Department
of the
Treasury

**Internal
Revenue
Service**

Publication 587
Cat. No. 15154T

Business Use of Your Home

(Including Use by Day-Care Providers)

For use in preparing

1995 Returns

Contents

Important Change

Caution. As this publication was being prepared for print, Congress was considering tax law changes that could affect your 1995 tax return and 1996 estimated taxes. This includes changes to sale of your home. See Publication 553, *Highlights of 1995 Tax Changes,* for further developments. Information on these changes will also be available electronically through our bulletin board or via the Internet (see page 34 of the Form 1040 Instructions).

Important Reminder

Form 8829. If you file Schedule C, *Profit or Loss From Business,* with your Form 1040, you must use Form 8829, *Expenses for Business Use of Your Home,* to determine your deduction for business use of your home.

Introduction

You must meet specific tests to take a deduction for the business use of your home. Even if you meet these tests, your deduction may be limited. This publication explains the requirements for taking the deduction and how to figure the limit. If you are an employee or file Schedule F, the worksheet at the end of this publication will help you figure the limit on the amount you can deduct.

The term ***home*** includes a house, apartment, condominium, mobile home, or boat. It also includes structures on the property, such as an unattached garage, studio, barn, or greenhouse. However, it does not include any part of your property used exclusively as a hotel or inn.

The publication is written for those who prepare their own returns. It does not discuss renting out your home, part of your home, or vacation property. For information about renting out your property, see Publication 527, *Residential Rental Property.*

The rules in this publication apply to individuals, trusts, estates, partnerships, and S corporations. They do not apply to corporations, other than S corporations. There are no special rules for the business use of a home by a partner or S corporation shareholder.

Useful Items

You may want to see:

- ☐ **523** Selling Your Home
- ☐ **534** Depreciating Property Placed in Service Before 1987
- ☐ **551** Basis of Assets
- ☐ **583** Starting a Business and Keeping Records
- ☐ **946** How to Depreciate Property

Form (and Instructions)

- ☐ **2106** Employee Business Expenses
- ☐ **2106–EZ** Unreimbursed Employee Business Expenses
- ☐ **4562** Depreciation and Amortization
- ☐ **8829** Expenses for Business Use of Your Home

Ordering publications and forms. To order free publications and forms, call 1–800–TAX–FORM (1–800–829–3676). You can also write to the IRS Forms Distribution Center nearest you. Check your income tax package for the address.

If you have access to a personal computer and a modem, you can also get many forms and publications electronically. See *How To Get Forms and Publications* in your income tax package for details.

Telephone help. You can call the IRS with your tax question Monday through Friday during regular business hours. Check your telephone book for the local number or you can call 1–800–829–1040.

Telephone help for hearing-impaired persons. If you have access to TDD equipment, you can call 1–800–829–4059 with your tax question or to order forms and publications. See your tax package for the hours of operation.

Use Tests

Whether you are an employee or self-employed, you generally cannot deduct expenses for the business use of your home. But you can take a limited deduction for its business use if you use part of your home ***exclusively*** and ***regularly:***

1) As the principal place of business for any trade or business in which you engage,
2) As a place to meet or deal with patients, clients, or customers in the normal course of your trade or business, or
3) In connection with your trade or business, if you are using a separate structure that is not attached to your residence.

Employee use. Even if you meet the exclusive and regular use tests, you ***cannot*** take any deduction for the business use of your home if you are an employee and either of the following situations apply to you.

1) The business use of your home is not for the convenience of your employer. Whether your home's business use is for your employer's convenience depends on all the facts and circumstances. However, business use is not considered for your employer's convenience merely because it is appropriate and helpful.
2) You rent all or part of your home to your employer and use the rented portion to perform services as an employee.

Trade or business use. You must use your home in connection with a trade or business to take a deduction for its business use. If you use your home for a profit-seeking activity that is not a trade or business, you cannot take a deduction for its business use.

Example. You use part of your home exclusively and regularly to read financial periodicals and reports, clip bond coupons, and do similar activities for your own investments. You do not make investments as a broker or dealer. Therefore, your activities are not a trade or business and you cannot take a deduction for the business use of your home.

Exclusive Use

''Exclusive use'' means only for business. If you use part of your home as your business office and also use that part for personal purposes, you do not meet the exclusive use test.

Example. You are an attorney. You use a den in your home to write legal briefs and prepare client tax returns. You also use the den for personal purposes. Therefore, you cannot claim a business deduction for using it.

Exceptions to Exclusive Use

There are two exceptions to the exclusive use test:

1) The use of part of your home for the storage of inventory, and
2) The use of part of your home as a day-care facility, discussed later under *Day-Care Facility.*

Storage of inventory. You can deduct expenses that relate to the use of part of your home for the storage of inventory, if you meet all of the following five tests.

1) You must keep the inventory for use in your trade or business.
2) Your trade or business must be the wholesale or retail selling of products.
3) Your home must be the only fixed location of your trade or business.
4) You must use the storage space on a regular basis.
5) The space you use must be a separately identifiable space suitable for storage.

Example. Your home is the sole fixed location of your business of selling mechanics' tools at retail. You regularly use half of your basement for inventory storage and sometimes use it for personal purposes. The expenses for the storage space are deductible even though you do not use this part of your basement exclusively for business.

Regular Use

''Regular use'' means on a continuing basis. Occasional or incidental business use of part of your home does not meet the regular use test even if that part is used for no other purpose.

Principal Place of Business

You can have more than one business location, including your home, for a single trade or business. To deduct expenses for the business use of your home, you must determine that it is your principal place of business for that trade or business based on all the facts and circumstances. The two primary factors are:

1) The relative importance of the activities performed at each business location, and
2) The amount of time spent at each location.

The relative importance test is considered first.

A comparison of the relative importance of the activities performed at each business location depends on the characteristics of each business. If the nature of your business requires that you meet or confer with clients or patients, or requires that you deliver goods or services to a customer, the place where that contact occurs must be given great weight in determining where the most important activities are performed. Performance of necessary or essential activities in your home office (such as planning for services or the delivery of goods, or the accounting or billing for those activities or goods) is not controlling.

If the relative importance test does not clearly establish the principal place of business, such as when you deliver goods or services at both the office in your home and elsewhere, then the time test is considered. The time test compares the amount of time spent on business at your home office with the amount of time spent at other locations. In some cases, there may be no principal place of business.

Example 1. Jane Williams is an anesthesiologist. Her only office is a room in her home used regularly and exclusively to contact patients, surgeons, and hospitals by telephone; to maintain billing records and patient logs; to prepare for treatments and presentations; to satisfy continuing medical education requirements; and to read medical journals and books.

Jane spends approximately 10 to 15 hours a week doing work in her home office. She spends 30 to 35 hours per week administering anesthesia and postoperative care in three hospitals, none of which provide her with an office.

The essence of Jane's business as an anesthesiologist requires her to treat patients in hospitals. The home office activities, although essential, are less important to Jane's business and take less time than the services she performs in the hospitals. Her home office is not her principal place of business. Therefore, she cannot deduct expenses for the business use of her home.

Example 2. Sam Stone is a self-employed plumber. His only office is a room in his home which he uses regularly and exclusively to talk with customers on the telephone, decide what supplies to order, and review the books of the business. Sam also employs Helen Green, a full-time unrelated employee, to perform administrative services in Sam's office such as answering the telephone, scheduling Sam's appointments, ordering supplies, and keeping Sam's books.

Sam spends approximately 40 hours a week at his customers' homes and offices, installing and repairing plumbing. He spends approximately 10 hours a week doing work in his home office.

The essence of Sam's trade or business as a plumber requires him to perform services and deliver goods at the homes or offices of his customers. Sam's home office activities, although essential, are less important and take less time than the work Sam does in the customers' homes and offices. Therefore, Sam's office in the home is not his principal place of business and he cannot deduct expenses for the business use of the home. The fact that Helen, Sam's employee, performs administrative activities at Sam's office does not alter this result.

Example 3. Joe Smith is a salesperson. His only office is a room in his house used regularly and exclusively to set up appointments, store product samples, and write up orders and other reports for the companies whose products he sells.

Joe's business is selling products to customers at various locations within the metropolitan area where he lives. To make these sales, he regularly visits the customers to explain the available products and to take orders. Joe makes only a few sales from his home office. Joe spends an average of 30 hours a week visiting customers and 12 hours a week working at his home office.

The essence of Joe's business as a salesperson requires him to meet with customers primarily at the customer's place of business. The home office activities, although essential, are less important to Joe's business and take less time than the sales activities he performs when visiting customers. Therefore, Joe's home office is not his principal place of business and he cannot deduct expenses for the business use of his home.

Example 4. Fred Jones, a salesperson, performs the same activities in his home office as Joe Smith in Example 3, except that Fred makes most of his sales to customers by telephone or mail from his home office. Fred spends an average of 30 hours a week working at his home office and 12 hours a week visiting prospective customers to deliver products and occasionally take orders.

The essence of Fred's business as a salesperson requires him to make telephone or mail contact with customers primarily from his office, which is in his home. Actually visiting customers is less important to Fred's business and takes less time than the sales activities he performs from his home office. Therefore, he can deduct expenses for the business use of his home.

