

**"Dreams never hurt anybody if he keeps working right behind the dream to make as much of it become real as he can."**

*-- Frank Woolworth, Entrepreneur*

Tax Tip – May 17, 2017

Home Office Deduction Often Overlooked

by Small Business Owners

The Internal Revenue Service reminded small business owners who work from a home office that there are two options for claiming the Home Office Deduction. The Home Office Deduction is often overlooked by small business owners.

Regular Method

The first option for calculating the Home Office Deduction is the Regular Method. This method requires computing the business use of the home by dividing the expenses of operating the home between personal and business use. Direct business expenses are fully deductible and the percentage of the home floor space used for business is assignable to indirect total expenses. Self-employed taxpayers file [Form 1040, Schedule C](https://www.irs.gov/pub/irs-pdf/f1040sc.pdf) , *Profit or Loss From Business* (Sole Proprietorship*),* and compute this deduction on [Form 8829](https://www.irs.gov/pub/irs-pdf/f8829.pdf), *Expenses for Business Use of Your Home*.

Simplified Method

The second option, the Simplified Method, reduces the paperwork and recordkeeping burden for small businesses. The simplified method has a prescribed rate of $5 a square foot for business use of the home. There is a maximum allowable deduction available based on up to 300 square feet. Choosing this option requires taxpayers to complete a short worksheet in the tax instructions and entering the result on the tax return. There is a special calculation for daycare providers. Self-employed individuals claim the home office deduction on [Form 1040, Schedule C](https://www.irs.gov/pub/irs-pdf/f1040sc.pdf) , Line 30; farmers claim it on [Schedule F](https://www.irs.gov/uac/schedule-f-form-1040-profit-or-loss-from-farming), Line 32 and eligible employees claim it on [Schedule A](https://www.irs.gov/uac/about-schedule-a-form-1040), Line 21.

Regardless of the method used to compute the deduction, business expenses in excess of the gross income limitation are not deductible. Deductible expenses for business use of a home include the business portion of real estate taxes, mortgage interest, rent, casualty losses, utilities, insurance, depreciation, maintenance and repairs. In general, expenses for the parts of the home not used for business are not deductible.

Deductions for business storage are deductible when the dwelling unit is the sole fixed location of the business or for regular use of a residence for the provision of daycare services; exclusive use isn't required in these cases.

If you have any questions regarding this information, please feel free to contact our office.

P.S. Please forward this to your friends or colleagues that you'd like to introduce our firm to. Or send us their email address and we'll ask for their permission to forward with your compliments.

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