



# BALANCED BOOKS

## Bookkeeping & Consulting

331 E. Main St. ● Turlock, CA 95380 ● 209-634-4099 ● Info@GetBalancedBooks.com

### **Business Home Office Deduction: What You Need to Know**

The **home office deduction** allows business owners and self-employed individuals to deduct expenses related to a portion of their home used **exclusively and regularly** for business purposes. Here's a breakdown of how it works:

#### **1. Who Qualifies?**

To claim the home office deduction, you must meet **two key criteria**:

- **Exclusive Use:** The space must be **used solely for business** (not a shared space like a dining table or a guest room unless used 100% for work).
- **Regular Use:** It must be used as your **primary place of business** or where you regularly meet clients/customers.

#### **Who is eligible?**

- ✓ Sole proprietors, LLCs, and self-employed individuals
- ✓ S-corp or C-corp owners **if rent is properly structured** (more on this below)
- ✗ **W-2 employees (even if remote) generally CANNOT claim this deduction** unless they are fully **self-employed** or **running a business on the side**.

#### **2. What Can You Deduct?**

You can deduct a percentage of **home-related expenses** based on the square footage of your office vs. your total home size.

- ✓ **Direct Expenses** (100% deductible)
  - Home office-specific improvements (e.g., repainting, repairs in the office space)
  - Office furniture and equipment
- ✓ **Indirect Expenses** (Partial deduction based on office percentage)
  - Rent or mortgage interest
  - Property taxes
  - Home insurance
  - Utilities (electricity, gas, water, trash)



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- Internet and phone (only the business-use portion)
- Home maintenance (cleaning, HVAC repairs, security systems)

### ✓ Depreciation (for homeowners only)

- If you own your home, you may depreciate the portion of your home used for business.

### 3. How to Calculate the Deduction

You have **two methods** to claim the home office deduction:

#### A. Simplified Method (Easiest)

- Deduct **\$5 per square foot** of office space, up to **300 sq. ft.**
- Maximum deduction = **\$1,500 per year**
- No need to track actual home expenses

**Best for:** Small home offices, minimal paperwork

#### B. Actual Expense Method (More Complex but Can Save More)

- Calculate the **percentage of your home** used for business
- Apply that percentage to total home-related expenses
- Requires keeping track of all home-related costs

**Best for:** Larger home offices, higher home expenses, homeowners looking to deduct depreciation

Example:

- Home size: **2,000 sq. ft.**
- Office size: **200 sq. ft.** (10% of total home)
- If mortgage, utilities, insurance, and maintenance total **\$24,000 per year**, then 10% is deductible → **\$2,400 deduction**

### 4. S-Corp or C-Corp Owners: Can You Deduct a Home Office?

If you run an **S-Corp or C-Corp**, you can **set up an accountable plan** where the business **reimburses you** for home office expenses, making it a deductible business expense.



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How?

- You must **document expenses** and **submit a reimbursement request** to your company
- The business can then deduct the expense as "rent" or an employee reimbursement

### 5. Common Mistakes & Audit Triggers

- ❌ **Mixing personal & business use** – If you use the space for anything personal, the IRS may disallow the deduction
- ❌ **Overestimating the percentage of home used** – Claiming 50%+ of your home as an office raises red flags
- ❌ **Forgetting to track actual expenses** – If using the actual expense method, keep records for **at least 3 years**
- ❌ **Claiming the deduction as a W-2 employee** – This is no longer allowed under recent tax laws

### 6. Should You Take the Deduction?

- ✅ If you meet the **exclusive and regular use** criteria
- ✅ If you have **significant home expenses that can be deducted**
- ✅ If you **work from home full-time** and need the space to operate your business
- ❌ If you have a **shared workspace** (like a kitchen table)
- ❌ If you **occasionally** work from home but have another main office
- ❌ If you are a **W-2 employee with no side business**

### Final Takeaways

- The home office deduction **can save you thousands**, but it must be **calculated correctly**
- Use the **simplified method for ease** or the **actual expense method for bigger deductions**
- **Keep records and documentation** to support your claim
- **S-Corp/C-Corp owners** should use a **reimbursement strategy** instead