

Home Office 101

Fifteen years ago, when I first started my distributorship, I tried to hide the fact that I worked from home by renting a post office box with a business street address. At that time, a home address could be construed as a second-rate business. Today, I proudly tell my clients about my home office. With so many people working from home, the stigma is gone. The bottom line is that clients don't care where you work; they care about the quality of your work.

There has never been a better time to work from home. Technology and the business climate are favorable. To succeed, however, you must be knowledgeable, motivated and disciplined. The following information is important to know whether you're currently working from your home or contemplating such a move.



Rosalie Marcus

Zoning Snags

Did you know that your residence might not be zoned for a home-based business? Check with your local zoning board (usually found in the blue pages of your phone book under "government agencies"). Many have restrictions that are frequently based on outdated laws. Most of these laws were put into place to cut down on traffic and noise and to retain property values. Today, these issues no longer pertain to most home-based businesses.

You may also find that other governing bodies have a say in the location of your business. For those of you who live in an apartment or condominium, be careful. A friend of mine who's a distributor in Pennsylvania had to move her business to a separate location when the condominium association found out she was working from her residence.

There are also employment and tax-related issues involving zoning. Parts of the United States allow you to work from home, but put restrictions on employees. While you're checking on the restrictions in your area, find out about local taxes. In my township, my promotional products business is subject to a

local tax based on my gross yearly sales. This tax applies to all businesses, whether they're zoned residential or commercial.

Why Ask?

At this point, you may be wondering, "Why ask?" Though many people work from home without anyone noticing, it only takes one complaint to saddle you with legal problems and back taxes.

If you find your community isn't zoned for a home-based business, there are steps you can take to facilitate change. Petition your local board and explain to its members the value of your service to the community. Stress the positive benefits for all home-business people. For example, parents can combine their careers with childcare, and more people at home during the day promotes safer neighborhoods. And let's not forget the positive effect home-based businesses have on the environment. Fewer cars on the road mean fewer accidents, less traffic and less air pollution.



Robert Winthrop, CPA

Consider banding together with other home-based businessowners to change the law. And why not creatively use promotional products to promote your cause. You'll be spotlighting what you do while fostering change.

Insurance Matters

According to the Independent Insurance Agents of America (IIAA) most home-businessowners aren't properly insured. Though they may have homeowner's insurance, most policies exclude coverage for business pursuits.

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Items such as your computer, fax, modem, printer and copier should be insured separately. Your home-business policy should also cover business interruption, liability and loss of income.

Your best bet is to check with your insurance agent and review needed coverage.

In-home business policies are generally inexpensive and are based on the risk associated with your line of work and the coverage required. For more information on this topic, contact the IIAA at (800) 261-4422 to get a free consumer brochure entitled *Protecting Your In-Home Business*.

Home-Office Deductions

Is the home-office tax deduction all it's cracked up to be?

Whenever I tell people that I also work from an office in my home, the response is always the same: "That's great, Bob. You walk around in your pajamas all day *and* you get that big tax deduction." Naturally, I get a look of disbelief when I reply, "I only wear my pajamas some of the time, and I don't claim the home-office tax deduction." The next thing I inevitably hear is, "You, a CPA, don't take the

your home expenses. Some examples of good documentation: an appointment book, detailed sales records, phone bills, freight and overnight delivery bills and a well-organized recordkeeping system.

Beginning in 1999, your home office will qualify as your principal place of business if:

- a) it's used regularly and exclusively for administrative or management activities of your business such as keeping books and records, setting appointments and billing, and
- b) there is no other location for you to conduct substantial administrative or management activities.

Remember, you still must meet the other tests of exclusive use and regular use of your home office. These tests are basically clear. "Exclusive" use means that you use the business part of your home for business only. (I heard of someone who

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home-office tax deduction?" Up until December 31, 1998, the truth had been that after close scrutiny of this issue (reading the tax law one thousand times) I realized that qualifying for the home-office deduction wasn't as easy as one might have thought.

Starting in 1999, however, it became easier for many people to qualify, due to changes to the tax law. In order to qualify, there are several tests you must meet. The most complicated is whether your home office is the place where you conduct your most important business activities, which include meeting with clients, customers or patients or delivering goods or services. Performing administrative or management duties is considered a less important activity. Therefore, if your home office is the only place you have to bill clients, pay invoices and schedule appointments – but most of your revenue is produced away from your home office – you won't qualify for the deduction.

If you maintain a home office as a promotional products distributor, it's essential to keep accurate records to support your deduction for a portion of

lost the deduction because he kept a pair of skis in the office closet). One important point here for the promotional products distributor: If you store samples in a portion of your basement or another room in your house, you can figure this in as part of the business use of your home. If you're an employee, your home office must also be for the convenience of your employer.

Given these changes, many more people – perhaps even myself – may qualify for home-office deductions in 1999. Complete details of these rules can be found in IRS publication 587, which can be obtained at no charge from the Internal Revenue Service. However, I know home-office tax deductions can be confusing, so please consult your tax advisor. Good Luck! ■

Rosalie Marcus is president of Lasting Impressions, a home-based distributorship based in Jenkintown, Pennsylvania. Her husband, Robert Winthrop, CPA, is an accountant and financial consultant with more than 20 years of experience working with small-business owners. Together, they facilitate seminars and online chats for distributors and suppliers in the areas of home business, marketing, sales and office organization. They recently formed Professional Business Mentors a consulting service for the small or home-based distributor. You can contact them toll-free at (877) 572-6464 or e-mail rwinthrop@prodigy.net.