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Work-related expense claims under scrutiny

Will you claim work-related expenses on your tax return this year? The ATO now uses real-time data to compare people's tax returns with others in similar occupations and income brackets. This year it's focused on identifying higher-than-expected claims for expenses related to work vehicles, travel, internet and mobile phones, and self-education, and may even check people's work deduction claims with their employers.

TIP: Ever heard that you can make a standard claim of $300 for work-related expenses even if you don't have evidence? This isn't true! The ATO doesn't ask for receipts up front for claims up to $300, but you must have actually spent what you claim, and be able to show how you worked out your deductions if the ATO asks.

The ATO's also concerned about people's many incorrect claims for work-related clothing and laundry expenses. In 2014–2015, around 6.3 million people made claims against clothing expenses, but work-related deductions are in fact only available for specific uniforms and protective clothing items, not for everyday clothes you buy, launder and wear for work.

Employee travel expense deductions

The ATO has also released new guidance on work-related travel deductions. To claim for transport or other employee travel expenses (like accommodation and meals) in your tax return, you must have incurred the expenses as part of gaining or producing your taxable income. Private and domestic travel expenses, including the costs of your ordinary home-to-work travel, aren't claimable.

Transport costs for work-related travel may be deductible, but the ATO will consider factors such as:

- whether the travel is a necessary part of performing your work (you can't pretend your family holiday's a work trip);
- whether your employer pays you to undertake the travel; and
- whether you have to follow your employer's instructions during the travel period.

Accommodation, meal and other incidental expenses are deductible as work-related only if your work has "special demands" or "co-existing work locations" that mean you have to sleep away from home.

TIP: We're here to help – contact us to find out more about getting your work-related tax deductions right.

Working holidaymakers and tax returns for 2017

If your business employs working holidaymakers – or you've been one yourself this year! – you need to know about the "backpacker tax" changes that came into effect from 1 January 2017.

Employers need to issue two payment summaries to each working holidaymaker for the 2016–2017 financial year:

- one for income earned up until 31 December 2016; and
- one for income earned after 1 January 2017 (using payments code H).

All employers need to include code H on payment summaries of backpacking workers' post-1 January income, even if the employer isn't registered with the ATO as employing working holidaymakers.

TIP: If only one payment summary is issued, the income needs to be apportioned so the before and after 1 January amounts appear separately on the working holidaymaker's tax return.

Small businesses

Asset write-offs

Small businesses with a turnover of less than $10 million can get an immediate deduction for assets that cost up to $20,000 each in their 2016–2017 return. The $20,000 threshold now applies until 30 June 2018.

Assets that cost $20,000 or more can't be immediately deducted. They need to be deducted over time using a small business asset pool.

TIP: It's important to apply all of the simplified depreciation rules correctly so your business doesn't under-claim for its eligible assets. Talk to us today for more information.

Tax debts: setting up a payment plan

Does your small business have a tax debt? The ATO encourages you to get in touch to set up a payment plan. If the debt is $100,000 or less, you can use the ATO's self-help service to easily arrange paying by instalments.

If a business pays its tax debt late or by instalments, interest accrues on the unpaid debt. However, some businesses with activity statement debts may be eligible for interest-free payment plans.

To deal with a business tax debt of more than $100,000, you can phone the ATO on 13 11 42.

TIP: Your business still needs to lodge all of its ongoing activity statements and tax returns on time, even if you have a payment plan or can't pay by the due date.

Federal Court rules on PAYG avoidance

The Federal Court and Administrative Appeals Tribunal have agreed with the ATO that a business, Sunraysia Harvesting Contractors Pty Ltd, was making use of a "sham" arrangement with three other companies to avoid pay as you go (PAYG) and payroll accounting responsibilities. Sunraysia's operators argued, unsuccessfully, that the three other companies employed Sunraysia's workers, and those companies were responsible for PAYG deductions and payroll tax. The Federal Court said the arrangement was a "crude" structure with "no worth", and ruled to deny Sunraysia's input tax credits and impose penalties for GST shortfall and the business's failure to meet its PAYG, payroll and other income tax obligations.

Tax assessments confirmed for undisclosed business income

The Administrative Appeals Tribunal has ruled that the ATO was correct to issue tax assessments of $3.7 million and penalties of $3.3 million to a business taxpayer that had underreported its income and failed to lodge several years worth of tax returns. The taxpayer, PSI Pty Ltd, argued that it owned and rented out several Sydney properties, but did not engage in other business activities or receive the significant amounts of income that the ATO had assessed to it.

In fact, evidence before the Tribunal showed that PSI made a range of expensive capital purchases, including fitness equipment, more than 30 motor vehicles, firearms and a "bomb dog". Its bank statements included references to "consultation fees", "gun licences" and a "security industry register", a loan application suggested income 20 times what the taxpayer admitted to earning, and PSI had apparently made significant loans to related parties with no returns.

The Tribunal upheld the assessments and penalties issued, and allowed the ATO to impose an extra 20% penalty for two of the taxpayer's income years.

ASIC takes action on super fund disclosures

Under Australia's superannuation law, super funds must disclose transparency information on a website and keep it up to date at all times.

The Australian Securities and Investments Commission (ASIC) recently investigated and contacted 21 superannuation trustees about their failures to meet the disclosure requirements.

In response, seven trustees acted to disclose the required information, five made it easier to find the information online, trustees of two small funds sought relief from the obligations, seven trustees wound up their funds, and two improved their procedures for ensuring they kept disclosed information up to date.

TIP: Transparency information needs to include details about the fund's governance, executive officer remuneration, fund trust deeds and product disclosure statements, a summary of significant event notices and a summary of how the trustee voted in the last financial year regarding its listed shares.

Companies should consider reporting tax liabilities: AASB

Sometimes it's unclear how tax law applies to a company transaction or circumstance and how the ATO will treat it. New guidance from the International Financial Reporting Standards Interpretations Committee (IFRIC) explains how companies should reflect this uncertainty in their accounting for income taxes.

Although the new guidance isn't in effect until January 2019, the Australian Accounting Standards Board (AASB) recommends that all Australian companies reassess whether to record a tax liability in their 2017 reporting.