Client:	Joe Bloggs
Client Code	BLOGGSJOE
Interviewer	Peer Wealth
Interview Place	Manly
Interview Date	30th June 2016

D1 - Work related car expenses

Travel between different workplaces

Have you travelled (in your car) between different places of work in the course of your employment?

Travel between different workplaces (i.e., during the course of the work day) is considered business travel. This travel may be for your second job, or between two alternative workplaces for the one job.

Alternative workplaces

Do you ever travel from home directly to an alternative workplace, rather than your ordinary workplace?

Travel between home and an alternative workplace (for example, a customer's premises) will be considered business travel, as will the travel from that alternative workplace to your normal workplace or directly home.

Method of car claim

Have you incurred work-related car expenses for a car you owned, leased or hired under a hire-purchase agreement?

If yes, expenses may be deductible under one of 2 methods:

- Cents per kilometre method (a maximum of 5,000km can be claimed at a rate of 66 cents per kilometre) [Claim Code S]; or
- Logbook method [Claim Code B].

D2 - Work related travel expenses

Transport expenses

Have you incurred travel expenses, such as public transport, airfares and taxi fares, that are directly related to your work as an employee?

Note that where an employer pays for an airfare, but the employee incurs unreimbursed expenditure for an upgrade (for example, from economy to business class), the cost of the upgrade will be deductible for the employee.

Overnight travel
Have you incurred meal, accommodation and incidental expenses while travelling overnight for work? If so, has an allowance been received and was it reported on your PAYG Payment Summary?

Generally, where a taxable allowance for overnight travel was received, there may be no need to fully substantiate the expense claims as long as a reasonable basis for working out the claim exists (refer to TD 2015/14).

However, overseas accommodation must be fully substantiated and a travel diary must be kept if the travel was for greater than 5 nights.

Parking and tolls
Have you incurred work-related bridge and road toll expenses, or parking fees while travelling for work purposes?

D4 - Work related self education expenses

Self-education
Have you incurred self-education expenses in order to obtain a formal qualification, where the course:

- Maintains or improves a skill or specific knowledge required for your current employment activities;
- Can be shown to lead to (or likely lead to) increased income from your current employment activities; or
- Has a direct connection with your current employment activities.

Examples of expenses that may be deductible are course fees, textbooks, stationery, student union fees and car/travel expenses.

Where the self-education expenses were incurred by the taxpayer in connection with a "prescribed course of education" (e.g., a course provided by a school, college, university or other place of education for the purpose of gaining appropriate qualifications in business or employment), then the amount of deduction available is limited to the excess over $250. In determining what deductible self-education expenses are reduced by the $250, this amount is first absorbed by any self-education expenses that are deductible under specific provisions (such as depreciation) and also some expenses that are not actually deductible (such as the capital cost of buying a computer used for study purposes and net child care expenses).

A deduction cannot be claimed for self-education course fees that are contributions made under the Higher Education Contribution Scheme Higher Education Loan Program (HECS-HELP) or repayments under Student Financial Supplement Scheme (SFSS).

Refer to TR 98/9 for more information on self-education expenses.

D5 - Other work related expenses

Annual practising certificate

Have you incurred expenditure for the cost of renewing an annual practising certificate?

Union fees and professional subscriptions

Have you incurred expenditure for union fees or subscriptions to trade, business or professional associations?

If the amount paid is shown on your payment summary, the payment summary can be used as substantiation.

Magazine/journal subscriptions

Have you incurred expenditure in respect of buying or subscribing to journals, periodicals and magazines that have a content specifically related your employment (and are not general in nature)?

Depreciation - Office equipment

Have you incurred expenditure on acquiring items of equipment? This includes equipment such as:

- Desktop or laptop computers;
- Printers, scanners and other peripherals;
- Computer software;
- Professional library;
- Briefcase;
- Answering machines, mobile phones, pagers and other telecommunications equipment; or
- Calculators and electronic organisers.

