**Tax Tips**

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

As you may recall, in last month’s Tax Tips we began a discussion concerning the IRS rules applicable to home office expense deductions for self-employed taxpayers. In this article, we’ll wrap up our discussion of the IRS rules concerning these deductions.

*Separate structures.* You're entitled to home office deductions for a home office, used exclusively and on a regular basis for business, that's located in a separate unattached structure

on the same property as your home—for example, an unattached garage, artist's studio, workshop, or office building.

*Space for storing inventory or product samples.* If you're in the business of selling products at retail or wholesale, and if your home is your sole fixed business location, you can deduct home expenses allocable to space that you use regularly (but not necessarily exclusively) to store inventory or product samples.

**Amount limitations on home office deductions.** The amount of your home office deductions is subject to limitations based on the income attributable to your use of the home office, your residence-based deductions that aren't dependent on use of your home for business (e.g., mortgage interest and real estate taxes), and your business deductions that aren't attributable to your use of the home office. But any home office expenses that can't be deducted because of these limitations may be carried over and deducted in later years. We can help you figure out how these limitations affect your home office deductions.

**Sales of homes with home offices.** If you sell—at a profit—a home that contains, or contained, a home office, the otherwise available $250,000/$500,000 exclusion for gain on the sale of a principal residence won't apply to the portion of your profit equal to the amount of depreciation you claimed on the home office. In addition, the exclusion won't apply to the portion of your profit allocable to a home office that's separate from the dwelling unit or to any gain allocable to a period of nonqualified use (i.e., a period that the residence is not used as the principal residence of the taxpayer or his spouse or former spouse) after December 31, 2008. Otherwise, the home office won't affect your eligibility for the exclusion.

Proper planning can be the key to nailing down the optimum tax treatment for your office at home expenses.

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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