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## MAXIMIZING THE HOME OFFICE TAX DEDUCTION

Technological advancements such as remote access and corporate cost-cutting strategies are allowing more people than ever to work exclusively from home. Business owners are also finding out that running a home-based office versus a traditional office not only reduces overhead, but also often leads to more productivity. As we approach the upcoming tax season, many clients are asking about the home office tax deduction and how they can claim this valuable deduction.

In order to qualify for the home office deduction, the IRS requires you to use the home office exclusively and regularly as your principal place of business. This specific rule is often a source of confusion. The IRS clearly states that a home office used for both business and personal purposes would not be allowed under the aforementioned rule. Another stipulation falls

on those who are classified as employees and work from their home. If you are an employee and use part of your home for business purposes, your business use of the home must be for the convenience of the employer in order to qualify for the deduction. For example, a teacher employed by a school cannot take the home office deduction if the school provides the teacher with an office at the school and does not require the teacher to work from home.

After meeting the principal place of business requirements set forth by the IRS, it is important to determine what type of expenses you can deduct. The following expenses are some of the common expenses deducted under the home office tax deduction:

- Insurance
- Repairs
- Security system
- Utilities
- Cleaning services
- Real estate taxes
- Mortgage interest
- Depreciation

The expenses that are allowable under the home office deduction include only the business percentage of use for the specific expense. Generally, the entire expense cannot be deducted in full under the home office deduction. To determine the percentage of business use, you must normally take the square footage of the business use of the home and divide it

by the entire square footage of the home. For example, if your percentage of business use is 10 percent, and your utility expense for the year is \$4,800, only \$480 of the entire expense would be allowable under the home office deduction.

One of the most important expenses listed above includes the business depreciation of the home. If you own your home and qualify to deduct expenses for its business use, you can claim a deduction for the depreciation of the home. The depreciation expense is an IRS allowance for the wear-and-tear of the business part of your home. Due to the complexity involved in determining such a deduction and the potential capital gains implications upon the sale of your home, it is normally advisable to have your CPA calculate this amount for you.

The home office tax deduction is a valuable tax savings tool if applied correctly. However, taxpayers should be advised that the home office tax deduction could increase the likelihood of an IRS audit due to its potential for abuse. Taxpayers considering this deduction should maintain sound financial records and consult with their CPA regarding their specific situation.

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