Where the cost of the equipment is $300 or less (and is not part of a set with the total cost of the set being more than $300, and is not substantially identical to another item acquired during the year with the total cost of the substantially identical assets being more than $300), you can claim an immediate deduction for the extent it is used for the purpose of producing income.

An immediate deduction is not available for office equipment costing more than $300 that is used for more than a year. A deduction for the equipment's decline in value (depreciation) may instead be claimed.

Conferences & seminars

Have you incurred expenditure relating to the attendance at conferences, seminars, workshops and other work-related events that relate to your income-producing activities?

If so, expenses such as the cost to attend the seminar, travel to/from the seminar, and parking while at the seminar will be deductible. Where you are required to stay away overnight as part of attending the seminar, the cost of meals and accommodation will also be deductible.

Telephone expenses

Have you used your telephone (home or mobile) for employment-related purposes?

You will need to keep a record of the time spent on employment activities. The record should cover a representative period and a reasonable time (generally one month).

Home office expenses

Have you incurred additional running expenses for a home office?

You may be able to claim a deduction by apportioning the actual costs incurred or using a fixed rate (45 cents an hour for the 2016 income year).

You will need to keep a record of the time spent in your home office on employment activities. The record should cover a representative period and a reasonable time (generally one month).

Internet

Have you incurred expenditure on internet subscriptions, where access to the internet is required for your employment purposes?

You will need to keep a record of the time spent on employment activities. The record should cover a representative period and a reasonable time (generally one month).

Professional indemnity insurance

Have you incurred expenditure for the cost of professional indemnity insurance?

Low value pool deductions

Have you acquired depreciating assets that cost less than $1,000 (but more than $300), or have been written off to less than $1,000 (under the diminishing value method) as at the beginning of the income tax year?

There is an option to pool equipment costing less than $1,000 and equipment written down to less than $1,000 under the diminishing value method. A deduction for the decline in value of equipment in such a low-value pool is worked out using set rates (37.5% for assets included in the opening balance of the pool and 18.75% for assets allocated to the pool during the current income year).

When an asset is allocated to a low-value pool, only the taxable use proportion is allocated to the pool. Additionally, once the decision has been made to use a low-value pool, all new eligible assets must be allocated to the pool.

Interest deductions

Did you incur expenses in earning assessable interest income? Such expenses may include:

- Bank or other financial institution account-keeping fees for accounts held for investment purposes; or
- Management fees and fees for investment advice relating to changes in the mix of your investments.

Dividend deductions

Did you incur expenses in earning assessable dividend income? Such expenses may include:

- Management fees and fees for investment advice relating to changes in the mix of your investments;
- Interest charged on money borrowed to purchase shares or similar investments; or
- Costs relating to managing investments, such as buying specialist investment journals or subscriptions.

Gifts or donations

Did you make a gift or donation of $2 or more to an approved organisation?

Gifts made to 'bucket collections' conducted by an approved organisation for natural disaster victims can be deducted without a receipt, where the total of all such donations are no more than $10.

Cost of managing tax affairs

Did you incur expenses in managing your tax affairs? The cost of managing your tax affairs include:

- Preparing and lodging tax returns and activity statements;
- Fees paid to a recognised tax adviser for preparing and lodging tax return;
- Travel to obtain tax advice from a recognised tax adviser;
- Buying tax reference material;
- Dealing with the ATO in regards to your tax affairs;
- Appeals made to the Administrative Appeals Tribunal or Courts in relation to your tax affairs;
- An interest charge imposed by the ATO on you; and
- Cost of valuations required for tax purposes (for example when making a donation of property).

A deduction cannot be claimed for the cost of tax advice given by a person who is not a recognised tax adviser, or for a tax shortfall and other penalties imposed by the ATO for failing to meet tax obligations.

Income protection insurance

Did you incur expenditure on income protection insurance?

You can claim the cost of any premiums you paid for insurance against the loss of your income. This does not include premiums paid under life insurance, trauma insurance and critical care insurance policies.

