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Recommended Citation

American Institute of Certified Public Accountants (AICPA), "Hearing on S. 327, The Home Office Deduction Act of 1995: Written statement of the American Institute of Certified Public Accountants" (1995). *Guides, Handbooks and Manuals*. 962.
https://egrove.olemiss.edu/aicpa_guides/962

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**WRITTEN STATEMENT OF THE
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS**

**UNITED STATES SENATE
COMMITTEE ON FINANCE**

**SUBCOMMITTEE ON TAXATION AND
INTERNAL REVENUE OVERSIGHT**

HEARING ON S. 327, THE HOME OFFICE DEDUCTION ACT OF 1995

JUNE 19, 1995

**Written Statement of the American Institute of Certified Public Accountants
on S. 327 -- The Home Office Deduction Act of 1995**

The American Institute of Certified Public Accountants (AICPA) supports S. 327, the "Home Office Deduction Act of 1995." The AICPA is comprised of 320,000 members whose clients include many small business owners and employees who have been affected by the changing economic and technological climate in this country over the past two decades. This home office deduction bill would modify the U.S. Supreme Court Commissioner v. Soliman, 113 S.Ct. 701 (1993) decision, in deference to today's working environment and lifestyles.

The Soliman decision curtails deductions for legitimate business expenses relating to the home office for many taxpayers -- particularly those who have no other office provided or available to them -- as it precludes these offices from falling within the definition of a principal place of business. It penalizes home-based businesses solely because they operate from their homes rather from store fronts, industrial parks, or office buildings, even though these businesses may be practically identical. Subsequent IRS rulings (Rev. Rul. 94-24 and Rev. Rul. 94-47) have further restricted the deductibility of home office expenses, as well as related travel expenses.

The technological advances of the past twenty years have alleviated the need for hiring many support personnel and for coming in personal contact with colleagues on a day-to-day basis. As a result, many taxpayers have found it advantageous to work from their homes. Home offices are utilized by sole proprietors, and owners of small businesses operating in partnership and corporate form. In addition, many businesses have found it necessary to promote flexible and alternative work schedules for their employees, balancing work and family issues. As a result, many of these employees have set aside a separate area of their homes to accommodate their business needs.

Without passage of legislation to liberalize the rules for the eligibility of the home office deduction, many home-based business owners and employees are denied this deduction. The bill clarifies the definition of the principal place of business. It allows for the home office to be used for essential administrative or management activities conducted on a regular and systematic basis, where no other office space is provided for such activities.

We support this bill because it upholds the original intent of the home office deduction and provides standards that reflect the realities of the business world today. It would make clear that essential administrative and management activities, such as bookkeeping and billing, are legitimate uses of business time and office space for the purpose of deducting the expenses of a home office.

Since the IRS has announced in Notice 93-12 (1993-8 I.R.B. 46) that Soliman would be effective for 1992 and later years, we support the effective date of this bill.