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Accounting for Today and Tomorrow

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June 2019

Tax Time is almost here

The years keep on flying by and its almost tax time again.

This newsletter includes our tax time checklists at the back to assist you in getting everything organized to make all our lives easier. As in the past you have the option to supply your tax return information to us in person or by post, or email but in addition you can upload it to your client portal. To stay up to date with current tax issues visit our website or like and follow our Facebook and Instagram page.

Important changes to this years tax time

With the introduction of Single Touch Payroll on the 1st July 2018 many people will not receive payment summaries. This means that until employers finalise payroll year end reporting with the ATO, Statement of Earnings (previously known as payment summaries/group certificates) Individual returns won't be able to be completed. Statements of earnings will become available via MyGov accounts and direct to us via the ATO online agent portal.

Private Health Insurers are no longer required to send Tax Statements direct to members, this information will be reported direct to the ATO.

With both of the above changes mentioned we expect that this information will become available to us via the ATO prefill report towards the end of July. While this may delay the lodgment of some tax returns it is important that we wait for the information to be updated to ensure your tax returns are correct.

ATO focus on Individual Returns

The tax office is continuing its focus on Work Related Expense claims and from this year onwards requires us to provide details of all deductions.
To claim a work-related deduction:

- You must have spent the money yourself & not have been reimbursed
- It must directly relate to earning your income
- You must have a record to prove it

Australian Government
Australian Taxation Office

Set the record straight

To claim a deduction for work-related expenses:

- you must have spent the money yourself and weren't reimbursed
- it must be directly related to earning your income
- you must have a record to prove it.

You can only claim the work-related part of expenses. If an expense relates to both work and personal use, you must apportion use on a reasonable basis and only claim the work-related portion.

Records you need to keep

If you claim work-related deductions you must have records or be able to show how you calculated your claims.

Records are usually a receipt from the supplier of the goods or services.

The receipt must show the:

- name of supplier
- amount of expense
- nature of goods or services
- date the expense was paid
- date of the document.

Record keeping exceptions

In some instances you may not need receipts, but you will still need to be able to show you spent the money and how you calculated your claim.

Exceptions to the record keeping rules are there to make things simpler – they do not allow you to claim an automatic deduction up to the specified amount where the money has not been spent.

Representative periods

If your usual pattern of work use changes during the year, you may need to complete a new record. For example, if you change job and the work use of your internet changes you need to complete a new diary.

Keeping your records

You need to keep your records for five years from the date you lodge your tax return.

If you are claiming for the cost of a **depreciating asset** that you have used for work – eg a laptop – you must keep purchase receipts and a depreciation schedule, or details of how you calculated your claim for decline in value, for **five years following your final claim.**

As we may ask that you produce your records during the five years, it is important that you have sufficient evidence to support your claims.

Commissioner's discretion

If you are unable to obtain a receipt from a supplier, you can still claim a deduction if we are satisfied that the nature and quality of the evidence shows that you:

- spent the money
- are entitled to claim a deduction.

Evidence can include bank statements or credit card statements which show the amount that was paid, and when and who it was paid to, as well as other documents which outline the nature of the goods or services provided.

If you paid cash to a supplier and have no other documentation to support your claim, you will not have sufficient evidence to claim a deduction.

myDeductions

The records you keep don't have to be in paper form. Records made and stored electronically are recognised as documents – this includes photos of your receipts.

Keeping track of your records on the go is easy with the ATO app myDeductions tool.

In myDeductions you can keep records of:

- any work-related expenses (including car trips)
- interest and dividend deductions
- gifts or donations
- cost of managing tax affairs
- other deductions.

Then, at tax time, you can import the records into myTax or send them to your agent.

Download the app now – it's free from your app store.

For more information, visit **ato.gov.au/mydeductions**

For more information, speak with your tax agent or visit **ato.gov.au/keepingrecords**

How the record keeping rules apply to different expenses

Car expenses

The type of car expense records you need to keep depends on whether you use the cents per kilometre method or logbook method to calculate your claim.

Method 1: Cents per kilometre

You don't need receipts but you need to be able to show how you worked out your business kilometres (for example, by producing diary records of your work-related trips).

If you use the cents per kilometre method, your claim is based on a set rate (68c per kilometre from 1 July 2018) for each business kilometre travelled. You can claim a maximum of 5,000 kilometres per car.

