

HOME OFFICE FOR CORPORATIONS

If you maintain a home office **within your personal residence** used exclusively by your S Corp or C Corp, **you should have the Corporation reimburse you for expenses rather than pay you rent.**

Here is why:

If the Corporation pays rent to a Shareholder or Employee, the rent is a deductible expense for the Corporation, but the Shareholder/Employee has to include the rental income on their personal tax return. Furthermore, the Shareholder/Employee cannot take any corresponding deduction of related expenses on the personal tax return.

LKM Recommended Solution:

Have the Corporation **reimburse** the Shareholder/Employee for expenses directly related to the home office (e.g. office supplies purchased by the Shareholder/Employee) as well as the allocated expenses (utilities, insurance, and general maintenance based on the square footage of the office as a percentage of the entire home). In most cases, you should not have the Corporation reimburse for mortgage interest or property taxes, as these will be deductible on the personal tax return.

Tax Benefit:

The reimbursements are **deductible** by the Corporation and **tax-free** to the Shareholder/Employee as a working condition fringe benefit.

If our firm has not already helped you implement this method, please contact us for guidance. **Failure to maintain a proper accountable plan or failure to have complete records can result in a denial of the entire deduction.** This will result in additional tax plus penalties and interest.
