

# Publication 587

## Business Use of Your Home (Including Use by Daycare Providers)

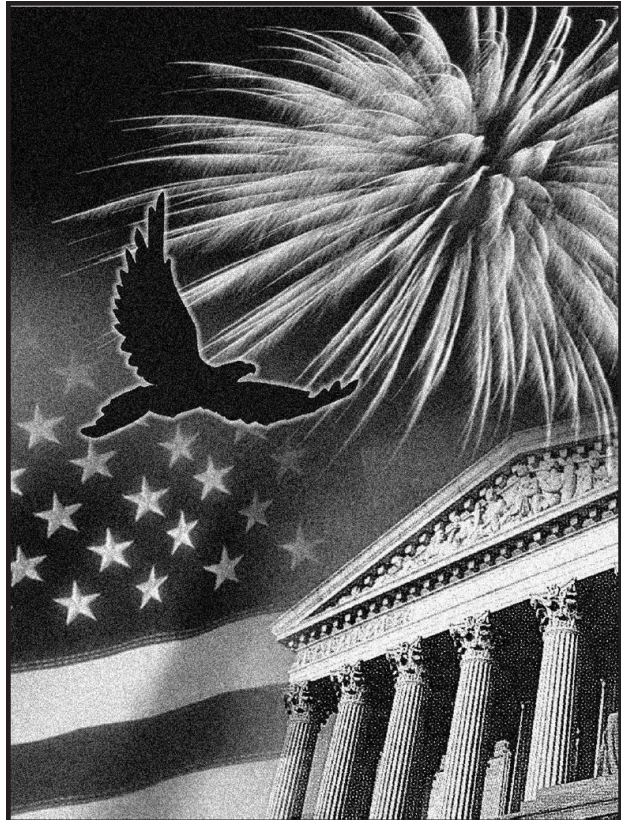
For use in preparing

**2024** Returns

Volume 2 of 3



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*If you used at least 300 square feet for daycare regularly and exclusively during the year, then you do not need to reduce the prescribed rate or complete the Daycare Facility Worksheet.*

## **Daycare Facility**

If you use space in your home on a regular basis for providing daycare, you may be able to claim a deduction for that part of your home even if you use the same space for nonbusiness purposes. To qualify for this exception to the exclusive use rule, you must meet both of the following requirements.

- You must be in the trade or business of providing daycare for children, persons age 65 or older, or persons who are physically or mentally unable to care for themselves.
- You must have applied for, been granted, or be exempt from having a license, certification, registration, or approval as a

daycare center or as a family or group daycare home under state law. You do not meet this requirement if your application was rejected or your license or other authorization was revoked.

**Figuring the deduction.** If you elect to use the simplified method for your home, figure your deduction as described earlier in *Using the Simplified Method* under *Figuring the Deduction*.

If you are figuring your deduction using actual expenses and you regularly use part of your home for daycare, figure what part is used for daycare, as explained in *Business Percentage*, earlier, under *Figuring the Deduction*. If you also use that part exclusively for daycare, deduct all the allocable expenses, subject to the deduction limit, as explained earlier.

If the use of part of your home as a daycare facility is regular, but not exclusive, you must figure the percentage of time that part of your home is used for daycare. A room that is

available for use throughout each business day and that you regularly use in your business is considered to be used for daycare throughout each business day. You do not have to keep records to show the specific hours the area was used for business. You can use the area occasionally for personal reasons. However, a room you use only occasionally for business does not qualify for the deduction. No deduction is allowed for the cost of a basic local telephone line provided to the home.



*To find the percentage of time you actually use your home for business, compare the total time used for business to the total time that part of your home can be used for all purposes. You can compare the hours of business use in a week with the number of hours in a week (168). Or, you can compare the hours of business use for the year with the number of hours in the year (8,784 in 2024). If you started or*

*stopped using your home for daycare in 2024, you must prorate the number of hours based on the number of days the home was available for daycare.*

**Example 1.** Rene used the basement at home to operate a daycare business for children. Rene figures the business percentage of the basement as follows.

$$\frac{\begin{array}{l} \text{Square footage of} \\ \text{the basement} \end{array}}{\begin{array}{l} \text{Square footage of} \\ \text{the home} \end{array}} = \frac{1,600}{3,200} = 50\%$$

Rene used the basement for daycare an average of 12 hours a day, 5 days a week, for 50 weeks a year. During the other 12 hours a day, the family could use the basement. Rene figures the percentage of time the basement was used for daycare as follows.

Number of hours used for daycare (12 x 5 x 50)	3,000	
<hr/>	=	= 34.15%
Total number of hours in the year (24 x 366)	8,784	

Rene can deduct 34.15% of any direct expenses for the basement. However, because Rene's indirect expenses are for the entire house, Rene can deduct only 17.08% of the indirect expenses. Rene figures the percentage for their indirect expenses as follows.

Business percentage of the basement . . . . .	50%
Multiplied by: Percentage of time used for daycare . . . . .	<u>× 34.15%</u>
Percentage for indirect expenses	<u>17.08%</u>

Rene completes Form 8829, Part I, figuring the percentage of the home used for business, including the percentage of time the basement was used.

In Part II, Rene figures the deductible expenses. Rene uses the following information to complete Part II.

