PCG 2020/3 - Claiming deductions for additional running expenses incurred whilst working from home due to COVID-19

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Claiming deductions for additional running expenses incurred whilst working from home due to COVID-19

Relying on this Guideline

This Practical Compliance Guideline sets out a practical administration approach to assist taxpayers in complying with relevant tax laws. Provided you follow this Guideline in good faith, the Commissioner will administer the law in accordance with this approach.

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What this Guideline is about

1. As a result of COVID-19, a significant number of employees and business owners are working from home and incurring additional running expenses in relation to their income-producing activities. Additional running expenses include lighting, heating, cooling and cleaning costs, electricity for electronic items used for work, the decline in value and repair of home office items such as furniture and furnishings in the area used for work[1], phone and internet expenses, computer consumables, stationery and the decline in value of a computer, laptop or similar device.

[1] See paragraph 6 of Taxation Ruling TR 93/30 *Income tax: deductions for home office expenses* for more information on the deductibility of home office expenses.

2. Law Administration Practice Statement PS LA 2001/6 *Verification approaches for home office running expenses and electronic device expenses* states that taxpayers can calculate certain of their additional running expenses by using a fixed rate of 52 cents per hour[2] (**current fixed rate per hour**) or by keeping records and written evidence to determine their work-related proportion of actual expenses incurred.

3. The current fixed rate per hour covers home office electricity (lighting and cooling/heating, running electrical items such as a computer), gas (heating), cleaning and the decline in value of home office items such as furniture and furnishings. It does not cover other expenses such as computer consumables, stationery, phone and internet expenses or the decline in value of a computer, laptop or similar device. As such, a record of the hours worked at home along with full written evidence to substantiate those expenses that are not covered by the current fixed rate per hour must still be kept when using this methodology.

4. This Guideline provides a simpler alternative to the approach in PS LA 2001/6 by specifying a fixed rate per hour that covers all of the running expense items referred to in paragraph 1 of this Guideline for taxpayers covered by paragraph 7 of this Guideline. This alternative shortcut rate (described in paragraphs 26 and 27 of this Guideline) is expected to be particularly helpful for taxpayers now working from home because of the COVID-19 emergency.

5. This Guideline does not cover occupancy expenses. Occupancy expenses relating to your home such as rent, mortgage interest, property insurance and land taxes will not become deductible only because you are required to work from home temporarily as a consequence of COVID-19. Occupancy expenses are only deductible if part of the home has the character of a place of business. Whether part of an employee's or business owner's home has the character of a place of business is covered in TR 93/30. Although entitlement to claim mortgage interest expenses may impact a taxpayer's ability to claim the full main residence exemption when they sell their home, this will not be relevant for taxpayers only working at home temporarily due to COVID-19 and not otherwise using their home to earn income.

Date of effect

6. This Guideline will apply from 1 March 2020 and will cease to apply on 30 June 2021.

Who this Guideline applies to

7. This Guideline will apply to employees and business owners (**taxpayers**) who are:

- working from home to fulfil their employment duties or to run their business (**working from home**) during the period from 1 March 2020 to the date this Guideline ceases to apply, and
- incurring additional running expenses that are deductible under section 8-1 and Division 40 of the *Income Tax Assessment Act 1997* (**incurring additional running expenses**) as a result of working from home.

8. This Guideline does not apply to employees for any period they are on leave or stood down during the period.

9. This Guideline also does not apply to business owners if they have ceased trading permanently.

[2] From 1 July 2018.

10. During the period from 1 March 2020 to the date this Guideline ceases to apply, any business owner who now carries on their business from their home or continues to carry on their business at home will be covered under this Guideline.

11. This Guideline is intended to cover all taxpayers working from home during this period, whether as a result of COVID-19 or not.

First criterion – working from home

12. Minimal tasks such as occasionally checking email or taking calls while at home will not qualify as **working from home**. The work has to be substantive and directly related to the taxpayer's income-producing activity.

