

# Taking a Home Office Deduction

*A great tax reduction idea, if done right!*

Cloud-based applications, extensive communication channels, and other new technologies make it easier to manage your dental practice out of your home. If you qualify, many home business expenses are deductible. Think you might qualify? You must first pass these tests.

1. **Trade or business use test.** To qualify for business use of your home you must use part of your home for a qualified trade or business. This profit seeking activity must not be a hobby in the eyes of the IRS. Qualified dental practice management and administrative activities can be considered business use; you do not need to see patients in your home.
2. **Exclusive use test.** You must use part of your home exclusively for your business activity. Blending personal use within the same space as your business activity can disallow the business use of home deductions, however, there does not need to be a permanent barrier between this space and the rest of the house.
3. **Regular use test.** In addition to having a qualified business activity in an exclusive area of your home, you must also use it "regularly" for your business activity. The IRS applies judgment in this area to determine the facts and circumstances around what it deems to be regular use.
4. **Principal place of business test.** To deduct your home office expenses, the home location must also be your principal place of business. That does not mean there cannot be other business locations, just that your home office must be your primary location. You might also have multiple business activities. In this case, you could meet the test for one of your businesses to qualify to take the deductions. With multiple locations, the considering factors are:
  - The relative importance of the activities performed at each location
  - The amount of time spent at each location
  - The primary place used exclusively and regularly for administrative or management activities
  - Whether there are other fixed locations for business use

## Types of deductible expenses

This chart from the IRS gives some direction on the types of expenses that are deductible. As always, proper substantiation is required to take the deduction, so keep all receipts and statements in an organized fashion.

<b>Expense</b>	<b>Description</b>	<b>Deductibility</b>
Direct	Expenses only for the business part of your home.  <i>Examples: Painting or repairs only in the area used for business.</i>	Deductible in full. *  <i>Exception: May be only partially deductible in a daycare facility.</i>
Indirect	Expenses for keeping up and running your entire home.  <i>Examples: Insurance, utilities, and general repairs.</i>	Deductible based on the percentage of your home used for business. *
Unrelated	Expenses only for the parts of your home not used for business.  <i>Examples: Painting a room not used for business.</i>	Not deductible.

Source: IRS Publication 587

\* Subject to the deduction limit

Sound confusing? Perhaps. If the additional work of tracking specific expenses is too much to handle, a simplified home office deduction calculation is also available to small dental practices to lower their tax bill. Please call should you need help in navigating this part of the tax code.