

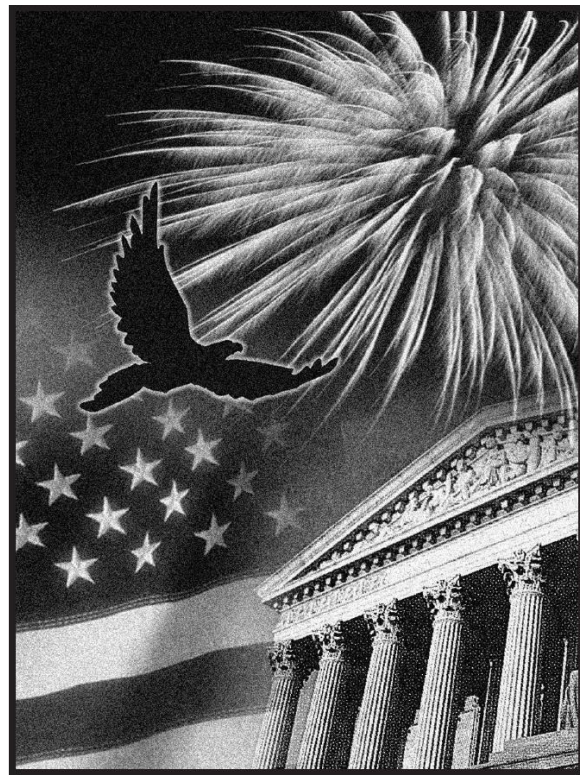
Publication 587

Business Use of Your Home

(Including Use by Daycare Providers)

For use in preparing **2023** Returns

Volume 1 of 2



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Future Developments

For the latest information about developments related to Pub. 587, such as legislation enacted after it was published, go to [IRS.gov/Pub587](https://www.irs.gov/pub587).

Reminders

Mortgage insurance premiums. The itemized deduction for mortgage insurance premiums has expired. You can no longer claim the deduction as of tax year 2022.

Simplified method for business use of home deduction. The IRS provides a simplified method to figure your expenses for business use of your home. For more information, see [*Using the Simplified Method*](#) under *Figuring the Deduction*, later.

Photographs of missing children. The Internal Revenue Service is a proud partner with the [*National Center for Missing & Exploited Children® \(NCMEC\)*](#). Photographs of

missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling 800-THE-LOST (800-843-5678) if you recognize a child.

Introduction

The purpose of this publication is to provide information on figuring and claiming the deduction for business use of your home. The term “home” includes a house, apartment, condominium, mobile home, boat, or similar property that provides basic living accommodations. It also includes structures on the property, such as an unattached garage, studio, barn, or greenhouse. However, it does not include any part of your property used exclusively as a hotel, motel, inn, or similar establishment.

[Qualifying for a Deduction](#) gives the requirements for qualifying to deduct

expenses for the business use of your home (including special rules for storing inventory or product samples). For special rules that apply to daycare providers, see [Daycare Facility](#).

After you determine that you qualify for the deduction, [Figuring the Deduction](#) explains the expenses you can deduct using either your actual expenses or the simplified method. The simplified method is an alternative to calculating and substantiating actual expenses.

[Where To Deduct](#) explains where a self-employed person or partner will report the deduction.

This publication also includes information on the following.

- Selling a home that was used partly for business.
- Deducting expenses for furniture and equipment used in your business.

- Records you should keep.

Finally, this publication contains worksheets to help you figure the amount of your deduction if you use your home in your farming business and you are filing Schedule F (Form 1040) or you are a partner and the use of your home resulted in unreimbursed ordinary and necessary expenses that are trade or business expenses under section 162 and that you are required to pay under the partnership agreement. If you used your home for business and you are filing Schedule C (Form 1040), you will use either Form 8829 or the Simplified Method Worksheet in your Instructions for Schedule C.

The rules in this publication apply to individuals.

If you need information on deductions for renting out your property, see Pub. 527, Residential Rental Property (Including Rental of Vacation Homes).

Comments and suggestions. We welcome your comments about this publication and suggestions for future editions.

You can send us comments through [IRS.gov/FormComments](https://www.irs.gov/FormComments). Or, you can write to the Internal Revenue Service, Tax Forms and Publications, 1111 Constitution Ave. NW, IR6526, Washington, DC 20224.

Although we can't respond individually to each comment received, we do appreciate your feedback and will consider your comments and suggestions as we revise our tax forms, instructions, and publications.

Don't send tax questions, tax returns, or payments to the above address.

Getting answers to your tax questions. If you have a tax question not answered by this publication or the *How To Get Tax Help* section at the end of this publication, go to the IRS Interactive Tax Assistant page at [IRS.gov/Help/ITA](https://www.irs.gov/Help/ITA) where you can find topics

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Useful Items

You may want to see:

Publication

- ☐ **523** Selling Your Home

- ☐ **551** Basis of Assets
- ☐ **583** Starting a Business and Keeping Records
- ☐ **946** How To Depreciate Property

Form (and Instructions)

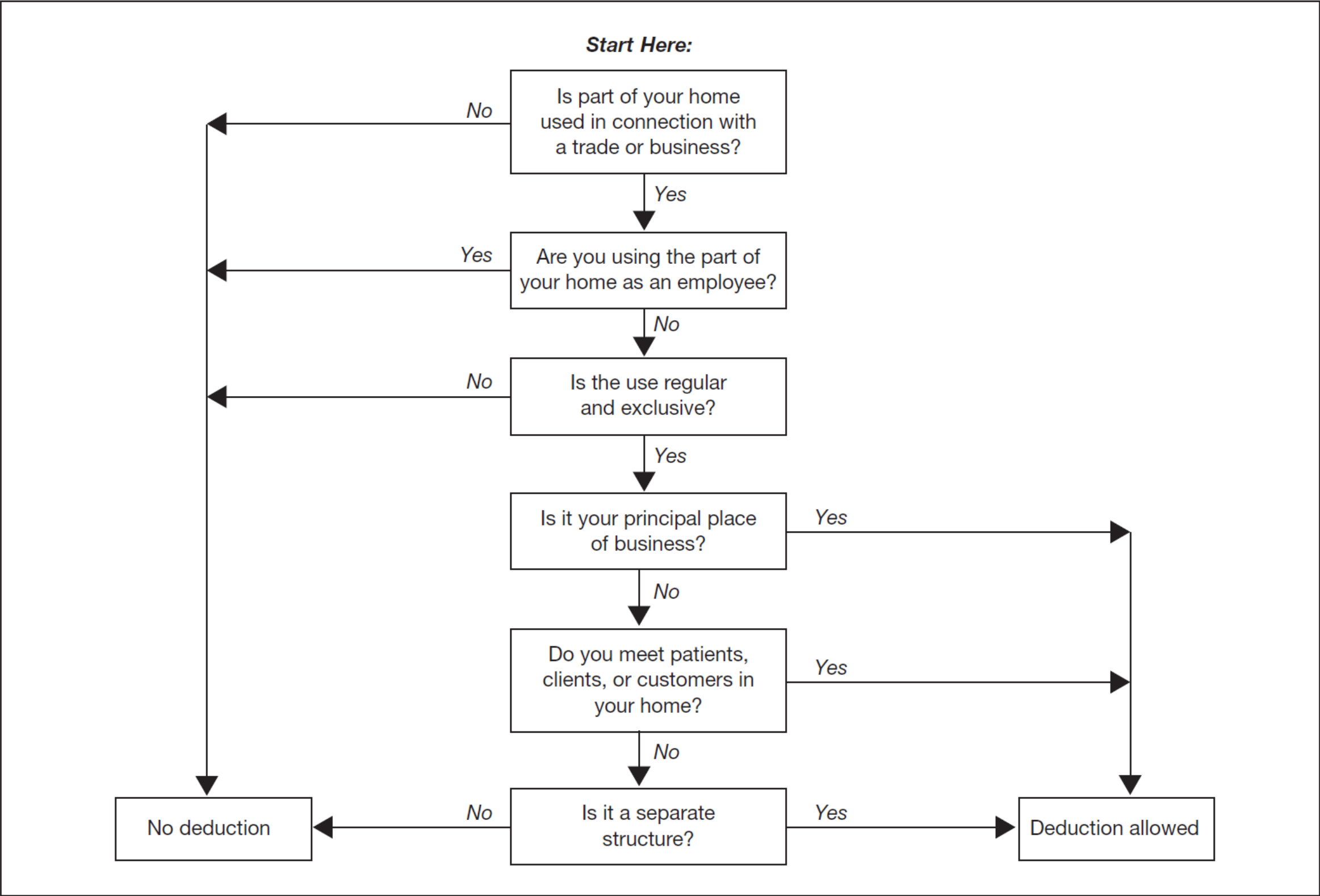
- ☐ **Schedule C (Form 1040)** Profit or Loss From Business
- ☐ **4562** Depreciation and Amortization
- ☐ **8829** Expenses for Business Use of Your Home

