


Rules of engagement for home office tax claims

STUART WEMYSS

By **STUART WEMYSS**

6:58PM APRIL 3, 2020 •  9 COMMENTS

Most office workers have been asked to work from home to comply with shutdown recommendations.

Doing so may entitle employees to claim certain income tax deductions under the “home office” category. But for the uninitiated, it can be a bit of a minefield.

The first thing to be aware of is that the onus of proof is on the taxpayer to substantiate any tax deductions. If the taxpayer is unable to do that, the deduction will be denied by the ATO. It may also result in an interest and/or penalty charge. The best time to do your tax records is now, not in six to 12 months when you lodge your return.

There are typically four categories of expenses that taxpayers can claim when they work from home.

Running costs

These include items such as heating, cooling, lighting, cleaning, and so on. There are two methods you can use to calculate this deduction.

The first is the fixed rate method. Taxpayers can claim a deduction of 52c for each hour they work from home to cover all running costs. You can either keep a record of the number of hours you have worked from home during the whole year or maintain a diary for a representative four-week period.

The second method is actual cost. Taxpayers can only use this method if you have a dedicated workspace. They must accurately apportion costs such as power, heating, cleaning and

depreciation between personal and work-related used. Taxpayers must keep a four-week diary or actual record of hours worked to support calculations.

Consumables

Items such as software subscriptions, stationery and printer ink can be tax deductible. You must retain receipts as evidence.

Communications

There are two methods available to use to determine your tax deduction for mobile phone usage.

The first method is to include a fixed deduction of \$50 for the full year. This deduction requires very limited substantiation documentation.

The second method is to apportion actual expenses. Apportionment must consider functions such as voice calls, text messages, data and app usage — split between personal and work-related usage. Taxpayers must keep a diary for a representative four-week period.

Office equipment

If the cost of the equipment is less than \$300, taxpayers can claim a full deduction in the financial year the purchase was made.

If the equipment costs more than \$300, you must depreciate the item over its useful life. If any of this equipment is partially used for private use purposes, the depreciation charge must be apportioned.

Of course, there are some expenses that may not be allowable deductions.

Generally, taxpayers cannot claim a deduction for mortgage interest costs or rent paid in respect to a home office, occupancy expenses.

However, if a dedicated portion of your home is your principal or only workplace, then you may be able claim a portion of occupancy expenses. These would need to be apportioned by work-related and personal-use floor area. For example, it might be that a fifth of your house or a third of your apartments is a dedicated workspace.

Generally, you are not entitled to claim a deduction for the cost of travel between work and your home office.

If you use the actual cost method for running costs, you cannot claim certain government items such as council rates, land tax and water rates.

If your expenses are reimbursed by your employer, you will not be able to claim these work-related expenses. However, if your employer has paid you an allowance for work-related expenses, you can claim a deduction to offset some or all of this allowance.

One of the most discussed issues around tax and home-based working is whether ultimately there will be a price to be paid that is not obvious at the time: in most cases, there are no capital gains tax (CGT) consequences of claiming home office tax deductions.

However, the main exception to this rule is if you claim occupancy expenses (loan interest or rent). If you do, you will not be entitled to the full main residence CGT exemption.

The ATO has three golden rules that determine whether a taxpayer is able to claim a work-related expense.

The first rule is the taxpayer must have incurred the expense themselves and not have been reimbursed.

The second is that the expense must be incurred in gaining or producing assessable income — you are required to use it for work. In the case of the coronavirus emergency many people are being required to use your home for work for the first time

And the third and final rule is that the claim must comply with the substantiation rules and all records must be kept.

Stuart Wemyss is an independent financial adviser and author of [Investopoly: the 8 Rules for Mastering the Game of Building Wealth](#).

swemyss@prosolution.com.au