

Employee Business Expenses/ Home Office Deduction

Presented by,

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Objectives

After completing this course, you will be able to:

- Define a Home Office
- Figure the Simplified Method
- Identify Direct and Indirect Expenses



- Calculate the Home Office Deduction
- Apply the Rules for Daycare Providers
- Determine Where to Report the Deduction
- Recognize Tax Implications of Selling Your Home

Define Home Office



House



Condo



Apartment



Mobile Home

Requirements to Qualify

- Exclusive
- Regular
- Trade or Business
- Principal Place
- Administrative Activities
- Meet the Deal with Customers
- 2 Exceptions



Inventory



Daycare

Simplified Method

- Alternative January 1, 2013
- Allowable Part of Home
- No Actual Expenses
- Gross Income
- Depreciate Other Assets
- Non-Related Expenses
- Irrevocable

Simplified Method Worksheet

Use this worksheet if you file Schedule F (Form 1040) or ~~you~~ you are an employee or a partner, and you are using the simplified method to figure your deduction for business use of the home. Use a separate worksheet for each qualified business use of your home.

- | | | |
|---|-----|-----------|
| 1. Enter the amount of the gross income limitation. See Instructions for the Simplified Method Worksheet | 1. | _____ |
| 2. Allowable square footage for the qualified business use. Do not enter more than 300 square feet. See Instructions for the Simplified Method Worksheet | 2. | _____ |
| 3. Simplified method amount | | |
| a. Maximum allowable amount | 3a. | _____ \$5 |
| b. For daycare facilities not used exclusively for business, enter the decimal amount from the Daycare Facility Worksheet; otherwise, enter 1.0 | 3b. | _____ |
| c. Multiply line 3a by line 3b and enter result to 2 decimal places | 3c. | _____ |
| 4. Multiply line 2 by line 3c | 4. | _____ |
| 5. Allowable expenses using the simplified method. Enter the smaller of line 1 or line 4. If zero or less, enter -0-. See Where To Deduct , earlier, for where to enter this amount on your return | 5. | _____ |
| 6. Carryover of unallowed expenses from 2013 that are not allowed in 2014. | | |
| a. Operating expenses. Enter the amount, if any, from your 2013 Worksheet To Figure the Deduction for Business Use of Your Home, line 40 | 6a. | _____ |
| b. Excess casualty losses and depreciation. Enter the amount, if any, from your 2013 Worksheet To Figure the Deduction for Business Use of Your Home, line 41 | 6b. | _____ |

Home Office Expenses

- Real Estate Taxes
- Qualified Mortgage Insurance Premiums
- Deductible Mortgage Interest
- Casualty Losses
- Depreciation
- Insurance
- Rent
- Security System
- Utilities
- Direct vs. Indirect

Depreciation

- 39 Year Nonresidential Real Estate
- Permanent Improvements
 - **Business Percentage**
 - Example – Square footage
 - Example - # of Rooms
 - Deduction Limit
 - Carryover of Unallowed

Direct vs. Indirect Expenses

Direct is an actual business
Expense that relates to
that specific business



Indirect is an expense on the
whole house with a prorated
portion to the office

Part II Figure Your Allowable Deduction

8	Enter the amount from Schedule C, line 29, plus any gain derived from the business use of your home, minus any loss from the trade or business not derived from the business use of your home (see instructions). See instructions for columns (a) and (b) before completing lines 9-21.				8	
		(a) Direct expenses	(b) Indirect expenses			
9	Casualty losses (see instructions).					
10	Deductible mortgage interest (see instructions)					
11	Real estate taxes (see instructions)					
12	Add lines 9, 10, and 11					
			13			
14	Multiply line 12, column (b) by line 7				14	
15	Add line 12, column (a) and line 13				15	
16	Subtract line 14 from line 8. If zero or less, enter -0-					
17	Excess mortgage interest (see instructions)					
18	Insurance					
19	Rent					
20	Repairs and maintenance					
21	Utilities					
22	Other expenses (see instructions)					
23	Add lines 16 through 21					
			23			
24	Multiply line 22, column (b) by line 7					
			24			
25	Carryover of prior year operating expenses (see instructions)					
26	Add line 22, column (a), line 23, and line 24				25	
27	Allowable operating expenses. Enter the smaller of line 15 or line 25				26	
28	Limit on excess casualty losses and depreciation. Subtract line 26 from line 15				27	
29	Excess casualty losses (see instructions)		28			
30	Depreciation of your home from line 41 below		29			
31	Carryover of prior year excess casualty losses and depreciation (see instructions)					

Calculating the Deduction

- Actual vs. Simplified
- Divide the Expenses
 - Direct – 100% Business Use Only
 - Indirect – % of Home Used for Office
 - Unrelated Home Expenses
 - Subject to Deduction Limit

Daycare Facility

Must Provide Daycare for:



- Must have applied for or Been Granted License, Certification, Registration, Approval

Calculate the Deduction

- Use Part of Home Exclusively
- Deduct All Allocable Expenses
- Regular But Not Exclusive
- % of Time Used for Daycare
- A Room Used Exclusively
- A Room Available
- Area Used for Business and Personal

Calculate the Deduction Cont.

- Percentage of Time
 - Compare Total Time Used for Business
 - To Total Time Used For All Purposes
-
- 168 Hours In a Week
 - 8760 Hours in a Year (2014)
 - Prorate if You Stop Business



Example

Maria used her Living Room

$$\frac{\text{Square footage of living room} = 500}{\text{Square footage of her home} = 1,200} = 41.37\%$$

Maria used the living room for daycare an average of 12 hours a day, 5 days a week, for 50 weeks a year. During the other 12 hours the family could use the living room.

$$\frac{\text{\# of hours for daycare } (12 \times 5 \times 50)}{\text{\# of hours in the year } (24 \times 365)} = \frac{3,000}{8,760} = 34.25\%$$

Example Cont.

