

Home Office Deductions

Fact Sheet, January 2021

Many of us now do some work from home, even if we have a full-time job elsewhere. The good news is tax deductions are available for this.

Whether you are self-employed or an employee, you may be able to claim work-related expenses as tax deductions where part of your home is used in connection with your business or income producing activities. What you can claim will depend on the extent you use your home for business, and whether you have a specific room set aside for this.

For tax purposes, there are three broad types of home-based work:

1. Your home is your principal place of business

Part of your home must be regularly and exclusively used as the principal place where you trade or do business from. This generally means that you do most of your work at home or you meet and deal with your patients, clients or customers at home.

This also includes situations where the employer provides no other work location for an employee.

For example:

- + A doctor or dentist who has a surgery, consulting or waiting rooms at home
- + A tradesperson who has a workshop at home
- + A self-employed scriptwriter who conducts her writing activities from a room in her flat
- + A sales representative who is required by her employer to maintain an office in her own home to carry out work duties
- + An employee architect who conducts a small private practice from home.

2. You have a home office that you use as a home-work area

Your principal place of business is not at home but you have an area, such as a study or spare room, set aside primarily for business activities. For example you may have an office elsewhere, but work at home after hours.

3. You sometimes work at home but do not have a specific work area

Your principal place of business is not your home, nor do you have an area primarily set aside for work but you conduct some business activities at home. For example, you might work for a few hours in the dining room each week.

See overleaf for a table summarising the expenses you can typically claim for each category.

How is the claim calculated?

1. Business overheads

+ Telephone

You must prepare an analysis of an itemised bill that is representative of your usage throughout the year. The percentage of cost linked to business calls during a 4-week period constitutes the deductible percentage of your phone costs for the year. Keep records of your analysis.

+ Internet, stationery & business-use assets

For each cost, you can only claim as a deduction the portion that you identify as your reasonable business use for the year. This percentage is determined by looking at a 4-week period, representative of your use throughout the year. Keep records of how you determined that business use.

2. Other costs (2 methods)

+ Percentage of floor space method

If you have an area or room that is specifically used for running your business, you calculate the percentage of floor space that the room occupies in the house. This percentage is applied to claim as a tax deduction the relevant portion of the home expenses listed overleaf.

If you claim occupancy costs as part of your home office expenses, your "main residence exemption" for capital gains tax purposes will be tainted (i.e. upon the sale of your house, there may be capital gain consequences).

Records of all home expenses must be kept to support your claim.

+ Cents per hour method

You can claim 52 cents for each hour to calculate your total hours worked for the year and claim a deduction at the ATO's predetermined rate of 52 cents per hour of work performed.

Using this rate method to claim a deduction covers heating, cooling, lighting expense and depreciation on furniture. However telephone, internet and stationery expenses can be claimed separately to this rate method based on the actual cost incurred.

3. COVID-19 Shortcut

From 1 March 2020 to 30 June 2021, individuals working from home may choose instead to claim all their home office expenses via a tax deduction of 80 cents per hours for each hour worked from home during the period.

What home office expenses can you claim?

The expenses you can typically claim for each category are listed below.

Cost Category	Type of Costs	Your home is your principal place of business	You use your home office as a work from home area	You work at home but do not have a specific home work area
Business Overheads	Phone costs, internet access & stationery	✓	✓	✓
	Decline in value of office furniture and equipment (e.g. desks, chairs, computers)	✓	✓	✓
Running Cost	The cost of using a room's utilities (e.g. gas and electricity for heating, cooling and lighting)	✓	✓	X
Home Depreciation Costs	Decline in value of curtains, carpets and light fittings.	✓	✓	X
Occupancy Cost	Maintenance costs (e.g. cleaning, repairs)	✓	✓	X
	A portion of the cost of owning or renting the house (e.g. rent, mortgage interest, insurance, rates) Potential CGT implications	✓	?*	?*

*As individual circumstances vary, please seek specialist advice as to whether you are able to claim these expenses.

Disclaimer: This fact sheet is of a general nature only and is not intended to be relied upon as, nor to be a substitute for, specific professional advice. No responsibility for loss occasioned to any person acting or refraining from action as a result of this information can be accepted.

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