

Why Do You Want To Run A Business From Home

At the earlier stage of running a business, you may run the business from your home. You have probably thought of many of the benefits of running your own business, such as saving huge amount of rental expense. Have you consider claiming home office expense is also one of the advantages of running a business from your home?

What can you deduct from the home office?

The home office expense deduction allows you to deduct some or all of the expenses of your office at home and related expenses.

To qualify for this deduction, your home office must be the principal place where your business is done. The office space must also be used exclusively for business use. It is safe to set aside a separate room as your home office.

Building-Related Expenses

Repairs and improvements to your home office are deductible if they are related to the home office exclusively.

Mortgage interest is deductible as a percentage of the total mortgage paid for your home. For instance, if your home office makes up 100 square feet of your home's 1,000 square feet total, you can write off up to 10% of the mortgage interest for your home as a business expense. Similarly, if you rent your home, the percentage of your home used exclusively for business use would also be deductible.

Property taxes paid for your home also qualify at the same percentage rate as the mortgage.

The home expenses not related to your business, such as landscaping costs, cannot be deducted.

How Much Total Can You Deduct?

You can deduct home expenses for your home-based business up to what its net profit is. If you don't make much net income, you will not be able to deduct much home office expense.

Can You Deduct Security Expense?

You may deduct the business cost of security devices and monitoring fees as a percentage of the protected area used for business use of the entire protected area (normally the entire home). This is an indirect cost of doing business.

Is Insurance Deductible?

If you own your home and pay home owner's insurance, you may deduct a percentage of that expense, as with mortgage or rent expenses. If you have additional insurance coverage that covers things specifically for the business, you may deduct these expenses in full as direct business expenses. This may include special riders on your insurance policy to protect business equipment used exclusively for your business.

How Much Utility Expense Can You Deduct?

Using the same percentage that you can write off of your home calculated above, you can write off utilities such as electrical, gas, and other utilities as business expenses.

Is Transportation Eligible?

If you work primarily out of your home, you can typically write off the transportation expense of getting to and from your clients' places of business and other business-related transportation costs.

Transportation as a deductible cost is one area where detailed records are critical. Typically, you will want to record the odometer mileage of your car before and after your trip to determine the number of miles traveled.

Can You Deduct Phones and Communications?

For a home business, the first phone line into your home is considered as a personal expense. Additional phone lines for business use, including cell phones used for your business, are tax deductible. Internet service provider fees or broadband costs such as high speed cable connections are deductible as a percentage of business use to total usage.

Are There Any Limitation on Meals and Entertainment?

If you take a client or prospective client out to lunch and talk about your business, it is often tax deductible as a cost of doing business. If you are doing business out of town or at your convenience on a business-related task, you can typically deduct the amount of meals. If you are entertaining a client, the expenses related to the meeting are deductible if they have a business purpose.

Meals and Entertainment is one area that is often abused by small businesses, so if you plan to take deductions for these kinds of expenses, be sure to keep receipts. Also keep records of what the money was used for to avoid any kind of legal entanglements later on. As with most business deductions, as long as you stay within the CRA guidelines for what is allowed and keep good records, you can take this deduction safely.

You can only deduct 50% of the cost of meals and entertainment.

What is the Record Keeping Requirement?

As long as you stay within the CRA guidelines for what is and is not tax deductible and keep receipts and good records, you are safe to take the deductions you are legally entitled to.

If ever in doubt, go directly to the CRA website. They publish many articles defining exactly what deductions you are entitled to so that you can be sure that you are in compliance with the law.

Start Your Home Business!

As illustrated above, running a home business gives many tax advantages and deductions.