

Tax Deductions and Substantiation



Let's be honest, none of us want to pay any more taxes than what's required of us. We all work hard and it's important that we legally minimise taxes that we must pay.

As a taxpayer, you essentially should be working towards three main objectives:

1. Helping you get the maximum total of tax deductions available to you, and
2. Helping you organise your taxation affairs with ease, and
3. Allowing you to minimise the risk of problems in the event of an audit or review by the ATO.

How to Organise Your Receipts

While there is no right or wrong way to gather, or store your receipts, many of our clients use some very easy methods. For example, buy a refillable display book for

about \$5 from Officeworks and store all your receipts in it.

This system is cheap, simple and easy. You could also use an alternative such as paper envelopes or manila folders.

Technology, such as mobiles, can also be used to help store documents and receipts. Most phones have a camera which can be used to photograph all receipts which can then be allocated to a tax folder. There are many apps and products that can also be used.

Nature of Documentary Evidence

The ATO imposes a few musts in relation to all our receipts and documents: They must:

- be in English, and
- have the date on which the expense was incurred, and

- name the person or business who supplied the goods and services, and
- show the amount of the expense in the currency in which the expense was incurred; and
- give details of the nature of the goods or services.

Investax Group Tip

Although many people don't use cheques anymore, a cheque butt alone is not regarded as suitable documentary evidence.

Apportionment - Work or Private Use

Many expenses that we incur are both for work and private purposes. These should be apportioned between work and private use.

To establish a pattern of usage, you should maintain a diary. The diary can then be used to substantiate your claim, together with the relevant receipts and invoices.

Your claim will then be calculated by applying the percentage of work use established in the diary.

Penalties

If you can't provide documentary evidence when required, you may be charged penalty tax and/or interest on the claims you can't substantiate by the ATO. It's cheaper to keep your receipts.

Deduction Guidelines

You can claim deductions for work related expenses you incurred while performing your job. Generally, a work-related expense is incurred when you have spent the money in relation to you earning income.

The general rules to consider before you decide to make any tax related claim are:

- You must incur the expense in this tax year; and
- The expense must not be reimbursed by your employer; and
- You must incur the expense while earning your assessable income. You cannot claim expenses of a private, domestic or capital nature. For example, the cost of normal travel to and from work and buying lunch each day are not allowable tax deductions; and
- If your total claims exceed \$300, keep written evidence to prove the total amount, not just the amount over \$300.

How Long You Need to Keep Your Records

You must keep your written evidence for a minimum of five years from the date you lodge your tax return.

If, at the end of this period, you are in a dispute with the ATO that relates to a work expense or depreciation claim, you must keep the relevant records until the dispute is resolved.

For depreciation expenses, you must keep records for the entire period over which you depreciate an item and five years from the date of your last claim.

Let's have a look at some of the more common types of tax deductions.

1. Motor Vehicle Expenses

Do you have any motor vehicle expenses relating to your work?

Generally, the cost of travelling between home and work is a private expense and is not an allowable tax deduction. Just because you are on call, work unusual hours or you use your car because public transport is unavailable, does not change this general rule.

a. Itinerant Work

If you are engaged in itinerant work, you can claim a deduction for motor vehicle expenses you incur during work related travel. Your work will be considered itinerant if you regularly travel to two or more work sites each day before returning home.

Simply travelling to different work sites each day does not mean you are engaged in itinerant work.

If you are claiming a deduction for motor vehicle expenses on the basis that you have been engaged in itinerant work, you will need to keep records to show that your work pattern was itinerant. These records could be a diary, a logbook or a similar

document that shows your itinerant travel pattern.

b. Carrying of Bulky Tools & Equipment

If you use your motor vehicle to carry bulky tools and equipment that you use to do your work and you cannot leave them securely at the work site, you may be able to claim a deduction for your motor vehicle expenses.

You will need supporting records to show why the tools and equipment are considered bulky. You will also need to show why your tools and equipment can't be left on the work site.

c. Second Job

You may also claim the cost of using your car to travel directly between two separate places of employment – for example, when you have a second job.

d. Other Travel

- From your normal workplace to an alternative workplace while still on duty and back to the normal workplace or directly home;
- From your home to an alternative workplace for work purposes and then to your normal workplace or directly home.

2. Travel Expense Records

You can claim the cost of travel expenses directly connected with your work. Again, if your travel was partly for private and partly for work, you may claim only the part that related to work.

Travel expenses may include meals, accommodation and incidental expenses incurred while travelling overnight for work, for example, going to an interstate conference.

Other travel expenses that you may be able to claim include flights, bus and taxi fares, bridge and road tolls along with parking and motor vehicle rental costs.

To help substantiate your claims, the records you need to include will be receipts, invoices or other travel documents that prove your travel expenses (including meals and accommodation).

