

Tax deductions for your home office

Many people are working from home these days, but are your home office expenses deductible for income tax purposes? If you are self-employed, or if you own an interest in your business, you may be able to deduct certain expenses for the part of your home used exclusively for business, commonly known as “business use of home deductions.” Unfortunately, if you are an employee but not an owner of the business, you are no longer allowed to take this deduction as a miscellaneous itemized deduction, following passage of the Tax Cuts and Jobs Act of 2017. Some examples of arrangements that do qualify for the business use of a home that qualify for a tax deduction are:

1. A portion of your home is used exclusively on a regular basis as the principal place of business for your trade or business.
2. A portion of your home is used exclusively on a regular basis to meet or deal with your clients or customers in the normal course of your trade or business.
3. A separate structure that's not attached to your home, used exclusively on a regular basis in connection with your trade or business.

A portion of your home is used on a regular basis for storage of inventory or product samples used in your trade or business of selling products at retail or wholesale, so long as your home is the sole fixed location of such trade or business.

The term “exclusively and on a regular basis” means that the space must be used only for conducting your business and not for personal use. In addition, you must determine that your home is the principal place of your trade or business, after considering where you perform your most important business activities and spend the most time conducting your business.

A portion of your home may also qualify as your principal place of business if you use it for the administrative or management activities of your trade or business and have no other fixed location where you conduct substantial administrative or management activities for that trade or business.

For business storage, your home must be the sole fixed location of your business, but exclusive use isn't required.

Once you have determined that your home office qualifies for the deduction, you can take deductions for direct expenses as well as indirect expenses. Direct expenses are expenses that benefit the business only. Indirect expenses benefit the business as well as the home. The deductible business portion of your indirect expenses is the percentage of the square footage of your home used exclusively for business in relation to the square footage of your home as a whole. For example, if your home office is 300 square feet and your home is 2,000 square feet, the deductible portion of your indirect expenses is 15 percent. Some examples of indirect expenses are: real estate taxes, mortgage interest, rent, utilities, insurance, depreciation, security, landlines, internet, maintenance and repairs. In general, you may not deduct expenses for the parts of your home not used for business, such as landscaping.

Note that certain expenses such as mortgage interest and real estate taxes may also be taken as itemized deductions. If the business portion of your home is 15 percent, then you can deduct 15 percent of your mortgage interest as a business expense and the remaining 85 percent can be taken as an itemized deduction. In addition, claiming the business portion of the depreciation on your home could produce a taxable gain when you sell your home.

There is a safe harbor method to compute the business use of home deduction which is less burdensome and requires less record keeping. Revenue Procedure 2013-13 allows qualifying taxpayers to use a prescribed rate of \$5 per square foot of the portion of the home used for business (up to a maximum of 300 square feet) to compute the income tax deduction. Under this safe harbor method, depreciation is treated as zero and will have no impact on the sale of your home. In addition, if you use the safe harbor method, you may also take 100 percent of your mortgage interest and real estate taxes as itemized deductions.

Please contact me if you have any questions regarding this article or income tax planning in general. ■



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