



Claiming Home Office Costs

Do you work from home full time or work overtime in your home? For many people, leaving an office doesn't necessarily mean that you leave your work there. Many people around the country often continue their work when they get home or on the weekends as a natural extension of their jobs.

If you work from home on a regular basis, it helps to set up a dedicated area. Not only do you have the space to do your work, but it'll help when it comes to claiming some key tax deductions.

What are home office expenses?

These tax deductions cover the cost of working from home and are split under two broad categories: running expenses and occupancy expenses. It helps to understand what each category is, as it will help you decide how you can claim, and what will net you the biggest deductions.

Running Expenses

Running expenses are basically everything that it costs to run your office, and include:

- Heating and cooling
- Power
- Internet and phone
- The decline in value of your office furniture and equipment, curtains / blinds, floor coverings and light fittings
- Cleaning and repair costs

Running expenses can be claimed with a dedicated work space. If you share your working space with other members of your household in a lounge room or kitchen, no additional running costs may be claimed.

Occupancy Expenses

Occupancy expenses relate to people who use their home as a place of business, such as a hairdresser working from a salon in a dedicated room, or an art teacher offering classes in a dedicated studio of their house. If you work for someone else as an employee and work from home, you need to justify to the ATO that you have a dedicated room that you use for work.

Occupancy expenses include:

- Rent
- Mortgage interest
- Rates
- House insurance

To claim occupancy expenses, the proportion of costs need to be worked out based on the floor size of your house. The area of your house you use for work should be clearly identified as a place of business, which includes:

- Signage
- A space not readily suitable or adaptable for domestic purposes
- Is used exclusively for business and is visited regularly by customers.

Pro Tax Tip: If you claim occupancy home office expenses, you might incur Capital Gains Tax should you sell your home.

Method of claiming your tax deductions

When claiming any tax deductions, your criteria should satisfy three main points:

- The expense should be personal. That is you have incurred the personal expense and not your business
- That the expense has already been paid by you and not your employer - including reimbursements
- That you can substantiate your claims with proof

Claiming home office expenses involves keeping receipts of your purchases and expenses. You'll need to keep a diary to record your small expenses (\$10 or less) and totalling no more than \$200, as well as logging your working hours in your home office. You'll need to keep your diary for a representative period of four weeks, which can then be averaged throughout the year and can include calculations of how much you used your equipment for depreciation purposes. You'll also need to keep itemised phone accounts from which you can identify work-related calls and internet usage.

How do you claim your expenses?

There are three ways of calculating your expenses:

1. Shortcut method (80 cents – only available March to 30 June 2020)
2. Fixed rate method (52 cents per business hour)
3. Actual cost method

Shortcut method

Due to Covid-19, the ATO introduced a shortcut method to claim your home office costs at a flat rate of 80 cents per business hour. This involves a holistic inclusion of running costs such as phone, internet, the decline in value of office equipment and furniture, and heating, cooling and power costs. If you use this method, you don't need to have a dedicated work area but you can't claim any other running costs. You'll need to keep a diary which shows your working hours for the entire period you wish to claim. This could be a timesheet, a roster, diary or other documents that set out the hours in which you've worked from home.

Fixed rate method

A flat rate of 52 cents per business hour can be used to claim the costs of your business hours. This fixed rate includes all expenses you incur for:

- The decline in value of home office furniture and furnishings
- The cost of repairs and cleaning of your home office equipment, furniture and furnishings

You'll need to keep a record of your actual hours spent working, or a diary that represents a four-week period that is averaged throughout the year. If your work pattern changes, you'll need to start another diary.

You'll need to also work out your expenses for:

- Phone
- Internet
- Computer consumables and stationery
- Decline in office equipment, such as phones, computers and laptops.

You'll need to keep receipts, phone records showing your work-related calls, work-related internet costs, and a diary that shows a four-week representative period. Small expenses (\$10 or less) that you don't have a receipt for, totalling no more than \$200 altogether, and the work percentage use of depreciating assets you wish to claim.

Claiming Home Office Costs

Actual cost method

Using this method, you need to calculate all of the actual expenses you've incurred for work. This may include:

- electricity and gas for cooling, heating and lighting
- the decline in value of home office furniture (desk, chair) and furnishings,
- the decline in value of phones, computers, laptops or similar devices
- phone expenses
- internet expenses
- cleaning (if you use a dedicated area for working)
- computer consumables and stationery – such as ink

You'll need to keep a record of your actual work-hours in a diary for a representative four-week period. To claim depreciation of assets, you'll need a receipt showing the cost and a calculation showing the percentage of the year you used the assets exclusively for work.

To work out cleaning, power, heating and cooling costs, you'll need to have a dedicated work area and work out the floor area in proportion to the rest of the house space to work out a percentage that could be claimed. Alternately power costs could also be worked out based on the wattage of appliances used such as lights, computers and heaters. You multiply the power usage for each appliance by the number of hours used and apply the electricity bill charges based on cents per Kilowatt hour.

An itemised phone and internet bill should be kept for one month so you can clearly identify work calls and internet usage.

To claim a deduction for an asset that cost \$300 or more, you need to calculate the decline in value for both the period you:

- owned the assets during the income year
- used the assets for work-related purposes.
- There might be items that you cannot claim at all, which might surprise you. As an employee working from home, you won't be able to claim the costs for:
 - coffee, tea, milk, toilet paper or other household items your employer might have supplied
 - children's education costs, such as online learning, iPad, computers, laptops or desks
 - occupancy expenses such as rent, mortgage interest, water and rates.

It pays to get help

A registered ITP Tax Accountant can help you claim eligible deductions and maximise your refund, especially when depreciating assets as the calculation can get quite complex. Fees are tax deductible on your next year's tax return. An ITP Tax Accountant will ensure that you're making all the valid claims you can make to get your tax bill down as well as double check your claims and liaise with the ATO on your behalf, saving you the hassle.

ITP have helped Australian individuals and businesses with their tax for 50 years. Call on 1800 367 487 or book your online appointment today.

ITP The Income Tax Professionals are more than tax agents. They have been helping Australian individuals and businesses with their business accounting and advice for 50 years and offer a wealth of knowledge. Speak to a Professional today and see how your business can be more profitable.



**THE INCOME TAX
PROFESSIONALS**