

Claiming home office expenses

Where sole traders use their home partly to conduct business activities, they are entitled to a partial deduction for the outgoings which relate to the use of the home for the work-related activities. These include:

- Heating
- Lighting
- Rates
- Insurance
- Mortgage interest/rent
- House and contents insurance
- Repairs and maintenance
- Telephone rental

The portion of outgoings that is deductible is based on the area used for the business, expressed as a percentage of the total area of the home:

$$\frac{\text{Area used for business purposes}}{\text{Total area of home}}$$

It is not necessary to set aside a specific room for business purposes, nor is it necessary for you to physically change your home to suit the business.

However, in cases where a separate room is not set aside, it may be appropriate to apportion the outgoings based on criteria such as the amount of time spent on income-earning activities as home as well as the area used. Examples of areas likely to be used for business purposes include:

- An office or office area
- A storeroom or storage area
- A workshop
- A garage or part of a garage which is used to house a business vehicle

Square metre rate method

Instead of working out how much of your household costs to claim as business expenses, you can use the square metre rate option. It's a two-step method:

- First, identify the area of the building used primarily for business purposes. Then multiply that area by the Inland Revenue rate, which excludes mortgage interest, rates or rent. The rate for the 2020/21 income year has been set at \$44.75 per square metre.
- A second deduction applies for mortgage, rates or rent. These costs are calculated in proportion to the fraction of the premises that is separately identifiable and used primarily for business purposes.

This means the total deduction is calculated using the formula:

$(\text{total premises costs} \times \text{business proportion}) + (\text{business square metres} \times \text{square metre rate})$

GST

If you're GST registered, you can claim a portion or percentage of the GST on the expenses. You can claim the GST content on home office expenses as you pay them — in each GST return period — or at the end of your tax year. This doesn't include mortgage interest and residential rent as there is no GST component in these.

Good records are important

It can be hard to separate business from home life completely. As with any other business expenses you are claiming, you need to keep invoices and other records for these expenses. Keep written workings of all your calculations and be sure to keep records of your outgoings in a safe place.