

PS LA 2001/6 - Verification approaches for home office running expenses and electronic device expenses

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Verification approaches for home office running expenses and electronic device expenses

This Law Administration Practice Statement sets out principles for ATO officers to apply when examining taxpayer claims for deductions for home office running expenses and electronic device usage 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 you are reviewing claims for home office running expenses 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:

- home office running expenses – home office electricity, gas and cleaning, and decline in value (previously known as depreciation) of home office items such as furniture and furnishings
- electronic device usage expenses – phone calls and internet (data) expenses

but not deductions for

- computer consumables and stationery
- home office occupancy expenses such as rent, mortgage interest, council and water rates or house insurance premiums. Only taxpayers using a part of their home exclusively as a place of business can claim a deduction for occupancy expenses

but not deductions for the decline in value of electronic devices. These should be calculated and claimed in accordance with Division 40 of the *Income Tax Assessment Act 1997* and the annual guide titled *Guide to depreciating assets* available on ato.gov.au or through the [ATO Publication Ordering Service](#).

2. Basic principles

Pre-requisites for deductions include the conditions that:

- the taxpayer has actually incurred the expenses and has not been reimbursed (see section 3 of this practice statement), and

- there must be a real connection between the use of the home office or device and the taxpayer's income-producing work.

If the taxpayer uses their home office or device for work purposes and private purposes, only the expense related to the work usage can be claimed as a deduction (see section 4 of this practice statement).

In effect, a taxpayer can claim a deduction for the 'additional' expenses they incur because they can establish that they incur these additional expenses as a result of their income-producing activities. Heating, cooling and lighting expenses are only available where the taxpayer exclusively uses these services while they work from home. This means, for example, that a taxpayer working on their laptop whilst sitting on their couch next to their partner who is watching TV will have no additional expenditure on heating, cooling or lighting, but they may have some computer, phone or internet expenses that are work related.

3. Evidencing expenditure (incurred)

Invoices in the name of the home 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. For example, this can include family circumstances such as a husband and wife, or where two unrelated parties share accommodation and both contribute to the cost of expenses jointly.

Where invoices are not available, corroborating evidence may be accepted to demonstrate the expense has been incurred.

The level of evidence required to establish that an expense has been incurred is less than that required to substantiate the expense. This means bank and credit card statements may be acceptable to establish that a taxpayer has incurred an expense. For example, a bank statement in the taxpayer's name clearly showing a payment to a gas provider will be acceptable

evidence to establish that a gas expense has been incurred.

4. Extent of deductibility

Evidence is required to demonstrate how the taxpayer has calculated their deduction based on a proportion of the total expense incurred. In apportioning the expense, taxpayers need to factor in the extent to which:

- the home office running or device usage expense was incurred by the taxpayer for income-producing purposes, or if the taxpayer also incurred the home office running or device usage expense for private purposes
- any other members of the household used the home running service or device (including automated functions such as application updates on devices and streaming of TV and movies).

For example, if the taxpayer uses a separate room in their home as a home office to undertake work from home, and their spouse and three teenage children also use the room to work and study, the spouse and children's usage of the home office will need to be factored in to the calculation to determine the proportion of the taxpayer's claim for a deduction.

Taxpayers can prove their deductible (work) use proportion by:

- providing evidence of the proportion of deductible use for the whole year, such as 'itemised' supplier records which have the taxpayer's work use proportion for the applicable period marked on each record as evidence of their annual claim for deduction, or
- providing records showing their detailed usage pattern over a representative period (if they have one). For example, a 'diary' record of use over a representative four-week period 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, or
- in limited cases when calculating the work use proportion of home office running expenses, by providing a reasonable estimate. This will only be accepted where the claim for home office running expenses is small and the taxpayer can demonstrate to your satisfaction that their estimate was reasonably likely under their given circumstances.

A taxpayer can only use a representative period if they have one. This means that their work use proportion is constant throughout the year. When using a representative four-week period, a taxpayer multiplies

the result over the amount of their working year. For example, if a taxpayer worked all year and there are 13 four-week periods in the year, they would keep records for one four-week period and multiply the result by 13 to get the annual amount. But if the taxpayer took a holiday during the year, and there are only 10 four-week periods for which they worked, they would only multiply the result by 10 to get the annual amount.

5. Special rules for home office running expenses

Taxpayers can calculate their home office running expenses by:

- keeping records and written evidence to determine their work-related proportion of actual expenses incurred (refer to sections 3 and 4 of this practice statement), or
- use a rate of 52 cents per hour effective from 1 July 2018 (for prior year rates see the history of this practice statement).

Taxpayers who use the rate per hour method to claim a deduction for home office running expenses only need to keep a record to show how many hours they work from home. They can do this over the course of the year, or if their work from home hours are regular and constant, by keeping a record for a representative four-week period.

