



## ***What Are My Home Based Business Tax Deductions***

*More than one million people operate their business from home in Australia. It offers flexibility, is fairly low cost to run and reduces travel time to and from another dedicated place of work, which suits many people.*

Running a business from home might require a change to your management style, industry knowledge and long-term vision for growth, as well as the initiative to keep an eye on your cash flow, make sure your efforts are profitable and to keep your costs under control. You'll need to keep the proper records to claim tax deductions come tax time.

### **Working From Home**

Maintaining a routine is highly beneficial to organising your day. Having a dedicated work space and scheduling your work hours not only helps with managing your business hours, but also allows you to record your business hours to keep track of your expenditure and identify deductions you can claim as a part of your tax obligations.

### **Starting Up**

When you start your new home-based business, you'll need to complete your registrations which might include:

- Obtaining your tax file number (TFN)
- Obtaining your Australian Business Number (ABN)
- Registering for the Goods and Services Tax (GST) if required
- Ensuring your accounting software uses Single Touch Payroll (STP) to lodge your PAYG and superannuation staff obligations directly to the Australian Taxation Office (ATO)
- Accounting for other taxes such as Capital Gains Tax (CGT) and Fringe Benefits Tax (FBT)

### **What are Home Based Businesses?**

A home-based business is one where your home is your principle place of business and you have a dedicated office space. Some types of businesses that can be home-based include:

- Accommodations, cafes and restaurants
- Communications professional services such as a graphic designer or web developer
- Construction, such as carpenters, brick-layers, tilers, fencers, electricians and other trades
- Recreational services, such as film editor and sound recordist
- Educational, such a music teacher, tutor or lecturer

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- Financial services consultants
- Dietician, chiropractor, physiotherapist, psychologist, massage therapist
- Personal trainers
- Photographers, hairdressers, beauticians, dressmakers, event managers, cake decorators

## Tax Deductions for a Sole Trader or Partnership Home-Based Business

Occupancy and running expenses might be able to be claimed if your home-based business is a sole trader or partnership. Occupancy expenses are those you pay to own, rent or use your home, and include:

- Mortgage interest or rent
- Council rates
- Land taxes
- House and contents insurance premiums

To be eligible to claim occupancy expenses, your business must pass the interest deductibility test. If you are eligible, you will be also able to claim running expenses. If personal services income rules (PSI) apply to your business, you may not be able to claim occupancy expenses.

### Interest Deductibility Test

To pass the Interest Deductibility Test, the area you set up in your home-based business must have the character of your business, this includes:

- Clearly identifiable signage
- No suitability to use as a living space
- Used exclusively for carrying on your business
- Is regularly visited by your clients

If you claim the interest, you may have to pay capital gains tax when the home is sold. Occupancy expenses are worked out on the size of the area of your home that is used as your business.

## Running Expenses

Running expenses are the increased cost you will incur for running your business from home. You can claim running expenses from your home even if it doesn't have the characteristics of running a business for home, such as a dedicated workshop or hairdressing salon.

Running expenses include:

- electricity and gas costs for heating, cooling and lighting a room
- landline phone and internet service costs for your business (mobile phone and internet costs are dealt with separately as assets or operating expenses)
- the decline in value and cost of repairs to
  - o plant and equipment, such as computers, fixed tools and machinery
  - o furniture, for example, chairs, desks and bookcases
  - o furnishings, such as curtains, carpets, light fittings
- cleaning costs.

## Tax Deductions for a Company or Trust Home-Based Business

If your business is a company or trust, it should have a genuine, market-rate rental contract with the owner of the property. The agreement will determine which expenses the business pays for and can claim as a deduction. There may be tax implications for you and the business if there is no rental contact in place. If you earn personal services income (PSI), you may not be able to deduct some occupancy expenses.

You won't be able to claim a deduction on personal tax for the running expenses of your business. Your business will be subject to fringe benefits tax (FBT) if it pays or reimburses expenses as an employee. Certain exemptions and concessions may apply to reduce your FBT liability. You may need to keep additional records for FBT purposes.

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## **Motor Vehicle Expenses for a Home-Based Business**

Costs can be claimed between your home and other places of travel if the trip is for business purposes.

This includes:

- trips to visit a client
- trips to purchase equipment or supplies
- trips to a post office to mail out invoices or get mail from a P.O. Box
- trips to see your business tax agent or BAS agent

Methods to claim motor vehicle expenses include the cents per kilometre method or the log book method.

The type of vehicle used should meet certain criteria to make tax claims. Expenses that be claimed include:

- fuel and oil
- repairs and servicing
- interest on a motor vehicle loan
- lease payments
- insurance cover premiums
- registration
- depreciation (decline in value).

Only the work-related portion of expenses should be claimed. A log book will need to be kept to record and the details of your work trips.

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