Example 5. Nelson Lewis is employed as a teacher. He is required to teach and meet with students at the school and to grade papers and tests. In addition to a small shared office at the school, Nelson maintains a home office for use in class preparation and for grading papers and tests. Nelson spends approximately 25 hours per week at the school, and 30 to 35 hours per week in his home office.

The essence of Nelson's work as a teacher requires him to teach and meet with students at the school. Although the class preparation and grading take more time and are essential, they are less important than the activities at the school. Nelson cannot deduct expenses for the business use of his home. Because his home office is not the principal place of business, it is not necessary to determine whether he maintains the office for the convenience of his employer.

More than one trade or business. Whether your home office is the principal place of business must be determined separately for each trade or business activity. One home office may be the principal place of business for more than one activity; however, you will not meet the exclusive use test for any activity unless each activity conducted in that office meets all the tests for the business use of the home deduction.

Example. Tracy White is employed as a teacher. Her principal place of work is the school. She also has a mail order jewelry business. All her work in the jewelry business is done in her home office and the office is used exclusively for the business. If she meets all the other tests, she may deduct expenses for business use of her home for the jewelry business.

If Tracy makes any use of the office for work related to her teaching, the exclusive use test is not met for the jewelry business. She may not take any home office deduction for either activity because her job as a teacher does not meet the tests for the deduction.

Place To Meet Patients, Clients, or Customers

If you meet or deal with patients, clients, or customers in your home in the normal course of your business, even though you also carry on business at another location, you can deduct your expenses for the part of your home used exclusively and regularly for business. You must physically meet with patients, clients, or customers on your premises and their use of your home must be substantial and integral to the conduct of your business. Occasional meetings and telephone calls do not qualify you to deduct expenses for the business use of your home.

Doctors, dentists, attorneys, and other professionals who maintain offices in their homes will generally meet this requirement.

The part of your home you use exclusively and regularly to meet patients, clients, or customers does not have to be your principal place of business.

Example. June Quill, an attorney, works 3 days a week in her city office. She works 2 days a week in her home office used only for business. She regularly meets clients there. Her home office qualifies for a business deduction because she meets clients there in the normal course of her business.

Separate Structures

You can deduct expenses for a separate freestanding structure, such as a studio, garage, or barn, if you use the structure exclusively and regularly for your business. The structure does not have to be your principal place of business or a place where you meet patients, clients, or customers.

Example. John Berry operates a floral shop in town. He grows the plants for his shop in a greenhouse behind his home. Since he uses the greenhouse exclusively and regularly in his business, he can deduct the expenses for its use subject to the deduction limit, explained later.

Business Part of Home Expenses

If you use part of your home for business and meet the requirements discussed earlier, you must divide the expenses of operating your home between personal and business use. This section explains how to divide each expense.

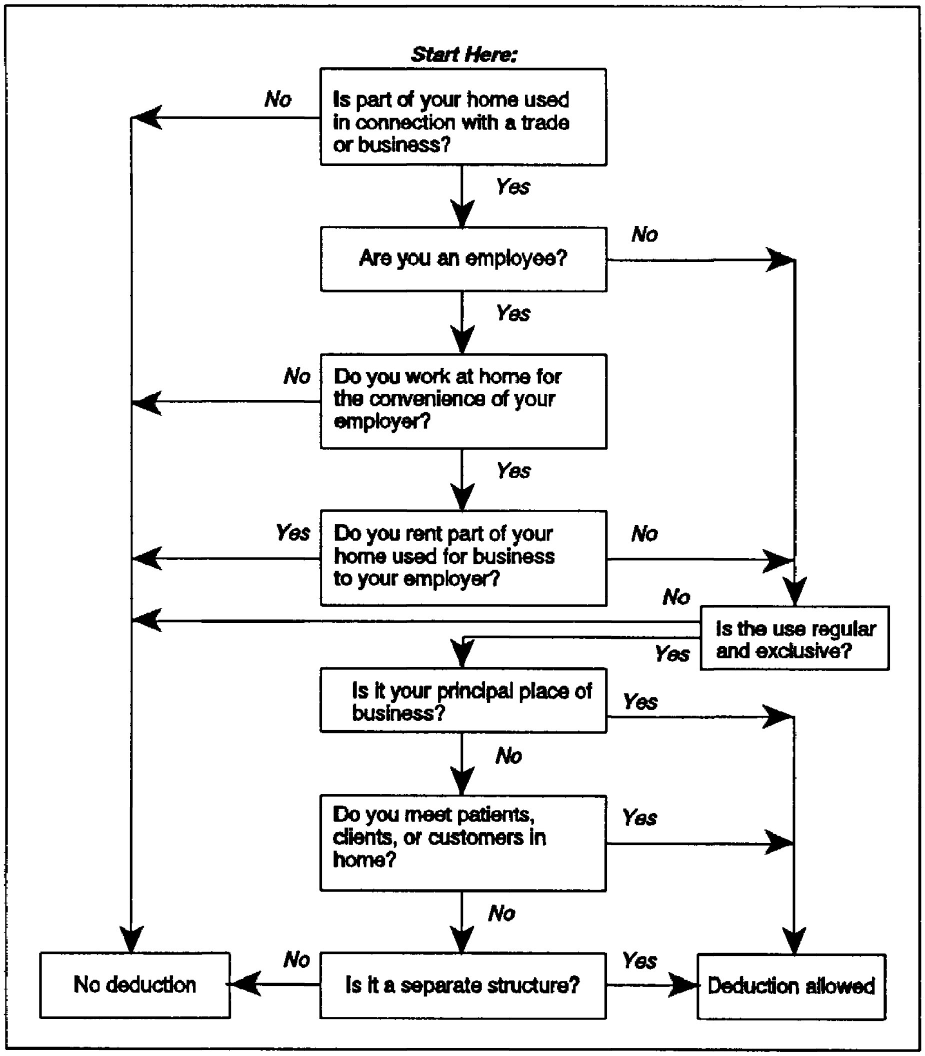
Some expenses you pay to maintain your home are directly related to its business use. Some are indirectly related, and some are unrelated. You can deduct all of your direct expenses and part of your indirect expenses, both subject to the limit discussed later. If you file Schedule C, figure the allowable deduction on Form 8829. If you are an employee or file Schedule F, you may find it convenient to use the worksheet at the back of this publication to help figure your deductible expenses.

If you use the cash method of accounting, you can deduct only the expenses you pay during the tax year. You use the cash method of accounting if you deduct expenses when they are actually paid. However, a special rule for insurance is explained later under *Insurance.*

The total expenses you can deduct for business use of your home are limited to the gross income from the business use of your home, as discussed later under *Deduction Limit.*

Unrelated expenses benefit only the parts of your home that you do not use for business. These include repairs to personal areas of your home, lawn care, and landscaping. You cannot deduct unrelated expenses.

Figure A. Can You Deduct Business Use of the Home Expenses?*



*Do not use this chart if you use your home for inventory storage or to operate a day-care facility. See *Exceptions to Exclusive Use*, earlier, and *Day-Care Facility*, later.

Part year use. You cannot take a deduction for business use of the home for expenses incurred during any part of the year you did not use your home for business purposes. For example, if you begin using part of your home for business on July 1, and you meet all of the tests from that date until the end of the year, only your expenses for the last half of the calendar year are taken into consideration in figuring your allowable deduction.

Direct Expenses

Direct expenses benefit only the business part of your home. They include painting or repairs made to the specific area or room used for business. You can deduct direct expenses in full. Direct expenses for the portion of your home used regularly, but not exclusively, as a day-care facility must be adjusted for the time the space is used for business, as discussed later under *Day-Care Facility.*

Indirect Expenses

Indirect expenses are for keeping up and running your entire home. They benefit both the business and personal parts of your home. Examples of indirect expenses include:

Real estate taxes,

Deductible mortgage interest,

Casualty losses,

Rent,

Utilities and services,

Insurance,

Repairs,

Security systems, and

Depreciation.

You can deduct the business percentage of your indirect expenses.

Figuring the business percentage. To figure deductions for the business use of your home, find the business percentage. You can do this by dividing the area used for business by the total area of your home including the basement. You may measure the area in square feet. To figure the percentage of your home used for business, divide the number of square feet of space used for business by the total number of square feet of space in your home. If the rooms in your home are about the same size, you can also figure the business percentage by dividing the number of rooms used for business by the number of rooms in the home. You can also use any other reasonable method to determine the business percentage.

Example 1. Your home measures 1,200 square feet. You use one room that measures 240 square feet for business. Therefore, you use one-fifth (240 ÷ 1,200), or 20%, of the total area for business.

Example 2. If the rooms in your home are about the same size, and you use one room in a five-room house for business, you use one-fifth, or 20%, of the total area for business.

Real Estate Taxes

To figure the business part of your real estate taxes, multiply the real estate taxes paid by the percentage of your home used for business.

