



## Augusta Rule (§280A(g)) Guide

A beginner's guide for using the Augusta Rule to maximize your business tax deductions.

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# 1. How to Use This Guide

As you delve into the Augusta Rule Guide, begin by familiarizing yourself with the essential principles and advantages outlined in the "What is the Augusta Rule?" section. This foundational knowledge will inform your application of the rule to your specific circumstances.

Utilize the checklist as a guide through the necessary preparatory steps, ensuring that each requirement is addressed and documented appropriately. The sample rental agreement within the package is a starting point; tailor it to your needs to safeguard your legal and financial interests.

For nuanced scenarios and to validate your understanding, refer to the "Frequently Asked Questions" section, which addresses common inquiries. It's also crucial to consult the included "Resource List" for a deeper dive into authoritative sources that can provide further clarification and support.

This package aims to equip you with the tools and knowledge to apply the Augusta Rule effectively. However, given the complexities of tax law, always engage with a tax professional to ensure compliance and to adapt the insights to your personal or business context. The "Disclaimer and Legal Notice" section reiterates the importance of this professional input, underscoring the package's role as an informative resource rather than a substitute for tailored legal advice.

## 2. What is the Augusta Rule?

### Overview and Origin

The Augusta Rule, known formally as IRC Title 26, Section 280A(g), offers a unique tax advantage for property owners. It allows individuals to rent out their property, such as their home, for up to 14 days per year without having to report the rental income for tax purposes. Originating from a practice commonly used during the Masters Golf Tournament in Augusta, Georgia, this rule presents a lucrative opportunity for property owners to earn tax-free income.

### Eligibility Criteria

To be eligible for the Augusta Rule, the following conditions must be met:

1. **Property Type:** Any residential property, including primary residences, vacation homes, and second properties.
2. **Rental Duration:** The property must not be rented out for more than 14 days throughout the tax year.
3. **Usage:** The property should not be primarily used for rental purposes outside of this 14-day window.
4. **Business Type:** Your business needs to be a S Corp, C Corp, or Partnership to take advantage of the Augusta Rule. Disregarded entities are not eligible.

### Requirements for Implementation

1. **Fair Market Rent:** Rent charged must reflect the fair market value. Exorbitant rental rates that significantly exceed standard prices for similar properties in the area may disqualify the income from this tax exemption.
2. **Formal Rental Agreement:** A written rental agreement strengthens the legitimacy of the transaction and is advisable for record-keeping purposes.

3. **Proper Tax Reporting:** In order to remain compliant, you must issue a 1099-MISC to yourself if you paid rents of \$600 or more during the calendar year.
4. **Legitimate Business Purpose:** As with any business deduction, it must be necessary and ordinary for your type of business.

## Documentation and Record-Keeping

Maintaining thorough documentation is crucial for compliance and potential IRS scrutiny. This includes:

- Rental agreements
- Proof of payment
- A log of rental dates
- Comparative market rate analysis (to justify fair market value)

## Tax Implications and Reporting

Income generated under the Augusta Rule does not need to be reported as taxable income unless you were paid over \$600. In this case you will need to file a 1099-MISC to yourself from your business and report this on your personal income tax return. You will write off this income entirely with an expense equal in amount. However, it is important to note that expenses related to the rental period (like utilities, maintenance, or improvement costs) are not deductible.

## Conclusion

The Augusta Rule presents a valuable opportunity for property owners to generate supplementary, tax-free income. Understanding the intricacies and adhering to the guidelines of this tax provision can lead to significant financial benefits while remaining compliant with IRS regulations.

### 3. Augusta Rule Checklist

This checklist is designed to guide you through implementing the Augusta Rule.

