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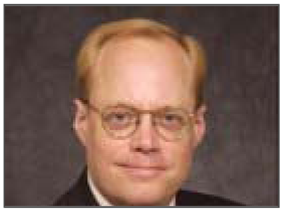

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Shhh, Home Office And Other IRS Audit Trigger Secrets


(Photo credit: bark)

People have worried for decades that home office deductions flag their returns for audit. Yet more than half of working Americans work for a small business or own one. 52% are home-based and many have home office space. Besides, with improved technology, some businesses are going virtual and recruiting employees from across the country, many of whom work from home offices.

Not claiming tax deductions can feel like lemon juice in a paper cut. And as the economy and workplace change, you may be leaving more on the table every year. Fortunately, starting with 2013 tax returns, the IRS is easing some home office deductions. See IRS simplifies the home-office deduction, for 2013.

In the meantime, the old rules apply for your 2012 return. A home office must be used regularly and exclusively for business. The deduction is limited to income from the business. For more rules, see Don't Try This at Home: The ABCs of Home Office Or Vacation Home Rental Deductions. There's nothing wrong with claiming them if you meet all these rules. But don't claim them if you don't.

There are many old wives tales about what triggers an audit: home office deductions, passive losses, schedule C (sole proprietorship) activities, etc. You can't predict the trigger (and you can drive yourself crazy trying). But be reasonable about every item on your return. If you don't have a solid home office claim with good records, don't claim it. If your money-losing sole proprietorship is really just a hobby, treat it as such.

Consider cost-benefit too. Home office deductions involve filling out a 43-line form (Form 8829) with complex calculations of allocated expenses, depreciation and carryovers of unused deductions. It may be easier next year, since a streamlined form will be used for the simplified home office deduction on 2013 returns.

But are there really audit triggers? At least there are dos and don'ts, including these:

1. **Report Each Form 1099**. Enough said. See Care With Forms 1099 Helps Audit-Proof Tax Returns.
2. **Report Each Form K-1**. As with Forms 1099, don't ignore them.
3. **If You Can, Avoid Schedule C**. Remember, Schedule C is the primary place the IRS can audit "hobby" losses.
4. **Use Care With Noncash Charitable Donations**. If you make them, scrupulously follow the forms, especially Form 8283. Don't get too greedy with valuations. See Deductible? Really? Most Taxpayers Flub Donation Reporting.
5. **Pay S Corporation Wages**. If you own an S corporation, make sure the company pays you a fair wage. See When IRS Calls Pay "Unreasonable."
6. **Beware Real Estate Losses**. Keep good records of how much time you spend, since it can influence whether your losses are "active" or "passive."
7. **Avoid Excessive Travel And Entertainment**. Even if your income is high, high travel and entertainment expenses for business can make you stick out. Consider carefully if you really meet the business purpose tests before you claim it.

See Avoid IRS Audit Triggers plus 15 Ways To Invite An IRS Audit. For more about the streamlined home office deduction for 2013 returns filed in 2014, see Revenue Procedure 2013-13.

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