

PS LA 2001/6 - Home office and electronic device expenses

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This Law Administration Practice Statement sets out principles that ATO officers can apply when examining taxpayer claims for deductions for home office and electronic device expenses.

This practice statement is an internal ATO document, and is an instruction to ATO staff.

If taxpayers rely on this practice statement, they will be protected from interest and penalties in the following way. If a statement turns out to be incorrect and taxpayers underpay their tax as a result, they will not have to pay a penalty. Nor will they have to pay interest on the underpayment provided they reasonably relied on this practice statement in good faith. However, even if they don't have to pay a penalty or interest, taxpayers will have to pay the correct amount of tax provided the time limits under the law allow it.

1. What is this practice statement about?

When ATO officers are reviewing claims for home office and electronic device expenses, there is a need to establish that expenditure has been incurred and the extent of deductibility. This practice statement concerns acceptable verification approaches for:

- 'running expenses' – home office electricity, gas, and depreciation of items such as furniture, and
- computer, internet and electronic device expenses.

2. Basic principles

Pre-requisites for deductions include the conditions that:

- the taxpayer has incurred the expenses and has not been reimbursed
- there is a connection between the use of the home office/device and the taxpayer's income producing work
- the income producing use is substantial and not merely incidental, and
- an amount is deductible to the extent it is work related and is not private

3. Evidencing expenditure

Invoices in the name of owner or service recipient represent evidence that an expense has been incurred. An expense in the name of one person can be apportioned to others where the circumstances are relevant. This includes family circumstances and shared accommodation. Where invoices are not available, corroborating evidence can be accepted. Substantiation rules apply to employees.

4. Establishing a deductible component

In order to arrive at the work related component of expenditure it is the proportion of work related use to total use by all users that is relevant.

5. Proving use proportion

Where taxpayers provide evidence of the proportion of deductible use for the whole year, such as through 'itemised' supplier records, this provides evidence of business use percentage.

Where itemised supplier records are not provided, taxpayer measurement of representative periods of use constitutes evidence. For example, a 'diary' record of use over a four week periods can be accepted. A 'diary' in this context is a record prepared by the taxpayer during the period of use and acknowledged as such by the taxpayer.

In other situations a reasonable estimate may be accepted. The taxpayer will have demonstrated to the ATO officer's satisfaction that such a component was reasonably likely under those circumstances.

6. General factors

General factors that need to be evaluated include the extent to which:

- the home office/electronic device was used exclusively by the taxpayer for income producing purposes, or if the taxpayer also used the office/device for private activities
- any other members of the household used the office/device, and
- if the taxpayer is an employee, the taxpayer's employer acknowledges their work from home activities.

7. Running expenses

Deductions for home office 'running expenses' can be established via:

- a deduction for a claimed proportion of actual expenses incurred, or
- a deduction calculated at the rate of 45 cents per hour effective from 1 July 2014 (for prior year rates see the history of this practice statement).

Taxpayers who use the actual costs method to claim a deduction for home office running expenses can provide evidence by producing records that show the amount of each expense and the deductible extent.

The amount of a deduction for the decline in value of home office furniture can be based on a bona fide estimate as discussed above.

Example 1 - running expenses

Betty is an employee accountant working for a city-based firm that expects her to complete a specified amount of work each day. In order to achieve this, Betty has elected to take some of her work home at night so that she can spend more time with her family. Betty spends an average of two hours per night Monday to Friday working in her home office.

Betty has two options for calculating her running expenses, both of which require her to keep a log to apportion between income producing activities and private/domestic use. She opts to use the standard rate of 45 cents per hour instead of determining the hourly electricity cost per appliance and calculating decline in value for items of furniture.

| Item | Calculation | Deduction amount |
|------------------|--|------------------|
| Running expenses | 45c per hour for ten hours per week for 48 weeks | \$216.00 |

8. Home telephone expenses

Account invoices or receipts are evidence that telephone expenses were incurred.

