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Prop. Reg. Section 1.280A-2(i)(3)

Deductibility of expenses attributable to business use of a dwelling unit used as a residence.

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(l) Limitation on deductions.

(1) In general. The deductions allowable under chapter 1 of the Code for a taxable year with respect to the use of a dwelling unit for one of the purposes described in paragraphs (b) through (f) of this section shall not exceed the gross income derived from such use of the unit during the taxable year, as determined under subparagraph (2) of this paragraph. Subparagraphs (3) and (4) of this paragraph provide rules for determining the expenses allocable to the business use of a unit. Subparagraph (5) of this paragraph prescribes the order in which deductions are allowable.

(2) Gross income derived from use of unit.

(i) 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 determine the portion of the gross income from the business that is attributable to business activity in the unit. In making this determination, the taxpayer shall take into account the amount of time that the taxpayer engages in business activity at each location, and any other facts and circumstances that may be relevant.

(ii) Exclusion of certain amounts. For purposes of section 280A 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 the 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 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.



(3) Expenses allocable to portion of unit. The taxpayer may determine the expenses allocable to the portion of the unit used for business purposes by any method that is reasonable under the circumstances. If the rooms in the dwelling unit are of approximately equal size, the taxpayer may ordinarily allocate the general expenses for the unit according to the number of rooms used for the business purpose. The taxpayer may also allocate general expenses according to the percentage of the total floor space in the unit that is used for the business purpose. Expenses which are attributable only to certain portions of the unit, e.g., repairs to kitchen fixtures, shall be allocated in full to those portions of the

unit. Expenses which are not related to the use of the unit for business purposes, e.g., expenditures for lawn care, are not taken into account for purposes of section 280A.

- (4) Time allocation for use in providing day care services. If the taxpayer uses a portion of a dwelling unit in providing day care services, as described in paragraph (f) of this section, and the taxpayer makes any use of that portion of the unit for non-business purposes during the taxable year, the taxpayer shall make a further allocation of the amounts determined under subparagraph (3) of this paragraph to be allocable to the portion of the unit used in providing day care services. The amounts allocated to the business use of the unit under this subparagraph shall bear the same proportion to the amounts determined under subparagraph (3) of this paragraph as the length of time that the portion of the unit is used for day care services bears to the length of time that the portion of the unit is available for all purposes. For example, if a portion of the unit is used for day care services for an average of 36 hours each week during the taxable year, the fraction to be used for making the allocation required under this subparagraph is $36/168$, the ratio of the number of hours of day care use in a week to the total number of hours in a week.
- (5) Order of deductions. Business deductions with respect to the business use of a dwelling unit are allowable in the following order and only to the following extent:
 - (i) The allocable portions of amounts allowable as deductions for the taxable year under chapter 1 of the Code with respect to the dwelling unit without regard to any use of the unit in trade or business, e.g., mortgage interest and real estate taxes, are allowable as business deductions to the extent of the gross income derived from use of the unit.
 - (ii) Amounts otherwise allowable as deductions for the taxable year under chapter 1 of the Code by reason of the business use of the dwelling unit (other than those which would result in an adjustment to the basis of property) are allowable to the extent the gross income derived from use of the unit exceeds the deductions allowed or allowable under subdivision (i) of this subparagraph.
 - (iii) Amounts otherwise allowable as deductions for the taxable year under chapter 1 of the Code by reason of the business use of the dwelling unit which would result in an adjustment to the basis of property are allowable to the extent the gross income derived from use of the unit exceeds the deductions allowed or allowable under subdivisions (i) and (ii) of this subparagraph.
- (6) Cross reference. For rules with respect to the deductions to be taken into account in computing adjusted gross income in the case of employees, see section 62 and the regulations prescribed thereunder.
- (7) Example. The provisions of this subparagraph may be illustrated by the following example:

Example. A, a self-employed individual, uses an office in the home on a regular basis as a place of business for meeting with clients of A's consulting service. A makes no other use of the office during the taxable year and uses no other premises for the consulting activity. A has a special telephone line for the office and occasionally employs secretarial assistance. A also has a

gardener care for the lawn around the home during the year. A determines that 10% of the general expenses for the dwelling unit are allocable to the office. On the basis of the following figures, A determines that the sum of the allowable business deductions for the use of the office is \$1,050.

Gross income from consulting services.....
\$1,900

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Expense for secretary.....
500
Business telephone.....
150
Supplies.....
200

Total expenditures not allocable to use of unit...
850

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Gross income derived from use of unit.....
1,050

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Deductions allowable under subparagraph (5)(i) of this
paragraph:
Mortgage interest (total \$5,000).....
500<1>
Real estate taxes (total \$2,000).....
200<1>

Amount allowable.....
700

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Limit on further deductions.....
350

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Deductions allowable under subparagraph (5)(ii) of this
paragraph:
Insurance (total \$600).....
\$601
Utilities, other than residential telephone (total \$900)
901
Lawn care (total \$500).....
10

Amount allowable.....
150

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Limit on further deductions.....
200

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Deductions allowable under subparagraph (5)(iii) of this
paragraph:

Depreciation (total \$3,200).....
3201
Amount allowable.....
200

<1> Allocable to office.

No portion of the lawn care expense is allocable to the business use of the dwelling unit. A may claim the remaining \$6,300 paid for mortgage interest and real estate taxes as itemized deductions.