Gross income from the daycare business . . . . .	\$50,000
Expenses not related to the business use of the home . . .	<u>\$25,000</u>
Tentative profit . . . . .	<u>\$25,000</u>
Rent . . . . .	\$8,400
Utilities . . . . .	\$850
Painting the basement . . . . .	\$500

Rene enters a tentative profit, \$25,000, on line 8. (This figure is the same as the amount on line 29 of Schedule C (Form 1040)).



The expenses paid for rent and utilities relate to the entire home. Therefore, Rene enters the amount paid for rent on line 19, column (b), and the amount paid for utilities on line 21, column (b). Rene shows the total of these expenses on line 23, column (b). For line 24, Rene multiplies the amount on line 23, column (b), by the percentage on line 7 and enters the result, \$1,580

Rene paid \$500 to have the basement painted. The painting is a direct expense. However, because the basement was not used exclusively for daycare, Rene must multiply \$500 by the percentage of time the basement was used for daycare (34.15% – line 6). Rene then enters \$171 ( $34.15\% \times \$500$ ) on line 20, column (a). Rene then adds line 23, column (a), and line 24 and enters \$1,751 ( $\$171 + \$1,580$ ) on line 26. This is less than Rene's deduction limit (line 15), so Rene can deduct the entire amount. Rene follows the instructions to complete the rest

of Part II and enters \$1,751 on lines 34 and 36. Then Rene carries the \$1,751 to line 30 of Schedule C (Form 1040).

**Example 2.** Assume the same facts as in *Example 1* except that Rene also has another room that was available each business day for children to take naps in. Although Rene did not keep a record of the number of hours the room was used for naps, it was used for part of each business day. Since the room was available for business use during regular operating hours each business day and was used regularly in the business, it is considered used for daycare throughout each business day. The basement and room are 60% of the total area of the home. In figuring Rene's expenses, 34.15% of any direct expenses for the basement and room are deductible. In addition, 20.49% ( $34.15\% \times 60\%$ ) of the indirect expenses are deductible.

**Example 3.** Assume the same facts as in *Example 1* except that Rene stopped using the home for a daycare facility on June 24, 2024. Rene used the basement for daycare an average of 12 hours a day, 5 days a week, but for only 25 weeks of the year. During the other 12 hours a day, Rene’s family could still use the basement. Rene figures the percentage of time the basement was used for business as follows.

Number of hours used for daycare (12 x 5 x 25)	1,500	
<hr/>	=	= 35.51%
Total number of hours during period used (24 x176)	4,224	

Rene can deduct 35.51% of any direct expenses for the basement. However, because the indirect expenses are for the entire house, Rene can deduct only 17.76%

of the indirect expenses. Rene then figures the percentage for the indirect expenses as follows.

Business percentage of the basement . . . . .	50%
Multiplied by: Percentage of time used for daycare . . . . .	× 35.51%
Percentage for indirect expenses	17.76%

**Meals.** If you provide food for your daycare recipients, do not include the expense as a cost of using your home for business. Claim it as a separate deduction on your Schedule C (Form 1040). You can never deduct the cost of food consumed by you or your family. You can deduct as a business expense 100% of the actual cost of food consumed by your daycare recipients (see Standard meal and snack rates, later, for an optional method for eligible children) and generally only 50% of the cost of food consumed by your employees. For more information on meals

that meet these requirements, see *Meals* in chapter 2 of Pub. 15-B.

If you deduct the actual cost of food for your daycare business, keep a separate record (with receipts) of your family's food costs.

Reimbursements you receive from a sponsor under the Child and Adult Care Food Program of the Department of Agriculture are taxable only to the extent they exceed your expenses for food for eligible children. If your reimbursements are more than your expenses for food, show the difference as income in Part I of Schedule C (Form 1040). If your food expenses are greater than the reimbursements, show the difference as an expense in Part V of Schedule C (Form 1040). Do not include payments or expenses for your own children if they are eligible for the program. Follow this procedure even if you receive a Form 1099-MISC, Miscellaneous Information, reporting a payment from the sponsor.

***Standard meal and snack rates.*** If you qualify as a family daycare provider, you can use the standard meal and snack rates, instead of actual costs, to compute the deductible cost of meals and snacks provided to eligible children. For these purposes:

- A family daycare provider is a person engaged in the business of providing family daycare;
- Family daycare is childcare provided to eligible children in the home of the family daycare provider. The care must be non-medical, not involve a transfer of legal custody, and generally last less than 24 hours each day; and
- Eligible children are minor children receiving family daycare in the home of the family daycare provider. Eligible children do not include children who are full-time or part-time residents in the home where the childcare is provided or children whose parents or guardians are

residents of the same home. Eligible children do not include children who receive daycare services for personal reasons of the provider. For example, if a provider provides daycare services for a relative as a favor to that relative, that child is not an eligible child.

You can compute the deductible cost of each meal and snack you actually purchased and served to an eligible child during the time period you provided family daycare using the standard meal and snack rates shown in Table 3. You can use the standard meal and snack rates for a maximum of one breakfast, one lunch, one dinner, and three snacks per eligible child per day. If you receive reimbursement for a particular meal or snack, you can deduct only the portion of the applicable standard meal or snack rate that is more than the amount of the reimbursement.

You can use either the standard meal and snack rates or actual costs to calculate the deductible cost of food provided to eligible children in the family daycare for any particular tax year. If you choose to use the standard meal and snack rates for a particular tax year, you must use the rates for all your deductible food costs for eligible children during that tax year. However, if you use the standard meal and snack rates in any tax year, you can use actual costs to compute the deductible cost of food in any other tax year.

