

The Basics

Tax deductions that shout 'Audit me!'

It's one thing to push the envelope, another to volunteer for the IRS audit list. Here are some of the most imaginative -- and most illegal -- deductions I've seen.

By [Jeff Schnepfer](#)

I'm not known to be a superconservative tax planner. I'm willing to push the envelope as long as we stay on the right side of fraud and there's a legitimate basis for the deductions my clients claim.

But even I have limits. Here are some of the dumbest, most illegal deductions I've seen. And you should think twice -- at least -- before trying to claim them.

The bubble

It's hard for me to even write about this one without shaking my head. Here's the story, and if it hadn't been my client, I'd have trouble believing it myself.

The client lives in New Jersey. Northern New Jersey is infamous for its pollution and poor air quality. So my client was told to deduct, as a medical expense, the cost of enclosing himself and his family in a bubble of pure air.

I won't get into how that cost was conceived -- or whether the bubble was a split level or just a garden-variety bubble. Suffice it to say that the prior preparer had the chutzpah (that's a technical accounting term) to actually write "pure bubble" on the client's tax return.

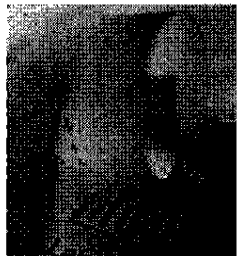
Needless to say, the client was audited on his "bubble" deduction. Fortunately, the IRS audit agent had some perspective and a sense of humor. While the deduction was disallowed, it was so outrageous that the agent waived all penalties.

The home office

If you work out of your house, you may potentially qualify for a home office. The space claimed must be used regularly and exclusively for business purposes. Somehow, clients neglect to read that word "exclusively."

I had one client come to me after claiming a home office recommended by a prior preparer. He had a legitimate office at home, so the preparer had him deduct the full \$80,000 cost of the home. Years later, I can still hear the IRS auditor laughing about that one.

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Another client actually flew me from Cherry Hill, N.J., to St. Louis to represent him in a Tax Court case where he claimed 98% of his house as a home office.

At least he took the appropriate depreciation route rather than deducting 98% of the full cost of the house. Once again, the adage that bulls make money, bears make money and pigs get slaughtered was proved correct. He refused to compromise and was hit hard for taxes, interest and penalties.

He still insists that he was correct. He said the IRS action against him was a political attack. It's amazing how many

nonprofessionals "know the real law" despite what the courts and the code say.

The whole house

Steve Bennett, president and CEO of Intuit, the maker of the TurboTax software program, reports this one:

A client gave away his house to a local fire department to burn up in a training exercise. So far, so good. It appears to be a legitimate, allowable charitable contribution that was made to an appropriate organization.

But here's the kicker: The value of the property actually went *up* once the house was removed.

Because the value *increased*, sorry, there could be no deduction.

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