

Home Work: Deducting Your Home Office

With the rise of cell phones and the Internet - not to mention a growing fluidity to employment situations - more Americans are choosing to telecommute and work from home.



The tax deduction for home-office expenses is among the most misunderstood and misused (if not unused) tax questions faced by those who work from home. One of the enduring myths is that the deduction is a good way to trigger an IRS audit. This article seeks to clarify the deduction and put those fears to rest for whom the home-office tax deduction is a legitimate business expense.

When Can Home Office Expenses Be Deducted?

The costs associated with maintaining a home office can be deducted only if strict IRS guidelines are met - generally that the office is used exclusively for business purposes. A spare bedroom where your mother-in-law stays while visiting from out of town, a corner of your downstairs family room, the nook in your master bedroom ... these types of home-office spaces rarely qualify under IRS rules.

The Taxpayer Relief Act of 1997 has eased the requirements for determining if the costs associated with a home office can be deducted. The new law states that a home office qualifies as a "principal place of business" if (1) the taxpayer uses the office to conduct administrative or management activities of a trade or business and (2) there is no other fixed location of the trade or business where the taxpayer conducts substantial administrative or management activities of the trade or business.

Deductions will continue to be allowed for a home office meeting the above two-part test only if the taxpayer uses the office exclusively on a regular basis as a place of business and, in the case of an employee, only if such exclusive use is for the employer's convenience.

Home Office Deduction Limits

The home office deduction is limited to the gross income from the activity, reduced by expenses that would otherwise be deductible (such as mortgage interest and taxes) and all other expenses related to the activities that are not house-related. A deduction isn't allowed to the extent that it creates or increases a net loss from the activity. Any disallowed deduction may be carried over to future years.

As part of its stated mission to be "kinder and gentler" to taxpayers, the IRS has eased guidelines somewhat on those taking deductions for their home offices. However, it's a good idea to solicit the advice of a knowledgeable professional to ensure you meet all the requirements before taking this deduction. We can help.

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