

Home-based business

Extra tax information you need to know if you are carrying on a business at or from your home.



For more information,
refer to *Tax basics for small
business* (NAT 1908)



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ABOUT THIS GUIDE

If you operate a small business (not a non-profit organisation) as a sole trader, partnership, company or trust at or from your home, you can use this guide to help you:

- claim home-based business expenses
- understand how capital gains tax can apply to you
- find out where to go for more information.

 This guide supplements *Tax basics for small business* (NAT 1908), which contains important tax information you should know if you are new to business.

Throughout this guide you will find important notes (look for the  symbol) that will help you with key information you should note.

You will also find 'more information' boxes (look for the  symbol) that will show any further steps you may need to take or supplementary information you may need to refer to.

INTRODUCTION

When we refer to you or your business in this guide, we are referring to you as a small business operator conducting a business at or from your home.

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
- **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.

Home-based businesses cover a range of activities, such as the following.

➤ If you do some work at home but you are not carrying on a business at or from your home, refer to the following publications for general information about small business tax and deductions:

- *Tax basics for small business* (NAT 1908)
- *Taxation Ruling TR 93/30 Income tax: deductions for home office expenses*
- *Practice statement PS LA 2001/6 Home office expenses.*

Business activity	Examples
Accommodation, cafes and restaurants	Bed and breakfast operator, caterer, campground owner
Agriculture, forestry and fishing	Shearer, market gardener
Communication services	Mail service provider, web designer, desktop publisher, graphic designer
Construction	Bricklayer, plumber, carpenter, tiler, fencer, electrician, builder, engineer, draftsman, cabinetmaker, woodworker
Cultural and recreational services	Motion picture editor, sound recordist, artist, musician, piano tuner
Education	Tutor, lecturer, music teacher
Finance and insurance	Financial adviser, consultant, accountant, bookkeeper, insurance broker
Health and community services	Dietician, chiropractor, counsellor, physiotherapist, psychologist, massage therapist
Personal and other services	Personal trainer, photographer, hairdresser, beautician, child-minder, dressmaker, event manager, cake decorator, jeweller, pet groomer
Property and business services	Plant hire or leasing operator, architect, surveyor, interior decorator, house painter, cleaner, gardener, service and repair operator, signwriter, tree lopper
Transport and storage	Courier, freight carrier, removalist
Wholesale and retail trade	Fresh fruit wholesaler, confectionery supplier, florist, watchmaker, party-plan operator, telemarketer

01

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
- motor vehicle expenses you incur when travelling between your home and other business locations.

⚠ If you satisfy the interest deductibility test, you may have to pay capital gains tax (CGT) on part of any capital gain you make when you sell your home – see below.

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 one of the following:

- occupancy expenses
- 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, such as an office or workshop.

Interest deductibility test

You use the interest deductibility test to work out if you are entitled to claim occupancy expenses (including mortgage interest) as a deduction.

To claim a deduction for part of the interest you pay on money you borrowed to buy your home, the area you have set aside must have the character of a place of business – for example, a hairdresser's home salon, a caterer's home kitchen or a photographer's home studio. While this will depend on your particular circumstances, an area of your home is likely to have the character of a place of business if it is:

- clearly identifiable as a place of business – for example, you have a sign identifying your business at the front of your house
- unsuitable for private or domestic purposes

- used exclusively or almost exclusively for carrying on your business
- used regularly by your clients.

⚠ If you satisfy the interest deductibility test, you must account for any capital gain you make when you sell your home. You may satisfy the interest deductibility test even if you did not:

- borrow money to buy your home – you must apply the test on the assumption that you did borrow money to buy the home
- claim mortgage interest as a deduction.

How much you can claim

You can claim the percentage of occupancy expenses that relates 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 can claim 10% of your rent or mortgage interest, council rates and insurance.

In some circumstances, using the floor area of your home as the basis of your claim may not be the best method of working out how much to claim. For example, the value of a large workshop near the house may be a small proportion of the overall value of the property. In these circumstances, we will accept an alternative method of working out how much of your home you use for business purposes, as long as the method you use is reasonable and based on accurate information.

EXAMPLE: Occupancy expenses

Alex (sole trader)

Alex operates an electrical business from his home. He does some work in a workshop attached to his house and some at his clients' premises. Alex's workshop covers 10% of the floor area of his home.

