



# Instructions for Form 8829

## Expenses for Business Use of Your Home

Section references are to the Internal Revenue Code.

### General Instructions

#### Purpose of Form

Use Form 8829 to figure the allowable expenses for business use of your home on **Schedule C** (Form 1040) and any carryover to 1999 of amounts not deductible in 1998.

If all of the expenses for business use of your home are properly allocable to inventory costs, do not complete Form 8829. These expenses are figured in Part III of Schedule C and not on Form 8829.

You must meet specific requirements to deduct expenses for the business use of your home. Even if you meet these requirements, your deductible expenses are limited. For details, see **Pub. 587**, Business Use of Your Home (Including Use by Day-Care Providers).

**Note:** If you file **Schedule F** (Form 1040) or you are an employee or a partner, **do not** use this form. Instead, use the worksheet in **Pub. 587**.

#### Who May Deduct Expenses for Business Use of a Home

Generally, you may deduct business expenses that apply to a part of your home **only** if that part is exclusively used on a regular basis:

1. As your principal place of business for any of your trades or businesses; or
2. As a place of business used by your patients, clients, or customers to meet or deal with you in the normal course of your trade or business; or
3. In connection with your trade or business if it is a separate structure that is not attached to your home.

#### Determining Your Principal Place of Business

In determining whether a business location in your home qualifies as your principal place of business, you must consider the following two factors:

1. The relative importance of the activities performed at each business location; and
2. The amount of time spent at each location.

First, compare the relative importance of the activities performed at each location. A comparison of the relative importance of the activities performed at each business location depends on the characteristics of each business. If your business requires that you meet or confer with clients or patients, or that you deliver goods or services to a customer, the place where that contact occurs must be given a greater weight in determining where the most important activities are performed. Performance of necessary or essential activities at the business location in your home (such as planning for services or the delivery of goods, or the accounting or billing for those activities or goods) is not controlling.

Then, if you are unable to clearly identify the location of your principal place of business after comparing the relative importance of the activities, you should compare the amount of time spent on business at each location. This may happen when you perform income-producing activities at both your home and some other location.

You may find, after applying both factors, that you have **no** principal place of business.

#### Exception for Storage of Inventory or Product Samples

You may also deduct expenses that apply to space within your home if it is the **only** fixed location of your trade or business. The space must be used on a regular basis to store inventory or product samples from your trade or business of selling products at retail or wholesale.

#### Exception for Day-Care Facilities

If you use space in your home on a regular basis in the trade or business of providing day care, you may be able to deduct the business expenses even though you use the same space for nonbusiness purposes. To qualify for this exception, you must have applied for (and not have been rejected), been granted (and still have in effect), or be exempt from having a license, certification, registration, or approval as a day-care center or as a family or group day-care home under state law.

#### Expenses Related to Tax-Exempt Income

Generally, you cannot deduct expenses that are allocable to tax-exempt income. However, if you receive a tax-exempt parsonage allowance or a tax-exempt military housing allowance, your expenses for mortgage interest and real property taxes are deductible under the normal rules. No deduction is allowed for other expenses allocable to the tax-exempt allowance.

### Specific Instructions

#### Part I

##### Lines 1 and 2

To determine the area on lines 1 and 2, you may use square feet or any other reasonable method if it accurately figures your business percentage on line 7.

**Do not** include on line 1 the area of your home you used to figure any expenses allocable to inventory costs. The business percentage of these expenses should have been taken into account in Part III of Schedule C.

##### Special Computation for Certain Day-Care Facilities

If the part of your home used as a day-care facility included areas used exclusively for business as well as other areas used only partly for business, you **cannot** figure your business percentage using Part I. Instead, follow these three steps:

1. Figure the business percentage of the part of your home used exclusively for business by dividing the area used exclusively for business by the total area of the home.

2. Figure the business percentage of the part of your home used only partly for business by following the same method used in Part I of the form, but enter on line 1 of your computation only the area of the home used partly for business.