For more information on amounts allowable as a deduction for taxes, see Publication 530, *Tax Information for First-Time Homeowners.*

Deductible Mortgage Interest

To figure the business part of your deductible mortgage interest, multiply this interest by the percentage of your home used in business. You can include interest on a second mortgage in this computation. For more information on what interest is deductible, see Publication 936, *Home Mortgage Interest Deduction.*

Casualty Losses

If you have a casualty loss on your home or other property you use in business, you can deduct the business part of the loss as a business expense. Treat a casualty loss as an unrelated expense, a direct expense, or an indirect expense depending on the property affected.

1) If the loss is on property you use only in your business, the entire loss is a business deduction (a direct expense).
2) If the loss is on property you do not use in your business, no business deduction is allowed for it (an unrelated expense).
3) If the loss is on property you use for both business and personal purposes, only the business part is a business deduction (an indirect expense).

You must figure separately each individual identifiable property damaged or destroyed.

If your business property is completely destroyed (becomes totally worthless), your deductible loss is the adjusted basis of the property, minus any salvage value and any insurance or other reimbursement you receive or expect to receive. Figure the loss without taking into account any decrease in fair market value.

If your business property is stolen, your deductible loss is your adjusted basis in the property, reduced by any insurance or other reimbursement you receive or expect to receive.

In a partial destruction of either business or nonbusiness use property, the deductible loss is the decrease in fair market value of the property or the adjusted basis of the property, whichever is less. You must reduce this amount by any insurance or other reimbursement you receive or expect to receive.

Casualty losses to nonbusiness use property are only deductible if you itemize deductions and the loss exceeds $100 and all your casualty losses exceed 10% of your adjusted gross income. For a loss on property which you use both for business and nonbusiness purposes, these limits will apply only to the nonbusiness part.

For information on a casualty loss to nonbusiness property, see Publication 547, *Nonbusiness Disasters, Casualties, and Thefts.*

Rent

If you rent, rather than own, a home and meet the requirements for business use of the home, you can deduct part of the rent you pay. To figure your deduction, multiply your rent payments by the percentage of your home used for business.

You cannot deduct the fair rental value of your home. If you own your home, see *Depreciation,* later.

Utilities and Services

Expenses for utilities and services, such as electricity, gas, trash removal, and cleaning services, are primarily personal expenses. However, if you use part of your home for business, you can deduct the business part of these expenses. Generally, the business percentage for utilities is the same as the percentage of your home used for business, but it may be different.

Example. Your electric bill is $400 for lighting, cooking, laundry, and television. Only the lighting is used for business. If $250 of your electric bill is for lighting and you use 10% of your home for business, then $25 is deductible as a business expense.

Telephone. The basic local telephone service charge, including taxes, for the first telephone line into your home is a nondeductible personal expense. However, charges for business long-distance phone calls on that line, as well as the cost of a second line into your home used exclusively for business, are deductible business expenses. You may deduct these expenses even if you do not qualify to deduct expenses for the business use of your home. Deduct these charges separately on the appropriate schedule. Do not include them in your home office deduction.

Insurance

You can deduct the cost of insurance that covers the business part of your home. However, if your insurance premium gives you coverage for a period that extends past the end of your tax year, you can deduct only the business percentage of the part of the premium that gives you coverage for your tax year. You can deduct the business percentage of the part that applies to the following year in that year.

Repairs

The cost of repairs and supplies that relate to your business, including labor (other than your own labor), is a deductible expense. For example, a furnace repair benefits the entire home. If you use 10% of your home for business, you can deduct 10% of the cost of the furnace repair.

Repairs keep your home in good working order over its useful life. Examples of common repairs are patching walls and floors, painting, wallpapering, repairing roofs and gutters, and mending leaks. However, repairs are sometimes treated as a permanent improvement. See *Permanent improvements,* later.

Security System

If you install a security system that protects all the doors and windows in your home, you can deduct the business part of the expenses you incur to maintain and monitor the system. You can also take a depreciation deduction for the part of the cost of the security system relating to the business use of your home.

Depreciation

The cost of property that can be used for more than 1 year, such as a building, a permanent improvement, or furniture, is a capital expenditure. You generally cannot deduct its entire cost in 1 year. However, you may be able to recover this cost by taking annual deductions for depreciation. For information on depreciating furniture, see *Business Furniture and Equipment,* later.

Land is not depreciable property. You generally cannot recover the cost of land until you dispose of it.

Permanent improvements. A permanent improvement increases the value of property, adds to its life, or gives it a new or different use. Examples of improvements are replacement of electric wiring or plumbing, a new roof, an addition, paneling, remodeling, or major modifications.

If you make repairs as part of an extensive remodeling or restoration of your home, the entire job is an improvement. You must carefully distinguish between repairs and improvements. You must also keep accurate records of these expenditures. These records will help you decide whether an expenditure is a deductible expense or a capital expenditure.

Example. You buy an older home and fix up two rooms as a hairdressing shop. You patch the plaster on the ceilings and walls, paint, repair the floor, put in an outside door, and install new wiring, plumbing, and other equipment. The plaster patching, painting, and floor work are repairs. However, since this work is done as part of a general plan to alter your home for business use, the amount you pay for this work is a capital expenditure. You cannot deduct it as a repair expense.

Basis adjustment. You must decrease the basis of your property by the amount of depreciation you could have deducted on your tax returns under the method of depreciation you selected. If you took less depreciation than you could have under the method you selected, you must decrease the basis by the amount you could have taken under that method.

If you deducted more depreciation than you should have, you must decrease your 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, see Publication 551.

Depreciating your home. If you began to use part of your home for business before 1995, continue to use the same depreciation method you used in past tax years. See Publication 946 for complete information on depreciation.

If you began to use part of your home for business in 1995, depreciate that part as nonresidential real property under the modified accelerated cost recovery system (MACRS). Under MACRS, nonresidential real property is depreciated using the straight line method over 39 years. See Publication 946 for more information.

To figure depreciation on the business part of your home, you need to know:

1) The business-use percentage of your home,
2) The first month in your tax year for which you can deduct business use of your home expenses, and
3) The adjusted basis and fair market value of your home at the time you qualify for a deduction.

Adjusted basis of home. The adjusted basis of your home is generally its cost plus the cost of any permanent improvements that you made to it minus any casualty losses deducted in earlier tax years. For a discussion of adjusted basis, see Publication 551.

When you change part of your home from personal to business use, your basis for depreciation is the business use percentage times the lesser of:

1) The adjusted basis of your home (excluding land) on the date of change, or
2) The fair market value of your home (excluding land) on the date of change.

Depreciation table. If 1995 was the first year you used your home for business, you may figure your 1995 depreciation for the business part of your home by using the appropriate percentage from the following table.

Month of Tax Year First Used for Business	Percentages
1	2.461%
2	2.247%
3	2.033%
4	1.819%
5	1.605%
6	1.391%
7	1.177%
8	0.963%
9	0.749%
10	0.535%
11	0.321%
12	0.107%

Multiply the depreciable basis of the business part of your home by the percentage from the table for the first month in your tax year that you use your home for business. See Table A–7a in Appendix A in Publication 946 for the percentages for the remaining tax years of the recovery period.

Example. In May 1995, George Miller began to use one room in his home exclusively and regularly to meet clients. This room is 8% of the square footage of his home. He bought the home in 1980 for $100,000. He determined from his property tax records that his adjusted basis in the house (exclusive of land) is $90,000. The house had a fair market value of $165,000 in May. He multiplies his adjusted basis (which is less than fair market value) by 8%. The result is $7,200, his depreciable basis for the business part of the house.

George files his return based on the calendar year. May is the 5th month of his tax year. He multiplies his depreciable basis of $7,200 by 1.605% (.01605), the percentage from the table for the 5th month. The result is $115.56, his depreciation deduction for 1995.

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:

1) The part of your home you use for business,
2) That you use this 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*), and
3) The depreciation and expenses for the business part of your home.

You must keep your records for as long as they are important for any Internal Revenue law. This is usually 3 years from the date the return was due or filed, or 2 years from the date the tax was paid, whichever is later.

Keep records that support your basis in your home for as long as they are needed to figure the correct basis of your original or replacement home. This includes records of any improvements to your home and any depreciation you are allowed because you maintained an office in your home. You may keep copies of Forms 8829 or the Publication 587 worksheets as records of depreciation.

For more information on recordkeeping, see Publication 583.

Deduction Limit

If your gross income from the business use of your home equals or exceeds your total business expenses (including depreciation), you can deduct all of your expenses for the business use of your home. But if your gross income from that use is less than your total business expenses, your deduction for certain expenses for the business use of your home is limited. The total of your deductions for otherwise nondeductible expenses, such as utilities, insurance, and depreciation (with depreciation taken last) cannot be more than your gross income from the business use of your home minus the sum of:

1) The business percentage of the otherwise deductible mortgage interest, real estate taxes, and casualty and theft losses (these three items are discussed more fully under *Indirect Expenses,* earlier), and
2) The business expenses that are not attributable to the business use of your home (for example, salaries or supplies).

If you are self-employed, do not include in (2) above your deduction for half of your self-employment tax.

You can carry forward to your next tax year deductions over the current year's limit. These deductions are subject to the gross income limit from the business use of your home for the next tax year. The amount carried forward will be allowable only up to your gross income in the next tax year from the business in which the deduction arose, whether or not you live in the home during that year.

