
Office in the Home

Frequently Asked Questions

- [**\[1\]**](#) What are the requirements for deducting expenses for the business use of my home?
- [**\[2\]**](#) What does exclusive use mean?
- [**\[3\]**](#) Does my home office still qualify if my mother uses it once a year when she comes for a visit?
- [**\[4\]**](#) What does regular use mean?
- [**\[5\]**](#) Does my home office qualify if I don't use it all year?
- [**\[6\]**](#) How do I meet the business use test?
- [**\[7\]**](#) How do I determine my principal place of business?
- [**\[8\]**](#) Can I claim a home office deduction if I work at both the job site and my home office?
- [**\[9\]**](#) What kind of expenses related to my home can I deduct?
- [**\[10\]**](#) Can I take a deduction for a garage I use to store my tools?
- [**\[11\]**](#) If I rent office space, can I still deduct the cost of a storage building on my property?
- [**\[12\]**](#) Can I take a deduction for my labor if I build my own home office?
- [**\[13\]**](#) How do I determine my business use percentage for my home office?
- [**\[14\]**](#) If I own my home, how do I depreciate my home office?
- [**\[15\]**](#) What happens if I claim depreciation for my home office and then later sell my home?
- [**\[16\]**](#) If I rent my home instead of owning it, can I deduct my rent payments?

[17] If I rent an office space and also have a home office where I conduct all my managerial type activities, can I claim them both as a business deduction?

[18] How do I deduct the office in the home expense on my return if I am self-employed?

1. What are the requirements for deducting expenses for the business use of my home?

To qualify for the deduction, you need to meet four tests. You can deduct the expenses related to your home office if your use is:

- Exclusive,
- Regular,
- For your business, and
- Either your principal place of business, used regularly to meet with customers, or a separate structure.

[Return to top](#)

2. What does exclusive use mean?

Exclusive use means that 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 space identified as separate. The space does not need to be marked off by a permanent partition.

[Return to top](#)

3. Does my home office still qualify if my mother uses it once a year when she comes for a visit?

No. Exclusive means exclusive, there can be no other use even if it's just occasionally.

[Return to top](#)

4. What does regular use mean?

It means you must use a specific area of your home for business on a continuous basis.

Example:

Sam is a self-employed brick layer. His only office is a room in his home, which he used regularly and exclusively to phone customers, decide what supplies to order, bill customers and pay expenses of the business. Sam meets the 4 tests: exclusive use, regular use, business use, and use of the home office for the administrative activities of the business.

Note: Prior to 1999, Sam would not have qualified for the deduction. Using the home office only for administrative activities was not sufficient to meet this test.

[Return to top](#)

5. Does my home office qualify if I don't use it all year?

As long as the area is still set aside and not used for any other purpose, the slow down of the business would not prevent you from claiming the deduction.

[Return to top](#)

6. How do I meet the business use test?

If you are actively operating your construction business, you will meet this test.

[Return to top](#)

7. How do I determine my principal place of business?

Your home office generally will qualify as a 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 location where you conduct substantial administrative or management activities of your trade or business.

Example:

Sam is a self-employed brick layer. His only office is a room in his home, which he used regularly and exclusively to phone customers, decide what supplies to order, bill customers and pay expenses of the business. Sam meets the 4 tests: exclusive use, regular use, business use, and use of the home office for the administrative activities of the business.

Note: Prior to 1999, Sam would not have qualified for the deduction. Using the home office only for administrative activities was not sufficient to meet this test.

[Return to top](#)

8. Can I claim a home office deduction if I work at both the job site and my home office?

In the construction industry, your business location may be split between two places: the job site and the place you keep your records. As long as you use the area exclusively and regularly for the administrative or management activities of your business, and you have no other fixed location where you conduct these activities, your office will qualify.

[Return to top](#)

9. What kind of expenses related to my home can I deduct?

If you qualify to deduct expenses for the business use of your home, you must divide the operating expenses of your home between personal and business use.

Fully Deductible

- Depreciation on office equipment
- Separate business telephone line
- Business long distance charges
- Home office repairs & maintenance
- Depreciation on office furniture
- Office Supplies
- Labor costs of bookkeeper

Never Deductible

- First telephone line into house
- Non-office repairs and maintenance
- Lawn care

Partially Deductible

- Real estate taxes
- Mortgage interest
- General repairs to home
- Water, sewer, garbage
- Home insurance
- Rent
- Depreciation on home
- Security system
- General repairs to home

Example:

The following table summarizes the typical expenses.

