

# ATO Targets Home Office Expenses

The Australian Taxation Office (ATO) says a record number of taxpayers are claiming deductions for expenses incurred while working from home. A high level of mistakes and questionable claims has prompted it to increase attention on home office expenses.

ATO assistant commissioner Kath Anderson says 6.7 million taxpayers claimed \$7.9 billion in deductions for “other work-related expenses” last year, which includes expenses related to working from home.

“While extra costs related to working from home are usually deductible, we are seeing some taxpayers either over-claiming or claiming private costs,” Ms Anderson says.

The ATO takes the view that costs associated with your place of residence are likely to be of a private nature. However if you work from home and incur expenses as a result, you may be entitled to claim a deduction for some of the costs.

Deductions may be available in the following two situations:

1. Your home is used as a place of business
2. Your home is used in connection with your employment duties rather than as a place of business

The tax implications are different depending on which of these circumstances applies.

## **What is a place of business?**

To qualify as a place of business, the area you have set aside must have the character of a place of business, for example, a hairdresser's home salon, a caterer's home kitchen or a photographer's home studio. While this will depend on your particular circumstances, an area of your home is likely to have the character of a place of business if it is:

- clearly identifiable as a place of business, for example, you have a sign identifying your business at the front of your house
- not readily suitable or adaptable for private or domestic purposes
- used exclusively or almost exclusively for carrying on your business
- used regularly for visits by your clients.

## **Types of deductible expenses**

The deductible expenses fall into the following 4 categories:

1. Depreciation on office equipment
2. Running expenses
3. Telephone & internet
4. Occupancy expenses

## **Depreciation on office equipment**

Depreciation can be claimed on items such as desks, computers and other electronic devices. You must apportion the amount of your claim where the equipment:

- has been used in part for private purposes, or
- was not available for use during all of the financial year

Where you run a business from home and qualify as a small business (turnover less than \$10M), you can claim an immediate deduction for most "individual" items of equipment costing less than \$20,000 (exclusive of GST). If any items cost \$20,000 or more, you are entitled to claim depreciation at the rate of 15% in the first year and 30% thereafter.

If you are an employee and do some work from home, you can claim a deduction for depreciation (generally over its effective life). However, where the item of equipment costs \$300.00 or less, an outright deduction can be claimed.

## **Running expenses**

A deduction can be claimed for the cost of using facilities in your home to help you run the business or where you undertake employment duties at home. Running costs include heating, cooling & lighting and cleaning.

Where you run a business from home, you can claim a deduction for these expenses on a floor area basis. For example if the floor area of your business is 10% of the total area of your home, you can claim 10% of the costs.

Alternatively you can choose to claim the Tax Office hourly rate (currently 45 cents per hour) but you need to keep a diary. The diary must show a representative period of at least four weeks to establish a pattern of use for the whole year.

Note where you use this hourly rate, you cannot claim depreciation on any furniture.

## **Telephone & internet**

If you use your phone and the internet for business or work related purposes, you can claim a deduction for the business or work related portion. There are two ways to calculate the deduction for telephone and internet costs:

### **1. Claiming up to \$50**

If work use is incidental and you are not claiming a deduction of more than \$50 in total, you can 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

## **2. Claiming actual expenses**

### **(i) Itemised bills**

If you have a phone/internet plan where you receive an itemised bill, you need to determine your work related percentage over a four-week representative period which can then be applied to the full year.

You need to work out the percentage using a reasonable basis. This could include:

- the number of work calls made as a percentage of total calls
- the amount of time spent on work calls as a percentage of your total calls
- the amount of data downloaded for work purposes as a percentage of your total downloads.

### **(ii) Bundled or non-itemised bills**

For bundled or non-itemised plans, you need to identify your work use for each service over a four-week representative period during the income year which can then be applied to the full year.

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

- **Internet**
  - 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.
- **Phone**
  - the number of work calls made as a percentage of total calls
  - the amount of time spent on work calls as a percentage of total calls
  - any additional costs incurred as a result of work-related calls – e.g. if the work-related use results in you exceeding your monthly cap.

## **Occupancy expenses**

Occupancy expenses can only be claimed if you are using your home as a “place of business” rather than conveniently working from home as a salaried employee. As mentioned above, the ATO expects you to have an area of your home set aside exclusively for business purposes.

These occupancy expenses include:

- Mortgage interest
- Rent
- Council rates
- Land tax
- Home insurance premiums

A common method of working out how much to claim is to use the floor area you use for your business as a proportion of the floor area of your whole home. For example, if the floor area of your home office is 10% of the total area of your home, you can claim 10% of your rent or mortgage interest, rent, council rates and insurance.

## **Capital gains tax**

Generally your family home is exempt from capital gains tax.

Where your home was acquired after 19 September 1985 and you are running a business there, the portion of the home attributable to the business activity may be subject to capital gains tax. However, any capital gain can be reduced or eliminated completely under the small business capital gains tax concessions.