



PASQUESI PARTNERS

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A MODERN APPROACH TO ACCOUNTING AND TAX SERVICES.

HOME OFFICE TAX DEDUCTION

For most of you that have recently started a business, monitoring your costs is very important. Why spend money on office rent when you can work from home. Not only is your commute to work considerably shorter, but you may be entitled to a tax deduction. The following is a brief summary of the home office tax deduction.

CALCULATION METHOD

There are two methods used to calculate your deduction: **REGULAR METHOD** (required for tax years 2012 and prior) and the Simplified Method (starting January 1, 2013). The **SIMPLIFIED METHOD** attempts to ease the calculation and record keeping requirements. You can select either method, however, you can only use one method for the year.

REQUIREMENTS

The deduction is available to sole proprietors, partners in partnerships, and members of LLCs. The rules DO NOT apply to corporations. If you own a corporation, as an employee, you can take a personal tax deduction as an employee business expense, if eligible and if you itemize.

1. PRINCIPAL PLACE OF BUSINESS

Your home office needs to be your principal place of business – where you meet your clients and customers and spend the most time. Your home must also be the place where you conduct substantial administrative or management activities for the business. You don't need to do all your work from your home. You are allowed to have more than one business location, including your home to operate your business. In order to qualify to deduct expenses for the business use of your home, your home must be your main place of business.

2. REGULAR AND EXCLUSIVE USE

You must use a part of your home regularly and exclusively for business. The room should be a separate room, but it can also be part of a room just as long as it is used for the business and nothing else (i.e., no kids play room, guest room, or TV room).



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WHAT EXPENSES ARE DEDUCTIBLE

TYPES OF EXPENSES

- Depreciation expense on property that you own (this can only be used under the Regular Method)
- Rent paid for the use of property you do not own
- Utilities & services, including telephone
- Security system
- Property tax
- Mortgage interest
- Home insurance
- Home repairs - if they are considered major such as a new roof

DEDUCTION LIMIT

If your home business is operating at a profit, then you can deduct expenses up to the point your profit drops to zero. Any expenses that you cannot deduct due to this limitation can be carried forward to the following year (this only applies to the Regular Method, this cannot be done under the Simplified Method). If your home business is operating at a loss this year, a portion of your home-office expenses are not deductible.

EXAMPLES

To determine the business percentage, you can use any reasonable method. The one used above is the most commonly used method. Another method is if your rooms are approximately the same size, you can divide the number of rooms used for your home business by the total number of rooms in your home.

- 540 - Square footage used for the home business
- 1,200 - total square footage of rented apartment
- \$50,000 - total business gross income
- \$30,000 - total business expenses not related to the use of the home
- \$18,000 - total eligible home business expenses

REMEMBER

You can only deduct expenses that were incurred for the part of the year that you've been in business. For example, if you began business on August 1, you can only deduct a portion of the expenses from August - December.

TAX PLANNING TIP FOR HOME OWNERS

If you own your home and factor in depreciation as part of the home office deduction calculation, when you plan to sell your home, you will need to add up all the depreciation during those years you had a home office. You will need to **PAY TAX** on that amount of depreciation. We advise that you talk to us if you own a home and plan on starting a home business.

REGULAR METHOD: CALCULATION

1. Divide the total square footage used for your business by the total square footage of your apartment - 45%
2. Multiply 45% by total eligible home business expense (\$18,000 x 45%) - \$8,100
3. \$8,100 is your home business deduction.

SIMPLIFIED METHOD: CALCULATION

1. Subtract the home business expenses not related to the use of the home from gross income - (\$50,000 - \$30,000) - \$20,000.
2. Multiply the square footage (limited to 300 under the Simplified Method) by \$5 - \$1,500
3. Take the lesser of 1 and 2 as your home business deduction - \$1,500



There are other rules and limitations relating to this deduction. Contact us to learn more.



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