

STS TAX TALK

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We hope you find the latest copy of our newsletter as informative as our others and a valuable tool in your wealth creation!

Work related expense deductions

The Australian Taxation Office has announced that they will be looking into work related expenses, it is a compliance issue. Therefore, we have given you a list of simple rules and brief outline of what expenses you may be able to claim.

Here are some simple rules to help you work out your work-related expense claims:

- o you must have incurred the expense in the year you are claiming it
- o the expense must be work-related and not private and if the expense has been reimbursed by your employer it can't be claimed
- o receiving an allowance from your employer does not automatically entitle you to a deduction, and
- o if your claims total more than \$300 you need to keep written evidence.

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WORK RELATED EXPENSE DEDUCTIONS *continued*.

The task of compiling all your work-related deductions may appear daunting especially given the need to collate all the required receipts for any significant claims. However, taking the time to understand what 'work-related expenses' are potentially deductible can save you considerable cost. Moreover, you may wish to consider billing all your expenses to a single credit card or debit card so you can more readily locate the relevant costs and any associated receipts.

Where you don't have the necessary receipts on hand you can still claim up to \$300 of work-related expenses provided the claims relate to outgoings you necessarily incurred in your job or business and the basis for determining the amount of the claim is reasonable.

Typical work-related expenses which are allowable include, among others, uniforms, business and mobile telephone costs, internet costs, subscriptions and union fees.

Laundry and self-education expenses are also deductible in certain circumstances.

A deduction for laundry costs is allowable where the relevant clothing is protective clothing, a compulsory uniform, a non-compulsory uniform or certain occupation-specific clothing. Moreover, laundry claims of up to \$150 do not have to be substantiated even if your total income tax deductions exceed \$300.

Self-education expenses can be claimed provided the study is directly related to either maintaining or improving your current occupational skills or it is likely to increase your income from your current employment. By contrast, if the study is designed to enable you to obtain new qualifications in a different field they will not be allowable.

One key trick in calculating such costs is to disallow \$250 of self-education expenses as being non-allowable. You may wish to attribute such costs to amounts which are not ordinarily deductible, such as child care costs.

Typical self-education expenses which may be available include, among others; course fees, textbooks, stationery, student union fees and the depreciation of assets such as computers and printers used as part of your study. However, it should be noted that Higher Education Contributions Scheme (HECS) or Higher Education Loan Program (HELP) repayments are not deductible.

WORK RELATED EXPENSE DEDUCTIONS *continued*.

Home office expenses

When part of your home has been set aside primarily or exclusively for the purpose of doing work from home, costs such as heating, cooling, lighting and depreciating your office equipment or professional library may be allowable.

To claim the deduction you must have kept a diary for at least four weeks of the hours you worked at home. (Our website has a sample diary for you to keep and refer to)

This amount is then used to work out your total hours worked for the year and a deduction claimed at a rate of \$0.26 cents per hour.

However, no deduction is available for occupancy expenses such as mortgage interest, rent, and insurance and rates unless you conduct a business from your home. If you claim these expenses apportioned to the size of the office against the house, you will trigger a capital gain when you sell the home.

Motor vehicle deductions

“Car expenses” are costs incurred as a result of using your car (whether owned, leased or hired under a hire-purchase agreement) for work-related travel, i.e. Kilometres the car travelled in the course of producing an individuals assessable income.

Special substantiation rules apply.

These substantiation rules apply to employees as well as self employed persons and partnerships including at least one individual taxpayer, but does not apply to companies or trusts.

Note that the taxpayer is treated as owner/lessee where a family or private arrangement makes the taxpayer the owner/lessee, even though he/she is not the registered owner.

WORK RELATED EXPENSE DEDUCTIONS continued.

Motor vehicle deductions Continued.

Method 1 — Cents per Kilometre method

Your claim is based on a set rate for each business kilometre.

- o You can claim a maximum of 5,000 business kilometres.
- o You do not need written evidence however the number of business kilometres must be based on a reasonable estimate. Refer below for further details

Method 2 — 12% of original value method

Your claim is based on 12% of the original value of your car.

- o The value is subject to a luxury car limit of \$57,180.00.
- o Your car must have (or would have) travelled more than 5,000 business kilometres in the claim period.
- o You do not need written evidence however the number of business kilometres must be based on a reasonable estimate. Refer below for further details.

