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## **Money Matters | Don't worry about an audit...you can deduct your home office expenses**

By RANDY GARDNER

During the recession, many people started working for themselves from their homes. Claiming a home office deduction can significantly reduce your tax liability and is not an audit red flag as many think.

You can claim a home office deduction for a room or a separately identifiable space, such as portion of a room or a storage area in your garage, that you use regularly and exclusively for business.

Business is defined broadly. Using the space to manage your rental properties is a business use, but tracking your stock investments is not. The location has to be the main office for any business (primary or secondary) you run. Even if you work as an employee outside of the home, you can claim a home office if you meet customers at your home or if your employer does not provide you with an office and you need a place to work.

How much can you save? Assume you own a \$200,000, 2,000 square-foot home. Your home-related expenses are \$13,000, as follows: real estate taxes, \$2,000; interest expense, \$6,000; insurance, \$1,000; maintenance, \$1,000; and utilities, \$3,000. You use 200 square feet (10% of the 2,000 square-foot home) to run your marketing business. You can claim a home office deduction of \$1,800: \$1,300 (10% of \$13,000) plus depreciation of \$500 ( $\$200,000/39 \text{ years} \times 10\%$ ). Because this deduction offsets self-employment tax as well as federal and state income taxes, you will probably reduce your taxes by 40% (\$720) or more.

When you sell your home, you will have to report the depreciation you claimed as income, but you do not have to report the business-use portion of the gain (10% in our example) as income and you can still use the \$250,000 (single filers)/\$500,000 (joint filers) exclusion on the entire gain.

One of the best benefits of claiming a home office deduction is the business mileage rules apply as soon as you leave your driveway. You have no commute. If you drive 10,000 business miles at 55.5 cents per mile, that's an additional \$5,550 deduction (\$2,220 tax savings) for the year.

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