

Deducting cost of a home computer

The deductibility of the cost of buying and operating a home computer, including related equipment such as printers, drives, scanners, modems, etc., depends on how you use the computer.

Strictly personal use. As you might guess, you get no tax deduction where you use the computer for entertainment, education, avocation, hobbies, and other personal purposes.

For your employer's work. You can take an expense deduction under a special Code election the year you place in service a home computer you pay for, plus deduct accelerated depreciation over 6 tax years, plus deduct the operating expenses, if the computer:

- (a) is required as a condition of your employment, and
- (b) is used for the convenience of your employer.

However, a computer at home, even if used exclusively for the employer's work, is subject to the so-called "listed property" deduction-limitation rules (unless you qualify under the "Office-at-home" rule, explained below, and the home-office is also a "regular business establishment"). Briefly this means that to get the above deductions the computer must be predominately used (more than 50%) for your employer's work—50% or less work-related use eliminates any expense election and downgrades your depreciation to straight-line. Finally, your allowable deductions must be reduced by 2% of your adjusted gross income.

Investment or income-producing use. You can deduct operating expenses plus depreciation if you use your computer:

- (a) to produce or collect income (for example, to keep track of your investments) even though the income-producing activity doesn't qualify as a trade or business;
- (b) to manage, conserve, or maintain property held for producing income; or
- (c) to determine, contest, pay, or claim a refund of any tax.

The same deduction rules that apply to an employee (above) apply here except that the special expense deduction under (1), above, isn't allowed.

Home office business use. Not surprisingly, if you use the computer in an office at your home that qualifies as your "regular business establishment" you get the maximum deduction. You get the same deduction as the employee, above, but the more-than-50% use test and the 2%-of-AGI reduction rule don't apply. Thus, you can take the special expense election deduction and claim accelerated depreciation even if you don't use it more than 50% in your work.

Use in business education. You can deduct operating expenses plus depreciation for the use of the computer as part of deductible business education. This education means the courses you take to maintain or improve your business skills or to meet the express requirements of your employer (study to meet minimum educational requirements or that qualifies you for a new trade or business doesn't count). You may, for instance, use the computer to prepare assignments or take instruction over the Internet or in the CD ROM medium.

Of course, to be assured of any deduction you must provide acceptable, detailed proof of use, etc.