Qualifying for a Deduction

Generally, you cannot deduct items related to your home, such as mortgage interest, real estate taxes, utilities, maintenance, rent, depreciation, or property insurance, as business expenses. However, you may be able to deduct expenses related to the business use of part of your home if you meet specific requirements. Even then, the deductible amount of these types of expenses may be limited.

Use this section and [Figure A](#) to decide if you can deduct expenses for the business use of your home.

Figure A. **Can You Deduct Business Use of the Home Expenses?** Do not use this chart if you use your home for the storage of inventory or product samples, or to operate a daycare facility. See *Exceptions to Exclusive Use*, earlier, and *Daycare Facility*, later.



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To qualify to deduct expenses for business use of your home, you must use part of your home:

- Exclusively and regularly as your principal place of business (see [*Principal Place of Business*](#), later);
- Exclusively and regularly as a place where you meet or deal with patients, clients, or customers in the normal course of your trade or business;
- In the case of a separate structure that is not attached to your home, in connection with your trade or business;
- On a regular basis for certain storage use (see [*Storage of inventory or product samples*](#), later);
- For rental use (see Pub. 527); or
- As a daycare facility (see [*Daycare Facility*](#), later).

Exclusive Use

To qualify under the exclusive use test, you must use a specific area of your home only for your trade or business. The area used for business can be a room or other separately identifiable space. The space does not need to be marked off by a permanent partition.

You do not meet the requirements of the exclusive use test if you use the area in question both for business and for personal purposes.

Example. You are an attorney and use a den in your home to write legal briefs and prepare clients' tax returns. Your family also uses the den for recreation. The den is not used exclusively in your trade or business, so you cannot claim a deduction for the business use of the den.

Exceptions to Exclusive Use

You do not have to meet the exclusive use test if either of the following applies.

- You use the part of your home in question for the storage of inventory or product samples (discussed next).
- You use the part of your home in question as a daycare facility (discussed later under [*Daycare Facility*](#)).

Note. With the exception of these two uses, any portion of the home used for business purposes must meet the exclusive use test.

Storage of inventory or product samples.

If you use part of your home for storage of inventory or product samples, you can deduct expenses for the business use of your home without meeting the exclusive use test.

However, you must meet all the following tests.

- You sell products at wholesale or retail as your trade or business.
- You keep the inventory or product samples in your home for use in your trade or business.
- Your home is the only fixed location of your trade or business.
- You use the storage space on a regular basis.
- The space you use is a separately identifiable space suitable for storage.

Example. Your home is the only fixed location of your business of selling mechanics' tools at retail. You regularly use half of your basement for storage of inventory and product samples. You sometimes use the area for personal purposes. The expenses for the storage space are deductible even though you do not use this part of your basement exclusively for business.

Regular Use

To qualify under the regular use test, you must use a specific area of your home for business on a regular basis. Incidental or occasional business use is not regular use. You must consider all facts and circumstances in determining whether your use is on a regular basis.

Trade or Business Use

To qualify under the trade-or-business-use test, you must use part of your home in connection with a trade or business. If you use your home for a profit-seeking activity that is not a trade or business, you cannot take a deduction for its business use.

Example. You use part of your home exclusively and regularly to read financial periodicals and reports, clip bond coupons, and carry out similar activities related to your own investments. You do not make investments as a broker or dealer. So, your

activities are not part of a trade or business and you cannot take a deduction for the business use of your home.

Principal Place of Business

You can have more than one business location, including your home, for a single trade or business. To qualify to deduct the expenses for the business use of your home under the principal place of business test, your home must be your principal place of business for that trade or business. To determine whether your home is your principal place of business, you must consider:

- The relative importance of the activities performed at each place where you conduct business, and
- The amount of time spent at each place where you conduct business.

Your home office will qualify as your principal place of business if you meet the following requirements.

- You use it exclusively and regularly for administrative or management activities of your trade or business.
- You have no other fixed location where you conduct substantial administrative or management activities of your trade or business.

If, after considering your business locations, your home cannot be identified as your principal place of business, you cannot deduct home office expenses. However, see the later discussions under [Place To Meet Patients, Clients, or Customers](#) and [Separate Structure](#) for other ways to qualify to deduct home office expenses.

Administrative or management activities.

There are many activities that are

administrative or managerial in nature. The following are a few examples.

- Billing customers, clients, or patients.
- Keeping books and records.
- Ordering supplies.
- Setting up appointments.
- Forwarding orders or writing reports.

Administrative or management activities performed at other locations. The following activities performed by you or others will not disqualify your home office from being your principal place of business.

- You have others conduct your administrative or management activities at locations other than your home. (For example, another company does your billing from its place of business.)
- You conduct administrative or management activities at places that are

not fixed locations of your business, such as in a car or a hotel room.

- You occasionally conduct minimal administrative or management activities at a fixed location outside your home.
- You conduct substantial nonadministrative or nonmanagement business activities at a fixed location outside your home. (For example, you meet with or provide services to customers, clients, or patients at a fixed location of the business outside your home.)
- You have suitable space to conduct administrative or management activities outside your home, but choose to use your home office for those activities instead.

Example 1. Sid is a self-employed plumber. Most of Sid's time is spent at customers' homes and offices installing and repairing plumbing. Sid has a small office at home that is used exclusively and regularly for the

administrative or management activities of the plumbing business, such as phoning customers, ordering supplies, and keeping the books.

Sid writes up estimates and records of work completed at the customers' premises. Sid does not conduct any substantial administrative or management activities at any fixed location other than their home office. Sid does not do direct billing. Sid uses a local bookkeeping service to bill their customers.

Sid's home office qualifies as their principal place of business for deducting expenses. Sid uses the home office for the administrative or managerial activities of the plumbing business and has no other fixed location where these administrative or managerial activities are conducted. Sid's choice to have billing done by another company does not disqualify the home office from being their principal place of business. Sid meets all the qualifications,

including principal place of business, so the expenses (subject to certain limitations, explained later) can be deducted for the business use of the home.

Example 2. Alex is a self-employed sales representative for several different product lines. Alex has an office in their home that they use exclusively and regularly to set up appointments and write up orders and other reports for the products Alex sells. Alex occasionally writes up orders and sets up appointments from their hotel room while away on business overnight.

Alex's business is selling products to customers at various locations throughout their assigned territory. To make these sales, Alex regularly visits customers to explain the available products and take orders.

