

Worksheet 2: Home Office Deduction

Use this worksheet to figure out your full home office deduction. The information will go on IRS Form 8829, which feeds into Schedule C. Most of the information here will change every year, except for the business percentage and the section related to depreciation.

In order to take full advantage of the home office deduction, the space must be used regularly and exclusively for business purposes – your main place of business – and you must produce taxable income.

Step 1: Figure out the business percentage for your home office

Divide the area of your home office by the total area of your home.

- A. Total area of your home (in square feet) _____
- B. Area of your home office space (in square feet) _____
- C. Business percentage of home: (B/A) _____

Step 2: Calculate the percentage of indirect expenses

Multiply the business percentage you figured out in Step 1 by the applicable whole-home expenses. If you used the space as your home office for only part of the year, you have to prorate these expenses. For example, if you started using a room as your home office on June 1, seven months of expenses would apply, so you would multiply your final figure by 7/12.

Record only those expenses that apply to your home office situation. “Other expenses” could include things like repairs that affected your entire home, Internet access, or pest control services, for example.

Indirect Expenses:

- Mortgage interest _____
- Property taxes _____
- Rent _____
- Property insurance _____
- Utilities _____
- Home security _____

Cleaning service _____

Other indirect expenses (include detail):

Total indirect other expenses _____

Total indirect expenses _____

Multiply total indirect expenses by business % _____

Step 3: Record the direct expenses

These are costs associated only with the home office, not the rest of the home, and not basic business expenses (like office supplies or postage). These expenses are 100% deductible.

Direct expenses:

Office phone landline _____

Repairs and maintenance _____

Internet connection (if separate) _____

Other direct expenses (include detail):

Total other direct expenses _____

Total direct expenses _____

Step 4: Calculate depreciation expense

If you own your home and plan to take the full home office deduction, you'll also be able to deduct depreciation expense. To do that, you need some key pieces of information:

A. Adjusted Basis of Your Home:

The total purchase price of your home	_____
Minus the amount paid for the land*	_____
The cost basis of just your home	_____
Plus home improvements**	_____
The adjusted basis of your home	_____

* You can find that on your property assessment and possibly on your property tax bill.

**Home improvements include only things that increase the value of your house, not regular repairs and maintenance. Examples include getting a new roof, replacing the hot water heater, and remodeling.

B. Fair Market Value of Your Home

Fair market value (FMV)*	_____
Minus the FMV of the land	_____
FMV of just the home	_____

*Use sales prices of similar properties right around the time you started using the home office to figure out your FMV. You can use the proportion of land from your original basis here to figure out the FMV of the land.

C. Depreciation Calculation

Take the *lesser* of the adjusted basis or the FMV to use as your depreciation calculation starting point. *If this is the first year* you are using a home office, you'll use the following chart to take the correct amount of depreciation for this year. Choose the percentage that's listed next to the month you started using the home office this year. For example, if you started using it in April, your percentage would be 1.819%, for month 4.

These percentages come directly from the IRS website, and they're only applicable for the *first year* that you're taking the home office deduction. Your home office counts as "non-residential real property," which gets depreciated over 39 years.

MACRS Percentage Table for 39-Year Nonresidential Real Property
Table 2.

Month First Used for Business	Percentage To Use
1	2.461%
2	2.247%
3	2.033%
4	1.819%
5	1.605%
6	1.391%
7	1.177%
8	0.963%
9	0.749%
10	0.535%
11	0.321%
12	0.107%

If this is not the first year you're taking the deduction, do it the same way you did last year. If this is the *second* year that you're taking the deduction, and you used the table above in your first year, continue using the IRS MACRS method, which is to depreciate the property evenly over 39 years. For example, if the lesser of your FMV and adjusted basis is \$200,000, your full-year depreciation would come to \$5,128.21 ($\$200,000 / 39$).

Once you've figured out the current year depreciation, multiply that by the business percentage you calculated in Step 1. For example, if the total depreciation for the year equals \$5,128.21 and your business percentage was 12%, your depreciation expense deduction for this year would come to \$615.39.

You can find more detailed information about depreciation and how to calculate it in IRS Publication 946.

A. Total depreciation expense for the year _____

B. Business percentage (from Step 1) _____

C. Home office depreciation expense (A x B) _____