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## The approach to tax when you're working from home

If you produce assessable income at home, or some of it, and you incur expenses from using that home as your "office" or "workshop", the ATO will generally allow that a taxpayer could be in a position to be able to claim some expenses and make some deductions. Otherwise the ATO takes the view that expenditure associated with a person's place of residence is more likely to be of a private nature.

### About this newsletter

Welcome to Carbone Partners' client information Newsletter, your monthly tax and super update. Keeping you on top of the issues, news and changes you need to know. Should you require further information on any of the topics covered, please contact us via the details below.

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Deductions may be available from the use of your home to earn income in two circumstances. First, if it is used in connection with your income earning activities but isn't a place of business (that is, your home is not your principal place of business, but you might do a few hours of work there). The second situation in which you may be able to claim a tax deduction is when the home is also being used as a place of business. The tax implications are different depending on which of these circumstances applies.

In broad terms, expenses fall into the categories that are listed in the table on page 3.

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## Single touch payroll rollout for smaller employers

A major change in the way employers report the tax and super information for their employees to the ATO has been on the way for a while now. The single touch payroll (STP) system started to be rolled out gradually from 1 July 2018 for what the ATO refers to as “substantial” employers (those with 20 or more staff). Recently passed legislation extends STP to all employers, regardless of the number of staff, from 1 July this year.

Using payroll or accounting software that offers STP, most employers are required to send their employees’ tax and super information to the ATO via STP-enabled software each time you run your payroll and pay your employees.

The information is sent to the ATO either directly from the software or through a third party, such as a sending service provider. Software providers can tell you more about how they offer STP reporting.

### HEADCOUNT

While it may seem plainly evident how many staff you have on board, the ATO has provided guidance on who to count and who not to. It has also nominated a day on

the calendar for when this headcount should be dated, which coincidentally has just passed (April 1).

Included are:

- full-time employees
- part-time employees
- casual employees and seasonal workers who were on your payroll on 1 April and worked any time during March (there are exemptions to counting seasonal workers who were employed for a short time only)
- employees based overseas
- any employee absent or on leave (paid or unpaid).

Those not included are:

- any employees who ceased work before 1 April
- casual employees who did not work in March
- independent contractors
- staff provided by a third-party labour hire organisation
- company directors and office holders.

The best way to find out if your software is STP-ready is to talk to your software provider — and note that if you are not ready to start using STP, we can apply for a deferral on your behalf.

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**Single touch payroll rollout for smaller employers cont**

**OPTIONS FOR VERY SMALL AND MICRO EMPLOYERS**

It is intended that different STP reporting options will be available by 1 July 2019 to help smaller employers. However the ATO says it won't be forcing employers with 19 or less employees to purchase payroll software if you don't currently use it.

The ATO asked software developers to build low-cost STP solutions at or below \$10 per month for micro employers – including simple payroll software, mobile phone apps and portals. A register of providers who

intend to build these solutions is available, which we can provide to you if this is an option you wish to look at.

Micro employers (which the ATO defines as having one-to-four employees) will also have a number of alternative options that are not available to employers with 20 or more employees – such as initially allowing your registered tax or BAS agent to report quarterly, rather than each time you run your payroll.

Note also that exemptions to STP reporting will also be available if you have no internet or an unreliable connection. ■

**The approach to tax when you're working from home cont**

Home office expenses you can and can't claim			
Expenses	Home is principal workplace with dedicated work area	Home not principal workplace but has dedicated work area	You work at home but no dedicated work area
Running expenses	Yes	Yes	No*
Work-related phone & internet expenses	Yes	Yes	Yes
Decline in value of office equipment	Yes	Yes	Yes
Occupancy expenses	Yes	No	No

\* Generally, an employee who works at home and who does not have a dedicated work area will not be entitled to claim running expenses or their claim for running expenses will be minimal. This is due to the fact that they can only claim the additional running expenses incurred as a result of working from home.

**Running expenses**

You can generally view running expenses as those costs that result from you using facilities in your home to help run the business or home office, so these would include electricity, gas, phone bills and perhaps cleaning costs. But again you can only claim a deduction for the amount of usage from the business or home office, not general household expenses.