If you borrowed a car or used a vehicle other than a car (for example, a motor cycle or a vehicle with a carrying capacity over one tonne, such as a utility truck or panel van) you cannot claim your expenses using either of the two methods.

Instead, you need to keep all your receipts (such as fuel and repairs), and claim the work-related portion of these costs as a travel expense, not a car expense.

Method 2: Logbook

Your claim must be based on the percentage of work use of your car. To work this out you need to keep a logbook.

Your logbook must:

- cover a minimum continuous period of 12 weeks and be broadly representative of your travel throughout the year
- include the purpose of every journey, odometer reading at the start and end of each journey and total kilometres travelled during the period
- include odometer readings at the start and end of each income year.

Your logbook is valid for five years, but you can start a new logbook at any time. If the work use of your car changes, you need to complete a new log book.

You can claim fuel and oil costs based on your actual receipts, or you can estimate the expenses based on odometer readings from the start and the end of the period in which you used the car during the year.

You must keep:

- original receipts for all other expenses for the car
- details of how you calculated your claim for decline in value for your car, including the effective life and the method used.

If your claim relates to the transport of bulky tools and equipment, you will need:

- a record of all work items carried
- the weight and size of all work items
- evidence that the items carried are essential to your work
- evidence that your employer provided no secure storage at the workplace.

Remember to include on your tax return any allowances that you receive from your employer for car expenses.

For more information visit **ato.gov.au/carexpenses**

Travel expenses

There are specific record keeping requirements for travel expenses, depending on:

- whether your travel allowance is shown on your payment summary
- whether your travel was domestic or overseas
- the length of your travel and your occupation.

Travel records you should keep include:

- a travel diary or itinerary, if your travel was for six nights or more
- receipts for all meals, airfares, accommodation, car parking and tolls
- an explanation of how the travel was work related, the number of nights you slept away from home and the location.

If your travel allowance is shown on your payment summary and you want to make a claim against it, you must have written evidence for the whole amount, not just the excess over the reasonable amount

Reasonable amounts for accommodation, meals and incidentals are provided to make record keeping simpler, not to provide an automatic deduction – you can only claim the amount you spent.

Although you may not need records, you will still need to show how you calculated your claim.

For more information, visit **ato.gov.au/travelexpenses**

Clothing, laundry and dry-cleaning expenses

Clothing

You need to keep receipts to claim for the purchase of occupation-specific clothing, protective clothing, or unique and distinctive uniforms.

Laundry

To claim a deduction for laundering occupation-specific clothing, protective clothing or unique and distinctive uniforms, you must keep details of how you calculated your claim.

Dry-cleaning

If you use a dry-cleaning service for the clothes, you need to keep receipts.

If your laundry claim is under $150, you do not need to keep records.

Although you may not need records, you will still need to be able to explain how you calculated your claim.

For more information, visit **ato.gov.au/clothingandlaundry**

How the record keeping rules apply to different expenses (continued)

Phone and internet

Claiming $50 or less

If the work use of your phone is incidental, and you are not claiming a deduction of more than $50, you may make a claim based on the following:

- $0.25 for each work call made from your landline
- $0.75 for each work call made from your mobile
- $0.10 for each text message sent from your mobile.

Unless you only use your phone and internet for work, you will have to determine the work-related portion of your expenses. Keep a record of the calculation and only claim that amount.

Claiming more than $50

To claim a deduction of more than $50 you must:

- keep all your phone and internet bills for the year
- show how much is related to work.

If your bills are itemised

Highlight all your work-related calls in a representative four-week period which can then be applied to the full period.

Bundled plans

If you have a bundled plan, you can keep a diary covering a representative four-week period showing how often you use each service for work. This pattern of work use can then be applied to the full working period.

To determine your work use you can record:

- internet
  - the time you spent, or data used for work purposes compared to your private usage and that of all members of your household.
- phone
  - the number of work calls made as a percentage of total calls
  - the amount of time spent on work calls as a percentage of your total calls.

For more information, visit **ato.gov.au/phoneandinternet**

Working from home

When claiming running costs for your home office (such as electricity and home office equipment) the types of records you need to keep depends on the method you use to work out your claim – fixed rate or actual costs.