Example 1 – not working from home

13. *Abed's employer has requested staff take leave while the business is suffering a downturn due to COVID-19. Abed takes four weeks annual leave. During that period he occasionally checks his email to see if there is anything he needs to keep abreast of while he is on leave. His employer also sends him text messages to keep him up to date on changes to the business.*

14. *This would not qualify as working from home as Abed is on leave and not actively working; he is just occasionally checking in. As such, Abed cannot rely on this Guideline.*

Example 2 – working from home

15. *Bianca is a sole trader who works as a copy writer and editor. She usually works out of a shared workspace in the central business district as it is easier to meet with her clients face-to-face. Bianca decides to work from home as a result of COVID-19 and replaces her face-to-face meetings with online video conferencing. Bianca continues to operate her business and would meet the criteria for working from home. As such, Bianca can rely on this Guideline to claim her additional running expenses.*

Second criterion – incurring additional running expenses

16. The second criterion requires taxpayers to have incurred additional running expenses as a result of working from home. This means that the employee or business owner must be paying or be liable to pay for additional running expenses that are deductible. In circumstances where a third party is reimbursing the taxpayer for their additional running expenses or incurring the additional running expenses on the taxpayer's behalf, the taxpayer would not meet this criterion.

17. Incurring additional running expenses may take a number of forms. It may be an increased usage in electricity as more electronic devices are plugged in while working from home, heating and cooling costs incurred during days when taxpayers would not be at home or the purchase of additional office supplies and equipment to use while working at home.

18. An additional running expense may also arise as a consequence of a previously non-deductible private expense now becoming deductible due to a change in the way it is being used. For example, if a home computer had only ever been used for private purposes and is now being used to fulfil employment duties or in running a business, it would be an additional running expense that is incurred.

19. For the purposes of this Guideline, incurring additional running expenses does not require having a separate or dedicated area of your home set aside for working such as a private study, but having a dedicated space makes it easier to show additional running

expenses have been incurred. Incurring additional running expenses does not mean the taxpayer has to have all the expenses listed in paragraph 26 of this Guideline, just that they have incurred additional running expenses in some of those categories as a result of working from home.

Example 3 – additional running expenses incurred – existing arrangement

20. *Duyen is an employee of an online trading business. Up until the end of February, Duyen spent two days working from home and three days working at the office of her employer. As a result of COVID-19, she starts working from home five days per week from 1 March 2020. For the period from 1 July 2019 to 29 February 2020, Duyen uses the current fixed rate of 52 cents per hour to calculate her additional running expenses including electricity expenses, cleaning expenses and the decline in value and repair of her office furniture. She also calculates her work-related phone and internet expenses using the itemised phone bill for one month on which she has marked her work-related phone calls and the four-week representative diary of internet usage that she kept.*

21. *As Duyen is working from home she can rely on this Guideline to claim her additional running expenses for the period from 1 March 2020.*

22. *Duyen ends up working from home for five days per week until 30 June 2020 as a result of COVID-19. Rather than continuing to use the current fixed rate and working out the actual expenses she incurred on her phone and internet expenses from 1 March 2020 to 30 June 2020, Duyen decides, for simplicity, to calculate all of her running expenses using the shortcut rate. Duyen uses the timesheets she is required to provide to her employer to calculate the number of hours she works from home in the period from 1 March 2020 to 30 June 2020 and keeps those timesheets as evidence of her claim.*

Example 4 – additional running expenses incurred – business owner

23. *Elizabeth runs a small business selling art and framing pictures. She has a store with a workshop to display the art and frames. She also does all her bookkeeping and administrative tasks in the office at the store. As a result of the downturn in people coming into her store due to COVID-19, Elizabeth decides to close her store and continue running her business online from home. As Elizabeth continues to run her business from home due to COVID-19, she can rely on this Guideline to claim her additional running expenses.*[3]

The practical approach

24. If a taxpayer meets both of the criteria outlined in paragraph 7 of this Guideline a taxpayer can rely on this Guideline and use the shortcut rate to calculate their additional running expenses for the period they work from home. However, if a taxpayer would rather claim their actual additional running expenses, they do not have to use the shortcut rate. They can claim their actual expenses and keep all records necessary to substantiate their claim, as per normal record-keeping rules.