Expense	Always Deductible	Never Deductible	Partially Deductible
Real Estate Taxes			X
Mortgage Interest			X
General Repairs to Home			X
Water, Sewer, Garbage			X
Home Insurance			X
Rent			X
Depreciation on office equipment	X		
Depreciation on Home			X
Security System			X
First telephone line into house		X	
Separate business telephone line	X		
Business long distance charges	X		
Non-office repairs & maintenance		X	
General Repairs to home			X
Home office repairs & maintenance	X		
Lawn Care		X	
Depreciation on office furniture	X		
Office Supplies	X		
Labor costs of bookkeeper	X		

[Return to top](#)

10. Can I take a deduction for a garage I use to store my tools?

If you have a separate structure and you use it exclusively and regularly for your business, you may deduct the expenses related to the structure whether or not you can deduct your home office expenses. These expenses could include:

- Utilities,
- Repairs, and
- Depreciation allowed on the furnishings and on the structure.

Example:

Adam is a self-employed roofer. He has a home office where he kept his books. Adam also has a storage shed in his backyard which he uses only to store the tools used in the business. Adam can deduct the expenses directly related to the storage shed and the expenses for his home office.

[Return to top](#)

11. If I rent office space, can I still deduct the cost of a storage building on my property?

It does not qualify for office use of the home but if the building is a separate structure that is used exclusively and regularly for business, you can claim:

- Utilities,
- Repairs, and
- Depreciation allowed on the furnishings and on the structure.

Example:

Ben is a self-employed painter. He rents office space where his bookkeeper works and he meets with contractors. He also has a storage shed in his backyard which he uses only to store the tools and supplies used in his business. Although Ben does not have a home office, he can still deduct the direct expenses related to the shed.

[Return to top](#)

12. Can I take a deduction for my labor if I build my own home office?

You cannot take a deduction for your labor, but you can depreciate the cost of building supplies for the home office.

[Return to top](#)

13. How do I determine my business use percentage for my home office?

For each of the partially deductible items, you must determine the business use percentage of your home. You can use either the *square footage method* or, if the rooms in your house are all about the same size, the *room count method*.

Square Footage Method

$$\frac{\text{Office Square Footage}}{\text{Total Home Square Footage}} = \text{Business Percentage}$$

Room Count Method

$$\frac{\text{Office Room(s)}}{\text{Total Rooms in Home}} = \text{Business Percentage}$$

Example:

Brian Brown is a landscaper. He has a qualified home office in 1999. He uses one room exclusively and his tentative profit is \$32,500. The first step is to determine the business percentage.

Office Space (16x12)	192
Total Square Footage	2000
Business Percentage	9.60%

Brian had the following expenses that related to his home. The expenses that are partially or wholly deductible indicate which line on Form 8829 the amount should be recorded. [C:\\Construction\\Texts\\Office in the Home Text.doc" \\
"Brian]

[Return to top](#)

14. If I own my home, how do I depreciate my home office?

To figure the deduction on your home, you need to know:

- The month and year you started using your home for business,
- The adjusted basis and fair market value of your home at the time you began using it for business,

- The cost of any improvements before and after you began using the property for business, and
- The percentage of your home used for business.

See [Publication 587](#), [C:\\Construction\\Pubs & Forms\\Office in the Home Pubs & Forms.doc] Business Use of Your Home for an explanation of how to compute the depreciation deduction.

[Return to top](#)

15. What happens if I claim depreciation for my home office and then later sell my home?

If you do claim depreciation for your home office, you may have a taxable gain when you sell your home. Any gain or loss on the sale of the home may be both personal and business. The personal portion of the gain will be partly or completely excluded from income. However, the business portion of the gain will be taxable up to the amount of depreciation claimed in the past. For additional information, see [Publication 587](#)[C:\\Construction \\Pubs & Forms\\Office in the Home Pubs & Forms.doc], Business Use of Your Home

[Return to top](#)

16. If I rent my home instead of owning it, can I deduct my rent payments?

If you meet the requirements for business use of the home, you can deduct your business use percentage times the rent you pay.

[Return to top](#)

17. If I rent an office space and also have a home office where I conduct all my managerial type activities, can I claim them both as a business deduction?

You can take a deduction for both locations as long as your home is your principal place of business. Your home 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.

For additional information see [Publication 587](#)[**Construction\\Pubs & Forms\\Office in the Home Pubs & Forms.doc**], Business Use of Your Home, *under the heading Principal Place of Business*.

[Return to top](#)

18. How do I deduct the office in the home expense on my return if I am self-employed?

If you are self-employed and file [Schedule C](#)[<http://ftp.fedworld.gov/pub/irs-pdf/f1040sc.pdf>], Profit and Loss from Business (Form 1040), attach [Form 8829](#), [**C:\\Construction\\Pubs & Forms\\Office in the Home Pubs & Forms.doc**] Expenses for Business Use of Your Home, to your return. The deduction determined on Form 8829 is shown on Schedule C, line 30. Your deduction is limited to the net profit of the business. If your deduction is limited, the amount that is not deductible in one year can be carried to the following year. However, your deduction will still be limited to the net profit of the business in the subsequent year.

Part I of Form 8829 determines the business percentage. Line 7 on Form 8829 should agree with the business percentage you determined earlier.

[Return to top](#)

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