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When preparing your 2019/20 income tax return be mindful that the ATO focuses on certain hotspots. This year you need to be mindful of two key areas: **work-related expenses and investment property claims.**

Work-related expenses

According to the ATO, there was a $8.7 billion shortfall in the amount of taxes it should have collected in 2019. The ATO believes claims for work-related expenses play a big role in the 'tax gap' and have advised they will be closely monitoring these claims this year.

More specifically, they will be looking at:

- Claims for work-related clothing, dry-cleaning and laundry expenses
- Deductions for home office use, including claiming for "occupancy" costs like rent, rates and mortgage interest, which are only allowable if you run a business from home
- Overtime meal claims
- Mobile phone and internet costs, with a particular focus on people who are claiming the whole (or a substantial part) of the bill for their personal mobile as work-related
- Motor vehicle claims where taxpayers take advantage of the 68 cent per kilometre flat rate available for journeys up to 5,000kms (the ATO is concerned that too many taxpayers are automatically claiming the 5,000km limit regardless of the actual amount of travel)
- Incorrectly claiming deductions under the rule that allows taxpayers who have incurred work-related expenses of $300 or less in total to make a claim without receipts (the ATO believes that some taxpayers are claiming this – or an amount just less than $300 – without actually incurring the expenses at all)

The focus on home office, mobile phone and home internet costs is likely to be particularly pronounced with so many people working from home due to COVID-19.

Working from home deduction

The Australian Taxation Office (ATO) has announced special arrangements this year due to COVID-19 to make it easier for people to claim deductions for working from home.

The new arrangement will allow people to claim a rate of 80 cents per hour for all their running expenses, rather than needing to calculate costs for specific running expenses.

Multiple people living in the same house can claim this new rate. For example, a couple living together could each individually claim the 80 cents per hour rate. The requirement to have a dedicated work from home area has also been removed.

If you choose to use this shortcut method, all you need to do is keep a record of the hours you worked from home as evidence of your claim.

This new shortcut arrangement does not prohibit people from making a working from home claim under existing arrangements, where you calculate all or part of your running expenses.

Claims for working from home expenses **prior to 1 March 2020 cannot** be calculated using the shortcut method and must use the preexisting working from home approach and requirements.

Example

Bianca is an employee who works as a copy writer and editor. Bianca starts working from home on 16 March as a result of COVID-19 and replaces her face-to-face meetings with online video conferencing.

Bianca has just bought a new laptop, desk, chair and stationery. She also wants to claim some additional gas, electricity, phone and internet costs due to working from home.

Under the shortcut method, Bianca can now claim all her expenses under a rate of 80 cents per hour. All she needs is a record of her time worked at home.

This option only applies to working from home claims for 1 March to 30 June.

Bianca can also decide to claim using existing working from home calculations. Under that method, Bianca can claim the desk, chair, gas and electricity under the 52 cents per hour, but would need to work out the decline in value of the laptop, and calculate the work-related portion of the laptop, stationery, phone and internet.

There are three ways that you can choose to calculate your additional running expenses for the 1 March – 30 June period:

- claim a rate of 80 cents per work hour for all additional running expenses; or
- claim a rate of 52 cents per work hour for heating, cooling, lighting, cleaning and the decline in value of office furniture, plus calculate the work-related portion of your phone and internet expenses, computer consumables; or stationery and the decline in value of a computer, laptop or similar device
- claim the actual work-related portion of all your running expenses, which you need to calculate on a reasonable basis.

Commuting still not tax deductible

As a result of COVID-19, the ATO is expecting decreased deduction claims for travel expenses for this financial year.

The ATO also reminded taxpayers that commuting between work and home is not tax deductible.

Before making any claim, be confident that you understand what you can and can't claim and that you have the necessary proof (invoices, receipts, diaries, etc) that you actually incurred the expenditure and that it was work or business related.

The ATO is also reminding people that the three golden rules for *ALL* expense deductions still apply:

1. **Taxpayers must have spent the money themselves and not have been reimbursed;**
2. **The claim must be directly related to earning income; and**
3. **There must be a record to substantiate the claim.**

Investment property claims

On the other end, the ATO will monitor claims made on investment properties and holiday homes.

The ATO commissioner has previously stated that in 2019 the tax office had audited claims for over 300 rental property and 'found errors in almost nine out of 10 returns reviewed'.