Alex can claim occupancy expenses because he:

- is carrying on a business from his home
- has an area with the character of a place of business set aside exclusively for business.

Alex's work area covers 10% of the floor area of his home, so he can claim deductions for 10% of his costs for:

- mortgage interest
- insurance premiums
- council rates.

Alex can also claim running expenses.

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, such as chairs, bookcases, computers, grinders
- the decline in value of furniture and furnishings, such as curtains, carpets, light fittings
- the cost of repairs to furniture and furnishings
- cleaning costs.

If you work at or from your home, you can claim a deduction for additional expenses you incur in running your business. This means you must often work out the portion of the expense that relates to business and private use to work out how much you can claim. See 'Example: separating business and private expenses' on page 6.

There are a number of options for working out your claim for running expenses – see opposite.

If you are eligible to claim your running expenses only, you will not incur CGT if you sell your home.

How much you can claim

You can claim the additional expenses you incur because you carry on a home-based business, such as, additional electricity, heating or cooling costs (utilities), additional cleaning costs or additional phone expenses.

Using your floor area may also be an appropriate way of working out some running expenses. For example, if the floor area of your home office is 10% of the total area of your home, you can claim 10% of heating costs.

Where you do not have an area of your home set aside exclusively for business, you cannot claim on a floor area basis as this area is also used for non-business purposes. In this case, you must show how you arrived at the amount you are claiming. Some other basis may be appropriate. For example, you can compare utility accounts from before and after you started business to assess increased costs.

How you work out these additional costs is up to you, but you should be able to provide enough information to show:

- your claim is reasonable
- you have excluded the private (domestic) proportion of expenses associated with normal living costs.

We also accept the following methods for working out how much of your expenses are for business purposes.

Keeping a diary

You can keep a diary that shows how you use your home work area for a representative four-week period each financial year to work out a pattern of use for your home work area for the entire year. You must allow for periods such as holidays and illnesses.

If there is no regular pattern to how you use your home work area, you must keep records of each time you use the area during the year and the purpose for which it is used.

You must keep a diary for each financial year.

Claim 26 cents per hour

Instead of recording actual expenses for heating, cooling, lighting and furniture depreciation (such as desks and shelves), you can claim a deduction of 26 cents an hour based on actual use or an established pattern of use. We base the rate of 26 cents an hour on average energy costs and the value of common furniture items used in home work areas.

You must separately work out all other home work area expenses, such as phone expenses and depreciation on computers or other equipment.

Where you can claim a GST credit for a depreciating asset, you must deduct the amount of the GST credit you can claim before you work out the depreciation deduction – see page 6.

Utilities (gas, electricity)

These expenses must usually be apportioned. If the business percentage is based on anything other than the floor area (for example, on actual electricity use) you must document your claim to show how you arrived at the amount.

You can only claim a deduction for expenses you incur as additional running costs because of your business activities. For example, if you work in a room where other family members are watching television, it's unlikely you will have additional heating costs as a result of that work activity.

Your business use of the home work area must also be substantial and not merely incidental. For example, you can not claim 24 hours per day running costs simply because your fax machine is on all the time to receive business faxes.

Phone

If you use a phone exclusively for business, you can claim a deduction for the phone rental and calls, but not the cost of installing the phone. The installation cost is a capital expense.

If you use a phone for both business and private calls, you can claim a deduction for business calls and part of the rental costs. Use the following formula to work out the percentage of phone rental expenses you can claim.

$$\frac{\text{Number of business calls you made and received}}{\text{Number of total calls made and received}} \times 100$$

You can identify business calls from an itemised phone account. If you do not have an itemised account, you can keep a record for a representative four-week period to work out a pattern of business calls for the entire year, provided you have a regular pattern of use throughout the year.

What deductions can you claim for decline in value?

You may be able to claim a deduction for the decline in value of your depreciating assets. A depreciating asset is an asset that has a limited effective life and can reasonably be expected to decline in value over the time it is used.

Examples of depreciating assets include:

- computers
- electrical tools
- photocopiers
- furnishings
- circular saw
- carpet and curtains
- motor vehicles.

If you use your depreciating asset solely for business purposes, you can claim a full deduction for the decline in value. However, if you also use the depreciating asset for non-business purposes, you must reduce the deduction for decline in value by an amount that reflects this non-business use – see ‘Example: separating business and private expenses’ opposite.

