



GUIDE

Home Office & Vehicle Deduction Guide

7 min read · Deductions

These are two of the most commonly claimed — and most commonly miscalculated — small business deductions. Both are legitimate. Both also draw IRS attention when done sloppily. Here's how to claim them correctly.

Home Office Deduction

Who qualifies: The space must be used **regularly and exclusively** for business.

"Exclusively" is the word that disqualifies most people — a kitchen table you also eat dinner at doesn't count, even if you work there every day. A spare bedroom used only as an office does.

Simplified method

- \$5 per square foot of home office, up to 300 square feet
- Maximum deduction: \$1,500/year
- No records needed beyond the square footage
- Best for smaller offices or minimal paperwork

Actual expense method

- Calculate the business-use percentage (office sq ft ÷ total home sq ft)
- Apply that percentage to actual home costs: mortgage interest or rent, utilities, insurance, repairs, and depreciation
- Usually produces a larger deduction, especially in a higher-cost home
- Requires actual expense tracking

Rule of thumb: If your home office is under 200 sq ft in an average-cost home, the simplified method is usually close enough. Above that, run both — the gap can be substantial.

Common mistakes

- Claiming home office as a W-2 employee (not allowed with narrow exceptions)
- Depreciating under actual expense method without accounting for depreciation recapture on a later sale
- Claiming 100% business use of a room that's also storage, guest room, or shared space

Vehicle Deduction

Standard mileage rate

- For 2026, the IRS rate is **72.5 cents per mile** driven for business
- Simplest to track — multiply business miles by the rate
- Must be chosen in the **first year** the vehicle is used for business; can switch to actual later on an owned vehicle, but not the reverse
- On a leased vehicle, standard mileage must be used for the full lease term if used in year one

Actual expense method

- Track real cost of gas, insurance, repairs, depreciation, lease payments, registration
- Apply business-use % (business miles ÷ total miles)
- Usually better for higher-value or higher-cost-to-operate vehicles
- Requires far more recordkeeping

A compliant mileage log needs: date, starting/ending odometer or total miles, destination, and business purpose — for every trip. "I drove around for work" is not a log. A simple spreadsheet or mileage app is enough.

Common mistakes

- Commuting miles (home to your regular workplace) are never deductible — only business travel beyond the regular commute counts
- Rebuilding a mileage log at tax time from memory — the IRS specifically looks for contemporaneous records
- Deducting the full lease payment while also deducting standard mileage — pick one method

Where this connects to your bookkeeping

Both deductions are only as good as the records behind them. If you're not tracking home office square footage or logging mileage consistently through the year, tax season becomes a reconstruction exercise instead of a straightforward calculation.

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