WALLETKEEPING'S

Home Office Deduction Guide

Hey, I'm Sara!

All the tax deductions you can take advantage of when you're self-employed are a fun bonus, but it's not just a free-for-all to deduct everything!

This guide focuses specifically on the home office deduction and answers these questions:

- Who qualifies?
- How do you calculate it?
- Which expenses count?
- What are the cons?

Keep reading to learn more about how you can turn your home office into a tax savings strategy!

The information provided in this guide is for informational purposes only and is not intended to be tax advice. While every effort has been made to ensure the accuracy of this content, you should consult with your tax accountant for advice specific to your individual situation.

Can I deduct expenses for my home office?

First, let's cover one of the biggest home office deduction misconceptions: If you're an employee, you generally can NOT deduct your home office expenses for federal tax purposes (although some states do allow for this deduction).

Could you have sworn your co-worker was deducting their home office a few years ago? The tax law that previously allowed for that deduction has changed!

The Tax Cut and Jobs Act (TCJA) removed the 2% unreimbursed employee business expenses for more employees for 2018-2025. However, certain taxpayers, including Armed Forces reservists, are still eligible for this deduction.

Now, what if you're self-employed? Then, you've got to meet these qualifications for a home office deduction*:

- Your home office is your principal place of business
- Your home office is used regularly and exclusively for business purposes

*Exceptions apply to home daycare providers and businesses that store inventory at the home.

So, what do the IRS rules actually mean?

REGULAR USE: The IRS looks at facts and circumstances to determine what constitutes regular use of your home office. If you only use the space sporadically or occasionally, this may violate this requirement.

EXCLUSIVE USE: Your home office space must be used ONLY for business in order to meet this qualification. If you or someone else in your household is using your home office space for non-business purposes, this can disqualify your home office from the deduction.

PRINCIPAL PLACE OF BUSINESS: Your home office should be considered your principal place of business where you're meeting with clients or using your home office to conduct business (even managerial or administrative tasks).

You can only deduct your home office for the time that it was regularly and exclusively used as your principal place of business. For example, if you converted your spare bedroom into a home office and started working there in April, you can only deduct qualifying expenses from April through the end of the year.

If you're in doubt about whether your home office meets all of the necessary tests, consult with your tax accountant. Keeping clean, clear business records is necessary to substantiate your claims.

Which home office expenses can I deduct?

When it comes to deductible home office expenses, you're going to have two categories: direct and indirect expenses.

DIRECT EXPENSES: These are expenses that apply to your home office and your home office ONLY. For example, you're repainting your home office or installing specific lighting. Direct expenses are fully deductible.

INDIRECT EXPENSES: These are expenses that apply to the whole house but do indirectly apply to your home office, such as your property taxes or utility bill. These expenses are partially deductible depending on your business use percentage.

Common Home Office

EXPENSES CHECKLIST

DIRECT

- [ ] Home Office Specific Repairs & Maintenance
- [ ] Window Treatments For Home Office
- [ ] Home Office Specific Electrical Upgrades
- [ ] Sound Proofing Home Office
- [ ] Second Phone Line For Home Office
- [ ] Painting Home Office Only

INDIRECT

- [ ] Internet/Utilities
- [ ] Mortgage Interest (if home is owned)
- [ ] Rent (if home is rented)
- [ ] Property Taxes
- [ ] Homeowner's Insurance
- [ ] Depreciation (if home is owned)
- [ ] Cleaning Services
- [ ] Security Services

How do I calculate my home office deduction?

There are two methods for calculating your home office deduction: the simplified method and the actual method.

The simplified method is intended to reduce the burden on the taxpayer by making your home office deduction calculation easier!

SIMPLIFIED METHOD: Find the square footage of your home office (a maximum of 300 sq. ft.) and multiply it by $5. For example, if your home office is 150 sq. ft., using the simplified method, your home office deduction amount is $750.

The maximum deduction allowed when using the simplified method is $1,500.

How do I calculate my home office deduction?

The second method for calculating your home office deduction uses your actual expenses. To use this method, you first need to find the business use percentage of your home

BUSINESS USE PERCENTAGE: Find the square footage of your home office and the square footage of your entire home. Divide the square footage of your home office by that of your entire home to find your business use.

ACTUAL METHOD: You'll apply your business use percentage to indirect home office expenses. For example, if your home office is 150 sq. ft. and your entire home is 2,000 sq. ft., your business use percentage is 7.5%.

First, add up all of your indirect home office business expenses. Multiply the sum of your indirect home office business expenses by your business use percentage to find your deductible amount.

Add this deductible amount to the sum of your direct business expenses! IRS Form 8829 will walk you through this calculation. Due to the complexity involved when using the actual method, I recommend working with a qualified tax accountant.

A few other home office things to consider:

DEPRECIATION RECAPTURE: If you're using the actual method and taking depreciation on your home office, you'll be subject to depreciation recapture when you sell your home.

The amount of depreciation you could have taken (even if you didn't take it) can turn into a taxable gain.

DAYCARE OR INVENTORY STORAGE: If you regularly use a part of your home or structure for daycare or storage purposes, the rules for this deduction are different.

As always, consult with a qualified tax accountant for advice regarding your specific tax situation.

Let’s Connect!

I’m passionate about helping small business owners make sense of their finances, bringing a level of organization and attention that makes all the difference. I’m here to ensure everything is in order, so you can focus on what you do best.

BOOK A CALL WITH ME

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