

BOOKKEEPING TIPS

The twice monthly e-letter
for professional bookkeepers

The American Institute of Professional Bookkeepers

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2007 home-business writeoffs

The IRS applies 9 standards to see if a business is really the taxpayer's hobby. [Treasury Regs §1.183-2] If the business truly is a business and the portion of the home used for business qualifies as a home office, the IRS allows certain expense deductions. To qualify as a deduction, the expense must be:

- ordinary (normal, customary or usual);
- *necessary* (appropriate or helpful for the particular business, such as property insurance for a home office), and
- *reasonable*—e.g., family members' salaries must be reasonable for the level of work that they do for the business.

The IRS will let you deduct:

- proportional home mortgage interest expenses;
- proportional property tax expense;
- pharmaceuticals and most medical expenses;
- state and local income tax expenses;
- charitable contributions; and
- some investment expenses.

The IRS will not let you deduct:

- personal residence operations costs;
- salaries paid to children for answering phones, washing cars and related tasks;
- education deductions from wrongfully paid salaries;
- excessive car and truck expenses for vehicles driven for business and personal use;
- personal furniture, home entertainment equipment, children's toys, etc.;
- personal travel and entertainment where the rationale that everyone is a potential client.

Fast-buck shortcuts for cutting income can cost you more in interest and penalties than they are worth.

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