If your total mortgage debt is more than $1,000,000 or your home equity debt is more than $100,000, your deduction may be limited. See Publication 936 to compute your deductible home mortgage interest.

For more information on nonbusiness casualty losses, see Publication 547. For information on business casualty losses, see *Casualty losses,* earlier.

Figuring deduction limit and carryover. If you are an employee or file Schedule F, *Profit or Loss From Farming,* use the worksheet at the back of this publication to figure your deduction limit. If you file Schedule C, figure your deduction limit on Form 8829.

Example. You meet the requirements for deducting expenses for the business use of your home. You use 20% of your home for this business. In 1995, your gross income, business expenses, and computation of expenses for the business use of your home are as follows:

Gross income from business		$ 6,000
Less: Deductible mortgage interest and real estate taxes (20% allowable as business part)		3,000
Balance		$ 3,000
Less: Business expenses other than for use of home (business phone and depreciation on office equipment)		2,000
Gross income limit		$ 1,000
Less: Other expenses allocable to business use of home:		
1) Maintenance, insurance, and utilities (20%)		800
Limit on further deduction		$ 200
2) Depreciation (20%)		1,600
Depreciation carried over to 1996 subject to income limit in 1996		$ 1,400

You can deduct all of the business part of your deductible mortgage interest and real estate taxes. You can also deduct all of the business part of your expenses for maintenance, insurance, and utilities, because the total is not more than the $1,000 gross income limit. But your deduction for depreciation for the business use of your home is limited to $200 for 1995 because of the gross income limit. The $1,400 balance can be carried forward and added to your depreciation for 1996, subject to your 1996 gross income limit.

More than one place of business. If part of the gross income from your trade or business is from the business use of part of your home and part is from a place other than your home, you must determine the part of your gross income from the business use of your home before you figure the deduction limit. In making this determination, consider the amount of time you spend at each location, the business investment in each location, and any other relevant facts and circumstances.

Where To Deduct

Deduct expenses for the business use of your home on Form 1040. Where you deduct these expenses on Form 1040 depends on whether you are:

1) An employee, or
2) A self-employed person.

Employees

As an employee, you must itemize deductions on Schedule A (Form 1040) to claim expenses for the business use of your home and any other employee business expenses. This generally applies to all employees, including outside salespersons. If you are a statutory employee, use Schedule C (Form 1040) to claim the expenses. Follow the instructions given later under *Self-Employed Person.* The Statutory Employee box within box 15 on your Form W-2 will be checked if you are a statutory employee.

If you have employee expenses for which you were not reimbursed, report them on line 20 of Schedule A. You generally must also complete Form 2106, if:

1) You claim any travel, transportation, meal, or entertainment expenses, or
2) Your employer paid you for any of your job expenses reportable on line 20. (Amounts your employer included in box 1 of your Form W–2 are not considered paid by your employer).

However, you may use a simpler form, Form 2106–EZ, instead of Form 2106, if:

1) You were not reimbursed for your expenses by your employer, or if you were reimbursed, the reimbursements were included in box 1 of your Form W–2, and
2) If you claim car expenses, you use the standard mileage rate.

When your employer pays for your expenses, the payments generally should not be on your Form W–2 if you:

1) Are required to account, and do account to your employer for the expenses, and
2) Are required to return, and do return, any payments not spent for business expenses.

If you account to your employer and your business expenses equal your reimbursement, do not report the reimbursement as income and do not deduct the expenses.

Accounting to employer. You account to your employer when you give your employer documentary evidence and an account book, diary, or similar statement to verify the amount, time, place, and business purpose of each expense. You are also treated as accounting to your employer if your employer gives you a fixed allowance under an accountable plan that is similar in form to an allowance specified by the federal government and you verify the time, place, and business purpose of each expense. See the instructions for Form 2106 and Publication 463, *Travel, Entertainment, and Gift Expenses,* for more information.

Deductible mortgage interest. Although you generally can deduct expenses for the business use of your home on line 20 of Schedule A, do not include any deductible home mortgage interest on that line. Instead, deduct both the business and nonbusiness parts of this interest on line 10 or 11 of Schedule A.

If the home mortgage interest you can deduct on lines 10 or 11 is limited by the home mortgage interest rules, you cannot deduct the excess as an employee business expense on line 20 of Schedule A, even though you use part of your home for business. To determine if the limits on home mortgage interest apply to you, see the instructions for Schedule A or Publication 936.

Real estate taxes. Deduct both the business and nonbusiness parts of your real estate taxes on line 6 of Schedule A. For more information on amounts allowable as a deduction for taxes, see Publication 530.

Casualty losses. Compute the deductible business part of casualty losses in Section B of Form 4684, *Casualties and Thefts.* Enter the business part of casualty losses (line 31 of the worksheet) on line 27 of Form 4684, Section B. Also complete lines 19 through 26. Write ''See attached statement'' above line 27.

Other expenses. If you file Form 2106 or Form 2106–EZ, report the business part of your other expenses (utilities, maintenance, insurance, depreciation, etc.) that do not exceed the limit on line 4 of Form 2106 (or Form 2106–EZ). Add these to your other employee business expenses and complete the rest of the form. The total from line 10, Form 2106, or line 6, Form 2106– EZ, is entered on line 20 of Schedule A, where it is subject to the 2% of adjusted gross income limit. If you do not have to file Form 2106 or Form 2106–EZ, enter your total expenses directly on line 20 of Schedule A.

Business expenses not attributable to use of your home. If you have any employee business expenses not attributable to the use of your home, such as advertising, and you were not reimbursed for them, and you are not claiming travel, transportation, meal, or entertainment expenses, do not fill out Form 2106 or Form 2106–EZ. Enter these expenses directly on line 20 of Schedule A, where they are subject to the 2% of adjusted gross income limit.

Example. You are an employee who works at home for the convenience of your employer. Your business use meets the requirements for deduction for business use of your home. Your employer does not reimburse you for any of your business expenses, and you are not otherwise required to file Form 2106 or Form 2106–EZ.

As an employee, you do not have gross receipts, cost of goods sold, etc. You begin with gross income from the business use of your home, which you determine to be $6,000. Your total employee business expenses not attributable to the use of your home, such as advertising, supplies, and telephone use, total $2,000. Subtract this amount from your gross income from the business use of your home. Your balance is $4,000.

The percentage of expenses attributable to the business use of your home is 20%. Your allowable mortgage interest and real estate taxes are $2,500. Deduct this amount on the lines of your Schedule A for interest and taxes. Subtract this $2,500 from your balance of $4,000. Your gross income limit is $1,500. Your other expenses for the business use of your home cannot be more than $1,500.

The business part of your maintenance, insurance, and utilities for your home is $800. The business part of your depreciation is $1,600. Add $1,500 ($800 plus $700 of the depreciation expense) to the $2,000 for your other business expenses, and deduct the $3,500 total as a miscellaneous deduction on line 20, Schedule A. It is then subject to the 2% of adjusted gross income limit. Carry over the $900 of your depreciation expense that exceeds the deduction limit to the next tax year, subject to the deduction limit for that year.

Self-Employed Persons

If you are self-employed and file Schedule C, attach Form 8829 to your return. If you file Schedule F, report your entire deduction for business use of the home, up to the limit discussed earlier (line 32 if you used the worksheet) on line 34 of Schedule F. Write ''Business Use of Home'' on the line beside the entry.

Deductible mortgage interest. If you file Schedule C, enter all your deductible mortgage interest on line 10 of Form 8829. After you have figured the business part of the mortgage interest on Form 8829, subtract that amount from the total mortgage interest on line 10. The remainder is deductible on Schedule A, lines 10 and 11. Do not deduct any of the business part on Schedule A. If the amount of interest you deduct on Schedule A for your home mortgage is limited, enter the excess on line 16 of Form 8829.

If you file Schedule F, include the business part of your deductible home mortgage interest with your total business use of the home expenses on line 34. You can use the worksheet at the back of this publication to figure the deductible part of mortgage interest.

To determine if the limits on qualified home mortgage interest apply to you, see the instructions for Schedule A or Publication 936.

Real estate taxes. If you file Schedule C, enter all your deductible real estate taxes on line 11 of Form 8829. After you have figured the business part of your taxes on Form 8829, subtract that amount from your total real estate taxes on line 11. The remainder is deductible on Schedule A, line 6. Do not deduct any of the business part of real estate taxes on Schedule A.

If you file Schedule F, include the business part of real estate taxes with your total business use of the home expenses on line 34. Enter the nonbusiness part of your real estate taxes on line 6 of Schedule A.

Casualty losses. If you file Schedule F, enter the business part of casualty losses (line 31 if you use the worksheet) on line 27 of Form 4684, Section B. Also complete lines 19 through 26 of Section B. Write ''See attached statement'' above line 27.

If you are using Form 8829, refer to the specific instructions for lines 9 and 27, and enter the amount from line 33 on line 27 of Form 4684, Section B. Write ''See Form 8829'' above line 27.

