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Making the most of working from home

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Despite being on the other side of the COVID-19 pandemic, working from home and flexible working arrangements are here to stay. Many of us have spent the 2022 financial year working predominately from home. The ATO have extended the popular shortcut method for calculating working from home deductions so you can use it for the full financial year, but will this give you the best deduction? There are two other methods you can use to calculate your deduction if you have kept the appropriate records. On top of this, costs incurred for the purchase of RATs could also be deductible.

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COVID-19 Testing

- From 1 July 2021, COVID-19 testing costs incurred by individuals are allowable deductions provided the individual:
- Used the test for a work-related purpose (e.g., to determine if you can attend work);
- Had a qualifying COVID-19 test (this includes PCR and RAT kits);
- Paid for the test yourself and haven't been reimbursed by your employer;
- A record to prove you incurred the cost e.g., a receipt.

Home office expenses and tax deductions general rules

- Like any other employment related expenses, you can only claim a tax deduction for home office expenses if:
- The expenses were incurred by you;
- You were not reimbursed for the expenses by your employer;
- The expenses are in relation to your income earning activity; and
- You have a record as evidence.

What expenses can you claim?

Examples of running costs that can be claimed as a tax deduction include:

- Additional electricity costs in relation to heating, cooling, lighting and cleaning your home as a result of working from home;
- Work related phone and internet expenses;
- Ink, printer paper and stationery used for work; and
- Decline in value of home office equipment such as computers, printers, phones, furniture and furnishings.

You cannot claim a tax deduction on occupancy expenses such as interest on mortgages, rent and council rates. The exception to this general principle is if you have a dedicated area for a workplace. For example, a doctor that has a consulting room in their home. Extra care should be taken if you are considering claiming occupancy costs as these can limit the ability to apply the main residence exemption to the ultimate sale of your home.

1. 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, e.g. if an individual works from home one day every week in a four week period, they will be eligible to claim 1/7th of their actual utility usage costs. No claim can be made if the taxpayer does not have an appropriate representative period.

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.

In addition to utility expenses, deductions are also allowable for the depreciation related to the purchase of computers, desks, chairs, monitors, computer accessories, telephones, etc. It is easier to support the actual usage of such costs; however, any use of these items by other members of the household could reduce your deduction.

Where 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 cost is 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. Fixed-rate method

As the actual cost method is difficult for most taxpayers to manage (and many taxpayers do not work from home on a consistent or regular basis and do not have a representative period), the ATO have provided a fixed rate method to assist them in claiming deductions for running their home office.

The fixed-rate method allows taxpayers to claim deductions for the following:

- Rate of 52 cents per hour on running expenses, such as heating, cooling, lighting, cleaning and decline in value of office furniture (e.g. office chair & desk).
- Actual work-related usage costs related to phone, internet, ink, printer paper, and stationery; and
- Actual work-related costs of the purchase and/or decline in value of home office equipment (e.g., computer, monitor, printer and phone).

Note that if your phone and internet use for work is incidental, you can claim an amount of $100 (i.e., $50 for phone and $50 for internet) as a deduction without keeping records.

3. Shortcut method (extended to 30 June 2022)

The ATO have extended the COVID-19 shortcut rate of 80 cents per hour on additional running expenses incurred for the full 2022 financial year. This rate covers all work-related home office costs including phone, internet, ink, printer paper, and decline in value home office furniture and equipment. It is important not to double dip your deductions by claiming additional expenses such as phone and internet on top of the hourly rate. So, who can use this method? It is available to those who:

- Are working or running their business from home. This does not include those who are on leave or have been stood down, or in the case of running a business, have stopped operating permanently. Note: Working from home does not include minimal tasks such as checking emails or taking calls; and
- Have incurred additional expenses working from home due to COVID-19

To use this method, you must have a record of the hours you have worked from home, for example timesheets or diary entries. Note you also need to include a specific ‘COVID-hourly rate’ narration next to the deduction on your tax return.