Alex's home office qualifies as their principal place of business for deducting expenses for its use. Alex conducts administrative or management activities there and they have

no other fixed location where substantial administrative or management activities are conducted. The fact that Alex conducts some administrative or management activities in a hotel room (not a fixed location) does not disqualify the home office from being their principal place of business. Alex meets all the qualifications, including principal place of business, so the expenses (subject to certain limitations, explained later) can be deducted for the business use of the home.

Example 3. Taylor is a self-employed anesthesiologist. Taylor spends the majority of their time administering anesthesia and postoperative care in three local hospitals. One of the hospitals provides a small shared office where Taylor could conduct administrative or management activities.

Taylor very rarely uses the office the hospital provides but instead uses a room at home that has been converted to an office. Taylor

uses this room exclusively and regularly to conduct all the following activities.

- Contacting patients, surgeons, and hospitals regarding scheduling.
- Preparing for treatments and presentations.
- Maintaining billing records and patient logs.
- Satisfying continuing medical education requirements.
- Reading medical journals and books.

Taylor's home office qualifies as their principal place of business for deducting expenses for its use. Taylor conducts administrative or management activities for their business as an anesthesiologist there and at no other fixed location where substantial administrative or management activities for this business are conducted. Taylor's choice to use their home office instead of the one provided by their

hospital does not disqualify their home office from being their principal place of business. Taylor's performance of substantial nonadministrative or nonmanagement activities at fixed locations outside their home also does not disqualify their home office from being their principal place of business. Taylor meets all the qualifications, including principal place of business, so the expenses (subject to certain limitations, explained later) can be deducted for the business use of the home.

More Than One Trade or Business

The same home office can be the principal place of business for two or more separate business activities. Whether your home office is the principal place of business for more than one business activity must be determined separately for each of your trade or business activities. You must use the home office exclusively and regularly for one or more of the following purposes.

- As the principal place of business for one or more of your trades or businesses.
- As a place to meet or deal with patients, clients, or customers in the normal course of one or more of your trades or businesses.
- If your home office is a separate structure, in connection with one or more of your trades or businesses.

You can use your home office for more than one trade or business activity, but you cannot use it for any activities that are not related to a trade or business.

Place To Meet Patients, Clients, or Customers

If you meet or deal with patients, clients, or customers in your home in the normal course of your business, even though you also carry on business at another location, you can deduct your expenses for the part of your

home used exclusively and regularly for business if you meet both the following tests.

- You physically meet with patients, clients, or customers on your premises.
- Their use of your home is substantial and integral to the conduct of your business.

Doctors, dentists, attorneys, and other professionals who maintain offices in their homes will generally meet this requirement.

Using your home for occasional meetings and telephone calls will not qualify you to deduct expenses for the business use of your home.

The part of your home you use exclusively and regularly to meet patients, clients, or customers does not have to be your principal place of business.

Example. Sam, a self-employed attorney, works 3 days a week in their office, then works 2 days a week at home, in a home office used only for business. Sam regularly

meets clients there. The home office qualifies for a business deduction because Sam meets clients there in the normal course of their business.

Separate Structure

You can deduct expenses for a separate free-standing structure, such as a studio, workshop, garage, or barn, if you use it exclusively and regularly for your business. The structure does not have to be your principal place of business or a place where you meet patients, clients, or customers.

Example. Bobbie operates a floral shop in town. Bobbie grows the plants for their shop in a greenhouse located at home. Bobbie uses the greenhouse exclusively and regularly for their business, so Bobbie can deduct the expenses for its use (subject to certain limitations, described later).

Figuring the Deduction

After you determine that you meet the tests under [*Qualifying for a Deduction*](#), you can begin to figure how much you can deduct. When figuring the amount you can deduct for the business use of your home, you will use either your actual expenses or a simplified method.

Electing to use the simplified method.

The simplified method is an alternative to the calculation, allocation, and substantiation of actual expenses. You choose whether or not to figure your deduction using the simplified method each tax year. See [*Using the Simplified Method*](#), later.

Using Actual Expenses

If you do not or cannot elect to use the simplified method for a home, you will figure your deduction for that home using your actual expenses. You will also need to figure

the percentage of your home used for business and the limit on the deduction.

If you are a partner or you use your home in your farming business and you file Schedule F (Form 1040), you can use the [Worksheet To Figure the Deduction for Business Use of Your Home](#), near the end of this publication, to help you figure your deduction. If you use your home in a trade or business and you file Schedule C (Form 1040), you will use Form 8829 to figure your deduction.

Part-year use. You cannot deduct expenses for the business use of your home incurred during any part of the year you did not use your home for business purposes. For example, if you begin using part of your home for business on July 1, and you meet all the tests from that date until the end of the year, consider only your expenses for the last half of the year in figuring your allowable deduction.

Expenses related to tax-exempt income.

Generally, you cannot deduct expenses that are related to tax-exempt allowances.

However, if you receive a tax-exempt parsonage allowance or a tax-exempt military allowance, your expenses for mortgage interest and real estate taxes are deductible under the normal rules. No deduction is allowed for other expenses related to the tax-exempt allowance.

If your housing is provided free of charge and the value of the housing is tax exempt, you cannot deduct the rental value of any portion of the housing.

Actual Expenses

You must divide the expenses of operating your home between personal and business use. The part of a home operating expense you can use to figure your deduction depends on both of the following.

- Whether the expense is direct, indirect, or unrelated.
- The percentage of your home used for business.

Table 1 describes the types of expenses you may have and the extent to which they are deductible.

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Table 1. **Types of Expenses**

Expense	Description	Deductibility
Direct	Expenses only for the business part of your home. Examples: Painting or repairs only in the area used for business.	Deductible in full.* Exception: May be only partially deductible in a daycare facility. See Daycare Facility , later.
Indirect	Expenses for keeping up and running your entire home. Examples: Insurance, utilities, and general repairs.	Deductible based on the percentage of your home used for business.*
Unrelated	Expenses only for the parts of your home not used for business. Examples: Lawn care or painting a room not used for business.	Not deductible.
*Subject to the deduction limit, discussed later.		

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Form 8829 and the [Worksheet To Figure the Deduction for Business Use of Your Home](#) have separate columns for direct and indirect expenses.

Certain expenses are deductible to the extent they would have been deductible as an itemized deduction on your Schedule A or, if claiming the standard deduction, would have increased your standard deduction had you not used your home for business. If the expense is indirect, use the business percentage of these expenses to figure how much to include in your total business-use-of-the-home deduction. If you are itemizing your deductions on Schedule A (Form 1040), these expenses include the following.

- Real estate taxes.
- Home mortgage interest.
- Casualty losses attributable to a federally declared disaster.

If you are claiming the standard deduction, these expenses only include net qualified disaster losses that increase your standard deduction.

See the [Instructions for the Worksheet To Figure the Deduction for Business Use of Your Home](#), later in this publication, or the Instructions for Form 8829 for more information about figuring and deducting the business part of these otherwise allowable expenses. For more information about deducting real estate taxes, see Pub. 530, Tax Information for Homeowners. For more information about deducting home mortgage interest, see Pub. 936, Home Mortgage Interest Deduction. For more information about deducting casualty losses, see Pub. 547, Casualties, Disasters, and Thefts.

Other expenses are deductible only if you use your home for business. If the expense is indirect, use the business percentage of these expenses to figure how much to include in

your total business-use-of-the-home deduction. These expenses generally include (but are not limited to) the following.

- Casualty losses not attributable to a federally declared disaster.
- Depreciation (discussed under [*Depreciating Your Home*](#), later).
- Insurance.
- Rent paid for the use of property you do not own but use in your trade or business.
- Repairs.
- Security system.
- Utilities and services. (But see [*Telephone*](#), later, for different rules that apply to telephone expenses.)

