

Using the Home Office Deduction for Your Dental Practice

Did you know that the second edition of John's book *Financial Independence (Getting to Point X)* is filled with tips to help you manage your dental practice in tax-smart ways? If it's not already in your library, you can purchase a copy [here](#). In the meantime, we are happy to share the below excerpt with you from Chapter 11 (pages 344-346), which looks at how your practice can take advantage of the home office deduction under the current tax law.

If you own a small business that is treated as a C corporation, S corporation, or partnership for tax purposes, you may be allowed to take a business deduction for rent paid to yourself for the business use of your home. Be sure to have a lease between yourself and your business and make these payments on a monthly basis. You can charge yourself no more than the fair market value for the rental space, and you would be required to report the rental income on Schedule E of your personal income tax return. This would give you the opportunity to deduct the appropriate percentage of your home expenses against this rental income. Therefore, your business entity would get the benefit of deducting this rent expense, and you could offset a portion of your home costs to the rental income you received personally. A word of caution here is that this may limit your ability to take the full exclusion from any gain on the sale of your primary residence (for more details, see Chapter 3 under "***Tax Alpha to the 2nd Power***SM Facts and Strategies"). Also, any depreciation taken on this portion of your home would have to be recaptured as ordinary income to the extent of a taxable gain upon the sale of your home.

The IRS may allow you, as a small business owner, to deduct expenses related to the business use of part of your home, but you must first meet specific requirements. Even after meeting these requirements, your deduction may be limited. If you are a sole proprietor or a single-member LLC, you would take this deduction on Schedule C (or Schedule F if your business is a farm) of your personal tax return along with IRS Form 8829. The traditional method of determining a home office deduction includes identifying all direct expenses and a portion of indirect expenses, based on a percentage of business use of your home. ***The relatively new simplified method allows you to deduct up to \$5 per square foot on the part of your home used for business, up to a maximum deduction amount of \$1,500.***

To qualify to claim expenses for business use of your home, you must meet both of the following tests.

1. Your use of the business part of your home must be:
 - a. Exclusive (see below for explanation)
 - b. Regular
 - c. For your trade or business
2. The business part of your home must be one of the following:
 - a. Your principal place of business (see below for explanation)

- b. A place where you meet or deal with patients, clients, or customers in the normal course of your trade or business
- c. A separate structure (not attached to your home) you use in connection with your trade or business

To qualify under the ***exclusive use test***, you must use a specific area of your home only for your trade or business. The area used for business can be a room or other separately identifiable space. The space does not need to be marked off by a permanent partition. You do not meet the requirements of the exclusive use test if you use the area in question both for business and for personal purposes.

You do ***not have to meet the exclusive use test*** if either of the following applies.

- You use part of your home for the storage of inventory or product samples.
- You use part of your home as a daycare facility.

Your home office will qualify as your ***principal place of business*** if you meet the following requirements.

- You use it ***exclusively and regularly for administrative or management activities*** of your trade or business.
- ***You have no other fixed location where you conduct substantial administrative or management activities*** of your trade or business.

Alternatively, if you use your home exclusively and regularly for your business, but your home office does not qualify as your principal place of business based on the previous rules, you determine your principal place of business based on the following factors.

- The relative importance of the activities performed at each location.
- If the relative importance factor does not determine your principal place of business, the time spent at each location.

If, after considering your business locations, your home cannot be identified as your principal place of business, you cannot deduct home office expenses.

In conclusion, if you have a separate brick and mortar location for your dental practice, you cannot double dip and also take the home office deduction. If you are a specialist or an independent contractor who works at multiple dental practices, but you have no specific and dedicated office space outside of your home, then in all likelihood, you may be best positioned to qualify for a home office deduction. This of course would depend on whether you meet the requirements outlined above.

As you know, we are now entering year-end tax planning season, which is the most important time of the year when it comes to planning and preparing to save significant tax dollars. If you believe you would qualify for the home office deduction or have any other questions, please don't hesitate to reach out to our office.