

## 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, you use 100 sq. ft for your office. The deduction would be 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

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### 6.32 Understanding Schedule 8829 - Business Use of Your Home

#### Completing IRS Form 8829

The form has several sections:

**Part I** of Form 8829: You calculate the part of your home used for business, which is expressed as a percentage in line 7.

For most companies, you divide the square footage used for your business by the total square footage of your house. For example, if you use 100 sq. ft for your business and your total home is 800 sq ft, then the calculation is  $100/800 = .125$ , which can also be written as 12.5%

If you run a daycare facility in your home in an area not exclusively used for the business, you'll need to make further adjustments.

**Part II:** Has two main things to be concerned with.

#### INCOME

Line 8 – Enter your business income. The IRS will not allow you to deduct more expenses than you have income. Thus, they do NOT want you to use this form to reduce your business income below zero.

#### EXPENSES

Lines 9 through 11 – which is totaled on line 12

Lines 16 through 22 – which is totaled on line 23

Here, you list any expense to operate your home including mortgage interest, real estate taxes, utilities, insurance, rent, repairs, and maintenance. However, you do not include mortgage principal payments.

- If the expense is exclusive to your business, enter it as a “direct expense.”
- If the expense is for an item you use for both business and personal purposes, enter it as an indirect expense.

Ultimately, you will multiply lines 12 and 23 by the percentage in line 7, which will equal your home office deduction before potential adjustments in Part III and IV.

**Part III:** There are additional calculations to account for the purchase cost or capital improvements made to your home. However, this is more complicated, and it is advisable to discuss it with an accountant if it applies to you. The portion you can charge as an expense is based on rules regarding “depreciation.”

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

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#### **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 until 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>