

PCG 2023/1EC - Compendium

 This cover sheet is provided for information only. It does not form part of *PCG 2023/1EC - Compendium*



Public advice and guidance compendium – PCG 2023/1

1 Relying on this Compendium

This Compendium of comments provides responses to comments received on Draft Practical Compliance Guideline PCG 2022/D4 *Claiming a deduction for additional running expenses incurred while working from home – ATO compliance approach*. It is not a publication that has been approved to allow you to rely on it for any purpose and is not intended to provide you with advice or guidance, nor does it set out the ATO's general administrative practice. Therefore, this Compendium does not provide protection from primary tax, penalties or interest for any taxpayer that purports to rely on any views expressed in it.

Summary of issues raised and responses

Issue number	Issue raised	ATO response
All legislative references in this Compendium are to the <i>Income Tax Assessment Act 1997</i> , unless otherwise indicated.		
Date of effect		
1	The proposed date of effect does not allow appropriate opportunity to educate taxpayers. The date of effect should be 1 July 2023.	The revised fixed-rate method applies from 1 July 2022 so that taxpayers working from home who do not have a dedicated home office space are able to use a simple method for calculating their working from home expenses. Our communications from 1 July 2022 about working from home expenses have advised taxpayers that the shortcut method would no longer be available and to keep records of the actual hours they worked from home. If this method does not apply from 1 July 2022, those taxpayers will be required to claim the actual expenses they incurred because the current fixed-rate method requires taxpayers to have a dedicated home office space.
Objections		
2	Paragraph 6 of the draft Guideline notes that it cannot be relied on if a taxpayer lodges an objection in respect of their working from home claim. Taxpayers should be aware that if they object to the ATO's assessment of their working from home claim, they will only be able to use the actual cost method when calculating their working from home claim. The limitation to taxpayer's objection rights when using the	Paragraphs 5 and 6 of the final Guideline state that if taxpayers are unable to use the revised fixed-rate method, they will need to use their actual expenses to claim a deduction for working from home. Paragraph 6 of the final Guideline also states that if taxpayers lodge an objection for any reason, they will not be able to rely on the Guideline or use the revised fixed-rate method to determine whether they are entitled to a deduction for their working from home expenses.

Issue number	Issue raised	ATO response
	<p>revised fixed-rate method should be highlighted immediately after paragraph 7 of the draft Guideline.</p> <p>The new paragraph should:</p> <ul style="list-style-type: none"> • make reference to Taxation Ruling TR 2011/5 <i>Income tax: objections against income tax assessments</i> • explain taxpayers' objection rights • encourage taxpayers to resolve the matter prior to lodging an objection and indicate the ATO's willingness and preference for this pathway, and • provide alternative pathways to resolve matters prior to the objection stage. <p>ATO auditors should also be provided with clear guidance on how to work with taxpayers to resolve disagreements or concerns in a pragmatic manner. This includes ensuring that a taxpayer's whole working from home claim is not denied and that concessions are otherwise provided where a taxpayer has made a genuine attempt to comply with the Guideline.</p>	<p>These paragraphs already state that taxpayers will not be able to use the revised fixed-rate method to calculate their working from home claim if they are found not to have met the eligibility requirements. This includes lodging an objection on this basis.</p> <p>We will always look to practically resolve disputes, whether before or after an objection has been lodged.</p> <p>As public advice and guidance on objections and how to lodge an objection already exists, no further content about how to lodge an objection has been included in the final Guideline. However, a reference to TR 2011/5 has been included in footnote 6 of the final Guideline.</p> <p>Guidance for our staff will be developed.</p>
3	<p>The inability for taxpayers to use the revised fixed rate when objecting and instead being forced to default to general principles under section 8-1 is a concern. This means that at objection, the only method available to the taxpayer is the actual cost method.</p> <p>This creates difficulties for taxpayers who have relied on the revised fixed rate but have been found not to meet the requirements because they may not be able to fully substantiate their working from home expenses.</p> <p>Given the permanent shift in working arrangements and the increasing scrutiny by the ATO of working from home deductions, there is a need to legislate the revised fixed-rate method to preserve taxpayers' access to this method at objection to claim their expenses.</p>	<p>For a working from home expense to be deductible, the expense needs to satisfy the requirements of section 8-1 and the relevant substantiation provisions.</p> <p>The 67c per hour is a proxy rate used as an exercise of the Commissioner's general power or administration as to how we will apply compliance resources.</p> <p>When a taxpayer disputes whether a working from home expense is deductible, either at objection or before the Administrative Appeals Tribunal or Courts, they will need to establish that the particular expense was incurred and is deductible under the law. This is a different process to us not applying compliance resources to verify if a particular expense is deductible.</p> <p>The comment concerning the need for a legislative response is a policy issue that falls outside the scope of this Guideline.</p>

