

# Will Your Home Office Pass the “Test”?

The Supreme Court has upheld the Internal Revenue Service (IRS) interpretation of the principal-place-of-business test in a decision that may have far-reaching tax implications. Here's a little more in-depth information on the home office issue. A near unanimous Court said that it is not enough that one's work in the home be essential to one's business. Instead, you must spend a significant amount of time at home actually seeing clients or patients rather than use your home office space for administrative tasks such as billing and recordkeeping.

The law states that the deductibility of a home office is based on its exclusive and regular use as a principal place of business; or as the place where the taxpayer meets clients; or that it is a separate structure for business use only. The IRS looks at the relative importance of functions performed in the home office vs. those performed at other locations, as well as the amount of time spent at each.

While not every home office deduction will be lost, individuals who believe they are entitled to the deduction should now consider maintaining *detailed* records of the clients with whom they meet and the number of hours they spend working at home.

If you have deducted home office expenses in the past, you may want to seek professional tax counsel on your position as soon as possible, and don't be surprised if you receive advice to amend past returns in light of the Court's ruling.

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