Insurance. You can deduct the cost of insurance that covers the business part of your home. However, if your insurance premium gives you coverage for a period that

extends past the end of your tax year, you can deduct only the business percentage of the part of the premium that gives you coverage for your tax year. You can deduct the business percentage of the part that applies to the following year in that year.

Rent. If you rent the home you occupy and meet the requirements for business use of the home, you can deduct part of the rent you pay. To figure your deduction, multiply your rent payments by the percentage of your home used for business.

If you own your home, you cannot deduct the fair rental value of your home. However, see [*Depreciating Your Home*](#), later.

Repairs. The cost of repairs that relate to your business, including labor (other than your own labor), is a deductible expense. For example, a furnace repair benefits the entire home. If you use 10% of your home for

business, you can deduct 10% of the cost of the furnace repair.

Repairs keep your home in good working order over its useful life. Examples of common repairs are patching walls and floors, painting, wallpapering, repairing roofs and gutters, and mending leaks. However, repairs are sometimes treated as a permanent improvement and are not deductible. See [*Permanent improvements*](#), later, under *Depreciating Your Home*.

Security system. If you install a security system that protects all the doors and windows in your home, you can deduct the business part of the expenses you incur to maintain and monitor the system. You can also take a depreciation deduction for the part of the cost of the security system relating to the business use of your home.

Utilities and services. Expenses for utilities and services, such as electricity, gas, trash removal, and cleaning services, are primarily

personal expenses. However, if you use part of your home for business, you can deduct the business part of these expenses.

Generally, the business percentage for utilities is the same as the percentage of your home used for business.

Telephone. The basic local telephone service charge, including taxes, for the first telephone landline into your home is a nondeductible personal expense. However, charges for business long-distance phone calls on that line, as well as the cost of a second line into your home used exclusively for business, are deductible business expenses. Do not include these expenses as a cost of using your home for business. Deduct these charges separately on the appropriate form or schedule. For example, if you file Schedule C (Form 1040), deduct these expenses on line 25, Utilities (instead of line 30, Expenses for business use of your home).

Depreciating Your Home

If you own your home and qualify to deduct expenses for its business use, you can claim a deduction for depreciation. Depreciation is an allowance for the wear and tear on the part of your home used for business. You cannot depreciate the cost or value of the land. You recover its cost when you sell or otherwise dispose of the property.

Before you figure your depreciation deduction, you need to know the following information.

- The month and year you started using your home for business.
- The adjusted basis and fair market value of your home (excluding land) at the time you began using it for business.
- The cost of any improvements before and after you began using the property for business.

- The percentage of your home used for business. See [*Business Percentage*](#), later.

Adjusted basis defined. The adjusted basis of your home is generally its cost, plus the cost of any permanent improvements you made to it, minus any casualty losses or depreciation deducted in earlier tax years. For a discussion of adjusted basis, see Pub. 551, Basis of Assets.

Permanent improvements. A permanent improvement increases the value of property, adds to its life, or gives it a new or different use. Examples of improvements are replacing electric wiring or plumbing, adding a new roof or addition, paneling, or remodeling.

You must carefully distinguish between repairs and improvements. See [*Repairs*](#), earlier, under *Actual Expenses*. You must also keep accurate records of these expenses. These records will help you decide whether an expense is a deductible or a capital (added to the basis) expense. However, if you make

repairs as part of an extensive remodeling or restoration of your home, the entire job is an improvement.

Example. You buy an older home and fix up two rooms as a beauty salon. You patch the plaster on the ceilings and walls, paint, repair the floor, install an outside door, and install new wiring, plumbing, and other equipment. Normally, the patching, painting, and floor work are repairs and the other expenses are permanent improvements. However, because the work gives your property a new use, the entire remodeling job is a permanent improvement and its cost is added to the basis of the property. You cannot deduct any portion of it as a repair expense.

Adjusting for depreciation deducted in earlier years. Decrease the basis of your property by the depreciation you deducted, or could have deducted, on your tax returns under the method of depreciation you properly selected. If you deducted less

depreciation than you could have under the method you selected, decrease the basis by the amount you could have deducted under that method. If you did not deduct any depreciation, decrease the basis by the amount you could have deducted.

If you deducted more depreciation than you should have, decrease your basis by the amount you should have deducted, plus the part of the excess depreciation you deducted that actually decreased your tax liability for any year.

If you deducted the incorrect amount of depreciation, see Pub. 946, How To Depreciate Property.

Fair market value defined. The fair market value of your home is the price at which the property would change hands between a buyer and a seller, neither having to buy or sell, and both having reasonable knowledge of all necessary facts. Sales of similar property, on or about the date you begin

using your home for business, may be helpful in determining the property's fair market value.

Figuring the depreciation deduction for the current year. If you began using your home for business before 2023, continue to use the same depreciation method you used in past tax years. However, if you figured your deduction for business use of the home using the simplified method in a prior year, you will need to use the optional depreciation table for modified accelerated cost recovery system (MACRS) property. See Pub. 946 for the optional depreciation tables. For more information about the simplified method, see Revenue Procedure 2013-13, 2013-06 478, available at [IRS.gov/irb/ 2013-06 IRB#RP-2013-13](https://www.irs.gov/irb/2013-06_IRB#RP-2013-13).

If you began using your home for business for the first time in 2023, depreciate the business part as nonresidential real property under MACRS. Under MACRS, nonresidential real

property is depreciated using the straight line method over 39 years. For more information on MACRS and other methods of depreciation, see Pub. 946.

To figure the depreciation deduction, you must first figure the part of the cost of your home that can be depreciated (depreciable basis). The depreciable basis is figured by multiplying the percentage of your home used for business by the smaller of the following.

- The adjusted basis of your home (excluding land) on the date you began using your home for business.
- The fair market value of your home (excluding land) on the date you began using your home for business.

Depreciation table. If 2023 was the first year you used your home for business, you can figure your 2023 depreciation for the business part of your home by using the

appropriate percentage from the following table.

Table 2. MACRS Percentage Table for 39-Year Nonresidential Real Property

Month First Used for Business	Percentage To Use
1	2.461%
2	2.247%
3	2.033%
4	1.819%
5	1.605%
6	1.391%
7	1.177%
8	0.963%

9	0.749%
10	0.535%
11	0.321%
12	0.107%

Multiply the depreciable basis of the business part of your home by the percentage from the table for the first month you use your home for business. See Pub. 946 for the percentages for the remaining tax years of the recovery period.

Example. In May, Frankie began to use one room at home exclusively and regularly to meet clients. This room is 8% of the square footage of the home. Frankie bought their home in 2008 for \$125,000. Frankie determined from the property tax records that the adjusted basis in the house (exclusive of land) is \$115,000. In May, the house had a

fair market value of \$165,000. Frankie multiplies the adjusted basis of \$115,000 (which is less than the fair market value) by 8%. The result is \$9,200, the depreciable basis for the business part of the house.

Frankie files their return based on the calendar year. May is the fifth month of this tax year. Frankie multiplies the depreciable basis of \$9,200 by 1.605% (0.01605), the percentage from the table for the fifth month. Frankie's depreciation deduction is \$147.66.

Depreciating permanent improvements.

Add the costs of permanent improvements made before you began using your home for business to the basis of your property.

Depreciate these costs as part of the cost of your home, as explained earlier. The costs of improvements made after you begin using your home for business (that affect the business part of your home, such as a new roof) are depreciated separately. Multiply the cost of the improvement by the business-use

percentage and depreciate the result over the recovery period that would apply to your home if you began using it for business at the same time as the improvement. For improvements made this year, the recovery period is 39 years. For the percentage to use for the first year, see [Table 2](#). For more information on recovery periods, see Pub. 946.