3. Add the business percentages you figured in the first two steps and enter the result on line 7. Attach your computation and write "See attached computation" directly above the percentage you entered on line 7.

#### Line 4

Enter the total number of hours the facility was used for day care during the year.

**Example.** Your home is used Monday through Friday for 12 hours per day for 250 days during the year. It is also used on 50 Saturdays for 8 hours per day. Enter 3,400 hours on line 4 (3,000 hours for weekdays plus 400 hours for Saturdays).

#### Line 5

If you started or stopped using your home for day care in 1998, you must prorate the number of hours based on the number of days the home was available for day care. Cross out the preprinted entry on line 5. Multiply 24 hours by the number of days available and enter the result.

### Part II

#### Line 8

If all the gross income from your trade or business is from the business use of your home, enter on line 8 the amount from Schedule C, line 29, **plus** any net gain or (loss) derived from the business use of your home and shown on Schedule D or Form 4797. If you file more than one Form 8829, include only the income earned and the deductions attributable to that income during the period you owned the home for which Part I was completed.

If some of the income is from a place of business other than your home, you must first determine the part of your gross income (Schedule C, line 7, and gains from Schedule D and Form 4797) from the business use of your home. In making this determination, consider the amount of time you spend at each location as well as other facts. After determining the part of your gross income from the business use of your home, subtract from that amount the **total expenses** shown on Schedule C, line 28, plus any losses from your business shown on Schedule D or Form 4797. Enter the result on line 8 of Form 8829.

#### Columns (a) and (b)

Enter as direct or indirect expenses only expenses for the business use of your home (i.e., expenses allowable only because your home is used for business). If you did not operate a business for the entire year, you can only deduct the expenses paid or incurred for the portion of the year you used your home for business. Other expenses not allocable to the business use of your home, such as salaries, supplies, and business telephone expenses, are deductible elsewhere on Schedule C and should not be entered on Form 8829.

**Direct expenses** benefit only the business part of your home. They include painting or repairs made to the specific area or rooms used for business. Enter 100% of your direct expenses on the appropriate line in column (a).

**Indirect expenses** are for keeping up and running your entire home. They benefit both the business and personal parts of your home. Generally, enter 100% of your indirect expenses on the appropriate line in column (b).

**Exception.** If the business percentage of an indirect expense is different from the percentage on line 7, enter only the business part of the expense on the appropriate line in column (a), and leave that line in column (b) blank. For example, your electric bill is \$800 for lighting, cooking, laundry, and television. If you reasonably estimate \$300 of your electric bill is for lighting and you use 10% of your home for business, enter \$30 on line 19 in column (a). **Do not** make an entry on line 19 in column (b) for any part of your electric bill.

#### Lines 9, 10, and 11

Enter only the amounts that would be deductible whether or not you used your home for business (i.e., amounts allowable as itemized deductions on **Schedule A** (Form 1040)).

Treat **casualty losses** as personal expenses for this step. Figure the amount to enter on line 9 by completing Form 4684, Section A. When figuring line 17 of Form 4684, enter 10% of your adjusted gross income excluding the gross income from business use of your home and the deductions attributable to that income. Include on line 9 of Form 8829 the amount from Form 4684, line 18. See line 27 below to deduct part of the casualty losses not allowed because of the limits on Form 4684.

**Do not** file or use that Form 4684 to figure the amount of casualty losses to deduct on Schedule A. Instead, complete a separate Form 4684 to deduct the personal portion of your casualty losses.

On line 10, include only **mortgage interest** that would be deductible on Schedule A and that qualifies as a direct or indirect expense. **Do not** include interest on a mortgage loan that did not benefit your home (e.g., a home equity loan used to pay off credit card bills, to buy a car, or to pay tuition costs).

If you itemize your deductions, be sure to claim **only** the personal portion of your deductible mortgage interest and real estate taxes on Schedule A. For example, if your business percentage on line 7 is 30%, you can claim 70% of your deductible mortgage interest and real estate taxes on Schedule A.