If you use the standard meal and snack rates, you must maintain records to substantiate the computation of the total amount deducted for the cost of food provided to eligible children. The records kept should include the name of each child, dates and hours of attendance in the daycare, and the type and quantity of meals and snacks served.



This information can be recorded in a log similar to the one shown in Exhibit A, near the end of this publication.

The standard meal and snack rates include beverages, but do not include non-food supplies used for food preparation, service, or storage, such as containers, paper products, or utensils. These expenses can be claimed as a separate deduction on your Schedule C (Form 1040).

Table 3. **Standard Meal and Snack Rates<sup>1</sup>**

<b>Location of Family Daycare Provider</b>	<b>Breakfast</b>	<b>Lunch</b>	<b>Dinner</b>	<b>Snack</b>
States other than Alaska and Hawaii	\$1.65	\$3.12	\$3.12	\$0.93

Alaska	\$2.63	\$5.05	\$5.05	\$1.50
Hawaii	\$2.12	\$4.05	\$4.05	\$1.20
<sup>1</sup> The applicable rates for 2024 are the Child and Adult Care Food Program reimbursement rates in effect on December 31, 2023.				

## **Sale or Exchange of Your Home**

If you sell or exchange your home, you may be able to exclude up to \$250,000 (\$500,000 for certain married persons filing a joint return) of the gain on the sale or exchange. In most cases, you must meet the ownership and use tests. However, even if you meet the ownership and use tests, your home sale is not eligible for the exclusion if either of the following is true.

- You acquired the property through a like-kind exchange (1031 exchange) during the past 5 years.
- You are subject to the expatriate tax.

**Ownership and use tests.** The ownership and use tests generally require that during the 5-year period ending on the date of the sale:

- You owned the home for at least 2 years (ownership test), and
- You lived in the home as your main home for at least 2 years (use test). The 2 years of residence can fall anywhere within the 5-year period, and it does not need to be a single block of time.

## **Gain on Sale**

If you use property partly as a home and partly for business, the treatment of any gain on the sale varies depending on whether the part of the property used for business is part of your home or separate from it.

## **Part of Home Used for Business**

If the part of your property used for business is within your home, such as a room used as a home office for a business or rooms used to provide daycare, you do not need to allocate gain on the sale of the property between the business part of the property and the part used as a home. In addition, you do not need to report the sale of the business part on Form 4797, Sales of Business Property. This is true whether or not you were entitled to claim any depreciation. However, you cannot exclude the part of any gain equal to any depreciation allowed or allowable after May 6, 1997. See Depreciation, later.

## **Separate Part of Property Used for Business**

You may have used part of your property as a home and a separate part of it, such as an outbuilding, for business.

**Use test not met for business part.** You cannot exclude gain on the separate part of your property used for business unless you owned and lived in that part of your property for at least 2 years during the 5-year period ending on the date of the sale. If you do not meet the use test for the business part of the property, an allocation of the gain on the sale is required. For this purpose, you must allocate the basis of the property and the amount realized upon its sale between the business part and the part used as a home. You must report the sale of the business part on Form 4797.

**Use test met for business part (business use in year of sale).** If you used a separate part of your property for business in the year of sale, you should treat the sale of the property as the sale of two properties, even if you met the use test for the business part. You must report the sale of the business part on Form 4797.

To determine the amount to report on Form 4797, you must divide your selling price, selling expenses, and basis between the part of the property used for business and the separate part used as your home. In the same way, if you qualify to exclude any of the gain on the business part of your property, also divide your maximum exclusion between that part of the property and the separate part used as your home.

***Excluding gain on the business part of your property.*** You can generally exclude gain on the part of your property used for business if you owned and lived in that part as your main home for at least 2 years during the 5-year period ending on the date of the sale.

**Use test met for business part (no business use in year of sale).** If you have used a separate part of your property for business (though not in the year of sale) but meet the use test for both the business part

and the part you use as a home, you do not need to treat the transaction as the sale of two properties. Also, you do not need to file Form 4797. You can generally exclude gain on the entire property.

## **Depreciation**

If you were entitled to deduct depreciation on the part of your home used for business, you cannot exclude the part of the gain equal to any depreciation you deducted (or could have deducted) for periods after May 6, 1997. This means that when figuring the amount of gain you can exclude, you must reduce the total gain by any depreciation allowed or allowable on the part of your home used for business after May 6, 1997.

If you can show by adequate records or other evidence that the depreciation you actually deducted (the allowed depreciation) was less than the amount you were entitled to deduct (the allowable depreciation), the amount you

cannot exclude (and must subtract from your total gain when figuring your exclusion) is the amount you actually deducted.

You do not have to reduce the gain by any depreciation you deducted (or could have deducted) for a separate structure for which you cannot exclude the allocable portion of the gain.

## **Basis Adjustment**

If you used any part of your home for business, you must adjust the basis of your home for any depreciation that was allowable for its business use, even if you did not claim it. If you deducted less depreciation than you could have under the method you properly selected, you must decrease the basis by the amount you could have deducted under that method. If you deducted more depreciation than you should have under the method you properly selected, you must decrease the basis by the amount you should have



deducted, plus the part of the excess deducted that actually decreased your tax liability for any year. For more information on reducing the basis of your property for depreciation, see Pub. 551.

