

Home office deduction benefits eligible small business owners

Small business owners may qualify for a [home office deduction](#) that will help them save money on their taxes, and benefit their bottom line. Taxpayers can take this deduction if they use a portion of their home exclusively, and on a regular basis, for any of the following:

- As the taxpayer's main place of business.
- As a place of business where the taxpayer meets patients, clients or customers. The taxpayer must meet these people in the normal course of business.
- If it is a separate structure that is not attached to the taxpayer's home. The taxpayer must use this structure in connection with their business
- A place where the taxpayer stores inventory or samples. This place must be the sole, fixed location of their business.
- Under certain circumstances, the structure where the taxpayer provides day care services.

Deductible expenses for business use of a home include:

- Real estate taxes
- Mortgage interest
- Rent
- Casualty losses
- Utilities
- Insurance
- Depreciation
- Repairs and Maintenance

Certain expenses are limited to the net income of the business. These are known as allocable expenses. They include things such as utilities, insurance, and depreciation. While allocable expenses cannot create a business loss, they can be carried forward to the next year. If the taxpayer carries them forward, the expenses are subject to the same limitation rules.

There are two options for figuring and claiming the home office deduction.

Regular method

This method requires dividing the above expenses of operating the home between personal and business use. Self-employed taxpayers file [Form 1040, Schedule C](#), and compute this deduction on [Form 8829](#).

Simplified method

The [simplified method](#) reduces the paperwork and recordkeeping for small businesses. The simplified method has a set rate of \$5 a square foot for business use of the home. The maximum deduction allowed is based on up to 300 square feet.

There are special rules for certain business owners:

Daycare providers complete a special worksheet, which is found in [Publication 587](#).

Self-employed individuals use [Form 1040, Schedule C](#), Line 30 to claim deduction.

Farmers claim the home office deduction on [Schedule F](#), Line 32.