- Determine Eligibility:** Ensure your property type and intended rental usage meet the criteria for the Augusta Rule.
- Schedule Meetings at Your House:** Plan and schedule the business activities, such as meetings or retreats, to be held at your residence.
- Document Business Purpose:** Keep detailed records, including meeting agendas, minutes, attendees, and business conducted during the rental period.
- Find Comparables:** Research rental rates for comparable properties or hotel rooms in your area to establish a fair market rental price.
- Draft a Formal Rental Agreement:** Create a written agreement that outlines the terms of the rental, including dates, rates, and the purpose of the rental.
- Invoice the Business:** Issue an invoice from yourself to your business for the rental, detailing the dates and rates.
- Pay the Expense:** Conduct the financial transaction where the business pays the rental expense per the invoice.
- Issue 1099-MISC:** If the business pays more than \$600, issue a 1099-MISC to yourself for the rental payment.
- Document Income/Expense Write-Off:** Report the rental income on Schedule E and claim it as an “other deduction” with the explanation of “280A(g) non-taxable income.”
- Maintain Records:** Keep all documentation related to the rental, including the rental agreement, invoice, payment records, and any communication regarding the rental.

## 4. How to Issue and Write-Off your 1099-MISC

### Understanding the Process

Under the Augusta Rule, if you rent your home to your business for a short period (up to 14 days annually), it's essential to understand how to issue and write off the 1099-MISC for when you pay yourself over \$600 during the calendar year in rental fees. This process ensures compliance with IRS regulations and maximizes the tax benefits of the rule.

### Issuing a 1099-MISC

1. **When to Issue:** If your business pays you more than \$600 in a tax year for rental under the Augusta Rule, you need to issue a 1099-MISC to yourself. You can do this through an online service for a few dollars.
2. **Documenting the Payment:** Create an invoice from yourself (as the homeowner) to your business, detailing the rental dates and rates. This serves as a formal record of the transaction.
3. **Filing the 1099-MISC:** The 1099-MISC should be filed with the IRS and your state tax agency, and a copy must be retained for your records.

### Reporting on Tax Returns

1. **Including Rental Income:** The rental income, although tax-free under the Augusta Rule, should still be reported on your Schedule E (Supplemental Income and Loss).
2. **Zeroing Out Income:** On your Schedule E, you can zero out this income by claiming the same amount as an "other deduction" with a notation of "280A(g) non-taxable income." This step is crucial as it acknowledges the income but also correctly indicates its tax-free status under the Augusta Rule.
3. **No Deduction for Expenses:** Remember, while the rental income is tax-free, associated expenses (like utilities, repairs during the rental period)

cannot be deducted. This is a key aspect of the rule and must be adhered to.

## Importance of a Rental Agreement

Having a formal rental agreement in place is highly recommended. This agreement should outline the terms of the rental, including duration, rental rate, and purpose. The agreement adds legitimacy to the transaction and is an important piece of documentation in case of IRS inquiries.



## 5. Augusta Rule Tax Savings

Let's explore an example of the tax savings an entrepreneur can attain through using the Augusta Rule. Imagine a self-employed entrepreneur named Alex Mercer, owner of a burgeoning digital marketing S Corp based in New York. Alex discovers the Augusta Rule and decides to hold monthly management meetings at their home (keeping proper documentation), leveraging the rule to rent their residence to their business for \$2,000 per day.

### Augusta Rule Tax Savings Example:

By renting their residence to Mercer Media for \$2,000 per day, they generate \$24,000 in rental income annually. Normally, this income would be subject to passive income tax rates and they would be paying 15.3% self-employment tax and, let's assume, a 30% effective income tax rate. We won't consider state taxes for this example to keep things simple. By using the Augusta Rule:

- The \$24,000 does not attract the 15.3% self-employment tax, saving Alex \$3,672.
- Additionally, this income is shielded from the 30% income tax bracket, netting a further \$7,200 in savings.
- Alex does not pay income tax on the \$24,000 in rental income they earn.

By implementing the Augusta Rule, Alex's savvy strategy results in a **substantial tax saving of almost \$11,000 for the year**, *not including state taxes*. This exemplifies the rule's power to convert standard living spaces into tax-efficient meeting hubs, yielding tangible financial benefits while maintaining IRS compliance. **Alex effectively receives a \$24,000 tax-free distribution of S-Corp earnings.**

The Augusta Rule offers a remarkable tax advantage for entrepreneurs like Alex. It exemplifies the rule's potential to turn a personal residence into a strategic asset, transforming what would be taxable income into a tax-free benefit, thereby enhancing the entrepreneur's financial efficiency and bottom line.