Business % of the living room	41.37%
Multiplied by: % of time used	<u>x 34.25%</u>
Percentage for indirect expenses	14.17%

34.25% of any direct expenses deducted

14.17% of indirect expenses deducted

Maria completes Form 8829, Part I and Part II

May Have a Carryforward

Form **8829**Department of the Treasury
Internal Revenue Service (99)**Expenses for Business Use of Your Home**

► File only with Schedule C (Form 1040). Use a separate Form 8829 for each home you used for business during the year.

► Information about Form 8829 and its separate instructions is at www.irs.gov/form8829.

OMB No. 1545-0074

2014
Attachment
Sequence No. **176**

Name(s) of proprietor(s)	Your social security number
Maria Garcia	123-45-6789

Part I Part of Your Home Used for Business

1	Area used regularly and exclusively for business, regularly for daycare, or for storage of inventory or product samples (see instructions)	1	500
2	Total area of home	2	1,200
3	Divide line 1 by line 2. Enter the result as a percentage	3	41.66 %
For daycare facilities not used exclusively for business, go to line 4. All others, go to line 7.			
4	Multiply days used for daycare during year by hours used per day	4	3,000 hr.
5	Total hours available for use during the year (365 days x 24 hours) (see instructions)	5	8,760 hr.
6	Divide line 4 by line 5. Enter the result as a decimal amount	6	. 3425
7	Business percentage. For daycare facilities not used exclusively for business, multiply line 6 by line 3 (enter the result as a percentage). All others, enter the amount from line 3	7	14.17 %

Part II Figure Your Allowable Deduction

8	Enter the amount from Schedule C, line 29, plus any gain derived from the business use of your home, minus any loss from the trade or business not derived from the business use of your home (see instructions)	8	25,000
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Meals for Daycare

- Meals Are a Separate Deduction
- Only for clients
- 50% for Your Employees
- 100% If Value Excluded From Wages
- Keep a Separate Record – All Receipts
- Reimbursements Dept of Agriculture
- Taxable if Exceed Eligible Expenses
- If Food Expenses Greater Then Deduct That Portion
- Not Deductible for Your Own Children
- Can Use Standard Meal and Snack Rates



Meals

Table 3. Standard Meal and Snack Rates¹

Location of Family Daycare Provider	Breakfast	Lunch	Dinner	Snack
States other than Alaska and Hawaii	\$1.28	\$2.40	\$2.40	\$0.71
Alaska	\$2.04	\$3.89	\$3.89	\$1.16
Hawaii	\$1.49	\$2.81	\$2.81	\$0.83

¹ The applicable rates for 2014 are the Child and Adult Care Food Program reimbursement rates in effect on December 31, 2013.

Where to Deduct 8829

- Self-Employed
- Schedule C or F
- Partners – If Not Reimbursed
- Schedule E
- Schedule SE
- Schedule K-1
- Employees – For Employer's Convenience
- Form 2106

Sale or Exchange of Home

- § 121 Exclusion Applies
- Up to \$250,000 or \$500,000
- Must Meet Ownership and Use Tests
- Gain on Sale if Used for Business
- Within Your Home
 - Do Not Need to Allocate
 - Do Not Need to Report on Form 4797
 - Cannot Exclude Gain from Depreciation
 - Allowed or Allowable

Sale or Exchange of Home Cont.

- Separate Part of Property Used
- Garage, Out Building, etc.
- § 121 Exclusion May Apply
- If You Owned and Lived in That Part
- 2 out of last 5 years
- You Can Exclude That Part
- Must Allocate Sale Expenses
- Use Form 4797 to Report Business Use
- If No Business Use in Year of Sale

Depreciation

- No Exclusion after May 6, 1997
- Compute Gain by Allowed or Allowable Depreciation
- Must Adjust Basis by Allowable
 - Even if Not Claimed
 - If Used For Business – Form 4797
Business Portion
 - Received Form 1099S
 - You Have a Gain
 - Do Not Qualify for § 121 Exclusion
 - May Need to Report on Sch D

Depreciation Cont.

- Property Bought for Business Use
- Property Converted to Business Use
- Depreciate According to **MACRS**
 - Can Use Section 179
 - Depreciate the Difference
 - Listed Property
- Computers, Entertainment, Video Recording
- More than 50% Use Test
- Must Allocate and Keep Records

Worksheets

- Publication 587
- Pg. 5 Flowchart for Eligibility
- Pg. 16 Standard Meal and Snack Rates
- Pg. 24 Actual Expense Deduction
- Pg. 26 Simplified Method Worksheet
- Pg. 28 Area Adjustment Worksheet
- Pg. 32 Meal and Snack Log

Need More Info?

- Pub 587 Business Use of Your Home
- Pub 551 Basis of Assets
 - Pub 583 Starting a Business and Keeping Records
 - Pub 946 How To Depreciate Property
 - Schedule C (Form 1040)
 - 2106 Employee Business Expenses
 - 4562 Depreciation and Amortization
 - 8829 Expenses for Business Use of Your Home

Wrap-Up

- Define a Home Office
- How to Figure the Simplified Method
- Identify Direct and Indirect Expenses
- Calculate the Home Office Deduction
 - Apply the Rules for Daycare Providers
 - Determine Where to Report the Deduction
 - Recognize Tax Implications of Selling Your Home

**Visit our Demo Room Wednesday
Visit us at our table on Thursday**



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Thank You!**