

## ■ **BREAKING NEWS! Safe Harbor Method for Home Offices**



If you have a “qualifying” home office you can deduct a portion of your home expenses as business expenses on your tax return. The calculations for this deduction can be rather cumbersome. Your tax preparer may have also cautioned you that any home office depreciation you deduct will have to be recaptured if you eventually sell your home.

Effective January 1, 2013, taxpayers have an alternative to the traditional method for calculating home office expenses.

This new “safe harbor method” has two advantages over the traditional method: it greatly simplifies the calculations, and since depreciation isn’t deductible under this method, it precludes depreciation recapture if you sell your home.

First things first! In order to deduct any expenses for a home office, the IRS states that the space “must be used exclusively on a regular basis (A) as the taxpayer’s principal place of business for any trade or business, (B) as a place to meet with the taxpayer’s patients, clients, or customers in the normal course of the taxpayer’s trade or business, or (C) in the case of a separate structure that is not attached to the dwelling unit, in connection with the taxpayer’s trade or business.” A taxpayer can also deduct expenses if his or her home is the sole fixed location of the trade or business, and space within the home is used on a regular basis for the storage of inventory or product samples.

Under both the traditional method and the new safe harbor method, taxpayers can deduct home office expenses that are not allocated based on square feet used for business. In other words, home office supplies, equipment, advertising, etc. are deductible under both methods. The differences between the traditional and safe harbor methods are detailed below:

### **Traditional Method:**

- I. Allocate the following expenses between the business and Schedule A based on the square footage of the home office: mortgage interest and real estate taxes
- II. Deduct a portion of the following as business expenses based on the square footage of the home office: home depreciation, repairs, utilities, insurance, etc.

### **Safe Harbor Method:**

- I. Deduct the following expenses on Schedule A: mortgage interest and real estate taxes
- II. Calculate deductible home office expenses by multiplying \$5 by the square footage (not to exceed 300 s.f.) of the home office
- III. Home depreciation, repairs, utilities, and insurance are not deductible

Taxpayers can choose between the traditional method and the safe harbor method each year, *beginning with 2013*. There are other factors to consider, so please consult your tax advisor. We welcome the opportunity to provide you with tax compliance and planning services. Visit <http://www.bayliscpas.com/services/taxfinancial.php> to learn more.

## ■ WELCOME, SHERRY BURNETT!



Sherry Burnett joined the Baylis & Company family last month when we welcomed the practice of Mann & Mann CPAs to our Firm.

Sherry earned a Bachelor of Business Administration and Accounting degree from Angelo State University. She held the distinction of top accounting student honors for two of her four years of study. Sherry has spent her entire 40+ year professional career practicing public accounting, providing individuals and businesses with tax and small business services.

Sherry was widowed in 2004 and is newly married to her husband, Andy. She has two grown daughters, Amy and Allison, and two grandsons, Skylar and John David. She is a gifted vocalist and member of First Presbyterian Church of Lakeland, where she sings in three choirs and is on the Wedding Coordinator team.

Sherry originally hails from San Angelo, Texas. Her family helped to found the town in 1867 and her grandmother's house is now part of a museum at Fort Concho, a national historic landmark. Fort Concho served for some time as home to the famous Buffalo Soldiers.

## ■ CHILDREN'S BOOK DRIVE UNDER WAY

This year we are again participating in the Kiwanis Club of Lakeland's Read Around the World book drive. The Club plans to collect 5,000 new and gently used children's books to distribute on March 22, 2013, to public school classrooms and nonprofit agencies that promote childhood literacy.

We will have a book collection box in our lobby through the end of the drive. Please call or contact Kathy Wallen, this year's Kiwanis President, to learn more about the program and how you can help. You can reach Kathy at 863-688-8841 or via email at [kathy.wallen@bayliscpas.com](mailto:kathy.wallen@bayliscpas.com).



## ■ CLOSING THOUGHTS

We hope you will have the opportunity to enjoy a Detroit Tigers spring training baseball game during the next few weeks. Unfortunately, we don't get to many games ourselves; a little thing called tax season always seems to get in the way! However, we will stop for a moment to celebrate "America's pastime" by sharing quotes from a great but ornery Detroit Tiger, and a Hollywood screen legend:



To get along with me, don't increase my tension.  
~ Ty Cobb

A hot dog at the game beats roast beef at the Ritz.  
~ Humphrey Bogart

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