Working from home and occupancy costs

A recent Administrative Review Tribunal (ART) decision on working from home costs during the 2020-21 COVID lockdowns (*Hall's* case) may widen the scope for claiming additional deductions for occupancy costs such as rent, mortgage interest, home insurances and rates, but only in specific circumstances. This is on top of the hourly rate most people claim to cover additional energy, phone and internet costs.

Like many others, Mr Hall was forced to work from home in order to do his work, which involved the production of an on-line radio sports program for the ABC in Melbourne. The combination of government-imposed restrictions and the ABC's own rules meant that during the height of the COVID lockdowns in 2020-21, the spare bedroom in a rented apartment which he used exclusively or nearly exclusively to carry out his role for the ABC was his only place of business.

Importantly, Mr Hall was not running a business from his home. He was an employee working remotely, as over a third of Australian employees still do to some extent these days. While Tribunal decisions are not legally binding, and *Hall's* case only applies to the 2020-21 income year at the height of the COVID lockdowns, the decision seems well-reasoned and could arguably be applied more broadly.

While the lockdowns are thankfully well behind us now, the principle governing the Tribunal's decision is that a proportion of a taxpayer's rent (or mortgage interest) may be deductible where the employer does not provide a work space and the taxpayer has no alternative but to work from home. This can and does happen even today, well after the masks have been put away.

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About this newsletter

This monthly newsletter is to inform our clients of taxation and superannuation issues and keep them informed of any news or changes we think they should be aware of. Should you require further information on any topic covered please contact us.

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Working from home and occupancy costs... cont

Who might qualify?

An important factor in the *Hall* case was that there was no element of choice involved. No workplace was legally available to Mr Hall at the ABC Studios and he had no alternative but to use his spare bedroom to produce his radio sports program. Where an employee works under flexible arrangements by choice (eg, three days from home; two days in the office) the reasoning in *Hall's* case is not so easily applied since it would be open to the employee to attend the office every day. You could still make a claim, but it could be difficult to sustain.

On the other hand, where there is no longer an office to attend because the employer has chosen to cut back on rental costs, the only option for the employee is to work from home. In other situations employees might interact exclusively online with externals and other parts of the business because they don't live in the same State as their employer's office. Again, such an employee has no place to work from other than their home.

To be eligible for a proportional deduction for occupancy costs, the employee would need to work out of a designated area such as a spare room and use that area exclusively or nearly exclusively as their home office. Just setting up the laptop on the dining room table when the dining room is regularly used for other purposes isn't enough.

Capital gains tax

Employees who might qualify for a proportional deduction for occupancy costs that includes mortgage interest will need to consider the potential impact on the capital gains tax (CGT) exemption on their main residence before deciding to pursue a claim. The main residence CGT exemption is reduced by the same proportion as the claim for occupancy costs, and a valuation is required at the time the home is first used partly for income-producing purposes.

So a home owner without a mortgage or with only a small mortgage may decide that claiming a proportion of occupancy costs isn't worth compromising their main residence CGT exemption. We can help you weigh up the options. An employee who rents, as Mr Hall did, would have no such concerns.

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The Commissioner is unlikely to allow occupancy claims

In the meantime, the Commissioner has appealed to the Federal Court and issued a Decision Impact Statement explaining that he disagrees with the Tribunal's decision. He will continue to apply his longstanding restrictive approach to both occupancy costs and travel claims, pending the outcome of his appeal. That should not deter you from making a claim, however.

In order to avoid the risk of penalties and interest, the best course would be to just claim the normal hourly rate (or actual cost method) to cover additional running costs when lodging your return. Then, after the notice of assessment has been received, lodge an objection claiming the occupancy costs. That way your rights are protected and you are not exposed to penalties or interest.

There may also be scope to revisit earlier assessments if you were locked down for a period and worked from home using a designated area exclusively or nearly exclusively for that purpose. In the case of earlier assessments it may be necessary to ask the Commissioner for extra time in which to lodge an objection.

We're here to help you!

We should have a discussion about this issue if:

- your employer requires you to regularly work from home;
- no office space is available for you in which to perform your duties;
- you work from home using a designated space such as a spare room which is used exclusively or nearly exclusively for that purpose; and
- you rent your home or if you are a home owner and you have a substantial mortgage.

Super guarantee increasing to 12%

From 1 July 2025, your superannuation guarantee (SG) rate is increasing to 12%. That means more money going into your super from your employer, helping you build a better nest egg for retirement.

But what happens if you earn some of your wages before 30 June but get paid after 1 July? Will the higher super rate apply to that pay too? Let's break it down.

It's all about when you get paid

The key rule here is that the SG rate is based on when you're paid, not when you earned the money.

So even if you did the work in June, if your pay day is on or after 1 July 2025, your employer has to pay 12% super on those wages.

If you get paid before 1 July 2025, then the old rate of 11.5% applies – if the work was done in July. It all comes down to the date the money hits your bank account.

A quick example

Let's say George works for XYZ Pty Ltd.

» If George works in June (or even across June and July), but gets paid in July, his employer must pay 12% super on the whole amount.