Business Percentage

To find the business percentage, compare the size of the part of your home that you use for business to your whole house. Use the resulting percentage to figure the business part of the expenses for operating your entire home.

You can use any reasonable method to determine the business percentage. The following are two commonly used methods for figuring the percentage.

1. Divide the area (length multiplied by the width) used for business by the total area of your home.
2. If the rooms in your home are all about the same size, you can divide the number of rooms used for business by the total number of rooms in your home.

Example 1.

- Your office is 240 square feet (12 feet × 20 feet).
- Your home is 1,200 square feet.
- Your office is 20% ($240 \div 1,200$) of the total area of your home.
- Your business percentage is 20%.

Example 2.

- You use one room in your home for business.

- Your home has 10 rooms, all about equal size.
- Your office is 10% ($1 \div 10$) of the total area of your home.
- Your business percentage is 10%.



Use lines 1–7 of Form 8829, or lines 1–3 on the [Worksheet To Figure the Deduction for Business Use of Your Home](#) (near the end of this publication) to figure your business percentage.

Deduction Limit

If your gross income from the business use of your home equals or exceeds your total business expenses (including depreciation), you can deduct all your business expenses related to the use of your home.

If your gross income from the business use of your home is less than your total business expenses, your deduction for certain

expenses for the business use of your home is limited.

Your deduction of otherwise nondeductible expenses, such as insurance, utilities, and depreciation of your home (with depreciation of your home taken last), that are allocable to the business, is limited to the gross income from the business use of your home minus the sum of the following.

1. The business part of expenses you could deduct even if you did not use your home for business (such as mortgage interest, real estate taxes, and casualty losses attributable to a federally declared disaster if you itemize deductions on Schedule A (Form 1040) or net qualified disaster losses if you claim the standard deduction).
2. The business expenses that relate to the business activity in the home (for example, business phone, supplies,

and depreciation on equipment), but not to the use of the home itself.

If you are self-employed, do not include in (2) above your deduction for one-half of your self-employment tax.

Carryover of unallowed expenses. If your business expenses related to the home are greater than the current year's limit, you can carry over the excess to the next year in which you use actual expenses. They are subject to the deduction limit for that year, whether or not you live in the same home during that year.

Figuring the deduction limit and carryover. If you are a partner or you file Schedule F (Form 1040), use the [Worksheet To Figure the Deduction for Business Use of Your Home](#), near the end of this publication. If you file Schedule C (Form 1040), figure your deduction limit and carryover on Form 8829.

Example. You meet the requirements for deducting expenses for the business use of your home. You use 20% of your home for business. You are itemizing your deductions on Schedule A (Form 1040) and your home mortgage interest and total state and local taxes would not be limited on your Schedule A if you had not used your home for business. In 2023, your business expenses and the expenses for the business use of your home are deducted from your gross income in the following order.

Gross income from business \$6,000

Minus:

Deductible mortgage interest and real
estate taxes (20%) 3,000

Business expenses not related to the use of your home (100%) (business phone, supplies, and depreciation on equipment)	2,000
	<hr/>
Deduction limit	\$1,000
Minus other expenses allocable to business use of home:	
Maintenance, insurance, and utilities (20%) . . .	800
Depreciation allowed (20%)	200
	<hr/>
Other expenses up to the deduction limit	\$1,000
Depreciation carryover to 2024 (\$1,600 – \$200)	
(subject to deduction limit in 2024) . .	\$1,400
	<hr/>

You can deduct all of the business part of your deductible mortgage interest and real estate taxes (\$3,000). You can also deduct all of your business expenses not related to the use of your home (\$2,000). Additionally, you can deduct all of the business part of your expenses for maintenance, insurance, and utilities, because the total (\$800) is less than the \$1,000 deduction limit. Your deduction for depreciation for the business use of your home is limited to \$200 (\$1,000 minus \$800) because of the deduction limit. You can carry over the \$1,400 balance and add it to your depreciation for 2024, subject to your deduction limit in 2024.

More than one place of business. If part of the gross income from your trade or business is from the business use of part of your home and part is from a place other than your home, you must determine the part of your gross income from the business use of your home before you figure the deduction limit. In

making this determination, consider the time you spend at each location, the business investment in each location, and any other relevant facts and circumstances.



If your home office qualifies as your principal place of business, you can deduct your daily transportation costs between your home and another work location in the same trade or business. For more information on transportation costs, see Pub. 463, Travel, Gift, and Car Expenses.

Using the Simplified Method

The simplified method is an alternative to the calculation, allocation, and substantiation of actual expenses. In most cases, you will figure your deduction by multiplying \$5, the prescribed rate, by the area of your home used for a qualified business use. The area you use to figure your deduction is limited to 300 square feet. See [Simplified Amount](#),

later, for information about figuring the amount of the deduction.

For more information about the simplified method, see Revenue Procedure 2013-13, 2013-06 I.R.B. 478, available at IRS.gov/irb/2013-06_IRB#RP-2013-13.

Actual expenses and depreciation of your home. If you elect to use the simplified method, you cannot deduct any actual expenses for the business except for business expenses that are not related to the use of the home. You also cannot deduct any depreciation (including any additional first-year depreciation) or section 179 expense for the portion of the home that is used for a qualified business use. The depreciation deduction allowable for that portion of the home is deemed to be zero for a year you use the simplified method. If you figure your deduction for business use of the home using actual expenses in a subsequent year, you will have to use the appropriate optional

depreciation table for MACRS to figure your depreciation.

More information. For more information about claiming depreciation in a subsequent year, see Revenue Procedure 2013-13, 2013-06 I.R.B. 478, available at [IRS.gov/irb/2013-06_IRB#RP-2013-13](https://www.irs.gov/irb/2013-06_IRB#RP-2013-13). See Pub. 946 for the optional depreciation tables.



Although you cannot deduct any depreciation or section 179 expense for the portion of your home used for a qualified business use, you may still claim depreciation or the section 179 expense deduction on other assets used in the business (for example, furniture and equipment).

Expenses deductible without regard to business use. When using the simplified method, treat as personal expenses your mortgage interest, real estate taxes, and casualty losses. If you also rent part of your home, you must still allocate these expenses

between rental use and personal use (for this purpose, personal use includes business use reported using the simplified method).

No deduction of carryover of actual expenses. If you used actual expenses to figure your deduction for business use of the home in a prior year and your deduction was limited, you cannot deduct the disallowed amount carried over from the prior year during a year you figure your deduction using the simplified method. Instead, you will continue to carry over the disallowed amount to the next year that you use actual expenses to figure your deduction.

Electing the Simplified Method

You choose whether or not to figure your deduction using the simplified method each tax year. Make the election for a home by using the simplified method to figure the deduction for the qualified business use of that home on a timely filed, original federal

income tax return. An election for a tax year, once made, is irrevocable. A change from using the simplified method in one year to actual expenses in a succeeding tax year, or vice versa, is not a change in method of accounting and does not require the consent of the Commissioner.

Shared use. If you share your home with someone else who also uses the home in a business that qualifies for this deduction, each of you makes your own election.

More than one qualified business use. If you conduct more than one business that qualifies for this deduction in your home, your election to use the simplified method applies to all your qualified business uses of that home.

More than one home. If you used more than one home in your business during the year (for example, you moved during the year), you can elect to use the simplified method for only one of the homes. You must

figure the deduction for any other home using actual expenses.

Simplified Amount

Your deduction for the qualified business use of a home is the sum of each amount you figure for a separate qualified business use of your home. To figure your deduction for the business use of a home using the simplified method, you will need to know the following information for each qualified business use of the home.