25. Taxpayers can also choose to use the fixed rate of 52 cents per hour for relevant expenses and keep records of other expenses in accordance with PS LA 2001/6, instead of using the shortcut rate.

[3] To determine whether she is entitled to claim occupancy expenses during the period she is running her business from home, as per paragraph 5, Elizabeth will have to consider TR 93/30.

The shortcut rate

26. The shortcut rate is 80 cents per hour. This rate can be claimed for every hour that is worked at home. The hourly rate covers all additional running expenses, namely:

- electricity (lighting, cooling/heating and electronic items used for work, for example a computer) and gas (heating) expenses
- the decline in value and repair of capital items such as home office furniture and furnishings
- cleaning expenses
- phone expenses including the decline in value of a phone handset
- internet expenses
- computer consumables
- stationery, and
- the decline in value of a computer, laptop or similar device.

27. If a taxpayer uses the shortcut rate to claim a deduction for their additional running expenses, they cannot claim a further deduction for any of the expenses listed at paragraph 26 of this Guideline.

Record keeping

28. If a taxpayer wishes to rely on the shortcut rate to calculate their additional running expenses they will need to keep a record of the hours they have worked at home. This could be in the form of timesheets, rosters, a diary or similar document that sets out the hours worked.

Tax return description

29. Taxpayers who:

- rely on this Guideline to use the shortcut rate of 80 cents per hour to calculate their additional home office expenses during the period from 1 March 2020 to the date this Guideline ceases to apply, and
- lodge their tax return through myTax or through a tax agent

must include the notation '*COVID-hourly rate'* next to their deduction for home office expenses in their 2019–20 tax return and 2020–21 tax return.

Example 5 – calculating additional running expenses using shortcut rate

30. *Ephrem is an employee and as a result of COVID-19 he is working from his home office. In order to work from home, Ephrem purchases a computer on 15 March 2020 for $1,299. He intends to use the shortcut rate to claim his additional running expenses.*

31. *During the entire period he is working from home as a result of COVID-19, Ephrem notes in the calendar on his computer, when he starts and finishes each day along with a note about any breaks he has and how long those breaks were.*

32. *When it comes to lodging his 2019–20 tax return, Ephrem works out that during the period he worked from home as a result of COVID-19, he worked a total of 456 hours.*

33. *Ephrem calculates his deduction for the 2019–20 income year for additional running expenses as:*

456 hours × 80 cents per hour = $364.80

34. *As Ephrem has claimed his additional running expenses using the shortcut rate, he cannot claim a separate deduction for the decline in value of his computer. Ephrem keeps a record of the calendar entries he has made to demonstrate how he calculated the number of hours he worked from home. Ephrem also keeps the receipts for his computer purchase in case he will need to claim depreciation in future.*

35. *When he lodges his 2019–20 tax return using myTax, Ephrem includes the notation 'COVID-hourly rate'.*

Commissioner of Taxation
9 April 2020

Amendment history

Date of Amendment	Part	Comment
17 December 2020	Paragraph 6	Date of effect updated to 30 June 2021.
29 September 2020	Paragraph 6	Date of effect updated to 31 December 2020.
8 July 2020	Paragraph 6 Paragraph 13 Paragraph 24 Paragraph 29 Paragraph 35	Date of effect updated to 30 September 2020. Amended the word 'downturn'. Removed mention of COVID-19. Amended to include myTax and 2020–21 income year. Amended to include myTax.

References

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Not previously issued as a draft

ATOlaw topics	Income tax ~~ Deductions ~~ Work related expenses ~~ Home office expenses
Legislative references	ITAA 1997 8-1 ITAA 1997 Div 40
Related Rulings/Determinations	Taxation Ruling TR 93/30 *Income tax: deductions for home office expenses*
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