



THE VIP CPA

Tax-Saving Tips

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Select Answers on Augusta Rule Home Rentals to Your Corporation or Partnership

The so-called Augusta Rule can create a valuable tax-saving opportunity for business owners who operate through an S corporation, a C corporation, or a partnership.

Under this rule, you may rent your personal residence to your business for up to 14 days per year and receive the rental income completely tax-free. At the same time, your business may deduct the rental expense as a legitimate business deduction.

So, if your corporation rents your home to hold business-related events, the corporation may deduct the fair market rental amount paid to you. At the same time, you exclude the rental income from your personal taxable income.

To use this strategy properly, documentation is critical.

If your business pays you \$2,000 or more in rent during the year, the corporation generally must issue you IRS Form 1099-MISC.

Even though the rental income is tax-free under the Augusta Rule, you should still report the income on your personal tax return and then offset it with a Section 280A(g) exclusion to avoid IRS matching notices.

The 14-day limit applies per residence—not per corporation. If you own multiple residences, each residence may qualify separately for up to 14 tax-free rental days annually.

You should also maintain records supporting the business purpose of each event and proof that the rent paid reflects fair market value. Comparable pricing from hotels, meeting spaces, event venues, or similar rental properties can help support the deduction.

Qualifying business uses may include board meetings, employee training sessions, strategic planning retreats, and employee appreciation events. However, entertainment-focused events or excessive personal use can jeopardize the deduction.

You May Be Owed an IRS Refund—Action Needed by July 10

You may have a once-in-a-generation opportunity to claim refunds or obtain abatement of IRS penalties and interest that were assessed or paid during the COVID-19 pandemic. However, you must act quickly to preserve your potential claim.

Here is the background: In *Kwong v. United States*, the U.S. Court of Federal Claims ruled that a COVID-era disaster relief statute automatically postponed many federal tax deadlines from January

20, 2020, through July 11, 2023. Until now, the IRS had largely ignored this provision.

As a result, you may qualify for refunds or abatement of failure-to-file penalties, failure-to-pay penalties, estimated tax penalties, and underpayment interest that accrued during this 3.5-year disaster period. These amounts can be substantial.

At this stage, however, you should not assume the IRS will automatically issue refunds. The IRS will likely challenge the broad application of the *Kwong* decision, and appellate courts could narrow or overturn the ruling. In addition, the decision currently applies only to the taxpayer involved in that case and does not bind the IRS with respect to other taxpayers.

For that reason, you should take steps now to preserve your rights while the litigation continues.

You should review your IRS account transcripts at IRS.gov for tax years 2019, 2020, 2021, and 2022 to determine whether the IRS assessed or collected penalties or interest during the COVID disaster period. You should also review earlier years to determine whether penalties or interest continued to accrue between January 20, 2020, and July 11, 2023.

If you paid penalties or interest, received assessments, or received IRS notices during this period, you should consider filing a protective refund claim with the IRS. Taxpayers use protective claims when their right to a refund depends on future events, such as the final outcome of ongoing litigation.

Filing a protective claim preserves your right to seek a refund if the courts ultimately rule in the taxpayers' favor in *Kwong*. If you do not file a timely claim, you may permanently lose the opportunity to recover these amounts.

Under the *Kwong* decision, you must file your protective claim by July 10, 2026, so time is limited.

Claim Your R&E Tax Windfall, Perhaps Before the July 6 Deadline

Your business may have a valuable opportunity to claim larger deductions or refunds for research and experimentation (R&E) expenses.

Starting in 2022, businesses had to amortize domestic R&E costs over five years rather than deducting them immediately. This rule created cash-flow problems for many businesses that developed new products, improved processes, wrote custom software, or conducted experiments to advance their operations.

Recent tax law changes now restore more favorable treatment of domestic research expenses, effective in 2025. In many cases, you may deduct these costs in full in the year you pay or incur them. (Foreign research expenses still generally must be amortized over 15 years.)

The new rules may also help you recover deductions from 2022, 2023, and 2024. Depending on your situation, you may have several options.

You may choose to retain prior-year costs on their existing amortization schedule and use the new full-expensing rules from now on. This approach is simple but may delay tax benefits.

Alternatively, you may deduct your remaining unamortized 2022-2024 domestic research expenses in 2025, or split the deduction between 2025 and 2026. This option may provide a significant current deduction.

Certain small businesses may have a third option: amending 2022, 2023, and 2024 returns to claim full deductions retroactively. This option may generate refunds, but it comes with strict deadlines—generally the earlier of July 6, 2026, or the expiration of the statute of limitations for the affected return. If a year is already closed, this option may produce unfavorable results.