» If George works in July, but for some reason gets paid in advance in June, only 11.5% super applies.

Your employer will then need to send that super contribution to your fund by the usual deadlines – generally within 28 days after the end of the quarter.

The final step in a long journey

The increase in the SG rate to 12% is the last step in a plan that's been rolling out over the past few years. Here's how the SG rate has been increasing:

Period	SG rate (%)
1 July 2020 – 30 June 2021	9.5
1 July 2021 – 30 June 2022	10
1 July 2022 – 30 June 2023	10.5
1 July 2023 – 30 June 2024	11
1 July 2024 – 30 June 2025	11.5
1 July 2025 onwards	12

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New super facts and figures from 1 July 2025

If you've been keeping an eye on your super, you might be wondering whether the contribution limits are increasing this year. The answer is – not yet.

Two key caps that determine how much you can put into super each year will stay the same from 1 July 2025.

Concessional contributions

These are contributions made before tax – like employer contributions, salary sacrifice, or personal contributions that you claim as a tax deduction. They're taxed at 15% when they go into your super fund (unless you're a high-income earner, in which case extra tax may apply).

And here's a bonus – if you haven't used your full concessional caps in recent years and your total super balance is under $500,000 as at 30 June 2025, you may be able to use the catch-up (carry-forward) rule to contribute more.

Non-concessional contributions

These are contributions made from your after-tax money. You don't get a tax deduction for these contributions, but they're a great way to boost your super savings over time.

Plus, if you're under 75, you might be able to use the bring-forward rule to contribute up to $360,000 in one go by using three years' worth of caps. Just remember – eligibility rules apply, like your total super balance and whether you've used this rule before.

For now, these caps are staying at $30,000 for concessional contributions and $120,000 for non-concessional contributions per financial year. If you were hoping to contribute even more, you'll need to wait for a future increase.

So what is changing? The transfer balance cap

Starting 1 July 2025, the limit on how much super you can move into a tax-free retirement pension account will go up from $1.9 million to $2 million. This limit is called the transfer balance cap. This change means

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Super guarantee increasing to 12%... cont

This is great news for workers, because more super means more savings for retirement, and that can make a big difference later on.

What counts for super?

Super is generally paid on what's called your ordinary time earnings (OTE). That's the amount you're paid for your regular working hours, plus things like commissions, allowances, and shift loadings.

Super usually isn't paid on things like overtime, reimbursements, and some other specific payments.

Need help?

If you're unsure whether your super is being calculated correctly, don't hesitate to ask for help. Your super is your money for the future, so it's worth making sure you're getting everything you're entitled to.

For employers, if you're uncertain about how the new super rate applies to your team, or need clarity on which payments count for super, don't leave it to chance. Getting it right helps you avoid costly mistakes and penalties. We're here to help both employees and employers understand their super obligations and entitlements, so you can have confidence that everything's on track.

New super facts and figures from 1 July 2025... cont

you can transfer more of your super into a tax-free pension when you retire.

The money you withdraw from your super pension (also called an account-based pension) is not taxed if you are 60 or over and the pension's investment earnings are not taxed either. This can make a big difference to your savings in retirement.

If you haven't started a pension before, the new cap of $2 million applies to you in full. However, if you've already started one, your personal cap may be somewhere between $1.6 million and $2 million, depending on your past pension history.

In the end, this increase is great news for anyone thinking about retirement, giving you more room to grow your super in a tax-free environment.

> If you haven't used your full concessional caps in recent years and your total super balance is under $500,000 as at 30 June 2025, you may be able to use the catch-up (carry-forward) rule to contribute more.

Why does this matter?

Even though the contribution caps aren't going up, the increase to the transfer balance cap is a good reminder to check in on your super strategy, especially if retirement is on the horizon.

If you're still working, now's a great time to make sure you're making the most of the current concessional and non-concessional contribution limits to build your super while you can.

And if you're approaching retirement, consider how the higher transfer balance cap could open up more tax-free opportunities for your pension savings. It might be worth thinking about whether you should contribute more to your super now to make the most of it later.

Need help?

Super can be complex, but you don't have to work it all out on your own. If you'd like help understanding these changes or planning your next steps, get in touch with us. We're here to help.

Age Pension means test changes:

What they mean for you

Starting 1 July 2025, Age Pension means test thresholds will increase, potentially boosting eligibility and payments for retirees. These changes, announced by the Department of Social Services, aim to keep pace with inflation and living costs. Here's a quick overview of how these changes may impact you.

What are the Age Pension means tests?

The Age Pension, available to residents aged 67, uses income and assets tests to determine eligibility and payment amounts. The test that results in the lower pension payment applies. If your income or assets exceed certain thresholds, you may not qualify for a pension or only receive a part pension. From 1 July 2025, these thresholds are rising, meaning more people may qualify for a full or part pension, and current part-pensioners could see higher payments.

Income test changes

The income test assesses earnings from sources like wages, interest, dividends and rental income. Centrelink uses deeming rates (currently 0.25% for the first $62,600 for singles or $103,800 for couples, and 2.25% above these) to estimate income from financial assets like bank accounts, managed funds and shares. The deeming rate from 1 July 2025 had not been confirmed at the time of writing.

