

Home Office

Whether it's a desire to hold down expenses while starting a new business, or simply a matter of telecommuting a few days a month, a home office can be a great place to get the work done. But what about the tax ramifications of such an arrangement? Will Uncle Sam help pick up part of the costs?

If you're an employee, the answer is typically "No." The business use of the home must be for the employer's convenience (tough to prove if you have a regular office) and the space must be used exclusively and regularly for job-related activities.

If you're self-employed, claiming deductions is generally easier. The space must be used regularly and exclusively as (1) a principal place of business, (2) a place to meet or deal with clients/customers, or (3) a separate structure (such as a detached garage or barn) used in connection with the business.

Any deduction allowed is limited to the business's net income. Thus, it can't create or increase a business loss. However, any expenses disallowed because of this limitation can be carried over to later years (subject to the same net income limitation). Having a qualifying home office can also help you deduct more of your transportation costs because going from your home to another business site then becomes a deductible trip.

If you think you qualify for a home office deduction, please call us so we can go over all the rules and discuss such issues as what the tax implications are when the house is sold.