TaxBrief

Keeping you informed

SAO & Associates LLC
DBA: Tax Time
832 South Parker
Marine City MI 48039
810-516-0639
www.taxtimeandmore.com

Tax Tips for Home-Based Business Owners

Running a business from your home offers flexibility, convenience and the chance to turn your passion into profit. But it also comes with unique tax rules and opportunities. As your trusted tax professional, I want to help you understand how to maximize your deductions, stay compliant and plan for a successful tax year.

Who qualifies for the home office deduction?

The IRS allows you to deduct certain expenses for using your home for business purposes, but there are strict requirements.

- **Exclusive and regular use:** You must use a specific area of your home exclusively and regularly for your business. “Exclusively” means the space is used only for business, not for personal activities. “Regular” means you use it consistently, not just occasionally.
- **Principal place of business:** Your home office must be your principal place of business, or a place where you meet clients, customers or patients in the normal course of business. Alternatively, you may qualify if you use a separate structure (like a detached garage or studio) for business.
- **Exceptions:** If you use part of your home for storing inventory or as a day care facility, special rules apply. You may not need to meet the exclusive use test in these cases.

Example: If you use a spare bedroom only for your business, and you work there every day, you are likely to qualify. If you use your kitchen table for business and family meals, you do not.

What expenses can you deduct?

If you qualify, you can deduct both direct and indirect expenses.

- **Direct expenses:** Costs that benefit only the business part of your home (e.g., painting your office (paint), installing shelves in your office). These are fully deductible.
- **Indirect expenses:** Costs for keeping up and running your entire home (e.g., mortgage interest, utilities, insurance, general repairs). You can deduct a percentage based on the portion of your home used for business.

How to calculate your deduction:

- **Square footage method:** Divide the area used for business by the total area of your home.
- **Room method:** If all rooms are about the same size, divide the number of rooms used for business by the total number of rooms.

Example: If your office is 200 square feet and your home is 2,000 square feet (total), your business percentage is 10%.

Simplified method vs. actual expenses

You have two options for claiming the home office deduction.

Simplified method

- Deduct $5 per square foot of your home used for business, up to 300 square feet (maximum $1,500).
- There is no need to track actual expenses or depreciation.
- You can still deduct business expenses not related to the home (e.g., supplies, advertising).

Actual expense method

- Deduct the business portion of actual expenses (mortgage interest, rent, utilities, insurance, repairs, depreciation, etc.).
- Requires detailed recordkeeping and calculations.
- You must also calculate and track depreciation if you own your home.

Tip: The simplified method is easier, but the actual expense method may yield a larger deduction if your home office is larger, or your expenses are high. We can help you compare both methods.

Depreciation and recapture

If you own your home and use the actual method, you can depreciate the business portion of your home (not the land). Depreciation is a way to recover the cost of your home over time.

Important: When you sell your home, you must "recapture" (pay tax on) any depreciation you claimed (or could have claimed) for the business use of your home. This means that part of your gain on the sale may be taxable, even if you qualify for the home sale exclusion.

Common mistakes to avoid

- **Mixing personal and business use:** The IRS is strict about the exclusive-use rule. Don't use your office for personal activities.
- **Overstating deductions:** Keep receipts, utility bills, mortgage statements and a floor plan that includes your office space.
- **Not updating your deductions:** If your business use changes during the year (e.g., you move or stop using the space), adjust your deduction accordingly.

Recordkeeping tips

Good records are your best defense in case of an IRS audit. Here is what to keep:

- Receipts and bills for all home-related expenses (utilities, repairs, insurance, etc.)
- Mortgage or rent statements
- Property tax records
- Floor plan or measurements to prove the size of your office
- Business income and expense records such as invoices, bank statements, mileage logs, etc., are important.

You should keep these records for at least three years after the due date of your tax return, or two years after you pay the tax, whichever is later. Keep records related to property (like your home) as long as you own the property, plus three years after you sell it.

Other deductions for home-based businesses

Don’t forget about these common deductions:

- Business supplies and equipment
- Business insurance
- Advertising and marketing
- Professional fees (legal, accounting, tax preparation)
- Business meals (subject to 50% limit)
- Travel and vehicle expenses (if used for business)
- Education and training

Tax planning tips

- **Review your space:** If you are considering expanding or changing your home office, plan ahead to maximize your deduction.
- **Track expenses monthly:** If you want less paperwork, the simplified method may be right for you.
- **Consult before major changes:** If you plan to move, renovate or change your business use, let us know so we can help you plan for tax impacts.
- **Estimate your deduction:** Use last year’s expenses as a guide to estimate your deduction and adjust your estimated tax payments if needed.

What’s new?

- **Standard mileage rate:** The standard mileage rate for business use of your car is 70 cents-per-mile for 2025.
- **Section 179 deduction:** You may be able to deduct the full cost of certain business equipment in the year placed in service, up to the annual limit.
- **Bonus depreciation:** Under the *One Big Beautiful Bill Act*, 100% bonus depreciation is now permanent for qualified business property placed in service after Jan. 19, 2025. This allows businesses to immediately deduct the full cost of eligible assets, including certain nonresidential real property used in qualified production activities (like manufacturing or refining). The new rules aim to improve cash flow and simplify tax planning by allowing faster cost recovery.
- **Qualified business income deduction:** Many home-based businesses may qualify for a deduction of up to 20% of qualified business income. Ask us if you are eligible.

How we can help

As your tax professional, I am here to help you:

- Determine if you qualify for the home office deduction
- Choose the best method (simplified or actual expenses)
- Calculate your deduction accurately
- Keep proper records
- Plan for estimated taxes and avoid surprises
- Answer your questions year-round

Let’s make this your best year yet!

Running a home-based business is rewarding, but it pays to get the details right. If you have questions or want to review your situation, please contact me. I am here to help you succeed and keep more of your hard-earned money.