



## BUSINESS USE OF THE HOME

Whether you are self-employed or are an employee, you may be able to deduct certain expenses for the part of your home you use for business.

To deduct business-use-of-the-home expenses, part of your home must be used regularly and exclusively as one of the following:

1. Regularly and exclusively as the principal place of business for your trade or business;
2. Regularly and exclusively as the place where you meet and deal with your patients, clients, or customers in the normal course of your trade or business; or
3. In connection with your trade or business, if you use a separate structure that is not attached to your home.

Under the principal-place-of-business test, you must determine that your home is the principal place of your trade or business after considering where your most important activities are performed and most of your time is spent, in order to deduct expenses for the business use of the home.

Your home office will also qualify as your principal place of business for deducting expenses for its use if you meet the following requirements:

1. You use it exclusively and regularly for administrative or management activities of your trade or business; and
2. You have no other fixed location where you conduct substantial administrative or management activities of your trade or business.

In general, because of the exclusive-use rule, you cannot deduct business expenses for any part of your home that you use for both personal and business purposes. For example, if you are an attorney and use the den of your home to write legal briefs and also for personal purposes, you may not deduct any business-use-of-your-home expenses. The only exceptions to the exclusive-use rule are for qualified day-care providers and for persons storing inventory or product samples used in their business.

If you are an employee, additional rules apply. Even if you meet the exclusive and regular use tests, you cannot take any deductions for the business use of your home unless:

- the business use of your home is for the convenience of your employer; and
- you do not rent any part of your home to your employer and use the rented part to perform services as an employee.

Deductible expenses for business use of your home include the business portion of real estate taxes, deductible mortgage interest, rent, casualty losses, utilities, insurance, depreciation, maintenance and repairs. You may not deduct expenses for lawn care in general or for painting a room not used for business.

When figuring the amount you can deduct for the business use of your home, you can use the entire amount of expenses attributable solely to the entire amount of the home used in your business. The amount you can deduct for expenses attributable to the whole house depends on the percentage of your home used for business. To figure this percentage you may divide the number of square feet used for the business by the total square feet in your home. Or, if the rooms are approximately the same size, divide the number of rooms used for the business by the total number of rooms in your home. You figure the business portion of your expenses by applying this percentage to the total of each expense. Qualified day-care providers must account for personal use of any area not used exclusively for business when calculating the percentage of the home used for business.

If your gross income from the business use of your home is less than your total business expenses, your deduction for certain expenses for the business use of your home is limited. However, those business expenses that can not be deducted because of the gross income limitation can be carried forward to the next year but will be subject to the deduction limit for that year.

If you are in the business of farming or are an employee, use the worksheet in IRS Publication 587, *Business Use of Your Home*, (including use by daycare providers) to figure your deduction. As an employee, you must itemize deductions on IRS Schedule A Form 1040 to claim expenses for the business use of your home. Farmers claim their expenses on IRS Schedule F Form 1040. If you are self-employed, use IRS Form 8829 to figure your business-use-of-the-home deductions and report those deductions on IRS Schedule C Form 1040.

IRS Publication 587 has detailed information on rules for the business use of your home, including how to determine if your home qualifies as your principal place of business.