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Prop. Treas. Reg. 1.280A-2(i)(2)

Limitation on Deductions—Gross income derived from use of unit.

1.280A-2(i)(2)

(i) Only income from qualifying business use to be taken into account. For purposes of section 280A and this section, the taxpayer shall take into account, in applying the limitation on deductions, only gross income from a business use described in section 280A(c). For example, a taxpayer who teaches at school may also be engaged in a retail sales business. If the taxpayer uses a home office on a regular basis as the principal place of business for the retail sales business (a use described in section 280A(c)(1)(A)) and makes no non-business use of the office, the taxpayer shall take the gross income from the use of the office for the retail sales business into account in applying the limitation on deductions. Even if the taxpayer also corrects student papers and prepares class presentations in the home office (not a use described in section 280A(c)), no portion of the taxpayer's gross income from teaching may be taken into account in applying the limitation on deductions.

(ii) More than one location. If the taxpayer engages in a business in the dwelling unit and in one or more other locations, the taxpayer shall allocate the gross income from the business to the different locations on a reasonable basis. In making this determination, the taxpayer shall take into account the amount of time that the taxpayer engages in activity related to the business at each location, the capital investment related to the business at each location, and any other facts and circumstances that may be relevant.

(iii) Exclusion of certain amounts. For purposes of section 280A(c)(5)(A) and this section, gross income derived from use of a unit means gross income from the business activity in the unit reduced by expenditures required for the activity but not allocable to use of the unit itself, such as expenditures for supplies and compensation paid to other persons. For example, a physician who uses a portion of a dwelling unit for treating patients shall compute gross income derived from use of the unit by subtracting from the gross income attributable to the business activity in the unit any expenditures for nursing and secretarial services, supplies, etc.