

Deducting Home Office Expenses

Costs associated with maintaining a home office (for example, rent, utilities, insurance, repairs, and depreciation) may be deductible. If the office space is also used for personal reasons, the entire home office deduction is usually lost. However, expenses such as qualifying mortgage interest and property taxes are generally deductible regardless of whether a home office qualifies for other deductions. Commuting from home to a workplace is usually nondeductible. However, if the home office is the principal place of business, transportation from the home to other work locations (if in the same trade or business) is deductible. Also, transportation to a temporary workplace or between two workplaces other than the home may be deductible. To deduct the costs of maintaining a home office, a self-employed taxpayer must use the space exclusively and regularly as: (1) a principal place of business, (2) a place to meet or deal with clients and customers in the normal course of business, or (3) a place used in connection with a business if the space is in a separate structure apart from the residence (e.g., a barn or detached garage). However, a home office does not need to be a separate room or permanently partitioned portion of a room. Any separately identifiable area can serve as an office. Regular use means the taxpayer uses the home office space on a continuing basis. Exclusive use means the taxpayer uses the space only for business purposes. Both requirements must be met. Personal use, even after business hours, causes the costs of maintaining the office to become nondeductible. There are two exceptions to the exclusive use rule: (1) storage of inventory (including product samples), and (2) certain daycare facilities. Space in the home used for these two purposes can also be used for personal purposes.

Example: Home office deduction. Taylor is a self-employed anesthesiologist. She spends the majority of her time administering anesthesia and postoperative care in three local hospitals. One of the hospitals provides her with a small shared office where she could conduct administrative or management activities. However, she instead chooses to use a room in her home that she has converted to an office. The room is used regularly and exclusively (1) to contact patients, surgeons, and hospitals regarding scheduling and to prepare for treatments; (2) to prepare and maintain billing records and patient logs; and (3) to read medical journals and books. Taylor's home office will qualify as a principal place of business because of the administrative and management activities she conducts there. Because she is self-employed, her choice to use her home office rather than the one provided by one of the hospitals does not disqualify her deduction. Employees may also claim home office deductions. However, the business use of the home must be for the employer's convenience and

the space must be used exclusively and regularly for job-related activities. As a practical matter, it is often difficult for employees to pass these tests. Expenses of a home office are deductible if the office meets certain criteria. Structuring the business so that the home qualifies as a principal place of business may also yield additional deductible transportation expenses, since the cost of commuting from the principal place of business (including a home) to other workplaces is deductible.