I was networking with several local business folks last week at a BNI meeting. Several of them have businesses that are direct sales type and therefore their “office” is in their home and their “selling” is usually at a customer’s home or at a meeting where they have invited potential customers to attend. The question that they raised went something like this…”Dean, I think I saw this in one of your weekly SCORE Columns in the PB, but now I cannot remember it and I want to know what I can deduct from my business income for my home office?”

My answer went something like this…Thank you for those two questions! First, how to find a past column, is simple because the local SCORE Chapter website has all of them conveniently listed at http://score-rochester.org/pb_articles.html

Second, the home office tax deduction is a great topic, but a little detailed. So, I will start by saying that I am not a tax accountant so for the details you should contact one directly for advice. But, I can give you some resources as a guide.

If you use part of your home for business, you may be able to deduct expenses for the business use of your home. Generally, these expenses may include mortgage interest, insurance, utilities, repairs, and depreciation. The home office deduction is available for homeowners and renters, and applies to all types of homes, from apartments to mobile homes. The IRS notes that there are two basic requirements for your home to qualify as a deduction:

1. You must regularly use part of your home exclusively for conducting business. For example, if you use an extra bedroom to run your online business, you can take a home office deduction for the extra bedroom.

2. You must show that you use your home as your principal place of business.

If you conduct business at a location outside of your home, but also use your home substantially and regularly to conduct business, you may qualify for a home office deduction. The IRS uses this example. If you have in-person meetings with patients, clients, or customers in your home in the normal course of your business, even though you also carry on business at another location, you can deduct your expenses for the part of your home used exclusively and regularly for business. You can deduct expenses for a separate free-standing structure, such as a studio, garage, or barn, if you use it exclusively and regularly for your business. The structure does not have to be your principal place of business or the only place where you meet patients, clients, or customers.

Generally, deductions for a home office are based on the percentage of your home devoted to business use. So, if you use a whole room or part of a room for conducting your business, you need to figure out the percentage of your home devoted to your business activities. Your documentation might be a floor plan sketch of the whole house with a noted room identified for your office and then give the area (sq ft) of each to do a calculation of the percent of the total used for your office. Then you can apply that percent to the applicable home expenditures.

Your business use must be for the convenience of your business. The IRS points out that you must not rent any part of your home to your employer and use the rented portion to perform services as an employee for that employer. If the use of the home office is merely “appropriate and helpful”, you
cannot deduct expenses for the business use of your home.

I suggest that you look into the following resources:
1. IRS Publication 587, Business Use of Your Home. In this publication you will find:
3. YouTube IRS video at http://www.youtube.com/watch?v=0NoSAFqxB7s
4. A Webinar by the IRS specifically for Direct Sellers at http://www.irsvideos.gov/DirectSellers/

__________________________
Dean L. Swanson
Southeast Minnesota SCORE
c/o Rochester Area Chamber of Commerce
220 South Broadway, Suite 100
Rochester, MN 55904
*Dean is a volunteer SCORE Counselor.