Other expenses. Report the other home expenses that would not be allowable if you did not use your home for business (insurance, maintenance, utilities, depreciation, etc.), on the appropriate lines of your Form 8829. If you rent rather than own your home, include the rent you paid on line 20. If any of these expenses exceed the deduction limit, carry them over to next year. They will be subject to the

Form **8829**

Department of the Treasury
Internal Revenue Service

Expenses for Business Use of Your Home

► File only with Schedule C (Form 1040). Use a separate Form 8829 for each home you used for business during the year.

► See separate instructions.

OMB No. 1545-1266

1995

Attachment Sequence No. 66

Name(s) of proprietor(s): MARY LAKE

Your social security number: 412 00 1234

Part I — Part of Your Home Used for Business

1	Area used regularly and exclusively for business, regularly for day care, or for inventory storage. See instructions	1	1,600
2	Total area of home	2	3,200
3	Divide line 1 by line 2. Enter the result as a percentage	3	50 %
	• **For day-care facilities not used exclusively for business, also complete lines 4–6.**		
	• **All others, skip lines 4–6 and enter the amount from line 3 on line 7.**		
4	Multiply days used for day care during year by hours used per day — 4: 3,000 hr.		
5	Total hours available for use during the year (365 days × 24 hours). See instructions — 5: 8,760 hr.		
6	Divide line 4 by line 5. Enter the result as a decimal amount — 6: .3425		
7	Business percentage. For day-care facilities not used exclusively for business, multiply line 6 by line 3 (enter the result as a percentage). All others, enter the amount from line 3 ►	7	17.13 %

gross income limit from the business use of your home next year.

If you file Schedule F, include your other home expenses that would not be allowable if you did not use your home for business (insurance, maintenance, utilities, depreciation, etc.), with your total business use of the home expenses on line 34 of Schedule F. If any of these expenses exceed the deduction limit, carry them over to the next year. They will be subject to the gross income limit from the business use of your home next year.

Business expenses not for the use of your home. Deduct in full your business expenses that are not for the use of your home (dues, salaries, supplies, certain telephone expenses, etc.) on the appropriate lines of Schedule C or Schedule F. Because these expenses are not for the use of your home, they are not subject to the deduction limit for business use of the home expenses.

Day-Care Facility

You can deduct expenses for using part of your home on a ***regular*** basis to provide day-care services if you meet the following requirements.

1) You must be in the trade or business of providing day care for children, for persons 65 or older, or for persons who are physically or mentally unable to care for themselves.
2) You must have applied for, been granted, or be exempt from having a license, certification, registration, or approval as a day-care center or as a family or group day-care home under applicable state law. You do not meet this requirement if your application was rejected or your license or other authorization was revoked.

If you regularly use part of your home for day care, figure what part of your home is used for it, as explained earlier under *Business Part of Home Expenses.* If you use that part exclusively for day care, deduct all the allocable expenses, subject to the deduction limit.

If the use of part of your home as a day-care facility is regular, but ***not*** exclusive, you must figure what part of available time you actually use it for business. 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 day care throughout each business day. You do not have to keep records to show the specific hours the area was used for business. You may use the area occasionally for personal reasons. However, a room you use only occasionally for business does not qualify for the deduction.

To find what part of the available time you actually use your home for business, compare the total business-use time to the total time that part of your home can be used for all purposes. You may compare the hours of business use in a week with the number of hours in a week (168). Or you may compare the hours of business use for the tax year with the number of hours in your tax year (8,760 in 1995).

Example 1. In 1995, Mary Lake uses her basement to operate a day-care business for children. Her home totals 3,200 square feet, and the basement includes 1,600 square feet or 50% of the total area of the home (1,600 ÷ 3,200). She uses the basement for day care an average of 12 hours a day, 5 days a week, for 50 weeks. During the other 12 hours, the family can use the basement. During the year, the basement is used for day care for a total of 3,000 hours (250 days × 12 hours). The basement can be used 8,760 hours (24 hours × 365 days) during the year. Only 34.25% (3,000 ÷ 8,760) of the expenses of her basement are business expenses. Mary may deduct 34.25% of any ***direct*** expenses for the basement. However, only 34.25% of the basement part of her ***indirect*** expenses are business expenses. Because the basement is 50% of the total area of her home, she can deduct 17.13% (34.25% of 50%) of her indirect expenses.

Mary completes Part I of Form 8829 as shown in Figure B.

Example 2. Assume the same facts as in Example 1 except that Mary also has another room that is available each business day for children to take naps in. Although she did not keep a record of the number of hours the room was actually used for naps, it was used for part of each business day. Since the room was available during regular operating hours each business day and was used regularly in the business, it is considered to be used for day care throughout each business day. In figuring her expenses, 34.25% of any direct expenses of the basement and room are deductible. In addition, 34.25% of the indirect expenses of the basement and room are business expenses. Because the basement and room are 60% of the total area of her home, Mary can deduct 20.55% (34.25% of 60%) of her indirect expenses.

Meals. If you provide food for your day-care business, do not include the expense as a cost of using your home for business. Claim it as a separate deduction on your Schedule C. You can deduct 100% of the cost of food consumed by your day-care recipients and 50% of the cost of food consumed by your employees as a business expense. But you can never deduct the cost of food consumed by you or your family.

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

Reimbursements you receive from a sponsor under the Child and Adult Food Care Program of the Department of Agriculture are only taxable 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. If your food expenses are greater than the reimbursements, show the difference as an expense in Part V of Schedule C. 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 reporting a payment from the sponsor.

Sale or Exchange of Your Home

If you sell your home and within 2 years buy one that costs more than the sale price of your old home, you must generally postpone recognizing any gain on the sale. But if in the year of sale you were able to deduct expenses for the business use of a part of your home, postpone recognizing gain only on the nonbusiness part. You must recognize any gain on the business part. Similarly, if you have a loss on the sale of your home, you can deduct the loss only on the business part. You cannot deduct any loss on the nonbusiness part.

To figure whether the cost of your new home is more than the sale price of your old home for postponing recognition of gain, compare the nonbusiness part of your old home's sale price with the nonbusiness part of your new home's cost.

If your business use does not meet the requirements for the allowance of a business deduction for the year of sale, do not divide the gain on the sale between the business and nonbusiness parts. Under these circumstances, all your gain can be postponed if your purchase of another home meets all the other requirements for this treatment.

For more information on the sale or exchange of a home used partly for business, see Publication 523.

Depreciation. If you used any part of your home for business, you must adjust the basis of your home for any depreciation you were allowed for its business use, even if you did not claim it. If you took less depreciation than you could have under the method you selected, you must decrease the basis by the amount you could have taken under that method. For more information, see Publication 551.

If you used ACRS, MACRS, or some other accelerated method to figure your depreciation, some of the gain on the sale of the business part of your home may be treated as ordinary income.

Business Furniture and Equipment

Even if you do not qualify for a business use of the home deduction, you may be allowed to take a depreciation deduction or elect a section 179 deduction for furniture and equipment you use in your home for business or work as an employee.

There are different rules, explained later, for property you bought to use for business and property you previously used for personal purposes.

If you placed furniture or equipment in service in your business before 1995, you continue to claim depreciation deductions over its recovery period. See Publication 946 for more information.

Listed Property

If you use certain types of property, called ***listed property,*** in your home, special rules apply to the depreciation deductions you are allowed to take. Listed property includes any property of a type generally used for entertainment, recreation, and amusement (including photographic, phonographic, communication, and video recording equipment). Listed property also includes computers and related equipment unless they are used in a qualifying office in your home. If you use your computer in a qualifying office in your home, see *Property Bought for Business Use,*later. For a complete discussion of listed property, see chapter 4 in Publication 946.

More-than-50% test. If you bought listed property and placed it in service in 1995, special rules apply. More than 50% of your use of the property must be for business (including work as an employee) during the tax year for you to claim a section 179 or an accelerated depreciation deduction. If your business use is 50% or less, you cannot take a section 179 deduction. You must figure the depreciation for it using the Alternate Depreciation System (ADS) method (straight line), as explained under *ADS System,* in Publication 946.

If you use listed property more than 50% in a business in the tax year the property is placed in service but not in a later year of the recovery period, determine your depreciation for property placed in service before 1987 using Table 16 in the Appendix of Publication 534. For property placed in service after 1986, you must use the ADS method. You determine your depreciation for the tax year and any subsequent tax years as if that listed property were not used more than 50% for business in the year it was placed in service.

In the tax year for which the use is 50% or less you may have to include in income (recapture) part of the depreciation claimed in earlier tax years. For more information on recapturing depreciation on listed property, see Publication 946.

Employee. If you use listed property, such as a home computer, in your work as an employee, it will not be treated as used for business for the more-than-50% test unless:

1) The use is for the convenience of your employer, and

2) The use is required as a condition of your employment.

''As a condition of your employment'' means that the use of the property is necessary for you to properly perform your work. Whether the use of the property is required for this purpose depends on all the facts and circumstances. Your employer does not have to tell you specifically to have a computer in your home. Nor is a statement by your employer to that effect sufficient.

Investment time. The time you use the computer for investments does not count as business-use time for the more-than-50% test. However, if you meet the more-than-50% test, you can take into account the combined business and investment time to figure your depreciation deduction under MACRS. If you do not meet the test, you can use the combined time to figure the depreciation deduction under the straight line method.

