Maria heard she could get a deduction because she used part of her home for her business.



Her apartment 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 provides entrepreneurs with a short method for calculating the home office deduction.

They allow an entrepreneur to deduct $5 per square foot without further backing.

However, the simplified method limits you to a maximum deduction of $1500.

This would apply if you used 300 or more square feet of space for your business.

**METHOD # 2 - SCHEDULE 8829**

The IRS also gives entrepreneurs an alternative way to calculate the home office deduction by completing Schedule 8829.

This method requires that the entrepreneur provide the amount of all housing expenses and then multiplies it by the percentage of the home that is EXCLUSIVELY used for the business.

In Maria’s case, her rent, utilities, phone, cable, and internet service, total:

|  |  |  |
| --- | --- | --- |
| Rent |  | 9,900 |
| Utilities |  | 906 |
| Phone | 1,140 |  |
| Cable | 300 |  |
| Internet | 240 |  |
|  | Other | 1,680 |
| TOTAL HOME EXPENSES |  | $ 12,486 |

Maria needs to enter these expenses on Form 8829.

**EXERCISE**

1. **READ HANDOUT 6.32 Understanding Schedule 8829**
2. **COMPLETE FORM 8829 for MARIA use the above-mentioned housing expense information and her Schedule C Tentative Profit from Line 29**
3. **ANSWER THE FOLLOWING QUESTIONS**

|  |  |
| --- | --- |
| QUESTION | ANSWER |
| If Maria used the simplified method, how much could she deduct? | **$** |
| Are Maria’s rent, utilities, phone cable, and internet considered “Direct” or “Indirect” expenses? |  |
| How much can she deduct if she calculates her home office deduction using form 8829 | **$** |
| Is Maria better off using the “simplified” method or Form 8829 for the home office deduction? |  |