

# Skip the home office deduction shortcut

Instead of spending hours figuring out your home office deduction, the IRS allows you to use a shortcut simplified method.

**Strategy:** Don't automatically take the shortcut. Instead, take the time to figure out your deduction under the traditional method. Then compare the two.

Frequently, you'll find the traditional, actual expense method will produce a significantly larger deduction.

*Here's the whole story:* To qualify for home office deductions, you must use the office space regularly and exclusively as your principal place of business (i.e., the place where you conduct most of your income-earning activities or conduct all of your administrative functions) or a place where you meet or deal with customers, clients or patients in the normal course of business. Also, if you're an employee, you must use the home office for the convenience of your employer.

If you use the traditional actual expense method, you can write off the direct expenses of your home office plus a proportionate share of indirect expenses like mortgage interest, property taxes, utilities, HOA fees, repairs and insurance. (Of course, mortgage interest and property taxes are deductible anyway.) In addition, you can claim a depreciation deduction for the part of the home used as an office.

The traditional method, however, requires you to keep detailed records of your actual expenses. Then you have to work through the 43 lines of Form 8829, *Expenses for Business Use of Your Home*, when you file your return.

Conversely, if you use the simplified method, all you have to do is calculate the square footage of your home and deduct \$5 per square foot, up to a maximum of \$1,500. But the traditional method may be worth the work.

**Example:** You're self-employed and your home is the principal place of your business. The home is 3,000 square feet and you use a room of 300 square feet (10%) as your home office.

Assume that you have \$1,200 in direct expenses for your home plus your indirect expenses for the home—including utilities, insurance and repairs—that amount to \$10,000 for the year. (For simplicity, we'll disregard mortgage interest and property taxes that would otherwise be deductible.) In addition, based on the IRS table, you can claim a \$300 depreciation allowance for the office space.

As a result, you're entitled to deduct \$1,200 in direct expenses, \$1,000 in indirect expenses (10% of \$10,000) plus \$300 in depreciation, for a total of \$2,500. That's \$1,000 more than the simplified method (\$2,500 - \$1,500).

**Tip:** You may switch between the traditional and simplified methods year-to-year.