

Your Knowledge Update

July 2016

The Handbag vs Briefcase deduction debate

If a man can claim a briefcase as a tax deduction why can't women claim their handbags? After all, men often have a lot of personal items in their briefcases and working women are just as likely to carry their ipads, documents, and other work related items in their handbag. So, if a man can claim a briefcase as a tax deduction why can't women claim their handbags? After all, men often have a lot of personal items in their briefcases and working women are just as likely to carry their ipads, documents, and other work related items in their handbag. So, what's the difference and why the disparity? Before you try and claim your \$4,000 Gucci handbag as a tax deduction, we step you through the facts of the deductibility debate.

What can you claim a tax deduction for?

The rules around what you can personally claim as a work related tax deduction are fairly rigid - otherwise everyone would be claiming everything even vaguely associated to what they need for work.

Is the item connected to the work you do?

The first and most basic rule is that there needs to be a connection between the income you earn and the item purchased. In other words, you need the item to do your job. The Australian Tax Office (ATO) can ask you to prove what you have claimed is connected to your job and if you claimed the full cost, then you need to prove that the item is 100% used for work purposes. You can see the immediate problem here with claiming 100% of that Gucci handbag - it's fairly unlikely it is only going to be used for work purposes and it would be up to you to prove otherwise. Whereas with a briefcase, unless you were going to a *Revenge of the Nerds* fancy dress party, it's unlikely you would carry it around for any other reason than for work.

The same issue applies to other deductions. The ATO recently denied a claim by a labourer for \$1,200 in mobile phone charges. The worker claimed the phone was necessary to keep in touch with co-workers. But, when the ATO contacted the employer, they said the labourer did not need his phone for work. The claim was reduced to \$50.

Self-education courses are another expense that is often claimed and one the ATO is looking closely at. There have been numerous cases of people claiming overseas travel, course fees, and accommodation as self-education expenses. Unless you can prove that you needed to complete the course overseas, it was directly connected to your employment, and the fees you are claiming only relate specifically to the course, you can't claim the full amount. Remember, even if the ATO does not immediately detect a questionable claim, they can review past claims and adjust them, particularly where there has been evidence of evasion or fraud.

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What's changing on 1 July 2016?

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Everyone

New rules to prevent foreign residents avoiding tax when they sell certain Australian assets will affect everyone buying or selling property with a market value of \$2 million or more. The 10% withholding obligation applies from 1 July 2016. Many transactions involving shares in a company or units in a trust will also be caught.

Business

- New initiatives offer tax incentives for investment in early stage innovation companies.
- Simplified rollover rules commence enabling small businesses to restructure their business operations without triggering adverse implications under the income tax system.
- Farm management deposit scheme changes - increases the maximum amount that can be held in FMDs from \$400,000 to \$800,000. Easier withdrawals in times of drought without impacting on the tax treatment of the deposit in earlier income years. Amounts held in FMDs will be able to be used to offset loan account balances or the balances of other debts relating to a primary production business carried on by the FMD owner.

Superannuation - SMSFs

Strict compliance rules for collectable and personal use assets apply universally - Any collectables or personal use assets held within your SMSF, regardless of when you acquired them, must meet strict compliance requirements: the asset cannot be leased to a related party; the asset cannot be

Continued over

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Continued

Did your employer already pay for it – directly or indirectly?

If you already claimed the cost of the item you purchased from your employer, you can't generally claim it as a personal deduction. The same applies if your employer provides you with an expense account or payment as part of your remuneration package to cover specific costs.

The ATO recently cracked down on travel expense claims.

A boilermaker's \$8,000 travel claim ended badly when the ATO discovered that he received a travel allowance for the same amount from his employer. He ended up with a \$4,000 tax bill as the \$8,000 allowance he received had not been declared in his income and the ATO then applied penalties and interest.

Can you prove you paid for it?

The ATO always requires a receipt or paperwork to support any purchase you claim a deduction for. If you don't have this and you are audited, then the ATO will simply deny your deduction.

Does the price tag make a difference?

Does the price of a work related expense make a difference? For example, if the ATO accepts a deduction for a \$200 laptop bag will they also accept a claim for say a \$4,000 Burberry laptop bag? It comes down to a question of need. If the claim is excessive, you need to prove that the excessive cost is actually required for your job. The larger the deduction claimed the more likely it is that your tax affairs will be reviewed by the ATO.

The weird and wild tax deductions available

- **Claiming your home internet expenses** – this is an area the ATO has flagged for close review. Teachers in particular have come under scrutiny in previous years for claiming all of their home internet expenses as work related expenses. It's important to get the proportions right. If you are required to work from home and use the internet to do this, you can only claim that portion of your internet expenses you spent working.
- **Adult industry workers** can claim a myriad of items connected to their job – lingerie, lubricants, costumes, and dance lessons.
- **Hand cream** – yes for airline crew but not builders.
- **Gym membership** - Members of the Australian Defence Force in Special Forces can claim gym fees and other related costs in some cases as they need to maintain such a high level of fitness.
- **Landlords** can claim costs associated to their rental property such as flying interstate to inspect the property. But, be warned, if you do anything other than inspect the property and return on the next plane, your deduction may be reduced or declined. If you spend time doing something other than inspecting your property, then you can only claim the portion of the costs related to the rental property. Also be aware that deductions claimed for rental properties must be in line with your ownership interest. If there is more than one owner then you can only claim deductions in the same proportion as your ownership interest.
- **Newspapers and online news access** - if you are a professional who can prove they need to be across the news then you can claim these costs.

Access to tax deductions has nothing to do with gender – it's all about the basic rules of how closely connected the purchase is to your job and your ability to prove your case.

What's changing on 1 July 2016?

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stored in the residence of a related party; the asset cannot be used for personal use; trustees must record a decision on where the asset is kept; the asset must be insured in the trustee's name within 7 days.

You & your family

- Large Family Supplement abolished.
- Family Tax Benefit B removed for couples whose youngest child is 13 years of age or over (instead of 18 years). The changes do not affect single parents or grandparents but grandparents must register to continue to receive the payment.
- If you are out of the country, the Family Tax Benefit, child care payments or Double Orphan Pension, and Single Income Family Supplement will now only be paid for 6 weeks (instead of 56) while you are temporarily overseas.
- Higher Education Loan Programme (HELP) debtors residing overseas for 6 months or more need to make repayments of their HELP debt if their worldwide income exceeds the minimum repayment threshold at the same repayment rates as debtors in Australia.

Depending on who wins the election....

Depending on who forms Government, from 1 July 2016 we could also see:

- A company tax rate reduction to 27.5% for companies with turnover under \$10 million.
- An increase in the tax discount for unincorporated small business – trusts, partnerships, etc.,
- An increase to the threshold to access certain small business entity concessions to \$10m (up from \$2m) giving more small businesses access to generous tax concessions.
- Income tax reduction for individuals from 1 July 2016. The 32.5% tax rate will not start until your income reaches \$87,000. Currently you start paying this tax rate at \$80,000.