

# STS TAX TALK

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We hope you find the latest copy of our newsletter as informative as our others and a valuable tool in your wealth creation!

## HAPPY NEW YEAR

*We wish you and your family, health, wealth and happiness for the New Year!*

A HAPPY  
NEW YEAR

## Claiming a deduction for work clothing

### Introduction

If you received an allowance from your employer for clothing, uniforms, laundry or dry-cleaning, make sure that you have shown the amount on your tax return.

You can claim the cost of buying, renting, repairing and cleaning occupation-specific clothing, protective clothing and certain work uniforms.

You cannot claim the cost of purchasing or cleaning a plain uniform or clothes you bought to wear for work that are not protective or specific to your occupation even if your employer tells you to wear them, for example, a bartender's black trousers and white shirt or a manager's suit or stockings.

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## Claiming a deduction for work clothing continued.

### What you may need

- written evidence from your goods or services supplier
- diary records of your laundry costs, if you need written evidence.

### You need to know

You cannot automatically claim a deduction simply because you received a uniform, clothing, laundry or dry-cleaning allowance from your employer.

## Work uniforms

This is a uniform, either compulsory or non-compulsory, that is unique and distinctive to the organisation that you work for.

### Definition

Clothing is unique if it has been designed and made only for the employer.

Clothing is distinctive if it has the employer's logo permanently attached and the clothing is not available to the public.

### Compulsory work uniform

This is a set of clothing that identifies you as an employee of an organisation which has a strictly enforced policy that makes it compulsory for you to wear the uniform while you are at work.

You may be able to claim a deduction for shoes, socks and stockings where they are an essential part of a distinctive compulsory uniform, the characteristics of which (colour, style, and type) are specified in your employer's uniform policy.

You may be able to claim for a single item of distinctive clothing, such as a jumper, if it is compulsory for you to wear it at work.

### Non-compulsory work uniform

You cannot claim expenses incurred for non-compulsory work uniforms unless your employer has registered the design - check with your employer.

Shoes, socks and stockings can never form part of a non-compulsory work uniform, and neither can a single item such as a jumper.

## Claiming a deduction for work clothing continued.

### **Occupation-specific clothing**

This is clothing that is specific to your occupation, is not everyday in nature and would allow the public to easily recognise your occupation, for example, the checked pants a chef wears.

### **Protective clothing**

This is clothing and footwear that you wear to protect yourself from the risk of illness or injury posed by your income-earning activities or the environment in which you are required to carry them out. To be considered protective, the items must provide a sufficient degree of protection against that risk.

Examples of protective clothing include:

- fire-resistant and sun-protection clothing
- safety-coloured vests
- non-slip nurse's shoes
- rubber boots for concreters
- steel-capped boots, overalls, and heavy duty shirts and trousers.

We also consider that overalls, smocks and aprons you wear to avoid damage or soiling to your ordinary clothes during the course of your income-earning activities are protective clothing. Ordinary clothes, such as jeans, drill shirts and shorts, trousers and socks that lack protective qualities designed for the risks of your work are not protective clothing.

## **Claiming a deduction for laundry/dry cleaning of work clothing.**

### **Laundry expenses**

You can claim the costs of washing, drying and ironing eligible work clothes. Costs can include laundromat expenses.

### **Working out your claim**

We consider that a reasonable basis for working out your laundry claim would be \$1 per load – this includes washing, drying and ironing – if the load is made up only of the clothes described in and 50 cents per load if other laundry items are included. If you choose a different basis to work out your claim, we may ask you to explain that basis.

## Claiming a deduction for work clothing continued.

### Written evidence

You must have written evidence, for example, diary entries and receipts, for your laundry expenses if:

- the amount of your claim is greater than \$150, and
- your total claim for work expenses exceeds \$300 – not including car, meal allowance, award transport payments allowance and travel allowance expenses.

If you do not need to provide written evidence for your laundry expenses, you may use a reasonable basis to work out your claim.

### Dry-cleaning expenses

You can claim the cost of dry-cleaning eligible work clothes. You must have written evidence to substantiate your claim if your total claim for work expenses exceeds \$300 – not including car, meal allowance, award transport payments allowance and travel allowance expenses.

