



Tax Deductions for Working from Home Expenses: Checklist for Evaluation

Client Name: _____

Year ended: 30 June 2023

Background:

On 16 February 2023, the Australian Taxation Office (“ATO”) released Practical Compliance Guideline 2023/1 *Claiming a deduction for additional running expenses incurred while working from home - ATO compliance approach*. (‘PCG 2023/1’), which introduced a revised fixed rate method.

PCG 2023/1 introduced the post COVID-19 regime which governs the claiming of working from home expenses by taxpayers. From 1 July 2022, the fixed rate method (derived from PS LA 2001/6 Part 5) and the shortcut method (derived from PCG 2020/3) will **no longer be available**. Instead, where eligible for a deduction, taxpayers must apply **either the actual cost method or the revised fixed rate method**. This resource acts as a guide for determining when an individual is eligible to claim a tax deduction under either method for the 2022/23 financial year.

Clients should be made aware of these new requirements before providing their information to prepare the tax return, so that they are informed.

Outline:

This checklist contains consideration of the following:

Part 1: *Are you eligible to claim a deduction generally?*

Part 2: *Can you apply the revised fixed rate method to calculate the value of your deduction?*

Part 3: *Can you apply the actual cost method to calculate the value of your deduction?*

Preparer:

Name: _____

Signed: _____

Date: _____

PART 1: OVERALL ELIGIBILITY

CLIENT NAME: _____

No.	Issue	Response	Comments	Outcome
1.	Is the taxpayer actually working from home while carrying out their employment duties or carrying on business? <i>Where working from home, the work must be substantive and directly related to the income producing activities.</i> <i>Where working at home only (eg there is no office to work away from); or</i> <i>Where carrying on a business at home and this amounts to a place of business per Taxation Ruling TR 93/30:</i> - occupancy costs as well as running costs may be available to claim - refer Part 3.	<input type="checkbox"/> YES <input type="checkbox"/> NO <input type="checkbox"/> NA		If Yes: Proceed to next. If No: No deduction available.
2.	Has the taxpayer actually incurred additional running expenses as a result of working from home?	<input type="checkbox"/> YES <input type="checkbox"/> NO <input type="checkbox"/> NA		If Yes: Proceed to next. If No: No deduction.
3.	Has the work from home expense been reimbursed by the taxpayer's employer?	<input type="checkbox"/> YES <input type="checkbox"/> NO <input type="checkbox"/> NA		If Yes: No deduction for that expense. If No: Proceed to next.
4.	Is the expense related to an item that was provided to the taxpayer by their employer?	<input type="checkbox"/> YES <input type="checkbox"/> NO <input type="checkbox"/> NA		If Yes: No deduction for that expense. If No: Proceed to next.

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No.	Issue	Response	Comments	Outcome
5.	Is the expense for the purchase of coffee, team milk or other general household items?	<input type="checkbox"/> YES <input type="checkbox"/> NO <input type="checkbox"/> NA		<p>If Yes: No deduction available, even where your employer provides these at work.</p> <p>If No: Proceed to next.</p>
6.	Is there a dedicated area at home used for work/business purposes?	<input type="checkbox"/> YES <input type="checkbox"/> NO <input type="checkbox"/> NA		<p>If Yes: Proceed to Part 2 or Part 3</p> <p>If No: Proceed to Part 2 only.</p>

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PART 2: ELIGIBILITY FOR THE REVISED FIXED RATE METHOD

CLIENT NAME: _____

NB YOU MAY ONLY PROCEED TO PART 2 WHERE THE REQUIREMENTS UNDER PART 1 ARE SATISFIED.

No.	Issue	Response	Comments	Outcome
1.	<p>Does the expense relate to the work-related decline in value of any depreciating assets used to work from home?</p> <p><i>These expenses are not covered by the revised fixed rate method, meaning you may claim an additional, separate deduction for these under the actual cost method (subject to apportionment).</i></p>	<input type="checkbox"/> YES <input type="checkbox"/> NO <input type="checkbox"/> NA		<p>If Yes: No revised fixed rate method deduction applicable for this item. A separate deduction can be claimed.</p> <p>If No: Proceed to next.</p>
2.	<p>Does the expense fall under one of the following categories:</p> <ul style="list-style-type: none"> • Energy expenses (namely electricity and gas) for lighting, heating and cooling; • Expenses for electronic devices used while working from home; • Internet expenses; • Mobile and home phone expenses; or • Stationery and computer consumables. 	<input type="checkbox"/> YES <input type="checkbox"/> NO <input type="checkbox"/> NA		<p>If Yes: Proceed to next.</p> <p>If No: No revised fixed rate method deduction is applicable to the expense.</p>

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No.	Issue	Response	Comments	Outcome
3.	<p>Does the taxpayer have a valid record of the hours worked from home?</p> <p><i>To satisfy this from 1 July 2022 to 28 Feb 2023, taxpayers need only have kept a record that is representative of the hours worked from home (such as a four-week diary).</i></p> <p><i>To satisfy this from 1 March 2023 to 30 June 2023 onwards, taxpayer must have detailed records made contemporaneously of the number of actual hours worked from home. An estimate or four-week diary will be insufficient.</i></p>	<input type="checkbox"/> YES <input type="checkbox"/> NO <input type="checkbox"/> NA		<p>If Yes: Proceed to next.</p> <p>If No: No revised fixed rate method deduction.</p>
4.	<p>Does the taxpayer have valid evidence that they paid for the expenses covered under the revised fixed rate method; and this evidence is in the taxpayer's name?</p> <p><i>To satisfy this for FY23 onwards, you will need to have monthly/quarterly invoices or receipts to evidence your expense. You need one substantiation document for each type of expense incurred (e.g., one invoice for internet, one for electricity)</i></p> <p><i>(as advised to the IPA by the Australian Taxation Office in response to questions raised by the IPA to the ATO).</i></p>	<input type="checkbox"/> YES <input type="checkbox"/> NO <input type="checkbox"/> NA		<p>If Yes: You are eligible to use the revised fixed rate method. You may claim the expense as a deduction by using the rate of 67 cents per hour for each hour working from home. You cannot then claim an additional separate deduction for an expense covered under this revised fixed rate method.</p> <p>Eg If the taxpayer wishes to claim mobile phone bills separately then they cannot also use the revised fixed rate method.</p>