Fixed rate

If you are using the fixed rate method (52c per hour from 1 July 2018), either keep records of your actual hours spent working at home for the year, or keep a diary for a representative four-week period to show your usual pattern of working at home.

Actual costs

If you are claiming the actual costs you have incurred, keep your receipts for items you will claim outright (for example, receipts for stationery or statements for electricity and gas).

For more information, visit **ato.gov.au/workingfromhome**

Self-education expenses

You must keep receipts for all self-education expenses, including course fees, text books, stationery and travel expenses.

You must also be able to explain how the course directly related to your employment at the time of study.

If you are claiming the portion of a depreciating asset that you have used for self-education – eg a laptop – you must keep receipts and a depreciation schedule, or details of how you calculated your claim for decline in value.

For more information, visit **ato.gov.au/selfeducation**

Specific records required for depreciating assets

Some items, like a computer or car, have a limited life expectancy (effective life) and are expected to depreciate over time or decline in value.

You must keep receipts that show the:

- name of supplier
- cost of the asset
- nature of the asset
- date you acquired the asset
- date of the document.

You also need to be able to show:

- the date you first started using the asset for work-related purposes
- the effective life of the asset (how long an asset can be used for). If you have not adopted the effective life determined by us, you will need to show how you worked out the effective life.
- the method used to work out the decline in value
- how you have calculated the percentage of work use.

The depreciation and capital allowances tool on **ato.gov.au** will help you claim a decline in value deduction for a depreciating asset and assist you with some of these record keeping requirements.

For more information, visit **ato.gov.au/declineinvalue**

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Occupation & Industry Specific Guidelines

In addition to the above general information the ATO have put together a number of Occupation & Industry specific guides that you might find helpful. These can be accessed at www.ato.gov.au/individuals/Income-and-deductions/Occupation-and-industry-specific-guides/

Rental Property Audits to Double

Rental property owners are being warned to ensure their claims are correct this tax time, as the ATO has announced it will double the number of audits scrutinising rental deductions, with a specific focus on:

- over-claimed interest;
- capital works claimed as repairs;
- incorrect apportionment of expenses for holiday homes let out to others; and
- omitted income from accommodation sharing.

Assistant Commissioner Gavin Siebert says that, this year, the ATO has made rental deductions a top priority:

“A random sample of returns with rental deductions found that nine out of 10 contained an error. We are concerned about the extent of non-compliance in this area and will be looking very closely at claims this year.”

The Government recently allocated additional funds to the ATO to extend its program of audits and reviews of rental properties.

When it comes to dodgy claims, the ATO’s detection methods are becoming more advanced.

“We use a range of third party information including data from financial institutions, property transactions and rental bonds from all states and territories, and online accommodation booking platforms, in combination with sophisticated analytics to scrutinise every tax return,” Mr Siebert said.

“Once our auditors begin, they may search through even more data including utilities, tolls, social media and other online content to determine whether the taxpayer was entitled to claims they’ve made,” he said.

While no penalties will apply for taxpayers who amend their returns due to genuine mistakes, deliberate attempts to over-claim can attract penalties of up to 75% of the claim.

In the 2017/18 financial year, more than 2.2 million Australians claimed over $47 billon in deductions.

The ATO audited over 1,500 taxpayers with rental claims, and applied penalties totalling $1.3 million; including the following:

- In one case, a taxpayer was penalised over $12,000 for over-claiming deductions for their holiday home when it was not made genuinely available for rent, including being blocked out over seasonal holiday periods.
- Another taxpayer had to pay back $5,500 because they had not apportioned their rental interest deduction to account for redraws on their investment loan to pay for living expenses.

“This tax time, our message to taxpayers is clear. If you are renting out a room or a property, any money you earn must be declared as income and any deductions you claim may need to be apportioned for private use,” Mr Siebert said.

Key issues the ATO is checking this tax time

Is loan interest being claimed correctly?

If a taxpayer took out a loan to purchase a rental property, they can claim interest (or a portion of the interest) as a deduction.

However, if they use some of the loan money for personal use, such as paying for living expenses, buying a boat or going on a holiday, they cannot claim the interest on that part of the loan; they can only claim the part of the interest that relates to the rental property.

