

# Home Office Deductions

By Rachel Goldstein

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Home office deductions are one of the perks of working from home, however, there are clear drawbacks too. If you meet the IRS guidelines for deducting your home office, you can expect to get a hefty tax break. On the other hand, deducting your home office can increase your chances of getting audited. Additionally, by claiming your home office you can get taxed when selling your home. This article will cover the ins and outs of home office deductions.

## IRS GUIDELINES

Is your home office your "principal place of business"? Is your office used "regularly and exclusively" for business? All of the above questions must be answered with a "yes" if you want to meet IRS guidelines for deducting your home office.

### "PRINCIPAL PLACE OF BUSINESS" -

How do you know if your office can be determined as your principal place of business? Well, do you spend most of your time and make the most of your money from your home office? If you work onsite at a client's office the majority of the time, then you probably aren't eligible. On the other hand, if you perform all of your daily tasks from your home office, you probably are eligible. However, if you are offsite a majority of the day, but come home and perform substantially administrative activities from your home office, you may still be eligible. You cannot perform these administrative activities anywhere else but from your home office.

### "REGULARLY AND EXCLUSIVELY" -

You must use your home office regularly and exclusively. Your office doesn't need to be a separate room, but it does need to be used "regularly and exclusively" for business. This means that you need to keep all family activities and items away from your office. Keep your children off of your computer and your personal mail off of your desk, amongst other things. Additionally, if you have more than one business, you cannot use your home office for your other business. For example, if you are a salaried web designer, you cannot work on projects from your salaried job in your home office.

You have decided that you are eligible for a home office deduction. Now what? I would contact an accountant and make sure that you have made the right decision. Then:

- a. Measure square footage of your entire home
- b. Measure square footage of your home office
- c. Divide office's square footage by your home office's square footage
- d. This number is your percentage....Apply this percentage to indirect expenses, like your mortgage taxes, utility bills, real estate taxes, and upkeep. So, you can deduct a percentage of home-related expenses based on the percentage of space in your home that your home office takes up. So if your house is 5,000 square feet and your office is 500 square feet, you can deduct 10% off indirect expenses and home cost. Don't worry, direct expenses are still deducted in full. For example, don't use the percentage on things such as a business phone line.
- e. Find out home purchase price and add to that all home improvements
- f. Find out the value of land
- g. Find out the market value of your home.

#### REASONS HOME OFFICE DEDUCTIONS ARE SOMETIMES NOT WISE TO TAKE

Yes, taking a home office deduction sounds like a great idea, but remember there is a downside too. If you deduct your home office, your office may be considered business property. This means that you will need to pay taxes on the amount the business depreciated when you sell your house. Because of this, a home office deduction might not be profitable for you. You might save a few hundred dollars every year with the home office deduction, but have to pay thousands of dollars when you sell the house. Because of this, I recommend visiting a tax accountant before deducting a home office.

Another reason not to take the home office deduction is because the IRS might decide to audit your business when they see your home office deduction. Taking this deduction is like throwing a red flag in front of the IRS, so it is up to you whether you want to take the risk and deduct your home office.

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