

IRS Issues Document Warning Taxpayers to be Aware of Home-Based Business Tax Avoidance Schemes

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The Internal Revenue Service just released a new brochure entitled *Home-Based Business Tax Avoidance Schemes . . . At A Glance*. The schemes described in the document claim to offer tax “relief,” but actually result in illegal tax avoidance.

The promoters of these schemes claim that by setting up a bogus home-based business, individual taxpayers can deduct most, or all, of their personal expenses as business expenses. The brochure includes some examples of personal expenses that are not deductible but are commonly claimed as business expenses in home-based business tax avoidance schemes.

The brochure explains that 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. The tax code firmly establishes that a clear business purpose and profit motive must exist in order to generate and claim allowable business expenses.

Taxpayers who claimed such deductions on a past tax return should file an amended return as soon as possible to limit possible interest and penalties on top of any taxes they might owe.

To find out more about home-based business tax avoidance schemes, order IRS Document 01300 (02-2002) by calling 1-800-829-2437, or visit www.irs.gov.