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Tax Deduction For Home Office Utilities

I've been advised not to try to write-off the physical space for my home office. However, I just received my first water and power bill, and it is *MUCH* higher than the same period last year. Obviously, I'm using more power and water by working out of my home.

My question is this: Can I deduct the increased cost of utilities as a business expense?

You deduct the expense based upon the percentage of your home space dedicated to business. So, for example, suppose you have 150 square feet of office and a 3,000 square foot home, that would be 5%. The reason you have been advised not to try to write this off is that home office deductions are a traditional red flag; i.e., you are more likely to be audited, which is a huge pain in the neck even if you're clean as snow and swansdown.

Mike Koenecke, Richardson, Texas

Short answer, yes.   However, get yourself to a good accountant. If you write off the office space, then you may be subject to recapture when you sell your house. You need to know where you are going in order to make proper tax decisions. Personally, I try to avoid taking "home office" deductions, but YMMV.

Bruce Dorner, Londonderry, New Hampshire

I deduct home office. It is my understanding, not being a tax expert, that the write off doesn't trigger recapture, but depreciation deductions would. Maybe a tax guru can clarify for all of us.

Shell J. Bleiweiss, Chicago and Barrington Illinois

Also, if you were to sell your house at a gain, you are taxed on the part of the gain relating to the percentage of business use. This may have been why you were advised to claim a deduction for home office.

Marian Palma Cardona, Parkville, Missouri

Although this is true, it is my understanding that if you stop using a home office two years before you sell then there is no business gain.

Sandy Gumerove

Technically, is it not true that subject to recapture for "allowed or allowable" deductions and so does not matter whether or not deduction is actually taken? At least in theory...lol

Alan Bernstein

In theory it does not matter, as recapture should apply to "allowed or allowable" deductions...more important, gain is picked up on business portion of the home, unless cured by time, due to the fact that the business portion does not qualify for the exclusion on sale of home.

Alan Bernstein

If you have a place in your home that is exclusively (and I mean EXCLUSIVELY) used as a home office, then you can deduct mortgage, taxes, utilities, etc. on a per-square foot basis.

However, taking a home office deduction will guarantee you a time-consuming tax audit. When the auditor arrives, if you have a child's toy or a basket of laundry sitting on the floor in the "designated office space" you are looking at a disallowance.

Consider very carefully whether you can prove the home office is used exclusively for business and the opportunity cost of fighting over the deduction before taking it.

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Mark A. Banks-Golub, Chicago, Illinois

A home office does a lot more than that. for someone practicing out of the home, as a main office, it makes travel to clients and meetings NOT commuting but instead business travel, along with any other travel. This can be a very big difference under the right circumstances.

In my experience, the audit risk is overstated. If the deduction is legitimate, take it: to not do so is just to act as if you got audited and gave up a legitimate deduction out of fear. If not, I would never advise anyone to play the audit lottery.

Alan P. Bernstein

I am not a tax lawyer, but I understand from multiple sources that with the relaxation of rules on home office, the guaranteed audit and nonsurvivability of deduction is no longer the case. Regs were revised, as were enforcement guidelines. Several sources now indicate that the deduction should be taken if eligible.

Darrell G. Stewart, San Antonio, Texas

Several other posts have already addressed most of the issues. Yes, the rules have changed to make it easier to obtain the home office deduction. It is definitely an increased audit risk but not a guarantee of an audit. If you have a squeaky clean return, keep excellent records, and truly qualify, then go ahead and take the deduction. If you don't meet all 3 criteria don't take the deduction. Also, as of my last audit defense on this issue, field agents are still not up on the new rules and if audited you will probably have to go to IRS appeals to prevail.

Jonathan Bressman, Florham Park, New Jersey

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