#### Line 16

If the amount of home mortgage interest you deduct on Schedule A is limited, enter the part of the excess mortgage interest that qualifies as a direct or indirect expense. **Do not** include mortgage interest on a loan that did not benefit your home (explained above).

#### Line 20

Include on this line any 1998 operating expenses not included on lines 9 through 19.

If you rent rather than own your home, include the rent you paid on line 20, column (b). 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.

#### Line 27

Multiply your casualty losses in excess of the amount on line 9 by the business percentage of those losses and enter the result.

#### Line 34

If your home was used in more than one business, allocate the amount shown on line 34 to each business using any method that is reasonable under the circumstances. For each business, enter on Schedule C, line 30, only the amount allocated to that business.

### Part III

#### Lines 35 through 37

Enter on line 35 the cost or other basis of your home, or if less, the fair market value of your home on the date you first used the home for business. **Do not** adjust this amount for depreciation claimed or changes in fair market value after the year you first used your home for business. Allocate this amount between land and building values on lines 36 and 37.

Attach your own schedule showing the cost or other basis of additions and improvements placed in service after you began to use your home for business. **Do not** include any amounts on lines 35 through 38 for these expenditures. Instead, see the instructions for line 40.

**Line 39**

IF you first used your home for business in the following month in 1998 . . .	THEN enter the following percentage on line 39 . . .
January	2.461%
February	2.247%
March	2.033%
April	1.819%
May	1.605%
June	1.391%
July	1.177%
August	0.963%
September	0.749%
October	0.535%
November	0.321%
December	0.107%

**Exception.** If the business part of your home is qualified Indian reservation property (as defined in section 168(j)(4)), see **Pub. 946, How To Depreciate Property**, to figure the depreciation.

IF you first used your home for business . . .	THEN the percentage to enter on line 39 is . . .
After May 12, 1993, and before 1998	2.564% (except as noted below)
After May 13, 1993, and before 1994, and you either started construction or had a binding contract to buy or build that home before May 13, 1993	3.175% (except as noted below)
After 1991 and before May 13, 1993	3.175% (except as noted below)
After 1991, and you stopped using your home for business before the end of the year	The percentage given in Pub. 946
After 1986 and before 1992	The percentage given in Pub. 946
Before 1987	The percentage given in Pub. 534

**Line 40**

If no additions and improvements were placed in service after you began using your home for business, multiply line 38 by the percentage on line 39. Enter the result on lines 40 and 28.

IF additions and improvements were placed in service . . .	THEN figure the depreciation allowed on these expenditures by multiplying the business part of their cost or other basis by . . .
During 1998 (but after you began using your home for business)	The percentage in the line 39 instructions for the month placed in service
After May 12, 1993, and before 1998	2.564% (except as noted below)
After May 13, 1993, and before 1994, and you either started construction or had a binding contract to buy or build that home before May 13, 1993	3.175% (except as noted below)
After 1991 and before May 13, 1993	3.175% (except as noted below)
After 1991, and you stopped using your home for business before the end of the year	The percentage given in Pub. 946
After 1986 and before 1992	The percentage given in Pub. 946
Before 1987	The percentage given in Pub. 534

Attach a schedule showing your computation and include the amount you figured in the total for line 40. Write "See attached" below the entry space.

Complete and attach **Form 4562, Depreciation and Amortization**, **only** if:

1. You first used your home for business in 1998, or
2. You are depreciating additions and improvements placed in service in 1998.

If you first used your home for business in 1998, enter on Form 4562, in column (c) of line 15i, the amount from line 38 of Form 8829. Then enter on Form 4562, in column (g) of line 15i, the amount from line 40 of Form 8829. But **do not** include this amount on Schedule C, line 13.

**Paperwork Reduction Act Notice.** We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is: **Recordkeeping**, 52 min.; **Learning about the law or the form**, 8 min.; **Preparing the form**, 1 hr., 16 min.; and **Copying, assembling, and sending the form to the IRS**, 20 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the Instructions for Form 1040.