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<i>Office Address:</i>	<i>Postal Address:</i>	Ph: (03) 5229 1290
96 Autumn Street	PO Box 7518	Fax: (03) 5222 1629
GEELONG WEST Vic 3218	GEELONG WEST Vic 3218	Email: <a href="mailto:enquiries@spinell.com.au">enquiries@spinell.com.au</a>
		Web: <a href="http://www.spinell.com.au">www.spinell.com.au</a>

## **SUBSTANTIATION OF INCOME TAX DEDUCTIONS**

In order to get a tax deduction not only must the expense be deductible but it must be substantiated. In other words, certain records must be obtained and kept (for 5 years) to prove that the expense has been incurred. If a deduction cannot be substantiated the tax deduction would be denied and penalties may be imposed.

### **DOCUMENTARY EVIDENCE**

Documentary evidence required for substantiation purposes includes a receipt or invoice that sets out the following:

- the name of the supplier
- the amount of the expense
- the nature of the goods or services - if not shown, you may write this on the document before you lodge your tax return
- the date the expense was incurred, and
- the date of the document. If the document does not show the payment date, you can use independent evidence to show the date the expense was incurred, such as a bank statement.

A document from the supplier of the goods or services must be in English unless the expense was incurred outside Australia.

As previously mentioned, documents must be kept for 5 years but for depreciating assets, the records must be kept for the entire period over which deductions are claimed for the decline in value of those assets. The records must be kept for a further 5 years from the date of the last claim. The 5 years start on 31 October or, if lodged later later, from the date the tax return is lodged. This period is extended if at the end of the 5 years there is a dispute with the Tax Office in respect to the depreciation claim.

For assets which are subject to Capital Gains Tax the written documentation must be kept for the entire time the assets are owned and for 5 years after the tax return is completed and lodged after the asset is sold.

### **EXCLUSIONS**

The above document requirements do not apply in the following instances:

- for expenses of \$10 each or less and the total of these expenses is \$200 or less, or

- where you have been unable to obtain written evidence – for example, for toll or parking fees where you cannot get a receipt.

For these items you must record the expense and your records must show the same details as a document from a supplier as described above.

### **\$300 exception**

Where the total claim for work expense deductions is less than \$300 the retention of the documents is not required. Car and laundry expenses are excluded from the \$300 limit.

### **Laundry expenses**

Up to \$150 may be claimed for laundry expenses without the need for substantiation. However, the laundry expense must have in fact been incurred.

### **Overtime Meal Allowances**

Expenses covered by overtime meal allowances paid under an industrial award that are reasonable in amount (every year the Commissioner determines the reasonable amount) don't have to be substantiated. If the overtime is not actually worked or if the amount for overtime meals is included (or folded in) as part of normal salary or wages then a deduction is not allowed. A claim in excess of the reasonable amount must be substantiated.

### **PART DAY TRAVEL EXPENSES**

Expenses on food and drink are generally deductible only when the taxpayer sleeps away from home when travelling with work. The exception to this general rule is for overtime meal allowance expenses if it is received under an award. Deductible incidental expenses incurred during part-day travel – for example, taxi fares – are deductible provided the employer has not reimbursed the expense and the necessary written evidence has been kept to support the claim.

These expenses are covered under the normal written evidence rules and are not covered by any exception to the substantiation requirements.

### **HOME OFFICE EXPENSES**

When a home office is used for work it should be noted in a diary. The diary should be kept for a representative four week period thus establishing a pattern of use for the entire year. A claim for heating, cooling, lighting and depreciation of office furniture can be made by either:

- claiming 20 cents per hour in relation to the average weekly work related use of the home office established by keeping a diary record of that use for a period of at least four weeks. A new diary will need to be kept if there is a substantial change in their work related use of the home office;
- or using the actual cost method by keeping appropriate records to show the amounts of the expenses incurred and the extent to which they are incurred in deriving assessable income.

To support claims for *repairs, cleaning and other home office expenses – including home office equipment such as a computer, printer or photocopier – a diary record should be kept for a representative four week period recording the income and non-income related use of the area or equipment.* Documentary evidence must be kept to support the claim.

There are limited circumstances in which a taxpayer may claim a deduction for occupancy expenses of their home – such as rates, rent, mortgage interest and insurance. These circumstances are outlined in *Taxation Ruling TR93/30 - Deductions for home office expenses.*

## TELEPHONE EXPENSES

Claims for deductions of work related phone calls can be made by identifying work related calls from an itemised phone account. If such an account is not provided, a reasonable estimate of call costs – based on diary entries of calls made over a representative one month period, together with relevant phone accounts, will be acceptable for substantiation purposes.

