CPA Practice Advisor

Filing Season

As more entrepreneurs embrace remote and hybrid work, they are making sure to write off their home office—but know the rules first.

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By Ali Donaldson, Inc. (TNS)

This tax season, more entrepreneurs are looking to cash in on their work-from-home habit.

Since the pandemic, many founders have embraced a hybrid schedule or decided to

created a FOMO effect among some clients, who he assumes have either heard about it on social media or on the golf course. "There's this notion that hey, people are doing these things to get all these extra deductions, and I'm missing out."

While the home office tax deduction is nothing new, in the post-pandemic norm the write-off covers a lot more business owners than it used to. As of this year, nearly two-thirds of American companies allow some regular degrees of remote work, up from half a year ago, according to new data from the Flex Index, compiled by the hybrid work software company Scoop. That trend is even more pronounced among smaller and younger companies, which are more likely to be fully remote. As entrepreneurs transition away from five days in the office, they don't always realize that the decision has tax implications. Only about a third of small business owners say they are familiar with any specific tax incentives or benefits that apply to them, according to a recent survey conducted by Adobe.

So here are the basic rules for entrepreneurs: To qualify for the home office deduction, the filer must be a business owner, who is a sole proprietor, partner in a partnership, or a member of an LLC. That includes full-time employees with side hustle LLCs. The deduction is available to both renters and homeowners as long as their home is their principal place of work, and their home office—whether it's a completely separate room or a desk squeezed in a corner—is regularly and *exclusively* used for conducting business. And nothing else. Checking emails from your living room couch, where you also watch television and your children play, is not covered, says Martin.

"It's not overly complex," says Martin. "But it does add to the compliance time."

Ritu Pancholy, an attorney who started her own human resources consulting company in South Orange, New Jersey, five years ago, admits that compliance time was painful the first year she deducted her home office. The Culturupt founder and

CEO gave up her co-working space during the pandemic and transformed a spare

"It's not a huge amount of money, but it is something, and then it adds up. Everything adds up over time."

The IRS allows business owners to take the tax deduction two different ways. The simplified option, which was introduced in 2013, allows entrepreneurs to deduct $5 per square foot of home office with a maximum deduction of $1,500. The regular method, which requires more calculation than pulling out a tape measure, "can lead to a greater deduction and greater benefit," says Martin, because it includes depreciation. "Sometimes the answer is better if you do the heavier math or the heavier lift."

The downside to choosing the regular method? The deduction can prove costly in the future if a business owner decides to sell their house or condo, especially in this real estate market with home prices at an all-time high, according to the National Association of Realtors. That's because the IRS recaptures that depreciation on a home office when the house gets sold.

"Remember the recapture," says Daniel Rahill, a CPA who works as a wealth strategist and personal financial planner at Wintrust Wealth Management in Chicago. "I bet most people don't even know that rule exists."

Still, Rahill says, that as far tax breaks go, the home office deduction is a relatively simple one to take advantage of. He helped his wife, who is a business owner herself, take the deduction using the simplified method, which is not subject to the recapture rule.

"It's easy to do the home office deduction the right way," he says.