This method incorporates all of the items that a taxpayer can claim as a home office running expense including lighting, heating, cooling, cleaning costs, and decline in value of home office items such as furniture and furnishings in the area used for work.

Example 1 – home office 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 home office running expenses. She can calculate the proportion of actual home office running expenses that are work-related, or use the rate of 52 cents per hour. Betty opts to use the rate of 52 cents per hour and keeps a record showing she worked at home for 10 hours per week for 48 weeks in the year. Her deduction is calculated as:

| Item | Calculation | Deduction amount |
|------------------|-------------------------------------------------|------------------|
| Running expenses | 52c per hour for 10 hours per week for 48 weeks | \$249.60 |

6. Special rules for device usage expenses

Taxpayer's can calculate their device usage expenses by:

- keeping records and written evidence to determine their work-related proportion of actual expenses, or
- claiming up to \$50 in total for all device usage charges (being phone calls, text messages and internet use for all devices) with limited documentation. This approach is appropriate where their device usage is incidental.

Taxpayers who use the actual expenses method to claim a deduction for their device usage expenses (either for the year or a representative four-week period as set out in sections 3 or 4 of this practice statement) can apply the following to assist with their calculation:

- For deductions for home telephone expenses, the following formula is an acceptable way to calculate the work-related proportion

$$\frac{\text{work-related calls (incoming and outgoing)}}{\text{total calls (incoming and outgoing)}}$$
- For mobile phone expenses, in determining a work-related proportion, the following factors are elements that can be considered
 - number of work calls compared to private calls
 - time used for work calls compared to private calls
 - time used in different functions for work-related purposes 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 work use of the mobile phone for work purposes, and

- work-related and private use proportions of data usage (see below).

The relevance of type of use on a mobile phone 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 provided for home telephone use are relevant.

- For device data usage expenses, either:
 - the time spent by the taxpayer using the internet for work purposes compared to time spent by the taxpayer and all others using the internet (time basis), or
 - data used for work purposes compared to data used for all purposes for the taxpayer and all other users (data basis).

Taxpayers using the \$50 method can keep basic records to show how they arrived at their claim without keeping detailed written evidence. They can base their records on the following:

- for a home phone, based on a rate of 25 cents per work call
- for mobile phones, based on a rate of 75 cents per work-related call, and 10 cents per work-related text message
- for device data usage, based on time spent or data used for work purposes (compared to all other usage by the taxpayer and other users).

Example 2 – internet expenses – sole user – time basis

Ben is an employee IT technician who generally works from home three days per week (eight hours per day). In order for Ben to log on to his employer's network he is required to use his personal home internet connection. This expense is not reimbursed by Ben's employer.

Considering Ben's usage is more than incidental he decides to calculate his actual expenses incurred using the 'time basis' method.

Ben has determined his time using the internet for work over a representative four-week period as 96 hours (24 hours per week). However, to determine his time using the internet for non-work purposes Ben considers all of the private devices that use the internet connection. This includes his:

- gaming console for online gaming
- smart TV for streaming television and movies, and
- mobile phone to browse the internet.

Ben estimates that he is directly or indirectly (for example, automatic updating) using the internet connection in relation to these devices for four hours per weekday and 16 hours on the weekend. This equates to 144 hours over a representative four-week period. Based on this analysis, Ben is using the internet for a total of 240 hours in a four-week period, of which 96 hours, or 40%, is work-related.

Ben's deduction is calculated as:

| Item | Calculation | Deduction amount |
|-------------------|---------------------------------------------------------------------------------------------------|------------------|
| Internet expenses | 40% of monthly expenses (\$60) for 11 months (taking into account Ben's four weeks annual leave). | \$264.00 |

Example 3 – internet expenses – apportion for other users

Following on from Example 2, assume Ben's wife also uses the internet connection for a similar period of time – that is, 144 hours over a representative four-week period. In this situation, the internet connection is used for a total of 384 hours in a four-week period, of which 96 hours, or 25%, is Ben's work-related portion.

Ben's deduction is calculated as:

| Item | Calculation | Deduction amount |
|-------------------|---------------------------------------------------------------------------------------------------|------------------|
| Internet expenses | 25% of monthly expenses (\$60) for 11 months (taking into account Ben's four weeks annual leave). | \$165.00 |

7. 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 4 – 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 \$80 and \$40 respectively, being a total cost of \$120 per month. The discount applying to the bundle is therefore 16% ($\$20 \div \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 $\$40 - (40 \times 16\%) = \33.60 . If the taxpayer uses the internet privately and uses the phone service 50% for work-related purposes then \$16.80 ($\0 internet and 50% of \$34) is deductible.

8. 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](#)
- [Claiming mobile phone, internet and home phone expenses](#)

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