Issue number	Issue raised	ATO response
Criteria for relying on the Guideline		
4	There is sense in applying the draft Guideline if a taxpayer is working from home as an employee either full or part-time but does this draft Guideline apply to a business that runs from home and has been for years?	<p>As stated at footnote 1 of the final Guideline, references to taxpayers throughout the Guideline includes employees and taxpayers carrying on a business.</p> <p>The revised fixed-rate method applies to individuals, including those carrying on a business from their home. As per paragraph 2 of the final Guideline, from 1 July 2022 taxpayers can continue to claim their actual expenses or, alternatively, they can use the revised fixed-rate method outlined in paragraphs 23 to 26 of the final Guideline.</p>
5	<p>Contemporary working arrangements may result in business activities being conducted in a range of structures and arrangements. It is unclear whether taxpayers receiving business income from alternative arrangements or structures can use the revised fixed-rate method for determining their working from home claim.</p> <p>The final Guideline should explicitly state and provide examples to clarify how the revised fixed-rate method would apply to partnerships, trusts, companies and attributed personal services income.</p>	<p>The revised fixed-rate method, like the 52c fixed-rate method available from 1 July 1998 to 30 June 2022 and the shortcut method available from 1 March 2020 to 30 June 2022, applies to taxpayers working from home while carrying on a business.</p> <p>More information about deductions for home-based businesses (including partnerships, company and trusts is available at Types of business structures. This guidance will be updated after the final Guideline is published.</p>
6	<p>In paragraph 45 of the draft Guideline, minimal tasks such as occasionally checking emails or taking phone calls while at home will generally not qualify as working from home for the purposes of paragraph 18(a) of the draft Guideline.</p> <p>There is ambiguity and a lack of detail. For example:</p> <ul style="list-style-type: none"> • If a schoolteacher finishes work in the afternoon and takes student work home for marking on an ad hoc basis, is this regarded as working from home? • Expanding the above example, if a schoolteacher finishes work in the afternoon and takes student work home for marking every day, is this regarded as working from home? 	<p>Paragraphs 18(a) and 45 of the final Guideline do not change our existing position concerning when a taxpayer is considered to be working from home.</p> <p>As per Example 3 in the final Guideline, a taxpayer who simply checks their roster at home each week is not considered to be working from home. In the same way, a taxpayer who occasionally takes a quick phone call at home will not be considered to be working from home. This can be contrasted with a taxpayer who checks their work emails at home each day or who is required to attend a meeting by phone after hours.</p>

Issue number	Issue raised	ATO response
	<ul style="list-style-type: none"> If a bookkeeper finishes work, but logs back into the file at home in the evening to complete a task, is this regarded as working from home? 	
7	<p>It is not clear whether there needs to be a demonstrated increase in utilities, mobile phone and utilities costs, or only whether these expenses are incurred by the taxpayer. Some paragraphs in the draft Guideline seem to suggest that the taxpayer needs to demonstrate an increase in these costs; while other paragraphs in the draft Guideline seem to suggest that the record only needs to demonstrate that the taxpayer incurred the cost.</p> <p>Requiring taxpayers to incur additional running expenses is outside the purview of section 8-1 and subjects taxpayers to stricter requirements for incurring outgoings if they rely on the revised fixed-rate method for their working from home claim.</p> <p>'Additional expenses' should be removed from the final Guideline and replaced with 'losses and outgoings'. This replacement will ensure that the meaning in section 8-1 is accurately reflected in the final Guideline.</p>	<p>The last sentence in paragraph 7 of Taxation Ruling TR 93/30 <i>Income tax: deductions for home office expenses</i> states '[t]he amounts allowable as deductions are the additional expenses incurred as a result of income-producing activities.'</p> <p>This is the reason the final Guideline refers to additional running expenses. Taxpayers are not expected to undertake a comparative exercise to demonstrate that they have incurred additional running expenses as a result of working from home. This can be demonstrated by the number of hours they have worked from home.</p> <p>To make this clear, footnote 11 (paragraph 18(b)) and footnote 23 (paragraph 51) have been added to the final Guideline.</p>
8	<p>It is unclear whether all of the expenses covered by the revised fixed rate must be incurred for a taxpayer to use this method. The sentence in paragraph 49 of the draft Guideline stating that taxpayers '... do not have to incur every running expense listed at paragraph 23 of this Guideline.' should be inserted as a separate point after paragraph 19 of the draft Guideline.</p>	<p>The criteria for relying on the revised fixed-rate method is set out in paragraph 18 of the final Guideline, which relevantly states:</p> <p>... 'incurring additional running expenses of the kind outlined in paragraph 14 of this Guideline which are deductible under section 8-1 as a result of working from home ...'.</p> <p>This paragraph also refers the reader to paragraphs 49 to 55 of the Guideline for more information on what is required to meet this criterion and does not state you need to incur every kind of expense, just the kind of expenses outlined in paragraph 14 of the Guideline.</p> <p>Further, there is a reference to paragraph 49 of the final Guideline which, as noted, states that taxpayers do not have to incur every running expense listed at paragraph 23 of the Guideline.</p>

