

Reeder CPA Group

Strategic Tax, Accounting, & Advisory



Topic:

What is the Augusta Strategy, and how can it be used to maximize tax benefits for business owners?

Overview of the Augusta Strategy

The **Augusta Strategy** allows homeowners to rent out their residence to their business for up to 14 days per year without incurring taxable income. This strategy, based on IRC 280a, provides a legitimate tax deduction for businesses while transferring tax-free income to homeowners. To use this strategy effectively, clients must follow a structured process to determine, document, implement, and report their deduction.

Key Benefits of the Augusta Strategy

- Tax-Free Income:** Transfers income from the business to the homeowner without additional personal tax liability.
- Legitimate Deduction:** Provides a substantial rental expense deduction for the business.
- Audit Preparedness:** Ensures compliance with IRS regulations through proper documentation and reporting.

Steps to Determine the Rental Deduction

- Identify Comparable Rentals:**
 - Use 3-5 local properties with publicized rates (e.g., hotels or Airbnb).
 - Include properties that match in size or room count.
- Calculate Average Rate per Square Foot:**
 - Divide the daily rental cost by the property's square footage.
 - Average the results across all properties.
- Apply to Client's Property:**
 - Subtract home office square footage if applicable.
 - Multiply average rate by total square footage and days rented.

Implementation Process

- Prepare Documentation:**
 - Maintain the comparative analysis and supporting documents for audit readiness.
- Document Use of Residence:**
 - Create meeting minutes for each rental day. Include date, attendees, and topics.
- Establish Payment Records:**
 - Issue payments from the business to the homeowner after each rental day or annually.
 - Set up an accountable plan to document the arrangement.

Reporting the Augusta Strategy

- Issue a 1099-NEC:**
 - The business issues a 1099-NEC to the homeowner for the rental income.
 - Report the deduction as a page 1 rental expense on the business tax return.
- Prepare Form 1040:**
 - Report rental income on Schedule E:
 - Address, type of property, and days rented.
 - Offset income with a deduction citing IRC 280a, ensuring no net income.

Comparative Analysis Example Showing Rental Deduction Calculation

Client Details		
Tax Year:	2023	
Client (Lessor):	Individual Client A	
Business (Lessee):	Individual Client A's Business	
Address:	1234 Ex St., St Petersburg, FL	
Square Footage:	2,400 sq ft	
Comparative Rentals		
• Hilton St. Petersburg Bayfront	150 sq ft	\$302/day = \$2.01/sq ft
• Courtyard by Marriott St. Petersburg Downtown	150 sq ft	\$202/day = \$1.35/sq ft
• Hyatt Place Hotel St. Petersburg Downtown	150 sq ft	\$332/day = \$2.21/sq ft
• Prestige Collection Boutique Hotel	150 sq ft	\$268/day = \$1.79/sq ft
• Professional Development	150 sq ft	\$183/day = \$1.22/sq ft
Average Cost:		\$1.72/sq ft per day
Calculation		
Rental Rate:	\$1.72/sq ft × 2,400 sq ft = \$4,128 per day	
Annual Deduction:	\$4,128 × 14 days = \$57,792	

Notes on Best Practices

- While the strategy can be implemented partially in its first year, full compliance with the outlined steps is recommended for audit safety.
- Use the De Minimis Safe Harbor Deduction if a home office deduction is applied, reducing conflicts with IRC 280a.
- Ensure no other business use of the residence to maintain compliance.

This method ensures the safest approach for using the Augusta Strategy and validates deductions effectively during potential IRS audits.

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