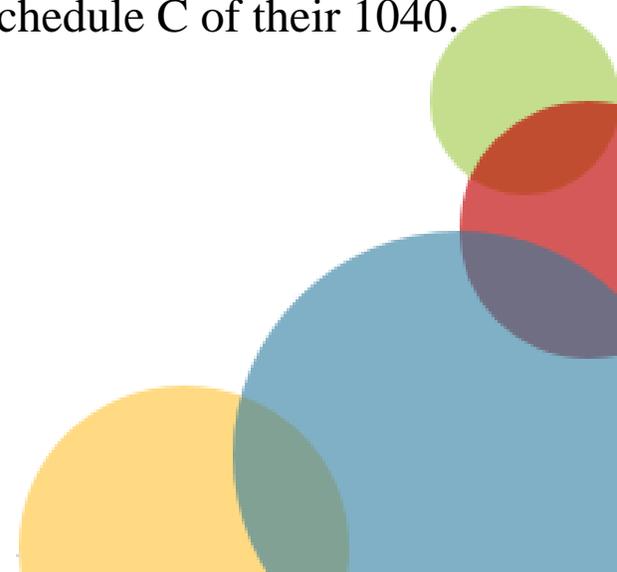
First Year Tax Refund

	Total	Home Office Percentage	Home Office Deduction	Tax Benefit Rate	Tax Refund
Mortgage interest	\$10,401	15.84%	\$1,648	13.02%	\$215
Real estate taxes	947	15.84%	150	13.02% ¹	20
Utilities	1,704	15.84%	270	54.02% ²	146
Homeowner's insurance	310	15.84%	49	54.02%	26
General repairs	600	15.84%	95	54.02%	51
Pest control	400	15.84%	63	54.02%	34
Repairs to office	200	100%	200	54.02%	108
Depreciation-furniture	1,886	100%	1,886	54.02%	1,019
Depreciation-home	2,545	15.84%	403	54.02%	218
Snyder's cash in pocket from home office deductions					\$1,837

Facts: Snyder files a joint tax return with his wife. Snyder's earn \$150,000 taxable income which puts them in 31% federal & 10% state income tax bracket. Mrs. Snyder earns \$78,000 from her job as an employee in town. Mr. Snyder works from home & earns net taxable income of \$72,000, which is reported in Schedule C of their 1040.

Economic Results

Cash from home office deduction	\$1,837
Cash from extra business mileage	582 ³
Total first year cash	2,419
6% annuity due factor for 5 years	x 5.9753
Net cash after 5 years	\$14,454



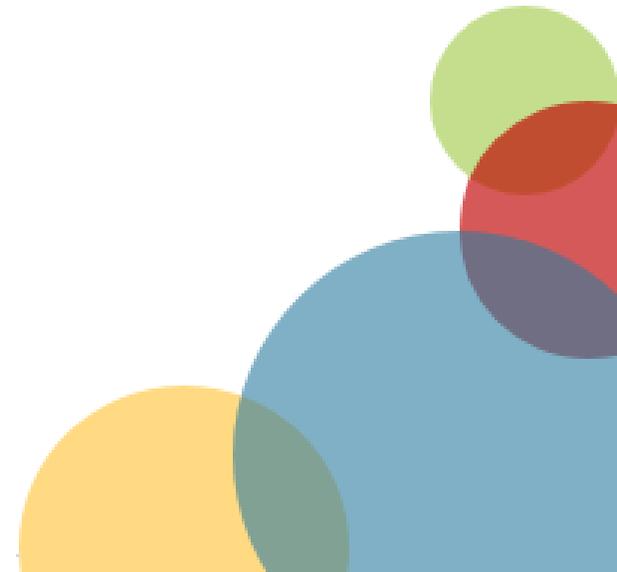
The Home Office Rules

The Law: The Internal Revenue Code states that a home office deduction is available to the extent that portion of the dwelling unit is used exclusively and on a regular basis as:

- The principal place of business for any trade or business of the taxpayer
- A place of business that is used by patients, clients, customers in meeting or dealing with the taxpayer in the normal course of his/her trade or business, or
- In the case of a separate structure which is not attached to the dwelling unit, in connection with the taxpayer's trade or business.

Method 1 is to do your most important tasks at home: The Supreme Court decision in Soliman interpreted what constitutes a “principal place of business” for purposes of the home office deduction. “Principal Place” – where you perform your most important tasks of the business such as where you make the cash register ring, or where you see clients or patients.

Method 2 is the time test: If there is no one spot where you perform your most important tasks or is hard to tell where you perform your most important tasks, the Court adopted a “time test”, which asks whether you performed over one-half your working hours in your home office.



