Australian Government
Australian Taxation Office

Small business

Home-based business expenses

This information will help you if you are a small business owner claiming deductions for the costs of using your home as your principal place of business – whether you use a registered tax agent or lodge your own tax return.

Key points

- The types of expenses you can claim depend on how you operate your business out of your home.
- You can only claim deductions for the portion of your expenses that relate to running your business.
- You must keep records for at least five years to show that your business incurred the expenses and how you calculated your claim.
- If you sell your home, there may be capital gains tax (CGT) implications.
- If you do some work from home but it is not your main place of business, see **ato.gov.au/workingfromhome**

If you are entitled to goods and services tax (GST) input tax credits, you must claim your deduction in your income tax return at the GST exclusive amount.

Business structure

Your business structure affects your entitlements and obligations when claiming deductions for your home-based business expenses.

Sole traders and partnerships

If you operate your business as a sole trader or partnership, you can claim a deduction for the costs of running your business from home.

There are two types of expenses for your home-based business – running expenses and occupancy expenses. Whether you can claim running expenses only, or both running and occupancy expenses, depends on whether you have an area of your home set aside as a 'place of business'.

Running expenses

Running expenses are the increased costs from using your home's facilities for your business, for example:

- the costs of using a room (such as heating, cooling and lighting)
- cleaning costs
- landline phone and internet costs
- decline in value (depreciation) of your business furniture and equipment
- costs of repairs to your business equipment.

You can claim running expenses if you run your business from home, such as in a separate study or a desk in a lounge room, even if it doesn't have the character of a 'place of business'.

Calculating your claim

To calculate the running expenses of your home-based business, you can use one of the methods described below or any other method as long as:

- it is reasonable in your circumstances
- you exclude your normal (private) living costs
- you have records to show how you calculated the business expense.

Heating, cooling and lighting

- If you have an area set aside for your business, you can split your heating, cooling and electricity bills based on the proportion of the floor area of your home that you use for your business and proportion of the year that you used it for business.
- Alternatively, you can use a fixed rate of 52 cents an hour for each hour that you operate your business from home – based on either your actual use or pattern of use. This covers heating, cooling, lighting, cleaning, and the decline in value of furniture and furnishings (you need to work out other expenses separately).

You can claim some expenses based on your 'pattern of use', which you can work out by keeping a diary for a representative four-week period each financial year. If you can't show a regular pattern, you need to keep detailed records.

Home phone and internet

- For home (landline) phones, you can claim your business calls and a portion of the line rental costs.
- For internet expenses, you can claim the proportion of time or data you used your internet for business uses.
- You can calculate the business portion of your home phone and internet using an itemised account or pattern of use.

Decline in value (depreciation) of business assets

- You don't separately claim the depreciation of your home-based business furniture and furnishings if you claim running expenses using the fixed rate of 52 cents per hour, as this is included in this rate.
- You can use the instant asset write-off to deduct the full cost of business assets that cost less than the threshold that applied when it was first used or installed and ready for use, see **ato.gov.au/instantassetwriteoff**
- If you use assets for both personal and business use, you can separate your business deprecation expenses from personal based on your pattern of use.

Sole traders and partnerships (continued)

Occupancy expenses

Occupancy expenses are the expenses that you pay to own or rent your home, for example:

- mortgage interest or rent
- council rates
- land taxes
- house and contents insurance.

You can only claim occupancy expenses if the area of your house set aside for your business has the character of a 'place of business' (including if most of your business is conducted online). Indicators that the area of your home that you've set aside is a place of business include:

- clearly identifiable as a place of business (such as a sign at the front of your house)
- not easily suitable or adaptable for private or domestic use
- used exclusively or almost exclusively for your business
- used regularly for business visits by your clients.

If you're eligible to claim occupancy expenses, you can also claim running expenses.

You usually calculate occupancy expenses based on the proportion of the floor area of your home that is a place of business and proportion of the year it was used for business.

Trusts and companies

If you operate your home-based business as a trust or company the business should have a genuine, market-rate rental contract (or similar agreement) with the owner of the property. This will determine which expenses the business pays for and can claim as a deduction. If there isn't a genuine rental contract, there may be tax implications for you and the business. For more information, see **ato.gov.au/Division7A**

If you are an employee of the business and the business pays for or reimburses you for some of the costs of running your business from home, you cannot claim a deduction for the expenses in your individual income tax return. Your business will be subject to fringe benefit tax (FBT) if it pays or reimburses you for the expenses.

Certain exemptions and concessions may reduce your FBT liability. You may need to keep additional records. For more information, see **ato.gov.au/fbt**

If you earn Personal Services Income (PSI), you may not be able to deduct some occupancy expenses. To find out more visit **ato.gov.au/PSI**

Capital gains tax (CGT)

If you were entitled to claim occupancy expenses or you own your home and receive rental income from your business, there may be CGT implications when you sell your home. The main residence exemption may not apply for the proportion of your home and the periods that you used it for your business.

For more information, see **ato.gov.au/HomeBasedBusinessCGT**

Records you need to keep

You need to keep records to substantiate your claims for all of your home-based business expenses. This includes written evidence, tax invoices or receipts for:

- purchase and repairs of furniture and equipment used for your business
- utility bills and cleaning expenses
- mortgage interest, rent, insurance and council rates (if you claim occupancy expenses)
- rental contract between homeowner and business (if you claim occupancy expenses)
- how you separate your business and private use (for example a diary over a representative four-week period or records of how you calculated the percentage of your floor plan dedicated to your business).

Examples

Rocco: plumber

Rocco is a sole trader plumber who doesn't have a dedicated business premises. He travels to his clients' houses each day from home.

He does his bookkeeping in his dining room on a computer that he only uses for his business.

Rocco keeps a diary for four weeks and finds that he spends, on average, two hours a day, five days a week (with four weeks of holidays a year) on his bookkeeping.

Rocco claims:

- running expenses using the fixed rate of 52 cents per hour for 10 hours a week for 48 weeks ($249.60)
- the cost of his computer, as it cost less than $30,000 (the instant asset threshold that applied at the time he bought and installed it) and depreciation of computer equipment is not covered by the fixed rate.

Rocco cannot claim:

- occupancy expenses, as he does not have a dedicated area for his business.

Fern: photographer

Fern runs her business – Fern's Photos Pty Ltd – as a company from the home that she owns.

Fern's house has a dedicated studio where she keeps her photography equipment.

Fern's Photos Pty Ltd has a formal rental agreement with Fern to hire the studio for $500 per month. This covers use of the space and facilities such as electricity. It is consistent with what it would cost the company to hire a similar studio elsewhere.

Fern's Photos Pty Ltd claims:

- rent paid to Fern

Fern must report the rental income that she receives from her company in her personal income tax return. She can claim expenses that she incurs in making that income.

There may be CGT implications if Fern sells her house.

If you're a sole trader with simple tax affairs, you can use the myDeductions tool in the ATO app to record your expenses. For more information, see **ato.gov.au/myDeductions**

This is a general summary only

For more information, speak with your registered tax agent, or visit **ato.gov.au/homebasedbusiness**

NAT75196-06.2019 DE-5456