

HOME OFFICE CHECKLIST

NOTE: THESE GUIDELINES DO NOT APPLY TO CHILD CARE PROVIDERS, WHO SHOULD [CLICK HERE](#).

If you are coming to my law practice from a so-called tax professional who either said you do not qualify for the home office or said “that taking the home office would be a red flag,” you are not alone. Each year, I file amended returns for taxpayers who received this bogus advice. After I determine they do meet the legal criteria for a home office, they successfully receive thousands of dollars in refunds, even though all amended returns are personally scrutinized by the IRS.

Size of the Office

To qualify for a home office, you must use an area of your home exclusively for the business. The area need not be an entire room, but may be a clearly delineated area within a room. If you do use an entire room, however, you have two options to determine the size of the home office. The first I have touched upon, using the actual square footage of the home divided into the total square footage of the home.

The second method involves using the number of rooms in the house, excluding bathrooms and closets. In written guidance, the IRS requires all rooms to be more or less the same size. In reality, the results of the calculation must produce reasonable results. This can be seen most clearly where the US Tax Court has rejected attempts by self-employed individuals to deduct almost all costs of their small apartments. Typical of a reasonable application of this method would be where an office is located in one bedroom of a four bedroom house with a kitchen, dining room, den and living room. The one room of the eight room house would create a percentage use of 12.5%.

One of several other requirements must also be met, beginning with **one** of these three:

- 1) The home office must be the principal place of business.¹ If you have a main office elsewhere, you must qualify under one of the other exceptions.
- 2) The home office must be used to meet patients, customers or clients in the normal course of business.
- 3) The home office is in a structure not attached to the dwelling unit.

The Storage Exception

¹ This is the point which frightens tax preparers. Until Congress changed the law for tax years 1999 and beyond, many professionals who used their home office for administrative tasks but actually conducted their business elsewhere did not qualify for the home office. It was a hot item for IRS audits. That, however, is all ancient history.

If you store inventory in your house, and your home is the only fixed place of business, another generous exception may apply. An area used on a regular (not exclusive) basis for such storage may be treated as part of the home office.

If you qualify for a home office, I need the following information:

- 1) If this is your first year, I need to know the date you began using your home office, the amount you paid for the home and a copy of the current tax bill.²
- 2) All forms 1098 for the property showing mortgage interest paid. If you pay your own property tax, I will need those totals for the year as well. (This information is part of the basic checklist for taxes as well)
- 3) Totals of the following five utilities on an annual basis:
 - a. Electric
 - b. Gas
 - c. Water
 - d. Sewer
 - e. Garbage
- 4) Total paid for fire, theft and other property insurance.
- 5) Totals paid for improvements and repairs to the home in general.
- 6) Any expenditures specifically made for the home office.

² These figures are for calculating depreciation. Therefore I must breakdown the costs between land and improvements. The tax bill provides a general, but not determinative indication of these values. If you have an impound account, you may or may not receive a copy of this bill. If it is not available I will do a general estimate.