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No.	Issue	Response			Comments	Outcome
						If No: Proceed to next.
5.	<p>Does the taxpayer have valid evidence that they paid for the expenses covered under the revised fixed rate method; and this evidence is in the name of either:</p> <ul style="list-style-type: none"> - one member of the household <p><i>Where invoices are in the name of one member of a household, but the cost is shared, each member who contributes to the payment is taken to have incurred it. Evidence is also required to support that the payment was made for the share of costs.</i></p> <p>or</p> <ul style="list-style-type: none"> - the taxpayer's spouse's name <p><i>If the bill is in your spouse's name, a joint credit card or bank statement showing payment is sufficient.</i></p> <p>or</p> <ul style="list-style-type: none"> - the householder's name <p><i>If you share a property and the bill is in the name of the householder, a lease agreement showing you share the property or bank statements showing you paid a portion of the expense will be sufficient.</i></p> <p>or</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<p>If Yes: You are eligible to use the revised fixed rate method. You may claim the expense as a deduction by using the rate of 67 cents per hour for each hour working from home. You cannot then claim an additional separate deduction for an expense covered under this revised fixed rate method.</p> <p>Eg If the taxpayer wishes to claim mobile phone bills separately then they cannot also use the revised fixed rate method.</p> <p>If No: No revised fixed rate method deduction applicable.</p>

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No.	Issue	Response	Comments	Outcome
	<p>- the taxpayer's parent's name?</p> <p><i>For private arrangements, such as a child separately paying their parents for their share of household expenses, you must provide a bank statement or similar as evidence of the contribution.</i></p> <p>NB The revised fixed rate method does not require the taxpayer to maintain a dedicated workspace.</p>			

Consequences of applying the revised fixed rate method include the following:

- Taxpayers who object to their assessment in relation to work from home expenses will not be able to rely on the revised fixed rate method as it is an administrative approach and not a statutory provision. Hence, taxpayers wishing to amend their work from home deductions through an objections process must use the actual cost method.
- Taxpayers who use their main residence as a place of business (and not merely to work from home), and thus are claiming occupancy costs, should pay careful attention to any capital gains tax consequences.

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PART 3: ELIGIBILITY FOR THE ACTUAL COST METHOD

CLIENT NAME: _____

NB YOU MAY ONLY PROCEED TO PART 3 WHERE THE REQUIREMENTS UNDER PART 1 ARE SATISFIED.

No.	Issue	Response	Comments	Outcome
1.	<p>Is there a dedicated area at home used for work/business purposes?</p> <p><i>Under the actual cost method, the Australian Taxation Office does not consider a taxpayer to have incurred an additional expense if other members of their household (who are not working from home) are in the same room as them while they work from home.</i></p> <p><i>Effectively, this means you must have a dedicated office in order to claim a deduction.</i></p>	<input type="checkbox"/> YES <input type="checkbox"/> NO <input type="checkbox"/> NA		<p>If Yes: Proceed to next.</p> <p>If No: No actual cost method deduction.</p>
2.	<p>Does the expense fall under one of the following categories:</p> <ul style="list-style-type: none"> Decline in value of depreciating assets; Electricity and gas for lighting, heating and cooling; Expenses for electronic devices used while working from home; Internet expenses; 	<input type="checkbox"/> YES <input type="checkbox"/> NO <input type="checkbox"/> NA		<p>If Yes: Proceed to next.</p> <p>If No: No actual cost method deduction.</p>

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No.	Issue	Response	Comments	Outcome
	<ul style="list-style-type: none"> Mobile and home phone expenses; Stationery and computer consumables; Cleaning costs for your dedicated home office; or Occupancy expenses such as mortgage interest or rent (For example: where the home is a place of business). 			
3.	<p>Does the taxpayer have valid evidence of their personal and work-related use of the items/services?</p> <p><i>To satisfy requirements for FY23 onwards, taxpayers may keep either:</i></p> <ul style="list-style-type: none"> <i>Detailed records made contemporaneously of the number of actual hours worked from home (eg a timesheet or spreadsheet); or</i> <i>A record that is representative of the hours worked from home (such as a four-week diary which represents the usual pattern of working from home).</i> <p><i>Further, apportionment may be made on a time/ floor plan basis, and evidence is required to be maintained on the basis used.</i></p>	<input type="checkbox"/> YES <input type="checkbox"/> NO <input type="checkbox"/> NA		<p>If Yes: Proceed to next.</p> <p>If No: No actual cost method deduction.</p>

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No.	Issue	Response	Comments	Outcome
4.	<p>Does the taxpayer have valid evidence that they paid for the expenses?</p> <p><i>To satisfy this for FY23 onwards, taxpayers must keep all invoices, bills, receipts and other documents necessary to evidence the expenses incurred. You need to keep a record for every expense you claim.</i></p> <p><i>Additionally, taxpayers must have enough supporting information to demonstrate how the income-producing proportion of the expenses was calculated.</i></p>	<input type="checkbox"/> YES <input type="checkbox"/> NO <input type="checkbox"/> NA		<p>If Yes: You are eligible to use the actual cost method. You may claim the expense as a deduction based on the actual expense incurred.</p> <p>If No: No actual cost method deduction is applicable.</p>

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