## **Reporting the Sale**

Do not report the 2024 sale of your main home on your tax return unless:

- You received a Form 1099-S, Proceeds From Real Estate Transactions, for the sale or exchange;
- You have a gain and you do not qualify to exclude all of it;
- You have a gain and choose not to exclude it; or
- You have a loss from the sale that is deductible.



*A loss from the sale of your home, or the personal part of your home if it was also used for business or to produce rental income, is not deductible.*

If any of these conditions apply, report the gain or loss as explained in the Instructions for Schedule D.

If you used the home for business, you may have to use Form 4797 to report the sale of the business part. See the Instructions for Form 4797.

## **More Information**

This section covers only the basic rules for the sale or exchange of your home. For more information, see Pub. 523.

## **Business Furniture and Equipment**

This section discusses the depreciation and section 179 deductions you may be entitled to take for furniture and equipment you use in

your home for business. These deductions are available whether or not you qualify to deduct expenses for the business use of your home.

This section explains the different rules for each of the following.

- Listed property.
- Property bought for business use.
- Personal property converted to business use.

## **Listed Property**

If you use certain types of property, called listed property, in your home, special rules apply. Listed property includes any property of a type generally used for entertainment, recreation, and amusement (including photographic, phonographic, and video recording equipment).

**More-than-50%-use test.** If you bought listed property and placed it in service during the year, you must use it more than 50% for

business to claim a section 179 deduction or an accelerated depreciation deduction.

If your business use of listed property is 50% or less, you cannot take a section 179 deduction and you must depreciate the property using the Alternative Depreciation System (ADS) (straight line method). For more information on ADS, see Pub. 946.

Listed property meets the more-than-50%-use test for any year if its qualified business use is more than 50% of its total use. You must allocate the use of any item of listed property used for more than one purpose during the year among its various uses. You cannot use the percentage of investment use as part of the percentage of qualified business use to meet the more-than-50%-use test. However, you do use the combined total of business and investment use to figure your depreciation deduction for the property.

**Years following the year placed in service.** If, in a year after you place an item of listed property in service, you fail to meet the more-than-50%-use test for that item of property, you may be required to do the following.

1. Figure depreciation, beginning with the year you no longer use the property more than 50% for business, using the straight line method (ADS).
2. Figure any excess depreciation (include any section 179 deduction on the property in figuring excess depreciation) and add it to:
  - a. Your gross income, and
  - b. The adjusted basis of your property.

For more information, see Pub. 946.

## **Reporting and recordkeeping**

**requirements.** If you use listed property in your business, you must file Form 4562 to claim a depreciation or section 179 deduction. Begin with Part V, Section A, of that form.



You cannot take any depreciation or section 179 deduction for the use of listed property unless you can prove your business/investment use with adequate records or sufficient evidence to support your own statements.

To meet the adequate records requirement, you must maintain an account book, diary, log, statement of expense, trip sheet, or similar record or other documentary evidence that is sufficient to establish business/investment use. For more information on what records to keep, see Pub. 946.

## **Property Bought for Business Use**

If you bought certain property during 2024 to use in your business, you can do any one of the following (subject to the limits discussed later).

- Elect a section 179 deduction for the full cost of the property.
- Depreciate the cost of the property.
- Take part of the cost as a section 179 deduction and depreciate the balance.

### **Section 179 Deduction**

You can claim the section 179 deduction for the cost of depreciable tangible personal property bought for use in your trade or business. You can choose how much (subject to the limit) of the cost you want to deduct under section 179 and how much you want to depreciate. You can spread the section 179 deduction over several items of property in any way you choose as long as the total does

not exceed the maximum allowable. You cannot take a section 179 deduction for the basis of the business part of your home.

You elect the section 179 deduction by completing Part I of Form 4562.

**More information.** For more information on the section 179 deduction, qualifying property, the dollar limit, and the business income limit, see Pub. 946 and the Instructions for Form 4562.

## **Depreciation**

Use Parts II and III of Form 4562 to claim your deduction for depreciation on property placed in service during the year. Do not include any costs deducted in Part I (section 179 deduction).

Most business property normally used in a home office is either 5-year or 7-year property under MACRS.



- 5-year property includes computers and peripheral equipment, typewriters, calculators, adding machines, and copiers.
- 7-year property includes office furniture and fixtures such as desks, files, and safes.

Under MACRS, you generally use the half-year convention, which allows you to deduct a half-year of depreciation in the first year you use the property in your business. If you place more than 40% of your depreciable property in service during the last 3 months of your tax year, you must use the mid-quarter convention instead of the half-year convention.

After you have determined the cost of the depreciable property (minus any section 179 deduction and special depreciation allowance taken on the property) and whether it is 5-year or 7-year property, use the table, shown next, to figure your depreciation if the half-year convention applies.

**Table 4. MACRS Percentage Table for 5- and 7-Year Property Using Half-Year Convention**

<b>Recovery Yea</b>	<b>5-Year Property</b>	<b>7-Year Property</b>
1	20.00%	14.29%
2	32.00%	24.49%
3	19.20%	17.49%
4	11.52%	12.49%
5	11.52%	8.93%
6	5.76%	8.92%
7		8.93%
8		4.46%

See Pub. 946 for a discussion of the mid-quarter convention and for complete MACRS percentage tables.

**Example.** In June 2024, Kerry bought a desk and three chairs for office use. The total bill for the furniture was \$1,975. The taxable business income for the year was \$3,000 without any deduction for the office furniture. Kerry can elect to do one of the following.

