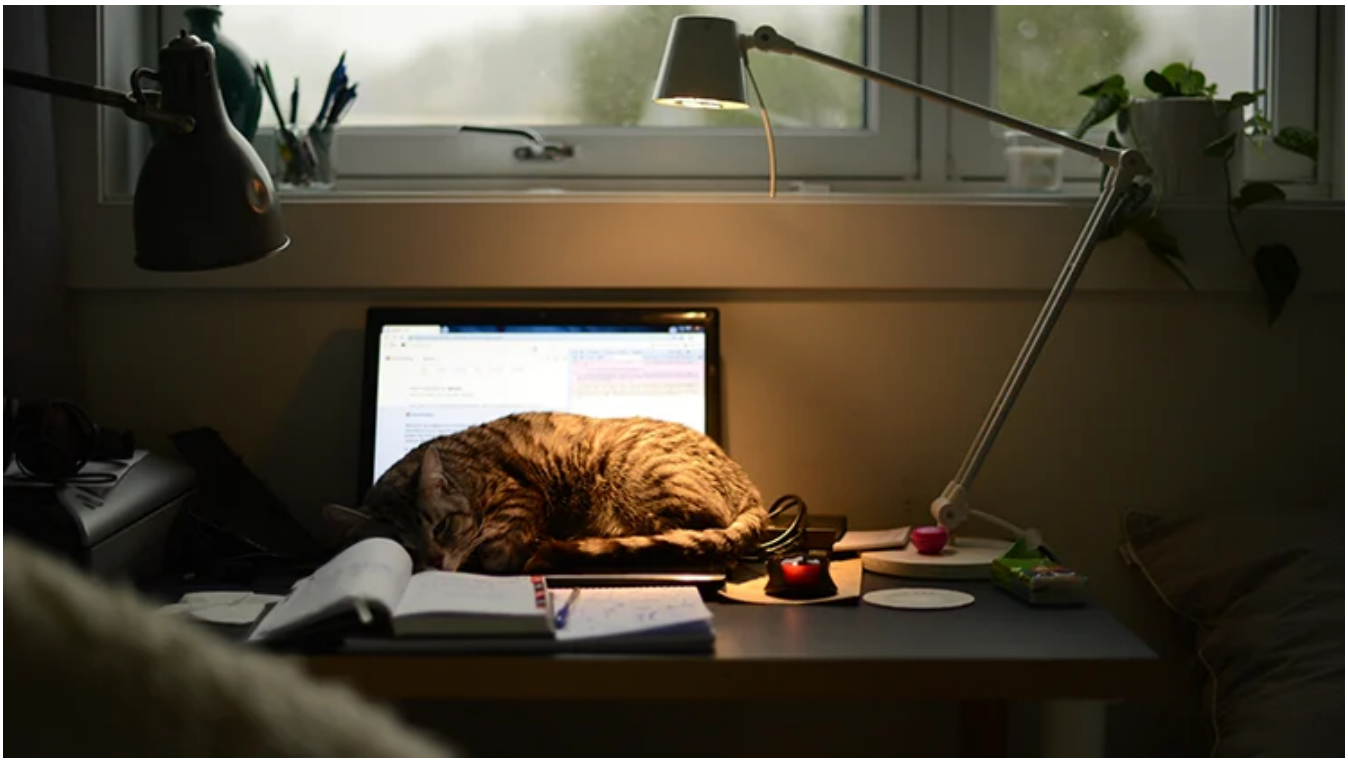
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The ATO has changed how you can claim WFH deductions

By Caitlin Little

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Work from home (WFH) deductions – general rules

Like any other employment related expenses, tax deductions can only be claimed for WFH expenses to the extent that the following principles have been satisfied:

- The expenses have been incurred by you;
- The expenses have not been reimbursed by your employer;
- The expenses are in relation to your income earning activity; and
- You have a record as evidence.

Prior to 1 July 2022

Prior to 1 July 2022, WFH deductions could be claimed using one of the following methods:

1. **Shortcut method** (available from 1 March 2020 to 30 June 2022): 80 cents per hour worked from home
2. **Fixed-rate method** (available from 1 July 1998 to 30 June 2022): 52 cents per hour worked from home plus actual costs of work use of phone, internet, ink, printing paper, and stationary
3. **Actual cost method:** actual expenses incurred working from home

Changes from 1 July 2022

From 1 July 2022, the 80 cents per hour short-cut method is no longer available and the fixed rate method has also been revised to include additional items which are summarised below. The actual cost method remains unchanged.

1. Revised fixed-rate method

The revised fixed-rate method allows deductions for the following:

- 67 cents per hour for running costs including electricity, internet, phone, stationery, and computer consumables; and
- Actual work-related cost of the purchase and/or decline in value of home office equipment (e.g., monitors, desks, printers).

Below is a summary of the different running expenses covered by the previous fixed rate method and the revised fix rate method:

Additional running expenses	Covered by 67 cents/hr from 1 July 2022	Covered by 52 cents/hr until 30 June 2022
Electricity and gas	✔	✔
Internet	✔	X
Mobile and home phone	✔	X

Stationery and computer consumable	✔	X
Cleaning expenses for home office	X	✔
Decline in value of home office furniture	X	✔
Decline in value of other home office equipment (e.g. printers, monitors)	X	X

Note: occupancy costs related to owning or renting your house (e.g., mortgage interest or council rates) can be claimed in some circumstances where you have a dedicated workspace in your home. For more information on claiming occupancy expenses, refer to the ATO website guidance.

