April 2019

Q&A: No Business Income, No Home-Office Deduction: Wrong

Question

My CPA told me that if I don't have any income in 2018, I can't have a home-office deduction. True or false?

Answer

First, this is bad advice, as you will see.

Let's examine what your CPA is telling you. Your CPA is saying that you will not receive any 2018 tax benefit from your home office because you have no income. On the surface that would appear true, but it's not, as we explain.

Your Situation

You state that you don't have any 2018 income. This could mean that you started your business late in the year and that you have expenses but have not yet received any income. In this case, you have tax deductions that you can claim and likely a tax loss that you can carry forward to 2019.

Or perhaps you have a continuing business that simply had a bad year, and your expenses are more than your income. Again, you would have a tax loss that you can carry forward to 2019.

Bad Advice No. 1

If you have a tax loss from your business and you are told not to file a tax return, that's bad advice, because that tax loss can produce future benefits. Under current tax law, you may carry forward a 2018 tax loss to 2019, where that loss reduces your 2019 taxes.

The official name for the loss that you can carry forward is the net operating loss (NOL).[1] As a business taxpayer, you should think of the NOL as a tax deduction savings account for future years.

Planning tip no. 1. Always claim all your tax deductions, even when you have a tax loss.

Planning tip no. 2. Always file a tax return even if it shows a loss, so the IRS knows about your loss and you have the loss documented.

Bad Advice No. 2

The advice not to claim the home office because you are not going to get a 2018 deduction from the home office is wrong on two counts:

- First, failing to claim the home office as your principal place of business means you have commuting mileage (i.e., ugly, personal, nondeductible mileage).
- Second, failing to claim the home office because it gives you no current-year benefit robs you of the home-office deduction carryovers to future years.

Below, we'll examine the (a) loss of business miles and (b) loss of the carryover benefit.

Loss of Business Miles

Without a home office, you have personal mileage on your trips from your home to your first business stop, and from your last business stop to your home.[2]

Example 1. You do not have a home office, and you drive 22 miles roundtrip to see a client. The 22 miles are personal miles.

Example 2. You do not have a home office, and you drive 18 miles roundtrip to your downtown office. The 18 miles are personal miles.

Turning the Miles into Business Miles

When you have an office in your home that rises to the level of a principal office, you treat the miles in examples 1 and 2 as business trips.[3] In other words, you have no commuting mileage.

But to make this happen, you need to claim the office in your home as your principal place of business, which is easy to do as we explain in When the Second Office in the Home Is a Principal Place of Business.

Loss of Carryover

If you have no current-year Schedule C income, you have no current-year tax benefit from the home office, but the deductions disallowed this year carry over to next year.[4]

If you don't claim the home-office deduction, you have no expenses to carry over.

Qualifying for the Carryover

To qualify for the carryover when you have no income, you need to claim the home office.

Takeaways

Deduct the office in your home as your principal place of business.

By claiming the office in the home as your principal place of business when you have no business income for the year or perhaps a business loss for the year, you gain three tax benefits:

1. Your Schedule C-denied home-office deductions that produced no tax benefits this year carry over to next year, where they offset your business income.

2. You no longer commute from your home to business stops. Instead, all such trips produce business mileage.

3. Any business loss apart from the home office can create an NOL that you can apply against next year's taxes.

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1 IRC Section 172 2018.
2 Walter R. Strohmaier v Commr. 113 T.C. No. 5; IRS Pub. 463, Travel, Gift, and Car Expenses (2018), dated Feb. 22, 2019, ps. 12 and 13.
3 Rev. Rul. 99-7.
4 IRC Section 280A(c)(5).