- Take a section 179 deduction for the full cost of the office furniture.
- Take part of the cost of the furniture as a section 179 deduction and depreciate the balance.
- Not take the section 179 deduction and depreciate the office furniture using its full cost.

The furniture is 7-year property under MACRS. Kerry does not take a section 179 deduction. Kerry multiplies \$1,975 by 14.29% (0.1429) to get the MACRS depreciation deduction of \$282.23.

## **Personal Property Converted to Business Use**

If you use property in your home office that was used previously for personal purposes, you cannot take a section 179 deduction for the property.

If you began using the property for personal purposes after 1980 and before 1987 and change it to business use in 2024, you cannot take a special depreciation allowance for the property. However, you can depreciate it. You generally depreciate the property under the accelerated cost recovery system (ACRS). However, if the depreciation under ACRS is greater in the first year than the depreciation under MACRS, you must depreciate it under MACRS. For information on ACRS, see Pub. 534, *Depreciating Property Placed in Service Before 1987*.

If you began using the property for personal purposes after 1986 and change it to business use in 2024, you may be able to take a special depreciation allowance for the property. You generally depreciate the property under MACRS. The basis for depreciation of property changed from personal to business use is the lesser of the following.

- The adjusted basis of the property on the date of change.
- The fair market value of the property on the date of change.

If you began using the property for personal purposes before 1981 and change it to business use in 2024, depreciate the property by the straight line or declining balance method based on salvage value and useful life.

# Recordkeeping



You do not have to use a particular method of recordkeeping, but you must keep records that provide the information needed to figure your deductions for the business use of your home. You should keep canceled checks, receipts, and other evidence of expenses you paid.

Your records must show the following information.

- The part of your home you use for business.
- That you use part of your home exclusively and regularly for business as either your principal place of business or as the place where you meet or deal with clients or customers in the normal course of your business. However, see the earlier discussion, *Exceptions to Exclusive Use* under *Qualifying for a Deduction*.

- The depreciation and expenses for the business part.

You must keep your records for as long as they are important for any tax law. This is usually the later of the following dates.

- 3 years from the return due date or the date filed.
- 2 years after the tax was paid.

Keep records to prove your home's depreciable basis. This includes records of when and how you acquired your home, your original purchase price, any improvements to your home, and any depreciation you are allowed because you maintained an office in your home. You can keep copies of Forms 8829 or the Worksheet To Figure the Deduction for Business Use of Your Home, found later in this publication, as records of depreciation.

For more information on recordkeeping, see Pub. 583.

# **Where To Deduct**

Deduct expenses for the business use of your home on Form 1040 or Form 1040-SR. Where you deduct these expenses on the form depends on whether you are a self-employed person or a partner.

## **Self-Employed Persons**

If you use your home in your trade or business and file Schedule C (Form 1040), report the entire deduction for business use of your home on line 30 of Schedule C (Form 1040). Whether you need to complete and attach Form 8829 to your return depends on how you figure your deduction. See *Line 30* in the Instructions for Schedule C for more information.

If you use your home in your farming business and file Schedule F (Form 1040), report your entire deduction for business use of the home on line 32 of Schedule F (Form



1040). Enter "Business Use of Home" on the dotted line beside the entry.

## **Expenses Deductible Without Regard to a Business Connection**

Certain expenses related to the use of your home may be deducted whether or not you use your home for business. These expenses may include some or all of your mortgage interest, real estate taxes, and casualty losses attributable to a federally declared disaster. Where you deduct these expenses depends on how you figure your deduction for business use of the home.

**Using actual expenses to figure the deduction.** In general, you will deduct the business portion of these expenses on Schedule C (Form 1040) or Schedule F (Form 1040) as part of your deduction for business use of your home. If you itemize your deductions, you will deduct the personal

portion of these expenses on Schedule A (Form 1040).

***Home mortgage interest.*** The business portion of your home mortgage interest allowed as a deduction this year will be included in the business use of the home deduction you report on Schedule C (Form 1040), line 30, or Schedule F (Form 1040), line 32. If you cannot deduct the business portion of your home mortgage interest in full this year, you will carry over the remaining home mortgage interest to a subsequent year in which you use actual expenses to figure your business portion of the home deduction.

If you itemize your deductions on Schedule A (Form 1040), only include the personal part of your deductible mortgage interest on Schedule A (Form 1040), line 8a or 8b. The personal portion of your home mortgage interest will generally be the amount of deductible home mortgage interest you figured when treating all home mortgage

interest as a personal expense and applying the Schedule A (Form 1040) limits on deducting home mortgage interest, reduced by the business or rental portions deducted or carried over as a business or rental expense on Schedule C, E, or F, or any form other than Schedule A. Home mortgage interest that exceeds the amount you figured after applying the Schedule A (Form 1040) limits on deducting home mortgage interest is not deductible as a personal expense.

***Real estate taxes.*** You figure the business portion of your real estate taxes using Form 8829 (if you file Schedule C (Form 1040)) or the Worksheet To Figure the Deduction for Business Use of Your Home in this publication (if you file Schedule F (Form 1040)). The business portion of your real estate taxes allowed as a deduction this year will be included in the business use of the home deduction you report on Schedule C (Form 1040), line 30, or Schedule F (Form 1040),

line 32. If you cannot deduct the business portion of your real estate taxes in full this year, you will carry over those real estate taxes to a subsequent year in which you use actual expenses to figure your business portion of the home deduction.

