The Home Office Deduction

The home office deduction allows qualifying taxpayers to deduct certain home expenses on their tax return.

With more people working from home some taxpayers may be able to claim a home office deduction when they file their 2020 tax return next year.

The following are some of the rules that relate to the home office deduction, and whether you can benefit:

- First, and foremost for federal purposes any W2 employees is not eligible to claim the home office deduction based upon the Tax Cut and Jobs Act (TCJA) passed in 2017, and effective for all tax years starting in 2018, and expiring in 2025. Many states such as California still allow the deduction; therefore it is important to know the rules.
- You may not take a home office deduction if you have an office provided, and available to you by your employer.
- The home office deduction is available to both homeowners and renters who are not W2 employees.

Expenses that can be deducted for those qualified in taking the deduction are as follows:

- mortgage interest;
- insurance;
- utilities;
- repairs;
- maintenance;
- depreciation;
- Rent.

Taxpayers must meet specific requirements to claim home expenses as a deduction. Even then, the deductible amount of these types of expenses may be limited.
The term "home" for purposes of this deduction:

- Includes a house, apartment, condominium, mobile home, boat or similar property.
- Also includes structures on the property. These are places like an unattached garage, studio, barn or greenhouse.
- Doesn’t include any part of the taxpayer’s property used exclusively as a hotel, motel, inn or similar business.

There are two basic requirements for the taxpayer’s home to qualify as a deduction:

- There must be exclusive use of a portion of the home for conducting business on a regular basis. For example, a taxpayer who uses an extra room to run their business can take a home office deduction only for that extra room so long as it is used both regularly and exclusively for business purposes.

- The home must be the taxpayer’s principal place of business. A taxpayer can also meet this requirement if administrative or management activities are conducted at the home and there is no other location to perform these duties, therefore, someone who conducts business outside of their home but also uses their home to conduct business may still qualify for a home office deduction.

- Expenses that relate to a separate structure not attached to the home will qualify for a home office deduction. It will qualify only if the structure is used exclusively and regularly for business.

Those who qualify may choose one of two methods to calculate their home office expense deduction, either actual expenses, or the optional method as provided by the IRS.

The rules for the Optional Method are as follows:

- The simplified option has a rate of $5 a square foot for business use of the home.
- The maximum size for this option is 300 square feet.
- The maximum deduction under this method is $1,500.

When using the regular method, deductions for a home office are based on the percentage of the home devoted to business use. Those who use a whole room or part of a room for conducting their business need to figure out the percentage of the home used for business activities to deduct indirect expenses. Direct expenses are deducted in full to the extent of the allowable percentage of use.
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