

# June 2019

## Work Related Expenses



Optio Advisor

### Claims for Standard Deductions

One of the common problems that the tax office found during recent reviews of work-related expenses were the number of taxpayers claiming a “standard deduction”. Current tax laws do not provide a ‘standard deduction’. However, there are a number of concessions for substantiation of deductions claimed which some taxpayers have interpreted as a standard deduction amount.

Concessions exist for the calculation of laundry expenses, home office expenses and for the substantiation of work-related deductions of less than \$300 in total. This does not mean that a total deduction of \$300 is automatically allowed, but instead documentation does not need to be kept if your total work-related expenses are less than \$300. You still need to justify that an expense was incurred and that it relates to your employment duties.

The \$300 substantiation concession does not extend to donations as the concession only applies to work related expenses. You are required to have a receipt for all donations being claimed as a tax deduction unless they are classed as a “bucket donation”. Bucket donations are allowed if they are made to a collection conducted by an approved organisation for natural disaster (e.g. bushfire and flood) victims. You do not need to have a receipt for bucket donations but you are limited to a deduction of \$10.



### Detailed Deduction Data

Changes to this year’s income tax returns will require line entries for all deductions claimed in individual tax returns. Previously only the totals for each category of deductions were actually transmitted to the tax office. In this year’s return each deduction within the categories will be reported to the tax office.

This will require more detailed reporting of deductions to ensure the correct details and descriptions are provided to the tax office. The main outcome of providing the extra details will result in the tax office being able to conduct more detailed reviews of deductions claimed. This will assist them in reducing the amount of overclaimed or fraudulent deductions.

### Home Office Expense Rate Increase

The tax office updated the hourly rate taxpayers can use to determine deductions for home office expenses from 45 cents to **52 cents per hour** for individual taxpayers, effective 1 July 2018.

Individual taxpayers who claim deductions for either work or business-related home office running expenses may either claim a deduction for the actual expenses incurred; or calculate the running expenses at the rate of 52 cents per hour.

Taxpayers who use the rate per hour method to claim a deduction for home office running expenses only need to keep a record to show how many hours they work from home.

This reduced substantiation requirement can be recorded either during the course of the income year; or alternatively they can keep a representative four-week diary (where their work from home hours are regular and constant).

## Review of Home Office Claims

Last year, 6.7 million taxpayers claimed a record \$7.9 billion in deductions for 'other work-related expenses', which includes home office expenses. The tax office has advised that due to a high number of mistakes, errors and questionable claims for home office expenses, it will be increasing attention, scrutiny and education on these claims this tax time.

In particular, the tax office has flagged their concerns relating to taxpayers who are claiming:

- expenses they never paid for;
- expenses that their employer has reimbursed them for;
- private expenses; and
- expenses with no supporting records.

Whilst additional costs incurred as a direct result of working from home can be claimed, care must be taken not to claim private expenses as well. The tax office has indicated that one of the biggest issues they face is people claiming the **entire** amount of expenses (e.g., their internet or mobile phone), rather than just the extra portion relating to work.

Provided the taxpayer is able to demonstrate that they have incurred **additional** costs of running expenses (e.g., electricity for heating, cooling and lighting), then these are generally deductible. In contrast, employees are generally not able to claim any portion of occupancy-related expenses (e.g., rent, mortgage repayments, property insurance, land taxes and rates). Taxpayers are warned that the tax office may contact their employers to verify expenses claimed for working from home.

In addition, the tax office expects to disallow a lot of claims where the taxpayer has not kept adequate records to prove that they have legitimately incurred the relevant expense and that the expense was related to their work. As with the claiming of deductions in general, supporting records must be kept when claiming work-from-home expenses, which may include receipts, diary entries and itemised phone bills. Importantly, only the additional work-related portion of the relevant expense is deductible.

Advancement in technology has allowed the ATO to deploy sophisticated systems and analytics to spot claims that do not 'add up' and claims that are out of the ordinary compared to others in similar occupations, earning similar income.



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## Motor Vehicle Deductions



If you use your own vehicle for work related purposes, the way to calculate your deduction depends on the type of vehicle and how it is used. If the vehicle is used for both private and work purposes, you must exclude any private use (such as driving your children to school).

### Cars

For cars, you can use the cents per kilometre method or the logbook method.

**Cents per kilometre method:** You can claim a maximum of 5,000 business kilometres per car. The rate per kilometre takes into account your car running expenses, including depreciation. You can't make a separate claim for depreciation of the car's value.

You don't need written evidence, but you must be able to show how you worked out your business kilometres (for example, calendar or diary records). For claims above 5,000 kilometres you must use the logbook method or actual costs to claim the entire amount.

**Logbook method:** You can claim the work-use percentage of each car expense, based on logbook records. You must keep the logbook for a period (at least 12 continuous weeks) that is representative of your travel throughout the year. You can then use this for five years providing your employment or residence circumstances don't change.

Work out the percentage of work-related travel from your logbook and use this to claim your work-related car expenses. You can't claim the purchase price of the car, but you can claim a portion each year through depreciation calculations.

### Other vehicles

For all other vehicles (e.g. motor bikes, "one-tonne" utes), you can't use the cents per kilometre. Your claims must be for the work-related portion of expenses, based on receipts. You are required to substantiate how you calculate the work-related portion of usage. You can use a diary or journal to calculate private use and business use, however the best method would be to keep a proper logbook.



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