

Supporting employees with working from home arrangements

A simple guide to WFH tax deductions for your workforce



Maxxia

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Settling in to a new way of working



Thanks to COVID-19 and the widespread social distancing measures introduced in 2020, working from home became the norm for employees throughout the world. At the peak of the pandemic almost a third of working Australians (32%)¹ were working from home. This proportion rose to around half of employees working in office-based industries such as communications (57%) and finance and insurance (58%).

With restrictions easing in Australia some employees are moving back to regular time in the office. But research shows that both employers and employees expect more hours spent working from home to become a permanent part of working life. In a November 2020 report on their survey of 2500 Australian working professionals, recruitment company Hays found 61%² think a hybrid of office and home-based working is the most productive option. Employers

seem to be in agreement, with almost half (47%) saying they're planning to keep working from home as an option for employees.

The sudden switch to working from home introduced a whole new set of issues and priorities for leaders, HR teams and employees to navigate. By now many organisations have embedded practices and tools to better support their remote employees such as virtual onboarding, changes to team structure and enhanced communication and collaboration tools.

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Just over half (51%) of employees who have been working remotely don't yet feel comfortable about returning to the workplace.

Hays Barometer Report, November 2020

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¹Roy Morgan, Nearly a third of Australian workers have been '#WFH', 29 June 2020

²Hays, Hays Barometer Report, November 2020

Working from home and tax deductions

As many people continue to work from home – at least some of the time – they will need ongoing guidance to help them make the best of their new arrangements. This includes keeping employees up-to-date with opportunities to offset costs incurred by working from home against their income tax liability.

This guide is designed to help you easily share important information about working from home tax deductions with employees. As benefits and salary packaging experts, Maxxia is here to support employers with a best-practice approach to tax efficiency for all employees across different industries, roles and workplace locations.

In this guide you'll find:

- Information on COVID-19 changes to working from home tax deductions
- What employees can and can't claim for a deduction
- What they'll need to make a claim in their personal tax return

An easier way to claim working from home (WFH) tax deductions

For their 2019/20 and 2020/21 tax return, employees can use a temporary shortcut for claiming tax deductions for the cost of working from home.

Employees being able to claim a tax deduction for certain costs that come with working from home is nothing new. But with so many more people working from home due to COVID-19, the ATO has introduced a **temporary shortcut method** for making tax deductions based on an hourly rate and simplified reporting requirements.

For every hour they work from home, employees can claim an \$0.80 tax deduction. This applies for hours worked from home on the following dates:

1 March 2020 to 30 June 2020
in the 2019–20 tax year

1 July 2020 to 30 June 2021
in the 2020–21 tax year

The ATO may decide to extend this arrangement, depending on when work patterns return to 'normal'.

Under this short cut method, employees can claim the \$0.80 per hour deduction regardless of how much they have actually spent on the extra costs of working from home. The amount they can claim is calculated based on hours worked from home, not their out-of-pocket costs.





What can employees claim for under the shortcut method?

Additional costs incurred as a result of working from home that can be claimed under the shortcut method include:

- Electricity and gas expenses associated with heating, cooling and lighting.
- Cleaning expenses, phone costs and internet.
- Home office furniture, stationery, computer consumables, laptops, printers and tablets.

Employees using the shortcut method do not need to have a dedicated home office or workspace.



What employees can't claim

- Occupancy expenses such as mortgage interest, rent, insurance and rates.
- Coffee, tea, milk, and other general household items.
- Costs related to children and their education.
- Time spent not working.

Is your organisation covering working from home expenses for employees?

If you pay for items an employee is using to work from home, such as a laptop, or are covering the cost of their expenses, it's important that they understand how this could affect their eligibility to claim a working from home tax deduction.

- Employees can't claim a deduction for items you're providing as an employer or if they are being reimbursed for these costs.
- If you pay an allowance to employees to cover their WFH expenses they can still claim a deduction but they must include the allowance as income on their tax return.



How can employees claim their WFH tax deductions?

Keep a record of hours worked from home

To keep claiming simple under the temporary \$0.80 shortcut method, employees need to keep a record of hours worked from home in order to claim a tax deduction for working from home expenses.