If you itemize your deductions on Schedule A (Form 1040), only include the personal part of your real estate taxes on Schedule A (Form 1040), line 5b. The personal portion of your real estate taxes will generally be the amount of real estate taxes you paid for the home reduced by the business or rental portions deducted or carried over as a business or rental expense on Schedule C, E, or F, or any form other than Schedule A.

***Casualty losses.*** You will figure the business portion of the casualty losses attributable to your home using Form 8829 (if you file Schedule C (Form 1040)) or the Worksheet To Figure the Deduction for Business Use of Your Home in this publication (if you file

Schedule F (Form 1040)). The business portion of your casualty losses allowed as a deduction this year will be reported on line 27 in Section B of Form 4684. If you cannot deduct the business portion of your casualty losses in full this year, you will carry over those losses to a subsequent year in which you use actual expenses to figure your business of the home deduction.

Only include the personal portion of your casualty losses in Section A of the Form 4684 you attach to your return. If you itemize your deductions on Schedule A (Form 1040), you will include the deductible personal portion of the casualty losses attributable to your home figured on line 18 of Form 4684 on line 15 of Schedule A and the net qualified disaster losses attributable to your home figured on line 15 of Form 4684 on line 16 of Schedule A. If you are increasing your standard deduction by a net qualified disaster loss, you will add the net qualified disaster loss figured

on line 15 of Form 4684 to your standard deduction using a Schedule A.

**Using the simplified method to figure your deduction.** If you use the simplified method to figure your deduction for the business use of a home, your mortgage interest, real estate taxes, and casualty losses are treated as personal expenses, and they are subject to any limits that apply to deducting personal expenses. No part of any of these expenses can be deducted as a business expense on Schedule C (Form 1040) or Schedule F (Form 1040). Generally, you can only deduct these expenses if you itemize your deductions on Schedule A (Form 1040).

## **Business Expenses for Use of Your Home**

Other expenses related to the use of your home may be deducted only to the extent they are related to the business use of your home. These expenses include insurance,

maintenance, utilities, and depreciation of your home. You cannot deduct the personal portion of any of these expenses. Where you deduct the business portion of these expenses depends on how you figure your deduction for business use of the home.

**Using actual expenses to figure your deduction.** If you file Schedule C (Form 1040), report the other home expenses that would not be allowable if you did not use your home for business (for example, insurance, maintenance, utilities, and depreciation) on the appropriate lines of your Form 8829. If you rent rather than own your home, report the rent you paid on line 19 of Form 8829. If these expenses exceed the deduction limit, carry the excess over to next year. The carryover will be subject to next year's deduction limit.

If you file Schedule F (Form 1040), include your otherwise nondeductible expenses (insurance, maintenance, utilities,

depreciation, etc.) with your total business-use-of-the-home expenses on Schedule F (Form 1040), line 32. Enter "Business Use of Home" on the dotted line beside the entry. If these expenses exceed the deduction limit, carry the excess over to the next year. The carryover will be subject to next year's deduction limit.

**Using the simplified method to figure your deduction.** You cannot deduct any of these expenses. The simplified method is an alternative to calculating and substantiating these expenses. Figure your deduction using the Simplified Method Worksheet.

## **Business Expenses Not for Use of Your Home**

No matter how you figure the deduction for business use of your home, deduct business expenses that are not for the use of your home itself (dues, salaries, supplies, certain telephone expenses, depreciation of



equipment, etc.) on the appropriate lines of Schedule C (Form 1040) or Schedule F (Form 1040). These expenses are not for the use of your home, so they are not subject to the deduction limit for business use of the home expenses.

## **Partners**

You may be allowed to deduct unreimbursed ordinary and necessary expenses you paid on behalf of the partnership (including qualified expenses for the business use of your home) if you were required to pay these expenses under the partnership agreement and they are trade or business expenses under section 162.

If you are using actual expenses to figure your deduction for the business use of your home, use the Worksheet To Figure the Deduction for Business Use of Your Home, later. If you are using the simplified method to figure your deduction for the business use

of your home, use the Simplified Method Worksheet, later.

**Deducting unreimbursed partnership expenses.** See the following forms and related instructions for information about deducting unreimbursed partnership expenses.

- Schedule E (Form 1040), Supplemental Income and Loss.
- Schedule SE (Form 1040), Self-Employment Tax.
- Schedule K-1 (Form 1065), Partner's Share of Income, Deductions, Credits, etc.

**More information.** For more information about partners and partnerships, see Pub. 541.

# **Worksheet To Figure the Deduction for Business Use of Your Home**

This worksheet is to be used by taxpayers filing Schedule F (Form 1040) or by partners with certain unreimbursed ordinary and necessary expenses if using actual expenses to figure the deduction. If you are using the simplified method to figure your deduction, use the Simplified Method Worksheet, later.

## **Instructions for the Worksheet To Figure the Deduction for Business Use of Your Home**

The Worksheet To Figure the Deduction for Business Use of Your Home is to be used by taxpayers filing Schedule F (Form 1040) or by partners with certain unreimbursed ordinary and necessary expenses if using actual expenses to figure the deduction. The following instructions explain how to complete each part of the worksheet.