*Taxation Ruling TR98/14* identifies situations where phone rental, especially for employees, is deductible. If the phone is not used 100% for work related purposes, a proportionate deduction will be allowable. **The business proportion can be calculated by dividing the number of business calls (incoming and outgoing) by the number of total calls (incoming and outgoing).**

If the employer reimburses the taxpayer for phone expenses, the amount received has to be deducted from the expenses claimed as a deduction.

## COMPUTER EXPENSES

A taxpayer must demonstrate how they calculated their claim for expenses of a home computer. If the computer is also used for private purposes, a basis of apportionment is required. This could be done by keeping a diary for a representative month period recording hours of business use compared to private use.

## BUSINESS TRAVEL

Business or work-related travel expense, involving staying away from home for at least one night must be substantiated by documentary evidence. In addition a travel diary must be kept if the travel is for 6 nights or longer. An example of a travel diary follows:

Date of Travel/Activity	Place of Activity	Time		Nature of Activity
		Started	Ended	
02/04/04	Melbourne	11.00am	08.00pm	Flight to .....
03/04/04	Tokyo	09.00am	03.00pm	Meeting with
03/04/04	Tokyo	04.00pm	06.00pm	Seminar on .....

## CAR EXPENSES

There are 4 methods of claiming car expenses:

1. Cents per kilometre  
Up to 5000 business or work-related kilometres. The rate is based on engine capacity and determined by the Commissioner every year. Written evidence is not required but the number of business kilometres travelled must be calculated by reasonable estimate. A diary record should be kept for this purpose.
2. 12% of original value  
This method can be used if business or work-related travel exceeds 5000kms. A deduction equal to 12% of the cost of the car is claimed. Written evidence is not required (although the original purchase documents must be held to substantiate cost and the kilometres travelled must be calculated by reasonable estimate (eg diary).
3. One-third of actual expenses  
This method can be used if business or work-related travel exceeds 5000kms. Business kilometres are calculated by reasonable estimate (eg diary) but written and/or documentary evidence must be kept for substantiation. The fuel/oil costs can be calculated from odometer readings.

4. Log book

A log-book should be kept for 12 weeks, which typify usage. Business or work-related percentage is calculated from the log-book record and applied against the expenses incurred. The expenses must be substantiated through written and/or documentary records. Fuel/oil costs can be calculated.

A log book must contain the following entries:

For a particular journey

- the date the journey began and ended
- the car's odometer readings at the start and end of the journey
- the number of kilometres travelled on the journey
- the purpose of the journey.

And generally

- the date the log book period begins and ends
- the car's odometer reading at the start and end of the log book period
- the total number of kilometres that the car travelled during the log book period
- the number of business kilometres travelled during the log book period (as opposed to kilometres travelled on private matters)
- the business percentage – this is calculated by dividing the total business kilometres travelled by the total kilometres travelled during the log book period.

The following must also be included in the log book:

- car's make, model and registration number (if any)
- the car has an internal combustion engine - its engine capacity expressed in cubic centimetres, and
- corresponding details for the other car if they make a nomination under section 28-130 to replace the car.

## **AWARD TRANSPORT PAYMENT EXPENSES**

- these are allowances covering transport expenses or a reimbursement of car expenses on a cents-per-kilometre basis, which is paid under an industrial instrument or award that was in force on 29 October 1986.
- The payments are assessable income and must be shown as income in the employee's tax return.
- deduction is not automatically allowable just because the taxpayer received the award transport payment (ATP).
- There is no automatic claim for a deduction up to the amount of ATP received. The expenses claimed must have been incurred and they must be deductible. Sufficient records such as a diary or log book (or a supporting statement from their employer that evidences the work pattern) must be kept to show that the transport costs were work related. The deduction is not allowable if the actual expense was not incurred (eg if employee was provided with free transport or walks to work).

## **Substantiating award transport payment expenses**

- if a taxpayer incurred deductible transport expenses covered by an ATP and the claim does not exceed the amount of ATP payable under the award as at 29 October 1986, written evidence is not required to prove the amount of the claim.
- if a taxpayer's claim for deductible transport expenses incurred covered by the ATP exceeds the amount of the ATP payable as at 29 October 1986, written evidence is required for the whole amount of the claim, not just the excess over the 29 October 1986 amount.
- deduction is not automatically allowable up to the 29 October 1986 amount. Tests of deductibility must be met and you must be able to demonstrate that the deductible transport expenses have been incurred.
- Those relying on the 29 October 1986 exception from substantiation for car expenses covered by an ATP, are limited in the methods they can use to calculate any other deductible car expenses not covered by the ATP. This is to ensure that a deduction is not claimed twice for the same business kilometres.

A listing of the award rates can be obtained from the tax office.

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