

2008



Department of the Treasury
Internal Revenue Service

Instructions for Form 8829

Expenses for Business Use of Your Home

Section references are to the Internal Revenue Code unless otherwise noted.

General Instructions

Purpose of Form

Use Form 8829 to figure the allowable expenses for business use of your home on Schedule C (Form 1040) and any carryover to 2009 of amounts not deductible in 2008.

You must meet specific requirements to deduct expenses for the business use of your home. Even if you meet these requirements, your deductible expenses may be limited. Part IV is used to figure any allowable carryover of expenses that are more than the limit. For details, see Pub. 587, *Business Use of Your Home (Including Use by Daycare Providers)*.

Who cannot use Form 8829. Do not use Form 8829 in the following situations.

- You are claiming expenses for business use of your home as an employee or a partner, or you are claiming these expenses on Schedule F (Form 1040). Instead, complete the worksheet in Pub. 587.
- All of the expenses for business use of your home are properly allocable to inventory costs. Instead, figure these expenses in Schedule C, Part III.

Who Can Deduct Expenses for Business Use of a Home

Generally, you can deduct business expenses that apply to a part of your home only if that part is exclusively used on a regular basis:

- As your principal place of business for any of your trades or businesses,
- As a place of business used by your patients, clients, or customers to meet or deal with you in the normal course of your trade or business, or
- In connection with your trade or business if it is a separate structure that is not attached to your home.

As explained on this page, exceptions to this rule apply to space used on a regular basis for:

- Storage of inventory or product samples, and
- Certain daycare facilities.

Principal Place of Business

In determining whether the office in your home qualifies as your principal place of business, you must consider the following two items.

- The relative importance of the activities performed at each place where you conduct business, and
- The amount of time spent at each place where you conduct business.

Your home office will qualify as your principal place of business if you meet the following requirements.

- You use it exclusively and regularly for administrative or management activities of your trade or business.
- You have no other fixed location where you conduct substantial administrative or management activities of your trade or business.

Administrative or management activities. There are many activities that are administrative or managerial in nature. The following are a few examples.

- Billing customers, clients, or patients.
- Keeping books and records.
- Ordering supplies.
- Setting up appointments.
- Forwarding orders or writing reports.

Administrative or management activities performed at other locations. The following activities performed by you or others will not disqualify your home office from being your principal place of business.

- You have others conduct your administrative or management activities at locations other than your home. (For example, another company does your billing from its place of business.)
- You conduct administrative or management activities at places that are not fixed locations of your business, such as in a car or a hotel room.
- You occasionally conduct minimal administrative or management activities at a fixed location outside your home.
- You conduct substantial nonadministrative or nonmanagement business activities at a fixed location outside your home. (For example, you meet with or provide services to customers, clients, or patients at a fixed location of the business outside your home.)
- You have suitable space to conduct administrative or management activities outside your home, but choose to use your home office for those activities instead.

More information. For information on other ways to qualify to deduct business use of the home expenses, see Pub. 587.

Storage of Inventory or Product Samples

You can also deduct expenses that apply to space within your home used on a regular basis to store inventory or product samples from your trade or business of selling products at retail or wholesale. Your home must be the only fixed location of your trade or business.

Daycare Facilities

If you use space in your home on a regular basis in the trade or business of providing daycare, you may be able to deduct the business expenses even though you use the same space for nonbusiness purposes. To qualify for this exception, you must have applied for (and not have been rejected), been granted (and still have in effect), or be exempt from having a license, certification, registration, or approval as a daycare center or as a family or group daycare home under state law.

Expenses Related to Tax-Exempt Income

Generally, you cannot deduct expenses that are allocable to tax-exempt income. However, if you receive a tax-exempt parsonage allowance or a tax-exempt military housing allowance, your expenses for mortgage interest and real property taxes are deductible under the normal rules. No deduction is allowed for other expenses allocable to the tax-exempt allowance.