Issue number	Issue raised	ATO response
9	<p>Given that the draft Guideline refers to a taxpayer having to substantiate all 4 individual components (referring to one bill each for energy, internet, phone and stationery or consumables) to be eligible, would the ATO consider an alternative to the 67c per hour? For example, this could be reduced to a lower amount to exclude mobile phone and stationery or consumables if they are reimbursed or provided by the taxpayer's employer. This would only be for circumstances where the costs are not incurred and would allow the taxpayer to claim the cents per hour for some costs and actual costs for others (based on ordinary substantiation rules).</p>	<p>See our response to Issue 8 of this Compendium.</p>
Fixed rate per hour		
10	<p>The inclusion of mobile phone expenses in the revised fixed rate is unfair. Taxpayers use mobile phones a lot for work, not just when working from home.</p> <p>Taxpayers who have high mobile phone expenses will need to claim their actual expenses if they want to claim what they are entitled to and they will require assistance from tax agents to do this.</p>	<p>Based on our evidence, taxpayers find it difficult to apportion mobile phone expenses and so including this expense in the rate overcomes this difficulty.</p> <p>As a mobile phone is a depreciating asset, a deduction for the decline in value of the phone can be claimed in addition to the revised fixed rate per hour. Monthly plans which include a payment for the phone generally separate the cost for the phone and the cost of the monthly plan or state what the overall cost of the phone is.</p> <p>Taxpayers who use their mobile phone mainly for income-producing purposes can either:</p> <ul style="list-style-type: none"> • claim a deduction for the mobile expenses (and other working from home expenses) they incur in the course of earning their assessable income, or • choose this simpler method and use the revised fixed rate per hour. <p>We will continue to ensure there is public advice and guidance available to assist taxpayers in claiming working from home expenses should they wish to claim the actual costs they have incurred.</p>

Issue number	Issue raised	ATO response
11	The inclusion of internet expenses in the revised fixed rate is a step backwards. Many individuals will be required to use the actual cost method because of the inclusion of internet, which is difficult to calculate.	See our response to Issue 10 of this Compendium. Internet expenses have been included in the fixed rate per hour for the same reasons mobile phone expenses have been included.
12	Printer ink is expensive and 67c per hour is not enough to cover this cost. Either consumables should be allowed as a separate expense or the hourly rate should be increased to cover this cost.	We understand that some taxpayers have high stationery costs, but based on our experience, the average taxpayer who is working from home does not have high stationery costs and may also have to apportion these expenses. Taxpayers who have high stationery costs may not find this method suitable for their circumstances and can instead claim their actual working from home expenses.
13	The previous fixed-rate and shortcut methods have included the decline in value of furniture, it should be included in the revised fixed rate to avoid confusion and potential compliance work.	The decline in value of all depreciating assets has not been included in the revised rate of 67c per hour because it does not allow taxpayers who buy more expensive items of equipment to claim the deduction they are eligible to claim. Assistance to taxpayers in calculating their deduction for the decline in value of depreciating assets is available via the Depreciation and capital allowances tool . Information on how to treat depreciating assets that were purchased while a taxpayer was using the shortcut and current fixed-rate methods can be found at Decline in value of depreciating assets . Footnote 16 of the final Guideline has been amended to include a link to the Depreciation and capital allowances tool.
14	As with Draft Legislative Instrument <i>Income Tax Assessment – Cents per Kilometre Deduction Rate for Car Expenses Determination 2022</i> published circa 3 March 2022, it would not be unreasonable for the average taxpayer in Australia to assert that, given the sharp spike in global inflation and interest rates in the year to date, and world events and the consequential impact this has had on fuel, gas and power pricing, there is a disconnect between the revised shortcut rate as proposed at paragraph 23 of the draft Guideline (67c per hour) and reality.	It is noted in that Legislative Instrument, that it relates specifically to the claiming of car expenses using the cents per kilometre rate. The rate of 67c per hour for the purpose of claiming working from home expenses under the revised fixed-rate method was based on the Australian Bureau of Statistics' household expenditure survey with consideration of annual Consumer Price Index weightings for the 4 categories of expenses comprising the rate; that is, electricity, gas, communications (including phone and internet charges), stationery and computer consumables such as printer ink and paper.

