



Monthly Information Newsletter – Tax & Super

May 2020

Answers to COVID-19 work-from-home expense questions and CGT concerns

There are many questions being asked lately about claiming expenses when forced to work from home over the COVID-19 period - plus a lot of concern about any consequent capital gains issues when later selling a property from which people have been coerced to work from during this time.

Capital gains

First of all, the CGT issue is fairly straight forward. The ATO says that in most cases, if you are working from home as an employee, regardless of whether or not you have a separate work area, there will be no CGT implications on any later sale or disposal of the home. This is the case even if you claim home office expenses, using the new “COVID-19 shortcut method” (below).

However, CGT may apply if you are running a *business* from home and, as a result you can claim occupancy expenses (like mortgage interest repayments or rates). In this case, you will generally only be entitled to a partial CGT exemption because of using part of your home as a place of a business.

Claiming COVID work-at-home deductions

The ATO says that to claim a deduction for working from home, all of the following must apply:

- you must have spent the money
- the expense must be directly related to earning income
- there must be a record of this that can be provided if asked.

But remember, you cannot claim a deduction for items provided by your employer, or if you have been reimbursed by the employer for expenses. If there has not been a reimbursement but you have instead received an allowance to cover expenses when working from home, you:

- need to include this allowance as income in your tax return, and
-

- claim a relevant deduction in respect of it (as outlined below).

Expenses that can be claimed

If you work from home, you will be able to claim a deduction for additional running expenses incurred, which may include:

- electricity expenses associated with heating, cooling and lighting the area from which you are working, and running assets used for work (such as a computer and printer)
- associated cleaning costs for a dedicated work area
- phone and internet expenses
- computer consumables (for example, printer paper and ink) and stationery
- home office equipment, including computers, printers, phones, furniture and furnishings. Of these, you can claim either the:
 - full cost of items up to \$300
 - a decline in value for items over \$300.

The ATO has stated that it accepts that tracking all of these expenses can be challenging for ordinary taxpayers, so has undertaken to accept a temporary simplified method (or “shortcut” method) of calculating additional running expenses for the period starting 1 March 2020 until at least 30 June 2020. More details are below. It says it may extend this method depending on when general work patterns may return to what has until now been accepted as “normal”.

Expenses not within the COVID-19 ambit

If you are only working from home because of the COVID-19 situation, you generally:

- cannot claim the cost of coffee, tea, milk and other general household items an employer may otherwise have provided while you were at the usual work place
- cannot claim occupancy expenses such as mortgage interest, rent and rates.

Calculating running expenses

There are at present three ways you can choose to calculate additional running expenses:

- fixed rate method – claiming all of these:
 - a rate of 52 cents per work hour for heating, cooling, lighting, cleaning and the decline in value of office furniture,
 - the work-related portion of actual costs of phone and internet expenses, computer consumables, stationery, and
 - the work-related portion of the decline in value of a computer, laptop or similar device.
- actual cost method – claiming the actual work-related portion of all running expenses, which you need to calculate on a reasonable basis.
- the new shortcut method (details below).

Shortcut method

Under the short cut method, you can claim a deduction of 80 cents for each hour as long as you are:

- working from home to fulfil employment duties and not just carrying out minimal tasks such as occasionally checking emails or taking calls,
- incurring additional deductible running expenses as a result of working from home.

Note that in this case, you do not have to have a separate or dedicated area of your home set aside for working, such as a private study.

The shortcut method rate is intended to cover deductible running expenses, including:

- electricity for lighting, cooling or heating and running electronic items used for work (for example a computer), and gas heating expenses
- the decline in value and repair of capital items, such as home office furnishings
- cleaning expenses
- phone costs (which includes decline in value of the handset)
- internet costs
- computer consumables, such as printer ink
- stationery
- the decline in value of a computer, laptop or similar device.

It should be pointed out that you do not *have* to incur all of these expenses, but you are likely to have incurred additional expenses in some of those categories as a result of working from home due to COVID-19.

Importantly, if you opt to use the shortcut method to claim a deduction for additional running expenses, you cannot claim a further deduction for any of the expenses listed above.

Also, if you use the 80 cents an hour shortcut method to claim a deduction, when we lodge your 2019-20 tax return we will need to include a note in your return stating “COVID-hourly rate”.

For this shortcut method, the ATO will require some form of record of the number of hours you have worked from home as a result of COVID-19. Examples are timesheets, diary notes or rosters. If using the other methods, a record of the number of hours worked from home is also required along with records of expenses.

DISCLAIMER

All information provided in this article is of a general nature only and is not personal financial or investment advice. Also, changes in legislation may occur frequently. We recommend that our formal advice be obtained before acting on the basis of this information.

Our liability may be limited by a scheme approved under Professional Standards Legislation.