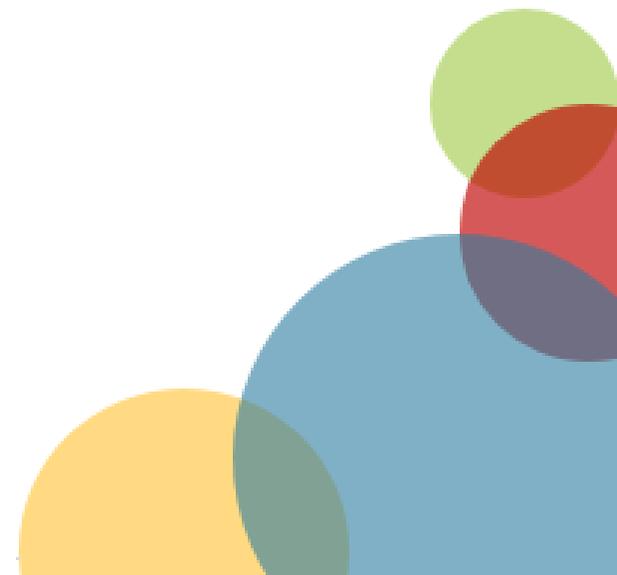
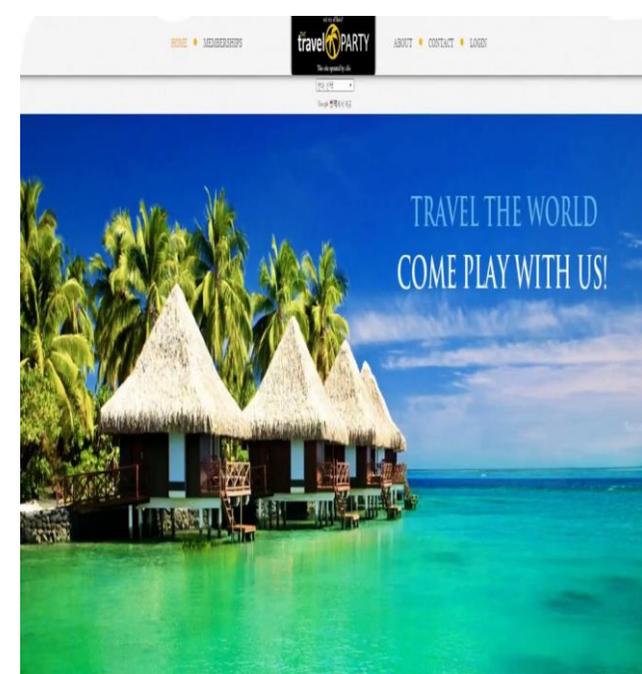
Method 3 is to use the Congressional exception to Soliman: Starting in 1999, Congress liberalized the home office rules making it much easier for many people to claim a home office deduction. Now your home office qualifies as a “principal place of business” if:

1. The office is used to conduct administrative or management activities for a trade or business, and
2. There is no other office where you conduct substantial administrative or management activities.

Thus , if you do your logs, contact patients, or customers, listen to educational tapes, read business related materials and prepare bills for customers than you’re rendering administrative activities.

Note: For those of us in travel consider all the time you spend on webinars, training, etc. This deduction benefits those of us who run home-based businesses.

Insignificant services elsewhere: The fact that you do some administrative services elsewhere won’t count against you if these services are not substantial. Keep a good log of where you work, i.e. the hours spent listening to webinars, training, or reading business material (log your hours just like you used to punch in & out at work).





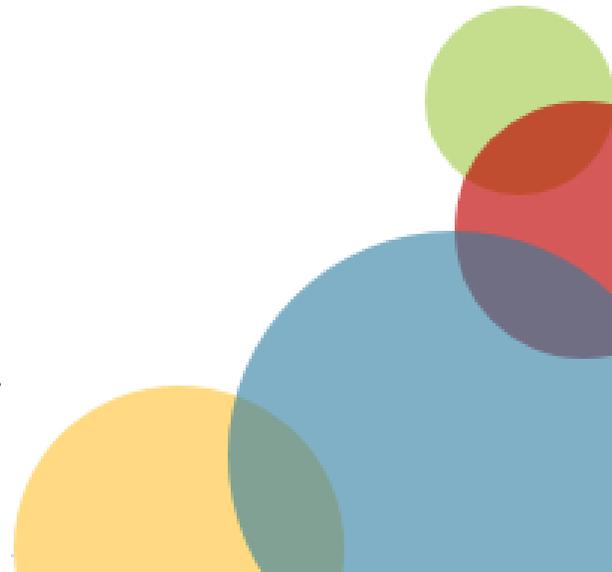
Consider the home office safe harbor approach: Starting 2013, IRS has allowed a simplified “safe harbor” approach for the home office. **A home office deduction can be an important tax break for small & home-based businesses.** However, the deduction requires calculations of depreciation & allocation of various home owner expenses based on the part of the home that qualifies for a home office.

This simplified approach is in alternative to the calculation of depreciation & allocation of expenses to the home office. You have the option of multiplying the square footage used for business by \$5, for a maximum deduction of \$1,500. (Although simple, not recommended, you lose money this way).