You work out the amount of deductions you can claim for decline in value of your assets based on an estimate of the percentage of your business use of those assets. You can base this estimate on a diary record of your business and non-business asset use for a representative four-week period. Your diary record must show:

- what the asset was used for
- whether the asset was used for business or non-business purposes
- the period the asset was used for.

Most businesses work out the deductions they can claim for decline in value under the uniform capital allowance system. However, if you have less than \$2 million turnover you can choose to use the simpler depreciation rules, which is an easier and more generous method. Using the simpler depreciation rules, you can:

- immediately write off most depreciating assets that cost less than \$1,000 each
- pool most other depreciating assets and claim a deduction for them at a rate of 30% if their effective life is less than 25 years, or 5% if their effective life is 25 years or more.

➤ For more information about claiming depreciation expenses:

- visit www.ato.gov.au/SBconcessions
- refer to
 - *Guide to depreciating assets* (NAT 1996)
 - *Record keeping for small business* (NAT 3029).

To help you work out your home work area expenses, use our electronic home office expenses calculator.

➤ For more information about working out deductions, refer to:

- *Taxation Ruling TR 93/30 Income tax: deductions for home office expenses*
- *Practice Statement PS LA 2001/6 Home office expenses*
- *Tax basics for small business* (NAT 1908)
- *Income and deductions for small business* (NAT 10710)
- *Concessions for small business entities* (NAT 71398).

EXAMPLE: Separating business and private expenses

Alex bought a computer to use in his business. However, his son also uses the computer to play computer games.

Alex estimates his son uses the computer 20% of the time and he uses it 80% of the time for business. This means Alex can claim 80% of the computer’s decline in value as a deduction.

Alex can also claim only 80% of the GST he paid in the price of the computer as a GST credit.

EXAMPLES: Claiming running expenses

Pam operates a company from home. There are three ways the company can work out its deductions.

Option 1 – Actual running expenses

The company has the following home office running expenses, including energy expenses worked out using electricity hourly costs per appliance. Pam works out the business related expenses based on diary entries for a representative four-week period.

Item	Calculation	Deduction for this year	Deduction for future years (assuming similar use)
Decline in value of desk	Cost \$1,333 over 20 years	\$66.65	\$66.65
Decline in value of chair	Cost \$266 over 10 years	\$26.60	\$26.60
Electricity for 100W lamp	1c per hour for 30 hours a week for 48 weeks	\$14.40	\$14.40
Electricity for 60W ceiling light	0.7c per hour for 30 hours a week for 48 weeks	\$10.08	\$10.08
Electricity for computer	1c per hour for 30 hours a week for 48 weeks	\$14.40	\$14.40
Electricity for heating/cooling	9c per hour for 30 hours a week for 48 weeks	\$129.60	\$129.60
Total deductible amount		\$261.73	\$261.73

Option 2 – Estimated running expenses

The company has the option of using a simpler method of working out its expenses, as shown below. Running expenses include the decline of value of furniture and other costs, such as electricity.

Item	Calculation	Deduction for this year	Deduction for future years (assuming similar use)
Running expenses	26c per hour for 30 hours each week for 48 weeks	\$374.40	\$374.40

Option 3 – Actual running expenses using the simpler depreciation rules

If the company is eligible to use the simpler depreciation rules, Pam can work out the company's deductions for decline in value under option 1 in a different way. For example, because the chair cost less than \$1,000 and was purchased during this year, the company can claim the full \$266 in the current year. If the company had purchased the desk during this year, it could claim a deduction of 15% ($\$1,333 \times 15\% = \200).

At the end of the year, the company will allocate the desk to a pool and can claim a deduction for it at the full rate of 30% in future years – that is, $(\$1,333 - \$200) \times 30\% = \$340$.

Item	Calculation	Deduction for this year	Deduction for next year
Decline in value of desk	Cost $\$1,333 \times 15\%$ (30% of balance for future years until cost deducted in full)	\$200.00	\$340
Decline in value of chair	\$266 (can be claimed immediately)	\$266.00	Nil
Electricity for 100W lamp	1c per hour for 30 hours a week for 48 weeks	\$14.40	\$14.40
Electricity for 60W ceiling light	0.7c per hour for 30 hours a week for 48 weeks	\$10.08	\$10.08
Electricity for computer	1c per hour for 30 hours a week for 48 weeks	\$14.40	\$14.40
Electricity for heating and cooling	9c per hour for 30 hours each week for 48 weeks	\$129.60	\$129.60
Total deductible amount		\$634.48	\$508.48

EXAMPLES: Claiming running expenses (continued)**Alex (sole trader)**

Alex operates an electrical business from his home. He does some work in a workshop attached to his house and some at his clients' premises. Alex's workshop covers 10% of the floor area of his home.

