

Rent a home office to your company

If you're a corporate employee, you may not qualify for home office deductions, even though you frequently work from home.

Strategy: All is not lost. Have your company rent the home office. The company deducts the rent as a business expense. Rent is taxable to you, but you don't owe payroll taxes on it.

This strategy is available to owners of C corporations when the setup serves a bona fide business purpose.

Here's the whole story: To qualify for home office deductions, you must use a separate space regularly and exclusively as your principal place of business or a place you meet or deal with customers, clients or patients in the normal course of business. If you're an employee, however, the home office must also be used for the convenience of the employer.

Corporate employees are often tripped up by these rules, but you can still save tax by renting your home office to your employer.

Example: Say you use a den at home to work on business proposals, but you don't qualify for home office deductions because your main office is downtown. In lieu of a \$10,000 salary increase, you rent the home office to your employer for \$10,000 a year. The company deducts the rental expense on its annual return.

You must pay income tax on the rental income, but neither you nor the company owe any payroll taxes on this amount. This saves both you and the company as much as \$765 a year (\$7.65% of \$10,000). Total tax savings: \$1,530 (\$750 x 2).

Make sure the company is paying you a reasonable rent for the space. It should be the same rate that would be charged to a third party. Otherwise, the IRS might recharacterize the rent payments as nondeductible dividends.

Tip: Also, you must show a legitimate business need for the rental arrangement.