

Financial, Legal & Tax Advisory

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Home Office Deduction

With remote work becoming a growing theme in the workforce, more and more households are equipped with a home office. For those who are business owners, and conduct their business from their home, the IRS allows qualified taxpayers to claim a home office on their tax return and deduct certain home expenses when they file their taxes. This deduction is known as the Home Office Deduction. Self-employed individuals may have a home office that includes a desk, chair, computer/laptop, internet capability, and adequate software. For a taxpayer to be eligible for a home office deduction, the dwelling unit must be one of the following:

- Principal place of business.
- A place to meet patients, clients, or customers in the normal course of business.
- A separate structure not attached to the dwelling and used in connection with the business; or
- If the dwelling is the only fixed location of the taxpayer's business, a space within it that is used regularly for the business's inventory or product samples.

There is no requirement that your home office needs to be partitioned off from other areas with a wall or additional barrier. For example, if you have a desk in the corner of your dining room where you conduct your business, you can still qualify for the deduction provided you do not use that specific area of your home for any personal use. You can calculate the deduction in two different ways: The actual expenses method or the simplified method. While using the actual expenses method, you will categorize by direct vs indirect business expenses. Direct expenses can be fully deducted.

For example, the cost of carpeting and painting for the home office area. When using the actual expenses method for indirect expenses, it is important to keep in mind that you can only count a portion of home-related expenses. For example, your house is 2,500 square feet. The area being used as your home office is 250 square feet. You are then eligible to claim 10 percent of your home's annual heating, cooling, and water bills, along with other common housing expenses that make it possible for you to conduct your business there. For those who do not want to go through the trouble of keeping records of direct vs indirect expenses, the simplified method may be for you.

When using this method, taxpayers may use the prescribed rate of \$5 per square foot of the portion of the home used for business. For the tax year 2024, the rate would be \$5 per square foot for up to 300 square feet. You, as the taxpayer, have the option to choose between the simplified method or the actual expense method. While W2 employees are not eligible for the home office deduction, many employees who work remotely can take advantage of it. Before 2018, unreimbursed job expenses that exceed 2% of your AGI could be deducted from your federal tax return using Schedule A.

Unfortunately, for those employees, that is not the case anymore. In today's world, self-employed individuals and small business owners must receive as much money owed to them as possible come tax time. If you happen to be one of those self-employed individuals or small business owners and have questions about the proper deductions to take, including the home office deduction, reach out to the professionals at The Center for Financial, Legal, and Tax Planning, Inc. at our website, www.taxplanning.com or by phone at (618) 997-3436.

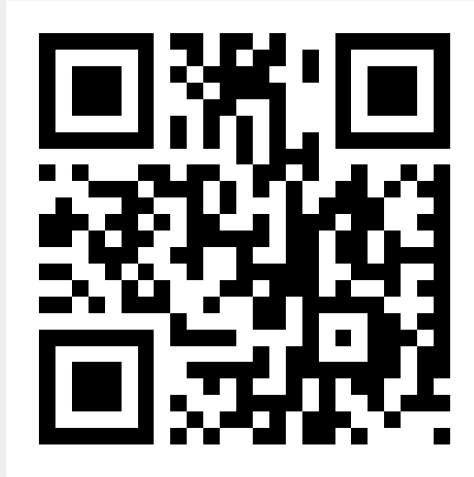
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