**Partners.** See *Partners* under *Where To Deduct*, earlier, before completing the worksheet.



*If you file Schedule C (Form 1040) or Schedule C (Form 1040) with Form 1040-SS and use actual expenses to figure your deduction, use Form 8829 instead of this worksheet.*

## **Part 1—Part of Your Home Used for Business**

**Lines 1–3.** If you figure the percentage based on area, use lines 1 through 3 to figure the business-use percentage. Enter the percentage on line 3.

You can use any other reasonable method that accurately reflects your business-use percentage. If you operate a daycare facility and you meet the exception to the exclusive use test for part or all of the area you use for business, you must figure the business-use percentage for that area as explained under

Daycare Facility, earlier. If you use another method to figure your business percentage, skip lines 1 and 2 and enter the percentage on line 3.

## **Part 2—Figure Your Allowable Deduction**

**Line 4.** If you file Schedule F (Form 1040), enter your total gross income that is related to the business use of your home. This would generally be the amount on line 9 of Schedule F (Form 1040).

**Lines 5–7.** Use lines 5, 6, and 7 for business use of the home expenses that would have been deductible as a personal expense if you had not used your home for business. These expenses include certain casualty losses, mortgage interest, and real estate taxes.

***Taxpayers claiming the standard deduction.*** If you claim the standard deduction, you will not include any mortgage interest, or real estate taxes on lines 6 and 7; instead, you will claim the entire business use

of the home portion of those expenses using lines 14 and 15. If you are not increasing your standard deduction by a net qualified disaster loss, then you will not include any casualty losses on line 5; instead, you will claim the entire business use of the home portion of your casualty losses on line 27. If you are filing Schedule A to increase your standard deduction by a net qualified disaster loss, see Casualty losses reported on line 5, later.



*You may prefer to itemize your deductions on Schedule A to claim amounts on lines 5, 6, and 7, even if your total personal deductions are less than the standard deduction.*

**Casualty losses reported on line 5.** Figure the amount to include in column (b) of line 5 as follows.

**Step 1.** Complete a worksheet version of Section A of Form 4684 treating all your casualty losses (and gains) as personal

expenses. If you are itemizing your deductions, when completing line 17 of this worksheet version of Form 4684, enter 10% of your adjusted gross income excluding the gross income and deductions attributable to the business use of the home. Do not file this worksheet version of Form 4684; instead, keep it for your records. You will complete a separate Form 4684 to attach to your return using only the personal portion of your casualty losses (and gains) for Section A.

**Step 2.** Include in column (b) of line 5 the loss amounts from lines 15 and 18 of this worksheet version of Form 4684 that are attributable to the home in which you conducted the business and are the result of a federally declared disaster. If you are claiming an increased standard deduction instead of itemizing your deductions, only use a net qualified disaster loss on line 15 of the worksheet version of Form 4684 for this Step 2.

See the instructions for line 33, later, for the business use of the home casualty losses that you must include in Section B of the separate Form 4684 you attach to your return.

***Casualty losses reported on Schedule A.***

Use only the personal portion of your casualty losses (and gains) when completing Section A of the separate Form 4684 you attach to your return. The separate Form 4684 you attach to your return is used to figure the casualty losses you can include on line 15 of Schedule A and the net qualified disaster losses you can include on line 16 of Schedule A.

***Excess casualty losses.*** See the instructions for line 27, later, to deduct the part of your casualty losses for business use of your home not allowed because of the limits on deducting casualty losses as a personal expense, including any losses that are not the result of a federally declared disaster.



## Worksheet To Figure the Deduction for Business Use of Your Home

*Keep for Your Records*



Use this worksheet if you file Schedule F (Form 1040) or you are a partner, and you are using actual expenses to figure your deduction for business use of the home. Use a separate worksheet for each qualified business use of your home.

## PART 1—Part of Your Home Used for Business:

- |                                                                                                       |            |
|-------------------------------------------------------------------------------------------------------|------------|
| 1) Area of home used for business .....                                                               | 1) _____   |
| 2) Total area of home .....                                                                           | 2) _____   |
| 3) Percentage of home used for business (divide line 1 by line 2 and show result as percentage) ..... | 3) _____ % |