Alex can claim both running expenses and occupancy because he:

- is carrying on a business from his home
- has an area with the character of a place of business set aside exclusively for business.

Because Alex's workshop covers 10% of the floor area of his home, he can claim deductions for 10% of his costs for:

- gas
- electricity
- insurance premiums
- council rates.

If his work-related gas and electricity costs are more than 10% of his total gas and electricity costs, he may be able to use a different way to work out how much he can claim – see page 5.

If he had a mortgage, he could also claim 10% of the mortgage interest.

Alex has a mobile phone that he uses exclusively for business calls but he also uses his home phone for some business calls. Alex can claim the cost of all his mobile calls. Based on a review of his itemised home phone bills, Alex estimates that 20% of calls from his house are for business purposes. So, he can claim 20% of his total call costs and line rental fees for his home phone.

Alex can also claim deductions for the decline in value of the depreciating business equipment in his workshop.

Vinh and Barbara (partnership)

Vinh and Barbara are carrying on a business from their living room. They do not have an area set aside exclusively for their business, so they cannot claim occupancy expenses such as their rental payments. However, they can claim running expenses associated with carrying on their home-based business, such as phone, internet, gas and electricity, and also the decline in value of their computer.

Vinh and Barbara have a separate phone line installed for their business, so they can claim a deduction for their total phone rental and call costs, but not for the installation.

In producing their business income, they incur additional electricity and gas costs. To work out the extra costs, they keep a diary for four weeks to work out their business use pattern for the entire year. They then use this pattern to work out the gas and electricity costs they can claim. As Vinh and Barbara use the computer solely for their business, they can claim the computer's decline in value. They can also claim the cost of their internet connection.

Vinh and Barbara cannot claim gas and electricity costs for times when others are using the living room.

MOTOR VEHICLE EXPENSES

You generally cannot claim the cost of trips between home and your workplace as this is a private expense. However, you can generally claim the cost of any business related travel.

This means if you are carrying on a home-based business, you can claim the cost of trips between your home and other places if the travel is for business purposes.

For example, you could claim the cost of travel to:

- a client's premises if you are working there or delivering some documents
- purchase equipment or supplies
- do your banking
- the post office to mail out invoices
- see your tax adviser about a matter related to your business.

There are a number of approved methods available to sole traders and partners in a partnership to calculate motor vehicle expense claims. You can choose the method that suits your circumstances best.

 For more information about how to work out motor vehicle and travel expenses and how to substantiate travel costs, use the Work related car expenses calculator on our website at www.ato.gov.au

EXAMPLES: Motor vehicle expenses

Alex (sole trader)

While Alex's electrical business is based at his home, he spends most of the day working at his clients' premises. He has to transport bulky tools and equipment, including an extension ladder, in order to do his work. Alex has had his van specially fitted out with shelving, tool boxes and roof racks to suit the supplies and tools and equipment he uses. His private use of the van is very limited.

Because of the special fit-out and very limited private use, Alex can claim a deduction for 100% of his van's running costs. He does not have to make an adjustment to his claim to account for his private use of the van.

Vinh and Barbara (partnership)

Vinh and Barbara each have a car. They use both their vehicles to visit their clients and conduct other business activities, such as banking and collecting supplies. Vinh and Barbara can both claim a deduction for trips they make to their clients' premises and their other business related travel.

Barbara completed a log book to keep track of her business travel for 12 weeks. The log book showed that she used her vehicle 40% for business use and 60% for private purposes. Barbara uses this log book percentage to claim 40% of her total expenses for that car.

Vinh uses his car less than Barbara and chose to use a simpler cents-per-kilometre method of working out his claim. He estimated his business use of his car averages around 3,600km – that is:

- 80km per week visiting clients
- 10km per week for other business use
- 40 weeks in the year.