**Total hours worked from home in the financial year
x \$0.80
= Working from home tax deduction.**

When an employee is lodging their 19/20 or 20/21 tax return through myGov or a tax agent, they should include the reference 'COVID-hourly rate' for their WFH deduction claim.

Under the shortcut method there is no need for employees to calculate and record the specific costs of items/services or keep receipts.

Other ways to claim WFH tax deductions

Employees can choose to use one of these two methods instead of the temporary \$0.80 shortcut to calculate and claim a tax deduction for WFH expenses.

Fixed rate method

The fixed rate method also allows employees to calculate their claim based on their total hours worked from home using a rate of \$0.52 per hour to calculate their tax deduction.

Things to be aware of:

- To claim under the fixed rate method employees need to have a dedicated work area in their home.
- This method does not include work-related costs such as: phone expenses, internet expenses, computer consumables and stationery – such as ink and decline in value of equipment – such as phones, computers and laptops. Employees wishing to claim these costs under the fixed rate method will need to keep separate records for these items.

Actual cost method

With this method employees can calculate their WFH tax deduction based on the actual costs they incur. In addition to recording their hours working from home, they will need to keep a detailed record of these expenses. If they are working in a shared area, this will include calculations for the work-related portion of costs such as cleaning, heating and lighting.

WFH tax deductions at a glance

A summary for employees



If you're working from home and have incurred extra costs as a result you may be eligible to claim a tax deduction in the 2019/20 and 2020/21 financial year using the **shortcut method**.



With this method you can claim a tax deduction of \$0.80 for each hour worked from home.

Hours worked from home in the financial year x \$0.80 = your tax deduction.



You can claim for:

Electricity and gas expenses associated with heating, cooling and lighting.

Cleaning expenses, phone costs and internet.

Home office furniture, stationery, computer consumables, laptops, printers and tablets.



You can't claim for:

Occupancy expenses such as mortgage interest, rent, insurance and rates.

Coffee, tea, milk, and other general household items.

Costs related to children and their education.

Time spent not working.



For the shortcut method you'll need to keep a record of hours worked from home but don't need to record or keep receipts for your actual costs.



In addition to the shortcut method, there are two other methods you can use to claim a WFH tax deduction. These are:

The **fixed cost method** based on an hourly rate of \$0.52 per hour.

The **actual cost method** allows you to calculate your WFH tax deduction based on your actual costs.

For more information on working from home tax deductions visit the ATO website:

<https://www.ato.gov.au/General/COVID-19/Support-for-individuals-and-employees/Employees-working-from-home/>
<https://www.ato.gov.au/Individuals/Income-and-deductions/Deductions-you-can-claim/Home-office-expenses/>

About us



Maxxia

At Maxxia we're on a mission to enhance the impact of employee benefits for Australian organisations.

Using proven methods to find the performance gaps in your program, Maxxia helps your organisation deliver more value to your people, through competitive and measurable employee benefits programs. Our goal is to ensure that you are measuring up to the best-in-class programs available.

Employee benefits are an easy way to strengthen your employee value proposition and engage with financial wellbeing for your workforce. Key to our approach is our **free benefits assessment**, which benchmarks you against industry peers, identifies inefficiencies in your program and assesses the unrealised financial value your employees could be benefiting from. Armed with this information, we can design a tailored program to help you

optimise the value you deliver, and the outcomes for your employees and your business.

We work with organisations of all shapes and sizes, from large corporates and SMEs, to health, not-for-profit and government. When you partner with Maxxia, our team of specialists are with you every step of the way, to help maximise engagement with your employees, and provide guidance on complex issues. Our fully resourced programs may also save your organisation time and money, and free your team up to focus on what they do best.

Find out more at:

www.maxxia.com.au/employers/resources-hub

www.linkedin.com/showcase/maxxia-insights-for-employers/

McMillan Shakespeare Group

Maxxia are part of the McMillan Shakespeare Group, a top 200 ASX-listed company and one of Australia's leading single source solution providers of salary packaging, novated leasing, consumer and fleet financing and management services.

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