If you use your computer to produce income from investments, see Publication 529, *Miscellaneous Deductions.*

Reporting and substantiation 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 must keep adequate records to prove your business use of any listed property.

Property Bought for Business Use

If you bought certain property to use in your business, you can elect to deduct all or part of its cost as a ***section 179 deduction.*** You can generally claim the section 179 deduction on depreciable tangible personal property bought for use in the active conduct of your business. You cannot take a section 179 deduction for the basis of the business part of your home.

The total cost you can deduct cannot exceed $17,500. But there are certain provisions that can reduce this maximum.

The total cost that you can deduct each tax year is limited to your total taxable income from the active conduct of all your trade or business activities, including wages, during the tax year. Figure taxable income for this purpose in the usual way but without a deduction for the cost of the section 179 property or a deduction for half of the self-employment tax. See *How To Figure the Deduction,* in chapter 2 of Publication 946, for more information.

You 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 do not have to deduct the full cost of the property. You can deduct part of its cost under section 179 and depreciate the rest over its recovery period. 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 elect to take the section 179 deduction by completing Part I of Form 4562.

In Part II of Form 4562 you depreciate, under MACRS, the cost of depreciable property bought in 1995 that is not deducted under section 179. Most business property 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 equipment 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 more than 40% of your depreciable basis is placed in service during the last 3 months of your tax year, you must use the mid-quarter convention instead of the half-year convention.

Figure your depreciation by applying the appropriate percentage from the following table (which has been adjusted for the half-year convention) to each property's cost minus any section 179 deduction taken on the property.

	Percentages	
Recovery year	5-year property	7-year property
1	20%	14.29%
2	32%	24.49%
3	19.2%	17.49%
4	11.52%	12.49%
5	11.52%	8.93%
6	5.76%	8.92%
7		8.93%
8		4.46%

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

Example On September 16, 1995, Donald Kent bought a desk and three chairs for use in his office. His total bill for the furniture was $1,975. For 1995, his taxable business income was $3,000 without any deduction for the office furniture. Donald can elect to do one of the following:

1) Take a section 179 deduction for the full cost of the office furniture.
2) Take part of the cost of the furniture as a section 179 deduction and depreciate the balance.
3) Not take a section 179 deduction and depreciate the full cost of the office furniture.

The furniture is 7–year property. If Donald does not take a section 179 deduction, he multiplies $1,975, his cost of the furniture, by 14.29% (.1429) to get his depreciation deduction of $282.23.

Property Changed From Personal Use

If you began to use property in your home office that was used previously for personal purposes, you cannot take a section 179 deduction. The method of depreciation you use depends on when you first used the property for personal purposes.

If you began to use the property for personal purposes before 1981 and change it to business use in 1995, depreciate the property by the straight line or declining balance method based on salvage value and useful life.

If you began to use the property for personal purposes after 1981 and before 1987 and change it to business use in 1995, 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.

If you began to use the property for personal purposes after 1986 and change it to business use in 1995, depreciate the property under MACRS.

For a discussion of ACRS, see chapter 1 in Publication 534. For a discussion the other depreciation methods, see chapter 2 of Publication 534.

The basis for depreciation of property changed from personal to business use is the lesser of:

1) The adjusted basis of the property on the date of change, or
2) The fair market value of the property on the date of change.

Example 1. James Roe bought a desk for $1,000 on November 1, 1986. He began to use it in his home office on February 5, 1995, when it had a fair market value of $600. The depreciable basis of the desk is the fair market value of $600, which is less than its cost. Under ACRS, a desk is 5-year property. Under MACRS, it is 7-year property. Under ACRS, its depreciation is $90 (15%, the first year ACRS percentage for 5-year property, of $600). Under MACRS, its depreciation is $85.74 (14.29%, the first year percentage for 7-year property, of $600). Since the depreciation is greater using ACRS, James must use MACRS to depreciate his desk.

Example 2. Assume the same facts as in Example 1. However, the property is a computer. Under both ACRS and MACRS, a computer is 5-year property. Under ACRS, its depreciation is $90. Under MACRS, its depreciation is $120 (20%, the first year percentage for 5-year property, of $600). Since its depreciation is greater using MACRS, James must use ACRS to depreciate his computer.

Schedule C Example

The filled-in forms for Dan Stephens that follow show how to report deductions for the business use of your home if you file Schedule C. The first page of Schedule C, Form 8829, and Form 4562 are shown later. Only the expenses and information that relate to the business use of the home are discussed.

Schedule C. The following bold line references apply to Schedule C.

Line 13. Dan enters his deduction for depreciation of assets used in his home office on Form 4562, shown later, and on line 13.

When Dan began using part of the home for business in 1986, the furniture in it was 5-year property under ACRS. Tax year 1990 was the last year of the recovery period for that property. He has recovered his total depreciable basis in that property. He cannot deduct any depreciation for that property in 1995.

In March 1995 he bought a file cabinet for $600 and a copier for $2,500 to use in his business. He did not elect to take a section 179 deduction for either item. The file cabinet is 7-year property. The percentage from the table under *Property Bought for Business Use,* earlier, for the first year for 7-year property is 14.29%. He multiplies $600 by .1429 to get $86 ($85.74 rounded to the nearest dollar). The copier is 5-year property. The percentage for the first year is 20%. He multiplies $2,500 by .20 to get $500.

Dan enters the $500 depreciation for the copier on Form 4562, line 15(b), because it is 5-year property. He enters the $86 depreciation for the file cabinet on line 15(c) because it is 7-year property. He enters the $586 total on line 13 of Schedule C.

Line 16b. This amount is the interest on installment payments for the business assets Dan uses in his home office.

Line 25. Because Dan had a separate telephone line in his home office that he used only for business, he can deduct the $347 expense for it.

Lines 28-30. On line 28, Dan totals all of his expenses other than those for the business use of his home, and then he subtracts that total from his gross income. He uses the result, on line 29, to figure the deduction limit on his expenses for the business use of his home. He enters that amount on line 8 of Form 8829, and then completes the form. He enters the amount of his home office deduction from line 34, Form 8829, on line 30 of Schedule C.

Form 8829, Part I. Dan began to use one room of his home exclusively and regularly to meet clients in August 1986. In Part I of Form 8829 he shows that, based on the square footage, the room is 10% of his home.

Form 8829, Part II. Dan uses Part II of Form 8829 to figure his allowable home office deduction.

Step 1. First, Dan figures the business part of expenses that would be deductible even if he did not use part of his home for business. Because these expenses ($4,500 deductible mortgage interest and $1,000 real estate taxes) relate to his entire home, he enters them in column (b) of lines 10 and 11. He then subtracts the $550 business part of these expenses (line 14) from his tentative business profit (line 8). The result, $28,295 on line 15, is the maximum amount he can deduct for his other home office expenses.

Step 2. Next, Dan figures his deduction for operating expenses. He paid $300 to have his office repainted. He enters this amount on line 18, column (a) because it is a direct expense. All of his other expenses ($400 homeowner's insurance, $1,400 roof repairs, and $1,800 heating and lighting) relate to his entire home. Therefore, he enters them in column (b) on the appropriate lines. He adds the $300 direct expenses (line 21) to the $360 total for indirect expenses (line 22) and enters the total, $660, on line 24. Because this amount is less than his deduction limit, he can deduct it in full. The $27,635 balance of his deduction limit (line 26) is the maximum amount he can deduct for depreciation.

Step 3. Next, Dan figures his allowable depreciation deduction for the business use of his home. In Part III of Form 8829, he determines that the basis of his home office (line 38) is $6,000. Because he began using the office in August 1986, it is 19-year real property under ACRS. 1995 is the tenth year of the recovery period and, because Dan files his return based on the calendar year, August is the eighth month of his tax year. Using Table 6 in the Appendix of Publication 534, Dan finds that the depreciation percentage for the tenth year of the recovery period, for assets placed in service in the eighth month, is 4.2%. Therefore, his depreciation for 1995 (line 40) is $252. He enters that amount in Part II on lines 28 and 30. Because it is less than the available balance of his deduction limit (line 26), he can deduct the full amount of depreciation.

Step 4. Finally, Dan figures his total deduction for his home office by adding together his otherwise deductible expenses (line 14), his operating expenses (line 25), and depreciation (line 31). He enters the result, $1,462, on lines 32 and 34, and on Schedule C, line 30.

Instructions for the Worksheet

Part 1—Part of Your Home Used for Business

If you are an employee or file Schedule F, use the worksheet on the following page to figure your deduction limits for each type of expense. If you file Schedule C, use Form 8829 to figure the deductions and attach the form to your return. The amounts you enter on the worksheet may differ from your actual deductions for business expenses. Differences will be explained when they occur.

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 may use any other reasonable method that accurately reflects your business use percentage. If you operate a day-care 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 *Day-Care Facility,* earlier.

Part 2—Figure Your Allowable Deduction

If you file Schedule F, enter your total gross income from the business use of your home on line 4. This would generally be the amount on line 11 of Schedule F.

If you are an employee, enter your total wages that were from business use of the home on line 4.