To work out his claim, Vinh multiplies the business kilometres he travels by the cents-per-km rate we publish each year. The 2009 rate for Vinh's car was 75 cents per kilometre. Therefore, Vinh calculates his claim as follows:
 $3,600\text{km} \times 75\text{c} = \$2,700$

Pam (company)

Pam does most of her work in her home office but visits her clients' offices about twice a week. Pam's company owns the car and the company can claim 100% of the expenses it incurs to run the car. As Pam uses the car for private purposes too, the company may have to pay fringe benefits tax.

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 is the tax you pay on any capital gain you make. There is no separate tax on capital gains; rather, it is part of your income tax and you include it in your annual income tax return. You are taxed on your net capital gain at the marginal tax rate that applies to you.

CGT will not apply if any of the following apply:

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

CGT AND SELLING YOUR HOME

If you make a capital gain when you sell your home, you may have to pay tax on part of the gain if all of the following apply:

- you bought your home on or after 20 September 1985
- you used part of your home to produce business income at some time while you owned it
- you were entitled to claim a deduction for any interest you paid on money you borrowed to buy the home – that is, you satisfy the interest deductibility test – see ‘Interest deductibility test’ on page 4.

You may have to pay CGT even if any of the following apply:

- you do not claim deductions for occupancy or running expenses – see ‘Occupancy expenses’ on page 4
- you have never claimed a deduction for any interest on money you borrowed to buy your home
- you owned your home outright before you started using any part of it to produce income
- you have started a business from home but have not yet made a profit.

How much capital gain is taxable?

In most cases, the portion of any capital gain on your home that is taxable is the same as the portion for which you could claim a deduction for interest. Generally, this is based on the floor area of your home you have set aside for business, for example 10%.

! You do not have to pay CGT for those periods you did not use your home for your business.

There are three ways to work out a capital gain:

- the indexation method
- the discount method
- the ‘other’ method.

The method you can use depends on when you bought the house and when you first started using it to operate your business.

See examples of the discount method and the indexation method on pages 11–12.

The ‘other’ method is the simplest of the three methods. You must use the ‘other’ method to calculate your capital gain if you have bought and sold your house within 12 months. In these cases, the indexation and discount methods do not apply. Generally, to use the ‘other’ method, you simply subtract your cost base (what the asset cost you) from your capital proceeds (how much you sold it for). The amount of proceeds left is your capital gain.

SMALL BUSINESS CGT CONCESSIONS

If you have a capital gain because you use your home for business purposes, you may be able to apply one or more of the small business CGT concessions to reduce your capital gain. These are:

- the 15-year asset exemption
- the 50% active asset reduction
- the retirement exemption
- the rollover provisions.

To apply the concessions, you must satisfy certain basic conditions.

➔ For more information about tax concessions for small business:

- visit www.ato.gov.au/SBconcessions
- refer to
 - *Concessions for small business entities* (NAT 71398)
 - *Guide to the capital gains tax concessions for small business* (NAT 8384).

EXAMPLES: Will CGT apply?**Olga (sole trader)**

Olga runs a florist business from her home, which she is paying off. Olga does not have an area set aside for her work but does most of her work on the kitchen table. Olga cannot claim a deduction for any interest she pays on her home loan because she does not have an area set aside exclusively for her business. This means she does not have to worry about the CGT implications of carrying on a home-based business.

Blake and Chantal (partnership)

Blake and Chantal operate a life coaching business from their home. They are renting their home so CGT on their home is not an issue for them.

Harry (company)

Harry is a travel agent who runs his business as a company from his home. He is paying off his home and has converted a bedroom into an office where he does most of the work for his company.

Harry does not have to worry about the CGT implications of carrying on a home-based business as the home is used by his company to carry on the business, not by Harry. This means that Harry cannot claim any deductions for the interest he pays on his home loan. However, if Harry charges his company rent for using his home, he may have to work out a capital gain on the sale of his home.

Alex (sole trader)

Alex operates an electrical business from his home. He does some work in a workshop attached to his house and some at his clients' premises. Alex's workshop covers 10% of the floor area of his home. Even though he owned his home outright before he started his business, if he sells his house, he may have to pay CGT on the part of his home he used for his business. This is because he would have been eligible to claim a deduction for interest on money he borrowed to buy the home.