Method 3 — One-third of actual expenses method

Your claim is based on one-third of your car's expenses.

- o Your car must have (or would have) travelled more than 5,000 business kilometres in the claim period.
- o Fuel and oil expenses may be substantiated by documentary evidence or by odometer records.
- o You need written evidence for all the other expenses for the car.
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- o You need written evidence for all the other expenses for the car.

WORK RELATED EXPENSE DEDUCTIONS continued.

Motor vehicle deductions Continued.

Method 4 — Logbook method

Your claim is based on the business use percentage of each car expense.

- o Log book is required to be kept for at least 12 weeks in the first year and then every 5 years.
- o You need odometer readings for the start and end of the period you owned or leased the car.
- o Odometer records required.
- o You need written evidence of expenses eg. Receipts
- o Fuel and oil expenses may be substantiated by odometer records

Substantiating Work-related Kilometres

A taxpayer need only estimate business kilometres (which are dedicated trips undertaken solely in discharging work duties) travelled during the income year. However, this estimate must always be based on a “reasonable estimate”. A taxpayer will normally be able to justify a reasonable estimate by records confirming regular and irregular trips as follows:

Regular trips—distance and number of trips undertaken

A regular trip would normally involve travelling from one work site to another, involving predetermined number of business kilometres for a certain number of times during the income year.

Eg. Tony uses his own car to travel from head office to his employers distribution warehouse twice a week to attend scheduling meetings. It is 20km from head office to the warehouse. Tony’s reasonable estimate would be based on 80km per week (40km return trip x 2 trips) and during the year he worked for 48 weeks.

Tony decides to use the cents per kilometre method therefore his total work related kilometres would be 80km x 48 weeks = 3840 kilometres.

Irregular trips—individual trips to be analysed

Where the car travel does not follow any set pattern, but its business use is random in nature, more detailed records will be required to show that the claim is based on a “reasonable estimate”.

WORK RELATED EXPENSE DEDUCTIONS continued.

Non-work-related deductions

The fees you pay a registered tax agent to prepare your return or to manage your tax affairs are allowable in the year the fee is paid. Travel to see your accountant is an allowable deduction using actual costs (ie plane, accommodation, meals, car rental) or cents per kilometre (ie number of kilometres travelled multiplied by the cents per kilometre rate set as per the ATO based on your vehicle's engine size)

Ongoing management fees paid to a financial planner are also deductible where the advice relates to income producing assets. Travel to see your financial advisor after the first visit is an allowable deduction using actual costs (ie plane, accommodation, meals, car rental) or cents per kilometre (ie number of kilometres travelled multiplied by the cents per kilometre rate set as per the ATO based on your vehicle's engine size)

Bank charges and any interest payments on funds to finance the purchase of shares and other income-producing investments are generally allowable.

*"Success in life is too rare a commodity.
Only 2% of the population manage to
achieve their major life goals. Make sure
you're in the "2% Club".*

INTRODUCING NEW CLIENTS

We are pleased to introduce and welcome on board our new clients for August to our team. We would also like to take this opportunity to thank our valued current clients who have referred them. We appreciate that you think highly enough of us to recommend us to your family and friends.

o Christian & Marina Gilbert

STS complimentary mentoring program on offer to our clients:

Access to the STS website containing:

- * *Spreadsheets and information worth \$1000's to help you maximize your tax deductions*
- * *Pro-formas that assist you in preparing documentation to help bullet proof you from a tax office audit*
- * *Newsletters designed specifically for our clients*
- * *MP3 files of our recent teleconferences, for download*
- * *Personalised Tax Data Collection form*

Other complimentary services we offer:

- * *We conduct a free review on your prior year's tax return*
- * *You are able to partake in our teleconferences – ask any general questions, suggest topics to be covered, hear expertise to help in your wealth creation process.*
- * *You can attend our FREE annual seminar*

Feedback

As you are a valued client, we appreciate your ideas on how we can better meet your expectations. If you would like a topic covered please let us know. We look forward to any comments or suggestions you may have—please contact us on stsadmin@superiortax.com.au.

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Up-to-date Details

Please make sure your contact details are up-to-date as we will be sending private and personal information to you by email and post.

This newsletter is not specific advice for your personal situation. Please do not act solely on the content of this newsletter. Please seek professional advice before proceeding.

***A member of your wealth
creation team.***