

FAQs about Home Office Deductions

In the past, home office deductions were available to a wide range of taxpayers, including certain employees who worked from home. But the Tax Cuts and Jobs Act (TCJA) has effectively eliminated home office deductions for employees through 2025. Fortunately, many self-employed individuals can still claim deductions — even if they don't itemize deductions on their tax returns.

Who Qualifies?

To qualify for home office deductions under current tax law, you must use at least part of your home "regularly and exclusively" as either:

- Your principal place of business, or
- A place to meet or deal with customers, clients or patients in the normal course of business.

In addition, you may be able to claim deductions for a separate structure where you store products or tools used in your business, like a barn or shed, as long as it's used solely for business purposes.

Regular and exclusive use means you consistently use a specific identifiable area in your home for business, although incidental or occasional personal use won't necessarily disqualify you. Also, you don't have to cordon off the area used regularly and exclusively for business, although this certainly can be helpful if a room is also used personally for other reasons.

Another potential obstacle to qualifying for this deduction is the rule that the home office must be your "principal place of business." The IRS may challenge deductions if you work from multiple locations and claim your home office as your main workplace.

However, your home office will qualify as your principal place of business if it's used regularly and exclusively for administrative or management activities, so long as you don't have any other fixed location for conducting these activities. For example, this opens the door to deductions for physicians who work at several hospitals.

How Did the TCJA Affect Deductions?

Under prior tax law, if you were an employee, you could deduct unreimbursed home office expenses as employee business expenses, subject to a floor of 2% of adjusted gross income (AGI) for all your miscellaneous expenses. To qualify under prior law, a home office must have been used for the "convenience" of your employer. Typically, this was written into an employment contract.

For instance, if you had an AGI of \$100,000, the 2%-of-AGI threshold was \$2,000 ($\$100,000 \times 2\%$). So, if you had \$5,000 in annual miscellaneous expenses, including home office expenses required by your employer by contract, you could deduct \$3,000 ($\$5,000 - \$2,000$).

Unfortunately, the TCJA suspends the deduction for miscellaneous expenses through 2025. Absent further action from Congress, employees won't be able to benefit from this tax break for a while. However, deductions are still often available to self-employed taxpayers.

What Expenses Are Deductible?

It's common for self-employed individuals to maintain a home office. Assuming you qualify, you can write off the full amount of your "direct expenses" and a proportionate amount of your "indirect expenses" based on business use.

Some examples of direct expenses are having the office painted, repaired or cleaned. Indirect expenses include:

- Mortgage interest,
- Property taxes,
- Telephone cost of a separate business line and/or fax,
- Utilities (such as electric, gas and water),
- Insurance,
- Repairs and maintenance outside of home,
- Home security system fees, and
- Depreciation (based on special IRS tables).

For example, suppose you incur \$2,000 in direct home office expenses and \$10,000 in indirect expenses in 2019. You have a 3,000-square-foot home and use a 300-square-foot room as your office, so the applicable business percentage of the home is 10% ($300 \div 3,000$). Thus, you can claim a \$1,000 deduction for those expenses ($\$10,000 \times 10\%$). Accordingly, your total deduction is \$3,000 (\$2,000 of direct expenses and \$1,000 of indirect expenses).

Important: You can't double up on deductions for mortgage interest and property taxes. If you claim a home office deduction, you must reduce the amount of itemized deductions you take for these items.

How Can You Get a Bigger Deduction?

You can maximize the benefits of the home office deduction on your 2019 return with a couple of astute tax choices.

Consider using the traditional method, not the simplified method. Prior to 2014, qualified taxpayers generally deducted home office expenses based on a combination of direct and indirect expenses. But this requires detailed recordkeeping and hard work. For instance, you must have records of all of your utilities expenses for the year to claim a percentage of those expenses.

Under current tax law, the IRS offers a simplified method. First, establish the square footage of your home that's used as an office. Second, deduct \$5 per square foot of home office space, up to a maximum of \$1,500. That's much easier than calculating the deduction based on actual expenses. But, when you compare these two methods, the traditional method will often produce a bigger deduction. If you have the necessary records, you might bypass the simplified method.

Let's continue with the prior example where you used 10% of your 3,000-square-foot home as an office. Based on the facts presented, with the traditional method you could deduct \$3,000 in home office expenses, which can include \$2,000 of direct expenses and \$1,000 of indirect expenses. If you opt for the simplified method, your deduction is limited to \$1,500 — half of what it comes to under the traditional method.

Be aware that you may switch between the traditional and simplified methods from year to year. Once you pick, you aren't locked into either method for future tax years.

Evaluate the difference between the square footage method and the rooms method. Generally, the method for determining the allocable business-use percentage for purposes of the home office deduction is based on the square footage of the office divided by the total square footage of the home. A 300-square-foot office in a 3,000-square-foot home results in a 10% business-use percentage.

However, the IRS says you can use any reasonable method for determining the business-use percentage. It has previously allowed deductions based on the number of rooms. For example, say that the home office in our example is one out of eight rooms in the home. In that case, basing the deduction on the number of rooms would result in a business-use percentage of 12.5%.

Important: You may have to recapture some of the tax benefits of claiming depreciation for a home office if you subsequently sell the home.

Need Help?

Many taxpayers have questions about the current rules for deducting home office expenses. We can help you determine if you're eligible for a home office deduction and, if so, use the appropriate method for getting the biggest possible deduction that will pass IRS muster.

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