



## Robert W. Wood

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# When Work At Home Yields Tax Deductions

You sometimes work at home, but should you claim a deduction on your taxes? People worry it will flag their return, yet more than half of working Americans own or work for a small business. Many are home-based or have home offices. Some businesses go virtual and recruit home-based employees.



Photo credit: Sean MacEntee

But no matter how much you work at home, do you qualify for a deduction? Starting with 2013 tax returns filed in 2014, the IRS is easing some home office deductions. See [IRS simplifies the home-office deduction, for 2013](#). In the meantime, [Section 280A\(c\)](#) of the tax code is strict.

To qualify, a home office must be used **regularly** and **exclusively** for business. You can't use your home office as a family room and you shouldn't have a TV or chess table in the corner. It sounds silly, but taxpayers lose over such details. In [Bulas v. Commissioner](#), an accountant claimed one room—plus an adjacent hallway and bathroom—was exclusively for business. But because his children **occasionally** used the bathroom, it wasn't **exclusively** for business.

In addition, the deduction is limited to income from the business. If you run a home-based eBay business from a spare room off your garage (and you don't use that room for anything else), you could deduct the cost of utilities

attributable to that space. You could even depreciate that portion of your home. But if you lose money on your eBay venture **before** you get to your home office deduction you don't qualify. See [IRS Tax Tip 2011-53](#).

Home office deductions involve filling out a 43-line form ([Form 8829](#)) with complex allocations of expenses, depreciation and carryovers of unused deductions. You generally must use part of your home **exclusively and regularly**:

- As your principal place of business;
- As a place to meet or deal with patients, clients or customers in the normal course of your business; or
- If the business portion of your home is a separate structure not attached to your home, then "in connection with your trade or business" (a more watered-down standard).
- Other deduction possibilities include certain storage use, rental use, or daycare-facility use. In these cases, you must use the property **regularly** for business, but not **exclusively** for business.
- If you are an employee, the regular and exclusive business use must be for the convenience of your employer. That usually means the employer must **require** you to work at home (get it in writing).

A section of a room **can** qualify if it is clearly partitioned and you can show personal activities are **excluded** from the business portion. Still, these rules are unforgiving and the IRS tends to interpret them strictly.

*Robert W. Wood practices law with [Wood LLP](#), in [San Francisco](#). The author of more than 30 books, including *Taxation of Damage Awards & Settlement Payments* (4th Ed. 2009 with 2012 Supplement, [Tax Institute](#)), he can be reached at [Wood@WoodLLP.com](mailto:Wood@WoodLLP.com). This discussion is not intended as legal advice, and cannot be relied upon for any purpose without the services of a qualified professional.*