

New Rules for Home-Office Breaks

By JONNELLE MARTE

Claiming the home-office deduction—long considered a red flag for audits—is about to get easier.

The Internal Revenue Service announced this past week it is introducing a simplified option for claiming the deduction, which owners of home-based businesses and some other home-based workers use to write off the expense of using part of their residence for work. Experts say the tax break often is passed up by many taxpayers because the calculations required to apply for it are so complicated.

Under the new rules, which reduce the paperwork and calculations needed to file the deduction, business owners will be able to claim \$5 for every square

foot of home-office space, up to 300 square feet, for a maximum deduction of \$1,500. The new option will be available for 2013 tax returns and comes with a much simpler form, the IRS says.

The current method requires taxpayers to file Form 8829, which involves often-complex calculations factoring in not only the square footage of the home used for work, but property depreciation and other costs like utility bills and real-estate taxes.

Some business owners will save more by sticking with the original form, which isn't subject to the \$1,500 cap. That will especially be the case for people with large offices or high utility bills, says Kristie Arslan, president and CEO of the National Association for the Self-Employed, one of several groups pushing for a simplified alternative.

"But you have to spend the time and go through the calculations," she says.

The change is a big win for small-business owners with home offices who often avoided filing for the deduction out of fear that an error on the form would trigger an audit, Ms. Arslan says. The IRS doesn't say what type of information leads to audits, but "so many people make mistakes," she says.

Nearly 3.4 million taxpayers claimed the home-office deduction in 2010, according to the most recent data available from the IRS. The simplified option could increase those numbers significantly. A 2008 survey by the National Association for the Self-Employed found that nearly 60% of the business owners who used home offices didn't file for the deduction.