- The allowable area of your home used in conducting the business. If you did not conduct the business for the entire year in the home or the area changed during the year, you will need to know the allowable area you used and the number of days you conducted the business for each month.
- The gross income from the business use of your home.

- The amount of the business expenses that are not related to the use of your home.
- If the qualified business use is for a daycare facility that uses space in your home on a regular (but not exclusive) basis, you will need to know the percentage of time that part of your home is used for daycare.

To figure the amount you can deduct for qualified business use of your home using the simplified method, follow these three steps.

1. Multiply the allowable area by \$5 (or less than \$5 if the qualified business use is for a daycare that uses space in your home on a regular, but not exclusive, basis). See [Allowable area](#) and [Space used regularly for daycare](#), later.
2. Subtract the expenses from the business that are not related to the use of the home from the gross income

related to the business use of the home. If these expenses are greater than the gross income from the business use of the home, then you cannot take a deduction for this business use of the home. See [Gross income limitation](#), later.

3. Take the smaller of the amounts from (1) and (2). This is the amount you can deduct for this qualified business use of your home using the simplified method.

If you are a partner or you use your home in your farming business and file Schedule F (Form 1040), you can use the [Simplified Method Worksheet](#), near the end of this publication, to help you figure your deduction. If you use your home in a trade or business and you file Schedule C (Form 1040), you will use the Simplified Method Worksheet in your Instructions for Schedule C to figure your deduction.

Allowable area. In most cases, the allowable area is the smaller of the actual area (in square feet) of your home used in conducting the business and 300 square feet. Your allowable area may be smaller if you conducted the business as a qualified joint venture with your spouse, the area used by the business was shared with another qualified business use, you used the home for the business for only part of the year, or the area used by the business changed during the year. You can use the [Area Adjustment Worksheet \(for simplified method\)](#), near the end of this publication, to help you figure your allowable area for a qualified business use.

Area used by a qualified joint venture. If the qualified business use of the home is also a qualified joint venture, you and your spouse will figure the deduction for the business use separately. Split the actual area used in conducting business between you and your spouse in the same manner you split your

other tax attributes. Then, each spouse will figure the allowable area separately. For more information about qualified joint ventures, see *Qualified Joint Venture* in the Instructions for Schedule C.

Shared use. If you share your home with someone else who uses the home to conduct business that also qualifies for this deduction, you may not include the same square feet to figure your deduction as the other person. You must allocate the shared space between you and the other person in a reasonable manner.

Example. Lindsey and Tracy are roommates. Lindsey uses 300 square feet of their home for a qualified business use. Tracy uses 200 square feet of their home for a separate qualified business use. Lindsey and Tracy both share 100 square feet for their respective qualified businesses in their mutual home. In addition to the portion that they do not share, Lindsey and Tracy can both claim 50 of the

100 square feet or divide the 100 square feet between them in any reasonable manner. If divided evenly, Lindsey could claim 250 square feet using the simplified method and Tracy could claim 150 square feet.

More than one qualified business use. If you conduct more than one business qualifying for the deduction, you are limited to a maximum of 300 square feet for all of the businesses. Allocate the actual square footage used (up to the maximum of 300 square feet) among your qualified business uses in a reasonable manner. However, do not allocate more square feet to a qualified business use than you actually use for that business.

Rental use. The simplified method does not apply to rental use. A rental use that qualifies for the deduction must be figured using actual expenses. If the rental use and a qualified business use share the same area, you will have to allocate the actual area used between

the two uses. You cannot use the same area to figure a deduction for the qualified business use as you are using to figure the deduction for the rental use.

Part-year use or area changes (for simplified method only). If your qualified business use was for a portion of the year (for example, a seasonal business, a business that begins during the year, or you moved during the year) or you changed the square footage of your qualified business use, your deduction is limited to the average monthly allowable square footage. You calculate the average monthly allowable square footage by adding the amount of allowable square feet you used in each month and dividing the sum by 12. When determining the average monthly allowable square footage, you cannot take more than 300 square feet into account for any 1 month. Additionally, if your qualified business use was less than 15 days in a month, you must use -0 for that month.

Example 1. Jay files their federal income tax return on a calendar year basis. On July 20, Jay began using 420 square feet at their home for a qualified business use. Jay continued to use 420 square feet of their home until the end of the year. The average monthly allowable square footage is 125 square feet, which is figured using 300 square feet for each month, August through December, divided by the number of months in the year $((0 + 0 + 0 + 0 + 0 + 0 + 0 + 300 + 300 + 300 + 300 + 300)/12)$.

Example 2. Jessie files their federal tax return on a calendar year basis. On April 20, Jessie began using 100 square feet of their home for a qualified business use. On August 5, Jessie expanded the area of qualified use to 330 square feet. Jessie continued to use the 330 square feet until the end of the year. The average monthly allowable square footage is 150 square feet, which is figured using 100 square feet for May through July

and 300 square feet for August through December, divided by the number of months in the year $((0 + 0 + 0 + 0 + 100 + 100 + 100 + 300 + 300 + 300 + 300 + 300)/12)$.

Example 3. Guadalupe files their income tax return on a calendar year basis. From January 1 through July 16, Guadalupe used 300 square feet of their home for a qualified business use. On July 17, Guadalupe moved to a new home and immediately began using 200 square feet for the same qualified business use. While preparing their tax return, Guadalupe decided to use the simplified method to deduct the qualified business use of the first home and files a Form 8829 to deduct the qualified business use of the second home. The average monthly allowable square footage is 175 square feet, which is figured using 300 square feet for January through July, divided by the number of months in the year $((300 + 300 +$

$300 + 300 + 300 + 300 + 300 + 0 + 0 + 0 + 0 + 0)/12$).



If you moved during the year, your average allowable square footage will generally be less than 300.

Gross income limitation. Your deduction for business use of the home is limited to an amount equal to the gross income derived from the qualified business use of the home reduced by the business deductions that are unrelated to the use of your home. If the business deductions that are unrelated to the use of your home are greater than the gross income derived from the qualified business use of your home, then you cannot take a deduction for this qualified business use of your home.

Business expenses not related to use of the home. These expenses relate to the business activity in the home, but not to the use of the home itself. You can still deduct

business expenses that are unrelated to the use of the home. See [Where To Deduct](#), later. Examples of business expenses that are unrelated to the use of the home are advertising, wages, supplies, dues, and depreciation for equipment.

Space used regularly for daycare. If you do not use the area of your home exclusively for daycare, you must reduce the prescribed rate (maximum \$5 per square foot) before figuring your deduction. The reduced rate will equal the prescribed rate times a fraction. The numerator of the fraction is the number of hours that the space was used during the year for daycare and the denominator is the total number of hours during the year that the space was available for all uses. You can use the [Daycare Facility Worksheet \(for simplified method\)](#), near the end of this publication, to help you figure the reduced rate.



If you used at least 300 square feet for daycare regularly and exclusively during the year, then you do not need to reduce the prescribed rate or complete the Daycare Facility Worksheet.

Daycare Facility

If you use space in your home on a regular basis for providing daycare, you may be able to claim a deduction for that part of your home even if you use the same space for nonbusiness purposes. To qualify for this exception to the exclusive use rule, you must meet both of the following requirements.

- You must be in the trade or business of providing daycare for children, persons age 65 or older, or persons who are physically or mentally unable to care for themselves.
- You must have applied for, been granted, or be exempt from having a license, certification, registration, or approval as a

daycare center or as a family or group daycare home under state law. You do not meet this requirement if your application was rejected or your license or other authorization was revoked.

Figuring the deduction. If you elect to use the simplified method for your home, figure your deduction as described earlier in [*Using the Simplified Method*](#) under *Figuring the Deduction*.

