

Home Office Deduction: What records do I need?

You've decided that you're eligible for the home office deduction, and you've figured out that you CAN deduct a percentage of your electric bill, and that you CAN'T deduct your spouse's tanning table as a business expense. What records do you need to make sure you're covered, and to make your tax preparer happy?

First, you need to know the square footage of your entire home and the square footage of the area that you use solely and exclusively for business. Divide your office's square footage by your home's square footage, and you'll get a percentage to apply to your utility bills, mortgage interest or rent, real estate taxes, repairs, trash removal, and maintenance. If you operate a day care center in your home, you also need to record the hours you operate and the number of weeks in the year that you are open for business.

The expenses listed above are examples of "indirect" expenses. "Direct" expenses are completely business-related, such as the purchase of a computer, or painting your home office a lovely shade of lavender.

Your primary phone line is not deductible, but if you make long-distance business calls from that line, total those calls, as they are deductible. If you put a second line in your house to be used exclusively for the business, you can deduct the expenses for that line.

We've said it before, and we'll say it again: "Keep those receipts!" Keep them for such things as carpet replacement in your office space and for office furniture and equipment. You can depreciate (deduct over a period of time) these expenses as *capital assets*.

You also need to know your home's purchase price, plus the cost of all of the improvements you've done, the value of the land, and the fair market value of your home. This information is necessary to determine the basis, to which you apply your home office percentage for determining the depreciation.

After you've gathered all the bills and receipts for your business expenses, use the list which follows to categorize them, then total each category so you can enter the expenses in the appropriate places on your tax return.

Suggested Expense Categories:

- Advertising
- Bad debts
- Car and truck expenses
- Commissions and fees
- Depletion

Depreciation
Employee benefit Programs
Insurance (other than health)
Interest (mortgage, equipment, business credit cards, loans)
Legal and professional services
Office expenses
Pension and profit-sharing plans
Rent or lease (vehicles, machinery, equipment, office space)
Repairs and maintenance
Supplies (not used in creating objects which are sold)
Taxes and licenses
Travel, meals and entertainment
Utilities
Wages
Other expenses (cell phone, dues and publications)

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