



Internal Revenue Service

Small Business and Self-Employed

Taxpayer Education and Communication

Business Use of the Home

Lesson 5



Agenda

- **Qualifying for a Deduction**
- **Business Percentage**
- **Types of Expenses**
- **Deduction Limit**
- **Recordkeeping**



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Introduction

The term “home” can include:

- **House,**
- **Apartment,**
- **Condominium,**
- **Mobile home,**
- **Boat, and**
- **Separate structures, such as a garage, studio, barn, or greenhouse.**



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Objectives

- **Determine if you are eligible for the business use of the home deduction**
- **Complete Form 8829, *Expenses for the Business Use of Your Home***



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Qualifying for a Deduction





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Use of Business Part of Home

- **Regular**
- **Exclusive ...and**
- **For your business**



For Your Business

- **Principal place of business;**
- **Place where you meet patients, clients, or customers in the normal course of your business; or**
- **Separate structure used in connection with your business.**



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Exclusive Use

- Specific area of your home used ONLY for your trade or business
 - Room or other separate identifiable space
 - Permanent partition not necessary
- Personal use of area disqualifies it



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Regular Use

- **Specific area of your home used for business on a *continuing* basis**
- **Occasional or incidental use does not meet the test**



Principal Place of Business

- **Used regularly and exclusively for administrative or management activities of your trade or business, and**
- **No other fixed location where you conduct substantial administrative or management activities of your trade or business**



Administrative or Managerial Activities

- **Billing customers**
- **Keeping books and records**
- **Ordering supplies**
- **Setting up appointments**
- **Forwarding orders**
- **Writing reports**



Meeting Place for Customers

- **Physically meet with patients, clients, and customers at your home; and**
- **Use of your home is substantial and integral to the conduct of your business.**



Separate Structure

- **Used regularly and exclusively for your business**
- **The structure does not have to be your principal place of business or a place where you meet patients, clients, or customers**
- **Not physically attached to your home (garage, greenhouse, workshop, etc.)**



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Business Percentage





Business Percentage

Area Method

$$\frac{\text{Area used for business}}{\text{Total area}} = \text{Business \%}$$

Number of Rooms Method

$$\frac{\text{Rooms used for business}}{\text{Total rooms in home}} = \text{Business \%}$$



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Types of Expenses





Types of Expenses

- **Related to the business activity in the home, but not to the use of the home itself**
- **For business use of the home**



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Categories of Expenses

Direct

- Only for business part
- Generally deducted in full
- Example: painting or repairs for business area

Indirect

- For running entire home
- Deductible based on business percentage
- Examples: utilities, insurance, general repairs

Unrelated

- No deduction
- Example: lawn care



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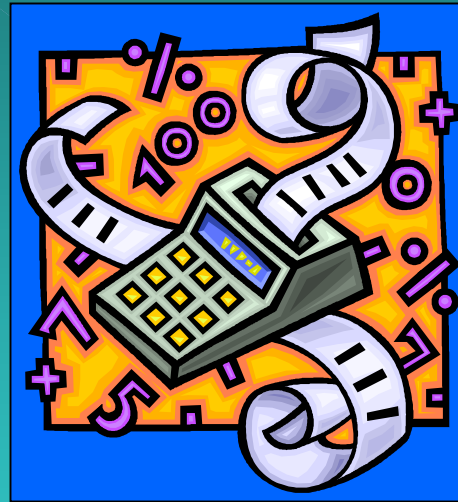
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Example of Expenses

- Real estate taxes
- Deductible mortgage interest
- Casualty losses
- Insurance
- Rent
- Repairs
- Utilities and services
- Depreciation



Deduction Limit



and Other Considerations



Deduction Limit

- **No Limit -- Gross income from home-based business equals or exceeds total business expenses**
- **Limited -- Gross income from home-based business less than expenses**
 - **Gross Income**
 - **Otherwise deductible expenses (taxes, mortgage interest)**
 - **Business expenses not related to home
Deduction Limit**



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Carryover

- **Expenses over the deduction limit**
- **Carry forward to later years**
- **Subject to that year's deduction limit**



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Where to Deduct Expenses

Business Income and Expenses

- Non-Farm – Form 1040 (Schedule C)
- Farm – Form 1040 (Schedule F)

Business Use of Home Expenses

- Non-Farm
 - Figure on Form 8829, *Expenses for Business Use of Your Home*
 - Report deductible amount on Schedule C
- Farm
 - Figure using worksheet in Pub. 587, *Business Use of Your Home*
 - Report deductible amount on Schedule F



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No Double Deduction

Real Estate Taxes and Mortgage Interest

- **Business Portion – Schedule C or F**
- **Personal Portion – Schedule A**



Sale or Exchange of Your Home

- **Pay tax on gain due to depreciation allowed or allowable**
 - For business use of your home
 - After May 6, 1997
- **Exclude remaining gain up to limits**
- **Adjust the basis of your home**
 - For depreciation allowed or allowable
 - Even if you did not claim it



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Recordkeeping





Recordkeeping

- **Records must show**
 - Part of home used for business
 - Meeting regular, exclusive, and use tests
 - Depreciation
 - Evidence of expenses for business part of home
- **Evidence of expenses includes**
 - Cancelled checks
 - Receipts
 - Invoices
 - Etc.



Need More Information?

- **Form 8829, *Expenses for the Business Use of Your Home***
- **Publication 587, *Business Use of Your Home***
- **Website - www.irs.gov/smallbiz**
- **Visit a local office**
- **Call 1-800-829-4933 for the Business and Specialty Tax Line**