The difference between capital works and repairs

Repairs or maintenance to restore something that is broken, damaged or deteriorating are deductible immediately.

Improvements or renovations are categorised as capital works and are deductible over a number of years.

Rental Property Audits to Double (continued)

Initial repairs for damage that existed when the property was purchased, such as replacing broken light fittings or repairing damaged floor boards, cannot be claimed as an immediate deduction, but may be claimed over a number of years as a capital works deduction.

Does the taxpayer have a holiday home?

A holiday home is different to a rental investment property – a holiday home is generally a private asset used for family holidays, for which the taxpayer cannot claim expense deductions.

However if a taxpayer lets their property out at 'mates rates' (i.e., below market rates to family and friends), they can claim expenses up to the amount of income they receive.

If the property is genuinely available for rent – which means making it available during key holiday periods, keeping it in a condition that people would want to rent it, and not unreasonably refusing tenants – it becomes more like a rental investment property, and the taxpayer can claim deductions for the days it is either rented or is genuinely available.

Has the taxpayer kept records?

The number one cause of the ATO disallowing a claim is taxpayers being unable to produce receipts or other documents to support a claim.

Furnishing fraudulent or doctored records will attract higher penalties and may also result in prosecution.

Dealing with disasters – Damaged or destroyed property

For taxpayers whose income-generating investment properties are damaged during a natural disaster, the ATO has a range of support, advice and guidance available.

If personal assets – such as a taxpayer's home or household goods – are damaged or destroyed in a disaster, there will generally be no tax consequences if they receive an insurance payout.

However, if an income-producing asset, such as an investment property, is damaged or destroyed, the taxpayer will need to work out the correct tax treatment of insurance payouts they receive and their costs in rebuilding, repairing or replacing the assets.

The impacts of a natural disaster may affect the types of expenses taxpayers can claim and the income they need to declare for their rental property.

Ref: ATO media release, 17 April 2019

2019 Tax Return

Client Checklist

June 2019

2019 - Individual Tax Returns

Income

☐ Gross salary, wages, allowances, benefits, earnings, tips, Directors Fees and Insurance for lost wages.
☐ Income from business activities. ☐ PAYG Payment Summaries.
☐ Details of any non-cash benefits received including discount(s) on employee shares or rights.
☐ Lump sum and termination payments. All documentation should be provided including an ETP Payment Summary from the employer or fund.
☐ Government Social Security payments, including pensions, unemployment and sickness benefits.
☐ Details of any CGT asset sales (e.g. shares, business and real estate). Please include dates of, and costs associated with, acquisition and disposal (You can save tax if you qualify for the variety of CGT concessions).
☐ Annuities, including allocated pensions or superannuation income streams.
☐ Income from trusts and partnerships. Statements of distribution should be provided where appropriate.
☐ Rental income.
☐ Interest and dividends received from any source including life insurance or friendly society bonuses and any tax deducted. Include details of franked dividends (i.e. imputation credits).
☐ Foreign source (employment and pension) income and details of any foreign tax credits, assets or property.

Deductions

☐ Investment and property expenses (carefully detail interest and repair claims), supply statements.
☐ Work-related subscriptions or memberships (not including sporting or social clubs).
☐ Employment related expenditure such as self-education, protective clothing, tools, union fees, uniform and laundry expenses.
☐ Motor vehicle expenses, car finance lease statements (include petrol, repairs, parking and maintain a Motor Vehicle Log Book where necessary).
☐ Donations of $2 and over.
☐ Income Protection Insurance Premiums.
☐ Superannuation Contributions for which you have lodged & received confirmation of Notice of Intent to Claim a Deduction

☐ Home office expenses where employment requires use of your computer, phone or other device.
☐ Tax Agent Fees and other accounting/tax audit fees.
☐ Special deductions (Australian films, investment shelters and agribusiness-type schemes).
☐ Unrecouped prior year losses.

New Clients

☐ Last year's Notice of Assessment and Tax Return (if available)

Rebates

☐ Private health insurance annual statement.
☐ Any changes in dependants, children's details, DOB and any Centrelink benefits applicable (income of spouse should also be provided).
☐ Details of any income received in a lump sum which was accrued in earlier income years (e.g. assessable pensions).
☐ Details of any remote work performed for 183 days or more.
☐ **Note:** The net family medical expenses tax offset is being phased out and for 2018/19 is restricted to net eligible expenses for disability aids, attendant care or aged care and will cease 1st July 2019 altogether.
☐ HECS-HELP Debt details.

