

Tax Deductions for Your Home-Based Business

What Qualifies as a Home Business?

For tax purposes, a home business must meet the following criteria:

1. The office you use in your home must be used for *business purposes only*. It should not also serve as your living room to watch TV or entertain friends in.
2. You have no other permanent office outside your home where you conduct your business activities.
3. Your home office must be used on a regular basis to run your business. For instance, you use the office to keep records, write reports, bill customers and order supplies.
4. You use your home office to meet with your clients or patients, if applicable.

If your home business meets these qualifications, you can deduct the following costs:

- Utilities, including water, electricity and natural gas.
- Rent (if you don't own your home).
- Interest expense on your mortgage (if you own your residence).
- Depreciation on your home.
- Real estate taxes.
- Home insurance.
- Maintenance and home repairs.
- Home security systems.
- If you're a parent, you can pay wages (tax-free) to two of your children, if they help you run your business.

Direct vs. Indirect Costs

There are two types of home-business costs that are tax-deductible.

Direct expenses: Direct expenses are fully deductible and are costs related only to the business part of your home, such as structural improvements, painting or repair work done in your office space.

Indirect expenses: These are costs for operating your entire home. In order to be tax deductible, indirect expenses depend on the percentage of your home that is used for business activities. For instance, if you have a 4,000-square-foot home and your office is 400 square feet, then you can deduct 10% of your utilities, insurance, rent or interest expense on your mortgage, as well as any repair work done on your home. If your annual utility costs are \$3,000, you can deduct \$300 as a business-related deduction.

Normal Business Costs

In addition to home-office deductions, you can deduct the normal costs of doing business, such as office supplies, computers, attorney and accounting fees, business travel costs and car expenses (such as mileage accrued on business-related travel).

To ensure you don't miss out on any deductions, it's crucial to keep accurate records of your business expenses and save all your receipts.

To get an overview of tax-deductible costs for running your home business, be sure to check out [IRS Publication 535, Business Expenses](#), and [IRS Publication 587, Business Use of Your Home](#). These guidelines provide detailed descriptions of what qualifies as a home business and which expenses you can deduct.