

# Getting the Most Out of the Home Office Deduction

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Over the past few months, nature has forced many working Americans and small business owners to work from home. Whether it be due to COVID, natural disasters, or the recent snowstorm that impacted almost all of the lower 48 United States, more Americans are working from home than ever before. A small consolation to working from home is that taxpayers can count part of that heating bill as a home office expense on their tax return.

A taxpayer can do the same if they qualify for the home office deduction. Basically, the taxpayer gets to count a portion of home-related expenses that typically aren't deductible. This includes certain residential maintenance and operational costs, such as utilities. Before cranking up their heat/air conditioning, a taxpayer needs to note a particular portion of the previous sentence: count a portion of home-related expenses.

For example, a taxpayer's house is 2,500 square feet. A taxpayer's home office is a 250-square-foot room. A taxpayer can then claim 10 percent of a taxpayer's annual heating, air conditioning and water bills, as well as other common housing expenses, that make it possible for a taxpayer do their work from there.

People can only deduct the amount of their residence's expenses that apply to their home office. A home office is usually either a separate room or a portion of a room that meets the Internal Revenue Service qualifications. Notably, a taxpayer uses the area/room exclusively and regularly to conduct their business. Most of all, it should be noted that the home office deduction is not available to W2 employees.

A taxpayer can usually deduct the business percentage of their utility payments and other services that pertain to the entire house. In addition to the heat, cooling, and running water, this may also include trash collection, security services, pest control costs, and even cleaning services. Keep in mind however that if a taxpayer is a DIY type of person, a taxpayer can only deduct the cost of the material and not the cost of their labor. If a taxpayer pays for a service that is not related to the business in anyway, it is not deductible (i.e., painting their bedroom). However, so long as the service is related to the business (i.e., painting their office) then the direct expense is allowable.

The type of home expense that a taxpayer claims is particularly important. The IRS breaks the type of home expenses down into three categories: (1) Direct expenses are expenses only for the business part of a taxpayer's home (i.e. painting their office) and they are fully deductible; (2) Indirect expenses are expenses for keeping up a taxpayer's entire home (i.e. insurance, utilities, and general repairs) and they are deductible based on the percentage of a taxpayer's home used for business: and (3) unrelated expenses are expenses for only the parts of a taxpayer's home not used for business (i.e. lawn care) and these expenses are not deductible.

A taxpayer's monthly mortgage or rent payment is probably a taxpayer's largest home-related expense that can be counted toward the home-office deduction. Many

homeowners already itemize and claim their home's mortgage interest payments, as well as property taxes on Schedule A. If a taxpayer have a home office, a taxpayer can apportion part of these payments, again using the square footage percentage, toward their home office. A taxpayer's Schedule A deduction amount then will be reduced. For most homeowners who work from home, it is more advantageous to claim at least part of the cost as a business expense.

Homeowners know that home maintenance and repairs are treated differently for tax purposes. This is also true with regards to claiming the home office deduction. If a taxpayer can claim the home office deduction, then a taxpayer can deduct a portion of a taxpayer repairs. These are actions that keep a taxpayer home in ordinary and efficient operating condition. And, per the earlier discussion and IRS expense type table, just how much is deductible again depends on whether it is a direct or indirect expense.

Generally, repairs include things like fixing interior walls and floors or exterior components like roofs and gutters; painting the whole house; and repairing a furnace or air conditioner that was worn out, for example, by extreme weather events. Again, the home office deduction amount uses the percentage of space calculation. Capital improvements, however, are added to the basis of the property. These are things that add to the value of a taxpayer's home or considerably prolong its useful life. They also help home sellers realize a smaller profit and possible escape tax on the proceeds. But when it comes to a taxpayer's home office, a taxpayer can claim depreciation on the portion of a taxpayer's home that serves as a taxpayer's home office. This allows a taxpayer to account for costs over the years of such things as a taxpayer's payments toward their mortgage principal.

There is no denying that during these uncertain times, it is crucial for small business owners and self-employed individuals to receive every dollar that may be owed to them come tax time. If a taxpayer owns a small business or are a self-employed individual with questions about the proper deductions to take, including the home office deduction, please reach out to the professionals at The Center for Financial, Legal and Tax Planning, Inc.