Case study example

Karly Rogers, a Chartered Accountant, resides in St Kilda and ordinarily works from her office in the CBD of Melbourne. During the 2022 financial year, Karly continued to work from her home office she set up at the

beginning of the pandemic. She has only had occasional visits to the office.

Karly has maintained a timesheet throughout the year which shows she has worked 1,748 hours from home during the 2022 financial year (being a 38-hour week for 46 weeks, as she has taken 4 weeks of leave and had 10 days in the office). As Karly has been working from home, she has also kept comprehensive diary records of her work use of items such as her phone and other utilities and determined the following representative figures:

Item	4-week representative period	
	Cost	Business use
Phone and internet	$120	75%
Electricity and Gas	$450	34%*
Water	$80	34%*
Office consumables	$20	100%

*** While this appears low, Karly is both working and living in the same premises and therefore must adjust the business use accordingly. If there are 24 hours in a day, less 8 hours for sleeping, there are 112 hours in a week that household utilities are actively used for which Karly has required 38 hours for business use.**

For Karly to be able to determine her deduction, she must apply the business use of the 4-week period across all available 4-week periods and there are 13 of these in a year. Given that Karly has taken four weeks of leave during the 2021 financial year, she is only eligible to claim the deduction for 12 periods.

Prior to Karly attending her office she was required to produce a negative COVID-19 RAT result and these test kits were not provided or reimbursed by her employer. Karly purchased 3 boxes of test kits during the year for $55 each, with each kit containing 5 tests. Karly has used a test on each of the days she attended the office.

As Karly has maintained comprehensive records, she is able to claim costs associated with working from home using the actual method if she chooses, but to ensure she is obtaining the best possible deduction she has also calculated the costs of maintaining her home office using the fixed-rate and shortcut methods:

- Under the fixed-rate method, Karly can claim a deduction of $0.52 for the 1,748hrs worked at home, plus $1,080 for phone and internet usage as she has maintained the appropriate records (i.e., $120 x 12 periods x 75%). In addition, as the fixed-rate method does not include an allowance for the office consumables, she is able to claim the business use of these of $240 (i.e., $20 x 12 periods).
- Under the shortcut method, Karly can claim $0.80 for the 1,748 hours worked at home during the 2022 financial year. As the shortcut method allows for the cost of utility consumption, the use of phone and internet, as well as the decline in value of all assets, she is unable to claim additional expenses for these costs.

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

	Actual Cost	Fixed rate	Shortcut
Fixed-rate amount	$N/A	$908.95**	$1,398.40***
Utilities (Electricity, Gas and Water)	$2,162.40*	N/A	N/A
Consumables	$240	$240	N/A
Phone & internet	$1,080	$1,080	N/A
Decline in value of office furniture	$nil	N/A	N/A
Decline in value of office equipment	$nil	$nil	N/A
RATs purchased	$110	$110	$110
Total	**$3,592.40**	**$2,338.95**	**$1,508.40**

*($450+80) x 12 periods x 34% = $2,162.40
** $0.52 x 1,748 hrs = $908.95
*** $0.80 x 1,748 hrs = $1,398.40

As can be seen above, whilst the Shortcut method is the easiest to apply, the Actual Cost and Fixed Rate methods would yield a higher tax deduction for Karly.

In summary

There would be few people in Australia who haven't had to purchase COVID-19 tests in the 2022 financial year. If you meet the criteria above, make sure you don't forget to claim the cost of these in your tax return. In addition, while individual taxpayers can choose from three methods to claim deductions for expenses incurred while working from home, particular care should be taken in determining the appropriate method based upon the level of documentation they hold.

For a lot of taxpayers, spending the extra time calculating your deduction with the actual cost or fixed rate method could be well worth it for a higher tax deduction. Moreover, given flexible working arrangements are here to stay, if you haven't already started to keep the appropriate records, doing so will help you maximise your home office deductions in future years.

Conclusion

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

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