PS LA 2001/6 - Verification approaches for electronic device usage expenses

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This Practice Statement was amended on 16 February 2023 to remove references to home office running expenses, and the fixed-rate method that applied up until 30 June 2022. Please refer to the history of this document for prior versions of this document. For the 2022-23 and later income years, the fixed rate for home office running expenses is available in Practical Compliance Guideline PCG 2023/1 *Claiming a deduction for additional running expenses incurred while working from home - ATO compliance approach*.

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Verification approaches for electronic device usage expenses – phone calls and data

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, namely phone calls and data.

This Practice Statement is an internal ATO document and is an instruction to ATO staff.

1. What is this Practice Statement about?

When you are reviewing claims for 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 electronic device usage expenses – phone calls and internet (data) 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.

2. Basic principles

Prerequisites 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 device and the taxpayer's income-producing work.

If the taxpayer uses their 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).

3. Evidencing expenditure (incurred)

Invoices in the name of the 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 2 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 an internet provider will be acceptable evidence to establish that an internet 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 device usage expense was incurred by the taxpayer for income-producing purposes or if the taxpayer also incurred the device usage expense for private purposes, and
- any other members of the household used the service or device for any purpose (including automated functions such as application updates on devices and streaming of TV and movies).

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
- 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 4-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 expenses, by providing a reasonable estimate. This will only be accepted where the claim 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 4-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 4 week periods in the year, they would keep records for one 4-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 4 week periods for which they worked, they would only multiply the result by 10 to get the annual amount.

5. [Omitted.]

6. Special rules for device usage expenses

Taxpayers 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 4-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 25c per work call
- for mobile phones, based on a rate of 75c per work-related call and 10c per work-related text message, and
- 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 1 – internet expenses – sole user – time basis

Ben is an employee IT technician who generally works from home 3 days per week (8 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 4-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 4 hours per weekday and 16 hours on the weekend. This equates to 144 hours over a representative 4-week period. Based on this analysis, Ben is using the internet for a total of 240 hours in a 4-week period, of which 96 hours, or 40%, is work-related.

Table 1: Ben's deduction calculation for Example 1

Item	***Calculation***	***Deduction amount***
Internet expenses	*40% of monthly expenses ($60) for 11 months (taking into account Ben's 4 weeks' annual leave).*	*$264.00*

Example 2 – internet expenses – apportion for other users

Following on from Example 1 of this Practice Statement, assume Ben's wife also uses the internet connection for a similar period of time – that is, 144 hours over a representative 4-week period. In this situation, the internet connection is used for a total of 384 hours in a 4-week period, of which 96 hours, or 25%, is Ben's work-related portion.

Table 2: Ben's deduction calculation for Example 2

Item	***Calculation***	***Deduction amount***
Internet expenses	*25% of monthly expenses ($60) for 11 months (taking into account Ben's 4 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 3 – 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 ÷ $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 × 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 $33.60) 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*
- Phone, data and internet expenses
- PCG 2023/1 *Claiming a deduction for additional running expenses incurred while working from home – ATO compliance approach*

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Amendment history

Date of amendment	Part	Comment
16 February 2023	Title	Removed home office running expenses. Updated to provide clarity relation to claims for deductions for electronic device usage, namely phone calls and data.
	Section 5 Special rules for home office running expenses	Omitted, with effect from 1 July 2022. Future rates now included in Practical Compliance Guideline PCG 2023/1 *Claiming a deduction for additional running expenses incurred while working from home – ATO compliance approach.*
	Throughout	References to home office running expenses removed.
16 January 2019	All	Updated to provide clarity. Updated the home office running expenses hourly rate.
28 November 2017	Contact details	Updated.
13 August 2015	Significant Rewrite	Updated to include contemporary electronic device issues.
	All	Updated to new LAPS format and style.
17 December 2014	Paragraph 2, 12 and 16	Hourly rate for home office expenses updated from 34c to 45c per hour, effective 1 July 2014.
	Paragraph 8	Clarified wording.
	Contact details	Updated.
16 May 2014	Paragraphs 8 and 13	Paragraphs updated for clarification regarding apportionment.
	Paragraph 14	Deleted heading.
18 April 2013	Paragraph 8	Deleted reference to TaxPack.
28 April 2011	Paragraphs 2, 11 and 14; Examples 1 and 2 and Option 2	Hourly rate for home office expenses updated from 26c to 34c per hour, effective 1 July 2010.
	Contact details	Updated.
18 September 2009	Contact details	Updated.
16 September 2008	Amendment history	Updated.
11 May 2005	Various	Hourly rate for home office expenses updated from 20c to 26c per hour, effective 1 July 2004.
	Contact details	Updated.
1 June 2004	Various	Change ‘depreciation’ to ‘decline in value’. Update legislative references.
	Contact details	Updated.

References

Legislative reference	ITAA 1997 Div 40
File reference	99/117-1; 1-UANLMNS
Related public rulings	TR 93/30

ATO references

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