Specific Instructions

Part I

Lines 1 and 2

To determine the area on lines 1 and 2, you can use square feet or any other reasonable method if it accurately figures your business percentage on line 7.

Do not include on line 1 the area of your home you used to figure any expenses allocable to inventory costs. The business percentage of these expenses should have been taken into account in Schedule C, Part III.

Special Computation for Certain Daycare Facilities

If the part of your home used as a daycare facility includes areas used exclusively for business as well as other areas used only partly for business, you cannot figure your business percentage using Part I. Instead, follow these three steps:

1. Figure the business percentage of the part of your home used exclusively for business by dividing the area used exclusively for business by the total area of the home.
2. Figure the business percentage of the part of your home used only partly for business by following the same method used in Part I of the form, but enter on line 1 of your computation only the area of the home used partly for business.
3. Add the business percentages you figured in the first two steps and enter the result on line 7. Attach your computation and enter "See attached computation" directly above the percentage you entered on line 7.

Line 4

Enter the total number of hours the facility was used for daycare during the year.

Example. Your home is used Monday through Friday for 12 hours per day for 250 days during the year. It is also used on 50 Saturdays for 8 hours per day. Enter 3,400 hours on line 4 (3,000 hours for weekdays plus 400 hours for Saturdays).

Line 5

If you started or stopped using your home for daycare in 2008, you must prorate the number of hours based on the number of days the home was available for daycare. Cross out the preprinted entry on line 5. Multiply 24 hours by the number of days available and enter the result.

Part II

Line 8

If all the gross income from your trade or business is from the business use of your home, enter on line 8 the

amount from Schedule C, line 29, plus any net gain or (loss) derived from the business use of your home and shown on Schedule D or Form 4797. If you file more than one Form 8829, include only the income earned and the deductions attributable to that income during the period you owned the home for which Part I was completed.

If some of the income is from a place of business other than your home, you must first determine the part of your gross income (Schedule C, line 7, and gains from Schedule D and Form 4797) from the business use of your home. In making this determination, consider the amount of time you spend at each location as well as other facts. After determining the part of your gross income from the business use of your home, subtract from that amount the total expenses shown on Schedule C, line 28, plus any losses from your business shown on Schedule D or Form 4797. Enter the result on Form 8829, line 8.

Columns (a) and (b)

Enter as direct or indirect expenses only expenses for the business use of your home (that is, expenses allowable only because your home is used for business). If you did not operate a business for the entire year, you can deduct only the expenses paid or incurred for the portion of the year you used your home for business. Other expenses not allocable to the business use of your home, such as salaries, supplies, and business telephone expenses, are deductible elsewhere on Schedule C and should not be entered on Form 8829.

Direct expenses benefit only the business part of your home. They include painting or repairs made to the specific area or rooms used for business. Enter 100% of your direct expenses on the appropriate line in column (a).

Indirect expenses are for keeping up and running your entire home. They benefit both the business and personal parts of your home. Generally, enter 100% of your indirect expenses on the appropriate line in column (b).

Exception. If the business percentage of an indirect expense is different from the percentage on line 7, enter only the business part of the expense on the appropriate line in column (a), and leave that line in column (b) blank. For example, your electric bill is \$800 for lighting, cooking, laundry, and television. If you reasonably estimate \$300 of your electric bill is for lighting and you use 10% of your home for business, enter \$30 on line 20 in column (a). Do not make an entry on line 20 in column (b) for any part of your electric bill.

Lines 9, 10, and 11

Enter only the amounts that would be deductible whether or not you used your home for business (that is, amounts allowable as itemized deductions on Schedule A (Form 1040) or amounts for real estate taxes and net disaster loss by which you can increase your standard deduction).

Treat casualty losses as personal expenses for this step. Figure the amount to enter on line 9 by completing Form 4684, Section A.

