

Record Keeping for Employment Related Deductions

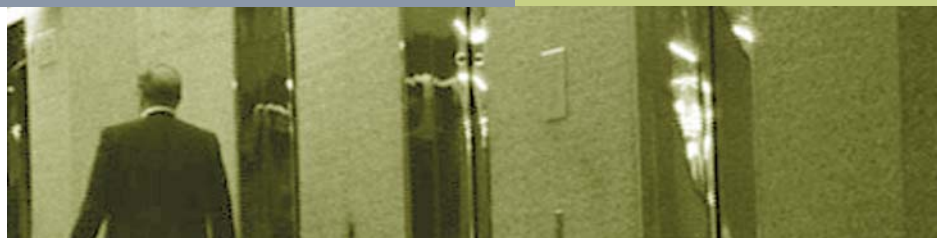
In Australia, income tax is calculated on the basis of a person's taxable income. Taxable income is calculated by deducting 'general' and 'specific' deductions incurred in the year of income from the total assessable income for that year.

An allowable deduction is an expense that is directly related to your income earning activities.

However, you cannot claim a deduction if the Commissioner of Taxation considers the expense is of a private or capital nature. For most employment related deductions, it is necessary to obtain written evidence to prove your claim.

Failure to keep this written evidence could result in the Commissioner of Taxation disallowing your claim for a deduction.

You must keep documents used to prepare your income tax return for 5 years from the date the return was lodged.



What is written evidence?

A receipt is the most common form of written evidence. To be a valid receipt the following information must be recorded:

1. the name of the supplier
2. the amount of the expense
3. the nature of the goods or services
4. the date the expense was incurred,
5. the date of the document.

You can add the day the expense was incurred or the nature of the goods or services, if these items are not originally shown. However, additional supporting evidence will be necessary (ie. credit card statement). Credit card statements are accepted instead of a receipt, provided all the necessary information is recorded on the statement.

If the expense is a small item (ie. less than \$10 and up to a maximum of \$200 in aggregate for the year) or it is considered unreasonable to expect you to get a receipt, you can keep an expense diary instead of getting written evidence. The information that needs to be kept in an expense diary is the same as that shown on a valid receipt, as noted above.



When is written evidence necessary?

It is not necessary for you to keep written evidence if your employment expenses do not exceed \$300 for the year. If the total amount of your claims exceeds \$300 you will need to have written evidence of the total amount of your claim. However, this \$300 limit does not include expenses related to overtime meal allowances, travel allowances and car expenses.

Travel allowances

If your employer pays you an allowance to cover travel expenses, you do not have to have written evidence provided your claim does not exceed the rates specified by the Commissioner of Taxation. These rates change each year and are different for each location. You should contact your Deloitte tax adviser for further information about the rates.

For overseas travel the Commissioner provides daily rates only for meals and incidental expenses. You must keep written evidence of accommodation costs incurred whilst travelling overseas.

If you wish to claim a deduction in excess of the Commissioner's reasonable rates, you will need written evidence of your total expenses.

If your employer does not pay an allowance to cover travel expenses, you can still claim a deduction for travel expenses. However, you will need to have written evidence of all expenses.

Where you are travelling for periods in excess of 5 consecutive nights, you need to keep a travel diary. In this diary you must keep details of each business activity undertaken whilst travelling. Each entry must contain details of the nature of the activity, the day and time when it began, how long it lasted and where the activity took place.

What records must you keep for depreciation claims?

If you are claiming depreciation, you must keep a record of the purchase of the item. The purchase document must record the same information that would be recorded on a receipt.

You must keep this written evidence for 5 years after the last year in which a depreciation claim is made on the property.

How can you work out your motor vehicle expense deduction claims?

If you own or lease a motor vehicle, there are 4 methods that you can use to work out your claim. You must use one of the following methods. However, you can use a different method for each year and for each car.

1. Log Book method

This method requires you to keep a log book for 12 weeks for all business related trips commencing in the first year in which you wish to use this method and then every 5 years thereafter. In the log book you must record the following:

- the date the trip began and ended
- the odometer readings at the start and end of the trip
- the kilometres travelled on the journey,
- the purpose of the trip.

The purpose of a log book is to determine your percentage of business related usage of your motor vehicle.

Generally, expenses of home to work travel is considered to be of a private nature and is therefore, not deductible.

You must also keep written evidence of all expenses incurred during the year.

You must keep a record of the odometer readings of the motor vehicle at the start and end of each year of income.

If you have not kept written evidence of your fuel and oil expenses, the expense can be worked out by using your odometer readings.

The log book method is the best method to use if you are using your car extensively during the year for business purposes.

2. Cents per kilometre

Your claim is worked out by multiplying the business kilometres travelled during the year by the rate specified by the Commissioner for cars. These rates vary each year based on the engine capacity of the car.

This method is limited to a maximum of 5,000 business kilometres travelled during the year. (ie. if you travel in excess of 5000 business kilometres, your claim is limited to 5000 kilometres)

It is not necessary to keep detailed records of the kilometres travelled. You only have to be able to provide a reasonable estimate of how you determined the kilometres travelled.

This method is better where low business kilometres are travelled during the year or inadequate car expense records have been maintained.

3. One-third of actual expenses

This method is only available if you travel more than 5000 business kilometres during the year. Under this method you are required to keep written evidence of all expenses incurred during the year. You are entitled to claim a deduction of one-third of these expenses. If you haven't kept written evidence of fuel and oil expenses, the claim can be determined by odometer readings.

4. 12% of original cost of car

This method is only available if you travel more than 5000 business kilometres during the year. The calculation is based on the original cost of the car to you but limited to the motor vehicle depreciation cost limit determined annually by the Commissioner of Taxation. However, if the car is only owned for part of the year, the claim is apportioned accordingly. You must keep a record of the cost you paid for your car.

[If you have any further questions concerning the written evidence required to correctly claim tax deductions, please contact your Deloitte tax adviser.](#)

