

## **The Home Office Deduction: Know the Do's and Don'ts**

Tax rules regarding the home office deduction have changed a lot over the years.

The law allows consultants, salespeople, and other self-employed workers to deduct home office expenses. So -- are you permitted to deduct home office expenses if you do your administrative or management work at home and have no other office, even though you provide services or see customers away from the home office? As usual the answer is: "It depends."

The deduction is permitted if you:

1. Use a portion of your dwelling exclusively as your principal place of business on a regular basis;
2. Use a portion of your dwelling to perform important business functions for which no other space is available;
3. Use a portion of your dwelling exclusively as a place of business to meet with patients, clients, or customers;
4. Use a separate structure – not attached to the dwelling – exclusively in connection with your trade or business; or
5. Engage in the trade or business of selling products and regularly use a portion of your dwelling to store products or samples.

The deduction is claimed by including a Form 8829 in your Individual Income Tax Return. Whether you claim depreciation or not, you must still file the Form 8829 to claim any portion of residential taxes, utilities, insurance, etc., as trade or business expenses.

Internal Revenue Code Section 280A(e)(6) does not permit deductions related to rental of a portion of an employee's residence to her or his employer. That limitation effectively blocks deductions (other than taxes and mortgage interest that are deductible anyway) for renting part of your home to your S corporation.

**We can explain the details of these rules. We know what documentation you need and how to prepare the Form 8829 to claim this important tax benefit. Just give us a call.**