

The approach to tax when you're working from home



If you produce assessable income at home, or some of it, and you incur expenses from using that home as your “office” or “workshop”, the ATO will generally allow that a taxpayer could be in a position to be able to claim some expenses and make some deductions. Otherwise the ATO takes the view that expenditure associated with a person’s place of residence is more likely to be of a private nature.

Deductions may be available from the use of your home to earn income in two circumstances. First, if it is used in connection with your income earning activities but isn't a place of business (that is, your home is not your principal place of business, but you

might do a few hours of work there). The second situation in which you may be able to claim a tax deduction is when the home is also being used as a place of business. The tax implications are different

Home office expenses you can and can't claim

Expenses	Home is principal workplace with dedicated work area	Home not principal workplace but has dedicated work area	You work at home but no dedicated work area
Running expenses	Yes	Yes	No*
Work-related phone & internet expenses	Yes	Yes	Yes
Decline in value of office equipment	Yes	Yes	Yes
Occupancy expenses	Yes	No	No

* Generally, an employee who works at home and who does not have a dedicated work area will not be entitled to claim running expenses or their claim for running expenses will be minimal. This is due to the fact that they can only claim the additional running expenses incurred as a result of working from home.

depending on which of these circumstances applies.

Running expenses

You can generally view running expenses as those costs that result from you using facilities in your home to help run the business or home office, so these would include electricity, gas, phone bills and perhaps cleaning costs. But again, you can only claim a deduction for the amount of usage from the business or home office, not general household expenses. Using your floor area may be an appropriate way of working out some running expenses. For example, if the floor area of your home office or workshop is 10% of the total area of your home, you can claim 10% of heating costs. An alternative can be to compare before and after average usage for each cost. Another possibility is to keep a representative four-week diary to work out a pattern of use for your home work area for the entire financial year.

Instead of recording actual expenses for heating, cooling or lighting, it may be easier to use the ATO's “acceptable” rate for these expenses, which is 52 cents per hour based on actual use or an established pattern of use (from 1 July 2018; it was 45 cents before then).

To use the 52 cents per hour method of claiming, keep a diary to record the amount of time you use your home office for work purposes. The diary must show a representative period of at least four weeks to establish a pattern of use for the whole year.

Remember to always keep these diaries with your tax return paperwork as you may be required to support this deduction should the ATO review your return.

Communications

If you use a phone exclusively for business, you can claim a deduction for the phone rental and calls, but not the cost of installing the phone. If you use a phone for both business and private calls, you can claim a deduction for business calls (including from mobile phones) and part of the rental costs. You can identify business calls from an itemised phone account. If you do not have an itemised account, you can keep a record for a representative four-week period to work out a pattern of business calls for the entire year. A claim of no more than \$50 can be claimed with limited documentation. If your work use is incidental and you are not claiming a deduction of more than \$50 in total, you may make a claim based on the following, without having to analyse your bills:

- \$0.25 for work calls made from your landline
- \$0.75 for work calls made from your mobile
- \$0.10 for text messages sent from your mobile. If you have a bundled phone and internet plan, you need to identify your work use for each service over a four-week representative period during the income year. This will allow you to determine your pattern of work use which can then be applied to the full year.

A reasonable basis to work out your work-related internet use could include:

- the amount of data downloaded for work as a percentage of the total data downloaded by all members of your household
- any additional costs incurred as a result of your work-related use – eg if your work-related use results in you exceeding your monthly cap.

Decline in value

There are deductions available for a “decline in value” (depreciation) of items such as electrical tools, desks, computers and other electronic devices, as well as for chairs and so on. If you use your depreciating asset solely for business purposes, you can claim a full deduction for the decline in value (generally over its “effective life”). Remember however that if you qualify as a small business (ask us what this means) you could immediately write off most depreciating assets that cost less than \$20,000 (proposed to increase to \$25,000 for a limited period, but this is not law yet).

You may also be able to pool most other depreciating assets and claim a deduction for them at a rate of 15% in the first year and 30% thereafter. However, if you also use the depreciating asset for non-business purposes, you must reduce the deduction for decline in value by an amount that reflects this non-business use. Talk to this office for more information about claiming depreciation expenses.

Deductions for occupancy

Occupancy expenses can only be claimed if you are using your home as a place of business, not just conveniently working from home as a salaried employee. This means that the ATO expects you to have an area of your home set aside exclusively for business purposes. Occupancy expenses are those costs you pay to own, rent or use your home. These include:

- rent, or mortgage interest
- council rates
- land taxes
- house insurance premiums.

You can generally claim the same percentage of occupancy expenses as the percentage area of your home that is used to make income, and again one common way to work this out is to use the floor area put aside for work as a proportion of the floor area of your home as a whole (as can be used for some running expenses, as mentioned above).

So, if for example your home office is 10% of the total area, then you may be able to claim 10% of rent costs or mortgage interest, council rates and insurance. In some situations, it may be necessary to adopt a basis other than floor area, for example where say a huge workshop attached to the home may take up a great amount of floor space but contribute much less to the value of the overall property.

Note that where you are running a business from home rather than having a home office, you can opt to claim occupancy expenses, such as mortgage interest. However, you’ll be expected to account for any capital gain attributable to the business area of the home when you sell the house. Generally, the family home is exempt from capital gains tax (CGT), but if you’ve carried on a business based on the above, that portion of the home attributable to the business activity will be subject to CGT. There are however some CGT concessions for small businesses, which we can detail for you should this be relevant to your situation.

Important: Clients should not act solely on the basis of the material contained in Client Alert. Items herein are general comments only and do not constitute or convey advice per se. Also changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. Client Alert is issued as a helpful guide to clients and for their private information. Therefore, it should be regarded as confidential and not be made available to any person without our prior approval.