

# SUBSTANTIATION REQUIREMENTS

The Australian Tax Office is monitoring Work Related Expenses very closely and it is essential that you maintain proper records.

Please find below a guideline of substantiation requirements that are required for common deductions. This list is not exhaustive.

Claims for work-related expenses, car expenses and travelling expenses incurred by an individual and businesses must be substantiated if the claims are to be allowed. As well as the requirement to incur deductible expenditure, the substantiation rules impose a strict evidentiary requirement.

## **Records:**

Substantiation records must be retained for 5 years from date of assessment. Records must show that expenses were incurred while earning assessable income, or were incurred in carrying on a business.

Deductions must be claimed in the income year the expense is incurred, and you must have written evidence when you lodge your tax return. Written evidence must contain: name of supplier, amount of expense, nature of goods/services, day incurred and day the document was made out.

When claiming depreciation a document from the supplier showing the name of the supplier, cost of the property, nature of the property, date acquired, and date document made out.

## **Overtime Meal Allowances**

The ATO accepts an overtime meal expense claim up to \$21.90 (2006/2007) to be reasonable. Claims can only be made if the allowance is shown as an allowance on your Payment Summary. A deduction is allowable provided the expense claimed was actually incurred to buy food or drink in connection with overtime worked.

## **Travel Expenses**

Records must be kept showing evidence of business travel expenses if away from ordinary residence for one or more nights, and a travel diary kept for 6 nights or more. Records must include: nature of activity, date and approx. time it began, length, and location. Motor vehicle expenses are claimed separately. For travel claims within Australia the amounts deductible are dependent on salary levels. If the travel period is 21 days or longer you cannot claim travel expenses, but may be claimed as a living away from home allowance.

## **Car Expense Substantiation**

Taxpayers can choose one of the following in order to claim their car expenses:

- Cents per kilometre – maximum of 5000 business kms per car
- 12% of original value – must travel more than 5000 business kms
- 1/3<sup>rd</sup> of actual expense – must travel more than 5000 business kms

- Logbook – doesn't matter if car has traveled more or less than 5000 business kms but the car must be owned or leased by the taxpayer and all car expenses must be substantiated (including registration and insurance, repairs and maintenance, fuel and oil, depreciation, and lease charges if leased).
- Logbook and odometer records to record the number of kilometres traveled by the car must be maintained for a continuous 12-week period if using the logbook method.

## **Home Office Expenses**

Taxpayers are allowed to certain types of deduction depending on whether an area of their home is considered to be a place of business, or is simply used in connection with income producing activities, but does not have the character of a place of business.

Home office expenses can be separated into two broad categories:

- Occupancy expenses relating to ownership or use of a home, such as rent, mortgage interest, council or water rates or building insurance.
- Running expenses relating to the use of facilities within the home, such as heating or cooling, lighting, cleaning, decline in value, leasing charges, repairs to items of furniture and furnishings in the office.

If an area of a taxpayer's home is characterized as a place of business but is still used in connection with income producing activities, they will be entitled to claim running expenses only.

### *Defining a place of business*

The following factors (not being exclusive or exhaustive) may indicate that an area set aside has the character of a place of business. The area is:

- Clearly defined as a place of business
- Not readily suitable or adaptable for private or domestic purposes in association with the home generally
- Used exclusively or almost exclusively for carrying on a business, or
- Used regularly for visits of clients or customers.

### *Calculating the deduction:*

- Occupancy expenses: In the case of a taxpayer entitled to occupancy expenses, the most widely accepted method for calculating the amount of the deduction is as a percentage of floor space.
- Running Expenses: taxpayers may claim a portion of all their separate running expenses which are required to be substantiated by copies of receipts or bills. Alternatively, they may use the Commissioner's reasonable estimate of 26 cents per hour which covers heating or cooling, lighting, electricity, gas and the decline in value of furniture and office furnishings.

Whether taxpayers are calculating actual expenses or using the 26 cents per hour method, a diary must be kept in each income year. This diary will cover a representative four-week period and be used as the basis for calculation the overall yearly expenditure.

**A new diary must be kept in each financial year regardless of the method used.**