



**THE ULTIMATE GUIDE**

# Home Office Deductions for Small Business Owners





**For small business owners, maximizing tax deductions isn't just smart—it's an essential part of budgeting and maintaining cash flow.**

One often-overlooked opportunity to reduce your overall tax burden is the home office deduction. Maybe you've never heard of the home office deduction, think you don't qualify for it, or heard claiming it will increase your chances of an IRS audit.

**In this eBook, we'll help you understand how to qualify for, calculate, and claim this valuable deduction.**

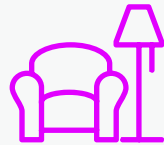


# What Is the Home Office Deduction?

---

The home office deduction allows business owners and self-employed people with dedicated office space in their homes to deduct a portion of the cost of owning and maintaining the space.

Those costs can include:



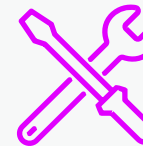
Home mortgage interest or rent



Insurance



Property taxes



Repairs and maintenance



Utilities



Depreciation

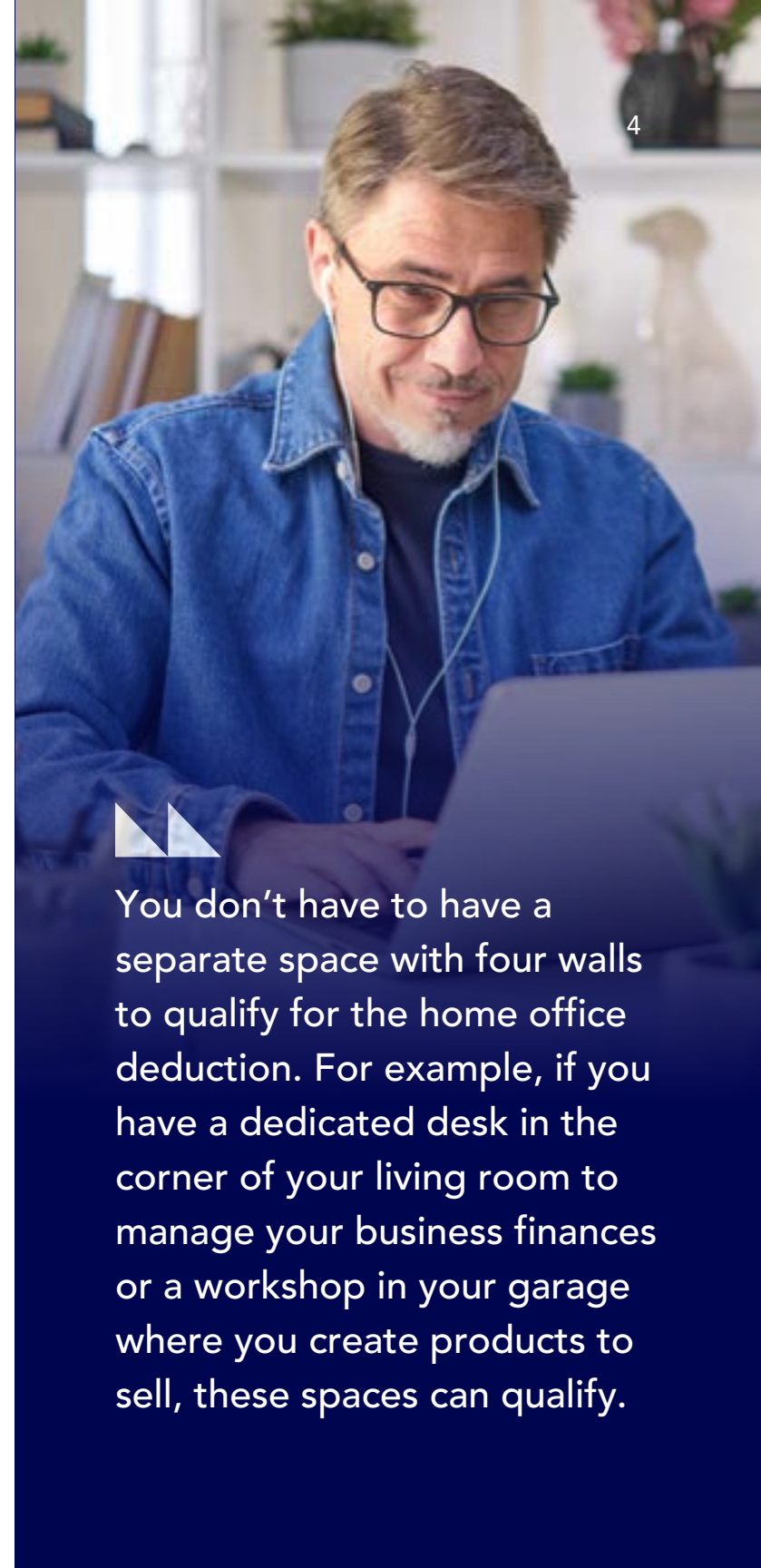
Unfortunately, it's currently not available to employees.

