



NELSON CPAs

Home Office Deduction

If you work from home you may qualify for the home office deduction. If you qualify you may be allowed to deduct daily transportation from your home to all other locations related to your business. Please contact our office with any questions regarding your specific situation.

- **What are the General Qualifications?**

- You must use part of your home exclusively and regularly as your principal place of business or as a place where you meet patients, clients, or customers.
- You have a separate structure, that is not attached to your home, you use exclusively and regularly for your business.
- You regularly store inventory or product samples at your home.
- You use your home as a day care facility.

- **What are the Requirements to Qualify as a Principal Place of Business?** Your home office should qualify as your principal place of business if either of the below situations apply.

- Your home office must be used for administrative/management activities and you have no other fixed location where you conduct substantial administrative/management activities.
- Your home office meets the comparative analysis test which is determined by 1) the relative importance of your business activities in each work location and 2) the amount of time spent at each location.

- **What Expenses Qualify for the Deduction?**

- Rent, mortgage interest, real estate taxes, and depreciation.
- Direct expenses related entirely to your home office such as painting, repairs, etc.
- Indirect expenses for keeping up your entire home such as insurance, utilities, security systems, certain services, and general repairs.
- Expenses that do not qualify are any expense related to a part of your home not used for business and your basic local telephone service. Lawn care and landscaping are also not allowed if they are unrelated to your business.

- **How is the Deduction Determined?**

- For a regular home office, the deduction is generally determined by the business use percentage of your home. The business use percentage is the square footage of your home office area divided by your square footage of your whole house.
- For a day care, the deduction is generally determined by the hours your home is used for your day care business divided by the total hours in the year.
- **New Optional Simplified Method** – If you qualify for a home office deduction, you may qualify to use the new simplified home office method which allows a deduction of \$5 per square foot up to a maximum of 300 square feet.

- **Limitations:**

- Your home office deduction is limited by your business income.
 - If you sell your home, part of your gain may be taxable if you claimed a home office deduction in prior years.
- **For More Information:** Please see the IRS publication number 587. You will find the publication on the IRS website at www.irs.gov.