## Home office expenses

### Home Office Expenses for Employees Only

- Work brought home
- Not normal work place or place of business
- 4 week diary to determine business use (please see attached spreadsheet).
- 26 cents per hour for heating, cooling, lighting, etc. This includes depreciation of office furniture.
- If you have purchased a desk, chair, filing cabinet, lamp, etc please provide details and receipts so we can gain the best tax advantage for you.
- 4 week diary to determine phone usage (unless there is a separate 100% business use line).

*“We all have the same 1,440 minutes per day-how we apportion our time around the big pay-off tasks will determine our ability to get things done. All the smaller stuff (the other 80 per cent) will look after itself once the big 20 per cent is out of the way.”*

## Carrying on a business at or from home

As a general rule, expenses associated with your home are private and you can't claim a tax deduction for them. However, if you operate a business at or from your home, you may be able to claim a deduction for some of the expenses relating to the area you use for business purposes. These expenses are divided into:

- Occupancy expenses; and
- Running expenses.

**Occupancy expenses** are expenses related to your ownership, rental or use of the home and are not incurred because of your income-earning activities. In other words, you would have these expenses regardless of whether you were carrying on a home-based business.

Occupancy expenses include:

- rent
- mortgage interest
- council rates, and
- housing insurance premiums.

**Running expenses** are expenses related to using facilities within your home for business. Carrying on a business at or from your home means that these expenses may be higher than if you were not doing so.

Running expenses include:

- cost of using a room (such as electricity and gas costs for heating, cooling and lighting)
- Decline in value of plant and equipment (for example, desks, chairs, bookcases, computers, lathes, grinders)
- Decline in value of curtains, carpets, light fittings, etc.
- cleaning costs
- cost of repairs to furniture and furnishings, and business phone costs.

## Carrying on a business at or from home continued.

### What expenses can you claim?

The expenses you can claim depend on the way you carry out your work at home:

You have an area set aside exclusively for your business activities (for example, an office or workshop).

You can claim **occupancy and running expenses**, provided the area set aside has the character of 'a place of

or

You do not have an area set aside exclusively for your business

(for example, you work in a corner of the

You can claim only **running expenses**.

If you are eligible to claim only running expenses, you don't have to worry about capital gains tax if you sell your home. Capital gains tax applies only if you are eligible to also claim occupancy expenses.

### Does the area set aside have the character of 'a place of business'?

The area must have the character of 'a place of business'. While this will depend on your particular circumstances, an area of your home is likely to have the character of a place of business if it is:

- clearly identifiable as a place of business (for example, you have a sign identifying your business at the front of your house)
- not suitable for private or domestic purposes
- used almost exclusively for carrying on your business, or
- used regularly by your clients.

### Rent, mortgage interest, insurance, council rates

If eligible to claim occupancy expenses, you can claim the percentage of rent, mortgage interest, council rates and insurance that relates to the area you use as a place of business. A common method of working out how much to claim is to use the floor area (as a proportion of the floor area of your whole home). For example, if the floor area of your home office is 10% of the total area of your home, you could claim 10% of your rent or mortgage interest, council rates and insurance.

## Carrying on a business at or from home continued.

### How much can you claim?

#### Utilities (gas, electricity) \*

If the business percentage is based on anything other than the floor area (for example, on actual electricity use) you will need to clearly document your claim to show how you arrived at the amount.

Where you don't have an area of your home set aside exclusively for business, you can't claim on a floor area basis as this area is also used for non-business purposes. In this case, you'll need to show how you arrived at the amount you're claiming for gas and electricity.

You're allowed a deduction only where you incur additional running costs because of your business activities. For example, if you work in a room where other family members are watching television, you would probably not have additional heating costs as a result of that work activity.

Furthermore, the business use of the home work area needs to be substantial and not merely incidental. For example, you couldn't claim 26 cents an hour simply because your fax machine is on 24 hours a day, 7 days a week, to receive business faxes.

#### Phone \*

If you use a phone exclusively for business, you can claim a deduction for the phone rental and calls, but not the cost of having the phone installed. This is because the installation cost is considered a capital expenditure.

