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Do homework on home work

There are tax implications when a home office becomes a business address.

MORE of us are working from home. According to Ipsos research, almost 40 per cent of Australians work between five and 10 hours outside the workplace. A traditional office suits younger people but one in five people older than 45 is leading the charge in setting up a home office. According to the Australian Bureau of Statistics, 22 per cent of women in employment with children aged under five now work from home.

Regardless of whether you're claiming home-related expenses for finishing tasks started in an employer's office or are running a small business, you need to know the pitfalls of claiming tax deductions or you could put the capital-gains-tax (CGT) status of your home at risk.

A key plank of the CGT regime, introduced into the tax system in 1985, is that any gains that come to you from the sale of the family home are exempt from the tax. Watch out, though, because the so-called "main residence exemption" is partially lost if the Australian Taxation Office (ATO) decides

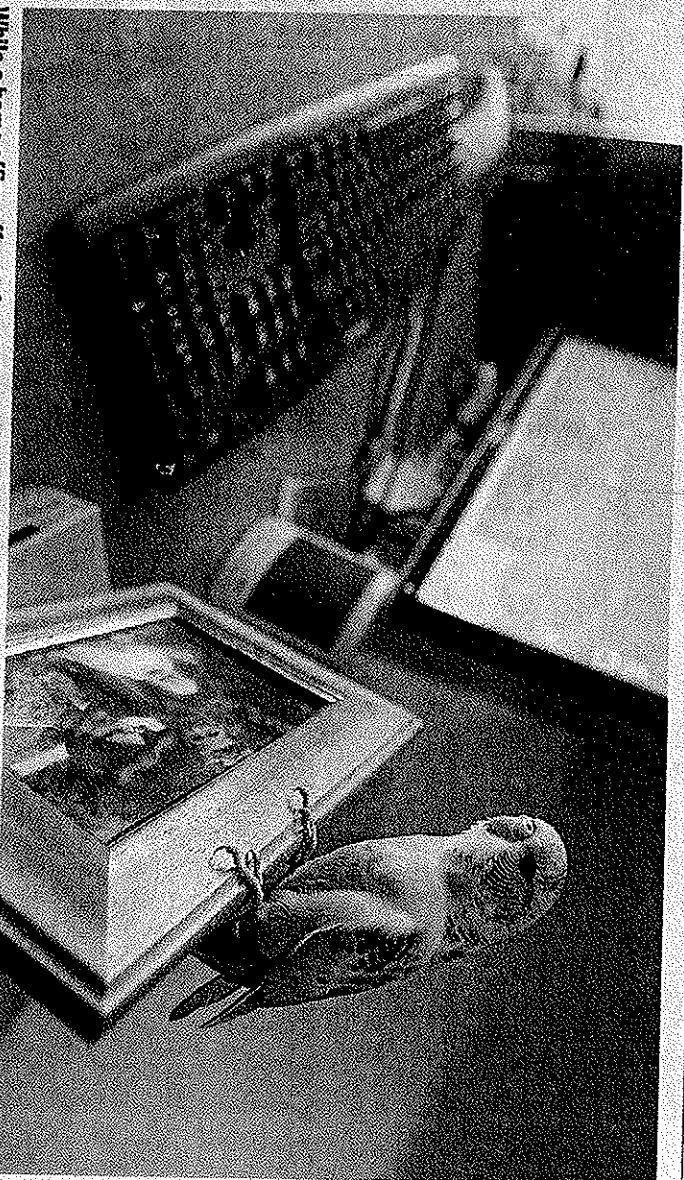
you have used part of your home as a place of business.

This area of the tax system is complex and more than a little murky. If you broach the subject of CGT and working from home with a term "minefield" pops up repeatedly.

Sue Prestney, a spokeswoman for the Institute of Chartered Accountants and principal of accounting firm MGI Melbourne, says there's a big difference between having a home office and running a business from home. "If it is a place of business, then you are entitled to claim a proportion of your mortgage interest and your council rates but it means you'll lose the CGT exemption on that proportion of your house," she says.

"Most people, though, have a home office where you are only entitled to claim the incremental cost of electricity and maybe depreciation on your desk and computer — not the mortgage or rates that are attributable to the building."

It's the home office set-up you should aim for. The head of tax and



While a home office offers a few deductions, the premises is exempt from capital gains tax. PICTURE: BOB HOMER

superannuation of non-profit education group Taxpayers Australia, Roger Timms, says: "A home office doesn't in any way impinge on the CGT-exemption status of your main residence."

If you do claim occupancy costs (such as interest, rates and building repairs) in addition to your running expenses (pens, paper, depreciation on office equipment, a portion of the electricity, cleaning costs and so on), you could alert the ATO's radar. PWC (formerly Pricewater-

houseCoopers) private client services partner Paul Brassil says a claim for occupancy costs may be disallowed by the ATO. He says an area of the house has to be used

exclusively for carrying out business. Evidence may also have to be provided of client visits for the ATO to allow such a claim.

"You have to go a fair way for a home to become a place of business, as opposed to a convenient place to do some work-related activities," Mr Brassil says. "For most people, even having a separate room [for work] wouldn't make it a place of business."

Still, there can be a fine line between what constitutes a home office and a place of business.

Mr Timms says there is "nothing specific to tell you when you have moved from one to the other." There's another sting in the tail.

Even if you are running a business from home and elect not to claim mortgage interest, your main residence exemption isn't shielded. The same applies if you don't have a mortgage on which to claim. "The test isn't whether you've claimed a deduction," Mr Timms notes. "The test is if you had, would the Tax Office have allowed it?"

MGI's Sue Prestney strongly advises caution. She says it's easy to trip up, giving the example of a business owner who innocently nominates a home address as the operating address for a company. "That might shoot you in the foot," she says. "It could suggest it's more than a home office."