

Rent Your Home to Your S Corporation and Get Double the Tax Benefits

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S corporations are one of those funny structures that make you wonder if you're living in another dimension. The corporation is a separate entity from you, but tax benefits pass through the corporation to your advantage. For a sole owner of an S corporation, the lines between individual and company can sometimes become blurred, even in terms of tax law.

Generally, the IRS is very strict about your making sure you keep your personal finances separate from those of your S corporation. That's why it seems unbelievable that you could rent your home to your own S corporation and receive a tax advantage from this situation. Doesn't that cross the lines of personal and business interests? Unbelievable or not, if you play your hand right, you may very well be able to pull off this rental deduction situation.

14-Day Rule for Free-Rent

According to the free-rent rule, you cannot take personal residence deductions against rental income when you rent your home for less than 15 days, and the income for that 14-day or less period is not taxable.^[1] Furthermore, in *Roy*, the court ruled that for tax-free rental cases using the 14-day rule, it is not necessary for the rent to be at fair market value (although you probably should document that it is anyway for your S corporation).^[2] The free-rent rule is in IRC Section 280A(g), and it provides you with **two** distinct tax advantages:

1. On the personal side, you don't have to report the rent as taxable income, and
2. On the corporate side, your company gets to deduct the amount it spent on rent.

According to Section 280A, the tax-free residence-rental rule takes precedence over the other provisions in Section 280A. That means this particular tax code is the key to defending the rental of your personal home tax strategy. However, you are going to come up on several obstacles to getting these benefits. Let's see what they are and how you can get around them.

You can't get a deduction for renting to your employer.^[3] Section 280A(c)(6) states that an employee cannot take a deduction when renting to the employer. For your S corporation, you are the employee; you are the employer. Therefore, you cannot rent to yourself without breaking this rule, right?

Not so fast. When using the 14-day rule, you as an employee are not entitled to any deductions anyway. So, this problem isn't really a problem at all! Whether you can get personal deductions or not, you still get rental income tax-free. Additionally, as stated above, the 14-day tax-free rent rule overrides this because it is also a provision in Section 280A.

You can't take deductions for entertainment facilities.^[4] All this really means is you need to be careful about how you have your S corporation rent your home. What will it be using the space for? If your company will be entertaining prospects or customers (including patients), then this puts the brakes on your plan. Although there are exceptions, you're better off just not renting your home to your business for purposes of entertaining. If you absolutely must use your home for entertainment, limit to those situations that are exempt from the entertainment facility rules.^{[5][6]}

You can't deduct rental to a related-party.^{[7][8]} It turns out this is another one that's actually not an issue at all. It seems like renting from yourself would count, but that's not exactly what's happening here. Your corporation is renting from you, and as a separate entity, your corporation is not you, and it is not related to you (as in the way your family is related to you).^[9] Additionally, the related-party rule prohibits deductions when the recipient does not have to include income "by reason of the method of accounting."^[10] But, that's not the case here. The reason you don't have to include the income is because tax law says you don't have to.

You can't deduct personal, family, or living expenses.^[11] Every business owner should be aware that you cannot deduct these kinds of expenses. However, renting out your home to a third-party is not a personal or family use. Tax law already recognizes that some uses of the home, such as a home office, are not included in these categories.^[12]

You have to prove an ordinary and necessary business expense.^[13] Renting space for business meetings and/or the annual holiday party is unarguably an ordinary and necessary business expense. Every year, businesses deduct these expenses with no problems. On your corporation's side, the business purpose of this rental expense is clear.

Tip: Document your business use of the space, perhaps even taking photos of the activities.

The IRS could consider this a bogus rental with the substance-over-form doctrine.^[14]

If you follow the advice of avoiding entertainment facility rules, charging fair market value rent, ensuring that business activities actually take place, and documenting all of this, there's really no reason for suspicion of fraud. After all, tax law itself allows you to

take the rent tax-free, and it's not an issue of substance-over-form for your corporation to deduct rent for business meetings or a space for holiday parties.

There you have it—all of the information you need to justify your personal tax-free rent income and a business expense deduction for your S corporation. As long as you know the rules and document properly, you can come out ahead with your taxes. Remember, paying taxes is about paying what you owe—no more and no less. So, if tax law allows you to avoid taxes or take deductions, it's your right to do so.

1. [IRC Section 280A\(g\)](#) [^] _⌵
2. [Leslie A. Roy v Commr., TC Memo 1998-125](#) [^] _⌵
3. [IRC Section 280A\(c\)\(6\)](#) [^] _⌵
4. [IRC Section 274\(a\)\(1\)\(B\)](#) [^] _⌵
5. [IRC Section 274\(e\)\(4\)](#) [^] _⌵
6. [IRC Section 274\(n\)\(2\)\(A\)](#) [^] _⌵
7. [IRC Section 280A\(d\)\(2\)](#) [^] _⌵
8. [IRC Section 267\(a\)\(2\)](#) [^] _⌵
9. [IRC Section 280A\(d\)\(2\)\(A\)](#) [^] _⌵
10. [IRC Section 267\(a\)\(2\)\(A\)](#) [^] _⌵
11. [IRC Section 262](#) [^] _⌵
12. [IRC Section 280A; Rev. Rul. 76-287](#) [^] _⌵
13. [IRC Section 162](#) [^] _⌵
14. [Gregory v Helvering, 293 U.S. 465, 14 AFTR 1191 \(1935\); Frank Lyon Co. v United States, 435 U.S. 561, 573, 41 AFTR 2d 78-1142 \(1978\)](#) [^] _⌵