If you are filing Schedule A, enter 10% of your adjusted gross income excluding the gross income from business use of your home and the deductions attributable to that income when figuring the amount to enter on Form 4684, line 22. Include on Form 8829, line 9, the amount from Form 4684, line 24. See the

instructions for line 28 on page 3 to deduct part of the casualty losses not allowed because of the limits on Form 4684. Do not file or use that Form 4684 to figure the amount of casualty losses to deduct on Schedule A. Instead, complete a separate Form 4684 to deduct the personal portion of your casualty losses.

If you are increasing your standard deduction by your net disaster loss, enter on Form 8829, line 9, the amount from Form 4684, line 18a.

On line 10, include only the total of your mortgage interest and qualified mortgage insurance premiums that would be deductible on Schedule A and that qualifies as a direct or indirect expense. Do not include mortgage interest on a loan that did not benefit your home (for example, a home equity loan used to pay off credit card bills, to buy a car, or to pay tuition costs).

Treat qualified mortgage insurance premiums as personal expenses for this step. Figure the amount to enter on line 10 by completing Schedule A, line 13, in accordance with the instructions on page A-6 of the Schedule A (Form 1040) instructions. However, when figuring your adjusted gross income (Form 1040, line 38) for this purpose, exclude the gross income from business use of your home and the deductions attributable to that income. Include on Form 8829, line 10, the amount from Schedule A, line 13. See the instructions for line 16 below to deduct part of the qualified mortgage insurance premiums not allowed because of the adjusted gross income limit. Do not file or use that Schedule A to figure the amount to deduct on line 13 of that schedule. Instead, complete a separate Schedule A to deduct the personal portion of your qualified mortgage insurance premiums.

If you itemize your deductions, be sure to claim only the personal portion of your deductible mortgage interest, qualified mortgage insurance premiums, and real estate taxes on Schedule A. For example, if your business percentage on line 7 is 30%, you can claim 70% of your deductible mortgage interest, qualified mortgage insurance premiums, and real estate taxes on Schedule A.

If you are increasing your standard deduction by your real estate taxes, be sure to claim only the personal portion of your real estate taxes when figuring the amount to enter on line 7 of your *Standard Deduction Worksheet*. For example, if your business percentage on line 7 is 30%, you can claim 70% of your deductible real estate taxes on line 7 of your *Standard Deduction Worksheet*.

Line 16

If the amount of home mortgage interest or qualified mortgage insurance premiums you deduct on Schedule A is limited, enter the part of the excess that qualifies as a direct or indirect expense. Do not include mortgage interest on a loan that did not benefit your home (explained earlier).

Line 18

If you rent rather than own your home, include the rent you paid on line 18, column (b). If your housing is provided free of charge and the value of the housing is tax exempt, you cannot deduct the rental value of any portion of the housing.

Line 21

Include on this line any 2008 operating expenses not included on lines 9 through 20.

Line 28

Multiply your casualty losses in excess of the amount on line 9 by the business percentage of those losses and enter the result.

Line 35

If your home was used in more than one business, allocate the amount shown on line 35 to each business using any method that is reasonable under the circumstances. For each business, enter on Schedule C, line 30, only the amount allocated to that business.

Part III

Lines 36 Through 38

Enter on line 36 the cost or other basis of your home (including land), or, if less, the fair market value of your home on the date you first used the home for business. Do not adjust this amount for depreciation claimed or changes in fair market value after the year you first used your home for business.

Enter on line 37 the cost or other basis of the land on which your home sits, or, if less, the fair market value of the land on the date you first used the home for business. Do not adjust this amount for changes in fair market value after the year you first used your home for business.

Attach your own schedule showing the cost or other basis of additions and improvements, used at least partially for business, that were placed in service after you began to use your home for business. Do not include any amounts on lines 36 through 39 for these expenditures. Instead, see the instructions for line 41.

