



Transcript for Home Office Deduction

JEAN:

This is Jean Wetzler.

I'm talking with Phyllis Grimes about deducting home office expenses.

Phyllis, more and more small business owners are running businesses out of their homes.

What is, and is not, deductible?

PHYLLIS:

Generally, you may not deduct expenses related to the rent, purchase, maintenance and repair of a personal residence.

However, if you use a portion of your home for business, you may be able to take a home office deduction – if you meet certain requirements.

Deductible expenses might include the business portion of real estate taxes, mortgage interest, rent, utilities, insurance, depreciation, painting and repairs.

Those who work out of their homes are entitled to deduct ordinary and necessary expenses related to the business.

This includes costs related to regular and exclusive business use that can be clearly distinguished from personal use – or reasonably allocated between the two.

JEAN:

You mentioned the terms "regular" and "exclusive" use – what's the distinction?

PHYLLIS:

"Exclusive use" means a specific area of your home is used only for trade or business.

"Regular use" means it's used regularly — not just occasionally or incidentally.

And that's important, because both conditions must apply.

For example, an attorney uses the den in his home to write legal briefs or prepare clients' tax returns.

The family also uses the den for recreation. The den is not used exclusively in the attorney's profession, she can't claim a business deduction for its use.

Also, if you work as someone's employee, you can claim this deduction only if the regular and exclusive business use of the home is for your employer's convenience – not yours – and your employer does not rent the business portion of your home.

JEAN:

Can you tell us some factors to consider when claiming a business deduction for using part of your home?

PHYLLIS:

Yes, here are just a few considerations that would meet the criteria:

You use part of your home exclusively and regularly as your principal place of business;

You meet or deal with patients, clients or customers there;

You have a separate, free-standing structure not attached to the home – such as a studio, garage, or barn – that you use exclusively and regularly for your trade or business;

You have a separate, identifiable part of your home that you use regularly for storage, such as inventory or product samples, as rental property, or as a home daycare facility.

JEAN:

Are personal expenses ever deductible?

PHYLLIS:

No, personal, family and living expenses are not deductible under any circumstances.

A common error is to deduct expenses for a portion of the home that is not used regularly and exclusively for business.

For example, the telephone service charge, including taxes, for the first phone line into a home is a nondeductible personal expense.

However, charges for business long-distance phone calls on that line, and the cost of a second line used exclusively for business, are deductible business expenses.

JEAN:

It sounds like there are a lot of considerations. Where can someone find more information on the home office deduction?

PHYLLIS:

You're right – there are quite a few considerations. It's really important to understand the rules, compute deductions correctly, and keep accurate records to substantiate those deductions.

We have a good publication on our Web site, IRS.gov.

It's Publication 587, Business Use of Your Home.

It has examples, worksheets and additional information on computing the allowable home office deduction.

JEAN:

Thank you, Phyllis.

I've been talking with Phyllis Grimes of the IRS.

This is Jean Wetzler.

Page Last Reviewed or Updated: March 09, 2009