A travel diary would also be recommended to help you substantiate your business trip.

3. Donations

We can all make tax-deductible donations to registered organisations and charities.

4. Home Office Expenses

You can claim expenses for home office equipment such as computers, furniture and stationery.

If you have an office in your home, you may claim a portion of your gas, power and heating and/or cooling costs. The percentage claimable is determined by expressing the area of your office as a percentage of the area of your home.

5. Journals & Magazines

Instead of buying work-related journals and magazines on a random basis,

consider arranging subscriptions. Invoices and/or renewals provide documentary evidence; otherwise, obtain receipts.

Also, instead of buying work-related newspapers on a random basis, consider arranging for home or work delivery. Accounts will provide documentary evidence.

6. Professional Library Additions

Taxpayers engaged in professional practices can claim deduction expenses for additions to professional libraries. For example, a doctor may claim the purchase of a set of medical reports, while an academic may claim the purchase of a textbook.

Investax Group Tip

Remember. If you mix a business trip with some private time also, the need to apportion between business and private may be required.

7. Seminars & Conferences

You can claim the cost of attending seminars, conferences or education workshops that are connected to your work activities. This includes registration and travel to and from conferences. If you travel interstate to conferences, or conferences include a residential course, you may also claim meal and accommodation costs.

8. Self-Education Expenses

Self-education requires a direct link between your current source of income

and your current studies. For example, an accountant claiming the cost of completing his CPA while working as an accountant would be considered a tax deductible self-education expense. You cannot claim a deduction, if the purpose of the self-education is to create a new income source or to get a new job.

a. Books, Stationery and

Photocopying Self-education expenses are expenses related to a course of education provided by a school, college, university or other place of education. In this category, you should list expenses such as textbooks, technical instruments and lecture pads.

b. Course Fees & Union Fees

If you attend an educational institution, such as a university, you can claim course fees and student union fees providing you are not attending the course to obtain a new job. It must relate to your current source of income.

c. Travel

Travel for self-education related purposes may be tax deductible.

The following examples show whether travel is deductible:

- | | |
|------------------------------|-----|
| • Travel from home to school | Yes |
| • Then to work from school | No |
| • Travel from work to school | Yes |
| • Then back to work | Yes |
| • Travel from school to home | No |

9. Telephone Expenses

You may also be able to claim the cost of calls from your phone, home or mobile, if you make them in the course of your employment.

A diary can be used to establish a pattern of business phone usage. You may also be able to identify work-related calls from an itemised telephone account. Otherwise, a reasonably estimate of business call costs could be used.

10. Tools of Trade

In general, the cost of insuring, repairing or replacing tools of trade will be fully deductible. Depending on the purchase price and the effective life of the tools, will determine whether an immediate deduction is available or whether it must be depreciated over several years.

11. Protective & Occupation Specific Clothing

You may be able to claim the cost of buying protective or occupationspecific clothing. This includes clothing that protects you from injury during work, for example, safety boots. The clothing would need to be specific to your occupation, but not every day in nature.

For example, a nurse required to wear a uniform with hospital logos on it would be allowable. A waiter's white shirt and black pants would not be allowable unless a business logo appears on them.

12. Uniforms

You can generally claim the cost of buying or renting a uniform that is unique and distinctive to your organisation. This includes registered non-compulsory uniforms and compulsory work uniforms not available to be worn by the general public.

13. Laundry Expenses

You can claim the cost of washing, drying and ironing work specific clothing. If total laundry claims exceed \$150, you will need to keep a diary and receipts. To claim dry cleaning costs, you must also keep receipts.

14. Insurance Premiums

You may claim the cost of insurance premiums where the purpose of the expenditure is to receive compensating payments for the loss of income during a period of disability. An example of this would be income protection insurance.

There are options available to you around the types of tax deductions available. However, it is imperative that the right substantiation procedures are adhered to in the case of an ATO review or audit.

We hope that the above summary helps you to understand substantiation requirements and should you have any queries, please do not hesitate to contact our office.

Being financially sorted is important for us all and hopefully claiming the right

tax deductions goes some way towards helping you.

We hope that this summary gives you guidance on choosing the correct cloud provider that will be most advantageous to you.

Footnote

Please note that the information here is a general overview. Taxation is a complicated matter and you should seek specific advice from a qualified and experienced professional suited to your circumstances.

*Disclaimer

Before acting on any information you've may received during a strategic financial consultation, or read about on our websites, email communications, guides including our newsletters, you should consider the appropriateness of the advice, having regard to your own objectives, financial situation and needs.

If any products are discussed, you should obtain a Product Disclosure Statement relating to the products and consider its contents before making any decisions. It is recommended to seek advice from a qualified professional relevant to your particular needs or interests. (For instance, Tax Advice from a Tax Agent, Financial Advice from a Licensed Financial Adviser and so on and so forth).



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