

BENEFITS OF THE BUSINESS-USE-OF-THE-HOME DEDUCTION

This deduction is a major benefit when one is self-employed and uses their home for business. The benefits of utilizing this deduction include the following:

1. The ability to deduct a portion of your home, namely interest and real estate taxes.
2. The homeowners' or renters' insurance.
3. The repairs and maintenance costs that are done during the year, whether in the office or the rest of the home.
4. The utility costs, such as electric, gas, propane, water, sewer, trash, etc.
5. If you rent, that portion of the monthly rent payment that is attributable to your office.
6. You can expense the space that you use for business. This is based on factors such as the cost of the home plus improvements, minus the land value, time in the home or rental unit, and the percentage of the total area of the home that is used for the business.

The office-in-the-home deduction is quite a benefit, but you must show a profit in the tax year(s) that you take this benefit. If you show a loss, you can not deduct this benefit on that year's tax return. Instead, you can carry the amount forward until you get to a year in which there is a profit. However, you need to have filled out Form 8829, an IRS form, even if you show a loss, in order to calculate the value to carry forward. In this way, you can take full advantage of this deduction, under the present rules.

In conclusion, if you qualify for this deduction, it will reduce your taxable profit, which will cause you to pay less income tax and less Social Security tax. Also, depending on which state you live in, it may reduce your state taxes, as well.