Frequently asked questions - Not deductible

Conventional clothing

A deduction cannot be claimed for general clothing which is considered to be part of ï¿½conventional clothing'. This includes suits, shirts, ties, trousers, dress/casual shoes, dresses, skirts, stockings and other such items.

General self-education

A deduction cannot be claimed for self-education expenses if the course is too general or for enabling new employment.

Home occupancy expenses

A deduction can only be claimed for occupancy expenses in regards to the family home (such as rent or mortgage interest) if an area of the home is used as a place of business.

For employees, a "place of business" would generally only exist where no other work location is provided by an employer, so it would be rare for an employee to be able to claim occupancy expenses. If the home is used to carry out income producing activities as a matter of convenience, a deduction is not allowed for occupancy expenses.

Entertainment

Entertainment expenses are generally not deductible. This includes the cost of business lunches, and attendance at sporting events, gala or social nights, concerts or other similar types of functions or events. This is the case even if business matters are discussed at the occasion.

Income from Rental Property

Rental income

Have you received income from leasing a rental property during the 2016 income year?

The income received may be evidenced by:

- Monthly or annual rental property statements provided by a property manager/agent; and/or
- Bank statements.

Interest expenses

Interest on a loan will be deductible to the extent the loan is used:

- To purchase a rental property;
- To buy land to build a rental property;
- To buy depreciating assets for use in a rental property;
- To fund repairs made to a rental property (or rental property assets);
- For renovations to a rental property; and
- For paying for other rental-related expenses.

Note that the security provided for a loan is NOT relevant is deciding the income deductibility of interest on a loan. For example, using an income-producing rental property as security for a loan used to fund renovations to a taxpayer's main residence will NOT make the interest deductible.

Repairs and maintenance

A landlord is entitled to claim a deduction (in whole or in part) for expenditure incurred on repairs related to a rental property.

A repair is the replacement or renewal of a worn out or dilapidated part of something, but not of the entirety (i.e., the whole thing). A repair basically involves restoring property to a condition it formerly had without changing its character.

The following types of expenditure WILL be deductible as a repair, when incurred in respect of an income-producing rental property:

- Expenditure on a property that is in need of repair;
- Expenditure that restores the property to its original condition;
- Expenditure that effectively renews or replaces the whole item of property by replacing parts of the whole, progressively over time;
- Replacement of permanent fixtures, such as door locks, handles, etc.;
- Expenditure to remedy defects, damage, etc. arising after the property was acquired;
- Expenditure incurred after the property ceases to be used for income-producing purposes, to remedy defects, damage, etc. arising during the income-producing period (see Income Taxation Ruling IT 180); and
- Expenditure to remedy defects, damage, etc. to property currently used for income-producing purposes, but previously used for non-income-earning (e.g., private) purposes.

On the other hand, the following types of expenditure will generally NOT be deductible as a repair:

- Expenditure to remedy defects, damage, etc. that was in existence at the time of acquiring a property (referred to as an initial repair);
- Expenditure undertaken to prevent anticipated defects to property;
- Expenditure that increases the efficiency of the property;
- Expenditure that is expected to increase a property's value;
- Expenditure that results in an alteration or addition to the property;
- Expenditure that renews or replaces the whole of an item of property; and
- The replacement of depreciating assets, such as stoves, refrigerators and air-conditioning units.

A detailed analysis of what constitutes a repair is found in Taxation Ruling TR 97/23.

Capital works deductions

An annual write-off may be available for the cost of constructing:

- A rental property building;
- An extension, alteration or improvement to a rental property building; or
- A structural improvement (e.g., a sealed driveway or a fence).

Generally a rate of 2.5% write-off applies (4% in some cases), which is based on the construction cost (and not necessarily the purchase price of the rental property to the taxpayer).

Note that expenses can be claimed by the taxpayer, even where they did not incur the construction expenditure themselves.

