

IRS TAX TIP 2004-55

DO YOU HAVE A DEDUCTIBLE HOME OFFICE?

Whether you are self-employed or an employee, if you use a portion of your home exclusively and regularly for business purposes, you may be able to take a home office deduction, according to the IRS.

You can deduct certain expenses if your home office is the principal place where your trade or business is conducted or where you meet and deal with clients or patients in the course of your business. If you use a separate structure not attached to your home for part of your business, you can deduct expenses related to it.

Your home office will qualify as your principal place of business if you use it exclusively and regularly for the administrative or management activities of your trade or business and you have no other fixed place where you conduct substantial administrative or management activities. If you do not meet these conditions and you use both your home and other locations regularly in your business, you determine which location is your principal place of business based on the relative importance of the activities performed at each location. If the relative importance factor does not determine a principal place of business, consider the time spent at each location.

If you are an employee, you have additional requirements to meet. You cannot take the home office deduction unless the business use of your home is for the convenience of your employer. Also, you cannot take deductions for space you are renting to your employer.

Generally, the amount you can deduct depends on the percentage of your home used for business. Your deduction will be limited if your gross income from your business is less than your total business expenses.

Expenses that you can deduct for business use of the home may include the business portion of real estate taxes, mortgage interest, rent, utilities, insurance, depreciation, painting and repairs. However, you may not deduct personal expenses, expenses for lawn care or those related to rooms not used for business.

There are special rules for qualified daycare providers and for persons storing business inventory or product samples. Also, this year, daycare providers may choose to use standard meal and snack rates to compute the deductible cost of food for eligible children cared for in their homes.

For more information, see Publication 587, "Business Use of Your Home."

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If you are self-employed, use Form 8829 to figure your home office deduction and report those deductions on line 30 of Schedule C, Form 1040. Employees can use the worksheet in Pub. 587 to figure their allowable expenses and claim them as a miscellaneous itemized deduction on Schedule A, Form 1040.

To be on the safe side, you may also want to review IRS Publication 4035, "Home-Based Business Tax Avoidance Schemes," which describes schemes that claim to offer tax relief but which actually result in illegal tax avoidance.

IRS publications and forms are available on the IRS Web site at www.irs.gov or by calling the IRS at 1-800-TAX-FORM (1-800-829-3676).

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