

## Work Related Deductions - Some of the Rules Explained

Deductions are those expenses that you can claim because they were incurred while performing your work duties or while earning your assessable income.

In order to claim a deduction for expenses you may need to satisfy the ATO Substantiation Requirements – refer to the document “Deduction Substantiation Requirements under the tax laws” available on our website for further information.

The following outlines some of the rules for work-related expenses.

### Vehicle Expenses

Please note the rules:

Travel between home and work by an employee is generally not tax deductible, even if you:

- Attend to work related activities (such as visiting clients or doing the banking) during the trip; or
- Go to your workplace on a weekend or other day you do not normally go to work; or
- Have to travel between home and work more than once a day. There are a few exceptions to this rule, including:
- If you are required to transport heavy tools or bulky equipment to and from work because you cannot leave them at your workplace (for example - if there was no secure lock up facility); or
- You had shifting places of employment - you regularly worked at more than one site each day before returning home; or
- Your home was a base of employment - you started your work at home and travelled to a workplace to continue your work for the same employer.

Work-related car and travel expenses include the cost of trips:

- Between two separate places of employment (i.e. between your first and second jobs providing you do not go home in between jobs;
- From your normal workplace to an alternative workplace while you are still on duty and back to your normal workplace or directly home;

- From your home to an alternative workplace and then on to your normal workplace or directly home.

Vehicle expenses can also be tax deductible if used:

- For attending a self-education course (travel between your place of work and an education institution or between your home and an education institution).
- In a business you operate as a sole trader;
- In a business you operate through a partnership or trust (where the vehicle costs have not already been claimed in that entity's return);
- To attend a meeting with your tax agent;
- To attend a meeting with an investment advisor to discuss existing investments (but not to establish a new investment portfolio or financial plan);
- To attend an investment seminar or company annual general meeting (existing investments only).

For tax years from 2015/16, there are two different methods under which you can claim car expenses, but different qualifying rules apply;

- A set rate per kilometre for up to 5,000 kms (the 5,000 km limit is increased for any travel to your tax agent);
- Actual expenses calculated under a logbook method (provided you have maintained a logbook);

Vehicles that have a one tonne carrying capacity (such as most dual cab utes or trayback vehicles), motorcycles, and vehicles that are designed to carry 9 or more passengers are not classed as cars, and only the actual expenses calculated under the log book method can be claimed.

If you use more than one vehicle for tax-deductible purposes during the year you can choose a different method of claim for different vehicles.

You can change the method you use (subject to meeting eligibility criteria) for a vehicle from one year to the next.

If more than one joint owner of a vehicle uses the vehicle during the year, the costs must be allocated between both tax returns.

If two joint owners use the same vehicle for tax-deductible purposes during the year, they both have access to the set rate per kilometre method for that vehicle.

Normally if you have done less than 5,000 kilometres for tax-deductible purposes the best method of claim for you will be the set rate per kilometre method. It may not be worth your effort to maintain a log book or to keep all your receipts for vehicle expenses if your vehicle usage is low.

Log books should preferably be maintained for the full year. If you wish to use the permitted 12 week log book minimum period, the pattern of usage during this period must be reflective of the full year usage pattern (i.e. including annual leave, public holidays etc).

### **No claim for conventional clothes/footwear**

Generally, the cost of clothing that is widely worn in the community and does not have a distinct occupational character (i.e., conventional clothing) is not deductible, even if it is part of a uniform and the employer requires those specific items to be worn by the employee.

Although some forms of heavy-duty clothing such as jeans, drill trousers and drill shirts may have a protective function at work, the conventional character of the clothing remains unchanged. However, a deduction may be available for distinctive clothing such as overalls, smocks, aprons, lab coats etc. that protect conventional clothing.

A deduction is not allowable for the cost of conventional footwear, such as running shoes, sports shoes and casual shoes, as it is considered they are not protective items. The ATO considers that the cost of this footwear is a private expense and is not an allowable deduction.

### **Self-Education Expenses**

To claim a deduction, you must have met one of the following conditions when you incurred the expense:

- The course maintained or improved a skill or specific knowledge required for your then current work activities;
- You could show that the course was leading to, or was likely to lead to, increased income from your then current work activities; or
- Other circumstances existed which established a direct connection between the course and your current work activities.

You cannot claim a deduction for self-education for a course that:

- Relates only in a general way to your current employment or profession; or
- Will enable you to get new employment.

You cannot claim repayments you make under the Higher Education Loan Program (HELP) or the Student Financial Supplement Scheme (SFSS).

In our experience, the more distant the connection between the course content (or the skills it is designed to improve) and the duties as an employee at the time you commenced the course, the more likely the claim will be rejected at audit.

### **Working From Home Expenses**

The rules for this type of expense claim have changed a few times over the past few years, with the latest change taking effect from 1 July 2022.

For the 2022/2023 and subsequent tax years there are two alternative methods of calculating your working from home expense deduction. You can choose either the **Actual Cost Method** (detailed calculations and evidence of expenses are required) or the **Revised Fixed Rate Method** (67 cents per hour).

Further information as to the calculation methods and substantiation requirements can be found at <https://www.ato.gov.au/individuals/income-deductions-offsets-and-records/deductions-you-can-claim/working-from-home-expenses/>

### **Travel Expenses**

The Income Tax Legislation requires a travel diary to be maintained if your travel required you to spend 6 or more consecutive nights away from home, except if the travel was domestic travel and your claim is within the Reasonable Amounts (daily limits) as prescribed by the Australian Taxation Office from time to time. The legislation requires the following information to be recorded in a travel diary:

- a) The nature of the activity;
- b) The day and approximate time when it began;
- c) How long it lasted;
- d) Where you engaged in it.

A Travel Diary worksheet can be obtained from our office.

### **Airfares**

Where the predominant purpose of the travel is business related, and any private purpose of the travel is merely incidental, a full claim for airfares should be allowed.

Alternatively, where the predominant purpose of the travel is private and any business purpose is merely incidental, no claim for airfares should be made.

Where the purpose of the travel is roughly equal for business and private purposes, a 50/50 apportionment of the expense is appropriate.

## **Meals and Accommodation**

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These expenses should be apportioned between the private and business purposes of the travel. Only the expenses relating to the business portion of the trip can be claimed as a tax deduction.

## **Accompanying Family Members**

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Taxpayers who choose to apportion travel costs on the basis of "marginal cost" should obtain independent evidence of the additional costs associated with accompanying family members before making a claim on this basis.

The marginal cost basis allows the taxpayer to claim the ordinary cost they would be allowed if they were travelling by themselves, and only denies the additional cost incurred in respect of the accompanying family members.

For example, if travelling by yourself you would normally stay in a single room suite (cost \$220 per night) but due to accompanying family members (spouse and two children) you took a suite with an adjoining room (\$280 per night) your claim under the marginal cost basis would be limited to \$220 per night.

Failure to demonstrate the marginal cost of accompanying family members could result in your claim being assessed on a per head basis. In this example  $\$280 \div 4 = \$70$  per night.

In the event of an audit the ATO is likely to limit the claim to a per head basis unless you have the documentary evidence to support the claim on a marginal cost basis. In addition, failure to retain these documents means you are likely to be faced with interest and penalties levied by the ATO.