

Tax Deductions for a Home Office

Whether you are self-employed or an employee, if you use a portion of your home exclusively and regularly for business purposes, you may be able to take a home office deduction.

You can deduct certain expenses if your home office is the principal place where your trade or business is conducted or where you meet and deal with clients or patients in the course of your business. If you use a separate structure not attached to your home for an exclusive and regular part of your business, you can deduct expenses related to it.

Your home office will qualify as your principal place of business if you use it exclusively and regularly for the administrative or management activities associated with your trade or business. There must be no other fixed place where you conduct substantial administrative or management activities. If you use both your home and other locations regularly in your business, you must determine which location is your principle place of business, based on the relative importance of the activities performed at each location. If the relative importance factor doesn't determine your principle place of business, you can also consider the time spent at each location.

If you are an employee, you have additional requirements to meet. You cannot take the home office deduction unless the business use of your home is for the convenience of your employer. Also, you cannot take deductions for space you are renting to your employer.

Generally, the amount you can deduct depends on the percentage of your home used for business. Your deduction will be limited if your gross income from your business is less than your total business expenses.

Expenses that you can deduct for business use of the home may include the business portion of real estate taxes, mortgage interest, rent, utilities, insurance, depreciation, painting and repairs. However, you may not deduct expenses for lawn care or those related to rooms not used for business.

There are special rules for qualified daycare providers and for persons storing business inventory or product samples.

For more information, see IRS Publication 587, Business Use of Your Home.

If you are self-employed, use Form 8829, Expenses for Business Use of Your Home, to figure your home office deduction and report those deductions on line 30 of Schedule C, Form 1040. Employees can use the worksheet in Pub. 587 to figure their allowable expenses and claim them as a miscellaneous itemized deduction on Schedule A, Form 1040.

To be on the safe side, you may also want to review IRS Publication 4035, Home-Based Business Tax Avoidance Schemes, which describes schemes that claim to offer tax relief but which actually result in illegal tax avoidance.

Frequently Asked Questions - Home Office Expenses

I use my home for business. Can I deduct the expenses?

To deduct expenses related to the business use of part of your home, you must meet specific requirements. Even then, your deduction may be limited.

Your use of the business part of your home must be:

- Exclusive (see *exceptions below),
- Regular,
- For your trade or business, AND

The business part of your home must be *one* of the following:

- Your principal place of business,
- A place where you meet or deal with patients, clients, or customers in the normal course of your trade or business, or
- A separate structure (not attached to your home) you use in connection with your trade or business.

Additional tests for employee use. If you are an employee and you use a part of your home for business, you may qualify for a deduction. You must meet the tests discussed above *plus*:

- Your business use must be for the convenience of your employer, and
- You *do not* rent any part of your home to your employer and use the rented portion to perform services as an employee.

Whether the business use of your home is for your employer's convenience depends on all the facts and circumstances. However, business use is not considered to be for your employer's convenience merely because it is appropriate and helpful.

*exceptions

You do not have to meet the exclusive use test if you satisfy the rules that apply in either of the following circumstances.

- You use part of your home for the storage of inventory or product samples.
- You use part of your home as a day-care facility.

Form 1040, Schedule C filers calculate the business use of home expenses and limits on Form 8829. The deduction is claimed on line 30 of Schedule C. Employees claim deduction for business use of home as an itemized deduction on Form 1040, Schedule A.