Issue number	Issue raised	ATO response
		<p>We will continue to review whether the rate is reflective of current running expenses incurred by taxpayers who are working from home.</p> <p>If a taxpayer considers that the revised fixed rate of 67c per hour is less than what they are incurring on working from home expenses, they are able to claim the actual expenses they incur as a result of working from home.</p> <p>For transparency, footnote 13 has been added to paragraph 23 of the final Guideline to explain what the fixed rate per hour is based on.</p>
15	<p>The proposed removal of cleaning costs and decline in value of work-related assets in the draft Guideline represents in our view, a departure from the original intent (that is, these previously formed part of the all-inclusive 80c shortcut rate (refer to paragraph 26 of Practical Compliance Guideline PCG 2020/3 <i>Claiming deductions for additional running expenses incurred whilst working from home due to COVID-19</i>).</p> <p>Tinkering with a functioning all-inclusive rate creates unnecessary complexity for all concerned. As a matter of good public accountability, the ATO as an institution should be held to a comparable (if not, a higher) standard than taxpayers. In the same manner that taxpayers must apportion expenses on a fair and reasonable basis where applicable (paragraph 12 of the draft Guideline), the ATO should publish calculations to demonstrate, factoring in the above elements, why Australian taxpayers should accept more complexity only to see a 13c per hour reduction in the working from home shortcut rate. How is the revised working from home shortcut rate espoused in the draft Guideline 'fair and reasonable'?</p>	<p>The shortcut method outlined in PCG 2020/3 was always intended to be temporary, which is why paragraph 6 of the final Guideline states that it will cease to apply after 30 June 2022.</p> <p>Cleaning expenses are deductible where a taxpayer has a separate dedicated home office space. As it is not a requirement of the revised fixed-rate method to have a separate dedicated home office space, it is not appropriate to include an amount in the fixed rate per hour for cleaning expenses.</p> <p>See our response to Issue 13 of this Compendium in relation to the fixed rate per hour not covering decline in value.</p> <p>The revised fixed rate per hour covers all working from home expenses that are commonly incurred by taxpayers and that are difficult to apportion. As stated in our response to Issue 13 of this Compendium, assistance to taxpayers to calculate their deduction for the decline in value of depreciating assets used while working from home is available via the Depreciation and capital allowances tool.</p>
16	<p>It is difficult to understand why the reduction in rate is being offered, when so many people are still working partially from home, other than to reduce the overall refund rate as a money saving change. In addition, the current rise in costs of living are well acknowledged and dropping the rate in these economic times adds an additional burden to the taxpayer. If anything, the 80c per hour should be increased to reflect the</p>	<p>The shortcut method was always intended to be temporary. It was introduced at a time when large numbers of the population were working from home for the first time to provide those taxpayers with a simple way of calculating their working from home deduction.</p> <p>The revised fixed-rate method actually increases the rate per hour of the current fixed-rate method by 15c (52c increased to 67c). It also removes the need for taxpayers to have a dedicated home office space, which many</p>

Issue number	Issue raised	ATO response
	<p>increased cost of electricity and other home deductibles, such as phone or furniture, though this is very unlikely in the current economic environment.</p> <p>An explanation should be added to the final Guideline around why the rate is being reduced from 80c to 67c and how the rate was calculated.</p>	<p>taxpayers do not have and allows them to claim a separate decline in value deduction for more costly items and equipment.</p> <p>As noted in response to Issue 14 of this Compendium, the rate of 67c per hour was based on the Australian Bureau of Statistics' household expenditure survey with consideration of annual Consumer Price Index weightings for the 4 expenses comprising the rate; that is, electricity, gas, communications (including phone and internet charges), stationery and computer consumables such as printer ink and paper.</p> <p>We will continue to review whether the rate is reflective of current running expenses incurred by taxpayers who are working from home.</p> <p>If a taxpayer considers that the revised fixed rate of 67c per hour is less than what they are incurring on working from home expenses, they are able to claim the actual expenses they incur as a result of working from home.</p> <p>For transparency, footnote 13 has been added to paragraph 23 of the final Guideline to explain what the fixed rate per hour was based on.</p>
17	<p>The goods and services tax (GST) implications for taxpayers registered for GST is unclear. The final Guideline should address whether the expenses covered by the rate per hour will be creditable with an input credit claim (that is, actual deduction of 60.91c with a 6.09c input credit claim) or whether the rate is inclusive of GST.</p>	<p>The revised fixed rate is a practical compliance approach to overcome the difficulties associated with apportioning income tax deductions in lieu of calculating the non-private portion of actual expenses of working from home and as such does not represent expenditure for GST purposes.</p> <p>The same rate applies regardless of whether a business was entitled to full or partial input tax credits on home running costs.</p>
Joint expenses		
18	<p>Paragraph 3 of Law Administration Practice Statement PS LA 2001/6 <i>Verification approaches for home office running expenses and electronic device expenses</i> addresses the situation of invoices for household expenses being in the name of one member of the household but actually being incurred by more than one member of the household.</p> <p>While alluded to in paragraphs 18 to 22 of the draft Guideline, such an overt acknowledgment of these common situations has been omitted.</p>	<p>Paragraph 51 of the final Guideline refers to situations where invoices are in the name of one member of the household but the cost is shared. This paragraph refers to family circumstances, such as husband and wife, or where 2 unrelated parties share accommodation and both contribute to the cost of expenses jointly.</p> <p>Paragraph 61 of the final Guideline provides examples of what a taxpayer will need to provide to show that they incurred part of the expense.</p>