Using your floor area may be an appropriate way of working out some running expenses. For example, if the floor area of your home office or workshop is 10% of the total area of your home, you can claim 10% of heating costs. An alternative can be to compare before and after average usage for each cost. Another possibility is to keep a representative four-week diary to

work out a pattern of use for your home work area for the entire financial year.

Instead of recording actual expenses for heating, cooling or lighting, it may be easier to use the ATO's "acceptable" rate for these expenses, which is 52 cents per hour based on actual use or an established pattern of use (from 1 July 2018; it was 45 cents before then).

To use the 52 cents per hour method of claiming, keep a diary to record the amount of time you use your home office for work purposes. The diary must show a representative period of at least four weeks to establish a pattern of use for the whole year. Remember to always keep these diaries with your tax return paperwork as you may be required to support this deduction should the ATO review your return.

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## The approach to tax when you're working from home cont

### Communications

If you use a phone exclusively for business, you can claim a deduction for the phone rental and calls, but not the cost of installing the phone. If you use a phone for both business and private calls, you can claim a deduction for business calls (including from mobile phones) and part of the rental costs.

You can identify business calls from an itemised phone account. If you do not have an itemised account, you can keep a record for a representative four-week period to work out a pattern of business calls for the entire year. A claim of no more than \$50 can be claimed with limited documentation.

If your work use is incidental and you are not claiming a deduction of more than \$50 in total, you may make a claim based on the following, without having to analyse your bills:

- \$0.25 for work calls made from your landline
- \$0.75 for work calls made from your mobile
- \$0.10 for text messages sent from your mobile.

If you have a bundled phone and internet plan, you need to identify your work use for each service over a four-week representative period during the income year. This will allow you to determine your pattern of work use which can then be applied to the full year.

A reasonable basis to work out your work-related internet use could include:

- the amount of data downloaded for work as a percentage of the total data downloaded by all members of your household
- any additional costs incurred as a result of your work-related use – eg if your work-related use results in you exceeding your monthly cap.

### Decline in value

There are deductions available for a “decline in value” (depreciation) of items such as electrical tools, desks, computers and other electronic devices, as well as for chairs and so on.

If you use your depreciating asset solely for business purposes, you can claim a full deduction for the decline in value (generally over its “effective life”). Remember however that if you qualify as a small business (ask us what this means) you could immediately write off most depreciating assets that cost less than \$20,000 (proposed to increase to \$25,000 for a limited period, but this is not law yet). You may also be able to pool

most other depreciating assets and claim a deduction for them at a rate of 15% in the first year and 30% thereafter.

However, if you also use the depreciating asset for non-business purposes, you must reduce the deduction for decline in value by an amount that reflects this non-business use. Talk to this office for more information about claiming depreciation expenses.

### Deductions for occupancy

Occupancy expenses can only be claimed if you are using your home as a place of business, not just conveniently working from home as a salaried employee. This means that the ATO expects you to have an area of your home set aside exclusively for business purposes. Occupancy expenses are those costs you pay to own, rent or use your home. These include:

- rent, or mortgage interest
- council rates
- land taxes
- house insurance premiums.

You can generally claim the same percentage of occupancy expenses as the percentage area of your home that is used to make income, and again one common way to work this out is to use the floor area put aside for work as a proportion of the floor area of your home as a whole (as can be used for some running expenses, as mentioned above).

So if for example your home office is 10% of the total area, then you may be able to claim 10% of rent costs or mortgage interest, council rates and insurance. In some situations it may be necessary to adopt a basis other than floor area, for example where say a huge workshop attached to the home may take up a great amount of floor space but contribute much less to the value of the overall property.

Note that where you are running a business from home rather than having a home office, you can opt to claim occupancy expenses, such as mortgage interest.

However, you'll be expected to account for any capital gain attributable to the business area of the home when you sell the house. Generally the family home is exempt from capital gains tax (CGT), but if you've carried on a business based on the above, that portion of the home attributable to the business activity will be subject to CGT. There are however some CGT concessions for small businesses, which we can detail for you should this be relevant to your situation. ■



## The tax deductions available for interest, dividends and other investment income

Photo by Sean Pollock on Unsplash

The tax rules allow investing taxpayers to claim some deductions related to some of the expenses and costs that are generated when earning interest, receiving dividends or gaining other investment income.