If you are figuring your deduction using actual expenses and you regularly use part of your home for daycare, figure what part is used for daycare, as explained in [*Business Percentage*](#), earlier, under *Figuring the Deduction*. If you also use that part exclusively for daycare, deduct all the allocable expenses, subject to the deduction limit, as explained earlier.

If the use of part of your home as a daycare facility is regular, but not exclusive, you must figure the percentage of time that part of your

home is used for daycare. A room that is available for use throughout each business day and that you regularly use in your business is considered to be used for daycare throughout each business day. You do not have to keep records to show the specific hours the area was used for business. You can use the area occasionally for personal reasons. However, a room you use only occasionally for business does not qualify for the deduction.



To find the percentage of time you actually use your home for business, compare the total time used for business to the total time that part of your home can be used for all purposes. You can compare the hours of business use in a week with the number of hours in a week (168). Or, you can compare the hours of business use for the year with the number of hours in the year (8,760 in 2023). If you started or stopped using your home for daycare in 2023,

you must prorate the number of hours based on the number of days the home was available for daycare.

Example 1. Rene used the basement at home to operate a daycare business for children. Rene figures the business percentage of the basement as follows.

$$\frac{\text{Square footage of the basement}}{\text{Square footage of the home}} = \frac{1,600}{3,200} = 50\%$$

Rene used the basement for daycare an average of 12 hours a day, 5 days a week, for 50 weeks a year. During the other 12 hours a day, the family could use the basement. Rene figures the percentage of time the basement was used for daycare as follows.

Number of hours used for daycare (12 x 5 x 50)	3,000	
<hr/>		=
Total number of hours in the year (24 x 365)	8,760	= 34.25%

Rene can deduct 34.25% of any direct expenses for the basement. However, because Rene’s indirect expenses are for the entire house, Rene can deduct only 17.13% of the indirect expenses. Rene figures the percentage for their indirect expenses as follows.

Business percentage of the basement	50%
Multiplied by: Percentage of time used for daycare	× 34.25%
	<hr/>
Percentage for indirect expenses . .	17.13%
	<hr/> <hr/>

Rene completes Form 8829, Part I, figuring the percentage of the home used for business, including the percentage of time the basement was used.

In Part II, Rene figures their deductible expenses. Rene uses the following information to complete Part II.

Gross income from the daycare business	\$50,000
Expenses not related to the business use of the home	\$25,000
	<hr/>
Tentative profit	\$25,000
	<hr/>
Rent	\$8,400
Utilities	\$850
Painting the basement	\$500
	<hr/> <hr/>

Rene enters their tentative profit, \$25,000, on line 8. (This figure is the same as the amount on line 29 of their Schedule C (Form 1040)).

The expenses they paid for rent and utilities relate to their entire home. Therefore, Rene enters the amount paid for rent on line 19, column (b), and the amount paid for utilities on line 21, column (b). Rene shows the total of these expenses on line 23, column (b). For line 24, Rene multiplies the amount on line 23, column (b), by the percentage on line 7 and enters the result, \$1,585.

Rene paid \$500 to have the basement painted. The painting is a direct expense. However, because the basement was not used exclusively for daycare, Rene must multiply \$500 by the percentage of time the basement was used for daycare (34.25% – line 6). Rene then enters \$171 ($34.25\% \times \500) on line 20, column (a). Rene then adds line 23, column (a), and line 24 and enters

\$1,756 (\$171 + \$1,585) on line 26. This is less than Rene's deduction limit (line 15), so Rene can deduct the entire amount. Rene follows the instructions to complete the rest of Part II and enters \$1,756 on lines 34 and 36. Then Rene carries the \$1,756 to line 30 of their Schedule C (Form 1040).

Example 2. Assume the same facts as in *Example 1* except that Rene also has another room that was available each business day for children to take naps in. Although Rene did not keep a record of the number of hours the room was used for naps, it was used for part of each business day. Since the room was available for business use during regular operating hours each business day and was used regularly in the business, it is considered used for daycare throughout each business day. The basement and room are 60% of the total area of the home. In figuring Rene's expenses, 34.25% of any direct expenses for the basement and room are deductible. In

addition, 20.55% ($34.25\% \times 60\%$) of their indirect expenses are deductible.

Example 3. Assume the same facts as in *Example 1* except that Rene stopped using the home for a daycare facility on June 24, 2023. Rene used the basement for daycare an average of 12 hours a day, 5 days a week, but for only 25 weeks of the year. During the other 12 hours a day, Rene's family could still use the basement. Rene figures the percentage of time the basement was used for business as follows.

$$\frac{\text{Number of hours used for daycare (12 x 5 x 25)}}{\text{Total number of hours during period used (24 x 175)}} = \frac{1,500}{4,200} = 35.71\%$$

Rene can deduct 35.71% of any direct expenses for the basement. However, because the indirect expenses are for the entire house, Rene can deduct only 17.86%

of the indirect expenses. Rene then figures the percentage for their indirect expenses as follows.

Business percentage of the basement	50%
Multiplied by: Percentage of time used for daycare	× 35.71%
	<hr/>
Percentage for indirect expenses . .	17.86%
	<hr/> <hr/>

Meals. If you provide food for your daycare recipients, do not include the expense as a cost of using your home for business. Claim it as a separate deduction on your Schedule C (Form 1040). You can never deduct the cost of food consumed by you or your family. You can deduct as a business expense 100% of the actual cost of food consumed by your daycare recipients (see [Standard meal and snack rates](#), later, for an optional method for eligible children) and generally only 50% of

the cost of food consumed by your employees. For more information on meals that meet these requirements, see *Meals* in chapter 2 of Pub. 15-B, Employer's Tax Guide to Fringe Benefits.

If you deduct the actual cost of food for your daycare business, keep a separate record (with receipts) of your family's food costs.

Reimbursements you receive from a sponsor under the Child and Adult Care Food Program of the Department of Agriculture are taxable only to the extent they exceed your expenses for food for eligible children. If your reimbursements are more than your expenses for food, show the difference as income in Part I of Schedule C (Form 1040). If your food expenses are greater than the reimbursements, show the difference as an expense in Part V of Schedule C (Form 1040). Do not include payments or expenses for your own children if they are eligible for the program. Follow this procedure even if you

receive a Form 1099-MISC, Miscellaneous Information, reporting a payment from the sponsor.

Standard meal and snack rates. If you qualify as a family daycare provider, you can use the standard meal and snack rates, instead of actual costs, to compute the deductible cost of meals and snacks provided to eligible children. For these purposes:

- A family daycare provider is a person engaged in the business of providing family daycare;
- Family daycare is childcare provided to eligible children in the home of the family daycare provider. The care must be non-medical, not involve a transfer of legal custody, and generally last less than 24 hours each day; and
- Eligible children are minor children receiving family daycare in the home of the family daycare provider. Eligible

children do not include children who are full-time or part-time residents in the home where the childcare is provided or children whose parents or guardians are residents of the same home. Eligible children do not include children who receive daycare services for personal reasons of the provider. For example, if a provider provides daycare services for a relative as a favor to that relative, that child is not an eligible child.

You can compute the deductible cost of each meal and snack you actually purchased and served to an eligible child during the time period you provided family daycare using the standard meal and snack rates shown in [Table 3](#). You can use the standard meal and snack rates for a maximum of one breakfast, one lunch, one dinner, and three snacks per eligible child per day. If you receive reimbursement for a particular meal or snack, you can deduct only the portion of the

applicable standard meal or snack rate that is more than the amount of the reimbursement.

