MAXIMIZING 1031 VIA YOUR HOME OFFICE

Will Home Offices Be a New Normal?

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Maximizing 1031 Through Home Offices

The shelter-in-place orders have had a significant impact on most of us, but one of the biggest changes for many people is that they are being asked to work from home. While most of us will go back to our regular workplace as quickly as society eases back to normal, many companies are finding this arrangement works very well for the company and the employee. Companies like Facebook and Google see this as a permanent shift in how we work.

If you start working from home permanently, are there any tax advantages you can take? Many Realtors and other self-employed people declare a portion of their house as a home office. Section 280A of the Internal Revenue Code allows a taxpayer to take deductions for certain business and rental uses.

Having a home office was once viewed as an automatic way to be audited by the IRS. However, the IRS has provided written guidelines relating to the business use of a home. View IRS Publication 587 here.

The long term benefits of declaring a home office is that when you sell the property, a portion of the property can be used for tax deferred 1031 Exchange, instead of potentially having a taxable gain.

In Revenue Procedure 2005-14, the IRS provided guidance how a primary residence can be a "dual use" property and qualify for gain exclusion under Section 121 (the primary residence exemption) and as business or investment real estate, being eligible for tax deferral under Section 1031. This can be very useful if the gain on the property exceeds the $250,000 or $500,000 exemption provided by Section 121.

Do you qualify for a home office deduction? If so, should you take it if you are working primarily from home? For the answer to these questions, you should discuss your individual tax and financial situation with your tax advisor.