Remember, interest from a bank or other financial institution is part of your assessable income for the year. Even if the funds earning the interest are not subject to tax, the interest that this money earns is.

For example, if you won some prize money and banked it, you wouldn't usually include the prize money on your tax return. But you are required to include the interest you earn on that money.

There may even be scope, should you attend an investment seminar for example, for a possible claim for related travel and possibly other expenses. But this can be very much on a case-by-case basis, and you are only entitled to claim a deduction for the portion of travel expenses incurred in connection with investment income activities.

### Interest income expenses

#### What you can claim

The ATO allows taxpayers to claim account-keeping fees where the account is held for investment purposes (for example, a cash management account). Usually you can find these fees listed on your statement or in your passbook.

If you hold a joint account, it is generally only possible to claim your share of fees, charges or taxes on the account. If, for example, you hold an equal share in an account with your spouse, you can only claim half of any allowable account-keeping fees paid on that account.

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## **The tax deductions available for interest, dividends and other investment income *continued***

### **What you can't claim**

You cannot claim any deduction for interest on your personal tax debt — for example on a loan to pay your personal tax debt.

### Dividend & share expenses

You can claim a deduction for interest charged on money borrowed to purchase shares and other related investments from which you derive assessable interest or dividend income.

But only interest expenses incurred for an income-producing purpose are deductible. If you used the money you borrowed for both private and income-producing purposes, the ATO expects that any interest will be apportioned between each purpose.

### **What you can claim**

- Ongoing management fees or retainers and amounts paid for advice relating to changes in the mix of investment.
- A portion of other costs if they were incurred in managing your investments, such as:
  - some travel expenses
  - the cost of specialist investment journals and subscriptions
  - borrowing costs
  - the cost of internet access
  - the decline in value of your computer.
- If you were an Australian resident when a listed investment company (LIC) paid you a dividend, and the dividend included a LIC capital gain amount, you may be able to claim a deduction of 50% of the LIC capital gain amount.

### **What you can't claim**

You can't claim a fee charged for drawing up an investment plan unless you were carrying on an investment business.

Some interest on money borrowed to purchase shares, units in unit trusts and stapled securities, which is attributable to capital protection under a capital protected borrowing, is not deductible and is treated as a payment for a put option. See us for guidance should this apply to your circumstances.

### Managed investment trusts

The managed investment trust (MIT) structure allows members of the public to collectively invest in passive income activities, such as shares, property or fixed interest assets. MITs are managed investment schemes, meaning member contributions are pooled, and the day-to-day management of the trust's assets is handled by a professional manager rather than by yourself.

Generally an investor in these products must show any income or credits you receive from any trust investment product on your tax return. This includes income or credits from a:

- cash management trust
- money market trust
- mortgage trust
- unit trust
- managed fund, such as a property trust, share trust, equity trust, growth trust, imputation trust or balanced trust.

### **What you can claim**

Tax deductions for managed investment trusts can include management fees, specialist journals and interest on money you borrowed to invest.

If you made a prepayment of \$1,000 or more in relation to your managed investment, there are special rules that may affect the amount you can deduct.

### **What you can't claim**

You can't claim a deduction for expenses incurred in deriving exempt income or non-assessable non-exempt income, such as expenses incurred in deriving distributions on which family trust distribution tax or trustee beneficiary non-disclosure tax has been paid.

You also can't claim a deduction for amounts the trust has already claimed, or that only the trust can claim. Examples here include expenditure on landcare operations or water facilities. ■

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This information has been prepared without taking into account your objectives, financial situation or needs. Because of this, you should, before acting on this information, consider its appropriateness, having regard to your objectives, financial situation or needs.



# Deductions for donations

As most of us know, donations of \$2 or more are deductible, and there is flexibility in the rules around donating to emergency relief bodies in that no receipt is required if giving less than \$10 (so called “bucket” donations).

Photo by Melissa Walker Horn on Unsplash

To be able to claim a tax deduction for a donation or gift to an organisation, the receiver of that donation must be endorsed as a “deductible gift recipient” (DGR). If you want to make sure, this can be checked on the ABN Look-up web page ([www.abn.business.gov.au/DgrListing.aspx](http://www.abn.business.gov.au/DgrListing.aspx)).