The best path depends on your business size, filing history, income, and prior research deductions as well as whether you claimed research credits.

Pay Your PCORI Fee by July 31 If You Have a 105-HRA, a QSEHRA, or an ICHRA

If your business provides health benefits through health reimbursement arrangements such as a 105-HRA, a QSEHRA, or an ICHRA, you likely must file IRS Form 720 and pay the annual Patient-Centered Outcomes Research Institute (PCORI) fee by July 31, 2026.

Although the fee is small, many business owners overlook this filing requirement. Failing to file can result in unnecessary IRS notices and may weaken the documentation supporting the validity of your health reimbursement arrangement.

The PCORI fee applies to most employer-sponsored health reimbursement arrangements, including:

- 105-HRAs
- Qualified Small Employer HRAs (QSEHRAs)
- Individual Coverage HRAs (ICHRAs)

The current fee equals \$3.84 multiplied by the average number of employees covered under your plan during the plan year ending in 2025. Dependents generally do not count as separate covered lives.

For many small businesses, the fee is minimal. For example, if your business covers only one employee under the HRA, the total PCORI fee is just \$3.84. You report and pay the fee annually using IRS Form 720. Even though Form 720 usually applies to quarterly excise taxes, employers who file only for the PCORI fee submit it just once each year.

The filing deadline is July 31 of the calendar year following the end of the plan year. For a calendar-year 2025 plan, the deadline is July 31, 2026.

The PCORI fee is deductible as a business expense. While the fee itself is small, filing Form 720 helps demonstrate that your HRA operates as a legitimate employer health plan. Proper compliance can help avoid future IRS issues and support your medical expense deductions.

How to Define, Deduct, and Benefit from Unreimbursed Partner Expenses

Partners in partnerships and members of LLCs taxed as partnerships often pay business-related expenses out of their own pocket. Common examples include meals with prospective clients, vehicle expenses, professional education, subscriptions, and home-office costs.

In many cases, these unreimbursed expenses may be deductible on the partner's personal tax return—but only if the partnership agreement or firm policy requires the partner to pay them without reimbursement.

This distinction is critical.

If the partnership would reimburse the expense upon request, the expense is not deductible personally. In that case, you should submit the expense for reimbursement instead of attempting to deduct it yourself.

Properly deductible, unreimbursed partner expenses are generally reported on Schedule E of your Form 1040 and may also reduce your self-employment tax liability.

Home-office expenses can be especially valuable. If you regularly and exclusively use part of your home for partnership business and the partnership agreement requires you to maintain the office at

your own expense, you may qualify for significant deductions.

One likely significant benefit to having a home office that qualifies as the partner's principal place of business is that it converts otherwise non-deductible commuting mileage into deductible business mileage.

To protect these deductions, documentation matters. You should maintain detailed records showing the amount, date, and business purpose of each expense. Vehicle deductions require mileage logs or similar records, and home-office deductions require proof of business use.

Equally important, your partnership agreement should clearly state which expenses partners must personally pay and which expenses the partnership will reimburse. A written reimbursement policy can help avoid IRS disputes and support deductions during an audit.

Finally, do not rent your home office to your partnership. In most cases, that arrangement creates taxable rental income without allowing offsetting home-office deductions.

Pathway to Deducting Non-Cash Gifts over \$5,000

Donating non-cash property to charity can provide a valuable tax deduction. In many cases, you may deduct the property's fair market value on the date of the donation. However, the IRS closely scrutinizes these deductions because of past abuses involving inflated valuations.

If you claim a charitable deduction of more than \$5,000 for a single item—or for multiple similar items of property—you must comply with strict IRS substantiation rules. Failure to follow these rules can cause the IRS to completely deny your deduction, even if the donation itself was legitimate.

To protect your deduction, you generally must complete three steps:

1. Obtain a written acknowledgment from the charity describing the donated property and confirming whether you received anything in return.
2. Obtain a qualified appraisal from an independent qualified appraiser.
3. File IRS Form 8283 with your tax return, including signatures from both the appraiser and the charity.

The appraisal requirement often creates the most problems. The appraisal must be completed no earlier than 60 days before the donation and no later than the due date of your tax return, including extensions. You cannot use an old appraisal or an insurance appraisal.

The appraiser must have appropriate education and experience valuing the specific type of property involved and must regularly perform paid appraisals. The appraiser also must remain independent.

Importantly, these appraisal rules also apply to digital assets such as Bitcoin and other cryptocurrencies, even though they trade on public exchanges.

The IRS may impose substantial penalties for inflated appraisals, including penalties of 20 percent of the resulting tax underpayment, or even 40 percent in serious cases.