

Duvall & Associates, Inc.

Taking Care of Business

TAX BENEFITS OF A HOME OFFICE

"There was work at home to be done." Doobie Brothers

Here I am tippy-tapping away on my computer in my home den when I glance around and wonder - Hey, can I get some tax deductions out of this place?

Maybe. The golden rule is the IRS frowns upon home office deductions when the taxpayer has another work office readily available for use. If you are an employee, to be itemize deductible the office must initially be required as a condition of employment (not merely appropriate and helpful) and no on-site office space is available.

For eligible employees and self-employed individuals, home office deductions are available if at least one of three tests are met.

First, is the home space exclusively used on a regular basis as a principal place of business? Second, is the home office a place you meet customers or patients in the normal course of business. Third, is the home office housed in a structure unattached to the residence.

If the combination is right to qualify for a home office, the vault can be opened for numerous tax deductions such as repairs and maintenance directly associated with the space. Telephone charges are deductible for business long distance and second line expenses.

Direct expenses include furniture, fixtures and equipment used in the office. Particularly note that you can deduct previously "personal" stuff converted to business use. For example, if you move an old desk, lamp & chair into the room that stuff can now be deducted based upon original cost. Carpet, blinds and like fixtures may also be deducted.

Other expenses can be indirectly deducted such as utilities, insurance, real estate interest and taxes (or rent if applicable), based upon the portion of space the home office occupies relative to the entire residence. The space does not have to occupy an entire room so long as a fraction of a room is exclusively used as an office. Federal Form 8829 provides a roadmap for the formula.

A section of the owned residence can even be depreciated if desired. Caution is urged in this regard since depreciation effectively converts a portion of the house to business property. Thus some of the potentially tax-free gain on sale of the residence may become taxable.

Normally, commuting expenses to your place of business are not deductible. But a great advantage of a home office is it creates a deduction for any travel expenses from your residence base of operations.

So sit up in your home office chair and seize the deduction.

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