



How a business owner's home office can result in tax deductions

As a business owner, you may be eligible to claim home office tax deductions that will reduce your taxable income. However, it's crucial to understand the IRS rules to ensure compliance and avoid potential IRS audit risks. There are two methods for claiming this tax break: the actual expense method and the simplified method. Here are answers to frequently asked questions about the tax break.

Who qualifies?

In general, you qualify for home office deductions if part of your home is used “regularly and exclusively” as your principal place of business.

If your home isn't your principal place of business, you may still be able to deduct home office expenses if:

1. You physically meet with patients, clients or customers on your premises, or
2. You use a storage area in your home (or a separate free-standing structure, such as a garage) exclusively and regularly for business.

What expenses can you deduct?

Many eligible taxpayers deduct actual expenses when they claim home office deductions. Deductible home office expenses may include:

- Direct expenses, such as the cost of painting and carpeting a room used exclusively for business,

- A proportionate share of indirect expenses, including mortgage interest, rent, property taxes, utilities, repairs, maintenance and insurance,
- Security system if applicable to your business, and
- Depreciation.

But keeping track of actual expenses can take time and requires organized recordkeeping.

How does the simplified method work?

Fortunately, there's a simplified method: You can deduct \$5 for each square foot of home office space, up to a maximum of \$1,500.

The cap can make the simplified method less valuable for larger home office spaces. Even for small spaces, taxpayers may qualify for larger deductions using the actual expense method. So, tracking your actual expenses can be worth it.

Can you change methods?

You're not stuck with a particular method when claiming home office deductions. For instance, you might choose the actual expense method on your 2024 return, use the simplified method when you file your 2025 return next year and then switch back to the actual expense method for 2026. The choice is yours.

What if you sell your home?

If you sell — at a profit — a home on which you claimed home office deductions, there may be tax implications. We can explain them to you.

Also, be aware that the amount of your home office deductions is subject to limitations based on the income attributable to your use of the office. Other rules and limits may apply. However, any home office expenses that you can't deduct because of these limitations can be carried over and deducted in later years.

Do employees qualify?

The Tax Cuts and Jobs Act suspended the business use of home office deductions through the end of 2025 for *employees*. Those who receive paychecks or Form W-2s aren't eligible for deductions, even if they're currently working from home because their employers require them to and don't provide office space.

Home office tax deductions can provide valuable tax savings for business owners, but they must be claimed correctly. We can help you determine if you're eligible and how to proceed.