

# Thomas & Libowitz,

P.A.

STEVEN ANARGYROS THOMAS+\*

A Professional Association

ASSOCIATES

founded in 1975

MICHAEL S. LIBOWITZ

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## TAX BENEFITS TO BUYING AND WORKING IN A HOME

- I. Principal residence deductions (if you itemize):
  - A. Mortgage Interest.
  - B. Property Taxes.
  - C. Mortgage Insurance Premiums.
- II. Business use of principal residence:
  - A. Additional Deductions:
    1. Insurance.
    2. Repairs/Maintenance (vs. capital expenditures).
    3. Utilities.
    4. Depreciation (39 year-straight line; or 2.56% per year; must allocate between land and structure).
  - B. Additional deductions are based on the percentage used for business (so if 1,500 square foot house and 300 square feet used for business, 20% of above items are deductible).
  - C. Statistics:
    1. In 2010, 3.4 million taxpayers claimed the deduction.
    2. Government says "more than half" of 27.8 million small businesses are home based.
    3. So, why only 3.4 million taxpayers who claimed the deduction?
      - a) Perceived as huge audit risk.
      - b) Complexity – see Form 8829.
- III. Requirements for claiming the business use deductions:
  - A. Space must be used "regularly and exclusively" for business, and
  - B. Space must be "principal place of business",
  - C. Or, must be used for "meeting or dealing with customers, clients or patients" in the ordinary course of business,
  - D. Or, space must be a separate structure used for business, and
  - E. Deduction cannot exceed gross income from the business; but disallowed (excess) deductions can be carried forward to future years.
- IV. 2013 (and subsequent) returns – new "simplified option":
  - A. All requirements in III must still apply.

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- B. Deduction is \$5.00 per square foot, for up to 300 square feet (\$1,500) per year (no carry forward).
- C. Taxpayers can switch back and forth between "actual expense" and "simplified option" for any year.
- D. Why use?
  - 1. Simple – saves 1.6 million hours annually.
  - 2. Can still claim home mortgage interest, property taxes and mortgage insurance premiums in full (if you itemize).
  - 3. No depreciation recapture on sale of house (\$250,000/\$500,000 exclusion).