



News Release

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**IRS WARNS TAXPAYERS TO BE AWARE OF
HOME-BASED BUSINESS TAX AVOIDANCE SCHEMES**

WASHINGTON — The Internal Revenue Service issued a consumer alert today regarding home-based business schemes that purport to offer tax “relief.” In reality, they provide bad advice to unwary taxpayers that, if followed, results in improper tax avoidance.

The promoters of these schemes claim that individual taxpayers can deduct most, or all, of their personal expenses as business expenses by setting up a bogus home-based business. But the tax code firmly establishes that a clear business purpose and profit motive must exist in order to generate and claim allowable business expenses.

As the 2002 filing season begins, IRS advises taxpayers to think carefully before filing a return that reflects such unallowable activities. No matter how convincing the claims that are found in marketing materials for these schemes may appear, nondeductible personal living expenses cannot be transformed into deductible business expenses.

“Each year, taxpayers reasonably search for deductions that will reduce the amount they owe,” said IRS Commissioner Charles O. Rossotti. “But they should resist the temptation of quick and easy schemes. Creating a bogus home business or other schemes cross the line and puts the taxpayer on a path that will result in paying interest and penalties on top of the taxes they owe.”

Some examples of personal expenses that are not deductible but are commonly claimed as business expenses in home-based business tax avoidance schemes include:

- Deducting all or most of the cost and operation of a personal residence. For example, placing a calendar, desk, file cabinet, telephone, or other business-related item in each room does not increase the amount that can be deducted.
- Deducting a portion of the total house payment is not allowable if the business is not real.
- Paying children a salary for services, such as answering telephones, washing cars or other tasks and then deducting these costs as a business expense is not allowed.

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- Deducting education expenses from the salary wrongfully paid to children as employees also is not allowed.
- Deducting excessive car and truck expenses when the vehicle has been used for both business and personal use is not allowed.
- Deducting personal furniture, home entertainment equipment, children's toys, etc. is not allowed.
- Deducting personal travel, meals, and entertainment under the guise that "everyone is a potential client" is not allowed.

Any tax scheme that claims a person can deduct what would normally be personal expenses should be considered highly suspect. Taxpayers who claimed such deductions on a past tax return and now wish to file an amended return, can contact the Internal Revenue Service at 1-800-829-1040. Taxpayers who have questions on this subject or wish to report possible schemes can call 1-866-775-7474. They can also contact the IRS by sending an e-mail to irs.tax.shelter.hotline@irs.gov.

Additional information on this and related issues can be found at both <http://www.ustreas.gov/irs/ci> and http://www.irs.gov/prod/ind_info/abuse/index.html

The following publications may also provide assistance on these issues and can be found at <http://www.irs.gov>

- Publication 587, "Business Use of Your Home."
- Publication 463, "Travel, Entertainment, Gift, and Car Expenses."
- Publication 334, "Tax Guide for Small Business."
- Publication 17, "Your Federal Income Tax for Individuals."

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