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Business Use of Home / Home Office Deduction

To deduct business–use–of–home expenses, part of your home must be used regularly and exclusively as one of the following:

1. Regularly and exclusively as the principal place of business for your trade or business;
2. Regularly and exclusively as the place where you meet and deal with your patients, clients, or customers in the normal course of your trade or business; or
3. In connection with your trade or business, if you use a separate structure that is not attached to your home.

Under the principal-place-of-business test, you must determine that your home is the principal place of your trade or business after considering where your most important activities are performed and most of your time is spent, in order to deduct expenses for the business use of your home.

Your home office will also qualify as your principal place of business for deducting expenses for its use if you meet the following requirements:

1. You use it regularly and exclusively for administrative or management activities of your trade or business; and
2. You have no other fixed location where you conduct substantial administrative or management activities of your trade or business.

Information needed for deducting depreciation expense on property:

1. Date (Month / Year) business use of home began.
2. Fair Market Value of THE BUILDING (excluding land) portion of your home. (Or how much you paid for it.)
Fair market value defined: The fair market value of your home is the price at which the property would change hands between a buyer and a seller, neither having to buy or sell, and both having reasonable knowledge of all necessary facts. Sales of similar property, on or about the date you begin using your home for business, may be helpful in figuring the property's fair market value.
3. The cost of any improvements made to the home. Please differentiate between improvements for the entire home vs. improvements made to area used as home office.
4. Total square footage of the home.
5. Square footage of space in home used for business purposes.
- 6.

Additional Deductible Expenses:

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|-----------------------------------|--|
| - Mortgage Interest | - Telephone |
| - Rent (If Rental Property) | - Security System |
| - Real Property Taxes | - Repairs |
| - Homeowner's / Renters Insurance | - Maintenance (Including landscaping, lawn care, etc.) |
| - Utilities | |
| - Association dues | |

Question:

I have a home office. Can I deduct expenses like mortgage, utilities, etc., but not deduct depreciation so that when I sell this house, the basis won't be affected?

If you qualify to deduct expenses for the business use of your home, you can claim depreciation for the part of your home that is a home office. Generally, the part of your home that is a home office is depreciated over a recovery period of 39 years using the straight line method of depreciation and a mid-month convention. If you do not claim depreciation on that part of your home that is a home office, you are still required to reduce the basis of your home for the allowable depreciation of that part of your home that is a home office when reporting the sale of your home. From "IRS Frequently Asked Questions."