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***What Do Auditors Look For?***
***Business Use of Your Home***

This series of articles asks and answers the question – "what would an auditor look for" for different types of tax issues. This article considers what factors an IRS auditor would consider in evaluating whether you can deduct expenses attributable to using part of your home for business purposes. This material is drawn from workpapers of actual IRS audits.

- **Utility Bills:** Auditors will often disallow deductions for utility bills that would be due regardless of whether you used part of a house for a "home office" or not. This might include utility assessments, real property taxes and the like. Separately identifiable expenses, billed and accounted for separately, however, might qualify as "ordinary and necessary" business expenses. These might include a separate internet connection or phone line where there is some reason why these distinct services would be necessary.

- The **business purpose** of the home office and square footage used for business activities.

- The **type of business** (*e.g.* daycare, space used for inventory only, etc.). Use of home space for purposes that are not conducive to ordinary living (e.g. workshops, storage, etc), are more likely to be allowed.

- What **percentage of home** use (e.g. based on square footage, hours of operation, etc.) is used for business

- Whether the deductions taken on **Schedule "A"** of the taxpayer's personal return are consistent with the documented expenses.

- Whether any **depreciation deductions** taken on the home office space are consistent with how you treated this space in prior years, *e.g.,* was the same space depreciated this year but not last year?

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