

## Individual Income Tax Return Documentation Requirements

With the tax return lodgement season just around the corner, we have taken this opportunity to advise of increased scrutiny by the ATO on claims being made by individuals on their income tax returns. The ATO routinely reviews claims made in individual income tax returns.

We understand that the income tax returns held up for review were for a range of issues, especially where claims fell outside the ATO benchmarks, or there was a mismatch of information after ATO data matching with other Government agencies compared to what was lodged in the return. As a result, these taxpayers generally experienced extensive delays in having their tax returns processed.

Furthermore, in the majority of instances where tax returns were held up for review, the ATO requested additional information from taxpayers to support and justify their claims. Where taxpayers had inadequate or missing information, these taxpayers had their tax refunds denied or substantially reduced as a result of the ATO review.

### Complying with ATO documentation requirements for your claims

To ensure that your tax refund is not denied or substantially reduced by the ATO, we strongly recommend that you give attention to the documentation requirements concerning the claims that you are likely to make in the income year.

In this regard, we have reviewed your income tax return for the prior year and identified that the following claims were made:

- Work-related car expenses - cents per km
- Work-related car expenses - log book
- Work-related travel expenses
- Work-related clothing and laundry expenses
- Work-related self-education expenses
- Other work-related expenses
- Low-value pool deductions
- Interest deductions
- Dividend deductions
- Gifts or donations
- Cost of managing tax affairs

Assuming you will have similar claims in your income tax return for the current income year, we have briefly outlined below the documentation requirements for each of these claims. By keeping records that meet the ATO documentation requirements, this will reduce the possibility of your tax refund being denied or substantially reduced (including penalties and interest) where your tax return is subject to ATO review.

If you intend on making additional claims in your income tax return for the current income year that were not made in prior income years, please let us know and we will provide you with the ATO documentation requirements for those additional claims.

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## Work-related car expenses - 'cents per kilometre' method

Where you claim a deduction for work-related car expenses using the 'cents per kilometre' method, the following documentation must be kept and provided to the ATO upon request to support the claim:

1. A record of how you worked out your business kilometres per car, per income year.
2. The purchase or lease documents of your car.
3. The car registration certificate/papers.
4. Details of the business travel you undertook during the income year, including the:
  - a) purpose of the travel undertaken;
  - b) frequency of any work related travel; and
  - c) number of kilometres travelled for work related purposes.
5. Obtain a letter from your employer, with a contact name and telephone number, confirming that you are required to use your car in the course of carrying out your employment duties, if your claim is based upon travel you undertook for your employer.

## Work-related car expenses - 'log book' method

Where you claim a deduction for work-related car expenses using the 'log book' method, the following documentation must be kept and provided to the ATO upon request to support the claim:

1. Details of how your claim was calculated, including:
  - a) a description of each item included in the claim; and
  - b) the amount claimed for each item.
2. The purchase or lease documents of your car.
3. The calculation for the decline in value (i.e., depreciation for the car).
4. The car registration certificate/papers for the period you are claiming car expenses.
5. Your log book and odometer records.
6. Your record of your estimate of business kilometres travelled.
7. Your record of your calculation of the business use percentage.
8. Copies of original receipts for all car expenses claimed except for fuel or oil. However, where you do not use odometer records to estimate your fuel and oil expenses, you should keep all fuel and oil receipts to support your claim.
9. Obtain a letter from your employer, with a contact name and telephone number, confirming that you are required to use your car in the course of carrying out your employment duties, if your claim is based upon travel you undertook for your employer.

## Work-related travel expenses

An employee that has incurred travel expenses relating to their work may be able to claim a deduction.