Further, and although deductions are technically based on original cost of construction, the ATO do accept estimations of these costs by a qualified person (such as a quantity surveyor). If the taxpayer does not have the original construction expenditure (or an estimate prepared by a qualified person), a report can be obtained by clicking on the following link:

http://www.ntaa.com.au/product/290/rental-property-depreciation-report

Depreciation

The cost of acquiring assets that meet the definition of 'plant' or 'depreciating assets' will generally (subject to the '$300 rule' below) not be deductible in full when incurred. This will include the cost of assets such as carpets, blinds, hot water service, air-conditioning units, ovens, etc.

Instead, the cost of depreciating assets will be written-off either:

- Over the effective life of the assets (refer to the ATO publication 'Rental Properties 2016' for the ATO's estimates of the effective lives of common rental property assets);
- In a low-value pool (at Item D6 of the income tax return); or
- Immediately deductible where the cost of the asset is $300 or less.

Note that taxpayers who purchase a rental property will invariably also acquire various depreciating assets in addition to the underlying land and buildings. The ATO accept estimations of the cost of depreciating assets by a qualified person (such as a quantity surveyor), in order for taxpayers to base their depreciation claims on.

If the taxpayer does not have an estimate prepared (by a qualified person), a report can be obtained by clicking on the following link:

http://www.ntaa.com.au/product/290/rental-property-depreciation-report

Body corporate fees

Taxpayers can claim a deduction for body corporate fees incurred in respect of administration or general purpose sinking fund contributions, for the general maintenance and repairs to common property.

On the other hand, 'special purpose' levy contributions (e.g., to fund improvements or initial repairs) are generally capital in nature and not deductible.

Travel

The taxpayer WILL be able to claim deductions in respect of travel undertaken to:

- Prepare the property for incoming tenants;
- Collect rent;
- Inspect the property during, or at the conclusion of a tenancy period; and
- Maintain/undertake repairs to the property.

On the other hand, the travel will NOT be deductible to the extent it is undertaken to:

- Inspect the property prior to purchase;
- Inspect the property prior to settlement;
- Purchase the property; and
- Undertake improvements to the property.

Borrowing expenses

Expenditure incurred to borrow money, called 'borrowing expenses', is generally deductible over the period of the loan to the extent the funds borrowed are to be used to produce assessable income.

Expenses of $100 or less are deductible outright in the year they are incurred. Expenses in excess of $100 are deductible over the period of the loan or five years, whichever is the lesser.

Examples of expenses that are deductible as a borrowing expense include the following:

- Associated legal expenses;
- Loan establishment fees;
- Mortgage duty;
- Guarantee fees; and
- Lender's mortgage insurance.

Property purchase costs

Most expenses incurred at the time of acquiring the property will be considered capital in nature and therefore NOT deductible. These expenses can include:

- Stamp duty incurred on the transfer of the property (although note in the ACT that the cost of stamping a LEASE will be deductible to the extent it relates to an income -producing property);
- Legal expenses incurred as part of the settlement process; and
- Conveyancing expenses.

However, as part of settlement there will often be some adjustments to be made in respect of council rates, water rates and land tax. Where a purchaser is required to pay these amounts at settlement, these will be deductible to the extent the property will be income-producing.

Other

Other common expenses incurred by landlords in respect of their income producing properties include:

- Advertising expenses incurred to seek tenants;
- Bank charges for loans and accounts used to deposit rent receipts and meet deductible outgoings;
- Cleaning expenses;
- Council rates;
- Gardening anf lawn mowing expenses;
- Insurance premiums for building, fire, burglary, public liability and loss of rent;
- Land tax;
- Lease preparation expenses, including the cost of registering and stamping leases;
- Legal costs for recovering unpaid rent, seeking damages for breach of agency agreement, reviewing credit worthiness of proposed tenant;
- Mortgage discharge expenses;
- Penalty interest on early loan repayment;
- Pest control;
- Postage and stationery;
- Property manager/agent fees for managing the property and collecting the rent;
- Quantity surveyor report (deductible at Item D10 as a cost of managing tax affairs);
- Telephone calls related to dealing with property managers, tenants, maintenance contractors and other rental property matters.
- Water rates.