

Home Office Deduction Worksheet

Please use this worksheet to guide you through the two methods for calculating the Home Office Deduction: the **Actual Expense Method** and the **Simplified Method**. This worksheet will guide you through the process of deciding which method is best for you and how to calculate your home office deduction. Make sure to keep records and consult with a tax professional for any unique circumstances that might affect your deduction.

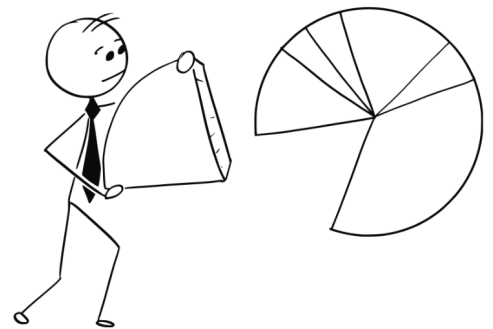
Section 1: Actual Expense Method

In this method, you will calculate the actual expenses related to your home office. This includes direct expenses (specific to the office) and indirect expenses (applied to the entire home).

Step 1: Determine the Percentage of Your Home Used for Business

1. What is the total square footage of your home?
_____ sq ft
2. What is the square footage of your home office?
_____ sq ft
3. **Business Use Percentage Calculation:**

$$\frac{\text{Home Office Sq Ft}}{\text{Total Home Sq Ft}} \times 100$$



Business use percentage = _____%

For example: If your home office is 150 sq ft and your total home is 1,500 sq ft, the calculation is $(150/1500) \times 100 = 10\%$.

Step 2: List Your Actual Expenses

Now, list all your expenses that you can allocate to the home office, and then apply your business use percentage.

- | | |
|--|--|
| 1. Mortgage Interest or Rent | 2. Utilities (Electricity, Gas, Water, etc.) |
| 3. Homeowners Insurance | 4. Repairs & Maintenance |
| 5. Property Taxes | 6. HOA Fees |
| 7. Depreciation of Home – Please see worksheet below | |

Step 3: Calculate Your Deduction

Add up all the expenses from the above categories:

Total Actual Expenses = _____

Multiply by the Business Use Percentage (from above) = _____

Total Home Office Deduction =

Section 2: Simplified Method

This method assigns a fixed rate per square foot for your home office, simplifying the process for smaller home offices.

Step 1: Determine Your Office Square Footage

- What is the square footage of your home office?
_____ sq ft

Step 2: Apply the Standard Rate

The IRS allows a standard deduction of **\$5 per square foot** of home office space, up to a maximum of 300 square feet. This means you can claim up to **\$1,500**.

- **Maximum Deduction Allowed:** \$1,500 (if your office is 300 sq ft or larger)

Step 3: Simplified Method Deduction Calculation

- **Total Simplified Method Deduction =**

Home Office Sq Ft
(up to 300 sq ft) **X** \$5 **=**

Total Home Office Deduction =

Section 3: Compare the Methods

Expense	Actual Method	Simplified Method
Deduction Amount	_____	_____

Important Notes:

- **Documentation:** Whether using the Actual or Simplified Method, always keep accurate records of all expenses, and be prepared to provide receipts if necessary.
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Depreciation Worksheet:

Depreciation on a home office refers to the process of deducting a portion of your home's cost as a business expense over time. Since a home office is considered part of your personal residence, the IRS allows you to depreciate the portion of the home used for business purposes.

Key Points About Depreciation on Home Office:

1. **What is Depreciation?** Depreciation is the gradual reduction in the value of an asset over time. For a home office, this means deducting a portion of the cost of the building (but not the land) used for business purposes as a business expense each year.
2. **Eligibility:** You can only depreciate the portion of your home used exclusively and regularly for business. This includes areas used for business activities such as managing administrative tasks, meeting with clients, or conducting business operations.
3. **Depreciation Method:** The IRS uses the **Modified Accelerated Cost Recovery System (MACRS)** to calculate depreciation. For a home office, the depreciation period is **39 years** using the **straight-line method**, meaning you'll deduct an equal amount each year.
4. **What You Can Depreciate:**
 - You can depreciate the business portion of the **building structure** (e.g., walls, roof, foundation).
 - **Land** is not depreciable, so only the value of the home (not the land) is considered when calculating depreciation.
5. **How It's Calculated:**
 - **Step 1:** Determine the **cost basis** of your home (purchase price, improvements, etc.).
 - **Step 2:** Calculate the percentage of your home used for business (based on square footage).
 - **Step 3:** Multiply the home's cost basis by the business-use percentage.
 - **Step 4:** Depreciate that amount over 39 years.

Example: If your home has a total cost of \$200,000 (excluding land), and your home office occupies 10% of the total square footage:

Cost basis of the office portion = $\$200,000 \times 10\% = \$20,000$.

Depreciation deduction per year = $\$20,000 \div 39 = \mathbf{\$513}$ per year.

6. **Impact of Depreciation:** Depreciation reduces your taxable income each year, but it also reduces your home's adjusted cost basis. If you sell your home, you may need to "recapture" the depreciation, meaning you may have to pay taxes on the amount of depreciation you claimed when selling the property.

Why Depreciation Matters:

Depreciating your home office can provide a substantial tax benefit by reducing your taxable income. However, it's essential to track the depreciation carefully, especially since you may owe taxes on the depreciation claimed when selling the home.

In summary, **depreciation on a home office** is a tax deduction that allows you to deduct a portion of the cost of your home used for business over a 39-year period, potentially reducing your annual taxable income.

Need more guidance? Contact Us!

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