EXAMPLE: Using part of your home for business for part of the time you own it – indexation CGT method**Alex (sole trader)**

Alex purchased his home for \$180,000 on 1 January 1991 and started operating his home-based electrical business on 1 January 1994.

Even though he owned his home outright before he started his business, if he sells his house, he may have to pay CGT on the part of his home he used for his business. This is because he would have been eligible to claim a deduction for interest on money he borrowed to buy the home.

Alex's workshop covers 10% of the floor area of his home.

Alex settled the contract for the sale of his home on 31 December 2008 for \$330,000. After allowing for purchase and selling costs of \$20,000, he made a profit of \$130,000. Using the indexation method, he works out his capital gain as follows:

nominal profit or gain	capital gain after index method calculation	×	Percentage of floor area not used as main residence	×	Percentage of ownership period that part of the home was not used as main residence	=	Taxable capital gain
\$130,000	\$80,000	×	10%	×	75%	=	\$6,000

EXAMPLE: Using part of your home for business for part of the time you own it – discount CGT method

Alex also qualifies to use the discount method for calculating CGT. This method is available for asset sales occurring after 21 September 1999, provided he held the asset for more than 12 months.

 Companies cannot use the CGT discount method.

Using this method, Alex bases his calculation on 50% of the capital gain he made after deducting costs. For example:

Nominal profit or gain	×	CGT discount rate	=	Discounted capital gain	×	Percentage of floor area not used as main residence	×	Percentage of ownership period that part of the home was not used as main residence	=	Taxable capital gain
\$130,000	×	50%	=	\$65,000	×	10%	×	75%	=	\$4,875

EXAMPLE: CGT concessions

In the previous example, Alex has made a net capital gain of \$6,000 using the indexation method. If Alex continued his business in his new home or purchased other active business assets, he would be eligible to apply the 50% active asset reduction concession. This means he will only pay tax on half the net capital gain, as follows:

Taxable capital gain – index method	×	Active asset reduction	=	Net capital gain
\$6,000	×	50%	=	\$3,000

The same 50% reduction would apply if Alex had used the discount CGT method.

Taxable capital gain – discount method	×	Active asset reduction	=	Net capital gain
\$4,875	×	50%	=	\$2,437

IF YOU FIRST USED YOUR HOME FOR BUSINESS AFTER 20 AUGUST 1996

If you start using your home for business purposes in a way that would satisfy the interest deductibility test – see page 4 – for the first time after 20 August 1996, you can choose to use a special rule to work out your capital gain or loss.

Under this rule, you are taken to have purchased your home at its market value at the time you first used it for business purposes if all of the following apply:

- you purchased your home on or after 20 September 1985
- you first used it for business purposes after 20 August 1996
- you would only receive a part exemption from CGT because you used the home to produce assessable income during the time you owned it
- you would have been exempt from paying CGT if you had sold the home immediately before you first used it for business purposes.

EXAMPLE: Home first used to produce income after 20 August 1996**Pam (company)**

Pam, a technical writer who runs her business as a company from her home, purchased her home on 1 November 1995 for \$280,000. Her company started operating its business from her home and paying rent to Pam from 1 November 2007. The market value of her home at that time was \$300,000.

Even though she has never claimed a deduction for interest on money she borrowed to buy the house, if she sells the house, Pam may have to work out a capital gain on the part of the home she rented to her company to allow it to carry on the business – that is, the office, which covers 9% of the floor area of the house. This is because she would have been eligible to claim a deduction for mortgage interest.

Because she first used her home to produce (rental) income after 20 August 1996, Pam can use this special rule to work out her capital gain.

For example, if Pam had settled the contract on the sale of her home on 31 December 2008 for \$330,000, she would work out her taxable capital gain as follows:

Proceeds – cost base	×	Percentage of business use	=	Taxable capital gain
\$30,000	×	9%	=	\$2,700

Pam may also be able to use the small business CGT concessions to further reduce the taxable capital gain – see page 10.

VALUING YOUR HOME

You generally use the purchase price of your home as your cost base when working out your capital gain. However, if you can use the rule outlined in ‘if you first used your home for business after 20 August 1996’ on page 12, you must know the market value of your home at the time you start carrying on a home-based business.

If you do not know the market value of your home at the time you started carrying on your home-based business, you must obtain a valuation that shows what the property’s value was at that time to work out your capital gain.

To work out the market value of your home, you can:

- contact a real estate valuer to get a valuation
- work out your own valuation based on fair and reasonable information.