Issue number	Issue raised	ATO response
19	<p>Taxpayers would benefit from more examples of other documents that the ATO would accept as sufficient evidence that a taxpayer has incurred a cost that is billed to another person's name. For example, providing details of the evidence the ATO would accept when adult children live in their parent's house.</p> <p>We recommend that where a taxpayer uses the revised fixed-rate method and their working from home claim is, for example, \$600 or less, the taxpayer is not required to retain more documentation than the invoice or bills of the costs and the working from home hours.</p>	<p>While our public advice and guidance is written to cover circumstances of the majority of taxpayers, it is recognised that some taxpayer's individual circumstances may differ from the examples in paragraph 61 of the final Guideline.</p> <p>The examples in paragraph 61 of the final Guideline are not intended to be an exhaustive list of what can be provided as evidence. There are other ways that taxpayers, including adult children, can show that they directly contributed to the cost of a bill.</p> <p>The suggestion that a less than \$600 per year 'safe harbour amount' be deductible without any evidence is, in effect, an alternative to what has been proposed and therefore outside the scope of this Guideline.</p>
The practical compliance approach		
20	Footnote 17 in paragraph 28 of the draft Guideline should refer to paragraphs 25 and 26 (instead of paragraphs 24 and 25) of the draft Guideline.	<p>Paragraph 28 of the final Guideline states:</p> <p>This Guideline does not apply to you if:</p> <ul style="list-style-type: none"> • the number of hours you use in the methodology set out in paragraph 26 of this Guideline exceeds the number of hours you actually worked at home, or • you claim a separate deduction for any of the expenses listed in paragraph 23 of this Guideline. <p>Footnote 17 (now footnote 18 in the final Guideline) refers to paragraph 24 and 25 of the final Guideline because together these paragraphs explain when you cannot claim a separate deduction for expenses covered by the fixed rate per hour. This information is relevant to a taxpayer considering if they can rely on the Guideline.</p>
Record-keeping requirements		
21	The requirement to maintain a record of every hour worked from home in a tax year places an unacceptable burden on small businesses. Under your proposal, sole traders will have to keep a written or electronic diary of every hour they are working from home to claim this deduction as they are not employees and do not have timesheets or rosters to account for time spent working in the home office. This is	<p>The shortcut method outlined in PCG 2020/3 required taxpayers to keep a record of the hours worked from home for the entire year (see paragraph 28 and Example 5 of PCG 2020/3). As such, some taxpayers will already be familiar with this requirement.</p> <p>The reference to timesheets, rosters, a diary or similar document kept contemporaneously in paragraph 58 of the final Guideline is not an exhaustive list. It states that a record of hours can be in the form of those.</p>

