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## **The Tax Breaks and Opportunities of Working Out of Your Home**

Thanks in large part to the spread of computers and a growing desire among Americans to be their own bosses, the number of home-based businesses in this country is on the rise. Millions of men and women have “set up shop” in the spare bedroom, offered child care from the home, retreated to the studio over the garage, or simply called home their business headquarters.

If this describes you, you should know about the many tax benefits to which you may be entitled. Here are the basics.

In addition to your regular business expenses, you can deduct a portion of your utilities, rent, depreciation, home insurance and repairs if you meet several technical requirements:

**1. You must regularly use a designated part of your home exclusively for business.**

The key word is exclusive. You cannot make quilts in your living room while the kids watch TV at your feet and expect to take a deduction. The portion of your home (or other building) you use for business cannot be used for any non-business purpose. As for that den you use to do a customer’s book-keeping, if you want the deduction, you have to quit playing cards there on Saturday night.

*Exceptions:* You do not need to meet the “exclusive” provision if you use a portion of your home to store inventory or product samples, or if your home is a day-care facility.

**2. The area must be used on a continuing basis for business purposes.** You will not meet the test if your business use is only occasional or incidental, even if you do not use that area for any other purpose. Declaring the unused attic your “office” won’t cut it.

**3. This must be your principal place of business.** If you have more than one business location, including your home, you must figure out if your home is your principal place of business. Note that your home doesn’t have to be where you generate most of your income. So, if you paint houses for a living, but use that ten-square-foot-nook off the kitchen to regularly—and exclusively—keep your books, do job estimates, schedule meetings and order supplies, you can take the deduction, provided you have no other fixed locations where you conduct substantial administrative and management activities of your business.

*One exception:* Even if your home isn’t your principal place of business, you may qualify to take deductions if you regularly use part of it exclusively to meet with clients, customers or patients. So, if you are a marketing consultant with a downtown office plus

an office in your home, you should be able to deduct expenses at both locations, if you (a) routinely meet clients in your home (say, at least once a week); and (b) use that home office space exclusively for business.

### **How Much Can You Deduct?**

The amount is based on the percentage of space devoted to business vs. private use. Any reasonable method is acceptable. The most common involve either measuring square feet or counting the number of rooms, based on which gives you the higher deduction.

For example, if you have five rooms in your home, and use one for business, your business percentage would be 20% (1 divided by 5). Or if your home is 3,200 square feet and your office is 15 by 25, (375 square feet), your business portion comes to 12% (actually 11.7%). This is the percentage of utilities, homeowner's insurance, and other home expenses you can deduct, subject to certain limits.

Plus, you generally can deduct, in full, expenses directly related solely to your business area. If you carpet or paint just your home office space, 100% of that expense can be deducted. You can also deduct a percentage of your home for the wear and tear resulting from the operation of your business.

The above is intended to provide a general overview of home office deduction basics. There are often fine-print details that need to be considered, So, talk to your accountant before you transform the family room into your business's "world headquarters." To learn about how life insurance and other financial solutions can help you meet your business and personal goals, contact **Jason M. Woodward, J.D.** today at [financialattorney@gmail.com](mailto:financialattorney@gmail.com).