From 1 July 2025, the income test thresholds will increase slightly as illustrated in the table below.

From 1 July singles can now earn $218 per fortnight ($5,668 yearly) for a full pension, and up to $2,516 ($65,416 yearly) for a part pension.

Each dollar above the lower threshold reduces pension entitlements by 50 cents for singles and by 25 cents for partner for couples.

This does not consider the Work Bonus which lets pensioners earn up to $300 per fortnight from work without affecting their pension.

Table 1: Fortnightly income test thresholds

	Maximum	**Cut-off***
Situation	**1 July 2025**	**1 July 2025**
Single	$218	$2,516
Couple (combined)	$380	$3,844

*rounded down to nearest dollar

continued overleaf

Age pension means test changes ... cont

Assets test changes

The assets test evaluates your assets such as shares, bank accounts, investment properties, etc. However, it excludes your family home. The new thresholds from 1 July 2025 are illustrated in the table below. From 1 July a single homeowner may receive the full age pension if their assets are below $321,500 and a part-pension if their assets are below $704,500. A couple who are homeowners may have up to $481,500 in assets (combined) to receive the full age pension and may receive a part-pension if their assets are below $1,059,000. Non-homeowners can have more assets before their pension is reduced.

What this means for you

The changes to the Age Pension means test thresholds could significantly impact your retirement income, depending on your financial situation. The increased income and asset thresholds mean more retirees may qualify for the Age Pension or receive a higher part pension.

Remember that your Age Pension entitlement is determined by the lower of the income and asset test. If either test results in zero, you're ineligible.

If you would like to learn more about your Age Pension entitlements give us a call.

Table 2: Asset test thresholds

	Homeowner		Non-homeowner	
Situation	**Full pension**	**No pension**	**Full pension**	**No pension**
Single	$321,500	$704,500	$579,500	$962,500
Couple (combined)	$481,500	$1,059,000	$739,500	$1,317,000

Changes to deductibility of interest on ATO debts

An important reminder: Interest incurred in income years starting on or after 1 July will no longer be deductible, regardless of whether the debt relates to an earlier income year.

However, interest charged by the ATO that was incurred before 1 July 2025 can still be claimed as a deduction this tax time.

Therefore, if you have overdue tax debts please arrange an appointment with us so we can discuss what options you have to pay these debts in the most expedient manner. This could include various payment plans arranged with the ATO. And while general interest charge (GIC) will still accrue, paying off the debt will decrease the amount of interest charged.

Therefore, it is more important than ever for you to keep on top of ATO obligations to avoid unnecessary costs. This can also include trying to make it easier to have funds available when it's next time to pay. For example, we can discuss setting aside GST, pay as you go withholding and super from your business's cash flow.

Selling shares? **Beware of all the CGT rules!**

With Trump's tariffs causing big sell downs on share markets around the world, it is important to understand a few key things about how capital gains (and capital losses) from the sale of shares are treated for CGT purposes in Australia.

For a start, it is crucial to know what the cost – or specifically the "cost base" – of the shares are in order to calculate the assessable capital gain (or loss). This cost base will include relevant brokerage fees.

And for shares received under a dividend reinvestment scheme (DRIP), the cost base will be the value of the dividend which has been applied to buy shares in the company.

Importantly, where only some of the shares in a parcel of shares are sold it will be necessary to identify exactly which of those shares have been sold – in circumstances where you may have acquired the shares at different times for different costs. In this regard, usually some form of "identifier" (ASX or company etc) is attached to the shares.

But where it is not, the ATO allows you to choose which parcel of shares have been sold – provided you keep records of this so that there is no doubling-up or reselling of the same parcel of the same shares again later on down the track. And of course, this may allow you to choose which shares you sell in a tax-effective manner.

Of course, the CGT discount is available to reduce the amount of your assessable capital by 50% if you have owned the shares for 12 months – or 365 days to be precise. And in an interesting bit of nitpicking, the ATO takes the view that this does not include the day on which you bought the shares and the day on which you sold them!

Another important thing to understand is how exactly you calculate your "net" capital gain for the income year that is to be included in your assessable income.

And the key thing to note here is that any capital losses of the taxpayer from either the immediate year or prior years must first be applied to any capital gain/s of the taxpayer before applying the 50% CGT discount – and this will mean that there is a bigger net capital gain (if any) to be assessed (as opposed to if the discount was applied first).

However, where there is more than one capital gain from a particular source, the taxpayer can choose which capital gain it will apply the capital loss against first. And, usually, the best result in this case is to apply the capital loss to a gain that is not eligible for the CGT discount.

But where there are a number of capital gains and losses to be netted this process can get complicated – and our advice will be invaluable in this case.

Finally, beware of engaging in "wash sales" in the current volatile market – and this broadly occurs where you sell the shares to, say, realise a capital loss and then buy them back soon after in order to obtain some tax advantage. This ATO treats wash sales as tax avoidance.

So, if you are selling shares, see us first so we can help you do so in the most tax-effective method relative to all your circumstances.