EXAMPLE: Valuing your home

Frank owns a unit in a block of 10 units and must obtain its market value for CGT purposes. He chooses not to use a qualified valuer. Instead, he bases his valuation on recent sales of similar units in that block of units. This is acceptable as it is based on fair and reasonable information.

 We may challenge valuations if you do not have enough information to show they are fair and reasonable.

CGT RECORDS YOU MUST KEEP

It is important to keep records that will let you easily work out any CGT if you sell your home. The main information you must record is:

- when your home-based business started
- the amount of your home’s floor space dedicated to earning income
- any changes, such as extensions to your home or office space
- the value of your home when you started business.

You may want to record milestones in a diary so you and your tax adviser can establish a clear or notional start date for your business. For example:

- 18 September 2008 – set up business bank account
- 19 September 2008 – obtained an ABN.

If you use a tax adviser to prepare your tax return, you must alert them to any assets you sell, including your home, and give them the relevant details and records.

-  For more information about working out your capital gains, and the calculation methods available, refer to:
- *Main residence exemption – the effect of using your home to produce income* (NAT 10255)
 - *Guide to capital gains tax* (NAT 4151)
 - *Guide to capital gains tax concessions for small business* (NAT 8384).

DEFINITIONS

Assessable income

Income that is subject to tax is called assessable income.

Active business asset

A CGT asset is an active asset if you own it and it is either of the following:

- used or held ready for you to use in the course of carrying on a business
- an intangible asset inherently connected with your business; for example, goodwill.

Company

For tax purposes, a company is an incorporated or unincorporated body or association, but does not include a partnership or a non-entity joint venture. A company is a distinct legal entity and pays tax on the company's income.

Decline in value

Decline in value is the new term for depreciation.

Depreciating asset

A depreciating asset is an asset that has a limited effective life and can reasonably be expected to decline in value over the time you use it. Depreciating assets include such items as computers, electric tools, furniture and motor vehicles.

Fringe benefits tax

Fringe benefits tax is a tax paid on certain benefits you provide to your employees or your employees' associates (typically family members). It is separate from income tax and is based on the taxable value of the various fringe benefits you provide.

Occupancy expenses

Occupancy expenses are expenses related to owning, renting or using your home and are not incurred because of your income earning activities. In other words, you would have these expenses regardless of whether you were carrying on a home-based business.

Partnership

For tax purposes, a partnership is an association of people or entities that carries on business as partners or receive income jointly. A partnership is not a separate legal entity and does not pay tax on income the partnership earns.

PAYG instalments

PAYG instalments is a system for paying instalments towards your expected tax liability for business and investment income for the income year. You can pay in four or two instalments during the year or annually, at the end of the income year, subject to meeting eligibility criteria.

PAYG withholding

PAYG withholding is the system where payers withhold amounts from payments to payees and send the withheld amounts to us.

Sole trader

A sole trader is an individual carrying on a business alone without being in partnership or incorporated into a company. The business' income is treated as the individual's personal income. Sole traders pay the same tax rate as individual taxpayers.

Super guarantee

Super guarantee is the minimum amount of super you must contribute for your eligible employees. Currently, you must contribute 9% of an employee's earnings base to a complying super fund or retirement savings account on a quarterly basis by the quarterly cut-off date. You may also need to let employees choose which fund you pay their contributions into.

Taxable income

Your taxable income is your assessable income less any deductions you can claim.

Trust

A trust is an obligation on a person to hold property for the benefit of others known as 'beneficiaries'. A trust is not a separate legal entity.

SUPPORT FOR SMALL BUSINESS

ONLINE SERVICES

Going online is the fast and convenient way to do business with us. There are a range of services to help businesses manage their tax affairs online.

Our website at www.ato.gov.au/businesses

Find out more about electronic record keeping software, *e-Record*, and tax essentials for new and existing businesses.

Online resources at www.ato.gov.au/onlineservices

We offer a range of fast, convenient and secure online calculators and tools to make it easier for you to comply with your business tax obligations.

Business portal at www.bp.ato.gov.au

The Business portal can help reduce the time and paperwork associated with your tax transactions. To apply for access, visit www.ato.gov.au/onlineservices

This secure website is available at any time.