Line 40

| IF you first used your home for business in the following month in 2008... | THEN enter the following percentage on line 40*... |
|---|---|
| January | 2.461% |
| February | 2.247% |
| March | 2.033% |
| April | 1.819% |
| May | 1.605% |
| June | 1.391% |
| July | 1.177% |
| August | 0.963% |
| September | 0.749% |
| October | 0.535% |
| November | 0.321% |
| December | 0.107% |

***Exception.** If the business part of your home is qualified Indian reservation property (as defined in section 168(j)(4)), see Pub. 946, *How To Depreciate Property*, to figure the depreciation.

| IF you first used your home for business... | THEN the percentage to enter on line 40 is... |
|---|--|
| after May 12, 1993, and before 2008 (except as noted below) | 2.564%* |
| after May 12, 1993, and before 1994, and you either started construction or had a binding contract to buy or build that home before May 13, 1993, | the percentage given in Pub. 946. |
| after May 12, 1993, and you stopped using your home for business before the end of the year | the percentage given in Pub. 946 as adjusted by the instructions under <i>Sale or Other Disposition Before the Recovery Period Ends</i> in that publication. |
| after 1986 and before May 13, 1993, | the percentage given in Pub. 946. |
| before 1987, | the percentage given in Pub. 534, <i>Depreciating Property Placed in Service Before 1987</i> . |

***Exception.** If the business part of your home is qualified Indian reservation property (as defined in section 168(j)(4)), see Pub. 946 to figure the depreciation.

Line 41

If no additions and improvements were placed in service after you began using your home for business, multiply line 39 by the percentage on line 40. Enter the result on lines 41 and 29.

| IF additions and improvements were placed in service... | THEN figure the depreciation allowed on these expenditures by multiplying the business part of their cost or other basis by... |
|--|--|
| during 2008 (but after you began using your home for business) | the percentage in the line 40 instructions for the month placed in service. |
| after May 12, 1993, and before 2008 (except as noted below) | 2.564%* |
| after May 12, 1993, and before 1994, and you either started construction or had a binding contract to buy or build that home before May 13, 1993 | the percentage given in Pub. 946. |
| after May 12, 1993, and you stopped using your home for business before the end of the year | the percentage given in Pub. 946 as adjusted by the instructions under <i>Sale or Other Disposition Before the Recovery Period Ends</i> in that publication. |
| after 1986 and before May 13, 1993, | the percentage given in Pub. 946. |
| before 1987 | the percentage given in Pub. 534. |

***Exception.** If the business part of your home is qualified Indian reservation property (as defined in section 168(j)(4)), see Pub. 946 to figure the depreciation.

Attach a schedule showing your computation and include the amount you figured in the total for line 41. Enter "See attached" below the entry space.

Complete and attach Form 4562, *Depreciation and Amortization*, only if:

- You first used your home for business in 2008, or
- You are depreciating additions and improvements placed in service in 2008.

If you first used your home for business in 2008, enter the amounts from Form 8829, lines 39 and 41, in columns (c) and (g) of line 19i, Form 4562. In column (b) of line 19i, enter the month and year you first used your home for business. Do not include the amount from Form 8829, line 41, on Schedule C, line 13.

If you are depreciating additions and improvements placed in service in 2008, enter in column (b) of line 19i on Form 4562 the month and year the additions or improvements were placed in service. Enter the business basis of the additions or improvements in column (c) and the depreciation allowable on the additions or improvements in column (g). Do not include the amount entered in column (g) on Schedule C, line 13.

Part IV

If your expenses are greater than the current year's limit, you can carry over the excess to 2009. The carryover will be subject to the deduction limit for that year, whether or not you live in the same home during that year.

Line 42

Figure the amount of operating expenses you can carry over to 2009 by subtracting line 26 from line 25. If the result is zero or less, you have no amount to carry over.

Line 43

Figure the amount of excess casualty losses and depreciation you can carry over to 2009 by subtracting line 32 from line 31. If the result is zero or less, you have no amount to carry over.

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The average time and expenses required to complete and file this form will vary depending on individual circumstances. For the estimated averages, see the instructions for your income tax return.

If you have suggestions for making this form simpler, we would be happy to hear from you. See the instructions for your income tax return.