

RULES FOR CLAIMING WORK RELATED DEDUCTIONS

As tax time approaches the ATO is encouraging people to check which work related expenses they are entitled to and understand what records they need to keep.

A deduction is allowable if you can show that an expense was:

- actually incurred
- meets the deductibility tests, and
- satisfies the substantiation rules.

Generally speaking if you claim a deduction the three golden rules are:

1. make sure you spent the money yourself and were not reimbursed
2. make sure it is related to your job and
3. make sure you have a record to prove it!

Actually incurred

You must have incurred the expense in the relevant year of income (for example, to claim a deduction in your 2016 income tax return, you must have incurred the expense between 1 July 2015 and 30 June 2016).

Deductibility test

You must, in the first instance, be able to show that work related expenses were incurred in the course of gaining or producing assessable income, and the expense was not a loss or outgoing that was of a capital, private or domestic nature.

For an expense to be allowable as a deduction, you must be able to show:

- the essential character of the expense is income-producing
- there is a nexus between the outgoing and the assessable income in that the nature of the outgoing is incidental and relevant to the gaining of assessable income, and
- there is a necessary connection between the particular outgoing and the operations or activities by which your client most directly gains or produces assessable income.

Substantiation test

If you can demonstrate that an expense is allowable, then substantiation rules must be met. You must be able to demonstrate that you have in fact incurred the expense for income producing purposes. The ATO has stringent SUBSTANTIATION legislation that you must satisfy in relation to work related deductions.

You must have original receipts and keep them for a minimum of five years from the date your return is lodged. The receipts must contain the following details:

1. Name of supplier;
2. Amount of expenses;
3. Nature of goods and services (noting the specific type of items purchased or expenditure incurred which you are able to personally record up to the date of lodgement of your return where not adequately noted by the supplier);
4. Date of expense, (which you are able to personally record where not noted by the supplier); and
5. The date of the documents.

In relation to Motor Vehicle Deductions there are additional requirements depending on the method use to claim your deduction. The ATO now only allow two methods to claim motor vehicle deductions. These are the log book method and the cents per kilometre method.

Log book method

- current logbook and odometer records completed by you that is representative of the pattern of use of the motor vehicle for the period which expenses are being claimed
- purchase or lease documents of the car for which you are claiming a deduction
- car registration certificate/papers for the period that you are claiming car expenses
- details of how the claim was calculated, a description of each item and the amount claimed
- odometer records or original receipts for fuel and oil costs, and
- original receipts for all other car expenses.

Cents per kilometre

- purchase or lease documents of the car for which you are claiming a deduction
- evidence such as diaries to support business kilometres were reasonably calculated
- car registration certificate/papers for the period that you are claiming car expenses, and
- details of the business travel undertaken during the income year from such sources as work diaries. For example, information about the purpose of the travel undertaken, the frequency of any work related travel, and the number of kilometres travelled for work related purposes. If travel undertaken between your home and place of work is included, you must be able to show why such travel is deemed to be business travel.