

The Home Office Deduction

How to Claim the Deduction

To claim the deduction you must meet one of the four requirements:

1. Your home qualifies as your primary place of business

To qualify as your primary place of business, regular and exclusive use for administrative or management activities related to your business is required. This means the space should be used a minimum of 10 to 12 hours each week for these purposes. It gets a bit more difficult to qualify for the deduction if you have another fixed location where you conduct business, but as long as the majority of your administrative and management functions are performed at home, you can still meet the principal place of business requirements. If you do not have another business location, you may take the deduction.

2. If your employer requires you to maintain a home office

3. If you are using your home office to meet with clients, potential customers or patients as a part of your regular business practice

4. If your home office is a separate and detached building from your main home

What Is It?

The home office deduction provides a way to deduct expenses for your business for items that are otherwise considered non-deductible personal expenses like utilities and maintenance. Figuring your deduction requires you to calculate the business use percentage of your home by first dividing the number of equally sized rooms or calculating the actual square footage used. If an actual use amount is chosen, subtract space devoted to hallways in order to maximize your deduction. Next, use that percentage to calculate your business percentage of expenses for utilities, mortgage interest, rental or mortgage payments, property taxes and maintenance. You can even deduct a portion of the cost of your home by depreciating it. To determine this, simply take your basis in the home, subtract the basis related to land, and divide by 39 years. If you later sell your home, you will need to report your claimed depreciation as an un-recaptured Section 1250 gain.

In the event you find calculating the home office deduction daunting, you may be eligible to use a safe harbor method and claim \$5 per square foot for up to 300 square feet in addition to your property taxes and mortgage interest. If you choose this method, be aware that you will be prohibited from claiming a depreciation deduction or from carrying over losses.

Sources: IRC §280A(c)(1), IRS Pub. 587 (2003), Green v. Comm'r, 78 TC 428 (1982). IRS Publication 587, Form 8829, Instructions, p. 2, Regs. §1.121-1(e)(1), Rev. Rul. 99-7, Rev. Proc. 2013-13. 9IRC §280A(c)(1)