Record-keeping from 1 July 2022 to 28 February 2023

To use the revised fixed-rate method from 1 July 2022 to 28 February, taxpayers must have the following:

- A record which is representative of the total hours WFH

Record-keeping required after 1 March 2023

The ATO have increased the records required from 1 March to include:

- A record of all actual hours worked from home (e.g., timesheets, rosters, logs of time spent accessing employer systems, or a diary kept contemporaneously); and
- One representative receipt, invoice, or other written evidence for each type of additional expense incurred by the taxpayer each year in relation to working from home. If you do not have a document for each type of expense, you're at risk of having your entire WFH claim rejected by the ATO.

Record keeping for decline in value

To claim a deduction for decline in value, you must have a record of:

- Cost of asset; and
- Date purchased; and
- Records to demonstrate work-related use of the asset, such as a representative four-week period that shows personal and work-related use.

Note that when the cost of these assets is less than $300, the taxable use percentage can be claimed in the year in which it was acquired. If the asset costs more than $300, it must be depreciated over its useful life and only the taxable use percentage of the depreciation expense can be claimed.

2. Actual cost method

The actual cost method allows individuals to claim the actual running costs of their home office provided they can evidence the deductible proportion of the total expense incurred. This evidence generally needs to be in the form of itemised invoices specifying the deductible proportion of a taxpayer's usage for each period. As this can be difficult to ascertain, particularly in relation to the allocation of utility expenses, the ATO allows taxpayers to estimate these costs provided that the estimate is based upon a representative four-week period. For example, if an individual works from home one day every week in a four-week period, and they work for 12 four week working periods in a year (i.e., 13 four week periods less four weeks of annual leave), they can multiply their expenses incurred in their four week representative period by 12 to get their annual deduction.

The key to this lies in the consistency of working from home; if the employee has been returning to the office regularly and only working from home on an ad-hoc basis, then there will be no representative period. If the taxpayer does not have a representative period, they may be able to calculate the work use portion of their expenses using a reasonable estimate. This method will only be accepted by the ATO where the deduction claim is small, and the estimate is reasonable given the taxpayer's circumstances. An example of this is provided in the case study below.

In addition to utility expenses, deductions are also allowable for the decline in value (depreciation) related to the purchase of computers, desks, chairs, monitors, computer accessories, telephones, etc. The same record keeping requirements as explained above are applicable.

Case study example

Sarah is an employed financial advisor who splits her time working between the Melbourne CBD office and working from home in St Kilda. Sarah has been making the most of flexible work arrangements provided by her employer and has been WFH on an ad hoc basis.

She has maintained a timesheet showing she was worked 840 hours from home (8hrs for 105 days) in the 2023 financial year.

Sarah has also incurred the following actual costs over the financial year and has kept at least one invoice for each type of expense:

- Phone and internet $1,440
- Electricity and Gas $4,900
- Water $720
- Office consumables (pens, paper) $120

Sarah knew she would continue working from home in the future, so purchased a new desk for $900 on 1 January 2022. Sarah has kept the receipt, and only uses the desk for work (no personal use).

Decline in value calculation

The desk can be depreciated over its useful life, being 20 years . The decline in value rate using the reducing balance method is 20/200% = 10%. 10% of $900 is $90. Sarah can claim half of this as she purchased the asset halfway through the financial year, so she can claim $45 in FY23.

- **Under the revised fixed-rate method**, Sarah can claim a deduction of 67 cents for the 840 hours worked from home. She can also claim $45 for the decline in value of her desk.
- **Under the actual cost method,** Sarah cannot use a 4-week representative period as she works from home on an ad hoc basis (i.e., there is no consistency). Therefore, she must apportion the work use of the costs incurred based on actual hours worked from home. 840 hours worked from home out of a total 8,760 hours in the year is 9.6%. Therefore, Sarah can claim 9.6% of the actual costs incurred.

Based on the above information, Sarah's potential income tax deductions under each method are set out below:

	Actual Cost	Revised Fixed rate	Fixed rate[1]
Fixed rate amount	N/A	$563^	$437^^
Phone & internet	$138	N/A	$138
Water	$69***	N/A	N/A
Office consumables	$120	N/A	$120
Decline in value of office furniture	$45	$45	N/A
Decline in value of office equipment	$nil	$nil	$nil
Total	**$842**	**$608**	**$695**

[1] Please note this method is no longer available, it is included for illustrative purposes only.
[*]9.6% x $1,440
[**] 9.6% x $4,900
[***] 9.6% x $720
[^] 67 cents x 840 hrs
[^^] 52 cents x 840 hours

In summary

As can be seen above, whilst the revised fixed-rate method is the easiest to apply, it yields a much lower tax deduction for Sarah than the actual cost method and even lower than the previous fixed-rate method.

If you're someone who works from home, make sure you're keeping the appropriate records so you can get the best tax deduction when it comes time to lodge your tax return. For a lot of taxpayers, spending the extra time calculating your deduction with the actual cost or revised fixed rate method will be well worth it to maximise your deduction.

Conclusion

For a confidential discussion related to your available personal income tax deductions, please reach out to one of our Fordham Partners.

[1]For the useful life of other office furniture refer to the ATO guidance here.

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