



# Business Use of Home

## Sprague & Jackson

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### Qualifying for Deduction

To take a business deduction for home office expenses, you must use your home under one of the following scenarios.

- You have an area in your home that is regularly and exclusively used as your principal place of business.
- You have an area in your home where you regularly and exclusively meet with patients, clients, or customers.
- You have a separate structure, not attached to your home, which is used in connection with your trade or business.
- You have an area in your home used on a regular basis for the storage of inventory or product samples.
- Your home is used as a daycare facility.

### Business Use of Home Expenses

Some expenses are deductible whether or not you use your home for business. Others are deductible only if the home is used for business.

Deductible Regardless*	Deductible Only If for Business**
<ul style="list-style-type: none"> <li>• Real estate taxes.</li> <li>• Mortgage interest.</li> <li>• Home equity interest.</li> <li>• Casualty losses.</li> </ul>	<ul style="list-style-type: none"> <li>• Homeowner's insurance.</li> <li>• Rent.</li> <li>• Repairs and maintenance.</li> <li>• Security system.</li> <li>• Utilities and services.</li> <li>• Depreciation (deductible after applying deduction limitation to above expenses).</li> </ul>

\* Deductible as an itemized deduction, subject to limitation.

\*\* Deductible as a business expense pro-rated for the amount of the business use of the home

### Direct Expenses

Expenses that benefit only the area exclusively used for business, such as painting or repairs in the home office, are direct expenses that are fully deductible.

### Indirect Expenses

Expenses for keeping up and running the entire home, such as insurance, utilities, and general repairs, are indirect expenses that are deductible based on the percentage of the home used for business.

### Unrelated Expenses

Expenses for the part of the home not used for business, such as painting a room not used for business, are unrelated expenses that are not deductible.

### Telephone

The basic local telephone service for the first telephone line is nondeductible even if it is used for business. Any additional charges for long distance or a second line into the home used for business are deductible.

### Depreciation

A qualified home office is considered nonresidential real property depreciable over 39 years. For home office depreciation, the basis in the home is the smaller of:

- The fair market value (FMV) of the home minus the FMV of land on the date the home was first used for business, or
- The home's cost plus permanent improvements minus casualty losses minus the cost of land on the date the home was first used for business.

### Home Improvements

Permanent improvements prior to using the home for business are added to the basis of the home and depreciated as part of the adjusted basis of the home. The cost of improvements made after using the home for business that affect the area of the home used for business are depreciated separately.

**Example:** Rita had a new roof put on her home in 2008. She first used her home for business in 2012. She also replaced her furnace