

I love working out of my house. Who wouldn't? The freedom of getting the housework done, the dealing with day to day personal stuff and of course, the balance of actually getting work done. This is just a dream, mind you. I am still waiting to be able to balance, get it all done and not work at all hours of the day.

The one thing that I do know: the office in home deduction. Seems like anyone truly understanding how it works is more elusive than "ME" time, or clean laundry.

Let me try to break it down, bring it out of the shadows for the old schoolers who remember that you NEVER took home in office because it was always ripe for audit, and the ones who think that since there is a computer in the home, it must be a home office.

Certain things must be kept in mind with the home office deduction. The primary one is regular and exclusive test. **Regular**- my clients come to my home office, I work at my desk every day (just about), I file and do books there, answer the phone and emails. **Exclusive**- my family doesn't do anything in my "office space". There is no playing on the computer, no hanging out in here.

This is a complete separate space within my home. However, we finished the basement for the convenience of mine for my clients. My kids hang out with Wii down there, and so does the husband to keep me company. Do I take the whole living area? No, just the part from the filing cabinet on. You can see that it is a separate office. This is not just a wall with a computer on it.

If you are an employee with a W-2 and work from home for the CONVIENCE OF YOUR EMPLOYER- meaning that there is not enough space for you at the office, you share time with someone else, or you need to have your mini office at home for after work hours for the West Coast clients, you may claim Office In Home. The deduction is limited to the amount of space of your work area in relation to the whole living space of the house, and the wages earned, along with the 2% limit on Schedule A. This means that if you don't file a Schedule A (itemized deductions), then most likely, you won't be able to claim the deduction.

If you are self employed, it must be the same situation in where you have a separate area for just the work, the management, the meeting of the clients, the paperwork. It must be regular and exclusive.

If there is inventory or samples kept in a closet, that area is included as well, but it doesn't have to have the exclusive test.

The cool thing about the deduction: the different expenses that you usually cannot claim.

- Home Owner's Insurance
- Pest Control
- Utilities- water, gas, sewage, electric, cable, etc.
- Lawn Maintenance
- Repairs and Maintenance
- Depreciation

This is in addition to the house interest and real estate taxes. All of those expenses are indirect, meaning that they are proportioned. If you did an improvement to your actual office space, that is direct; completely deductible.

Whatever portion of the real estate taxes and home mortgage that doesn't get written off on the Home Office, it goes over to your Schedule A. Pretty cool, if you know how it works.