

Deductions: Home Office Rules, Methods, and Reporting

Home office deductions can deliver meaningful tax savings — when the rules are applied correctly. This course covers everything from qualification requirements and deduction calculations to special situations involving daycare facilities and the sale of a home with a business use component. Both the regular and simplified methods are addressed, along with guidance on deducting business furniture and equipment, meeting recordkeeping standards, and reporting the deduction in the right place. An essential reference for tax professionals with clients who use part of their home for business.

CREDIT HOURS 2 | FIELD OF STUDY TAXES | EXAM QUESTIONS 10

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LEARNING ASSIGNMENTS AND OBJECTIVES

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course Objectives

- Recognize the tax rules regarding the business use of a home.
- Identify how daycare facilities in a home qualify for different rules than other businesses.

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Chapter 1: BUSINESS USE OF YOUR HOME

Chapter Objective

After completing this chapter, you should be able to:

- Recognize the tax rules regarding the business use of a home.
- Identify how daycare facilities in a home qualify for different rules than other businesses.

I. WHAT'S NEW AND REMINDERS

State and local tax deduction limit increased. The overall limit on the deduction for state and local income, sales, and property taxes has increased to \$40,000 in 2025 (\$20,000 if married filing separately). For 2026, the amount increases to \$40,400 (\$20,200 if married filing separately). The amount is reduced for certain high income taxpayers, but will not be reduced below \$10,000 (\$5,000 if married filing separately).

Standard meal and snack rates applicable to United States territories. The standard meal and snack rate table provides the deductible costs for meals provided by family daycare providers. These amounts apply to U.S. territories (Guam, Puerto Rico, and the U.S. Virgin Islands) as well as to U.S. states. See Table 3, Standard Meal and Snack Rates, below.

Simplified method for business use of home deduction. The IRS provides a simplified method to figure your expenses for business use of your home. For more information, see *Using the Simplified Method* later.

II. QUALIFYING FOR A DEDUCTION

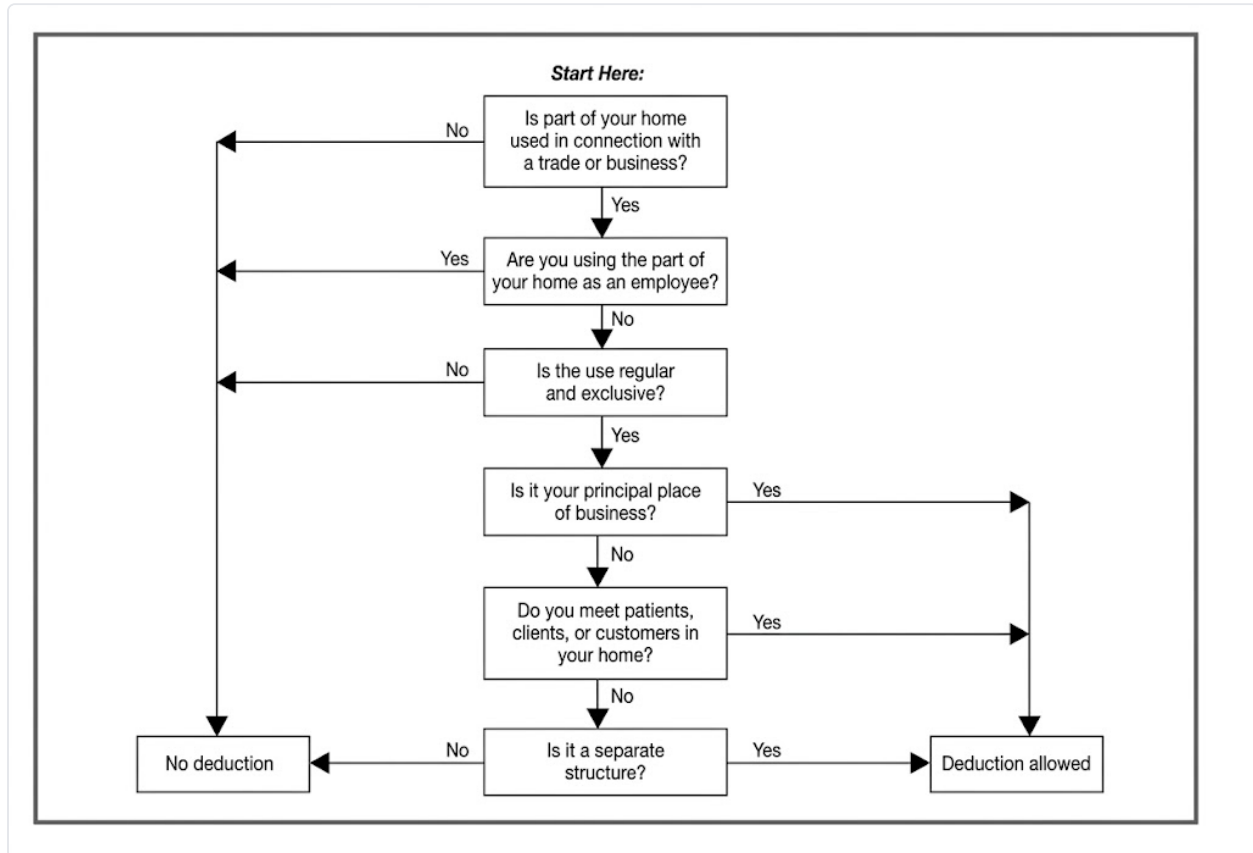
Generally, you cannot deduct items related to your home, such as mortgage interest, real estate taxes, utilities, maintenance, rent, depreciation, or property insurance as business expenses. However, you may be able to deduct expenses related to the business use of part of your home if you meet specific requirements. Even then, the deductible amount of these types of expenses may be limited. Use this section and *Figure 7-1*, later, to decide if you can deduct expenses for the business use of your home.

