

## **When is a home office deduction is actually deductible?**

“I am working from home; can I deduct my house?” Ok, it may not be that direct but we are getting several questions this year about deductible expenses of the home office.

Our first question is: Are you self-employed or are you an employee?

Self-employed individuals can claim a deduction for their home office. If you are employed by others, telecommuting, you cannot claim the home office deduction, even if you set aside a portion of your home as an office. In this case, the best plan would be to ask your employer to reimburse you for these expenses. (some states may allow a deduction for unreimbursed employee business expenses)

## **Home Office Deduction:**

If you are eligible for the home office deduction, you must pass the hurdle of: the portion of your home must be *exclusively* used on a regular basis for business purposes.

Two methods to deduct Home office Expenses:

- The Simplified Option
- The Regular Method

The Simplified Option:

- \$5 standard deduction per square foot of home used for business up to 300 square feet or \$1,500.
- No deduction for depreciation of the home and later no depreciation recapture.
- Home related itemized deductions, interest and real estate taxes claimed in full on Schedule A.
- Deduction cannot exceed gross income of the business. (no carryover)
- Recordkeeping significantly reduced.

The Regular Method:

- The percentage of the home used for business is used.
- Actual expenses used and records must be maintained.
- Home related itemized deductions i.e. mortgage interest and real estate taxes are apportioned between Schedule A and business schedule (C or F).
- Depreciation deducted for portion of home used for business.
- Recapture of depreciation on gain upon sale of home.
- Deduction cannot exceed gross income of the business. Amount in excess of gross income can be carried over.

If you have any further questions on the deduction, please feel free to reach out to us for any inquiries or concerns you may have.