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Meet the Trainer

- Team Builder Surge365
- Multiple $1,000 Bonus Earner
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Keep More Commissions with Tax Breaks

Lesson 6.2: Qualifying for Home Office Continued

Strategy 4: Use the Meet & Greet Test to Qualify for the Home Office Deduction

Exception to general rule: If you do not use your home office as your principal place of business, another way to qualify for the deduction is to use the home office as a place to meet or deal with clients, patients, & prospects in the normal course of your business. This exception applies only if the use of the home office by your clientele is substantial & integral to conducting your business. **Occasional meetings are insufficient to make this exception applicable.**

Physical presence required: Key words for this exception are “meet or deal” with clients, patients, or prospects. This demands a physical presence of patients or customers, not just a telephone presence, no matter how extensive or frequent the telephone conversations.

Regular: The meeting & dealing must be on a regular basis. How often is regular? How often constitutes normal course of business? At a minimum, you must prove that such meetings are ordinary, usual occurrences in your business – not occasional, spur-of-the-moment, or last-minute accommodations to someone’s schedule. In other words, home office meetings must be integral to the way you conduct business.

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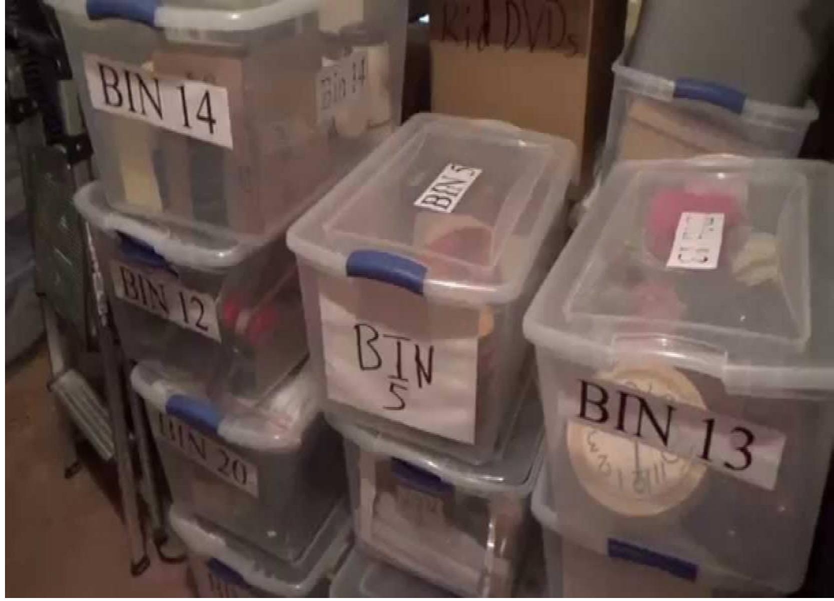

Strategy 5: Qualify for the Home Office Deduction by Using a Separate Structure in Connection with Your Business

You may qualify for a home office deduction if, in connection with your trade or business, you use a separate structure not attached to your dwelling unit. The separate structure must be used exclusively & on a regular basis for business. It need not be your principal place of business or a place where you deal with customers, clients, or patients.

Examples of structures that meet the separate structure requirements: an artist's studio, a florist's greenhouse, & a carpenter's workshop.

Strategy 6: Inventory & Product Samples

A deduction is now allowed when used on a regular basis to either store inventory &/or product samples if you are in a business of selling products at retail or wholesale & if your residence is the sole fixed location for that business.

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Strategy 7: Avoid Taxable Income When you Sell Your Home

Universal exclusion rule overview: If you sell your home after May 6, 1997, a fabulous new universal exclusion applies to you at any age. You now can avoid up to $500,000 of profit (if married filing jointly), or $250,000 (if single).

Prior Depreciation Taken: If you have taken any depreciation on your home after May 6, 1997 either from home office deduction or by treating the home as a rental property, you must separate the gain on the sale of the old house into 2 parts: depreciation taken & other gains.

Example: John & Mary claimed a home office deduction for their network marketing business. If the house has appreciated to $100,000 but they got $10,000 of depreciation, John & Mary will have to pay tax on the $10,000 at their normal income tax rates.

