




PS LA 1999/4 (Withdrawn) - Home Office Expenses

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 ** NOTE: Practice Statement PS 1999/4 was withdrawn on 14 Feb 2001. Refer to Practice Statement 2001/6 for guidance on the calculation of home office expenses. **

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ATO Practice Statement

Law Administration

PS LA 1999/4

**** NOTE: Law Administration Practice Statement PS LA 1999/4 was withdrawn on 14 Feb 2001. Refer to Law Administration Practice Statement PS LA 2001/6 for guidance on the calculation of home office expenses. ****

FOI Status: may be released

This Practice Statement is issued under the authority of the Commissioner and must be read in conjunction with Law Administration Practice Statement PS LA 1998/1. It must be followed by ATO officers unless doing so creates unintended consequences. Where this occurs ATO officers must follow their Business Line's escalation process.

SUBJECT: Home Office Expenses

PURPOSE: Diaries of use and calculation of home office expenses

STATEMENT

1. Where individual taxpayers keep a diary for the purpose of establishing a connection between the use of their home office and their work or business, the Commissioner will accept diary records covering a representative four week period as establishing a pattern of use for the entire year.
2. Individual taxpayers who claim deductions for work or business related home office running expenses comprising electricity, gas and depreciation on office furniture may claim either a deduction for the actual expenses incurred or a deduction calculated at the rate of 20 cents per hour. Other home office expenses, such as telephone expenses and depreciation on computers or other equipment, will have to be calculated separately

EXPLANATION

Records of Home Office Use

3. Individual taxpayers who claim home office expenses are required to be able to prove that they have incurred such expenses. Such taxpayers must also be able to establish a connection between the use of their home office and their work or business. The Commissioner's view of the law relating to home office expenses is contained in ***Taxation Ruling TR 93/30 – Deductions for home office expenses.***
4. Normally, a taxpayer would have to keep a complete diary recording the duration and purpose of each use of their home office during the year in order to demonstrate this connection for every occasion. However, this imposes an unreasonably high compliance cost upon taxpayers in relation to what are frequently small claims.
5. In order to ease this evidentiary burden, the Commissioner will accept a diary covering a representative four week period as establishing a pattern of use for the

entire year. The taxpayer may then use this pattern of home office use to calculate the home office running expenses claim for the entire year, allowing for periods when the home office is not used for income production, such as holidays, illnesses, etc. This method is outlined in Tax Pack.

6. A new diary must be kept for each financial year, as patterns of use are likely to fluctuate over two or more years. Employees must keep each of these diaries for five years after lodgment of the return for that year or the due date for that lodgment, whichever is later, in accordance with section 900-25 *Income Tax Assessment Act 1997*.
7. A small number of taxpayers incurring home office expenses may not have a regular pattern of home office use upon which a representative pattern may be based. Such taxpayers will need to keep records of the duration and purpose of each use of their home office during the year.

Calculation of Home Office Running Expenses

8. Based upon actual use or an established pattern of use, the Commissioner will accept that a taxpayer has incurred 20 cents per hour for home office running expenses for heating, cooling, lighting and depreciation of furniture (desks, tables, chairs, cabinets and shelves). This rate is based upon average energy costs and the value of common furniture items used in home offices. However, due to larger variations in cost of computers, telephone, faxes, etc, the taxpayer will still have to calculate depreciation on other items in the home office separately.
9. Naturally, taxpayers who wish to use the actual costs method to claim a deduction for these home office running expenses can do so, but they will need to keep appropriate records to be able to show the amounts of the expenses incurred and the extent to which they are incurred in deriving assessable income.
10. By accepting this simpler and easier method of calculating the small amounts of home office running expenses, the Commissioner is again attempting to decrease the cost of compliance for individual taxpayers.

Examples

11. The following are examples applying this approach to typical taxpayer situations.

Example 1

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, aside from depreciation on her computer equipment (which is common to both scenarios but separately calculated):

Option 1 (Actual Running Expenses)

Betty had the following home office running expenses, including energy expenses which have been calculated using electricity authority hourly costs per appliance. The apportionment has been based on four weeks' diary entries as follows:

Item	Calculation	Expense Amount
Depreciation on Desk	Value \$350 over 10 years	\$35.00
Depreciation on Chair	Value \$200 over 10 years	\$20.00
Electricity for 60W Ceiling Light	0.7c per hour for ten hours per week for 48 weeks	\$3.36
Electricity for Computer	1c per hour for ten hours per week for 48 weeks	\$4.80
Electricity for Heating/Cooling	9c per hour for ten hours per week for 48 weeks	\$53.20
Total Deductible Amount		\$116.36

Option 2 (Estimated Running Expenses)

Betty is able to use a simpler and quicker calculation for her expenses:

Item	Calculation	Expense Amount
Running Expenses	20c per hour for ten hours per week for 48 weeks	\$96.00

Example 2:

Felix is a computer programmer with BMI Corp. Felix telecommutes to the BMI site in Silicon Valley USA for fifteen hours each week.

Option 1 (Actual Running Expenses)

Felix has the following home office running expenses, including energy expenses which have been calculated using electricity authority hourly costs per appliance. The apportionment has been based on four weeks' diary entries as follows:

Item	Calculation	Expense Amount
Depreciation on Desk	Value \$350 over 10 years	\$35.00
Depreciation on Chair	Value \$200 over 10 years	\$20.00

Electricity for 100W Lamp	1c per hour for fifteen hours per week for 48 weeks	\$7.20
Electricity for 60W Ceiling Light	0.7c per hour for fifteen hours per week for 48 weeks	\$5.04
Electricity for Computer	1c per hour for fifteen hours per week for 48 weeks	\$7.20
Electricity for Heating/Cooling	9c per hour for fifteen hours per week for 48 weeks	\$64.80
Total Deductible Amount		\$139.24

Option 2 (Estimated Running Expenses)

Felix also has the option of using a simpler, less complicated method of calculating his expenditure:

Item	Calculation	Expense
Running Expenses	20c per hour for fifteen hours per week for 48 weeks	\$144.00

subject references: diaries; home office; record-keeping

legislative references: ITAA 1997 200-25

related public rulings: TR 93/30

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