Issue number	Issue raised	ATO response
	<p>unreasonable, particularly as the draft Guideline also fails to recognise records of time spent logged into work systems as acceptable proof. Employer systems accessed remotely (for employees) or online business systems (for example, Xero and MYOB) should constitute an acceptable record to prove the number of hours worked from home.</p>	<p>The reference to 'similar documents kept contemporaneously' covers records of time spent logged onto an employer's system or business system, time recorded in an app or any other similar record.</p> <p>However, to make this clear, paragraph 58 of the final Guideline has been revised.</p>
22	<p>The requirement to keep a record of hours for the entire income year is onerous and not practicable.</p> <p>Many people who work from home also have additional household responsibilities and the long methods require a significant effort in paperwork and tracking on a daily basis, which adds to this burden, and which many people simply do not have the time in their day to do.</p> <p>It may also create a burden for employers to provide a way for employees to record the hours they work from home.</p>	<p>See our response to Issue 21 of this Compendium.</p> <p>The requirement to keep a record of the hours worked from home should not create a burden for employers. Individual taxpayers are required to keep the records necessary and if their employer does not provide them with a system to record their hours, they will need to keep records themselves. This can be done in a number of different ways provided the records are kept contemporaneously.</p>
23	<p>This advice should be rethought to allow a reasonable estimate of hours for hybrid working.</p> <p>The record-keeping obligations proposed here would not accept an estimate of the days spent working from home as it does not constitute 'a record of the hours worked from home during the income year' as per Example 4 at paragraph 48 of the draft Guideline. This is onerous and does not reflect this reality of hybrid working where arrangements are regular rather than exceptional.</p> <p>It is also inequitable; there does not appear to be an equivalent level of reporting required for businesses with hybrid working employees, for example, for their business deductions.</p>	<p>See our response to Issue 21 of this Compendium.</p> <p>Under section 262A of the <i>Income Tax Assessment Act 1936</i>, businesses are required to keep all documents that are relevant to the ascertainment of their income and expenditure.</p> <p>While the requirements for employees and business are slightly different, both are required to keep records of expenditure.</p>
24	<p>The previous fixed-rate method provided a reasonable approximation of costs for the average Australian and enabled taxpayers to claim the more variable components of working from home expenses in addition. Under this revised method, taxpayers have to choose between keeping</p>	<p>See our responses to Issues 21, 22 and 28 of this Compendium.</p>

Issue number	Issue raised	ATO response
	<p>unnecessarily onerous records to enable them to claim the actual costs of necessities like electricity and stationery, or using a fixed-rate or shortcut method that does not adequately cover actual expenses.</p> <p>To ease the record-keeping burdens of those working from home and of small businesses, a better approach would be to keep the 80c per hour shortcut method.</p>	
25	<p>In paragraph 58 of the draft Guideline, for the 2023–24 and later income years, decisive and clear guidance is given.</p> <p>In paragraph 59 of the draft Guideline, for the 2022–23 income year only, a different method is proposed for 6 months.</p> <p>We suggest this will be confusing and difficult for taxpayers to comply, as in the 2022–23 income year there are 2 substantiation methods.</p> <p>We propose that a representative record is kept for the full 2022–23 income year, which provides consistency.</p> <p>The proposed timeframe does not allow enough time for tax agents to develop assistive tools for, and communicate with, their clients so they can organise their affairs and to minimise any confusion and provide more clarity.</p> <p>The final Guideline should provide details on what the ATO would accept as a representative record so taxpayers can substantiate their claims accordingly.</p>	<p>Taxpayers who were using the shortcut method outlined in PCG 2020/3 should have been keeping records of all of the hours they worked from home so this should not represent a change in record keeping.</p> <p>Taxpayers who were using the current fixed-rate method also had to keep a record of the hours they worked from home which could be in the form of a diary or similar document kept for a representative 4-week period. While it is acknowledged that taxpayers previously using this method may not have kept these records as yet, the requirement for the first 8 months of the year is just to keep some records that are representative of their hours for the first part of the year so this should be possible for them.</p> <p>There is no change for taxpayers claiming their actual working from home expenses.</p> <p>Our communications from 1 July 2022 about working from home expenses have advised taxpayers to keep records of the actual hours they worked from home.</p> <p>However, we acknowledge the difficulty of introducing this part way through the year, which is why we have included a transitional record-keeping requirement for the 2022–23 income year.</p> <p>Our web content will be updated to include information on what a representative record may be.</p>
26	<p>Where a taxpayer incurs all or many of the types of costs covered by the revised fixed-rate method, they will have a greater compliance burden compared to another taxpayer who only incurs some of these costs, irrespective of their working from home hours. They are also subject to a greater risk that their claim may be disallowed if one of the</p>	<p>The requirement to retain one piece of evidence for each expense covered by the fixed rate per hour that has been incurred is not considered to be onerous. Taxpayers now receive and pay for expenses in ways that allow them to access this information even if they have not made a concerted effort to keep such evidence.</p>

