

GSABA MEMBERSHIP

HOME SWEET HOME
OFFICE DEDUCTIONS

INSURANCE FOR
INSURANCE?

Building Savvy

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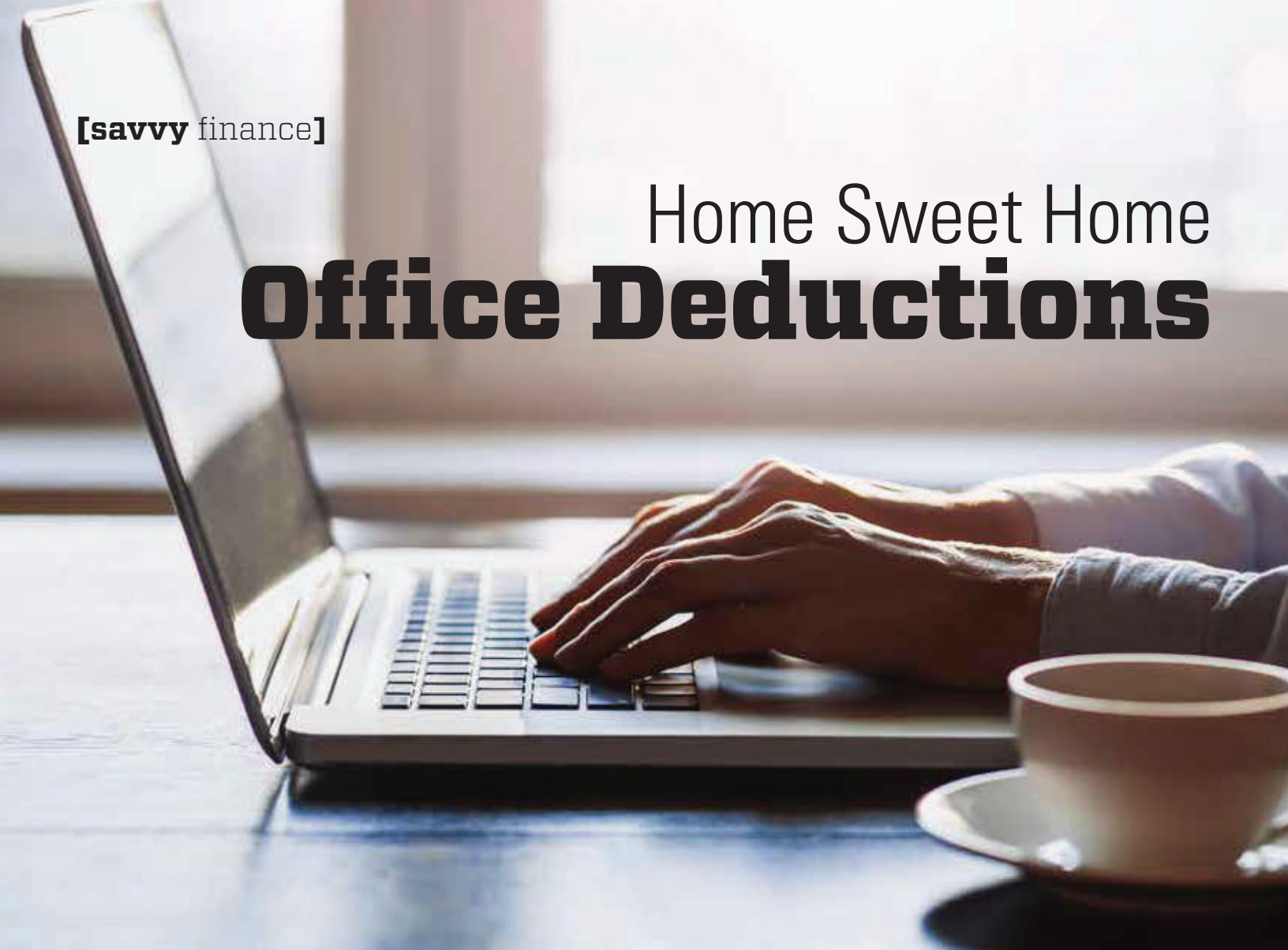
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Home Sweet Home Office Deductions



By Steven Bankler, CPA

Work from home regularly? Many people do these days. Thanks to technology, an increasing number of executives and business owners find that working from home can be just as productive as heading into the office. You can even get a tax deduction for your home office if you meet IRS criteria.

The catch is that fewer workers qualify for the deduction under the current Tax Cuts and Jobs Act. The cost of getting it wrong? Erroneously claiming the deduction is a widely known audit trigger and might lead to the IRS knocking on your door to assess your work area in person.

Is the Home Office Exclusive?

First, determine what part of your home is used regularly and exclusively for business. If you have a laptop and move around the house while you work, from the couch to the patio to the dining table ...that's a problem. To qualify for a deduction, a specific part of your home needs to be dedicated to your business.

The IRS recommends dedicating an extra room or a separate structure like a studio to run your business so that the requirement is clearly met. If you work out of a rarely used guest bedroom or family room, only the portion of the room dedicated to your business (the desk area, for instance) may qualify.

Visual clues like a pool table in the room, a sleeper sofa in the corner, or fictional novels next to business books in the bookshelf may disqualify that room entirely. A possible exception for builders includes areas where you store inventory or product samples.

Is It Your Principal Place of Business?

Second, your home office must be a principal place of business. That doesn't mean you can't work outside the home at all. But it does mean that your home office must be a substantially utilized area during regular business hours including as a place to meet with clients, customers, business partners, and vendors.

Are you an Employee of Your Business?

Some of the biggest losers of the Tax Cuts and Jobs Act enacted in 2018 are employees who choose to work from home. If you're among those individuals, it's more challenging to claim a home office deduction. That's because miscellaneous itemized deductions subject to 2% of adjusted gross income are no longer available. Those now-lost deductions included unreimbursed employee expenses like working from home when it's convenient for you. And if the business pays you rent for your home office, then it's considered rental property and deducted against the rental income on Schedule E, rather than as unreimbursed employee expenses.

One major exception includes working from home for the convenience of your employer, not for yourself. You may still qualify if you're required to work from home either because your employer doesn't have the facilities for you to work from or you're a remote worker living out of commuting range of your employer.

Ways to Deduct

You have a choice of how to deduct your home office from your tax bill. A simplified method allows you to figure your deduction by multiplying a prescribed rate of \$5 by the area of your home used for the qualified business use, up to 300 square feet (so, a total of \$1,500). The regular method calculates the percentage of your home devoted to business use and mortgage interest (in years it was eligible), insurance, utilities, repairs, and depreciation. It's more complicated but, in certain situations, doing the math may be rewarding.

The home office deduction could be a valuable addition to your tax-saving toolkit. Determining your eligibility and calculating the right formula can be tricky, though. It's essential to work with a tax professional to weigh your options. Even if you've been taking the same home office deduction for years, what might have been standard before could be grounds for IRS scrutiny thanks to changing tax laws. ▼

Steven Bankler has more than 40 years of experience in the accounting industry. Steven's expertise lies in consulting, planning, tax, and asset protection as well as exit strategy services for closely held businesses. He also provides litigation support (both as a testifying expert witness and a consulting expert), business negotiations and estate planning. For past Building Savvy tax tips and to learn more about Steven Bankler, CPA, Ltd., visit www.bankler.com

Client: Home Elevator of Texas
Size: 1/3
Location: Standard