

The Tax Benefits of Telecommuting and the Home Office Deduction

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In these difficult economic times, you may find yourself telecommuting from home. It is important to get the facts on what tax deductions are available for your home office deduction. Here is a review of the tax rules and possible opportunities for tax savings.

In order to deduct any home office expenses, you must meet the threshold test. The home office space must be used regularly and exclusively as a principal place of business or as a place to meet or deal with customers or clients in the ordinary course of business. If you are an employee, the use of your home office must be for the convenience of the employer.

There are two types of home office expenses. Direct expenses are directly related to the office space, such as painting or repairing the office area. Indirect expenses relate to the personal part of the home as well as the office area. A portion of expenses such as mortgage interest, rent or depreciation, homeowners insurance, and repairs that benefit the entire property may be deducted as part of your home office expense if you meet the threshold test. Unrelated expenses such as general landscaping or painting or repairing another room of the house are not deductible.

If you meet the above tests and the gross income from the business or W-2 income equals or exceeds the business expenses, the expenses can be deducted on schedule A as a miscellaneous itemized deduction subject to the 2% of AGI limit. If the income test is not met, items such as mortgage interest and real estate tax are still potentially deductible as itemized deduction.

If your home office has a separate business telephone, the cost is deductible as a home office expense. If you use your personal phone service, the cost of the basic local telephone service for the first line in the house is not deductible as an office expense. However, long distance business phone calls on either line are deductible.

Equipment you purchase for use in your home office can be depreciated or expensed only if the equipment is a required condition of employment and is used for the convenience of the employer. Computer equipment and other "listed property" can be a deductible expense based on the % used for business.

If the taxpayer's principal place of business is their home office, transportation costs between their residence and customer's location or related work places and the trips between the home office and the employer's place of business are deductible subject to the 2% of AGI limit. Remember to keep your mileage logs to document your expense.

Our accounting staff is always available to answer your questions about telecommuting and the home office deduction. Stop at your local HABCO office and discuss your questions or to pick up a complimentary copy of a vehicle log book.