Apportionment for the work related component of the expense can be made on a reasonable basis.

Examples of a reasonable basis for landline telephones include:

- where a taxpayer has identified the actual proportion of work calls from itemised telephone accounts, or
- using diary records covering a representative four week period to show the work percentage and using that percentage to calculate the claim for the entire year.

For deductions for telephone expenses, an acceptable basis of apportionment calculation is:

$$\frac{\text{Business calls (incoming and outgoing)}}{\text{total calls (incoming and outgoing)}}$$

9. Internet expenses

Internet subscription service expenses for home internet and mobile data service without a voice service (that is, excluding a phone service component), are deductible to the extent of work related use. However, the taxpayer's personal internet usage (as well as the use by other occupants) must be considered when determining the work related percentage. For example, streaming television and movies for private use or participating in online gaming would be a factor contributing towards a lower work related component. The two primary measures that can impact on work component percentage include:

- the time spent by the taxpayer using the internet for work purposes compared to time spent by all occupants using the internet for private purposes (time basis), and
- data used for work purposes compared to data used for private purposes of all occupants (data basis).

10. Mobile phone expenses

In determining a work related percentage for mobile phone expenses the following factors are elements that can be considered:

- number of business calls compared to private calls
- time used for business calls compared to private calls
- time used in different functions for work related compared to private purposes – for example, some taxpayers may use the camera and gaming applications exclusively for private use whereas other taxpayers may require the camera and many applications for work purposes
- the time spent using the mobile telephone for work related and private purposes each day
- any employer requirements or restrictions, for business use of the mobile phone for work purposes, and
- business and private use proportions of data usage.

The relevance of type of use can be significant. Thus, if a taxpayer predominantly uses a mobile phone for phone calls then analysis of phone call use will provide the most relevant measure of use. In such cases the guidelines for home telephone use set out in section 8 of this practice statement are relevant.

11. Apportioning bundled expenses

Telephony, internet and related services products are often combined into one product, being 'bundled' in various ways. Taxpayers may use such components in different ways, for example private use for one component but work related use for another.

Accordingly, the cost of 'bundled' services may need to be apportioned discretely. Cost components can include elements such as internet or voice service, device purchase cost, or other periodic or specific services or purchases. In order to appropriately match work related use to particular costs, an apportionment of the cost of any bundled components can be separated as follows:

- an apportionment based on a supplier's breakdown of the relative costs of the bundled components
- an apportionment based on the relative costs of the bundled components as if they were purchased separately from the same supplier, or
- if no information on the supplier's breakdown of costs or unbundled costs is available, then an apportionment based on information obtained from a comparable supplier.

Example 2 – bundled expenses

An internet service provider offers an internet and home phone service for \$100 per month. If these services were provided separately (unbundled) by the same service provider they would cost \$120 per month. The discount applying to the bundle is therefore 16% ($\$20 / \120). It is reasonable to apply the bundle discount to each unbundled component cost. Therefore, if the unbundled phone service would cost \$40 per month, the bundled phone service can be assumed to cost $\$40 - (40 \times 16\%) = \34 . If the taxpayer uses the internet privately and uses the phone service 50% for work related purposes then \$17 (\$0 internet and 50% of \$34) is deductible.

12. Commissioner benchmarks and safe harbours

These types of expenses are governed by plans, payment arrangements and rules and conditions that are regularly reviewed and updated by the providers.

The terms and conditions of plans will be relevant to the allocation and apportionment of costs for tax deduction purposes. Accordingly, the Commissioner will publish each tax time, advice for individuals on claiming such expenses. ATO officers considering such claims must follow the annual ATO guidance. Such guidance is covered by this practice statement.

13. More information

For more information on the deductions allowed for home office expenses, including when an area of the home is considered to be a private study or place of business, see:

- [TR 93/30](#) *Income tax: deductions for home office expenses*

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