The ATO will focus on the following:

- Excessive interest expense claims, such as where property owners have tried to claim borrowing costs on the family home as well as their rental property
- Incorrect apportionment of rental income and expenses between owners, such as where deductions on a jointly owned property are claimed by the owner with the higher taxable income, rather than jointly

- Holiday homes that are not genuinely available for rent. Rental property owners should only claim for the periods the property is rented out or is genuinely available for rent. Periods of personal use cannot be claimed.
- Incorrect claims for newly purchased rental properties. The costs to repair damage and defects existing at the time of purchase or the costs of renovation cannot be claimed immediately. These costs are deductible instead over a number of years.

The focus on investment property owners is likely to be particularly pronounced because rental losses may be bigger than normal this year due to the hit that rental returns have taken during the COVID-19 crisis.

Remember, you need to declare your income from short-term rental arrangements such as AirBNB.

A common problem is people refinancing the loan on their rental property to buy a boat, take holiday or do a private home renovation, and then claiming the whole amount of interest instead of just the part that applies to the rental property.

Importantly, this issue also applies to all investment loans (e.g. shares).

The key tip is to ensure you keep good records. **If you can't substantiate it, you can't claim it**, so it's essential to keep invoices, receipts and bank statements for all property expenditure, as well as proof that your property was available for rent, such as rental listings.

Other key issues to be aware of this year, when completing your tax return:

- If you lost your job or had your hours reduced as a result of COVID-19, it's possible that your employer will have over-deducted tax earlier in the year in relation to your wage or salary. That could mean you're entitled to a bigger than normal refund when your lodge your income tax return this year. So, lodge early to claim your refund.
- If you received the **$1,500 per fortnight JobKeeper payments from your employer or through your business, this is included in your taxable income** for the year and will need to be included in your tax return.
- Most employers are no longer obliged to provide you with a payment summary. Instead, they report your year-end details directly to the ATO. We should be able to use our online ATO services to access these for you.

What actions do you need to start taking already?

Take time to gather all the information you'll need to do your tax return, including invoices and receipts for work-related expenses and any bank or credit card statements that include a list of your work-related expenses that you no longer have (or never had) receipts or invoices for.

<u>If you don't have the proof/paperwork, you can't claim a deduction.</u>

Additionally, if you're making claims for expenses that fall under the work category and private use simultaneously (such as for the use of a personal mobile phone), "set some time aside to work out what a reasonable apportionment is for the work-related bit".

Sole Traders – JobKeeper & JobSeeker payments

Sole traders who receive JobKeeper payments must include these payments as assessable income.

Neglecting to do this could slow down your return, or worse, generate nasty bills down the track, so it must be declared.

Sole traders receiving JobSeeker payments under the temporary COVID-19 supplement or otherwise, will also need to include this information in their tax returns.

However, there are a range of options for sole traders looking for some extra financial flexibility around tax time, including varying PAYG instalments, which allow taxpayers to manage their expected tax liabilities.

Because of the coronavirus outbreak, the ATO is allowing sole traders and other businesses to vary PAYG instalments (including to zero) if they believe paying the current rate will result in them paying too much in instalments, when compared to their estimated tax for the year.

Claiming deductions for personal super contributions

You may be able to claim a tax deduction for personal super contributions that you made to your super fund from your after-tax income, for example, from your bank account directly to your super fund. Before you can claim a deduction for your personal super contributions, you must have given your super fund a Notice of intent to claim or vary a deduction for personal contributions form (https://www.ato.gov.au/uploadedFiles/Content/SPR/downloads/n71121-11-2014_js33406_w.pdf) and received an acknowledgement from your fund. There are other eligibility criteria that you must meet.

People eligible to claim a deduction for personal contributions include people who get their income from:

- salary and wages
- a personal business (for example, people who are self-employed contractors, or freelancers)
- investments (including interest, dividends, rent and capital gains)
- government pensions or allowances
- super
- partnership or trust distributions
- a foreign source.

The personal super contributions that you claim as a deduction will count towards your concessional contributions cap. When deciding whether to claim a deduction for super contributions, you should consider the super impacts that may arise from this, including whether:

- you will exceed your contribution caps
- Division 293 tax applies to you
- you wish to split your contributions with your spouse
- it will affect your super co-contribution eligibility.

If you exceed your cap, you will have to pay extra tax and any excess concessional contributions will count towards your non-concessional contributions cap.