

## Difficult Home Office Rules

Prior to 2018, many taxpayers who worked from home were eligible to deduct the cost of their qualified home office as a miscellaneous itemized deduction on Schedule A of their individual income tax return. But the home office and all other miscellaneous itemized deductions were eliminated under the Tax Cuts and Jobs Act (TCJA). So now home offices on the individual income tax return are only deductible for a self-employed proprietor (Schedule C), a partner (Schedule E) or a farmer (Schedule F). So, if you are an employee paid via the W-2 Form, you are left out in the cold, unless you are able to rent the space to your employer because the arrangement is for the employer's benefit.



### IRS "Home Office" for Those Who Qualify

To be considered a home office, the area must be regularly used exclusively for your self-employed business. It also must be your primary place of business or a separate structure used in connection with your business. Although, there is no requirement that it be partitioned off from other areas with a wall or other barrier.

Since the home office deduction may be a helpful tax savings tool and relatively easy to abuse, there are some stringent tests to pass in order to qualify for this deduction, but making some small, technical changes may qualify the write-off.

Abuse is easy because nearly every taxpayer has a home and can "claim" home office business use. Many folks who believe they qualify for a home office deduction are mistaken. However, some businesspeople can move their home office space from nondeductible to deductible by making some minor, technical changes to the way they operate.

You must meet one of the three **USAGE** requirements to qualify the home office:

- ❖ **Separate structures.** The costs of a separate structure that isn't attached to your dwelling unit that is used exclusively and regularly for your activities as an employee or business owner may be deducted.



- ❖ Used for **meeting** customers, clients or patients. If you use your home office exclusively and regularly to physically meet or deal with business customers (not merely telephone or electronically communicate) in the normal course of your duties as an employee or business owner, the home office expenses may be deducted.



- ❖ **Principal place** of business. If the home office is used exclusively and regularly as the principal place of business for your work as an employee or business owner, the home office expenses may be deducted. You must either spend the majority of your working time in the home office or it must be the only suitable



fixed location to perform administrative or management activities required by your work. 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 regularly (but not necessarily exclusively) to store inventory or product samples.

- ❖ **Special exceptions** to the usage requirements exist for storage of products or daycare facilities.

In addition to meeting one of the three usage requirements, you must also meet the **EXCLUSIVE** and **ONGOING** requirements to qualify the home office:

- ❖ **Exclusive Use:** You must use the space absolutely only for the purpose of carrying on your work. Any other use of the room will result in loss of all deductions for the home office expenses. For example, if you have a television in the room, personal bills in a drawer, games on the computer or use the room as little as once a year for a family party or to accommodate guests, the space fails the exclusive use requirement. However, if your home business is a daycare facility or an operation that requires the storage of inventory or samples, you may qualify to bypass the exclusive use hurdle.
- ❖ **Regular Use:** The regular basis requirement means that you must use the home office in connection with your work on a continuous, ongoing or recurring basis. A guideline is a few hours a week, every week (perhaps monthly depending on facts and circumstances), but occasional or sporadic business usage will not pass the test.

## The Payoff: Some Great Income & Self-Employment Tax Write-Offs

If your home office qualifies under the usage, exclusivity and regular use requirements, some extremely valuable tax deductions are available, as follows:

- ❖ **Vehicle Travel Expenses.** Generally, the largest benefit is actually not the home related expenses, but vehicle expenses. The costs of travelling between your home office and other work locations in the same trade or business, either regularly or temporarily, and regardless of its distance (metropolitan region test), are deductible transportation expenses, rather than nondeductible commuting costs. See our article regarding the vehicle expense deduction at: [Vehicle Expense Deduction](#)



- ❖ **Direct Office Expenses.** The costs of preparing and maintaining the office space, such as painting, repairing and furnishing, are either directly deductible or depreciable.

Form <b>8829</b>	<b>Expenses for Business Use of Your Home</b>	OMB No. 1545-0047
Department of the Treasury Internal Revenue Service (99)	► File only with Schedule C (Form 1040 or 1040-SR). Use a separate Form 8829 for each home you used for business during the year. ► Go to <a href="http://www.irs.gov/Form8829">www.irs.gov/Form8829</a> for instructions and the latest information.	20 Attachment Sequence
Name(s) of proprietor(s)		Your social security number

- ❖ **Indirect Expenses.** The pro-rata costs of the home including utilities, insurance, maintenance, fees, mortgage interest, real estate taxes and depreciation.



Contact us to assist us with any of these business tax matters. You may call us at 407-847-7466 or email us at [taxes@sbc-cpa.com](mailto:taxes@sbc-cpa.com).

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