



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 main place of business.

### Key points

- The types of expenses you can claim depend on how you operate your business from 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 5 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 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 2 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) and cost of repairs to
  - equipment such as computers, tools and machinery
  - furniture such as chairs, desks and bookcases
  - furnishings such as curtains, carpet and light fittings (you can only claim furnishings if you have a dedicated or separate room).

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.

You can claim some running expenses based on your 'pattern of use', which you can work out by keeping a diary for a 4-week period each year. If you can't show a regular pattern, you need to keep detailed records for the whole period.

For the revised fixed rate method you need to keep a record of all hours worked from home for the entire income year such as timesheets, roster or a diary. For the 2022–23 income year only, if you don't have a record of all your work hours for the year, we will accept a representative record of your hours from 1 July 2022 to 28 February 2023, but you will still need a record of the total number of actual hours from 1 March 2023 to 30 June 2023.

#### Revised fixed rate method, floor area method or actual cost method

- You can use the floor area method if you have an area of your home set aside as a 'place of business'. In addition to the floor area method, you can also claim a deduction for decline in value of the business related portion of depreciating assets and equipment.
- Actual cost method, where you can only claim based on receipts or other written evidence.
- You can use the revised fixed rate of 67 cents per work hour. This rate incorporates the following usage expenses:
  - electricity
  - gas
  - stationary
  - computer consumables
  - internet
  - phone.

For more information, see:

[ato.gov.au/homebasedbusinessexpenses](https://ato.gov.au/homebasedbusinessexpenses)

#### Heating, cooling and lighting

- If you are using the actual cost method and have an area set aside for your business, it may be appropriate to 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.

- If you are using the 67 cents an hour revised fixed rate method, you don't need to calculate heating, cooling and lighting amounts as they are already included in the rate.

#### Home phone and internet

- If you are using the actual cost method
  - 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 use
  - you can calculate the business portion of your home phone and internet using an itemised account or pattern of use.

**i Note:** you can't claim the cost of assets, such as phones, modems and routers, because they are capital costs (not running expenses), but you can claim a depreciation deduction for them.

#### Depreciation (decline in value) of business assets

- You can choose to use the simplified depreciation rules (such as temporary full expensing) if you have an aggregated turnover of less than \$10 million. Find out more at [ato.gov.au/SBdepreciation](https://ato.gov.au/SBdepreciation)
- If you use the 67 cents an hour rate, you can separately claim a deduction for the decline in value of depreciating assets, such as laptops, mobile phones and office furniture.
- If you use assets for both personal and business use, you can separate your business depreciation expenses from personal based on your pattern of use.

## Occupancy expenses

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

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

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 the proportion of the year it was used for business.

## Trusts and companies

If you operate your home-based business as a company or trust there should be a genuine, market-rate rental contract (or similar agreement) with the owner of the property and the company or trust that operates your business. This will determine which expenses the company or trust pays for and can claim as a deduction. Generally, the agreement would cover running and occupancy expenses.

If there isn't a genuine rental contract, there may be tax implications for you (as an individual) and the company or trust that operates your business for providing benefits to you. For more information, see [ato.gov.au/Division7A](https://ato.gov.au/Division7A)

If you are an employee of the company or trust that operates your business and it 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. The company or trust that operates your business may be subject to fringe benefit tax (FBT) if it pays or reimburses you for the expenses.

Certain exemptions and concessions may reduce any FBT liability. You may need to keep additional records. For more information, see [ato.gov.au/FBT](https://ato.gov.au/FBT)

## Personal services income (PSI)

If you earn PSI, whether it is earned as a sole trader or through a partnership, company or trust, PSI rules may affect deductions for some occupancy expenses. To find out more, see [ato.gov.au/PSI](https://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](https://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 equipment, furniture and furnishings 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 4-week period or records of how you calculated the percentage of your floor plan dedicated to your business).

### Example: Rocco the 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 he purchased on 10 November 2022 that he only uses for his business.

Rocco kept a representative record of the total number of hours he worked from home during the period from 1 July 2022 to 28 February 2023 and a detailed record of all hours he spent working from home for the period from 1 March 2023 to 30 June 2023. Rocco calculates that he spent 480 hours this income year on his bookkeeping.

#### ✔ Rocco claims:

- running expenses using the fixed rate of 67 cents an hour for 480 hours (\$321.60)
- the cost of his computer, used only for his business under temporary full expensing, because 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.

### Example: Fern the 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](https://ato.gov.au/myDeductions)

#### This is a general summary only.

For more information, go to [ato.gov.au/homebasedbusiness](https://ato.gov.au/homebasedbusiness) or speak to a registered tax professional.

