

Deducting Your Home Office

A brief guide provided courtesy of:



The IRS provides two different methods for businesses to deduct expenses related to a business owner's home office. Either of the following methods may be used unless otherwise noted.

Simplified Home Office

- Easier of the two methods
- **Requires only the total size of the home office space**
- Does **not** require record/tracking of all expenses paid
- Deduction equals home office size times the rate set by the IRS (*\$5/ sq. ft. in 2024*), limited to a max of \$1,500
- Mortgage interest and real estate taxes may still be deducted on Schedule A of the homeowner's personal income tax return
- May reduce your overall accounting and tax preparation costs
- May not be used to take or further a business loss
- Does not affect the exclusion for the sale of your home

Actual Expenses

- More difficult of the two methods
- **Requires** the total size of the home and the total size of the home office space
- **Requires** record/tracking of all expenses paid ie. utilities, insurance, mortgage interest, repairs, purchase price
- Deduction equals total of indirect expenses times the business use percentage (*Home office size/total home size*) PLUS the total of direct expenses
- Limits the deduction of mortgage interest and real estate taxes on Schedule A of the homeowner's personal income tax return
- May increase your overall accounting and tax preparation costs
- May not be used to take or further a business loss
- May result in taxable income upon the sale of your home

Note:

1. Home office expenses are only deductible by a business if the space is dedicated exclusively for business use.
2. Businesses organized as Corporations or S Corporations must reimburse officers and employees for their home office expenses under an 'accountable plan.' This requires submittal of receipts and completion of a reimbursement form.