Safe-Harbor Home Office Deduction
Is It Better For You?

Article Highlights:

- Annual Election
- Depreciation
- Additional Office Expenses
- Limitations & Carryover
- Qualifications
- Employee Issues
- Usage Issues

Taxpayers can elect to take a simplified deduction for the business use of the taxpayer's home. The deduction is $5 per square foot, with a maximum square footage of 300. Thus, the maximum deduction is $1,500 per year. Here are the details of this simplified method:

- *Annual Election* – A taxpayer may elect to take the safe-harbor method or the regular method on an annual basis. Thus, a taxpayer may freely switch between the methods each year. The election is made by choosing the method on a timely filed original return and is irrevocable for that year.
- *Depreciation* – When the taxpayer elects the safe-harbor method, no depreciation deduction for the home is allowed, and the depreciation for the year is deemed to be zero.
- *Additional Office Expenses* – Additional office expenses such as utilities, insurance, office maintenance, etc., are not allowed when the safe-harbor method is used.
- *Home Interest and Taxes* – Prorated home interest and taxes are not allowed as an office expense when using the safe-harbor method. Instead, 100% of the home interest and taxes are deductible as usual on Schedule A.
- *Deduction Limited by Business Income* – As is the case with the regular method, under the safe-harbor method the home office deduction is limited by the business income. For the safe harbor, the deduction cannot exceed the gross income derived from the qualified business use of the home for the taxable year reduced by the business deductions (deductions unrelated to the qualified business use of a home). However, unlike the regular method, any amount in excess of this gross income limitation is disallowed and may not be carried over and claimed as a deduction in any other taxable year.
- *Home Office Carryover* – This cannot be used in a year in which the safe-harbor method is used. The carryover continues to future years and can only be used when the regular method is used.
- *Qualifications* – A taxpayer must still meet the regular qualifications to use the safe-harbor method.
- *Reimbursed Employee* – The safe-harbor method cannot be used by an employee who receives advances, allowances, or reimbursements for expenses related to qualified business use of his or her home under a reimbursement or other expense allowance arrangement with the employer.
- *Determining Square Footage* – To determine the average square footage of the business, use these guidelines:

- **Square Feet Maximum** – Never use more than 300 square feet for any month, even if the taxpayer has multiple businesses. Where there are multiple businesses, use a reasonable method to allocate between businesses.
- **Determining Average Square Feet for the Year** – Use zero for months when there was no business use or when the business was not for a full year.
- **15-Day Minimum** – Don't count any month in which the business use is less than 15 days.

  ***As an example**, a taxpayer begins using 400 square feet of her home for business on July 20, 2015, and continues using the space as a home office through the end of the year. Her average monthly allowable square footage for 2015 is 125 square feet (300 x 5 months = 1500/12 = 125).*

- *Multiple Businesses* – Where there are multiple businesses, only one method may be used for the year—either the regular or safe harbor.
- *Mixed-Use Property* – A taxpayer who has a qualified business use of a home and a rental use for purposes of § 280A(c)(3) of the same home cannot use the safe-harbor method for the rental use.
- *Taxpayers Sharing a Home* – Taxpayers sharing a home (for example, roommates or spouses, regardless of filing status), if otherwise eligible, may each use the safe-harbor method but not for a qualified business use of the same portion of the home.

  ***As an example**, a husband and wife, if otherwise eligible and regardless of filing status, may each use the safe-harbor method for a qualified business use of the same home for up to 300 square feet of different portions of the home.*

- *Depreciation Rate When Switching Methods* – When the safe-harbor method is used and the taxpayer subsequently switches back to the regular method, use the depreciation factor from the appropriate optional depreciation table as if the property had been depreciated all along.

  When choosing between the methods, the following factors should be considered:

  - There is no reduction in basis for depreciation or depreciation recapture when using the safe-harbor method.
  - When using the regular method, the income limitation takes into account home interest, taxes, and other expenses before allowing the depreciation portion of the deduction. That is not true for the safe-harbor method as the interest, taxes, and other business-use-area expenses are not considered.

If you have questions related to this simplified method of claiming a deduction for the business use of your home, please give this office a call.