**Tax Tips**

**Home Office Expense Deductions for a Self-Employed Taxpayer (Part 1 of 2)**

If you're self-employed and work out of an office in your home, and if you satisfy the strict rules that govern those deductions (discussed below), you will be entitled to favorable “home office” deductions—that is, above-the-line business expense deductions for the following:

* the “direct expenses” of the home office—e.g., the costs of painting or repairing the home office, depreciation deductions for furniture and fixtures used in the home office, etc.; and
* the “indirect” expenses of maintaining the home office—e.g., the properly allocable share of utility costs, depreciation, insurance, etc., for your home, as well as an allocable share of mortgage interest, real estate taxes, and casualty losses.

In addition, if your home office is your “principal place of business” under the rules discussed below, the costs of travelling between your home office and other work locations in that business are deductible transportation expenses, rather than nondeductible commuting costs. And you may also deduct the cost of computers and related equipment that you use in the home office, without being subject to the “listed property” restrictions that would otherwise apply.

**Tests for home office deductions.** You may deduct your home office expenses if you meet any of the three tests described below: the principal place of business test, the place for meeting patients, clients or customers test, or the separate structure test. You may also deduct the expenses of certain storage space if you qualify under the rules described further below.

*Principal place of business.* You're entitled to home office deductions if you use your home office, exclusively and on a regular basis, as your principal place of business. (What “exclusively and on a regular basis” means is not entirely self-evident. We can help you figure out whether your home office satisfies this make-or-break requirement.) Your home office is your principal place of business if it satisfies either a “management or administrative activities” test, or a “relative importance” test. You satisfy the management or administrative activities test if you use your home office for administrative or management activities of your business, and if you meet certain other requirements. You meet the relative importance test if your home office is the most important place where you conduct your business, in comparison with all the other locations where you conduct that business.

*Home office used for meeting patients, clients, or customers.* You're entitled to home office deductions if you use your home office, exclusively and on a regular basis, to meet or deal with patients, clients, or customers. The patients, clients or customers must be physically present in the home office.

If you have any questions concerning home office expense deductions, please do not hesitate to call me at (562) 698-9891.

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