

TAX TIP

HOME OFFICE EXPENSES FOR SMALL BUSINESSES

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Operating costs for the portion of your home used exclusively for business are deductible from business income.

Exclusive use

Firstly, notice that the portion must be used exclusively for business. For example, a spare bedroom used only as an office for your business. You cannot claim your living room based on the fact that you meet with clients a few nights a week. The room has to be used 100% for business only.

The percentage deductible can be based on the square footage of business use divided by the total square footage of the house. The alternative method is to base the percentage on the number of rooms used for business usage divided by the total number of rooms in the house.

Deductible from Business Income

Secondly, notice that the home office expenses are only deductible from business income. If the business is showing a loss, you cannot deduct the home office expenses to increase the loss. However, you can carry forward the home office deduction to future years to reduce the taxable profit to zero.

Example:

Your home is 1,800 square feet in total and you use 180 square feet as an office and product room. You could deduct the following from business income:

	Total	10% Deduction
Mortgage Interest	\$12,000	\$1,200
Realty Taxes	\$2,500	\$250
Utilities	\$2,000	\$200
Repairs & Maintenance	\$600	\$60
Total	\$17,100	\$1,710

TIP: The nice thing about this deduction is the fact that you are getting an additional tax deduction for money you are already spending. This effectively reduces your marginal tax rate on business income without increasing your out-of-pocket costs.

PLEASE USE WORKSHEET FOR HOME OFFICE EXPENSES FOR SMALL BUSINESSES



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