However, you are required to meet all of the home office rules that allow for the deduction. Thus, if you are self-employed you must use an exclusive portion of your home regularly as either your:

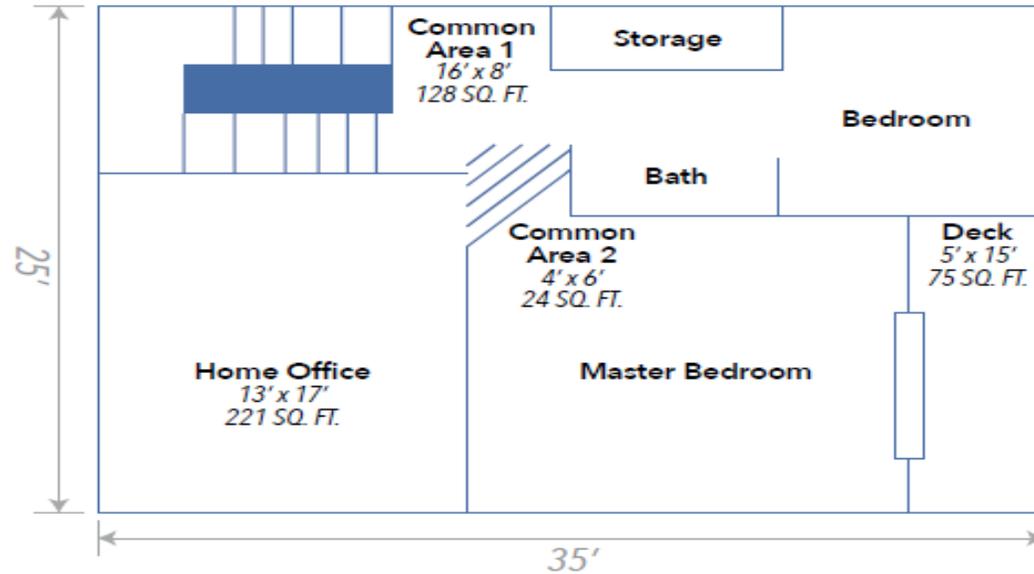
- Principal place of Business, or
- Where you meet patients, clients or customers, or
- As a separate structure on your property used exclusively for business, or
- As a place to store inventory

Employees must also meet a rule that the home office is set up for the convenience of the employer.





Maximizing Home Office Square Footage



Winners: The clear winners are those that have a home-based business such as network marketers & consultants as well as free-lance writers & musicians who choose to work from their home.

Three Choices:

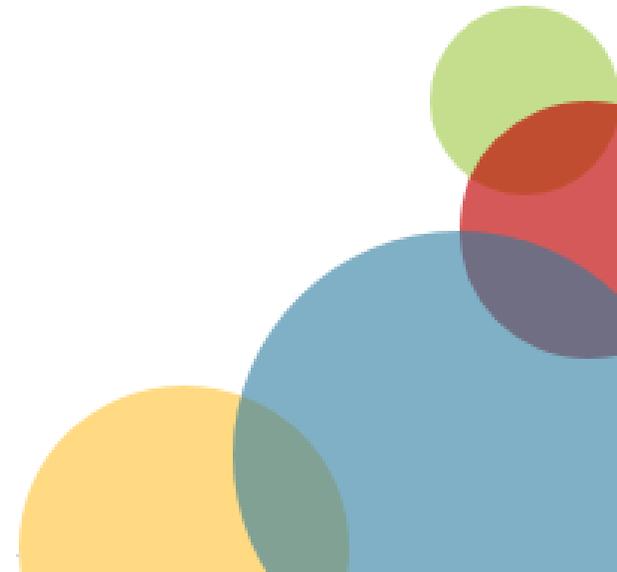
1. Number of rooms office occupies, divided by total rooms in house.
2. Total square footage office occupies as a percentage of total square footage in house.
3. Net square footage applicable to office use.

Computation Of Net Square Footage:

Total square footage 25' x 35' x 2 floors		1,750
Deduct:		
Common areas:		
First floor entry and stairway	128	
Second floor stairway and landing	128	
Second floor common area	24	
Deck (not a living area)	75	355
Net square footage base		1,395

Analysis Of Choices Based On:

1. Number of rooms 1/8 - 12.50%
2. Total square footage 221/1675 (1750 - 75 for deck) = 13.19%
3. Net square footage 221/1395 = 15.84%



Other Home Office Requirements:

1. **Exclusive use:** means just that, No personal or other non-qualifying work activities may occur in your home office area (If IRS does audit you and they come to visit, you are notified weeks in advance – Sandy Botkin).

Part of a room: A portion of a room can qualify as a home office, but all business items must be located in the same contiguous area & there should be some physical separation of the business area from the personal area. A movable partition (also deductible) can be used to define the home office area.

2. **Regular use:** IRS code does not define regular use. However, the courts indicate that using your home office 3 to 4 times for a total of 10-12 hours a week should be regular.

