Claiming deductions for a home

Fast facts

What is a home-based business?

A home-based business is one where an area of your home is set aside and used exclusively or almost exclusively as a place of business.

If you operate some or all of your business from your home, you may be able to claim tax deductions for home-based business expenses.

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 business portion of your expenses.

The way you use part of your home for business will affect the expenses you can claim as deductions.

Types of expenses

If you operate some or all of your business from your home, you may be able to claim tax deductions for home-based business expenses in the following categories:

- running expenses
- occupancy expenses

- the expenses of motor vehicle trips between your home and other locations, if the travel is for business purposes.

Occupancy expenses are what you pay to own, rent or use your home. They include:

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

You can only claim occupancy expenses if you meet the interest deductibility test.

Signs that the area of your home you've set aside is a place of business include:

- clearly identifiable as a place of business, for example, you have a sign identifying your business at the front of your house.
- not readily suitable or adaptable for private or domestic purposes.
- used exclusively or almost exclusively for carrying on your business.
- used regularly for visits by your clients or customers.

If you run a home-based business and claim occupancy expenses, you may have to pay capital gains tax when you sell your home.

You may not be able to claim occupancy expenses if personal services income rules (PSI) apply to your business.

Running expenses are the increased costs of using your home's facilities for your business activities.

You can't claim a deduction for the private use of your home facilities.

Motor vehicle expense claims are not unique to a home-based business.

If you're operating a home-based business, you can claim the costs of trips between your home and other places if the travel is for business purposes.

Calculating running expenses

You can use any method to calculate your running expenses, as long as:

- it's reasonable in your circumstances
- you exclude the percentage of costs for your private (normal) living costs
- you have records to show how you calculated the expense.

Common methods to calculate running expenses are:

- floor area
- actual cost method
- fixed rate method.

Calculating occupancy 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.

A common method of working out how much to claim is to work out the floor area you use for your business as a percentage of the total floor area of your whole home.

How your business structure affects your deductions

Business owners who operate their home-based business through a company or trust structure have some extra considerations, such as fringe benefits tax and making sure they are correctly recording and reporting business money if it is used to pay personal expenses in the home.

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