

# Taxation

## *Tax Aspects Of Working At Home*

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How much of their home office expenses can be deducted is one of the most misjudged tax questions faced by home workers. The reality of home office expense deductibility is much more complex than the common perception.

### **When Can Home Office Expenses Be Deducted?**

The costs associated with maintaining a home office can be deducted only if strict IRS guidelines are met -- generally that the office is used exclusively for business purposes.

The Taxpayer Relief Act of 1997 has eased the requirements for determining if the costs associated with a home office can be deducted. The new law states that a home office qualifies as a "principal place of business" if (1) the taxpayer uses the office to conduct administrative or management activities of a trade or business and (2) there is no other fixed location of the trade or business where the taxpayer conducts substantial administrative or management activities of the trade or business.

Deductions will continue to be allowed for a home office meeting the above two-part test only if the taxpayer uses the office exclusively on a regular basis as a place of business and, in the case of an employee, only if such exclusive use is for the employer's convenience.

### **Home Office Deduction Limits**

The home office deduction is limited to the gross income from the activity, reduced by expenses that would otherwise be deductible (such as mortgage interest and taxes) and all other expenses related to the activities that are not house-related. A deduction isn't allowed to the extent that it creates or increases a net loss from the activity. Any disallowed deduction may be carried over to future years.