To qualify to deduct expenses for business use of your home, you must use part of your home:

- Exclusively and regularly as your principal place of business (defined later),
- Exclusively and regularly as a place where you meet or deal with patients, clients, or customers in the normal course of your trade or business,

- In the case of a separate structure which is not attached to your home, in connection with your trade or business,
- On a regular basis for certain storage use (see *Storage of inventory or product samples*, later),
- For rental use, or
- As a daycare facility (see *Daycare Facility*, later).

FIGURE 7-1. CAN YOU DEDUCT BUSINESS USE OF THE HOME EXPENSES?



*Do not use this chart if you use your home for the storage of inventory or product samples, or to operate a daycare facility. See *Exceptions to Exclusive Use*, earlier, and *Daycare Facility*, later.*

EXCLUSIVE USE

To qualify under the exclusive use test, you must use a specific area of your home only for your trade or business. The area used for business can be a room or other separately identifiable space. The space does not need to be marked off by a permanent partition.

You do not meet the requirements of the exclusive use test if you use the area in question both for business and for personal purposes.

Example

You are an attorney and use a den in your home to write legal briefs and prepare clients' tax returns. Your family also uses the den for recreation. The den is not used exclusively in your trade or business, so you cannot claim a deduction for the business use of the den.

Exceptions to Exclusive Use

You do not have to meet the exclusive use test if either of the following applies.

- You use the part of your home in question for the storage of inventory or product samples (discussed next).
- You use part of your home as a daycare facility, discussed later under *Daycare Facility*.

Note

With the exception of these two uses, any portion of the home used for business purposes must meet the exclusive use test.

Storage of inventory or product samples. If you use part of your home for storage of inventory or product samples, you can deduct expenses for the business use of your home without meeting the exclusive use test. However, you must meet all the following tests.

- You sell products at wholesale or retail as your trade or business.
- You keep the inventory or product samples in your home for use in your trade or business.
- Your home is the only fixed location of your trade or business.
- You use the storage space on a regular basis.
- The space you use is an identifiably separate space suitable for storage.

Example

Your home is the only fixed location of your business of selling mechanics' tools at retail. You regularly use half of your basement for storage of inventory and product samples. You sometimes use the area for personal purposes. The expenses for the storage space are deductible even though you do not use this part of your basement exclusively for business.

REGULAR USE

To qualify under the regular use test, you must use a specific area of your home for business on a regular basis. Incidental or occasional business use is not regular use. You must consider all facts and circumstances in determining whether your use is on a regular basis.

TRADE OR BUSINESS USE

To qualify under the trade-or-business-use-test, you must use part of your home in connection with a trade or business. If you use your home for a profit-seeking activity that is not a trade or business, you cannot take a deduction for its business use.

Example

You use part of your home exclusively and regularly to read financial periodicals and reports, clip bond coupons, and carry out similar activities related to your own investments. You do not make investments as a broker or dealer. So, your activities are not part of a trade or business and you cannot take a deduction for the business use of your home.

PRINCIPAL PLACE OF BUSINESS

You can have more than one business location, including your home, for a single trade or business. To qualify to deduct the expenses for the business use of your home under the principal place of business test, your home must be your principal place of business for that trade or business. To determine whether your home is your principal place of business, you must consider:

- The relative importance of the activities performed at each place where you conduct business, and
- The amount of time spent at each place where you conduct business.

Your home office will qualify as your principal place of business for deducting expenses for its use if you meet the following requirements.