If you use a phone for both business and private calls, you can claim a deduction for business calls and part of the rental costs. You use the following formula to calculate the percentage of phone rental expenses you can claim:

$$\frac{\text{Number of business calls} \times 100}{\text{Number of total calls}}$$

You can identify business calls from an itemised phone account. If you don't have an itemised account, you can keep a record for a representative four-week period to establish a pattern of business calls for the entire year, provided you have a regular pattern of use throughout the year.

## Carrying on a business at or from home continued.

### Business plant and equipment

If you use plant and equipment solely for business purposes, you can claim the full amount of depreciation. But if you also use equipment (such as a computer, printer, photocopier, grinder, circular saw) for non-business purposes, you have to reduce the depreciation deduction by an amount that reflects this non-business use.

You work out the amount of depreciation to claim as a deduction based on a bona fide estimate of the percentage of business use. You can base this estimate on a diary record of your business and non-business use of equipment for a representative four-week period. Your diary record needs to show the nature of each use of the equipment, whether it was for business or non-business purposes, and the period of time it was used.

## 4 week diary

### 4 Week Diary

Under current Australian Taxation Law claims made for items such as the following for income producing purposes:

- Mobile phone usage
- Internet usage
- Home Phone usage
- Computer usage and associated expenses
- Home office

The Australian Taxation Office requires individuals to maintain a 4 week diary every year to substantiate the income producing use of the above items. The diary needs to record the duration and purpose of each use of the above items in order to establish a pattern of use that is then used for the entire year.

This income producing usage will need to be categorized separately between work related, rental property related, trading (shares/options) related and any business/sole trader related use.

If you tell us a % to claim we will assume you have the required 4 week diary to substantiate the claim.

## 4 week diary continued.

Example of Time usage diary worksheet

Taxpayer's name \_\_\_\_\_

Tax file number \_\_\_\_\_

Year ended \_\_\_\_\_

Employer (if applicable) \_\_\_\_\_

It is recommended that a time usage diary adopt the following format:

Time usage diary

| Date | Time Commenced | Time Finished | Total Time | Business Usage | Private Usage | Type of Task Undertaken |
|------|----------------|---------------|------------|----------------|---------------|-------------------------|
|      |                |               |            |                |               |                         |
|      |                |               |            |                |               |                         |
|      |                |               |            |                |               |                         |

Item Diary relates to (eg. Computer, internet, home office) \_\_\_\_\_

Date time diary commenced: \_\_\_\_\_

Date time diary finished: \_\_\_\_\_

Total business hours usage: \_\_\_\_\_

Total hours

(business and private) \_\_\_\_\_

Creditable (business) use percentage (%) \_\_\_\_\_

(business hours divided by total hours)

## INTRODUCING NEW CLIENTS

We are pleased to introduce and welcome on board our new clients for November/December to our team. We would also like to take this opportunity to thank our valued current clients who have referred them. We appreciate that you think highly enough of us to recommend us to your family and friends.

- Matt Skopal—referred by: TGR Property Seminar
- Leesa Maxwell—referred by: TGR Property Seminar
- Julie Irwin—referred by: TGR Property Seminar
- Philip Grayson—referred by: Vital Link

### *STS complimentary mentoring program on offer to our clients:*

#### *Access to the STS website containing:*

- \* Spreadsheets and information worth \$1000's to help you maximize your tax deductions
- \* Pro-formas that assist you in preparing documentation to help bullet proof you from a tax office audit
- \* Newsletters designed specifically for our clients
- \* MP3 files of our recent teleconferences, for download
- \* Personalised Tax Data Collection form

#### *Other complimentary services we offer:*

- \* We conduct a free review on your prior year's tax return
- \* You are able to partake in our teleconferences – ask any general questions, suggest topics to be covered, hear expertise to help in your wealth creation process.
- \* You can attend our FREE annual seminar

### **Feedback**

***As you are a valued client, we appreciate your ideas on how we can better meet your expectations. If you would like a topic covered please let us know. We look forward to any comments or suggestions you may have—please contact us on [stsadmin@superiortax.com.au](mailto:stsadmin@superiortax.com.au).***

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#### Up-to-date Details

Please make sure your contact details are up-to-date as we will be sending private and personal information to you by email and post.

This newsletter is not specific advice for your personal situation. Please do not act solely on the content of this newsletter. Please seek professional advice before proceeding.

***A member of your wealth  
creation team***