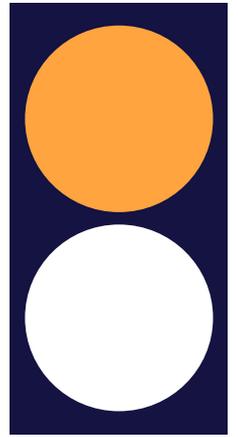


TAX LAW

ARTICLE: UPDATED RULES ON WORK FROM HOME TAX DEDUCTIONS

AUGUST 2023



Introduction

With many Australian businesses returning to the office and reverting back to pre-pandemic normality, Working from Home (WFH) has become less of a necessity and more of an added “perk” of the job. As the Australian Taxation Office (ATO) announces its latest changes to WFH tax deductions, which includes stringent record-keeping requirements and a new hourly rate, it is important to understand the available options and relevant eligibility criteria.



Working from Home

1. What are the key changes announced by the ATO?

A revised ‘fixed-rate’ method, which has an increased rate per hour from the previous method.

- A change to the expenses covered by the hourly rate.
- The types of records needed to be kept for substantiation purposes.
- A removal of the requirement to have a home office set aside for work.

The temporary 'shortcut' method, which was legislated during the COVID-19 pandemic, ended on 30 June 2022. From 1 July 2022, only the new revised fixed-rate method and actual cost method are available to calculate working from home tax deductions. Therefore, it's important to understand each of the options available and what requirements need to be met in order to be eligible.

2.Two different options – which is right for you?

Following the reduction in available calculation methods for working from home deductions, workers are now limited in their choices and must comply with more stringent record-keeping requirements.

The two available methods for claiming Work from Home tax deductions are as follows:

(a) The Revised Fixed-Rate Method

Eligibility

To be eligible for this method, you must:

- Incur additional running expenses as a result of working from home;
- Have a record of the total number of hours you work from home and the expenses you incur while working at home; and
- Have records for the expenses the fixed rate per work hour doesn't cover that show the work-related portion of those expenses.

What You Can Claim

You can claim 67 cents for each hour you work from home during the relevant income year. This rate includes additional running expenses you incur for:

- Electricity for heating, cooling and lighting;
- Home and mobile internet expenses;
- Home and mobile phone usage expenses; and
- Stationery and computer consumables.

Be aware that the rate per hour method includes the total deductible expenses for the above expenses. If you are using this method, you can't claim additional separate deductions for these expenses.

However, you are able to separately claim a deduction for the work-related use of technology and office furniture such as chairs, desks, computers and bookshelves. For these items, you can claim:

- A full immediate deduction for items with a cost of \$300 or less; or
- Decline in value deductions over the life of the item if the item cost over \$300.

Record Keeping

More stringent records must be kept to use the revised fixed-rate method. These include:

- A record of the number of actual hours you worked from home during the entire income year, i.e. a timesheet, roster, diary or similar document; and
- At least one record for each of the additional running expenses you incur that the rate per work hour includes, i.e. one quarterly electricity bill and one stationery receipt.

For depreciating assets, records must be kept that show the amount spent on depreciating assets you buy and the percentage of the year you use these assets exclusively for work in a diary or similar document.

These records must be kept for 5 years from the date you lodge your tax return.

Transitional arrangements

However, the ATO has stated that for the 2023 income year, the ATO will accept a representative record of hours worked from 1 July 2022 to 28 February 2023. From 1 March 2023, taxpayers will need to record the total number of hours they work from home in a diary or similar format as mentioned above.

Removal of designated home office requirement

Under the previous fixed rate method, a designated home office space was required to claim home office deductions. Under the revised method, this requirement has now been removed.

(b) Actual Cost Method

The alternative to using the revised fixed-rate method is the actual cost method which involves calculating the actual expenses incurred as a result of working from home.

For each of the eligible expenses noted above under the revised fixed-rate method, you will need to split them between work and private, while also being able to substantiate each individual expense with calculations, invoices and receipts.

Under this method, you are also able to claim cleaning expenses if you have a dedicated home office if you apportion the claim for any private use of the office and use of the home office by other members of your household.

3.Summary

With more stringent record-keeping requirements in place from March, it is important that individuals keep track of the number of hours from which they work from home going forward. This could be done through a spreadsheet or in a written diary.

It is also important that receipts relating to home office expenses are kept and stored. Whilst keeping in line with ATO record-keeping requirements, this also ensures that deductions are not missed when completing your tax return.

At Ezra Legal, our team of commercial lawyers know that clear and accurate legal advice on tax issues is critical to your commercial success. We provide commercially relevant legal and strategic advice on complex tax matters, striking the right balance between legal considerations and commercial reality.

Contact Information

For any questions or clarifications, please reach out to:

Damian McGrath

Special Counsel

T: (08) 8231 6100

E: dmcgrath@ezralegal.com.au

Ezra Legal.
we're here to help