Exclusion rule: Although the normal exclusion amount is $250,000, married couples get to exclude up to $500,000 of gain if:

- They filed jointly, &
- Either spouse owned the house for 2 of the last 5 years, &
- Both spouses used the home as their principal residence for 2 out of the last 5 years, &
- Neither spouse has claimed the exclusion within the last 2 years.

Strategy 7 continued:

The 2 year requirements as to ownership & use need not be the same 2 out of 5 years.

If only 1 spouse meets these rules, you may utilize the $250,000 exclusion.

Observation: You can, therefore, use the exclusion every 2 years.

Exceptions for forced sales: If you are required to sell your house before the 2 year period of occupancy expires or even if you have used the exclusion less than 2 years ago.

If you have a change in employment, health or other unforeseen circumstances (e.g. divorce, multiple births, job changes/losses), then you may be entitled to a partial exclusion.

Example: Lori sells her house because she has a new job in another town. On the date of sale, she has owned her principal residence for 18 months. She has never excluded gain from another home sale. If she had lived there for 2 years, she would avoid up to $250,000 of gain. However, since she didn't meet the 2 year occupancy requirement because of a job change, she can exclude 18/24 of the $250,000 or $187,500.

Note: By not meeting the rules due to unforeseen circumstances, you still get a partial exclusion.

Strategy 8: Photograph the Office

Take a photo of your office to prove it existed. To prove when the office existed, establish the vintage of your photo with a processing date.

Strategy 9: Prove Your Home Office Space

Keep blueprints of your home to prove the amount of space occupied by the home office. If blueprints are not available, make a drawing of your home showing the relationship of the home office's square footage to the total square footage of the home.

Strategy 10: Prominently Display Your Home Office Phone Number & Address on Business Cards, Stationary, & Advertising

You must be able to prove that you actually operated a business from your home. If economically feasible, install a separate business phone in your home. The business phone should be listed in the business's name in both white & yellow pages. You should have business stationary with your home address on it. If you have 2 business addresses, they should have equal prominence on the stationary. Use your home address on your business cards. If you have 2 addresses or 2 phone numbers, they should have equal prominence.

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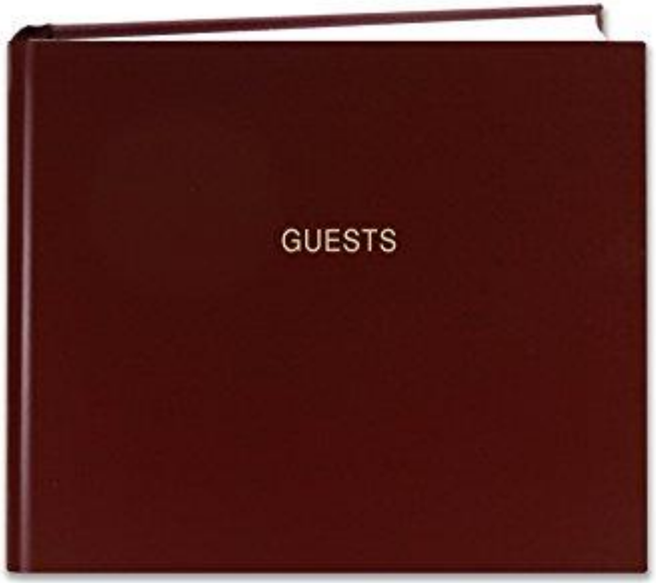
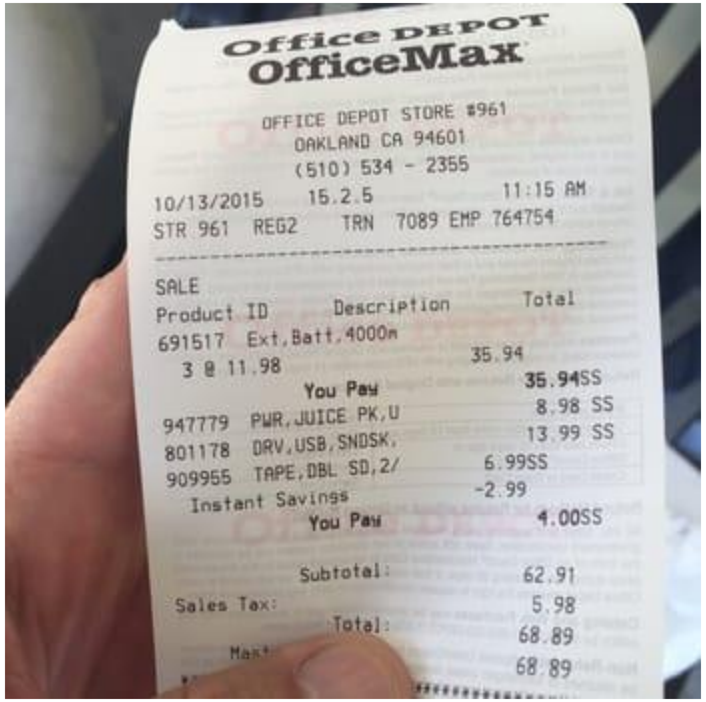