Where you claim a deduction for work-related travel expenses, the following documentation must be kept and provided to the ATO upon request to support the claim:

1. Copies of receipts or other documentary evidence substantiating each of the items claimed, including for:
  - a) public transport fares, including air travel and taxi fares;
  - b) bridge and road tolls, parking fees and short-term hire;
  - c) meals, accommodation and incidental expenses you incur while away overnight for work not covered by a bona fide travel allowance provided by your employer;

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- d) actual expenses (such as petrol, oil and repair costs) you incur to travel in a car that is owned or leased by someone else; and
  - e) expenses for motorcycles and vehicles with a carrying capacity of one tonne or more, or nine or more passengers, such as utility trucks and panel vans.
2. For claims that relate to meals, accommodation and incidental expenses you incur while away overnight for work where you receive a bona fide travel allowance from your employer, if the amount you are claiming exceeds the Commissioner's reasonable rate, the following information needs to be kept:
- a) the amount of the allowance to be disclosed in the income tax return in respect of this expense. If the allowance was not shown on your PAYG payment summary, explain how the amount was calculated;
  - b) how the allowance is described on your pay slips and explain why the allowance is considered a genuine travel allowance;
  - c) a list of the expenses claimed showing the nature of the expenses and the amounts claimed;
  - d) an explanation of how each item on the list was an expense incurred in the course of earning your assessable income; and
  - e) copies of original receipts or other documentary evidence substantiating each item included on the list.
- However, if your claim does not exceed the Commissioner's reasonable rate (except for accommodation expenses for overseas travel), copies of original receipts substantiating each item claimed do not need to be kept. Rather, you must be able to explain how you calculated the amount claimed.

## Work-related clothing, laundry and dry-cleaning expenses

An employee may be able to claim the cost of buying, renting, repairing and cleaning certain work related uniforms, occupation specific or protective clothing. Furthermore, a deduction may also be claimed for the cost of washing/cleaning (including dry cleaning), drying or ironing eligible work clothes as laundry expenses. However, expenditure in relation to conventional clothing is generally not deductible.

Where you claim a deduction for work-related clothing, laundry and dry-cleaning expenses, the following documentation must be kept and provided to the ATO upon request to support the claim:

1. A list of all items included in your claim for clothing, laundry and dry-cleaning expenses.
2. An explanation of how each item in your claim was an expense incurred in the course of earning your assessable income (i.e., why it is reasonable, based on the requirements of your occupation).
3. Your calculation showing how you calculated your claim.
4. Unless your claim is a laundry claim not exceeding \$150, copies of original receipts and other documentary evidence substantiating each item included on the list.

## Work-related self-education expenses

Work-related self-education expenses can be claimed where the employee is a part-time or full-time student and the expenses are directly connected with their current job or income earning activities.

Where you claim a deduction for self-education expenses, the following documentation must be kept and provided to the ATO upon request to support the claim:

1. A list of all items included in your claim, showing:
2. full details of the course you undertook;
3. the name of the institution where it was undertaken;
4. the date you began your course; and
5. whether you were a full-time or part-time student.

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6. An explanation of how the course directly relates to your employment at the time you were undertaking the course. For example, a letter from your employer confirming their requirement for you to attend or complete the course.
7. Copies of original receipts or other documentary evidence to support each item included on the list.

## Other work-related expenses

Examples of other work-related expenses that may be claimed by an employee include union fees, subscriptions to trade or professional associations, tools and equipment, telephone expenses and home office expenses.

Where you claim a deduction for other work-related expenses, the following documentation must be kept and provided to the ATO upon request to support the claim:

1. A list of all items included in your claim. A separate list should be kept for each expense type included in your claim, for example, telephone, mobile phone, home office, union fees, computer expenses and stationery.
2. If you are claiming internet and/or phone expenses, you will need to keep documentation which evidences:
  - a) the total cost for the year (i.e., statements/bills); and
  - b) the work-related use percentage and how you calculated this amount.
3. Copies of original receipts or other documentary evidence substantiating each item included in each list.
4. For claims made in respect of depreciating assets, you will need to keep a copy of the purchase invoice and advise the method of depreciation used for the same asset in the prior year.
5. An explanation of how each item included in each list was an expense incurred in the course of earning your assessable income.

## Low-value pool deductions

A taxpayer that is not a small business entity ('SBE') or who is a SBE that has not chosen to apply the simplified depreciation rules available for SBE taxpayers, can choose to calculate and claim a deduction for tax depreciation of certain depreciating assets (for example, assets costing less than \$1,000) by allocating them to a low-value pool.

