

## **Home Office Deductions Demand Exclusivity**

**In order to take deductions for an office in your home, you must meet several requirements. For instance, you must use the space “regularly and exclusively” for business. A recent decision by the U.S. Tax Court indicates that exceptions won’t be tolerated.**

**In this case, an accountant used one bedroom in his home as an office. He built a bathroom across the hall from this bedroom for clients to use. On his tax return for the year in question, he took over \$9,000 in deductions for his home office, which the IRS denied.**

**The accountant brought the case to the Tax Court, which took a close look at the deduction. The accountant testified that he used the bedroom, the bathroom, and the hallway in between exclusively for business. He also said, however, that his children and some personal guests (that is, nonclients) occasionally used the bathroom. Because the hallway and bathroom were not used exclusively for business purposes, the Tax Court limited the home office deduction to the bedroom used as an office.**

**According to the opinion in the case, the total area of the accountant’s residence, including a garage and a guest house, was 2,677.34 square feet. The bedroom used as an office had 226.3 square feet. Dividing 2,677.34 by 226.3, the court determined that 8.45% of the accountant’s residence was his home office, so he could deduct 8.45% of his allowable expenses.**

### **Home Sweet Home**

**As this case indicates, if you use part of your home as an office and wish to take tax deductions, you should refrain from any personal use there. Don’t let your kids use your office computer to update their Facebook pages, for instance.**

**Still, this decision illustrated the potential advantages of claiming a home office. Despite the IRS denial, the Tax Court upheld an 8.45% deduction of “allowable” expenses. That could mean deducting 8.45% of everything this taxpayer spent on utilities and home insurance, for example, in addition to depreciation deductions for 8.45% of the residence.**

**In order to qualify for these deductions, several paths can be taken. You can claim the deductions if you meet with clients regularly in your home office, if you work from a separate structure such as a detached garage, or if the home office is your principal place of business. Often, taxpayers who claim home office deductions assert that the office is their principal place of business—it’s where the most critical activities of a business take place, or it’s the only fixed location for conducting substantial business activities. Regardless of which path you take, you must use the space regularly and exclusively for business in order to take proportionate deductions.**

**As a bonus tax benefit, if you have a home office that is your principal place of business, you won’t have commuting trips. That is every trip you make from your home to see a customer, prospect, supplier, and so on, is considered a business trip, so your expenses are deductible. In some cases, the transportation deductions may be larger than your other home office deductions.**