# What Qualifies as a Home Office?

---

A qualifying home office can be a room or a part of a room where you conduct your business. The key is to use it regularly and exclusively for business purposes, and it must be your principal place of business.

- **REGULAR USE.** You must use the area regularly for business activities. Occasional use does not meet the criteria.
- **EXCLUSIVE USE.** You must use the space exclusively for conducting business. A home office that doubles as a guest room does not qualify.
- **PRINCIPAL PLACE OF BUSINESS.** Your home office should be the primary place where you conduct your business, although you can also conduct business elsewhere.



You don't have to have a separate space with four walls to qualify for the home office deduction. For example, if you have a dedicated desk in the corner of your living room to manage your business finances or a workshop in your garage where you create products to sell, these spaces can qualify.



# How Much of My Home Office Can I Deduct?

---

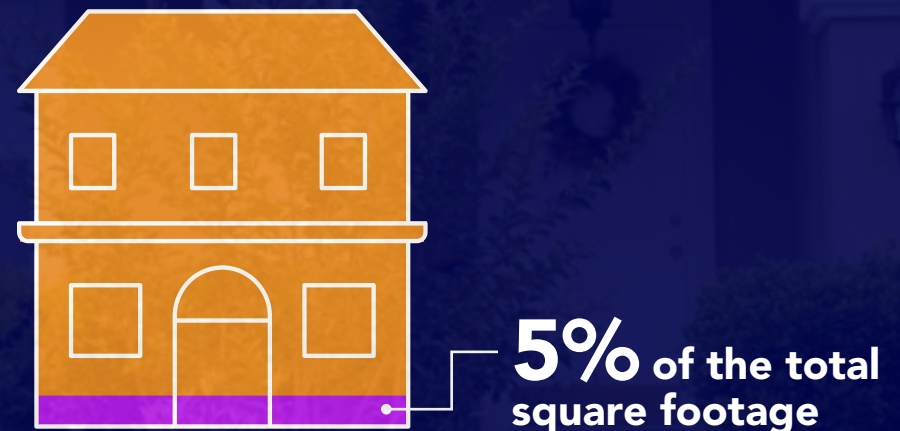
The amount you can deduct depends on the method you choose to calculate your home office expenses.

## REGULAR METHOD

Under the regular method, you calculate the actual expenses of your home office, including mortgage interest, insurance, utilities, repairs, and depreciation, and multiply those expenses by the percentage of your home devoted to business use.

## EXAMPLE:

Katie's home office is 100 square feet, and the total square footage of her home is 2,000 square feet, so her home office takes up 5% of the total square footage.



**Katie has \$5,000 of eligible home office expenses, so her home office deduction is \$250.**

## SIMPLIFIED METHOD

Under the simplified method, you can deduct \$5 per square foot of your home used for business, up to 300 square feet.

### EXAMPLE:

Stephen's home office takes up 110 square feet of his condo. His home office deduction is \$55 ( $\$5 \times 110$  square feet).



## WHICH METHOD SHOULD YOU USE?

The simplified method is an excellent choice for small business owners seeking ease and minimal record-keeping. It's straightforward and eliminates the need to keep detailed records of home office expenses. However, if your actual expenses exceed the simplified deduction limit, calculating your deduction using the regular method might be more beneficial.

