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What You Need to Know About Home Office Deduction Rules Susan L. Kams, C.P.A.

Clients often ask about the appropriate deductions for the business use of their home. We are providing a brief overview of the rules here, but recognize that each situation is different. We would be happy to speak with you about the details of your situation.

If you are an employee (someone who receives a W-2 from their employer) and normally works at your employer's office, you probably won't be able to claim any deduction for a home office. The office must be for the convenience of your employer, not for your own, and be specifically required by your employer. This requirement is very hard to meet. If you are required to telecommute and don't have office space at your employer's office you may be able to qualify if you use the office exclusively for business. However, even if you can pass this test, any home office expense is only deductible as an itemized deduction subject to 2% of your adjusted gross income. This deduction can also subject you to the AMT (Alternative Minimum Tax).

However, if you are self-employed, there are many advantages to being able to claim and deduct a home office. If your home office qualifies as your principal place of business, the costs of travelling between your home office and other work locations in that business are deductible transportation expenses, rather than commuting costs. We want to remind you that you must keep a log of your business miles if you want to take a deduction. If there is no log, there can be no deduction. All allowable home office expenses can be used to offset your income from the business, thereby saving not only income tax, but self-employment tax as well.

In order to qualify, your home office must be the either principal place of your business (a place for meeting patients, clients or customers) or a separate structure. The office space must be used **exclusively** for that business and on a regular basis. A family room with a desk and file cabinets would not pass the exclusive-use test. If your office qualifies, you can deduct 100% of any expenses that are directly associated with your home office and a percentage of the expenses that relate to your whole house. The percentage depends upon the amount of space of your office compared to the space in the house. You may also deduct expenses allocable to space that is used by your business for storage.

At many of the tax conferences we have attended, we continually hear that the IRS is very serious about reinforcing the home office deduction rules. Agents have been known to "drop by" a home office during business hours to make sure that it is used **exclusively** for business.

Keep in mind the fact that if you sell your residence at a profit, the exclusion for gain on the sale of a principal residence won't apply to the portion of your profit equal to the amount of depreciation that you claimed on the home office in the past. If your home office was a separate structure

(detached garage) the exclusion won't apply to the portion of your profit that is allocable to the home office.

We recognize that everybody's situation is different. We are always happy to speak with you about your specific situation to help clarify what you are eligible for.

About Susan Kams, C.P.A.

Since 1981, Susan L. Kams has been a mainstay at Waldron H. Rand & Company, P.C., providing strategic advice to her clients, specifically related to individual, trust and estate taxation and divorce. Susan spent many years in education, a setting that allowed her to hone her natural talents helping others transition through difficult times. This skill has proven valuable to clients working through complicated tax and financial implications that follow divorce or the death of a loved one. Susan is very active both professionally and within her local community. She is a member of the American Institute of Certified Public Accountants (AICPA) and the Massachusetts Society of Certified Public Accountants (MSCPA).

About Waldron H. Rand & Company, P.C.

Waldron Rand, located in Needham, MA, provides unmatched accounting, auditing, tax, and consulting services to individuals and privately held businesses in a wide range of industries throughout the U.S. and globally.

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