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TAX DEDUCTIONS FOR HOME OFFICE EXPENSES

In this fast-paced, technology-driven communication age, it's becoming extremely common for professionals to work from many different locations, whether it's their home, an office, or even a boat! And what many professionals may not know is that they can deduct expenses for certain work sites on their taxes, as long they know and follow the rules.

There's an old husband's tale that contends deducting home office expenses on your tax return is a red flag, so don't do it. That's a fallacy. If you use your home for your self-employed business, don't be afraid to take the deduction. By deducting expenses for your home workspace you'll pay less tax. You'll not only save on federal and state taxes, but also on social security taxes, providing an additional 15 percent savings.

In recent years the Internal Revenue Service (IRS) has relaxed the home office rules and made them simpler. Only three rules remain:

Rule #1: Exclusive Use

The part of your home used for business must be used exclusively for business.

If Lily Legal writes her briefs at the dining room table but also has dinner parties there, she must forgo any deduction for the dining room.

If Victor Visual and his artist wife share the same studio-in-the-home, then neither gets the deduction because neither has exclusive use. (It seems unfair, but it's true.)

Note: Daycare businesses and inventory storage are two exceptions to the exclusivity rule.

Rule #2. Used on a Regular Basis

The part of your home used for business must be used on a regular basis for business.

Art Smith has a rented studio in town. He also has great natural light in a back room of his house. The room is always locked and seldom used. On occasion he brings a potential buyer to view a painting in his home's back room. This is not regular use, so he cannot deduct the use of that room.

Rule #3. Principal Place of Business

Your home office, or studio, or workshop must be your principal place of business.

The IRS term *principal place of business* is confusing. Even if you have more than one place of business, as long as the room or area in your home is used exclusively and regularly for business, then your home office qualifies as a principal place of business if it fits *any* of the following three criteria:

- 1) It's where you perform administrative tasks such as bookkeeping or scheduling.
- 2) It's where you meet clients, patients, or customers.
- 3) It's a separate structure.

Sally Ceramist rents a neighbor's garage as her work studio. Her messy studio is inappropriate to use as a showcase so instead she has set up the sunroom in her home as her display area. Potential buyers come there by appointment to view her work. Although her works also show at a number of galleries throughout the United States, Sally can deduct the sunroom as a home office.

Kathy Chiropractor shares an office with an acupuncturist. They alternate days. Kyla does not keep patient records at the office. Each morning she brings from home that day's patient folders. She keeps all her patient records and her professional library in a small barn on her farmland home. Kyla can deduct the barn.

What Can You Deduct?

Your home may be any kind of residence: house; apartment; condominium; cooperative; houseboat; mobile home. All expenses for the portion of your residence used for business are deductible including rent, repairs, utilities, security system, and upkeep expenses. For homeowners, deductions include mortgage interest and real estate taxes. If, for instance, 20 percent of your home is used for business, then you can deduct 20 percent of all these expenses. Even though the home office deduction could be small if

you have a large house and only use a small portion as a home office, the increased mileage deduction may make reporting worthwhile.

Deductions for the costs for a legitimate cleaning service or a housekeeper for whom you pay all payroll taxes are legitimate. Lawn care, unless there is a portion exclusively used for your business, is not an allowable deduction.

Other Expenses

Many sole practitioners assume that because the expense takes place in the home office – things like business phone or Internet service – they must be treated as home office expense. That is incorrect. You may deduct a phone used in your residence even if you do not have a home office. Also, home office deduction size and phone use need not match even if your home office use is 10 percent and phone use is 80 percent for business. However, a phone is handled differently. You cannot deduct the cost of the first line into the home, but you may deduct business long distance charges on that phone and optional features if billed as a separate item.

Several other rules come into play with home office deductions including depreciation and rules that apply when you sell a home that contained an office in the home. The key thing to remember with home office expenses is to use a tax professional who understands the home office rules. They are experts who keep up-to-date year-round on tax law changes. They can save you time and offer insight on how to use the tax breaks available to you.