PRESS RELEASE

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CPAmerica Poll: Home Office Deduction Biggest Red Flag to IRS

Taking a home office deduction may have the highest risk of triggering an audit by the IRS, according to a recent CPAmerica International survey of 250 CPAs across the country.

Ranking a close second in the survey as a red flag that might bring an IRS inquiry was "hobby losses", or claiming business losses in an activity that actually should be viewed as a hobby.

The CPAs polled are members of CPAmerica International, one of the nation's largest networks of independent CPA firms. More than 70 large independent CPA firms across the United States, including nearly 1,600 CPAs, are members of CPAmerica. The local firm of Sol Schwartz & Associates, P.C. is the San Antonio, Texas affiliate of CPAmerica International.

Taking a home office deduction received votes from 76 CPAs as the No. 1 red flag to the IRS. A home office deduction may be taken if the taxpayer uses part of his or her home regularly and exclusively either as a principal place of business or to meet patients, clients or customers. If the taxpayer is an employee, a further requirement for a deduction is that the business use of the home must be for the convenience of the employer.

There may be a resurgence of home office deductions now that favorable changes have been made regarding recapturing the depreciation taken. "Our tax planning with this respect includes proper documentation and detailed calculations to determine the amount of deductions to take" says Sol Schwartz, Shareholder of Sol Schwartz & Associates, P.C.

Second in the poll was "hobby losses", receiving 66 first place votes from CPAs. An activity must have the predominant purpose of making a profit to be considered a trade or business. If profits aren't generated in three out of any five years (two out of seven if horses are involved), it is presumed there is a lack of profit motive. The IRS uses several factors to determine whether an activity is engaged in for profit.

The CPAs voted for inflated self-employment expenses as the third biggest red flag with 46 first place votes, followed by large charitable donations relative to income, nonbusiness bad debts, rental losses and casualty losses.

Also specifically noted by CPAs were large entertainment and travel expenses, as well as any large itemized or miscellaneous deduction.