

# June 2018

## Work Related Expenses

### Work Related Expenses Review

The tax office has indicated that this year it will be focusing on the various work-related expenses that do not require written evidence (e.g. receipts). There are a number of work-related expenses that are based on diary records and calculations rather than physical receipts. The tax office is concerned that claims are being incorrectly calculated.

Whilst the expense substantiation rules state that evidence is not required for work related expense totaling below \$300 or laundry costs of less than \$150, this does not mean that a standard deduction of these amounts is acceptable. In fact, deductions of these amounts may actually draw the tax office's attention to your return and therefore require an audit of all work related expense claims.

Every work-related expense deduction still needs to be justified. Motor vehicle deductions under the cents per kilometre still requires a diary of trips undertaken or a calculation of regular trips undertaken during the year. There are some expenses that are too difficult to substantiate by obtaining a receipt (e.g. car parking meter fees, car wash expenses, items purchased at a market, items purchased from a vending machine). Whilst it may be difficult to get a receipt for these items, the tax office still expects you to keep a diary record of the date, amount and description of the item purchased.

There is the ability to claim up to \$200 for small items that individually cost less than \$10. However, this still requires a diary record to record the date, amount and description of the item purchased. Laundry expenses are usually claimed as a set rate per load, so you need to justify how many loads of washing of eligible uniforms are done each week.

Deductions against allowances must be based on the expenditure incurred. A "reasonable allowance" amount set by the tax office does not mean that deductions are automatically calculated at this amount. The reasonable allowance amount is a threshold for the requirement to not need substantiation of the deduction. Your deduction should still be based on the actual costs incurred.

Whilst you don't have to keep receipt for the expenses, you should still use actual costs incurred to calculate your deduction. Keeping some, if not most receipts will strengthen your claim for a deduction should you be subject to a review or audit by the tax office. A phone app will be sufficient to record the required details, and the ATO App contains a feature to record the correct expense evidence details. For further information you should review the new tax office fact sheets.



### Laundry Costs

As mentioned above, the tax office has already publicised that one of the areas they are looking at this year is laundry costs. Whilst this may seem like a trivial item to review, they have indicated that reviews of deductions claimed in the 2017 year income tax returns indicated that many people claimed laundry deductions when the clothing being washed was not classed as eligible clothing.

Eligible clothing will include protective clothing (protects from your working environment), compulsory uniforms (you cannot wear any other clothing at work), registered uniforms (not compulsory to wear, but registered with the relevant Government department), or occupation specific (readily identifies the work that you do e.g. chef's checked pants).

The uniform must not be available for sale to the general public, so retail employees who are required to wear branded clothing sold instore are not eligible even if enforced by their employer.



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## Tax Deduction Hacks

A recent newspaper article by author Melissa Browne mentioned that many people are not maximizing their tax refund because they miss out on including some low cost deductions or some everyday use items. The validity of the deduction will depend on your ability to justify the work related use of the item .

Ms Browne mentions some everyday expenses that often get overlooked:

- Handbags: Just a briefcase that is used exclusively for work purposes is deductible, so will a handbag that is used exclusively for work purposes be deductible. Exclusively for work is more than just carrying personal items to and from work. It needs to be used to carry work related equipment (laptops/phone) and work reports and stationery.

- Stationery: Many small purchases of stationery can add up over the year, and regardless of the cost, it is the usage for work purposes that matters. So specially branded stationery items will be deductible if you can justify that they are used for work.

- Mobile Phone Data: Mobile phone usage is more than phone calls these days. If you use your mobile phone apps for work purposes, then a percentage of phone costs can be considered. Apps such as calendars, diaries, Gmail, voice memos, notes should all be considered if they are used for work purposes. However it will depend on percentage of phone use that is work related compared to private use of the telephone. The work related use is then applied to the total phone costs for the year to calculate your deduction.

## Tax Office Review of Car Claims

The Tax Office has announced that it will be closely examining claims for work-related car expenses this tax time as part of a broader focus on work related expenses. They are concerned about people claiming deductions for trips they are not entitled to, like private trips, trips they didn't actually make, trips that are not required as part of your job, and car expenses that their employer paid for or reimbursed.

This is no doubt because over 3.75 million people made a work-related car expense claim in 2016/17 (totalling around **\$8.8 billion**), and, each year, around 870,000 people claim the **maximum amount** (5000km) under the cents-per-kilometre method.

The tax office stated that there are three golden rules for people to remember to get it right:

*"One – you have to have spent the money yourself and can't have been reimbursed, two – the claim must be directly related to earning your income, and three – you need a record to prove it."*

To ensure you have the correct evidence in the event of a tax return audit, we recommend that you use a log book or diary to record all of your work trips during the year. A phone app will be sufficient to record the required details, and the ATO App contains a feature to record the correct car travel details. For further information you should review the new tax office fact sheets.

## Working from Home

The tax office's recently released fact sheet for Working from home, reinforces that if you regularly work from home, you may be able to claim a deduction for expenses incurred. You can claim costs relating to lighting, heating, cooling, cleaning, and repairs to equipment or furniture in the area you use for work.

You can claim a portion of the actual expenses incurred by calculating a portion of the total costs for the year, taking into account the portion of floor area used and the portion of the year that you worked from home.

Alternatively the tax office allows a fixed rate of 45 cents per hour worked from home. To justify the number of hours used, you need to keep a diary that documents your pattern of use for a minimum of four weeks during the year.

When claiming your telephone and internet expenses, you can claim up to \$50 without keeping records by making a calculation based on the number of calls/texts made and the rate set by the tax office. The alternative is to claim a portion of the actual expenses incurred based on diary records kept for a minimum of four weeks during the year.



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