Home Office with More Than One Business

The office-in-the-home deduction produces good-to-excellent tax savings by turning personal house expenses into business deductions. Additionally, it enables you to deduct big vehicle expenses by eliminating nondeductible commuting mileage. But to qualify for the home-office deduction, you must use the office exclusively for the business or businesses for which you are claiming the deduction.

Your ability to qualify for the office-in-the-home deduction is straightforward if you have no spouse and only one business. But add a spouse or another business to the equation and this deduction can become more complicated.

If you are going to have more than one business use of your office in the home, make sure each business use separately qualifies on its own merits for the home-office deduction. If you are married, all uses of the same office by the spouses must be deductible uses, or the office fails the exclusive-use test.

If one spouse uses one half of the room, and the other spouse uses the other half of the room, then each spouse is responsible only for his or her use of that half.

Example. Sally uses her half of the room for qualified business uses. She gets to deduct her half. George uses his half for his fantasy sports leagues, which he obviously can't deduct, but because he does this in his half of the room, he does not destroy Sally's home-office deduction.

Rental Property as a Business Yields Big Benefits

If your rental property activity meets the definition of a trade or business activity, then your rentals produce the best possible tax benefits. In general, you report your rental properties on Schedule E of your tax return. When your activity rises to the level of a business, you continue to report the rentals on Schedule E, but with the business classification, you qualify for four big benefits:

1. tax-favored Section 1231 treatment;
2. business use of an office in your home;
3. business (versus investment) treatment of meetings, seminars, and conventions; and
4. Section 179 treatment of your business-use assets.

Section 1231

The two big tax benefits of Section 1231 treatment are that you can use Section 1231 losses as ordinary losses to offset ordinary income, and you use the Section 1231 gains as long-term capital gains.

This gives you the best of both worlds: ordinary losses and long-term capital gains.

Home Office

You can claim the home-office deduction only for trade or business activities, not for investment activities. When your rental property activity meets the definition of a trade or business activity, you get this terrific deduction to offset your income.

Meetings, Seminars, and Conventions

Tax law grants no deduction for travel or other costs of attending a convention, seminar, or similar meeting unless the activity relates to the taxpayer's trade or business.

Thus, if your rental property is an investment, kiss goodbye those deductions for rental property conventions, seminars, and similar meetings.

Section 179 Expensing

With respect to rental properties and Section 179 expensing, you need to pay attention to the following two rules, which can impact your expensing.

You may not claim Section 179 expensing on most assets used for residential rental properties. To qualify for Section 179 expensing, you must purchase and place the Section 179 property in use in the active conduct of your business.

Tax Reform and Rental Real Estate Deductions

Two scary words in tax reform are "fairness" and "simplification." In most cases, this combination raises your taxes and makes the law more complex.

As you likely know, tax reform is in the air again, and it will bring its share of good and bad news. But for your rental real estate loss deductions, the good news is that the reform being considered does not alter the beneficial strategies here.

In general, rental properties are passive activities subject to the dreaded passive-loss rules. IRS regulations contain six non-rental exceptions to the definition of rentals. In most cases, the non-rental exceptions are businesses for tax purposes. To deduct losses of any of the six exceptions, you simply need to materially participate in the activity.

Feel free to contact us to discuss these strategies and how they may provide you big deductions.

Cashing Out Real Estate Profits without Section 1031

Paying taxes on the sale of your real estate is voluntary. You do not need to volunteer.

Whenever you can, avoid the outright taxable cash sale of investment property. To avoid taxes while you build your portfolio of real estate investments, use the Section 1031 exchange.

This strategy allows you to acquire bigger and better properties without paying taxes for the transaction. But now, when you want to cash out, Section 1031 is not the vehicle of choice. So what do you do?

Here are three strategies we can help you with when you want to cash out some or all of your real estate profits:

1. Use the combination of a charitable remainder trust and a wealth replacement trust to avoid taxes, increase personal cash flow, and increase the estate distribution to your children.

2. Use IRC Section 721 to invest the property in a real estate investment trust and defer taxes.

3. Use an installment sale to pay taxes slowly.