## 6.Resource List

The resource section is thoughtfully designed to serve as a guide for leveraging the Augusta Rule effectively. It encompasses a curated collection of essential IRS publications and other guidance that provide in-depth insights into the tax implications and guidelines of the Augusta Rule.

To facilitate accurate documentation and compliance, tools such as a sample rental agreement and a comparable rent log have been included. These resources aim to equip property owners with the necessary knowledge and documentation aids to proficiently apply the Augusta Rule.

### Publications & Guidance

- 1. [IRS Topic No. 415 Renting Residential and Vacation Property](#)**
  - See section: “Minimal Rental Use.”
- 2. [Title 26 – Internal Revenue Code, §280A\(g\)\(2\)](#)**
  - See section: “(g) Special rule for certain rental use.”
- 3. [IRS Form 1099-MISC](#):** For reporting payments made in the course of a trade or business to others.
- 4. [Article: How to use the Augusta Rule to Maximize your Business Write-Offs](#):** More information on implementing the Augusta Rule into your business.

### Rental Comparables Log

The Rental Comparables Log is a pivotal tool for property owners utilizing the Augusta Rule. It serves as a detailed record, substantiating the determination of fair market rental rates—a key requirement for compliance. By meticulously documenting comparable rental prices within the vicinity of your property, this log provides credible evidence to support the rates you establish for short-term rentals.

**Rental Comparables Log**

<b>Property Address</b>	<b>Property Description</b>	<b>Market Daily Rental Rate</b>	<b>Date Viewed</b>	<b>Listing Source</b>	<b>Notes</b>
123 Main St.	3 bed/2 bath, 1500 sqft	\$300	01/05/2024	Website/Lister	Near park
...	...	...	...	...	...

This log should be updated regularly with new comparables to ensure the rental rates reflect current market conditions.

**Sample Rental Agreement**

Before delving into the sample rental agreement on the next page, it is important to note that this document is provided solely as an example for educational purposes. We strongly recommend consulting with a qualified attorney to craft a rental agreement that is tailored to your specific needs and circumstances. This sample should not be used as a substitute for legal advice or professional drafting. It is designed to illustrate how a rental agreement under the Augusta Rule might be structured, but it may not cover all scenarios or legal requirements relevant to your situation.

# Sample Rental Agreement for Augusta Rule Rentals

**1. Parties** This Rental Agreement ("Agreement") is made between \_\_\_\_\_ [Homeowner's Full Name], residing at \_\_\_\_\_ [Homeowner's Address] ("Landlord"), and \_\_\_\_\_ [Business Name or Individual's Full Name], with its principal place of business at \_\_\_\_\_ [Business Address or Individual's Address] ("Tenant").

**2. Property Description** The rental property ("Property") is located at \_\_\_\_\_ [Full Address]. The Property includes [describe rooms and features, such as '3 bedrooms, 2 bathrooms, a kitchen, and a living room']. [Optional] This rental agreement does not include use of any home office located on the property premises.

**3. Rental Term** The rental term shall commence on \_\_\_\_\_ [Start Date] and end on \_\_\_\_\_ [End Date], totaling \_\_\_\_\_ [Number of Days, not exceeding 14] days.

**4. Rental Rate and Fees** The rental rate is \$\_\_\_\_\_ [Amount] per day, totaling \$\_\_\_\_\_ [Total Amount for Term] for the entire term. A security deposit of \$\_\_\_\_\_ [Amount] is required at the time of signing this Agreement, refundable upon satisfactory inspection of the Property after the Tenant's departure.

**5. Use of Property** The Property is to be used exclusively for \_\_\_\_\_ [specify purpose, e.g., "business meetings"]. The Tenant shall not use the Property for any unlawful purposes and shall comply with all local, state, and federal laws and regulations.

**6. Payment Terms** Payment of the total amount of \$\_\_\_\_\_ [Total Amount] shall be made by \_\_\_\_\_ [Payment Date]. The payment shall be made via \_\_\_\_\_ [specify payment method, such as bank transfer, check, etc.].

**7. Cancellation Policy** Either party may cancel this Agreement by providing written notice at least \_\_\_\_\_ [Number of Days] days prior to the Start Date. In case of cancellation, the security deposit will be refunded in full.