You can use the Business Portal to:

- lodge an activity statement and receive instant confirmation that you've been successful
- revise your activity statements online
- view your activity statements online
- view your business registration details
- update certain business registration details (address, contact details)
- request a refund for accounts in credit
- request a transfer of amounts across your different business accounts
- send a secure message to us and receive a secure response from us on selected topics.

Australian Business Register at www.abr.gov.au

You can use this register to:

- apply for a business tax file number (except for sole traders)
- register for or cancel an Australian business number (ABN)
- register for goods and services tax (GST) and pay as you go (PAYG) withholding
- access your ABN details and update them as required
- check the details of other businesses, such as their ABN or GST registration
- register for fuel tax credits.

Business entry point at www.business.gov.au

This website offers convenient access to government information, transactions and services. It is a whole-of-government service providing essential information on planning, starting and running your business.

ONLINE PAYMENT METHODS

BPAY®

Use the link from the Business Portal or your financial institution's BPAY facility to pay all your tax online.

®Registered to BPAY Pty Ltd ABN 69 079 137 518

Credit card

Credit card payments can be made online or by phone. To make a credit card payment you will need:

- a current Visa, MasterCard or American Express card
- your EFT code or PRN.



A card payment fee applies to transactions made using the credit card payment service.

Direct credit

You can make an electronic payment using internet banking or a banking software package.

FACE-TO-FACE

Business seminars and workshops

We run small business seminars and workshops on a range of topics, including GST, PAYG, activity statements and record keeping. Visit www.ato.gov.au or phone **1300 661 104** to find out whether there is a seminar or workshop near you or to make a booking.

Business assistance visits – no strings attached

If you would like personalised, specialist assistance or if you are new to business, you can organise a business assistance visit by phoning **13 28 66**. Visits are confidential and conducted at your place of business or preferred location.

PHONE

You can obtain more information by phoning us on one of the following numbers.

Business infoline – 13 28 66

Phone the business infoline Monday to Friday, 8.00 am to 6.00 pm for information about:

- ABN & GST registration and change of details
- activity statements, *e-Record* and PAYG
- fringe benefits tax, income tax, capital gains tax
- fuel tax credits.

Account management infoline – 13 11 42

Phone the account management infoline Monday to Friday, 8.00 am to 6.00 pm for information about:

- account queries, including payments and refunds
- outstanding debts or lodgments

ATO Business Direct – 13 72 26

This is a self-help service available at any time. Make sure you have your ABN and TFN handy when calling to:

- verify an ABN
- lodge a nil activity statement
- arrange to pay a debt
- find out about your refund
- order PAYG withholding forms
- register for fuel tax credits.

Superannuation infoline – 13 10 20

Phone the superannuation infoline Monday to Friday, 8.00 am to 6.00 pm for information about:

- super co-contributions
- lost superannuation monies
- unpaid superannuation
- superannuation guarantee
- self managed super funds, including trustee responsibilities
- the taxation of super including employer termination payments, pensions and annuities

Individuals infoline – 13 28 61

Phone individuals infoline Monday to Friday, 8.00 am to 6.00 pm for information about:

- personal tax enquiries
- *TaxPack*
- *e-tax*
- the baby bonus
- HELP
- your notice of assessment
- your tax file number

If you do not speak English well and need help from us, phone the Translating and Interpreting Service on **13 14 50**.

If you are deaf, or have a hearing or speech impairment, phone us through the National Relay Service (NRS) on the numbers listed below:

- TTY users, phone **13 36 77** and ask for the ATO number you need
- Speak and Listen (speech-to-speech relay) users, phone **1300 555 727** and ask for the ATO number you need
- internet relay users, connect to the NRS on **www.relayservice.com.au** and ask for the ATO number you need.

MORE INFORMATION

For more information about your tax obligations as a small business operator, refer to:

- *Record keeping for small business* (NAT 3029)
- *GST for small business* (NAT 3014)
- *Super – What employers need to know* (NAT 71038)
- *Concessions for small business* (NAT 71398)
- *Income and deductions for small business* (NAT 10710)
- *PAYG withholding for small business* (NAT 8075)
- *Taxation Ruling TR 93/30 Income tax: deductions for home office expenses*
- *Practice Statement PS LA 2001/6 Home office expenses.*

To obtain copies of our publications:

- Visit our website at **www.ato.gov.au/onlineordering**
- Phone us on **1300 720 092**.