8 Most Common Errors in Income Tax Returns

1. Omitting Interest Income
2. Incorrect or Omitted Dividends Imputation Credits
3. Capital Gains/Losses are Incorrect or Omitted
4. Understating Income
5. Home Office Expenses
6. Depreciation on Rental Property Fixtures and Fittings
7. Depreciation on Income Producing Buildings
8. Borrowing Costs associated with Negative Gearing

2019 - Companies, Partnerships, Trusts and Other Businesses

Income

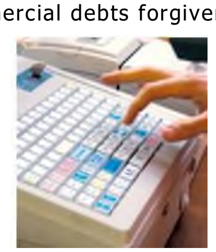
- ☐ Trading Income.
- ☐ Other Income (e.g. Rent, Interest, Royalties).
- ☐ Stock on Hand at June 30, 2019 (and basis of valuation) – note any obsolete stock.
- ☐ Work-in-Progress at June 30, 2019
- ☐ Primary Producer subsidies (if assessable).
- ☐ Details of CGT assets (e.g. shares and real estate) sold, including dates of, and costs associated with acquisition and disposal.
- ☐ Dividends, including details of franking credits.
- ☐ Income from foreign sources including details of any foreign taxes paid.

Deductions

- ☐ Repairs and maintenance.
- ☐ Salaries, including fringe benefits.
- ☐ Fringe benefits tax paid.
- ☐ Rates, land taxes and insurance premiums.
- ☐ Advertising expenses.
- ☐ Interest on borrowed monies.
- ☐ Deductions relating to foreign-source income.
- ☐ Prepaid expenses (subject to transitional rules).
- ☐ Retirement payments and golden handshakes.
- ☐ Bad debts actually written off during the year.
- ☐ Donations of $2 and over depending on the recipient.
- ☐ Commissions.
- ☐ Legal expenses.
- ☐ Lease or Chattel Mortgage payments on motor vehicles and equipment.
- ☐ Losses of previous years (or intra-group transfers).
- ☐ Superannuation contributions.
- ☐ Subscriptions.
- ☐ Car expenses (remember to include petrol, repairs and parking and maintain a log book where necessary).
- ☐ Tax agent's fees and other accounting and tax audit fees.
- ☐ Royalties paid.
- ☐ Details of the destination and purpose of any interstate or overseas trip. Expenses must be fully documented where travel involves at least one night away from home. Travel diaries should be included where travel exceeds five nights.
- ☐ Research and development expenditure.
- ☐ Bank fees (where the credit or deposit represents assessable income).

Liabilities

- ☐ New loans taken out during the year and their purpose, including any new lease or chattel mortgage agreements on vehicles, equipment or machinery.
- ☐ Statements from the lending authority detailing the opening and closing balances of existing loans during the financial year.
- ☐ Provisions for long service and annual leave.
- ☐ Creditors at June 30, 2019.
- ☐ Details of loan accounts to directors, shareholders, beneficiaries and partners.
- ☐ Accrued expenses (e.g. audit fees, interest payments).
- ☐ Commercial debts forgiven.



Assets

- ☐ Details of depreciable assets acquired and/or disposed of during this income year, including:
  - type of asset;
  - date of acquisition;
  - consideration received/paid.
- ☐ Lease commitments.
- ☐ Debtors at June 30, 2019.
- ☐ Commercial debts forgiven.

Additional Information Required

- ☐ Franking account details/ movements.
- ☐ Overseas transactions, exchange gains/losses.
- ☐ Private companies – remuneration or loans to directors, shareholders and their relatives.
- ☐ Changes to the capital of the company.
- ☐ Whether family trust elections have been made in relation to trusts.

Note: To ensure that you obtain the maximum deductions to which you are entitled and in consideration of the penalty provisions, FULL DETAILS of any claim should be provided and supporting documentation made available. For employee taxpayers and for travel and motor vehicle claims by self-employed taxpayers, documentation must be a receipt, tax invoice or similar document which contains certain details. For other taxpayers, documentation may comprise receipts, dockets, diary notations or reasonable and supporting estimates.