



Home Office

Tax Tips

Calculating Home Office Deductions

The business use percentage is calculated by dividing the square footage of the dedicated space by the total amount of usable space of the home. This will give a percentage of use to be used in calculating the amount of allowed deductions.

There are two types of deductions you can take, direct and indirect expenses. Direct expenses relate solely to the dedicated space and are fully deductible. This means when you paint the walls or build cabinets, you can deduct it in full because they are 100% related to the dedicated work space. The other expenses are indirect or flow through expenses that relate to the entire home. Examples of these expenses are rent, mortgage interest, taxes, insurance, repairs, security systems, utilities, casualty losses, and depreciation. These expenses are allocated by using the business use percentage. For instance, if you have a \$1000 property insurance bill and you use 10% of your home for business, then you will get \$100 deduction on your home office. Be sure to separate your expenses between direct and indirect when preparing for your taxes.

With easy Internet access, more and more people are choosing to work from home. Having a home office may provide tax savings, but can also create headaches when you decide to sell your home.

Do Not Forget These Deductions

- Separate structures on your property, such as a detached garage you have converted to an office or studio
- Mortgage interest
- Real estate taxes
- Utilities (heating, cooling, lights)
- Home repairs and maintenance (must benefit both the business and personal parts of the home)
- Homeowner's insurance premiums
- Rent instead of home ownership (rent payments may be deducted using the same square-footage percentage basis)
- Operating expenses of a total home security system

Home Office Requirements

■ You use a portion of your home regularly and exclusively as the following:

- A principal place of business for a trade or business
- A place to meet with clients, patients, or customers in the course of the trade or business
- In connection with your trade or business, if the location is in a separate structure not attached to the home

■ Your employer requires you maintain a home office for his or her convenience and you meet the regular and exclusive use requirement.

■ Your home is used for the storage of inventory or product samples used in your trade or business of selling products at retail or wholesale and there is no other fixed location for storage. The regular and exclusive use requirements do not need to be met.

■ You operate a daycare out of your home. If you do not meet the regular and exclusive use requirements, you can still claim a home office deduction if you are complying with state and local laws in operating your home daycare.

Note: "Exclusive use" means a specific area of your home is used only for your trade or business. The term "principal place of business" includes a place you use for administrative or management activities of any trade or business if there is no other fixed location where you are able to perform those activities.

Keep receipts and detailed records throughout the year.

Limitations

The amount of expenses you can deduct are subject to specific limitations and ordering rules. The overall limitation is based on your net income from your trade or business. For employees, this is your wage less other business expenses listed on Form 2106. For self-employed persons, this is the net income shown on your Schedule C without the home office deduction.

If there is a loss, you are not allowed a deduction. The expenses are then carried forward to future years and will be allowed when there is net income.

You are allowed three deductions in full regardless of the net income limitation. They are allowed even though they may create a loss. These expenses are claimed in full before using any other expenses:

- Mortgage interest
- Real estate taxes
- Casualty or theft losses

