THE INCOME TAX PROFESSIONALS

Top 5 Mistakes Australians Make On Their Tax Returns

For many people, their place of work has been in their homes since the Corona Virus lockdown. Now that the June 30 deadline is approaching, many Australians are thinking about their tax returns and what claims they can make for the 2019 / 2020 financial year.
This year, the ATO has brought in a new short cut method between 1 March and 30 June 2020 to claim working from home costs. This is a cut down, simplified method of calculating your tax claims of a flat rate of 80 cents per business hour, but it might not take all of your valid claims into consideration and net you the best tax return.

With tax time approaching, it's time to look at some of the mistakes Australians make when claiming their tax deductions.

Leaving out all income

There are many reasons people might forget to include all of their income. There may have been a job change during the year. A casual job taken for part of the year. Money earned from the shared or gig economy. Cash in hand jobs. There may be bank interest earned or dividends paid through shares. All of these options generate an income and must be declared at tax time.

It's important not to forget your investments either. Secondary streams of income are all a part of your overall income, some of which may include:

- Renting a room of your house
- Renting your holiday house
- Deliveries on the weekend
- Affiliate selling
- Ride sharing
- Renting out tools
- Cleaning houses on a Saturday morning
- Stocks and investments

Any income you earn, no matter how long you've done the job for or how much you're paid must be declared. It's not all about paying tax, but it will add up the tax deductions you'll be able to claim.

Claiming personal expenses

All tax claims must be made on expenses incurred that enable you to earn your income. There are many misconceptions on what can and can't be claimed, and are made mostly surrounding clothing, personal items and home to work travel. Although there are always exceptions to the general rule, they are based on a job by job basis. You Tax Agent will help you work out if you do have a valid claim.

The ATO doesn't allow casual clothing to be claimed, even if you are required to wear a particular garment to work. A black pair of pants you've had to buy for a waitressing job, or a white shirt to wear to the office remain personal clothing, as they can be worn anywhere and are not necessarily only part of a work wardrobe.

The ATO allows distinguishing uniforms that have a clear logo or is visually distinctive to be claimed. Also allowed are safety vests, safety glasses, steel-capped boots and protective gear. If you do need to wear a uniform or protective clothing, you must not have been reimbursed by your employer. To claim, the cost should have been out of your own pocket.

Personal items such as sunscreen, make up and hair products are on the list that the ATO considers personal items. Unless you work in the sun all day as a requirement of your job, sunscreen remains a personal expense. A lot of Australian claim make up expenses because they need to look a certain way for work, however if makeup is not necessary for you to earn your income, looking good remains a personal cost.

There are a myriad of travel costs that can be claimed, from tolls, to parking and car expenses if you use your own car driving from job to job once you've reached your place of work, however travelling from home to your job is considered to be a private expense.

Forgetting receipts

There can be no claims made if you aren't able to provide proof of purchase and many people miss out because they haven't kept their receipts. To qualify, the receipt must show:

- The name of the supplier
- The amount of the expense
- The nature of the goods or services
- The date the expense was paid
- The date of the document

Other records that need to be kept include:

- Income statements or payment summaries
- Bank statements and other documents from financial institutions showing any interest you've earned
- Dividend statements
- Summaries of managed funds
- Receipts or invoices for equipment or asset purchases and sales
- Receipts or invoices for expense claims and repairs
- Contracts
- Tenant and rental records

If your total claim for work-related expenses is more than $300, you'll need to provide the written evidence. The ATO allows electronic copies, as long as they are a clear and true representation of the original and must be kept for five years.

Claiming expenses you didn't pay for

Although the ATO allows expenses of $300 and under to be claimed without a receipt, you should have incurred a real expense. Tax deductions can only be made on costs already incurred on expenses for earning your income. You are not entitled to a standard deduction.

Claiming personal expenses for rental properties
There are many ways to generate an income on your dedicated rental investment properties, your holiday house or if you rent a room of your house. Many expenses at tax time however, are claimed on non income-generating costs. Deductions can only be claimed for when the property was genuinely rented to another person or business and available for rent. Taking a holiday in your own holiday home and then claiming the expenses for that time is a big no-no.

There are three main types of rental expenses:

1. Rental expenses you can claim in the same year, which include:
   a. Advertising for tenants
   b. Body corporate fees and charges
   c. Council rates
   d. Water charges
   e. Land tax
   f. Cleaning
   g. Gardening and lawn mowing
   h. Pest control
   i. Insurance (building, contents, public liability, landlord)
   j. Interest expenses
   k. Pre-paid expenses
   l. Property agent fees and commission
   m. Repairs and maintenance
   n. Some legal expenses

2. Rental expenses you can claim over several years, which includes:
   a. Borrowing expenses
   b. Capital expenditure
   c. Depreciating assets
   d. Initial repairs
   e. Capital allowances
   f. Capital works
   3. Rental expenses you can't claim, such as:
   a. The amount you borrow for the property
   b. Loan balances for the property
   c. Repayments of principal against the loan balance
   d. Stamp duty
   e. Legal expenses and conveyance fees
   f. Insurance premiums
   g. Borrowing expenses

Capital gain tax may also be incurred when you sell your property. Expenses you incur when purchasing and selling your rental property are capital expenses.

Seek assistance

If you're unsure, it's always best to take the advice of a professional. ITP Tax Accountants help 300,000 Australians with their tax each year, and their fees are 100% tax deductible in your next year's tax deductions. They'll claim all of your legal deductions – and some you may not even be aware of. The difference could mean hundreds in your pocket. Call 1800 367 487 or book online at www.itp.com.au.