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Dear Kim,

## **Draft Practical Compliance Guidance - PCG 2022/D4 Claiming a deduction for additional running expenses incurred while working from home - ATO compliance approach**

CPA Australia represents the diverse interests of more than 170,000 members working in over a 100 countries and regions around the world. In relation to Draft [PCG 2022/D4 Claiming a deduction for additional running expenses incurred while working from home - ATO compliance approach](#) (the draft PCG), we offer the following observations and comments.

### **Fixed rate method preference**

The revised 67 cents fixed rate method is a significant shift from the established 52 cents fixed rate method. Feedback from our members (see Appendix) is that due to additional expenses being included, they have a preference for the 52 cents fixed rate method. Furthermore, although it may be difficult for taxpayers to separate work and private usage for internet and phone costs under the 52 cents fixed rate method, feedback from our members indicates that they do not agree with the inclusion of these expenses, along with computer consumables and stationery, in the revised 67 cents fixed-rate method.

If given a choice, our members' preference is to retain the 52 cents fixed-rate method. The general view is that their clients will be worse off in terms of what they could claim under the revised 67 cents method. It is expected that many of their clients are likely to use the actual cost method in calculating their work-related expenses going forward instead.

Leading from the above, we also note that taxpayers who do not elect to use the revised 67 cents fixed-rate method, and who switch to the actual cost method, will now have to keep records from 1 July 2022. However, the ATO has only released the draft PCG on 2 November 2022. This creates difficulty for taxpayers in keeping the records to substantiate their claims under the actual cost method from 1 July.

### **Record-keeping requirements**

The new record-keeping requirements from 1 January 2023 are especially onerous. Taxpayers will need to keep daily timesheets, rosters, or daily diary records. Employees in roles that commonly involve working from home do not generally operate on such a basis, nor do they have natural record-keeping systems that collect this information. The daily timesheet record-keeping requirement is a chore for workers, particularly those who may work variable hours or have more than one job in which they work from home. Furthermore, employees are also now more likely to change employment than in the past and are unlikely to have access to their timesheet/roster records after they cease employment, especially when they are suddenly made redundant or terminated.

### **Objection difficulty**

Another concern we have relates to the inability of taxpayers to use the revised fix rate at a tax objection, and instead being forced to default to the general principles under section 8-1 of the *Income Tax Assessment Act 1997* (ITAA 1997). This means that at an objection, the only method available to the taxpayer is the actual cost method.

Because the revised fixed rate method is not legislated, the ATO can disallow revised fixed rate method claims at an audit, when a taxpayer has been found to breach the draft PCG requirements even slightly. The taxpayer is then required to calculate the claim using actual cost method instead.

Having relied on the draft PCG, when a taxpayer lodges a tax objection about the amended Notice of Assessment, the taxpayer will need to fully substantiate the expense to claim a deduction under section 8-1 of the ITAA 1997. However, this creates difficulties for taxpayers who relied on the revised fixed rate method, as they may not be able to fully substantiate their work from home expenses, based on the concessional record-keeping requirements. It means that they will be less likely able to claim their full deductions using the actual cost method. This is even though, in fact, those expenses had been incurred while earning their income.

Given the permanent shift in working arrangements, and the increasing scrutiny by the ATO of work from home deductions, there is a need to legislate the revised fixed rate method to preserve taxpayers' access to the revised fixed rate method, at an objection, to claim their expenses.

### **Dedicated work area requirement under the actual cost method**

Under the existing actual cost method, taxpayers are required to have a dedicated work area. Where the taxpayer does not have a dedicated work area, such as those who live in a one-bedroom apartment, their work from home claim using the actual cost method will likely be less than under the revised fixed rate method. It could also be nil. This is on the basis that the ATO considers that they will '**generally only incur minimal additional running expenses**'. This leaves such taxpayers in a dilemma if their preference is to use the actual cost method over the revised fixed rate method, but they do not have a dedicated work area. This seems to be unfair and unjust for these taxpayers.

### **Cleaning expenses**

Paragraph 23 of the PCG is extracted below:

#### *Revised fixed-rate method*

*23. The revised fixed-rate method apportions the following additional running expenses you incur on a fair and reasonable basis by using a fixed rate of 67c per hour for each hour you worked from home during the income year:*

- *energy expenses (electricity and/or gas) for lighting, heating/cooling and electronic items used while working from home*
- *internet expenses*
- *mobile and/or home telephone expenses, and*
- *stationery and computer consumables.*

Cleaning expense is not currently included in the energy expense category in paragraph 23. In contrast, it was included in the former **52 cents** fixed rate method. We seek clarification from the ATO on whether cleaning expenses should be included under the revised 67 cents fixed rate method in the PCG.

Further comments from our members are included in the Appendix section of this letter for your consideration.

If you have any queries, please contact Elinor Kasapidis, Senior Manager Tax Policy, on 0466 675 194 or [elinor.kasapidis@cpaaustralia.com.au](mailto:elinor.kasapidis@cpaaustralia.com.au).

Yours sincerely,

Dr Gary Pflugrath  
Executive General Manager  
Policy and Advocacy

## Comments received from our members

- We are disappointed with the proposed draft ruling for Home Office expenses to go to 67 cents per hour but cover mobile phone and internet costs which can vary without having regard to the number of hours worked from home. Plus having to obtain a complete record of hours worked from home rather than an estimate is unfair to taxpayers.
- I have reviewed the summary provided by the CPA's and it appears that the ATO is bent on turning this claim in itself into a full time job.

The idea of keeping records every day on where and what is being done at home is ridiculous. This is a case of over-regulation for the sake of saving a few tax dollars. People will be spending more time record keeping than working – let's look at productivity.

To put this into perspective, I tried to keep a diary of my phone business use – I lasted 2 ½ days. It was so time consuming noting every text written, message received, phone call, and logging onto the portal, and every other software I use.

This is a case of majoring on the minors! If it ain't broken – don't fix it!

- Referring to PCG 2022/D4 I would like to make following comments:  
**Second criterion** seems impractical for some of my individual clients such as international students.
  - When they arrive in country they don't necessarily have any bills in their names and they don't necessarily pay any bills in their names, however they do board with their friends and relatives and do share in grocery bills etc which is not part of working from home deductible expenses per Paragraph 23.
  - I wish paragraph 23 would have included more broader list of expenses of running a house such as Grocery, Cleaning, Mortgage, Rent etc..

**Third Criterion** is also killer – Keeping records of working from home. Now ATO wants people to keep records of timesheets. What if employee's employment has terminated in Jun 2023 and with that obviously all timesheet and roster records are gone with previous employer.

- In this case Employee didn't keep records of timesheet assuming timesheets are readily available from employer's system and sometimes it's not ethical to keep employer's system's timesheet in personal records.
- And now as employment has ended with bitter relationship with previous employer, employee may miss out of these deductions as employee won't be able to substantiate timesheet.
- I wish either employers are mandated to provide timesheets after termination of employment or substantiation requirement to prove working from home is not as rigorous as PCG2022/D4.

