



## FACT SHEET

### Simplification of Home Office Tax Deduction

#### **Background**

On Tuesday, January 5, 2013, the Department of Treasury announced that starting in the 2013 tax year, a *new* simplified deduction calculation would be available for those with a home office, used regularly and exclusively for business, resulting in a \$1,500 standard deduction. Based on \$5 per square foot calculation, that would cap the allowable space to 300 square feet.

For well over a decade, the National Association for the Self-Employed (NASE) has implored the U.S. Department of Treasury, the Small Business Administration, and Congress, to address the complex nature of the Home Office Deduction. The cumbersome process for calculating the deduction, involving both direct and indirect expenses, deterred nearly half of home-based business from completing the IRS Form 8829.

Over the years, the NASE has advocated for a standard \$1,500 deduction that would allow for the nearly 9 million home-based businesses to easily take the Home Office Deduction without error. Not surprisingly the IRS simplification offers just that, a standard \$1,500 deduction based on a square-footage calculation.

#### **NASE Legislative Efforts on Home Office Deduction:**

- (2008) Introduction of H.R. 6214, *Home Office Deduction Simplification Act of 2008*, in the 110<sup>th</sup> Congress;
- (2008) Testimony by Scott Scribner to the House Committee on Small Business Subcommittee on Regulations, Health Care and Trade, on burdensome regulation, including the Home Office Deduction;
- (2009) Introduction of H.R. 3615, *The Home Office Deduction Simplification Act*, in the 111<sup>th</sup> Congress;
- (2009) Introduction of S. 1754, *The Home Office Deduction Simplification Act*, in the 111<sup>th</sup> Congress;
- (2010) Support of S. Amendment #4430 to H.R. 5297, *Small Business Jobs Act of 2010*, which added the Home Office Deduction Simplification to H.R. 5297;
- (2011) Introduction of H.R. 1827, *Home Office Deduction Simplification Act of 2011*, in the 112<sup>th</sup> Congress.

The NASE also worked with the SBA Office of Advocacy to nominate the Home Office Deduction as part of their Regulatory Review and Reform (r3) initiative in 2008 and 2009. The SBA Office of Advocacy consistently selected the home office deduction as one of the top 10 regulations needing reform.

Additional advocacy efforts included meetings with officials at the U.S. Department of Treasury, IRS, and the Small Business Administration, over the course of the years to request administrative action to simplify the deduction.

## How the Home Office Deduction Will Change?

The NASE estimates that nearly half of the 9 million home-based businesses do not elect to complete the IRS Form 8829 (Standard Deduction for Expenses for Business Use of Your Home) due to the complex nature of the instructions.

### Old Form

- One page long, with 43 lines;
- The words “see instructions” appears 17 times;
- There are four pages of instructions;
- Part III must be completed before Part II can be completed.

### New Form (example; not IRS document)

Form <b>8829-EZ</b>		Standard Deduction For Expenses for Business Use of Your Home		OMB No. 1545-0074
Department of the Treasury Internal Revenue Service (99)		▶ File only with Schedule C (Form 1040). Use a separate Form 8829 for each home you used for business during the year. ▶ Information about Form 8829 and its separate instructions is at <a href="http://www.irs.gov/form8829">www.irs.gov/form8829</a> .		<b>2012</b> Attachment Sequence No. <b>176</b>
Name(s) of proprietor(s)			Your social security number	
<b>Part I Part of Your Home Used for Business</b>				
1 Area used regularly and exclusively for business, Enter the square footage of your home office			→	1
<b>Part II YES or NO</b>				
		YES	NO	
1	Did you use the space in your home regularly for business?	<input type="checkbox"/>	<input type="checkbox"/>	
2	Did you use the space in your home exclusively for business?	<input type="checkbox"/>	<input type="checkbox"/>	
If you checked 'Yes' to both questions continue to Part III. If you checked "No" to either question STOP here, you do not qualify for the home office deduction.				
<b>Part III The Math</b>				
Multiply Line 1 by \$5 and enter here			→	2
				3
				\$1,500
Enter the smaller of lines 2 and 3 here and on Schedule C, Line 30				4

Estimated time to complete this form.....2 minutes

**When Does the New Simplified Option to the Home Office Deduction Kick In?**

The new deduction will be eligible starting in the 2013 tax year (i.e. when you file in 2014) and will potentially impact roughly 18 million self-employed Schedule C filers. The eligibility requirements will remain the same: use of your home-office space regularly and exclusively for business.

**For NASE members, if you have any questions regarding the new option to the home office deduction, please contact NASE National Tax Advisor Keith Hall via our “Ask the Experts” membership benefit.**

**<http://www.nase.org/LearningCenter/AsktheExperts.aspx>**