Enter your total expenses paid for deductible mortgage interest, real estate taxes, and casualty losses on lines 5 through 7 of the worksheet. Under column (a), *Direct Expenses,* enter expenses that benefit only the business part of your home. Under column (b), *Indirect Expenses,* enter expenses that benefit the entire home. You generally enter 100% of the expense. However, if the business percentage of an indirect expense is different from the percentage on line 3, enter only the business part of the expense on the appropriate line in column (a), and leave that line in column (b) blank. See *Utilities and Services,* earlier.

Enter only the amounts that would be deductible whether or not you used your home for business. In other words, these amounts would normally be allowable as itemized deductions on Schedule A. Only the part of a casualty loss that exceeds $100 plus 10% of adjusted gross income is included here.

Multiply your total expenses by the business percentage from line 3. Enter the result on line 9. Add this amount to the total Direct Expenses and enter the total on line 10.

On line 11, enter any other business expenses that are not attributable to business use of the home. For employees, examples include travel, supplies, and business telephone expenses. Farmers should generally enter their total farm expenses before deducting office in the home expenses. Do not enter the deduction for half the self-employment tax. Add the expenses on line 11 to the line 10 amount, and enter the total on line 12. Subtract the line 12 amount from line 4, and enter the result on line 13. This is your gross income limit. You use it to determine whether you can deduct any of your other expenses for business use of the home this year. If you cannot, you will carry them over to next year.

If line 13 is zero, deduct your expenses for deductible home mortgage interest, real estate taxes, and casualty losses that would be deductible if you did not use your home for business. Also deduct any business expenses not attributable to use of your home on the appropriate lines of the schedule(s) for Form 1040 as explained earlier under *Where To Deduct.*

On lines 14 through 18, enter the total expenses for the business use of your home that would not be allowable if your home were not used for business. These include utilities, insurance, repairs, and maintenance. If you rent, include the amount paid on line 18. If you file Schedule F, include any part of your home mortgage interest that is more than the limits given in Publication 936. (If you are an employee, do not enter any excess home mortgage interest). In column (a), enter the expenses that benefit only the business part of your home (Direct Expenses). In column (b), enter the expenses that benefit the entire home (Indirect Expenses). Multiply line 19, column (b) by the business use percentage and enter this amount on line 20.

If you claimed a deduction for business use of your home on your 1994 tax return, enter the amount from line 39 of your 1994 worksheet on line 21.

On lines 24 through 29, figure your limit on deductions for excess casualty losses and depreciation.

On line 25, figure the excess casualty loss by multiplying the business use percentage from line 3 by the part of casualty losses that would not be allowable if you did not use your home for business ($100 plus 10% of your adjusted gross income).

On line 26, enter the depreciation deduction from Part 3 below.

On lines 27 through 29, figure your allowable excess casualty losses and depreciation.

If you claimed a deduction for business use of your home on your 1994 tax return, enter the amount from line 40 of your 1994 worksheet on line 27.

On line 30 total all allowable business use of the home deductions.

On line 31, add the casualty losses shown on line 10 and line 29. Enter the amount from line 31 on line 27 of Form 4684, Section B. See the instructions for Form 4684 for more information on completing that form.

Line 32 is the total amount (other than casualty losses) allowable as a deduction for business use of your home. If you file Schedule F, report this amount as an entry on line 34 of Schedule F and write ''Business Use of Home'' on the line beside the entry. Do not add the specific expenses into other line totals of Part II.

If you are an employee, see *Where To Deduct,* earlier, for information on how to claim the deduction.

Part 3—Depreciation of Your Home

Figure your depreciation deduction on lines 33 through 38. On line 33, enter the smaller of the adjusted basis or the fair market value of the property at the time you first used it for business. Do not adjust this amount for changes in basis or value after that date. Allocate the basis between the land and the building on lines 34 and 35. You cannot depreciate any part of the land. On line 37, enter the correct percentage for the current year from the tables in Publication 946. Multiply this percentage by the business basis to get the depreciation deduction. Enter this figure on line 38 and line 26. Complete and attach ***Form 4562*** to your return if this is the first year you used your home or an improvement or addition to your home in business.

SCHEDULE C (Form 1040)

Department of the Treasury Internal Revenue Service (T)

Profit or Loss From Business

(Sole Proprietorship)

▶ Partnerships, joint ventures, etc., must file Form 1065.

▶ Attach to Form 1040 or Form 1041. ▶ See Instructions for Schedule C (Form 1040).

OMB No. 1545-0074

1995

Attachment Sequence No. 09

Name of proprietor: DAN STEPHENS

Social security number (SSN): 465 00 0001

A Principal business or profession, including product or service (see page C-1): TAX PREPARATION

B Enter principal business code (see page C-6) ▶ 7 6 3 3

C Business name. If no separate business name, leave blank. STEPHENS TAX SERVICE

D Employer ID number (EIN), if any

E Business address (including suite or room no.) ▶ 821 UNION STREET
City, town or post office, state, and ZIP code: HOMETOWN, IA 52761

F Accounting method: (1) ☒ Cash (2) ☐ Accrual (3) ☐ Other (specify) ▶

G Method(s) used to value closing inventory: (1) ☐ Cost (2) ☐ Lower of cost or market (3) ☐ Other (attach explanation) (4) ☒ Does not apply (if checked, skip line H)

	Yes	No
H Was there any change in determining quantities, costs, or valuations between opening and closing inventory? If "Yes," attach explanation		
I Did you "materially participate" in the operation of this business during 1995? If "No," see page C-2 for limit on losses.	X	

J If you started or acquired this business during 1995, check here ▶ ☐

Part I Income

1	Gross receipts or sales. **Caution:** *If this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, see page C-2 and check here* ▶ ☐	1	34,280
2	Returns and allowances	2	-0-
3	Subtract line 2 from line 1	3	34,280
4	Cost of goods sold (from line 40 on page 2)	4	-0-
5	**Gross profit.** Subtract line 4 from line 3	5	34,280
6	Other income, including Federal and state gasoline or fuel tax credit or refund (see page C-2)	6	-0-
7	**Gross income.** Add lines 5 and 6 ▶	7	34,280

Part II Expenses. Enter expenses for business use of your home only on line 30.

8 Advertising	8	250	
9 Bad debts from sales or services (see page C-3)	9		
10 Car and truck expenses (see page C-3)	10	1,266	
11 Commissions and fees	11		
12 Depletion	12		
13 Depreciation and section 179 expense deduction (not included in Part III) (see page C-3)	13	586	
14 Employee benefit programs (other than on line 19)	14		
15 Insurance (other than health)	15	750	
16 Interest:			
a Mortgage (paid to banks, etc.)	16a		
b Other	16b	200	
17 Legal and professional services	17	350	
18 Office expense	18	600	
19 Pension and profit-sharing plans	19		
20 Rent or lease (see page C-4):			
a Vehicles, machinery, and equipment	20a		
b Other business property	20b		
21 Repairs and maintenance	21		
22 Supplies (not included in Part III)	22	253	
23 Taxes and licenses	23		
24 Travel, meals, and entertainment:			
a Travel	24a	310	
b Meals and entertainment			512
c Enter 50% of line 24b subject to limitations (see page C-4)			256
d Subtract line 24c from line 24b	24d	256	
25 Utilities	25	347	
26 Wages (less employment credits)	26		
27 Other expenses (from line 46 on page 2)	27	267	

28	**Total expenses** before expenses for business use of home. Add lines 8 through 27 in columns ▶	28	5435
29	Tentative profit (loss). Subtract line 28 from line 7	29	28,845
30	Expenses for business use of your home. Attach **Form 8829**	30	1,462
31	**Net profit or (loss).** Subtract line 30 from line 29. • If a profit, enter on **Form 1040, line 12,** and ALSO on **Schedule SE, line 2** (statutory employees, see page C-5). Estates and trusts, enter on Form 1041, line 3. • If a loss, you MUST go on to line 32.	31	27,383

32 If you have a loss, check the box that describes your investment in this activity (see page C-5).
• If you checked 32a, enter the loss on **Form 1040, line 12,** and ALSO on **Schedule SE, line 2** (statutory employees, see page C-5). Estates and trusts, enter on Form 1041, line 3.
• If you checked 32b, you MUST attach **Form 6198.**

32a ☐ All investment is at risk.
32b ☐ Some investment is not at risk.

For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 11334P **Schedule C (Form 1040) 1995**

Form **8829**

Department of the Treasury
Internal Revenue Service

Expenses for Business Use of Your Home

▶ File only with Schedule C (Form 1040). Use a separate Form 8829 for each home you used for business during the year.

▶ See separate instructions.

