

2005 Planning: Home Office Deductions

As the new year begins, you may be wondering what you can do now to minimize your tax liability for this year. One way to minimize your tax liability is to maximize your deductions. Based on a review of your prior year tax return, you may qualify for a home office deduction, or, if you already claim a home office deduction, you may qualify for a larger deduction. The home office deduction enables taxpayers that operate a trade or business from their home to deduct certain expenses associated with maintaining the home office.

The expenses related to the business use of your home include both direct and indirect expenses. Direct expenses include those expenses directly related to your home office, such as the costs of repairs, paint, or additional insurance for your office. Indirect expenses include those costs to operate your home. Indirect expenses include expenses such as the following:

- Real estate taxes
- Mortgage interest
- Casualty losses
- Rent
- Repairs
- Security systems
- Telephone
- Utilities
- Waste removal services
- Cleaning Services
- Insurance
- Depreciation

In the last few years, the rules for the home office deduction have undergone a number of changes. For instance, the statutes have become more stringent in regards to an "exclusive use rule," which states that business deductions are only allowed with respect to a portion of a home that is used exclusively and regularly for business purposes. In order to comply with the tax law, it is essential to stay current with these changes.

We would like to review your expenses to ensure that you are maximizing your home office deduction. Please contact our office to make an appointment to discuss this important tax planning opportunity. Meanwhile, please ensure that you maintain appropriate records to substantiate your home office expenses.