

## Article Information

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## Required to work from home due to COVID-19? Here are 3 tips for maximizing your tax deductions

Many Australian office workers are now facing the prospect of spending weeks, if not months, subjected to employer mandated work-from-home arrangements. But what does this mean from a tax perspective in the context of the family home now becoming your sole place of work? The good news is that there may be some additional tax deductions coming your way this year. In this article I set out some simple steps you can take now to maximize those deductions.

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### What home office expenses can I claim?

The deductible expenses from a home office can be divided into two broad categories:

1. **Occupancy expenses** - such as rent, mortgage interest, council and water rates, land tax and house insurance premiums; and
2. **Running expenses** - such as electricity and gas charges for heating and cooling, lighting, cleaning costs, depreciation, leasing charges, office consumables and the cost of repairs to office furniture and furnishings.

Generally, unless a part of a taxpayer's home office qualifies as a "*place of business*" (for example where part of the family home is used as a doctor's surgery), only running expenses incurred in operating a home office are deductible. Further, the expenditure must relate to facilities provided exclusively for the taxpayer's benefit. For example where the taxpayer sits in a lounge room with his or her family and does some work at the same time, the deductible expenses available will be minimal.

### Calculating expenses

Taxpayers can claim a miserly fixed rate of 52 cents for each hour worked from home for all heating, cooling, lighting, cleaning and depreciation of office furniture (that's about \$20 per week if home full-time). Taxpayers claiming the fixed rate must then calculate separately:

- phone and internet expenses;
- computer consumables and stationary; and
- decline in value on computers and other equipment.

The ATO has recently introduced a "*shortcut method*" specifically for taxpayers working from home due to COVID-19 which allows taxpayers to claim a flat rate of 80 cents per hour for all additional running expenses (i.e. heating cooling, lighting, cleaning, depreciation, phone, internet and computer consumables). Taxpayers using this method must be doing more than carrying out minimal tasks such as occasionally checking emails or taking calls and must also keep records of hours worked.

Alternatively, taxpayers can calculate their actual expenses for all the above items. This requires more extensive record keeping but could result in greater deductions depending on a taxpayer's circumstances. More information on how to calculate actual home office expenses is [available here](#).

### What tips are there for maximizing home office expense deductions?

Below are three simple steps you can put in place now to maximise your deductions if you find yourself working from home due to COVID-19:

1. **Set aside a dedicated work area that is to be used exclusively as your home office.** The ATO allow a greater range of deductions where a taxpayer sets up a dedicated room as their home office. Using a room that is shared with others generally reduces the extent of deductions.
2. **Use the largest available room in the house as your dedicated work area.** The floor area of your dedicated work area is relevant in working out some deductions, so the bigger the room available, the better.
3. **Where possible, choose home office equipment that costs \$300 or less to get an immediate tax deduction.** An immediate \$300 deduction applies for depreciating assets costing \$300 or less which are used by taxpayers to derive non-business assessable income.

#### **Will I lose the main residence CGT exemption if I work from home?**

Generally speaking the family home is exempt from capital gains tax under the “main residence” exemption. However taxpayers only get a partial exemption where the dwelling was also used as a place of business. In Taxation Ruling TR 93/30 the Commissioner states that a home could become a place of business

*“where part of the home is used as a taxpayer’s sole base of operations for income producing activities (e.g. where no other work location is provided to an employee by an employer)”.*

In the context of COVID-19 and closed office buildings this aspect of the ruling certainly could benefit from an update.

Some comfort can be taken on this issue from the recently updated ATO website which confirms that taxpayers working from home due to COVID-19 will not lose the main residence CGT exemption on the basis that the home has become a place of business. However it is important that taxpayers don’t start claiming occupancy expenses (mortgage interest etc) during this period as the website suggests that where occupancy expenses have been claimed the main residence exemption will be partially lost.