



Helping you start, manage and grow your business

Claiming expenses for your home business

If you are working from home you may be entitled to claim a portion of your household bills as business expenses. These include rates, insurance, power, mortgage interest and depreciation. It's important that you keep all invoices and records of the costs. Use the examples from Inland Revenue to work out your claim.

Using your home for the business

Many people who run a small business use an area set aside in the family home for work purposes. If you are doing this, you can make a claim for the area set aside so long as:

- it is used principally for business use (such as an office or storage area), and
- you keep a full record of all expenses you wish to claim.

The responsibility for keeping invoices and records for a home office is the same as for any other business expenses you are claiming. You can claim a portion of the household expenses, such as the rates, insurance, power, mortgage interest and depreciation (if you own the house). You must keep invoices for these expenses.

You can only claim the expenses that relate to the area set aside for business. Work out the percentage of the work area, compared to the total floor area of the house. Then apply this percentage to the total house expenses.

Example

In a house of 100 square metres Mereana sets aside 10 square metres as an office (10% of the total floor area). GST-inclusive house expenses for the full year were:

Rates	\$1,200.00
Insurance (house)	\$ 400.00
Power	\$ 960.00
Total costs (including GST)	\$2,560.00
Divide total costs by nine to get the GST content	\$ 284.44
Total costs (excluding GST)	\$2,275.56

If Mereana is not registered for GST the amount to claim is 10% of the total costs **including** GST:
 $\$2,560 \times 10\% = \256

If Mereana is registered for GST the amount to claim is 10% of the total costs **excluding** GST:
 $\$2,275.56 \times 10\% = \227.56 Mereana can also claim 10% of the GST content of these items in her GST return, she can claim this either annually or on a period-by-period basis.

Claims on mortgage interest and household depreciation

You may also claim a proportion of the mortgage interest (not principal) paid during the year, and depreciation on the house itself. There is no GST involved in these two items, so it is easier to work them out separately. Use the same method of the business floor area percentage to work out what to claim.

Example

The business floor area is 10%.

House cost (not including land)	\$100,000
Depreciation @ 3%	\$3,000
Add mortgage interest paid (not principal repayments)	\$2,340

	\$5,340
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The amount to claim is:
 $\$5,340 \times 10\% = \534

Note

- If you claim depreciation on your home, you must include the depreciation recovered in your tax return when you cease using your home for business purposes, or when you sell your home.
- You can claim the depreciation on capital items such as a computer, office furniture and fittings, or shelving, used for business purposes in your home.

Telephone costs

You may claim a deduction for telephone rental if you run your business or organisation from your home. If your home is the centre of operations or management for the business, you may claim a deduction of 50% of the telephone rental. Identify those toll calls that are business-related. It is a good idea to use a highlighter on your phone bill to mark the business toll calls. If you have a separate commercial and domestic line rental, you can claim the full cost of the commercial line for both income tax and GST, but none of the domestic rental. If you make any private calls on the business line, you will have to make an adjustment for them.

This information is brought to you by Inland Revenue