

Home Sweet Home!

“The home office deduction can save you big dollars on your taxes”

By Theodore D. Lanzaro, CPA

Tired of long commutes to and from the office? Tired of breathing the polluted discharge of hundreds of automobiles packed bumper to bumper on the highway? Tired of wasting time that you could be making money with or spending with your family? The solution might be both stress relieving and can potentially save you thousands of dollars on your taxes.

The solution is an exciting and growing trend of entrepreneurs working from home instead of commuting to an office. In addition to the cost savings of not having to pay an office rent, establishing a qualified home office can provide significant tax benefits which include:

- Shifting the cost of maintaining a home from nondeductible personal expenses to deductible business expense
- Reduction of self-employment tax for sole proprietors by using deductible home office expense to offset income subject to self-employment tax.
- Increasing deductible automobile mileage by eliminating non-deductible commuting miles.

Typical deductible home office expenses include:

- Mortgage interest
- Real estate taxes
- Association dues
- Home repairs and maintenance
- Utilities
- Insurance
- Security Systems
- Cable and internet service
- Depreciation

To qualify, a portion of the home must be used as the principal place of business and must be used for meetings conducted in the ordinary course of business. The allowable percentage of deductions is determined by dividing the area of the home used exclusively for business by the total area of the home. For example, John and Betty Smith converted their garage into a home office for their cleaning business. The total square footage of the entire house is 2500 square feet while the home office is 250 square feet or 10% of the total square footage. Therefore John and Betty are able to deduct 10% of their home expenses listed above against the income generated from their cleaning business.

A home office is not without its disadvantages. Often, a spouse working outside the home may assume that since you are home, you are available for family chores and housework during business hours. Neighbors may stop by to chat or have coffee. Be sure to set boundaries to avoid this type of distraction. Make sure to check local zoning and homeowners association restrictions that prevent business from being conducted from your home. In addition, be sure to keep accurate records documenting your home office expenses for your tax preparer.

Ted Lanzaro, CPA “The Millionaire Tax Advisor” owns and operates Lanzaro CPA, LLC, a tax strategy, accounting and business advisory firm with offices in Shelton, CT. The firm concentrates on providing advisory services, education and products design to promote business development, tax savings and wealth creation. He can be reached by phone at 203-924-5760 or via email at Ted@lanzarocpa.com. You can subscribe to “The Millionaire Tax Advisor” Newsletter at www.millionairetaxadvisor.com. You can also get a copy of Ted’s special report “10 Proven, Totally Legal and Effective Tax Strategies That Will Put Thousands In Your Pocket Every Year” at his website www.lanzarocpa.com

You should consult a tax professional prior to implementing any of the tax planning strategies to make sure it fits your specific situation.