

Unlock home office tax breaks

If you operate an unincorporated business—say, a sole proprietorship—you may qualify for home office deductions. But the new Tax Cuts and Jobs Act (TCJA) shuts down write-offs for *corporate employees*.

Strategy: Have your company reimburse your home office expenses. This way, you won't be taxed on the payments, while the company can deduct the reimbursements.

It all has to do with the TCJA's suspension of itemized deductions for miscellaneous expenses for 2018 through 2025.

Here's the whole story: To qualify for home office deductions, you must use the office regularly and exclusively as (1) your principal place of business (i.e., the place where you conduct most of your income-earning activities or the place where you conduct all your administrative chores) or (2) a place where you meet with customers, clients or patients in the normal course of business.

If you meet one of those standards, it entitles you to deduct direct expenses for your home office plus a proportionate share of indirect expenses like mortgage interest, property taxes, utilities, repairs and insurance. (Of course, mortgage interest is generally deductible anyway by itemizers, while a limited itemized deduction may be available for property taxes.) In addition, you can claim a depreciation deduction for the part of the home used as an office (*see box below*).

Alternatively, you can use the simplified method to claim a deduction equal to \$5 per square foot of home office space, up to an annual maximum of \$1,500. In either case, you must submit Form 8829, *Expenses for Business Use of Your Home*, if you report your business income and expenses on Schedule C.

Prior to the TCJA, if you met the main requirements, you could qualify for deductions as a company employee if the home office was used for the "convenience" of your employer. Essentially, you had to establish in writing that the home office was necessary for your business operation.

However, as an employee, you had to claim home office expenses as miscellaneous itemized deductions, along with a variety of other types of expenses, on your personal return. The deduction was limited to the excess above 2% of your adjusted gross income (AGI). For example, say you have an AGI of \$100,000 and incurred \$5,000 of home office expenses with no other deductible miscellaneous expenses. In that case, you could write off \$3,000 for the year (\$5,000 - 2% of AGI or \$2,000).

TCJA change: The itemized deduction for miscellaneous expenses is suspended for 2018-2025. In other words, if you are an employee who pays home office expenses out of your own pocket, you get zero tax benefit for 2018-2025.

A better approach is having your company reimburse your home office expenses. Assuming the arrangement is legit, you don't owe any tax and the company can deduct the reimbursements as ordinary and necessary business expenses.

Tip: You must use an "accountable plan" where you incur expenses while performing duties as an employee.

Your tax pro can provide the details.

Put it in storage

It may be possible to qualify for a home office deduction for a space where you don't do any work.

Alert: The tax law allows you to deduct the cost of an area used to store inventory or product samples for a self-employed business.

The storage area can be inside or outside your home (e.g., a detached garage). However, as a new case points out, your business must be involved in selling the products. (*Najafpir, TC Memo 2018-103, 7/3/18*)