But while this is the main condition imposed on claiming a deduction for donations, it is not the only factor the ATO considers. Also relevant is the nature of the donation (whether money or property, which includes financial assets such as shares), and that it is a voluntary transfer of assets from donor to recipient, performed as an act of “disinterested generosity”.

This last point is important, as the ATO stipulates that there should be no “material benefit” or advantage arising for the giver through the action of the gift or donation. The outcome is that if a donating taxpayer receives something in exchange for their donation (such as a bandana or a pen) the rules state that they cannot claim for the donation in their tax return — even if the receiving organisation is a DGR.

Relevant material benefits and advantages listed by the ATO include:

- raffle or art union tickets
- items such as chocolates and pens
- the cost of attending fundraising dinners, even if the cost exceeds the value of the dinner
- membership fees
- payments to school building funds made, for example, as an alternative to an increase in school fees

- payments where you have an understanding with the recipient that the payments will be used to provide a benefit to you.

Note however that the ATO recognises that a donor being given a lapel sticker to acknowledge their gift, or being mentioned by name in an organisation’s newsletter for the same reason, is not deemed to be an “advantage”, and will not deny a deduction. Where the donor is a corporate entity however, acknowledgement, especially for example by way of signage, may constitute a benefit, and render the donation ineligible for deduction. There may be a case however to treat the contribution as a business expense, or even as a “sponsorship supply”, depending on circumstances.

It should be emphasised that the voluntary nature of giving is central to the tax deductibility of donations. By way of example, there was a mining company in Western Australia that was given the alternative of either paying a royalty to the government or an equivalent amount to a DGR resident in WA. The mining company made a donation to the WA State Library Board. The ATO denied the company’s claim for a deduction, mainly because the miner had no choice about making a payment, only about which entity this payment went to, and it was deemed in the subsequent court case that it was not sufficient that one of these choices was a DGR.

A deduction for a gift or donation cannot add to or create a tax loss. However a donating taxpayer can choose to spread the tax deduction for a donation over a period of up to five financial years, by using the “Election to spread gift deduction” form (ask us if you require this form). ■



Photo by Dylan Gillis on Unsplash

## Staff training costs deductible, but beware FBT

One of the recognised keys to business success is having knowledgeable, efficient and well-trained staff. But it is not always possible (or is indeed rare) to have potential staff walk in off the street who are a 100% perfect fit. People employed at any business will naturally benefit, to a lesser or greater degree, from relevant training.

The good news for employers is that the costs of much of this training — course fees, some travel costs and so on — can be deductible to the business. The essential thing to not overlook with this however is that providing training can also incur a fringe benefits tax (FBT) liability.

Paying for your employee's work-related course fees is therefore a two-edged sword — a deduction is generated for the training costs, but also constitutes a fringe benefit and is subject to FBT. However the rules within the FBT legislation allows for a full or partial reduction of FBT payable on the benefit provided that the "otherwise deductible" rule is met.

Simply put, the otherwise deductible rule assumes that if the employee had hypothetically incurred the expense from their own hip-pocket, they would have been able to claim a deduction for the expense themselves. It follows that if the otherwise deductible rule could apply, the employer can reduce their FBT liability to the extent that the hypothetical deduction would have been allowed to the employee.

Certain membership fees and subscriptions paid by an employer are specifically made exempt from FBT (such as a subscription to a trade or professional journal). If there is any FBT expense, however, that amount can be deductible to the business.

But when is an education expense considered to be hypothetically deductible to the employee? This will depend on the type course or education undertaken by the employee. The ATO has provided guidance in brochure form to work out whether course or education fees incurred is deductible to an employee (ask us if you would like a copy).

Generally, the course must have a sufficient connection to an employee's current employment and:

- maintain or improve the specific skills or knowledge the employee requires in current employment, or
- result in, or possibly result in an increase in, income in current employment.

Employees generally cannot claim a deduction for an education expense if it doesn't have a sufficient connection to their employment, even if it might be generally related to the work or it enables them to get a new job.

In most cases, employers will provide for education costs that are beneficial to their business, and so the otherwise deductible rule should apply such that no FBT is payable. ■