## PART 2—Figure Your Allowable Deduction

- 4) Gross income from business (see instructions) ..... 4) \_\_\_\_\_

(a)  
Direct  
Expenses

(b)  
Indirect  
Expenses

- |                                                                                                                                           |           |           |           |
|-------------------------------------------------------------------------------------------------------------------------------------------|-----------|-----------|-----------|
| 5) Casualty losses                                                                                                                        | 5) _____  | _____     |           |
| 6) Deductible mortgage interest                                                                                                           | 6) _____  | _____     |           |
| 7) Real estate taxes                                                                                                                      | 7) _____  | _____     |           |
| 8) Total of lines 5 through 7                                                                                                             | 8) _____  | _____     |           |
| 9) Multiply line 8, column (b), by line 3                                                                                                 |           | 9) _____  |           |
| 10) Add line 8, column (a), and line 9                                                                                                    |           | 10) _____ |           |
| 11) Business expenses not from business use of home (see instructions)                                                                    |           | 11) _____ |           |
| 12) Add lines 10 and 11                                                                                                                   |           |           | 12) _____ |
| 13) Deduction limit. Subtract line 12 from line 4                                                                                         |           |           | 13) _____ |
| 14) Excess mortgage interest                                                                                                              | 14) _____ | _____     |           |
| 15) Excess real estate taxes                                                                                                              | 15) _____ | _____     |           |
| 16) Insurance                                                                                                                             | 16) _____ | _____     |           |
| 17) Rent                                                                                                                                  | 17) _____ | _____     |           |
| 18) Repairs and maintenance                                                                                                               | 18) _____ | _____     |           |
| 19) Utilities                                                                                                                             | 19) _____ | _____     |           |
| 20) Other expenses                                                                                                                        | 20) _____ | _____     |           |
| 21) Add lines 14 through 20                                                                                                               | 21) _____ | _____     |           |
| 22) Multiply line 21, column (b), by line 3                                                                                               |           | 22) _____ |           |
| 23) Carryover of operating expenses from prior year (see instructions)                                                                    |           | 23) _____ |           |
| 24) Add line 21, column (a), line 22, and line 23                                                                                         |           |           | 24) _____ |
| 25) Allowable operating expenses. Enter the <b>smaller</b> of line 13 or line 24                                                          |           |           | 25) _____ |
| 26) Limit on excess casualty losses and depreciation. Subtract line 25 from line 13                                                       |           |           | 26) _____ |
| 27) Excess casualty losses (see instructions)                                                                                             |           | 27) _____ |           |
| 28) Depreciation of your home from line 40 below                                                                                          |           | 28) _____ |           |
| 29) Carryover of excess casualty losses and depreciation from prior year (see instructions)                                               |           | 29) _____ |           |
| 30) Add lines 27 through 29                                                                                                               |           |           | 30) _____ |
| 31) Allowable excess casualty losses and depreciation. Enter the <b>smaller</b> of line 26 or line 30                                     |           |           | 31) _____ |
| 32) Add lines 10, 25, and 31                                                                                                              |           |           | 32) _____ |
| 33) Casualty losses included on lines 10 and 31 (see instructions)                                                                        |           |           | 33) _____ |
| 34) Allowable expenses for business use of your home. (Subtract line 33 from line 32.) See instructions for where to enter on your return |           |           | 34) _____ |

## PART 3—Depreciation of Your Home

- |                                                                                         |           |   |
|-----------------------------------------------------------------------------------------|-----------|---|
| 35) Smaller of adjusted basis or fair market value of home (see instructions) . . . . . | 35) _____ |   |
| 36) Basis of land . . . . .                                                             | 36) _____ |   |
| 37) Basis of building (subtract line 36 from line 35) . . . . .                         | 37) _____ |   |
| 38) Business basis of building (multiply line 37 by line 3) . . . . .                   | 38) _____ |   |
| 39) Depreciation percentage (from applicable table or method) . . . . .                 | 39) _____ | % |
| 40) Depreciation allowable (multiply line 38 by line 39) . . . . .                      | 40) _____ |   |

## PART 4—Carryover of Unallowed Expenses to Next Year

- |                                                                                                          |           |
|----------------------------------------------------------------------------------------------------------|-----------|
| 41) Operating expenses. Subtract line 25 from line 24. If less than zero, enter -0-                      | 41) _____ |
| 42) Excess casualty losses and depreciation. Subtract line 31 from line 30. If less than zero, enter -0- | 42) _____ |

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Use this worksheet if you file Schedule F (Form 1040) or you are a partner, and you are using actual expenses to figure your deduction for business use of the home. Use a separate worksheet for each qualified business use of your home.

**Mortgage interest reported on line 6.** If you are claiming the standard deduction, do not report an amount on line 6. If you itemize your deductions, figure the amount to include in column (b) of line 6 as follows.

**Step 1.** Treat all the mortgage interest you paid as a personal expense and figure the amount that would be deductible as an itemized deduction on Schedule A. See Pub. 936 for more information about figuring the home mortgage interest deduction and the limits that may apply.

**Step 2.** Include in column (b) of line 6 the amount of deductible mortgage interest figured in Step 1 that is attributable to the home in which you conducted the business.

Because the limits on deducting mortgage interest as a personal expense are figured using all loans secured by your home(s), do not claim mortgage interest in column (a) as a direct expense, even if you use a separate structure in your home in connection with your trade or business.

***Mortgage interest reported on Schedule***

**A.** When you figure your itemized deduction for mortgage interest on Schedule A, include the following amounts of deductible mortgage interest that you figured in Step 1 to the extent they are not deducted on another form, such as Schedule E, as a rental expense.

- The amount of deductible mortgage interest you figured in Step 1 that is not attributable to the home in which you conducted the business.
- The personal portion of deductible mortgage interest you included in column (b) of line 6. For example, if your business

percentage on line 3 is 30%, 70% of the amount you included in column (b) of line 6 is deductible as an itemized deduction on Schedule A.

***Excess mortgage interest.*** See the instructions for line 14, later, to deduct the part of your mortgage interest from loans used to buy, build, or substantially improve the home in which you conducted business that is not allowed on line 6 because of the limits on deducting home mortgage interest as a personal expense.

**Real estate taxes reported on line 7.** If you are claiming the standard deduction, do not report an amount on line 7. If you are itemizing deductions, figure the amount to include on line 7 as follows.

**Step 1.** If the total of your state and local income (or, if elected on your Schedule A, general sales) taxes, real estate taxes, and personal property taxes is not more than \$10,000 (\$5,000 if married filing separately), enter all the real estate taxes attributable to the home in which you conducted business in column (b) of line 7.

**Step 2.** If you do not meet the condition of Step 1, use the following worksheet to figure the amount to include in column (a) of line 7.