

Do you run your business from home? You might be eligible for home office deductions

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If you're self-employed and work out of an office in your home, you may be entitled to home office deductions. However, you must satisfy strict rules.

If you qualify, you can deduct the "direct expenses" of the home office. This includes the costs of painting or repairing the home office and depreciation deductions for furniture and fixtures used there. You can also deduct the "indirect" expenses of maintaining the office. This includes the allocable share of utility costs, depreciation and insurance for your home, as well as the allocable share of mortgage interest, real estate taxes and casualty losses.

In addition, if your home office is your "principal place of business," the costs of traveling between your home office and other work locations are deductible transportation expenses, rather than nondeductible commuting costs. And, generally, you can deduct the cost (reduced by the percentage of non-business use) of computers and related equipment that you use in your home office, in the year that they're placed into service.

Deduction tests

You can deduct your expenses if you meet any of these three tests:

Principal place of business. You're entitled to deductions if you use your home office, exclusively and regularly, as your principal place of business. Your home office is your principal place of business if it satisfies one of two tests. You satisfy the "management or administrative activities test" if you use your home office for administrative or management activities of your business, and you meet certain other requirements. You meet the "relative importance test" if your home office is the most important place where you conduct business, compared with all the other locations where you conduct that business.

Meeting place. You're entitled to home office deductions if you use your home office, exclusively and regularly, to meet or deal with patients, clients, or customers. The patients, clients or customers must physically come to the office.

Separate structure. You're entitled to home office deductions for a home office, used exclusively and regularly for business, that's located in a separate unattached structure on the same property as your home. For example, this could be in an unattached garage, artist's studio or workshop.

You may also be able to deduct the expenses of certain storage space for storing inventory or product samples. If you're in the business of selling products at retail or wholesale, and if your home is your sole fixed business location, you can deduct home expenses allocable to space that you use to store inventory or product samples.

Deduction limitations

The amount of your home office deductions is subject to limitations based on the income attributable to your use of the office, your residence-based deductions that aren't dependent on use of your home for business (such as mortgage interest and real estate taxes), and your business deductions that aren't attributable to your use of the home office. But any home office expenses that can't be deducted because of these limitations can be carried over and deducted in later years.

Selling the home

Be aware that if you sell — at a profit — a home that contains (or contained) a home office, there may be tax implications. We can explain them to you.

Pin down the best tax treatment

Proper planning can be the key to claiming the maximum deduction for your home office expenses. Please contact us if you'd like to discuss your situation.

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