**8. Occupancy and Conduct** The maximum occupancy of the Property is \_\_\_\_\_ [Number] persons. The Tenant agrees to conduct themselves in a manner respectful of neighbors and to not cause any nuisance or disturbance.

**9. Maintenance and Repairs** The Landlord shall ensure that the Property is clean and in a good state of repair at the commencement of the rental term. The Tenant is responsible for any damages caused during their occupancy, excluding normal wear and tear.

**10. Liability and Insurance** The Tenant assumes full responsibility for any and all damages, liability, or injury that may occur during the use of the Property. The Landlord is not responsible for personal property loss or injuries sustained by the Tenant and their guests.

**11. Governing Law** This Agreement shall be governed by and construed in accordance with the laws of the state in which the Property is located.

**12. Entire Agreement** This Agreement constitutes the entire agreement between the parties and supersedes any prior understandings or agreements, written or oral.

**13. Signatures** By signing below, both parties agree to the terms and conditions set forth in this Agreement.

Landlord Signature: \_\_\_\_\_ Date: \_\_\_\_\_

Tenant Signature: \_\_\_\_\_ Date: \_\_\_\_\_

## 7. Frequently Asked Questions (FAQs)

Welcome to our Frequently Asked Questions section on the Augusta Rule. This part of our resource is designed to shed light on some of the most common inquiries regarding this unique tax provision. Whether you're a homeowner looking to understand the benefits of the rule, a small business owner seeking to optimize your tax strategy, or simply curious about how the Augusta Rule can impact your financial planning, these questions and answers aim to provide clarity and insight. As always, for specific advice tailored to your situation, consulting a tax or legal professional is recommended.

### 1. **What is the Augusta Rule?**

- The Augusta Rule provides tax relief for individuals who rent their homes for less than 14 days per year. Rental income is not taxable under this rule, but expenses incurred in renting the property are not deductible.

### 2. **How can it benefit you as a homeowner?**

- For homeowners, rental income can be excluded from taxable income under the Augusta Rule (IRC §280A(g)), provided there's a formal rental agreement and a reasonable rental rate. Note that expenses associated with the home are not deductible.

### 3. **What are the rules to qualify for the Augusta Rule?**

- The property must be rented for less than 14 days in a year, the rental agreement must be in writing and for a fair market value, and the property cannot be used as a primary place of business. If rented for more than 14 days, standard rental rules apply.

### 4. **How does the Augusta Rule apply to small businesses?**

- Small businesses (S Corps, C Corps, and Partnerships) can use the Augusta Rule for shifting income between personal and business levels. Renting a home to a small business allows the owner to claim a deduction at the business level and exclude it from personal income.

5. **Can I use the Augusta Rule if I have a Sole Proprietorship or Single-Member LLC (Schedule C Filer)?**
  - Unfortunately, you cannot. The Augusta Rule is only for S Corps, C Corps, and Partnerships. Moreover, you cannot use the property you are renting as the primary place of business.
6. **Is the Augusta Tax Rule applicable to all rental properties?**
  - Yes and no. You can use it on your second homes and vacation homes but you cannot use it with your other rental real estate.
7. **How do I determine the fair market value for my rental property?**
  - Determine fair market value by researching and analyzing the rental prices of similar properties in your area, considering factors like location, amenities, size, and condition.
8. **Do I need to keep records of my rental activities even if the income is tax-free?**
  - Yes, maintain proper records of your rental activities, including rental agreements, rental periods, and rental income received, even if the income is tax-free.
9. **Should I consult a tax professional regarding the Augusta Tax Rule?**
  - It is highly recommended to consult a tax professional for personalized advice and to ensure compliance with tax laws.
10. **Why do I need to issue a 1099-MISC to myself?**
  - If you are paying over \$600 during the calendar year to yourself for Augusta Rule rentals, you must issue a 1099-MISC to yourself to reflect the total amount paid. More on this is in [\*Section 4: How to Issue a 1099-MISC to Yourself\*](#).

## 8. Disclaimer and Legal Notice

The information provided in this document, including all related materials and resources, is for educational and informational purposes only. It is not intended as, and should not be taken as, legal, tax, investment, financial, or other professional advice. Users of this document should consult with their own attorney, accountant, or other licensed professional before making any business or legal decisions.

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