

What is IRS Form 8829: Expenses for Business Use of Your Home?

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One of the many benefits of working at home is deducting legitimate expenses from your taxes. The downside is that since home office tax deductions are so easily abused, the Internal Revenue Service (IRS) tends to scrutinize them more closely than other parts of your tax return. However, if you can substantiate your home office deductions, you should claim them.

There are two methods for calculating the home office deduction.

- The first is calculated by multiplying \$5 times the square footage of your home used exclusively for business. So, if your office is a 10 ft by 10 ft room, the deduction would be \$500 (10 times 10 = 100 sq. ft time \$5 = \$500).
- Another method is to use IRS Form 8829. This method almost always produces a higher deduction. Under form 8829, you calculate all your home's operating expenses and multiply it by the percentage of space your office uses of your overall home. So, if your overall home was 3,000 sq. ft, and your office space was 300 sq. ft. that would equal a 10% usage. Then if your operating expenses were
 - \$10,000 real estate taxes
 - \$8,000 mortgage interest (Mortgage Principal payments are NOT included)
 - \$8,000 utilities,
 - \$4,000 insurance\$30,000. TOTAL operating
The deduction would be \$3,000 (10% of \$30,000)

Defining your home office location

The IRS has very precise rules regarding the area you use for work.

- It must be your principal place of business.
- The area you consider your workspace must be exclusively used for business.
- Only expenses generated by that area can be used on Form 8829. Typical allowable expenses include:
 - Insurance
 - Rent
 - Utilities
 - Repairs and maintenance
 - Home depreciation
 - Deductible mortgage interest

Completing IRS Form 8829

The form has several sections:

Part I of Form 8829: You calculate the part of your home used for business. For most businesses, you divide the square footage used for your business by the total square footage of your house. You'll have to make further adjustments if you run a daycare facility in your home in an area not exclusively used for the business.

Part II: You list your total business income and deductible expenses. Follow the form's instructions, and you will end up with the total allowable expenses for the business use of your home.

Part III: This part is where you calculate the depreciation of the business portion of your home. You'll have to consult the instructions on the form to determine your allowable depreciation percentage.

Part IV: In the final section, you determine any disallowed expense amount that can be carried over to the next tax year.

Audit Risks

The home office tax deduction is easy to claim but hard to defend. Many working Americans, even legitimately working at home, do not have a specific, exclusive area used solely for business. For example, one taxpayer claimed a hallway and bathroom as part of his home office but was denied this deduction since his children occasionally used the bathroom.

Deduction limitations.

You may only take the home office deduction up to the point you have net business income (profit). So, if your business profit was \$10,000 and your Home Office Deduction was \$ 15,000, you could only use \$10,000 of the home office deduction to bring your profit down to zero.

A comprehensive explanation is available on the IRS website:

<https://www.irs.gov/publications/p587>