



What Home-Office Deductions Can Your Small Business Claim and How?

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More than half of all U.S. businesses are [based out of an owner's home](#), and with this year's tax season deadlines fast approaching, you may be wondering if your business qualifies for the deduction.

To help business owners understand more about this important deduction, SBA sat down with IRS tax expert, Phyllis Grimes, about what is and what isn't deductible. This interview is part of a series of [short online videos](#) hosted on SBA's [Small Business Learning Center](#), which offer tips and facts about all aspects of business financing.

Here's what you need to know.

Evidence That Your Home is Your Principal Place of Business

In order to be eligible to claim the home office deduction, your home must be your principal place of business. If you conduct business at a location outside of your home, but also use your home substantially and regularly to conduct business, you may qualify for a home office deduction. For example, if you have in-person meetings with patients, clients or customers in your home in the normal course of your business—even though you also carry on business at another location—you can deduct your expenses for the part of your home used exclusively and regularly for business. You can deduct expenses for a separate free-standing structure, such as a studio, garage, or barn, if you use it exclusively and regularly for your business. The structure does not have to be your principal place of business or the only place where you meet patients, clients or customers.

Distinguish Between Personal Home Expenses and Home-Based Business Expenses

To claim the home office deduction, an area of your home must also be used exclusively and regularly for business use. This is an important distinction, because both conditions must apply. For example, consider this scenario – a home-based attorney uses the den of his or her home to write legal briefs or prepare clients tax returns but the family also uses the den for recreation. So the den is not used exclusively in the attorney's profession so he or she can't claim a business deduction for its use.

If, however, you have a separate room or blocked off area that is identifiable as being used solely for business purposes, such as an office space or work area (and you use it "regularly"), then this would qualify you for the deduction.

(Note that if you regularly operate an in-home day care, the "exclusive" rule does not apply.)

What Expenses Can You Deduct?

If you meet all the criteria to claim the home-based business deduction, you'll next need to understand how the IRS permits eligible business owners to claim **ordinary and necessary expenses** related to the business. Essentially, an ordinary expense is an expense that is common and accepted in the taxpayer's trade or business (in the case of a home business, an ordinary expense could be an installation fee for a business telephone line). A necessary expense is one that is appropriate for the business (such as the cost of your email marketing software). Deductible expenses might also include the business portion of real estate taxes, mortgage interest, rent, utility, insurance, depreciation, utilities, painting and repairs. Refer to IRS [Form 8829](#) for a complete list.

How Much Can You Deduct?

Generally, deductions for a home office are based on the percentage of your home devoted to business use. So, if you use a whole room or part of a room for conducting your business, you need to figure out the percentage of your home devoted to your business activities. To calculate this amount, you'll need to calculate the total square footage of your home and then the total square footage of the space you use for your business. IRS [Form 8829](#) also helps you figure out this calculation.

A common error is to deduct expenses for a portion of the home that is not regularly used or exclusively used for business. For example, the telephone service charge, including taxes, for the first phone line into a home is a nondeductible personal expense. However, charges for business long-distance phone calls on that line—and the cost of a second line used exclusively for business—are deductible business expenses.

How to File Your Home Office Deduction Claim

Use [Schedule C Form 1040](#) to report income and expenses and the deductible amount for the business use of your home (which you calculate using [Form 8829](#)).