Where you claim low-value pool deductions, the following documentation must be kept and provided to the ATO upon request to support the claim:

1. Copies of original receipts or other documentary evidence of the cost or value of each depreciating asset at the time it was included in the low-value pool.
2. Where the asset is owned by more than one person, indicate your interest in the asset.
3. A summary of depreciating assets and their respective values in the low-value pool.

## Interest deductions

A taxpayer can claim a deduction for interest expenses incurred in deriving assessable income (i.e., interest income). Where you claim interest deductions, the following documentation must be kept and provided to the ATO upon request to support the claim:

1. A list of interest expenses to be claimed, showing:
  - a) the amount of the expense;
  - b) the date of the expense;
  - c) to whom is the amount paid;
  - d) the amount of funds borrowed;
  - e) the nature of the investment(s); and
  - f) the income you received from this/these investments during this financial year.

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2. This can generally be evidenced by bank or financial institution statements showing interest expenses or other loan documentation showing borrowing costs and fees.
3. Where no income has been received during this financial year, or is less than the interest expense claimed, you may be required to provide the following information:
  - a) the reason no income or smaller amounts of income was received;
  - b) whether you expect to receive a return on the investment and, if so, guidance as to when amounts are to be received; and
  - c) whether income has been received in a prior year and, if so, when the amounts were received.

## Dividend deductions

A taxpayer can claim a deduction for certain outgoings incurred in deriving assessable dividends.

Where you claim dividend deductions, the following documentation must be kept and provided to the ATO upon request to support the claim:

1. A list of dividend expenses to be claimed, showing:
  - a) the amount of the expense;
  - b) the date of the expense;
  - c) to whom is the amount paid;
  - d) the date any loans were obtained;
  - e) the amount of funds borrowed;
  - f) the nature of the investment(s) including whether they are public or private; and
  - g) the income you received from this/these investments during this financial year.
2. Documentary evidence to support the expenses you have claimed, including:
  - a) bank or financial institution statements showing interest expenses;
  - b) loan documentation showing borrowing costs and fees; and
  - c) dividend statements.
3. Where no income has been received during this financial year, or is less than dividend expense claimed, you may be required to provide the following information:
  - a) the reason no income or smaller amount of income was received;
  - b) whether you expect to receive a return on the investment and, if so, guidance as to when dividends are expected to be paid; and
  - c) whether income has been received in a prior year and, if so, when the amounts were received.

## Gifts or donations

A taxpayer can claim a deduction for making a gift or donation during an income year. These include where they have made: gifts or donations of \$2 or more to a deductible gift recipient ('DGR') that is endorsed by the ATO or which is named in the tax legislation as being gift deductible;

a contribution to a DGR of more than \$150 in respect of a fund-raising event; and

a financial contribution of \$2 or more to a registered political party (up to a maximum of \$1,500 for an income year) and contributions to an independent candidate in an election of parliament, or an independent member of parliament.

Where you claim a deduction for gifts or donations, the following documentation must be kept and provided to the ATO upon request to support the claim:

1. Copies of receipts or any other documents you have to support this claim, showing:
  - a) the names of the recipient of each gift or donation (including their ABN);
  - b) the date that each gift or donation was made; and
  - c) the nature and amount of each gift or donation.

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## Cost of managing tax affairs

A taxpayer can claim a deduction for expenses in managing their personal tax affairs. These include the cost of lodging income tax returns or activity statements through a tax agent, the cost of tax advice obtained from a recognised tax adviser to manage personal tax affairs and interest charges imposed by the ATO.

Where you claim a deduction for the cost of managing your tax affairs, you may be requested to provide the following documentation by the ATO to support the claim:

- If we lodged your income tax return, the receipt we provided to you, which outlined the cost of preparing and lodging your income tax return will be sufficient information to justify your claim.

**If you have any queries on your claims or the documentation requirements in relation to those claims, please call us.**

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