Strategy 11: Have Your Guests Sign a Guest Log Book When They Visit Your Home Office

If you claim a home office deduction because you use the office in the normal course of business to meet & deal with clients, patients, & prospects, have your business visitors sign a guest book each time they come to your office. The guest book need not be formal, just a record of the visit. Remember, the burden of proof is on you.

Strategy 12: Keep a Time & Work Activity Log

A work activity log (really a meticulously annotated daily diary) offers an excellent supporting document to establish where you spend your work time. The work log does not need to be elaborate, but indicate the type of activity you are doing (e.g. webinar, training, booking, etc.).



Strategy 13: Retain Receipts & Paid Invoices

General rule: Canceled checks only prove that you paid a bill. You must support canceled checks with receipts & invoices. Expense types: When calculating your home office deduction you must consider 2 types of home expenses: 1) those that benefit the entire home & 2) those incurred solely as a result of the home office. You must keep receipts for both.

Entire home: You are allowed to deduct a portion of the expenses that benefit the entire home including utilities, general home maintenance, and home owner's insurance. At the end of the year, you allocate these expenses based on the business use percentage of your home.

Office Only: You are allowed to deduct all expenses that benefit only the home office. These expenses include repairs to the home office area plus office supplies & other items purchased specifically for the office area. There's nothing tricky about these expenses, but you must have receipts to support your expenditures.

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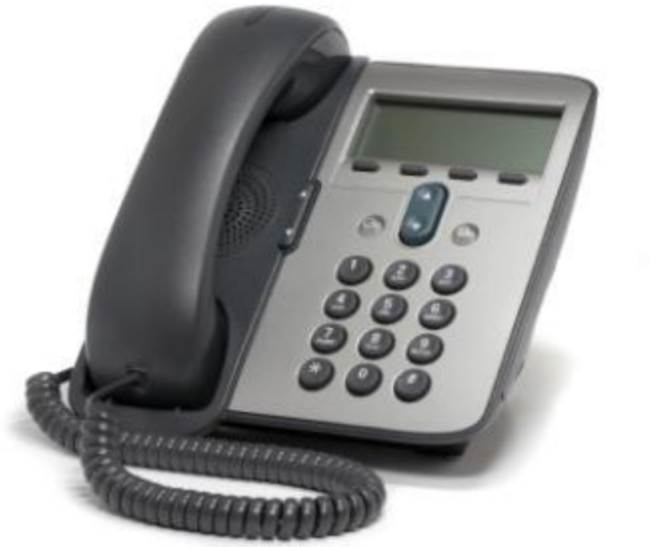

Strategy 14: Deduct Long-Distance Telephone Charges

Beginning in 1989, tax law allows no deduction for the first telephone into your personal residence, regardless of use. Local charges are deductible only if you install a 2nd phone in your home. Long-distance charges are deductible & should be documented.

Caution: Your home office deduction is limited to the net income from the business attributable to your home office. Thus, if your net income = $2,000 after deductions, your home office deduction would be limited to the $2,000. However, any excess can be carried forward forever.