



PIECES OF THE PUZZLE

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How to Claim Home Office Expenses for S Corporation Shareholders

The home office deduction has long been favored by many self-employed taxpayers as a means to lower their tax liability on self-employment income. A portion of mortgage interest, rent, property taxes, utilities, home maintenance and more that is allocable to the business use portion of the taxpayer's home may be deducted on Form 8829 for the self-employed taxpayer who reports income on a Schedule C (typically an unincorporated business or single member limited liability company). However, upon passage of the Tax Cuts and Jobs Act (TCJA) in 2017, changes took effect in 2018 which mean that the same option is no longer available to taxpayers who report income through their Subchapter S Corporation, as miscellaneous itemized deductions (such as unreimbursed employee expenses) on Schedule A were eliminated.

What alternatives are available for the S corporation taxpayer who wants to still be able to claim a deduction for their use of a home office? An attractive option is the use of an Accountable Plan, under which the shareholder, in his or her capacity as an employee of the S corporation, tracks home office expenses in an Accountable Plan and is reimbursed by the corporation. The expenses are deductible by the business and not taxable income to the shareholder-employee. This is a favorable alternative to the arrangement under which a corporation deducts rent for the use of the home office which is then taxable rental income to the shareholder.

How to use an Accountable Plan

In order to claim this deduction, maintaining appropriate documentation such as receipts during the tax year is important. To compute the home office deduction, the square footage of the area of the home that is used exclusively for business is divided by the square footage of the total home. Then, this number is multiplied by 100, and this equals the business use percentage that will be applied to all home office expenses. Allowable expenses may include the following as applicable:

- Mortgage interest
- Property taxes
- Rent
- Utilities
- Homeowners' association dues

- Insurance
- Repairs and maintenance
- Pest control

A few caveats

A few deductions are not allowed under an Accountable Plan. First, there is no deduction for depreciation of the home or mortgage principal payments. Second, mortgage interest and property taxes deducted as itemized deductions on Schedule A must be reduced by the amount that is deducted as a home office business expense under the Accountable Plan. The IRS won't allow a deduction for these items to be taken twice! Third, home office expenses deducted must not exceed the net income that is derived from the business activity during the tax year under Section 280A of the Internal Revenue Code. However, expenses that are disallowed for this reason are allowed to be carried forward and deducted in future tax years when there is sufficient taxable income to offset the deductions.

As always, we at Howard & Company, CPAs, P.A. are happy to assist you in planning and implementing this and other tax strategies.

If you have any questions, please feel free to contact us.



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