

## MONEY 101 EDUCATION

### 6.33 – EXERCISE – Calculate Maria’s home office deduction for the business use of her home – using two methods: Simplified method AND Schedule 8829

Maria heard she can get a deduction because she uses part of her home for her business.

Her apartment space is 800 sq. ft, and she uses 100 sq. ft for an office desk, file cabinet, and computer equipment. She also has a small tv in the area where she watches training videos. Whenever a client wants to make an appointment, she tracks it from her home office. She also records her hours and does all the bookkeeping from her desk. She calculated that the % of her home used for the business is 12.5%.



Square foot of office	100 sq. ft
Square foot of home	800 sq. ft
% used for an office.	12.5%

#### **METHOD # 1 - SIMPLIFIED METHOD**

The IRS gives entrepreneurs a short method for calculating the home office deduction. Without giving further backup, an entrepreneur can deduct \$5 per square ft. for up to 300 Sq. ft of space.

#### **METHOD # 2 - SCHEDULE 8995**

Another option would be for Maria to use Schedule 8995 to calculate her home office deduction. This method requires that she provide her housing expenses, including her rent, utilities, phone, cable, and internet service, which total:

Rent		9,900
Utilities		906
Phone	1,140	
Cable	300	
Internet	240	
	Other	1,680
<b>TOTAL HOME EXPENSES</b>		<b>\$ 12,486</b>

Then, the form allocates those expenses based on the portion of how the ratio of the business use.

The Schedule also distinguishes between “Direct” and “Indirect expenses.”

- Direct expenses benefit ONLY the business part of your home
- Indirect expenses are for keeping and running your home – so they benefit both the residential and business portions.

#### **EXERCISE CHALLENGE - ANSWER THE FOLLOWING QUESTIONS**

- 1. If Maris used the simplified method, how much could she deduct?**
- 2. Are Maria’s rent, utilities, phone cable, and internet considered “Direct” or “Indirect” expenses?**
- 3. EXERCISE - Complete Maria’s FORM 8829 (Business Use of your home).**
- 4. Is Maria better off using the “simplified” method or Form 8829 for the home office deduction?**