

*There seems to be some
perverse human characteristic
that likes to make easy things
difficult.*

----- Warren Buffett

home-based business

A home-based business is one where you operate the business:

- **at home**, that is, you carry out most of the business' work at your home. For example, a dressmaker who does all their work at home, with clients coming to their home for fittings, or
- **from home**, that is, the business does not own or rent any premises other than your home. For example, a tiler who does most of their work on clients' premises but does not have any other business premises.

Claiming your business expenses

Running a business at or from your home is similar to running any other business. That is, if you operate a home-based business, you can generally claim similar expenses to a business that is not home-based.

However, two types of expenses that are specific to carrying on a home-based business are:

- expenses related to the area of your home you use for business, and
- motor vehicle expenses between your home and other business locations.

Expenses for your home business area

If you operate a business at or from your home, you may be able to claim a deduction for some of the expenses relating to the area you use for

business purposes. These expenses are either:

- occupancy expenses, or
- running expenses.

Occupancy expenses

Occupancy expenses are those expenses you pay to own, rent or use your home even if you are not carrying on a home-based business.

Occupancy expenses include:

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

You must pass the interest deductibility test before you can claim occupancy expenses. This means you must have an area of your home set aside exclusively for your business activities (for example, an office or workshop). If you satisfy the interest deductibility test, you must account for any capital gain you make when you sell your home.

How capital gains tax applies

Generally, you can ignore a capital gain or loss you make when you sell your home. However, you may have to pay capital gains tax (CGT) when you sell your home if you have used any part of it for business purposes.

CGT will not apply if you:

- operate your business from a rented home
- do not have an area specifically set aside for your business activities, or
- operate your business through a company or trust.

Running expenses

Running expenses are the increased costs of using facilities within your home because of your business activities.

Running expenses include:

- the cost of using a room (such as electricity and gas costs for heating, cooling and lighting)
- business phone costs
- the decline in value of plant and equipment (for example, chairs, bookcases, computers, grinders)
- the decline in value of furniture and furnishings (for example, curtains, carpets, light fittings)
- the cost of repairs to furniture and furnishings, and
- cleaning costs.

How much you can claim

You can claim the percentage of occupancy expenses that relate to the area of your home you use as a place of business.

A common method of working out how much to claim is to use the floor area you use for your business (as a proportion of the floor area of your whole home). For example, if the floor area of your home office is 10% of the total area of your home, you could claim 10% of your rent or mortgage interest, council rates and insurance.

For more information please download the following home-based business guide (NAT 10709) from ATO's website:

http://www.ato.gov.au/content/downloads/BUS43191n10709_07_08.pdf