

Your Guide to the Home Office Deduction

The home office deduction can lead to large tax savings but it's often misunderstood. Lets go over the IRS requirements to see if you qualify.



To qualify for this deduction, your home office must be used:

- 1 For Business:** This space must be used for business purposes. It doesn't have to be full time but you can't use it for a hobby or non-business activity.
- 2 Exclusively For Business:** You must use your home office exclusively for business. If you use it for personal reasons, you won't qualify for the deduction.
- 3 On A Regular Basis:** The IRS requires you to use your home office regularly and on a continuing basis.

Along with the three main requirements, you must also meet *any one* of the following:

- Your home office is your principal place of business
- You meet customers or clients in the home office
- You use your home office regularly and exclusively for business activities like managerial or administrative work
- You use a separate structure on your property only for business purposes
- You store product samples or inventory at home
- You run a daycare center at home

Work for a company out of your home office? You can still take this deduction if it's for the convenience of your employer. This means your home office is one of the following:

- A condition of employment
- Necessary for your employer's business to properly function
- Needed to allow you to properly perform your duties



Getting the Most Out of Your Home Office

You can calculate your home office deduction in two ways: the traditional method or the simplified method.

Simplified: Deduct \$5 for every square foot of your home office. Simply multiply your home office space by \$5 to get your deduction.

Traditional: Tally up the direct and indirect expenses that apply to your home office. Direct expenses like painting your home office are fully deductible. You can only deduct the portion of indirect expenses that apply to your home office.

For example, an indirect expense could be the portion of rent, utilities and insurance associated with your home office. The traditional method requires more records but can often lead to a larger deduction.

An Added Bonus: A Home Office Increases Your Mileage Deduction.

Another benefit of the home office deduction is that it can greatly increase your mileage deduction. Normally, your first trip from home and last drive back are considered non-deductible commuting. But if you have a qualifying home office, those drives become business mileage that can be written off during tax time.

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