

OUR MOST FREQUENTLY ASKED QUESTION: CAN MY BUSINESS PAY FOR MY HOUSING?



Home office deductions are available to both home owners and renters.

Millions of people are leaving the corporate life for the freedom and flexibility of being their own boss. Today, there are approximately 15 million self-employed Americans - that's 10% of the U.S. population!

This figure is expected to nearly triple over the next two years, proving that non-traditional employment is a rising trend and an important source of jobs in the current economy.

Along with that independence also comes the inevitable stress of wearing multiple hats in order to conduct business. From the pressure of building and maintaining a client base, to adapting to market fluctuations, and finally to managing income, expenses and adjusting to a new tax situation, it can certainly feel overwhelming.

On top of that, dreaded tax preparation can quickly become complicated, especially if you own your own business or you are self-employed, but we all have the same goal in mind – to maximize deductions and minimize overall tax liability. With the recent major tax reform bill and regular changes to the tax code, hiring an experienced CPA is the most efficient way to identify opportunities and optimize your financial situation.

While your taxes may be slightly more involved and complex, there is a silver lining of being privy to a larger number of deduction options. One of these deductions includes having a home office, and has led to the most common question we receive from business owners and sole proprietors:

“Do I qualify for home business deductions?”

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So, How do Home Office Deductions Work?

The home office deduction is available to both homeowners and renters. In order to qualify for this deduction, there are two basic requirements for the space:

1) You must regularly use part of your home for the exclusive use of conducting business.

Dual purpose (personal and professional) rooms or spaces do not qualify under current IRS guidelines.

2) Your home office must be the primary place you conduct business.

If you work at home and in an office, you must keep track of specifically what tasks you do and how much time you spend at each location.

When it comes to calculating the deduction amount on your taxes, you can only deduct the portion of your home that is dedicated to business activities. The IRS offers two methods for calculating home office space deductions – the standard method and a newer simplified method. The standard method is based on actual expenses and requires that you maintain records of all home expenses and run calculations to figure the percentage. The new simplified option can save you substantial time and can be ideal for smaller spaces, but you are prohibited from taking certain deductions. This method allows you to calculate \$5 per square foot for up to 300 square feet, allowing for up to a \$1,500 deduction.

The deductibility of a home operating expense will depend on the type of expense and the percentage of your home that is used for business. Expenses are separated into direct and indirect costs. Direct costs are straightforward and include office supplies, advertising, licenses and permits. Indirect costs, such as mortgage interest, real estate taxes, utilities, general maintenance, rent, depreciation, or property insurance, *cannot* be deducted as business expenses unless you use your home for business purposes. Keep in mind, however, that these types of expenses are subject to specific requirements and limitations.

Why Consult With a Professional Advisor?

Tax laws can change from year to year. In turn, accountants are constantly faced with the task of keeping current with knowledge and understanding. As a whole, the profession has a duty to clients to provide accurate service, keeping optimal client financial interests in mind. When it comes to home business deductions, it's important to select only those applicable to the client's situation and quantify the correct amount, otherwise you risk raising flags for an auditor. A certified public accountant can reduce the hassle of trying to decipher long, complicated IRS regulations and worksheets.

Not only are accountants beneficial during tax season, but they can also provide proactive service and support throughout the year. From helping you to manage cash flow and healthy business growth to identifying financial weak spots, there are a range of services to optimize business operations and minimize time away from conducting day-to-day business. In fact, a study conducted by Intuit, creator of the popular bookkeeping software QuickBooks, revealed that 89% of small businesses report seeing more streamlined success with the aid of an accountant or advisor.

In Summary

Preparing and filing taxes can cause a lot of anxiety and confusion, especially if you run a business. Hiring a tax professional can keep your return mistake free, ensure you stay within IRS guidelines, maximize the money you keep, and minimize your chances of a dreaded audit. There are many tax deductions you may be able to take advantage of as a business owner – housing being a major expense. At Neumeister & Associates, our dedicated team has the expertise to help you navigate the complex tax code, saving you time, stress, and money.

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