Issue number	Issue raised	ATO response
	documents substantiating their revised fixed-rate method claim is considered insufficient in a potential review. This is an unfair outcome and disincentivises taxpayers from disclosing all their relevant expenses as there is a greater risk to do so without any benefit to their working from home claim.	<p>Bills, invoices and receipts are often received by email which means they can be stored electronically and accessed that way.</p> <p>Taxpayers who receive bills, invoices and receipts by mail still often keep them and, if they do not, they generally keep a credit card statement or can access one via banking apps or websites.</p> <p>A credit card statement will be accepted as evidence, provided it has enough information about the expense that was incurred and that the taxpayer incurred it. For expenses such as energy, mobile phone and internet expenses, a credit card statement will generally show the information required.</p> <p>If a taxpayer does not wish to keep a hard copy or an email with a copy of a bill, invoice or receipt attached, they can simply take a photo of it and upload it to the 'My Deductions' tool in the ATO app.</p>
27	Although many bills are issued for monthly or quarterly periods, this is not the case for all bills. It would be beneficial to specifically allow other such bill arrangements in paragraph 61 of the final Guideline.	Footnote 32 has been added in paragraph 61 of the final Guideline to explain that bills received on a different time basis will also be accepted.
General comments		
28	<p>Before finalising the draft Guideline, the ATO should reflect on why it is deviating from the intent outlined in paragraph 4 of PCG 2020/3, namely to have a simpler alternative to the fixed-rate method outlined in PS LA 2001/6.</p> <p>Taxpayers, practitioners and ATO officers should not have to digest and administer this 16-page manifest with its numerous criterions on how and when to apply the revised working from home shortcut rate.</p> <p>In its current form, it is anticipated that the draft Guideline, when finalised, will create a substitution effect that will result in taxpayers passing on the supposedly 'simpler alternative' shortcut method in favour of the precursor, the 52c fixed-rate method.</p> <p>If the ATO concurs with the World Health Organisation's assertion that the end of the COVID-19 pandemic is in sight,</p>	<p>We have revised the fixed rate method to reflect contemporary working from home arrangements while also balancing legal and compliance considerations.</p> <p>The shortcut method outlined in PCG 2020/3 was a temporary method introduced to assist individuals forced to work from home during COVID-19 lockdowns. The rate was all inclusive, which meant that no separate deduction (such as for the decline in value of work-related assets and equipment) could be claimed in addition to the hourly rate.</p> <p>PCG 2020/3 applied from 1 March 2020 and ceased to apply on 30 June 2022 (see paragraph 6 of the Guideline). As such, the shortcut method had an end date which our communications on this issue have explained.</p> <p>The 52c rate method outlined in PS LA 2001/6 was available from 1 July 1998 to 30 June 2022. This method is not available for the 2022–23 income year and later income years. The 52c fixed-rate method required</p>

Issue number	Issue raised	ATO response
	<p>the ATO should keep it simple and timetable the sunset of the shortcut method. Taxpayers can simply revert to the 52c fixed-rate method or, if they prefer, adopt the actual expenses method. Conversely, if the ATO follows local health advice and is of a view that COVID variants will continue to emanate with warnings of new waves to come which will result in Australians continuing to work from home for an indefinite period, the ATO should not reinvent the wheel when there is already a functioning all-inclusive working from home shortcut rate.</p>	<p>taxpayers to have a separate dedicated home office space. The rate per hour was based on the costs associated with working at home in a separate room. The revised 67c fixed rate that is available from 1 July 2022 does not require taxpayers to have a dedicated home office space and also allows those who are unable to set up a separate room in their house to access the revised 67c fixed rate (subject to the relevant requirements being satisfied).</p>
29	<p>The draft Guideline is inconsistent with existing ATO guidance (for example, PS LA 2001/6) in the following ways:</p> <ul style="list-style-type: none"> • It will supersede PCG 2020/3, which offered an alternative to the approach in PS LA 2001/6. • PS LA 2001/6 provides that taxpayers can prove their deductible (work) use proportion by providing a reasonable estimate if the running expense is small and the taxpayer can demonstrate that the estimate was reasonably likely. • Example 2 of the draft Guideline is an arrangement where relief will not be available which would appear to be permissible under PS LA 2001/6. 	<p>PCG 2020/3 ceased to apply from 1 July 2022 (see paragraph 6 of the Guideline). Our tax time communications and web content states that the temporary shortcut method outlined in PCG 2020/3 ended on 30 June 2022. As such, this Guideline does not supersede PCG 2020/3. This Guideline supersedes the 52c fixed-rate method outlined in PS LA 2001/6.</p> <p>Paragraph 17 of the final Guideline states that taxpayers will no longer be able to rely on the information included in PS LA 2001/6 under the heading '5. Special rules for home office running expenses' to calculate their deduction for expenses incurred as a result of working from home. The paragraphs under this heading allow taxpayers to use the fixed rate of 52c per hour for their lighting, heating, cooling, cleaning costs and the decline in value of home office furniture and furnishings in the dedicated home office space used for work.</p> <p>While we are considering whether the remaining content covered in PS LA 2001/6 would be better as web content, there is no consideration being given to changing the principles covered by that content. As such, taxpayers will be able to prove their deductible (work) use proportion of their actual expenses by providing a reasonable estimate in limited cases. In particular, this will only be the case where the claim for a particular running expense is small and the taxpayer can demonstrate that their estimate was reasonably likely under their given circumstances. For example, if mobile phone expenses are less than \$50, an estimate is acceptable.</p> <p>Example 2 in the final Guideline has been included to explain the concept outlined in paragraph 6 of the draft Guideline.</p>

