Is the occasional use of a home office deductible?

Let's say you're an employee who normally goes to work at your employer's offices, but you also use your home office to do work for your employer—for example, when your employer's offices are closed, or simply to do work after-hours or on weekends. Can you deduct any of your expenses for your home office?

For 2018-2025 employee home office expenses are nondeductible. Unfortunately, for 2018 through 2025, employee business expenses (including the expenses of maintaining a home office) are completely disallowed. After 2025 (and before 2018), an employee's home office expenses may be claimed as miscellaneous itemized deductions, but are subject to very strict rules that you will likely find difficult to meet.

After 2025 (and before 2018) employee home office expenses are deductible, within narrow limits. Starting in 2026, you may be able to deduct costs of maintaining a home office at which you do your job, if you comply with the following rules.

Convenience of the employer requirement. For employees such as yourself, the first—and most significant—obstacle to qualifying for home office deductions in years after 2025 is the convenience of the employer requirement. An employee will be able to deduct home office expenses only if the home office is maintained for the convenience of their employer. This requirement will be satisfied if:

- you maintain your home office as a condition of employment—in other words, if your employer specifically requires you to maintain the home office and work there;
- your home office is necessary for the functioning of your employer's business; or
- your home office is necessary to allow you to perform your duties as an employee properly.

The convenience of the employer requirement is hard to meet. To do so, you must maintain your home office for your employer's convenience, and not for your own. The convenience-of-the-employer requirement isn't satisfied if your use of a home office is for your convenience, or is merely appropriate and helpful in doing your job. Merely doing work for your employer in your home office doesn't make your use of your home office for the convenience of your employer. It's not enough that your employer benefits from the work you do in the home office. Using a home office for overtime work because it's more convenient for you isn't, under these rules, for the convenience of your employer. Nor is using your home office to do work when your employer's offices are closed—unless your required work hours extend beyond the time those offices are open, and the employer doesn't provide any alternative space for you to work in.

Moreover, if your employer doesn't specifically require you to do work at home or to maintain a home office, and provides you with adequate office space on its premises that is reasonably available for you to do your required work, your maintenance of a home office won't be treated as for the convenience of the employer.

If you manage to overcome the convenience of the employer obstacle—for example, because your employer does require you to maintain a home office and work there, or because your employer doesn't provide adequate office space where you can do what you are required to do as an employee—there are other hurdles. You must meet one of the three tests described below: the separate structure test, the place for meeting patients, clients or customers test, or the principal place of business test.

Separate structures. You'll be able to deduct the costs of a separate structure that isn't attached to your dwelling unit that is used exclusively and on a regular basis as a home office for your activities as an employee.

Home office used for meeting patients, clients, or customers. Your home office expenses will be deductible if you use your home office, exclusively and on a regular basis, to meet or deal with patients, clients, or customers of your employer in the normal course of your duties as an employee. The patients, clients or customers must be physically present in the home office. Telephone calls to them from your home office won't do the trick.

Principal place of business. You'll be able to deduct your home office expenses if you use your home office, exclusively and on a regular basis, as the principal place of business for your work as an employee. Unless you spend most of your work time in the home office (or unless you satisfy the rules described below), you're not likely to meet this test.

A home office will qualify as your “principal place of business” if you use the home office, exclusively and on a regular basis, to conduct administrative or management activities required in your capacity as an employee, if there is no other fixed location where you conduct those activities, and if your use of the home office for these purposes is for the convenience of your employer. Therefore, unless your workplace at your employer's offices is wholly inadequate for performing the administrative or management tasks required as part of your job, and your use of the home office otherwise satisfies the convenience of the employer requirement discussed above, you probably won't be able to take advantage of this new rule.

Exclusive and regular use requirements. As noted above, when you claim to be using your home office under any of the three tests outlined above, the home office must be used exclusively and on a regular basis in connection with your work as an employee.

The exclusive use requirement means that you must use your home office *solely* for the purpose of carrying on your work as an employee. Any other use of the home office will result in loss of all deductions for your home office expenses. For example, if you work in a den that your children use to watch television, the den fails the exclusive use requirement.

The regular basis requirement means that you must use the home office in connection with your work as an employee on a continuous, ongoing or recurring basis. Generally, this means a few hours a week, every week. Occasional, “once-in-a-while” business use won't do.

Determining and reporting deductible home office expenses. If you succeed in satisfying the various requirements discussed above, you'll determine the amount of your deductible home-office expenses on a special worksheet, and report them on Schedule A as below-the-line miscellaneous itemized deductions. These will be deductible in years after 2025 only to the extent that they, together with all your other miscellaneous itemized deductions, exceed 2% of your adjusted gross income.

Computers and related equipment. If your use of your home office qualifies under any of the rules discussed above, you'll be allowed to deduct (mainly as depreciation) the unreimbursed cost of computers and related equipment that you use in the home office, and the deductions aren't subject to the “listed property” restrictions that would otherwise apply. But even if your use of your home office doesn't qualify under the above rules, you'll still be able to deduct (again, mainly as depreciation) the unreimbursed cost of computers and related equipment that you use at home in connection with your employment, subject to those “listed property” restrictions. In either case, you'll figure the depreciation deduction on Form 4562, and claim the deduction on Schedule A as a below-the-line miscellaneous itemized deduction, which is subject to the 2%-of-adjusted-gross-income limitation described above.

Effect of home office deductions on later sales of your principal residence. You should be aware that, if you sell—at a profit—a home that contains, or contained, a home office, the otherwise available $250,000/$500,000 exclusion for gain on the sale of a principal residence won't apply to the portion of your profit equal to the amount of depreciation you claimed on the home office. In addition, the exclusion won't apply to the portion of your profit allocable to a home office that is separate from the dwelling unit or to any portion of the gain allocable to a period of nonqualified use (i.e., a period that the residence is not used as the principal residence of the taxpayer or his or her spouse or former spouse) after Dec. 31, 2008.