You can use either the standard meal and snack rates or actual costs to calculate the deductible cost of food provided to eligible children in the family daycare for any particular tax year. If you choose to use the standard meal and snack rates for a particular tax year, you must use the rates for all your deductible food costs for eligible children during that tax year. However, if you use the standard meal and snack rates in any tax year, you can use actual costs to compute the deductible cost of food in any other tax year.

If you use the standard meal and snack rates, you must maintain records to substantiate the computation of the total amount deducted for the cost of food provided to eligible children. The records kept should include the name of each child, dates and hours of attendance in the daycare, and the type and quantity of meals and snacks served. This information

can be recorded in a log similar to the one shown in [Exhibit A](#), near the end of this publication.

The standard meal and snack rates include beverages, but do not include non-food supplies used for food preparation, service, or storage, such as containers, paper products, or utensils. These expenses can be claimed as a separate deduction on your Schedule C (Form 1040).

Table 3. Standard Meal and Snack Rates¹

Location of Family Daycare Provider	Breakfast	Lunch	Dinner	Snack
States other than Alaska and Hawaii	\$1.66	\$3.04	\$3.04	\$0.97
Alaska	\$2.59	\$4.87	\$4.87	\$1.52

Hawaii	\$1.91	\$3.55	\$3.55	\$1.12
<p>1 The applicable rates for 2023 are the Child and Adult Care Food Program reimbursement rates in effect on December 31, 2022.</p>				

Sale or Exchange of Your Home

If you sell or exchange your home, you may be able to exclude up to \$250,000 (\$500,000 for certain married persons filing a joint return) of the gain on the sale or exchange. In most cases, you must meet the ownership and use tests. However, even if you meet the ownership and use tests, your home sale is not eligible for the exclusion if either of the following is true.

- You acquired the property through a like-kind exchange (1031 exchange) during the past 5 years.
- You are subject to the expatriate tax.

Ownership and use tests. The ownership and use tests generally require that during the 5-year period ending on the date of the sale:

- You owned the home for at least 2 years (ownership test), and
- You lived in the home as your main home for at least 2 years (use test). The 2 years of residence can fall anywhere within the 5-year period, and it does not need to be a single block of time.

Gain on Sale

If you use property partly as a home and partly for business, the treatment of any gain on the sale varies depending on whether the part of the property used for business is part of your home or separate from it.

Part of Home Used for Business

If the part of your property used for business is within your home, such as a room used as a home office for a business or rooms used to

provide daycare, you do not need to allocate gain on the sale of the property between the business part of the property and the part used as a home. In addition, you do not need to report the sale of the business part on Form 4797, Sales of Business Property. This is true whether or not you were entitled to claim any depreciation. However, you cannot exclude the part of any gain equal to any depreciation allowed or allowable after May 6, 1997. See [Depreciation](#), later.

Separate Part of Property Used for Business

You may have used part of your property as a home and a separate part of it, such as an outbuilding, for business.

Use test not met for business part. You cannot exclude gain on the separate part of your property used for business unless you owned and lived in that part of your property for at least 2 years during the 5-year period

ending on the date of the sale. If you do not meet the use test for the business part of the property, an allocation of the gain on the sale is required. For this purpose, you must allocate the basis of the property and the amount realized upon its sale between the business part and the part used as a home. You must report the sale of the business part on Form 4797.

Use test met for business part (business use in year of sale). If you used a separate part of your property for business in the year of sale, you should treat the sale of the property as the sale of two properties, even if you met the use test for the business part. You must report the sale of the business part on Form 4797.

To determine the amount to report on Form 4797, you must divide your selling price, selling expenses, and basis between the part of the property used for business and the separate part used as your home. In the

same way, if you qualify to exclude any of the gain on the business part of your property, also divide your maximum exclusion between that part of the property and the separate part used as your home.

Excluding gain on the business part of your property. You can generally exclude gain on the part of your property used for business if you owned and lived in that part as your main home for at least 2 years during the 5-year period ending on the date of the sale.

Use test met for business part (no business use in year of sale). If you have used a separate part of your property for business (though not in the year of sale) but meet the use test for both the business part and the part you use as a home, you do not need to treat the transaction as the sale of two properties. Also, you do not need to file Form 4797. You can generally exclude gain on the entire property.

Depreciation

If you were entitled to deduct depreciation on the part of your home used for business, you cannot exclude the part of the gain equal to any depreciation you deducted (or could have deducted) for periods after May 6, 1997. This means that when figuring the amount of gain you can exclude, you must reduce the total gain by any depreciation allowed or allowable on the part of your home used for business after May 6, 1997.

If you can show by adequate records or other evidence that the depreciation you actually deducted (the allowed depreciation) was less than the amount you were entitled to deduct (the allowable depreciation), the amount you cannot exclude (and must subtract from your total gain when figuring your exclusion) is the amount you actually deducted.

You do not have to reduce the gain by any depreciation you deducted (or could have

deducted) for a separate structure for which you cannot exclude the allocable portion of the gain.

Basis Adjustment

If you used any part of your home for business, you must adjust the basis of your home for any depreciation that was allowable for its business use, even if you did not claim it. If you deducted less depreciation than you could have under the method you properly selected, you must decrease the basis by the amount you could have deducted under that method. If you deducted more depreciation than you should have under the method you properly selected, you must decrease the basis by the amount you should have deducted, plus the part of the excess deducted that actually decreased your tax liability for any year. For more information on reducing the basis of your property for depreciation, see Pub. 551.

Reporting the Sale

Do not report the 2023 sale of your main home on your tax return unless:

- You received a Form 1099-S, Proceeds From Real Estate Transactions, for the sale or exchange;
- You have a gain and you do not qualify to exclude all of it;
- You have a gain and choose not to exclude it; or
- You have a loss from the sale that is deductible.



A loss from the sale of your home, or the personal part of your home if it was also used for business or to produce rental income, is not deductible.

If any of these conditions apply, report the gain or loss as explained in the Instructions for Schedule D.

If you used the home for business, you may have to use Form 4797 to report the sale of the business part. See the Instructions for Form 4797.

More Information

This section covers only the basic rules for the sale or exchange of your home. For more information, see Pub. 523, *Selling Your Home*.

Business Furniture and Equipment

This section discusses the depreciation and section 179 deductions you may be entitled to take for furniture and equipment you use in your home for business. These deductions are available whether or not you qualify to deduct expenses for the business use of your home.

This section explains the different rules for each of the following.

- Listed property.

- Property bought for business use.
- Personal property converted to business use.

Listed Property

If you use certain types of property, called listed property, in your home, special rules apply. Listed property includes any property of a type generally used for entertainment, recreation, and amusement (including photographic, phonographic, and video recording equipment).

More-than-50%-use test. If you bought listed property and placed it in service during the year, you must use it more than 50% for business to claim a section 179 deduction or an accelerated depreciation deduction.

If your business use of listed property is 50% or less, you cannot take a section 179 deduction and you must depreciate the property using the Alternative Depreciation

System (ADS) (straight line method). For more information on ADS, see Pub. 946.

Listed property meets the more-than-50%-use test for any year if its qualified business use is more than 50% of its total use. You must allocate the use of any item of listed property used for more than one purpose during the year among its various uses. You cannot use the percentage of investment use as part of the percentage of qualified business use to meet the more-than-50%-use test. However, you do use the combined total of business and investment use to figure your depreciation deduction for the property.

Years following the year placed in service. If, in a year after you place an item of listed property in service, you fail to meet the more-than-50%-use test for that item of property, you may be required to do the following.

1. Figure depreciation, beginning with the year you no longer use the property more than 50% for business, using the straight line method (ADS).
2. Figure any excess depreciation (include any section 179 deduction on the property in figuring excess depreciation) and add it to:
 - a. Your gross income, and
 - b. The adjusted basis of your property. For more information, see Pub. 946.