Issue number	Issue raised	ATO response
		<p>Footnote 7 in paragraph 6 of the final Guideline, explains objections regarding working from home expenses calculated using the shortcut method and the fixed-rate method are, and have been, dealt by us in the same way.</p> <p>In terms of the changes to the record-keeping requirements in PS LA 2001/6 as opposed to the final Guideline, the requirement to keep records of hours worked from home for the entire income year (as opposed to records for a 4-week representative period or an estimate as per Example 2 in the final Guideline) is to ensure that taxpayers keep contemporaneous records of the hours worked. This was also the record-keeping requirement for the shortcut method (see paragraph 28 and Example 5 in PCG 2020/3).</p>
30	The draft Guideline would be improved by including some reasoning for the departure from the principles that are set out in PS LA 2001/6.	See our responses to Issues 28 and 29 of this Compendium.
31	The draft Guideline is inconsistent with the ATO's stated goals of improving the ease of compliance and making it easy for the community to understand and comply with obligations.	<p>Based on our experience of recent years, we recognised that the fixed-rate method needed to more accurately represent the contemporary experience of taxpayers working from home and be more reflective of the types of running expenses they now incur, such as internet and mobile phone expenses.</p> <p>The final Guideline provides taxpayers with a simple method for calculating the deductible portion of additional running expenses on a fair and reasonable basis. There is also no longer a requirement to have a separate home office space and deductions for the decline in value of any depreciating assets used while working from home (for example, a laptop) can be claimed separately.</p> <p>The final Guideline also allows us to address the compliance risk associated with apportioning working from home expenses. Our compliance data indicates that taxpayers often incorrectly apportion expenses, such as the expenses covered by the fixed rate per hour or fail to apportion such expenses at all.</p> <p>The revised fixed rate is optional. Taxpayers with high working from home expenses can claim the actual additional running expenses they incur as a result of working from home if that allows them to claim a larger deduction.</p>

Issue number	Issue raised	ATO response
32	The new claim benefit may possibly disadvantage taxpayers relative to the current fixed rate method of 52c. It might be fair to say that transparency is required as to whether the net effect will increase or decrease tax revenue.	Whether a taxpayer will receive a higher or lower deduction using the revised fixed-rate method will depend on their individuals circumstances.
33	There is a preference to retain the 52c fixed-rate method because clients will be worse off in terms of what they can claim under the revised 67c method. It is expected that going forward, many taxpayers will use the actual method to calculate their working from home expenses.	See our response to Issue 28 of this Compendium.
34	Footnote 5 in the draft Guideline includes a reference to 'cleaning costs, decline in value and the cost of repairs on items of office furniture' but the revised fixed-rate method does not cover these costs. This footnote should only refer to the expenses covered by the revised fixed-rate method or, if it is a reference to previous ATO guidance regarding running expenses, the wording should clearly state this.	This footnote (now footnote 4 in the final Guideline) was inserted to explain what running expenses are, not what running expenses are covered by the revised fixed-rate method. It has been amended to clarify.
35	The Guideline should illustrate more practical examples covering transition from the shortcut method (per PCG 2020/3) and the fixed-rate method (per PS LA 2001/6) to the revised fixed-rate method or actual expenses method where the taxpayer used office equipment (for example, a laptop) and furniture (for example, a desk) in earning assessable income that was purchased between 1 March 2020 and 30 June 2022, or prior to 1 March 2020, and the taxpayer: <ul style="list-style-type: none"> • kept the receipts to substantiate the original cost and acquisition date • did not maintain a depreciation schedule, and • did or did not have a dedicated work area. 	Following publication of the final Guideline, an example of how depreciating assets should be treated in these circumstances will be included in Decline in value of depreciating assets . At present, this web content already provides information and examples on how to treat depreciating assets if you change from one method of calculating your working from home expenses (which may have included a deduction for the decline in value of certain depreciating assets) to one that does not, from one year to the next.