

News & Insights

Tax Tip from Tulsa Tax Attorney David Potts - How small business owners can deduct their home office from their taxes

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Tax Tip: How small business owners can deduct their home office from their taxes

The home office deduction allows qualified taxpayers to deduct certain home expenses when they file taxes. To claim the home office deduction on their 2021 tax return, taxpayers generally must exclusively and regularly use part of their home or a separate structure on their property as their primary place of business.

Here are some details about this deduction to help taxpayers determine if they can claim it:

- Employees are not eligible to claim the home office deduction.
- The home office deduction, calculated on Form 8829, is available to both homeowners and renters.
- There are certain expenses taxpayers can deduct. These may include mortgage interest, insurance, utilities, repairs, maintenance, depreciation and rent.
- Taxpayers must meet specific requirements to claim home expenses as a deduction. Even then, the deductible amount of these types of expenses may be limited.
- The term "home" for purposes of this deduction:
 - Includes a house, apartment, condominium, mobile home, boat or similar property.
 - Also includes structures on the property. These are places like an unattached garage, studio, barn or greenhouse.
 - Doesn't include any part of the taxpayer's property used exclusively as a hotel, motel, inn or similar business.
- Generally, there are two basic requirements for the taxpayer's home to qualify as a deduction:
 - There generally must be exclusive use of a portion of the home for conducting business on a regular basis. For example, a taxpayer who uses an extra room to run their business can take a home office deduction only for that extra room so long as it is used both regularly and exclusively in the business.
 - The home must generally be the taxpayer's principal place of business. A taxpayer can also meet this requirement if administrative or management activities are conducted at the home and there is no

other location to perform these duties. Therefore, someone who conducts business outside of their home but also uses their home to conduct business may still qualify for a home office deduction.

- Expenses that relate to a separate structure not attached to the home may qualify for a home office deduction. They will qualify only if the structure is used exclusively and regularly for business.
- Taxpayers who qualify may choose one of two methods to calculate their home office expense deduction:
 - The simplified option has a rate of \$5 a square foot for business use of the home. The maximum size for this option is 300 square feet. The maximum deduction under this method is \$1,500.
 - When using the regular method, deductions for a home office are based on the percentage of the home devoted to business use. Taxpayers who use a whole room or part of a room for conducting their business need to figure out the percentage of the home used for business activities to deduct indirect expenses. Direct expenses are deducted in full.

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