

(HOME-BASED BUSINESS EXPENSES)

What is a home-based business?

A home-based business is one where you operate the business under either of the following circumstances:

- **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. See "when is a home a place of business?" for more details.
- **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.

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. 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 can be divided into two broad categories:

- **Running expenses** (expenses for using facilities within your home being electricity and gas, heating and cooling, phone, depreciation of plant, equipment, furniture & computers). Running expenses needs to be apportioned between private and business use, which you need to work out the additional costs of the particular running expense, or you could base it on the floor area the business uses compared to total floor area of the home (when it is exclusively business use only). Another method you can claim running expenses is by claiming 34 cents per hour of use, to cover the costs of heating, gas, power and common furniture costs. Cost of telephone and computers will be added to this claim.
- **Occupancy expenses** (expenses you pay to own your home being mortgage interest, rent, council rates, land taxes, house insurance). To be able to claim Occupancy expenses, your business needs to be operating at home. The claim will have to be apportioned between business use and private use, which usually is based on floor area (other methods can be used, as long as they can be justified).

When is a home a place of business?

This is a question of fact (TR 93/30), with the broad test that is applied is whether a particular part of the dwelling:

- Is clearly identifiable as a place of business
 - Is used exclusively for carrying on a business
 - Is not readily suitable or convertible for private use
 - Is used regularly for client or customer visits.
- as part of the home

This test is also known as the interest tax deductibility test, that you must use to work out if you are entitled to claim occupancy expenses, based on the four dot points above, that the area set aside must have the character of a place of business.

Capital Gains Tax

Generally you can ignore the capital gain you make when you sell your home. However, you may have to pay capital gains tax (CGT) when you sell your home if you claimed occupancy expenses for your business. This will be based on the same apportionment that you claimed your interest and other occupancy

expenses, based on the time you claimed this to the total time you owned your home. You will be entitled to 50% CGT discount if you own your home for more than 12 months, and you may apply for a further 50% discount if you are a small business operator.

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