OMB No. 1545-1266

1995

Attachment Sequence No. 66

Name(s) of proprietor(s): DAN STEPHENS

Your social security number: 465 00 0001

Part I — Part of Your Home Used for Business

1	Area used regularly and exclusively for business, regularly for day care, or for inventory storage. See instructions	1	200
2	Total area of home	2	2,000
3	Divide line 1 by line 2. Enter the result as a percentage	3	10 %
	• **For day-care facilities not used exclusively for business, also complete lines 4-6.**		
	• **All others, skip lines 4-6 and enter the amount from line 3 on line 7.**		
4	Multiply days used for day care during year by hours used per day . . . 4 _____ hr.		
5	Total hours available for use during the year (365 days × 24 hours). See instructions . . . 5 8,760 hr.		
6	Divide line 4 by line 5. Enter the result as a decimal amount . . . 6 .		
7	Business percentage. For day-care facilities not used exclusively for business, multiply line 6 by line 3 (enter the result as a percentage). All others, enter the amount from line 3 ▶	7	10%

Part II — Figure Your Allowable Deduction

			(a) Direct expenses	(b) Indirect expenses		
8	Enter the amount from Schedule C, line 29, plus any net gain or (loss) derived from the business use of your home and shown on Schedule D or Form 4797. If more than one place of business, see instructions				8	28,845
	See instructions for columns (a) and (b) before completing lines 9-20.					
9	Casualty losses. See instructions	9				
10	Deductible mortgage interest. See instructions	10		4,500		
11	Real estate taxes. See instructions	11		1,000		
12	Add lines 9, 10, and 11	12		5,500		
13	Multiply line 12, column (b) by line 7	13		550		
14	Add line 12, column (a) and line 13				14	550
15	Subtract line 14 from line 8. If zero or less, enter -0-				15	28,295
16	Excess mortgage interest. See instructions	16				
17	Insurance	17		400		
18	Repairs and maintenance	18	300	1,400		
19	Utilities	19		1,800		
20	Other expenses. See instructions	20				
21	Add lines 16 through 20	21	300	3,600		
22	Multiply line 21, column (b) by line 7	22		360		
23	Carryover of operating expenses from 1994 Form 8829, line 41	23				
24	Add line 21 in column (a), line 22, and line 23				24	660
25	Allowable operating expenses. Enter the smaller of line 15 or line 24				25	660
26	Limit on excess casualty losses and depreciation. Subtract line 25 from line 15				26	27,635
27	Excess casualty losses. See instructions	27				
28	Depreciation of your home from Part III below	28		252		
29	Carryover of excess casualty losses and depreciation from 1994 Form 8829, line 42	29				
30	Add lines 27 through 29				30	252
31	Allowable excess casualty losses and depreciation. Enter the smaller of line 26 or line 30				31	252
32	Add lines 14, 25, and 31				32	1,462
33	Casualty loss portion, if any, from lines 14 and 31. Carry amount to Form 4684, Section B				33	
34	Allowable expenses for business use of your home. Subtract line 33 from line 32. Enter here and on Schedule C, line 30. If your home was used for more than one business, see instructions ▶				34	1,462

Part III — Depreciation of Your Home

35	Enter the smaller of your home's adjusted basis or its fair market value. See instructions	35	75,000
36	Value of land included on line 35	36	15,000
37	Basis of building. Subtract line 36 from line 35	37	60,000
38	Business basis of building. Multiply line 37 by line 7	38	6,000
39	Depreciation percentage. See instructions	39	4.2%
40	Depreciation allowable. Multiply line 38 by line 39. Enter here and on line 28 above. See instructions	40	252

Part IV — Carryover of Unallowed Expenses to 1996

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	

For Paperwork Reduction Act Notice, see page 1 of separate instructions. Printed on recycled paper Cat. No. 13232M Form **8829** (1995)

Form **4562**

Department of the Treasury
Internal Revenue Service (T)

Depreciation and Amortization
(Including Information on Listed Property)

▶ See separate instructions. ▶ Attach this form to your return.

1995
Attachment Sequence No. 67

Name(s) shown on return	Business or activity to which this form relates	Identifying number
DAN STEPHENS	TAX PREPARATION	465-00-0001

Part I **Election To Expense Certain Tangible Property (Section 179) (Note:** *If you have any "Listed Property," complete Part V before you complete Part I.)*

1	Maximum dollar limitation. If an enterprise zone business, see page 1 of the instructions	1	$17,500
2	Total cost of section 179 property placed in service during the tax year. See page 2 of the instructions	2	
3	Threshold cost of section 179 property before reduction in limitation	3	$200,000
4	Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-	4	
5	Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see page 2 of the instructions	5	

	(a) Description of property	(b) Cost	(c) Elected cost
6			
7	Listed property. Enter amount from line 27	7	

8	Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7	8	
9	Tentative deduction. Enter the smaller of line 5 or line 8	9	
10	Carryover of disallowed deduction from 1994. See page 2 of the instructions	10	
11	Taxable income limitation. Enter the smaller of taxable income (not less than zero) or line 5 (see instructions)	11	
12	Section 179 expense deduction. Add lines 9 and 10, but do not enter more than line 11	12	
13	Carryover of disallowed deduction to 1996. Add lines 9 and 10, less line 12 ▶ 13		

Note: *Do not use Part II or Part III below for listed property (automobiles, certain other vehicles, cellular telephones, certain computers, or property used for entertainment, recreation, or amusement). Instead, use Part V for listed property.*

Part II **MACRS Depreciation For Assets Placed in Service ONLY During Your 1995 Tax Year (Do Not Include Listed Property.)**

Section A—General Asset Account Election

14 If you are making the election under section 168(i)(4) to group any assets placed in service during the tax year into one or more general asset accounts, check this box. See page 2 of the instructions ▶ ☐

(a) Classification of property	(b) Month and year placed in service	(c) Basis for depreciation (business/investment use only—see instructions)	(d) Recovery period	(e) Convention	(f) Method	(g) Depreciation deduction
Section B—General Depreciation System (GDS) (See page 2 of the instructions.)						
15a 3-year property						
b 5-year property		2,500	5	HY	200DB	500
c 7-year property		600	7	HY	200DB	86
d 10-year property						
e 15-year property						
f 20-year property						
g Residential rental property			27.5 yrs.	MM	S/L	
			27.5 yrs.	MM	S/L	
h Nonresidential real property			39 yrs.	MM	S/L	
				MM	S/L	
Section C—Alternative Depreciation System (ADS) (See page 4 of the instructions.)						
16a Class life					S/L	
b 12-year			12 yrs.		S/L	
c 40-year			40 yrs.	MM	S/L	

Part III **Other Depreciation (Do Not Include Listed Property.)** (See page 4 of the instructions.)

17	GDS and ADS deductions for assets placed in service in tax years beginning before 1995	17	
18	Property subject to section 168(f)(1) election	18	
19	ACRS and other depreciation	19	252

Part IV **Summary** (See page 4 of the instructions.)

20	Listed property. Enter amount from line 26	20	
21	**Total.** Add deductions on line 12, lines 15 and 16 in column (g), and lines 17 through 20. Enter here and on the appropriate lines of your return. Partnerships and S corporations—see instructions	21	838
22	For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs	22	

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Part 4—Carryover of Unallowed Expenses to 1996

Complete these lines to determine the expenses that must be carried forward to next year.

Figure B. **Worksheet to Figure the Deduction for Business Use of Your Home**

PART 1—Part of Your Home Used for Business:

		(a) Direct Expenses	(b) Indirect Expenses	
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)			3) %

PART 2—Figure Your Allowable Deduction:

		(a) Direct Expenses	(b) Indirect Expenses	
4)	Gross income from business (see instructions)			4)
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)	Gross income limit. Subtract line 12 from line 4			13)
14)	Excess mortgage interest	14)		
15)	Insurance	15)		
16)	Repairs and maintenance	16)		
17)	Utilities	17)		
18)	Other expenses	18)		
19)	Add lines 14 through 18	19)		
20)	Multiply line 19, column (b) by line 3		20)	
21)	Carryover of operating expenses from 1994 (See Instructions)		21)	
22)	Add line 19, column (a), line 20, and line 21			22)
23)	Allowable operating expenses. Enter the **smaller** of line 13 or line 22			23)
24)	Limit on excess casualty losses and depreciation. Subtract line 23 from line 13			24)
25)	Excess casualty losses (see instructions)		25)	
26)	Depreciation of your home from line 38 below		26)	
27)	Carryover of excess casualty losses and depreciation from 1994 (See Instructions)		27)	
28)	Add lines 25 through 27			28)
29)	Allowable excess casualty losses and depreciation. Enter the **smaller** of line 24 or line 28			29)
30)	Add lines 10, 23, and 29			30)
31)	Casualty losses included on lines 10 and 29 (see instructions)			31)
32)	Allowable expenses for business use of your home. (Subtract line 31 from line 30). See instructions for where to enter on your return			32)

PART 3—Depreciation of Your Home

33)	Smaller of adjusted basis or fair market value of home (see instructions)	33)
34)	Basis of land	34)
35)	Basis of building (Subtract line 34 from line 33)	35)
36)	Business basis of building (Multiply line 35 by line 3)	36)
37)	Depreciation percentage (from applicable table or method)	37)
38)	Depreciation allowable (multiply line 36 by line 37)	38)

PART 4—Carryover of Unallowed Expenses to 1996

39)	Operating expenses. Subtract line 23 from line 22. If less than zero, enter –0–	39)
40)	Excess casualty losses and depreciation. Subtract line 29 from line 28. If less than zero, enter –0–	40)

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