- You use it exclusively and regularly for administrative or management activities of your trade or business.
- You have no other fixed location where you conduct substantial administrative or management activities of your trade or business.

If, after considering your business locations, your home cannot be identified as your principal place of business, you cannot deduct home office expenses. However, see the later discussions under *Place To Meet Patients, Clients, or Customers or Separate Structure* for other ways to qualify to deduct home office expenses.

Administrative or management activities. There are many activities that are administrative or managerial in nature. The following are a few examples.

- Billing customers, clients, or patients.
- Keeping books and records.
- Ordering supplies.
- Setting up appointments.
- Forwarding orders or writing reports.

Administrative or management activities performed at other locations. The following activities performed by you or others will not disqualify your home office from being your principal place of business.

- You have others conduct your administrative or management activities at locations other than your home. (For example, another company does your billing from its place of business.)
- You conduct administrative or management activities at places that are not fixed locations of your business, such as in a car or a hotel room.
- You occasionally conduct minimal administrative or management activities at a fixed location outside your home.
- You conduct substantial nonadministrative or nonmanagement business activities at a fixed location outside your home. (For example, you meet with or provide services to customers, clients, or patients at a fixed location of the business outside your home.)
- You have suitable space to conduct administrative or management activities outside your home, but choose to use your home office for those activities instead.

Example 1

John is a self-employed plumber. Most of John's time is spent at customers' homes and offices installing and repairing plumbing. He has a small office in his home that he uses exclusively and regularly for the administrative or management activities of his business, such as phoning customers, ordering supplies, and keeping his books.

John writes up estimates and records of work completed at his customers' premises. He does not conduct any substantial administrative or management activities at any fixed location other than his home office. John does not do his own billing. He uses a local bookkeeping service to bill his customers.

John's home office qualifies as his principal place of business for deducting expenses for its use. He uses the home office for the administrative or managerial activities of his plumbing business and he has no other fixed location where he conducts these administrative or managerial activities. His choice to have his billing done by another company does not disqualify his home office from being his principal place of business. He meets all the qualifications, including principal place of business, so he can deduct expenses (subject to certain limitations, explained later) for the business use of his home.

Example 2

Pamela is a self-employed sales representative for several different product lines. She has an office in her home that she uses exclusively and regularly to set up appointments and write up orders and other reports for the companies whose products she sells. She occasionally writes up orders and sets up appointments from her hotel room when she is away on business overnight.

Pamela's business is selling products to customers at various locations throughout her territory. To make these sales, she regularly visits customers to explain the available products and take orders.

Pamela's home office qualifies as her principal place of business for deducting expenses for its use. She conducts administrative or management activities there and she has no other fixed location where she conducts administrative or management activities. The fact that she conducts some administrative or management activities in her hotel room (not a fixed location) does not disqualify her home office from being her principal place of business. She meets all the qualifications, including principal place of business, so she can deduct expenses (subject to certain limitations, explained later) for the business use of her home.

Example 3

Paul is a self-employed anesthesiologist. He spends the majority of his time administering anesthesia and postoperative care in three local hospitals. One of the hospitals provides him with a small shared office where he could conduct administrative or management activities.

Paul very rarely uses the office the hospital provides. He uses a room in his home that he has converted to an office. He uses this room exclusively and regularly to conduct all the following activities.

- Contacting patients, surgeons, and hospitals regarding scheduling.
- Preparing for treatments and presentations.
- Maintaining billing records and patient logs.
- Satisfying continuing medical education requirements.
- Reading medical journals and books.

Paul's home office qualifies as his principal place of business for deducting expenses for its use. He conducts administrative or management activities for his business as an anesthesiologist there and he has no other fixed location where he conducts administrative or management activities for this business. His choice to use his home office instead of one provided by the hospital does not disqualify his home office from being his principal place of business. His performance of substantial nonadministrative or nonmanagement activities at fixed locations outside his home also does not disqualify his home office from being his principal place of business. He meets all the qualifications, including principal place of business, so he can deduct expenses (subject to certain limitations, explained later) for the business use of his home.

More Than One Trade or Business

The same home office can be the principal place of business for two or more separate business activities. Whether your home office is the principal place of business must be determined separately for each of your trade or business activities. You must use the home office exclusively and regularly for one or more of the following purposes.

- As the principal place of business for one or more of your trades or businesses.
- As a place to meet or deal with patients, clients, or customers in the normal course of one or more of your trades or businesses.
- If your home office is a separate structure, in connection with one or more of your trades or businesses.

You can use your home office for more than one business activity, but you cannot use it for any activities that are not related to a trade or business.