

# HOME OFFICE DEDUCTION

Many people are now working out of their homes. This may be a good time to review the criteria for claiming a deduction for the business use of part of a person's residence.

**Your home office must be used in a trade or business activity.** You cannot take a deduction if you use your home for a profit-seeking activity that is not a trade or business. For example, if you use part of your home to manage your personal investments, you cannot take a home office deduction.

The home office must be used regularly and exclusively for business. You must regularly use a room or other separately identifiable area of your home only for your business. You do not meet this requirement if you use the area for both business and personal purposes. For example, an attorney who writes legal briefs at the kitchen table cannot claim a home office deduction for the kitchen. You do not have to meet the exclusive-use test if you use part of your home to store inventory or product samples or as a day care facility.

**Your home office must be one of the following:**

1. **Your principal place of business.** Your home office also will qualify as your principal place of business if you use it regularly for administrative activities and you have no other fixed location where you conduct substantial administrative activities; or
2. **A place to meet with patients,** clients or customers in the normal course of your business. Using your home for occasional meetings and telephone calls is insufficient; or
3. **A separate structure not attached to the dwelling unit used for trade or business purposes.** The structure does not have to be your principal place of business or a place where you meet patients, clients or customers. For example, John operates a floral shop in town. He grows plants in a greenhouse behind his home and sells them in his shop. He uses the greenhouse exclusively and regularly in his business. Even though it is not his principal place of business, because it is separate from his dwelling, he can deduct the expenses for its use.

**If you are an employee, you must use your home office for the convenience of your employer.** If the employer does not require the employee to work from home and provides an office or work space elsewhere, a home office is likely to be considered a matter of the employee's convenience and therefore not deductible.

**Even if the taxpayer's home office meets the above rules, the deduction may be limited.** Expenses attributable to business use that you could deduct even if the home were not used for business, such as home mortgage interest and real estate taxes, are fully deductible. Otherwise, home office expenses are deductible only to the extent of gross business income, reduced by other allowable business expenses unrelated to the home; any expenses that are not deductible due to the income limitation may be carried forward. "Direct expenses" of the home office include the costs of painting or repairing the home office, depreciation deductions for furniture and fixtures used in the home office are completely deductible. The "indirect" expenses of maintaining the home office are the allocable share of utility costs, depreciation, insurance, etc., for your home, as well as an allocable share of mortgage interest and real estate taxes.

**Sales of homes with home offices.** If you sell at a profit, a home that contains, or contained, a home office, the otherwise available \$250,000/\$500,000 exclusion for gain on the sale of a principal residence won't apply to the portion of your profit equal to the amount of depreciation you claimed on the home office. In addition, the exclusion won't apply to the portion of your profit allocable to a home office that's separate from the dwelling unit. Otherwise, the home office won't affect your eligibility for the exclusion.

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