

## **Your Home Office....**

### **What are the impacts on the Capital Gains Tax Exemption on your home?**

#### **Andrew Nicholls**

Whether you're just setting up a home office, or have been using your home to produce income for years, with the end of the financial year looming, we turn our mind to potential income tax deductions.

Most people are well aware, that with the introduction of Capital Gains Tax (CGT) in 1985, the primary residence has been exempt from CGT so long to the extent that it is used as a private residence.

Be careful, in the race to claim as many deductions as possible, you may be putting at risk, the CGT free status of your primary residence.

Please note, this article reviews the situation of using part of your home for income producing purposes while living in it. We are not covering situations where you move out of your home and then use all of it for income producing purposes (for example, by renting it to tenants).

#### ***When is my home not CGT free?***

You may not be entitled to a full main residence exemption if you:

- Acquired your home on or after 20<sup>th</sup> September, 1985;
- Used part of it to produce income at some time during the period you owned it, and;
- Satisfy the interest deductibility test.

You satisfy the interest deductibility test if you would be allowed a deduction for interest had you incurred it on money borrowed to acquire your home. If you sell your home and you have satisfied the test, you and your Accountant will then need to work out whether you incurred a capital gain or loss from that part of your home used to produce income.

#### ***Interest Deductibility Test***

You would satisfy the interest deductibility test if you run a business or professional practice from your home, and:

- Part of your home is set aside exclusively as a place of business and is clearly identifiable as such, and;
- That part of the home is not readily adaptable for private use, for example, a doctor's surgery located within a doctor's home.

This would not apply if you use a home study to undertake work usually done at your place of work.

The interest deductibility test may be satisfied even if you didn't borrow money to acquire your home – you must apply it on the assumption that you did borrow money to acquire it.

Further, the test is also satisfied if you did borrow money and were even entitled to claim a deduction for the interest, even if you did not actually claim the deduction!

*This wasn't part of the deal when I signed up for a home office!*

Concerned? There are a number of crucial considerations you should make in this area, best dealt in conjunction with your Accountant.

A few pointers to Home Business owners to protect the CGT free status of their residences:

- If you claim a deduction for interest paid on a loan (your mortgage), the ATO will assume that you pass the Interest Deductibility Test and therefore you will lose full exemption to CGT;
- This may also relate not only to interest deductions, but other deductions for expenses that relate to the residence and land itself, rather than the business within the home. An example of this is Council and Water Rates, Building & Contents Insurance;
- Electricity, Gas, Telephone expense deductions are acceptable as they can be directly attributed to the income producing activities, for example you require power for electrical equipment (computers etc), gas for heating.

\*\*\*\*\*

*Andrew Nicholls is a Director of NCS-Nicholls Chartered Accountants. A family owned and operated Accounting practice, the firm assists individuals and all sized businesses in bookkeeping, accounting and taxation issues. The firm also advises new start-ups and other more mature business that are looking to grow as the next stage of their development.*

*Andrew can be contacted on 03 9880 7744 or [anicholls@ncsnicholls.com.au](mailto:anicholls@ncsnicholls.com.au)*

#### **Important**

This is not advice. The reader should not act solely on the basis of the material contained in this article. Items herein are general comments only and do not constitute or convey advice per se. Also, changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of these areas. This article is issued as a helpful guide to the reader for their private information.

Information relating to part of this article has been extracted from the Australian Taxation Office website located at [www.ato.gov.au](http://www.ato.gov.au)