Qualifying for the Home Office Deduction is Too Tough for Most Workers

Since the home office deduction may be a helpful tax savings tool and relatively easy to abuse, there are some stringent tests to pass in order to qualify for this deduction, but making some small, technical changes may qualify the write-off.

Abuse is easy because nearly every taxpayer has a home and can “claim” home office business use. Many folks who believe they qualify for a home office deduction are mistaken. However, some business people can move their home office space from nondeductible to deductible by making some minor, technical changes to the way they operate.

First and Highest Hurdle: *The home office arrangement must be for the convenience of the employer.*” If you are self-employed, either via a Schedule C proprietor or a single member, non-S corporation LLC, and you don’t rent outside office space, you’ve succeeded. However, if you have an employer with a location in the area, the home office must be for the employer’s benefit, not yours. So, if you use the home office to save gas, work non-conventional hours, keep an eye on the kids or because it is more quiet, it doesn’t count and you have been stopped by the first hurdle. The “convenience of the employer” requirement isn't satisfied if your use of a home office is for your convenience, or is merely appropriate and helpful in doing your job. However, the requirement is satisfied if:

- you maintain your home office as a condition of employment—if your employer specifically requires you to maintain the office and work there;

- your home office is necessary for the functioning of your employer's business; or

- your home office is necessary to allow you to properly perform your work duties.

Merely doing work for your employer in your home office doesn't make the use for the convenience of your employer; it is not sufficient that your employer benefits from the work you do there. Moreover, if your employer doesn't specifically require you to do work at home or to maintain a home office, and provides you with adequate office space on its premises that is reasonably available for you to do your required work, your maintenance of a home office won't be treated as for the convenience of the employer.

Second Hurdle – Business Usage: *You must meet one of the three usage requirements to qualify the home office.*

- *Separate structures.* The costs of a separate structure that isn't attached to your dwelling unit that is used exclusively and regularly for your activities as an employee or business owner may be deducted.
- **Used for meeting customers, clients or patients.** If you use your home office exclusively and regularly to physically meet or deal with business customers (not merely telephone or electronically communicate) in the normal course of your duties as an employee or business owner, the home office expenses may be deducted.

- **Principal place of business.** If the home office is used exclusively and regularly as the principal place of business for your work as an employee or business owner, the home office expenses may be deducted. You must either spend the majority of your working time in the home office or it must be the only suitable fixed location to perform administrative or management activities required by your work. If you're in the business of selling products at retail or wholesale, and if your home is your sole fixed business location, you can deduct home expenses allocable to space that you use regularly (but not necessarily exclusively) to store inventory or product samples.

**Third Hurdle – Exclusive Use:** You must use the space absolutely only for the purpose of carrying on your work. Any other use of the room will result in loss of all deductions for the home office expenses. For example, if you have a television in the room, personal bills in a drawer, games on the computer or use the room as little as once a year for a family party or to accommodate guests, the space fails the exclusive use requirement. However, if your home business is a daycare facility or an operation that requires the storage of inventory or samples, you may qualify to bypass the exclusive use hurdle.

**Fourth Hurdle – Regular Use:** The regular basis requirement means that you must use the home office in connection with your work on a continuous, ongoing or recurring basis. A guideline is a few hours a week, every week (perhaps monthly depending on facts and circumstances), but occasional or sporadic business usage will not pass the test.

**Benefits:** If you successfully hurdle ALL FOUR barriers, some very valuable tax deductions are available, as follows:

- **Vehicle Travel Expenses.** Generally the largest benefit is actually not the home related expenses, but vehicle expenses. The costs of travelling between your home office and other work locations in the same trade or business, either regularly or temporarily, and regardless of its distance (metropolitan region test), are deductible transportation expenses, rather than nondeductible commuting costs.

- **Direct Office Expenses.** The costs of preparing and maintaining the office space, such as painting, repairing and furnishing, are either directly deductible or depreciable.

- **Indirect Expenses.** The pro-rata costs of the home including utilities, insurance, maintenance, fees, mortgage interest, real estate taxes and depreciation.
Contact us to help you determine whether your home office satisfies all the requirements or to assist you in helping assure that you do pass all the tests and identify all qualified deductions. You may call us at 407-847-7466 or email us at taxes@sbc-cpa.com. We can also assist you with advice about any other tax issues that you may have.