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TAX TIPS

HOME OFFICE DEDUCTION

A few years ago, the IRS relaxed the rules for the home office deduction. Many taxpayers who were not able to deduct these expenses under the old rules could now take the deduction.

Now that most people have a home computer and a room, or a portion of a room, considered their office, many taxpayers are taking a home office deduction on their tax returns. In order to deduct any expenses for using your home for business, that portion of the home (or separate structure) must be used *exclusively on a regular basis*:

1. as the principal place of any business carried on
2. as a place of business that is used by patients, clients, or customers in meeting or dealing with you in the normal course of business, or
3. in connection with your business if the you are using a separate structure that belongs to, but is not attached to, the home

If you are an employee, the business use of your home must also be for the convenience of your employer. If your employer has a place for you to work, but you have decided you would rather work from home, you cannot take the deduction. You cannot take a deduction if you work at home after your normal business hours and you could have stayed at your employer's office to work late (this would probably not be on a *regular basis* even if you are not allowed to stay late in the building your employer is in).

Examples of when the deduction is allowed for an employee:

- a. Your employer is based in California and you are so talented in your field that they have agreed to let you work from your home in Massachusetts rather than not have you at all. They do have a place for you to work when you fly out a few times a year.
- b. You are a traveling salesperson. You call into the office daily or occasionally stop in to drop off paperwork or attend a meeting. After being on the road all day, you prepare all of the necessary paperwork at home. You also research potential clients at home. Your company does not offer a place at the office for the sales people to do this type of work.

The most important point to remember is that the portion of your home claimed must be used solely for the purpose of your business. This requirement is not met if the portion is used for both business and personal purposes. Both self-employed persons and employees must adhere to this requirement.

The salesperson above would not meet the requirement if she did her night time work in her office at home that was also used for personal reasons (e.g. emailing friends) or her family members used the computer (e.g. kids playing online).

You may still be able to deduct the business portion of certain expenses even if you do not qualify for the home office deduction. Examples include the business portion of your computer, printer ink, and other office supplies.

If you qualify for the home office deduction you can claim 1) mortgage interest (or rent), 2) real estate taxes, 3) utilities (not including telephone), 4) house insurance, 5) repairs and maintenance, 6) condo fees, and 7) depreciation.

The amount of expenses you are able to deduct is based on the portion of your home used as your home office. If your home is 3,000 square feet and your home office is 210 square feet, you can deduct 7% of your home expenses. If you have expenses that relate directly to the home office you can deduct 100% of those costs (e.g. repairing a window in the office). Your telephone line is not a business expense unless you have a separate line from your home line. You can deduct long distance calls made for business purposes and optional services such as voice mail or call waiting.

There are other special rules for wholesalers and retailers who do business out of their homes, as well as for day care providers.

Please call or email our office with any questions or concerns you have about the home office deduction.