**FORM KIT FOR USING INTERNAL REVENUE CODE SECTION 280A**

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*I wrote most of this article several years for a business newsletter. I have made a couple of changes to make the example used a little more understandable, but the main point of the article is the same. My personal insurance agent, Robin Ruble, asked me to create a small package to be used by his clients to take advantage of the strategy set forth in this article. I hope you find the package and the article useful.*

*Toby Mathis, Esq.*

**Tax Strategies for Small Businesses**

By Toby Mathis, Esq.

Every now and again a tax deduction comes along that gives small businesses a major tax break. On occasion, such a tax deduction can be enough to cover the cost of setting-up, maintaining and accounting for your businesses for several years. In this article, I’d like to show you one such deduction that offers wonderful tax advantages, yet remains largely unknown to tax planners and attorneys.

I routinely travel the country and have occasion to speak to hundreds of tax attorneys, accountants, and other tax professionals. In the course of dozens of professional discussions, not once was this deduction ever brought to my attention. However, each time I raised the issue, there was a fantastic response from my professional colleagues. The deduction to which I refer is contained in Internal Revenue Code section 280A. I call it “The 14-Day Rule for Renting Your Home.”

The 14-Day Rule is a way to gain a huge tax advantage by having your corporation rent your home for an abbreviated period of time for the purpose of conducting its business. I am not talking about renting an office to your corporation. In fact, IRC 280A was in part designed to make it less appealing for homeowners to rent office space to their business or employer. The heading of 280A states, “Disallowance of certain expenses in connection with business use of home, rental of vacation homes, etc.” The code section was designed to disallow the taking of certain expenses with respect to residences used by a taxpayer’s business. However, as with many code provisions, Congress did give something back to the taxpayer. In the case of 280A, the Capitol-Hill gang gave us subsection (g)(2), which states in part “…if a dwelling unit is used during the taxable

year by the taxpayer as a residence and such dwelling unit is actually rented for less than 15 days during the taxable year, then – (2) the income derived from such use for the taxable year shall not be included in the income of such taxpayer…” In plain English, this means that you can rent out your residence (which can include boats and motor homes) for 14 days or less and not have to pay tax on the income. But to whom would you rent . . .?

Rent your residence to a corporation. More specifically, rent your residence to your corporation. It is a good idea to have at least monthly director meetings, so why not rent

your home rather than an expensive hotel or conference center? The amount you charge need only be reasonable for your locale. In fact, the true test for how much you can charge is the cost of equivalent accommodations in your community. Call up a local hotel and find out how much they charge for a one-day rental of a meeting room. To be safe, it is best to obtain several quotes from hotels that have similar accommodations to those of your home.

Here is how it works:

Client A is a shareholder and director of Corporation B. Corporation B manages limited partnerships and other investments and holds monthly Board meetings on the third Friday of every month. For the past year, the meetings were held at the local Hyatt in one of the meeting rooms. A Television and VCR were rented, food was provided, and a meeting room were all part of the rental at $800 per day.

Client A decides to offer his home to Corporation B to hold the meetings. The home has a meeting space equal in size to the one rented from the Hyatt, the video system is far more extensive and food is less expensive. Client A says he will rent his residence to Corporation B for $750 per day. Corporation B agrees after checking on other similar accommodations in the area.

Client A can rent the corporation his home for 14 days without having to claim the monies as income. The corporation can still deduct the payments, so this is truly a tax- free strategy. Under the above scenario, Client A would be able to receive $10,500 as non-taxable income.

The rule of thumb for dealing with a business you own or control is “If a third party would charge or pay a certain amount, then I can pay or charge the corporation that amount.” This is also referred to as an arm’s length transaction. If our example, seeking the pricing on similar accommodations is how we determine the proper amount.

On a final note, many of you have probably already realized this, but if your RV or yacht qualifies as a residence, the 14-day period would extend to cover the rental received for the RV or yacht as well. The 14-day limit applies to you, the taxpayer, and cannot be added to by any method. Enjoy the fact that you have a potential tax break as a business owner and take advantage of the benefits.

# MINUTES OF THE SPECIAL MEETING OF DIRECTORS OF

**A Nevada Corporation**

A Special Meeting of the Directors was held at , on the

day of , 20 .

Being a quorum of the Board of Directors, the following individuals were present:

meeting.

was appointed temporary Secretary and Chairman of the

The Secretary presented the Waiver of Notices received by the individual directors and shall attach said waivers to the minutes of this meeting.

The Chairman then stated that the Board of Directors shall resolve the following:

Resolved, that the Corporation shall rent the premises listed below for Board meetings at the fair market value of such premises. It is known to all Board members that the premises is ordinarily used as the residence of one of the shareholders/directors. A valuation was conducted and is attached hereto to demonstrate the fair market value of the premises rented.

Premises:

Daily Rate:

There being no other further business before this meeting, on motion duly made, seconded and carried, this meeting is adjourned.

Dated this day of ,20 , by the following directors:

# WAIVER OF NOTICE FOR SPECIAL MEETING OF THE BOARD OF DIRECTORS OF

**A Nevada Corporation**

We, the undersigned Directors, hereby agree and consent that the Special Meeting of the Board of Directors of the Corporation shall be held on the date, at the location, and the time stated below:

# DATE:

**TIME:**

**LOCATION:**

We, the undersigned directors, do hereby waive all notice of the meeting and any adjournment thereof.

Dated this day of , .

Director Director

Director Director

Director Director

Director Director

# VALUATION WORKSHEET

This valuation is being done for purpose of determining the fair market rate of renting a meeting room for Board and shareholder meetings of the below-named corporation.

Once the valuation is completed, the corporation will determine which location it shall use for its meeting place. Aside from price, other factors to be considered are convenience of the Board members or shareholders, the access to information necessary to conduct a proper meeting, and the atmosphere of the location.

Corporation Name:

First Location:

Price per day:

Notes:

(Include size, amenities,

convenience, etc.)

Second Location:

Price per day:

Notes:

(Include size, amenities,

convenience, etc.)

Third Location:

Price per day:

Notes:

(Include size, amenities,

convenience, etc.)

# AGREEMENT TO RENT RESIDENCE TO A CORPORATION

1. PARTIES:

The parties to this rental agreement are:

Owner of Residence:

Corporation (Tenant):

Principle Office:

1. PROPERTY:

Owner rents the following property to the Tenant:

[Description of the premises]

1. TERM:

This rental agreement is for one-day. Addition days may be added under this Agreement for rentals during the calendar year by agreement of both parties.

1. RENT:

The rent shall be $ per day, due and payable within 30 days.

1. UTILITIES:

Utilities shall be paid by the Owner.

The undersigned acknowledge that they have read the rental agreement and will comply with its terms.

Dated this day of ,20 .

Owner

its

on behalf of