# Exceptions to the Home Office Deduction Rules

---


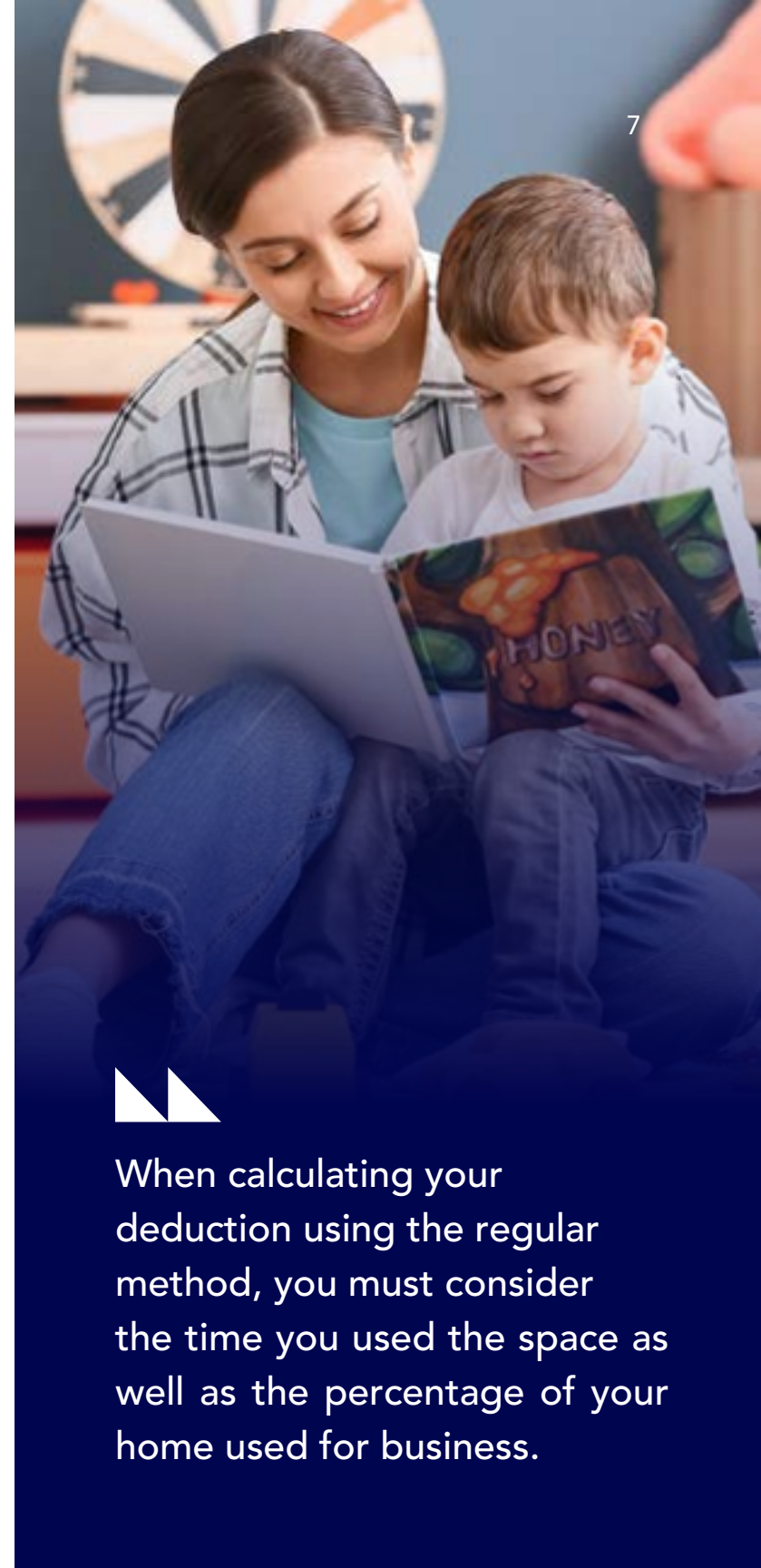
As with most tax rules, there are a few exceptions.

## HOME DAYCARES

If you have a home daycare business, you can claim a home office deduction even though that space is available for personal use outside your hours of operation.

To qualify for the home office deduction, you must meet both of the following requirements:

1. You provide regular daycare for children, people age 65+, or people who are unable to care for themselves due to a mental or physical disability
2. You have met your state's licensing requirement to provide home daycare



When calculating your deduction using the regular method, you must consider the time you used the space as well as the percentage of your home used for business.

## Example:

---

Aditi works at her home daycare from 7 a.m. to 6 p.m., Monday through Friday.

11 hours per day x 5 days per week x 52 weeks per year = 2,860 hours total.

There are 8,760 hours in a year, so Aditi's time percentage is 33% (2,860 hours / 8,760 hours).



Aditi regularly uses 1,000 square feet of her 2,500-square-foot home for daycare.

So her space percentage is 40% (1,000 square feet / 2,500 square feet).



Aditi multiplies the time percentage and the space percentage to figure out her time-space percentage:

$$33\% \times 40\% = 13.2\%$$

Aditi can deduct 13.2% of her qualified expenses using the regular method.



# Separate Structures

---

If you use a separate, free-standing structure for your home office, such as a studio or workshop, you only need to use it regularly and exclusively for business. The structure does not have to be your principal place of business.

## INVENTORY

If you use part of your home to store inventory or product samples, you do not have to meet the exclusive use test.



However, you do have to meet all of the following tests:

1. You sell products at wholesale or retail as your business
2. You keep the inventory or product samples in your home for use in your business
3. Your home is the only fixed location of your business
4. You use the storage space regularly
5. The space you use is a separately identifiable space suitable for storage

## IS A HOME OFFICE DEDUCTION WORTH IT?

Absolutely. For many small business owners, the home office deduction can significantly lower taxable income. It turns necessary expenses into valuable tax deductions. In the past, many people avoided claiming the home office deduction because it was rumored to be a “red flag” that would trigger an IRS audit.

However, the home office deduction has been a legitimate deduction since 1959, and with the technology available today, working from home is much more common.

Still, it’s crucial to ensure that your claim is accurate and defensible in case the IRS does select your return for an audit. You have nothing to worry about as long as you don’t claim too much of your home as your workspace, accurately track expenses, and maintain complete and accurate receipts and records.

## CONCLUSION

The home office deduction offers a tangible way to reduce your taxable income, but it's essential to navigate the rules carefully. Whether you choose the simplified method for its ease or the regular method to maximize your deduction, understanding the qualifications and maintaining accurate records is key. By leveraging this deduction wisely, you can ensure your small business thrives financially.

Remember, this guide provides a general overview, and tax laws can change. [Schedule a free consultation](#) with Hood CPAs to get advice tailored to your specific situation.



Paul**Hood**