

HD ATO targets work expenses, rental properties and more

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WC 1,121 words

PD 28 August 2014

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LA English

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The Australian Tax Office regularly flags tax compliance issues it has under the microscope.

But don't think if an issue is not on that list, the ATO is not looking at it. The ATO's administration of the tax system doesn't work that way.

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Take work-related tax deductions, a big ticket item in the deduction stakes.

Tax deductions claimed for work-related expenses are a "tax 101" item. The vast majority of taxpayers claim them – in fact, in 2011-12, some 8.5 million individual taxpayers claimed some work-related expenses. The claims have steadily increased over recent years. In 2009-10, they totalled \$17.1 billion, while in 2011-12, they were \$19.3 billion, a \$2 billion increase over two years. Those expenses represent a significant cost to the revenue so it is not surprising the ATO has a particular focus on them as part of its compliance activities. And there are specific rules surrounding claiming such expenses.

This year, the ATO says it is using extensive data analysis to identify areas requiring attention across all work-related expense claims, regardless of occupation. However, the ATO says it is paying particular attention to work-related expense claims relating to:

overnight travel;

transporting bulky tools and equipment – the recent Ford AAT case on this issue involving a train guard transporting equipment essential to his work from his home to work highlighted the kinds of issues involved in making such claims. The taxpayer lost the case essentially because his employer provided a secure locker at his work place for the equipment, so he did not need to transport it to and from work;

the work-related use of computers, phones or other electronic devices.

Last year, the ATO paid particular attention to high work-related expenses claims made by: (i) building and construction labourers, construction supervisors and project managers; and (ii) sales and marketing managers.

Specific rules in the tax law specify the written evidence that an individual must obtain to substantiate deductible work-related expenses.

The ATO stresses that taxpayers claiming work-related expense deductions need to satisfy several basic requirements:

they must have spent the money;

the expense must be related to their job;

they must have a record to prove it.

If that seems like "stating the bleeding obvious", ask yourself why the ATO feels it necessary to remind taxpayers about it.

Rental **property** deductions

The current hot **property** market also has the ATO's attention. The ATO says it is increasing its focus on rental **property** deductions. It says common errors made by rental **property** owners include:

claiming rental deductions for properties not genuinely available for rent;

incorrectly claiming deductions for properties only available for rent part of the year such as a holiday home;

incorrectly claiming structural improvement costs as repairs when they are capital works deductions, such as re-modelling a bathroom or building a pergola; and

overstating deduction claims for the interest on loans taken out to **purchase**, renovate or maintain a rental **property**.

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Data-matching programs

In its drive to enforce tax compliance, the ATO's use of data-matching programs is ever-expanding, as I have mentioned before.

Offshore bank accounts

Most recently, the ATO has announced it will request and collect account details of bank customers from various financial institutions (see below) to identify Australian resident taxpayers with offshore bank accounts which may evidence undeclared income and/or gains for the years ended 30 June 2012 to 2015. The financial institutions concerned include:

Australia and New Zealand Banking **Group** Limited

Bank of **China** (Australia) Limited

Bank of **China** Limited

Credit Suisse AG

Deutsche Bank Aktiengesellschaft

HSBC Bank Australia Limited

Hongkong and Shanghai Banking Corporation Limited

Investec Bank (Australia) Limited

Macquarie Bank Limited

Rabobank Australia Limited

Rabobank Nederland

UBS AG

Citibank, N.A.

Citigroup Pty Limited

The program is designed to help the ATO identify Australian resident taxpayers who may be outside the tax system and increase transparency of the worldwide dealings of Australian resident taxpayers. The program will also assist the ATO to build an understanding of taxpayer behaviour in international dealings, develop compliance profiles and improve fraud detection models. The ATO estimates that approximately 50,000 offshore records will be obtained under the program.

Taxable government grants and payments

In another data-matching program, the ATO will also acquire details of entities receiving taxable grants and payments from various Federal, State and Territory and Local Government departments, agencies and authorities. The program is designed to enable the ATO to:

identify and test the correct taxation reporting by recipients of taxable Government grants and payments from agencies across the Federal, State and Local levels of government; and

identify areas that require improved educational and compliance strategies to encourage voluntary compliance for recipients of Government payments and grants.

Records matched under the program will exceed 5,000 individuals throughout Australia.

Music royalty payments

The ATO will acquire details of entities collecting and distributing music royalty payments for the 2011, 2012 and 2013 financial years from the following sources:

Australasian Performing Right Association (APRA) and APRA New Zealand Limited;

Australasian Mechanical Copyright Owners Society (AMCOS) and AMCOS New Zealand Limited.

Among other things, the ATO aims to detect instances of potential non-compliance, especially with omitted income and alienation of personal services income. The ATO also aims to develop a profile of the industry, including any risks and trends of non-compliance with taxation and superannuation obligations, and tailor educational strategies specifically for participants in the music industry. It is estimated that records for more than 15,000 entities will be obtained, of which most will be individuals.

Building sector – phoenix operators

And just to finish off, the security regulator ASIC says its surveillance program aimed at weeding out illegal phoenix operators has been widened to look at the use of false statutory declarations in the building and construction sector. The campaign follows feedback from small businesses, industry bodies and other government agencies about the use of false statutory declarations in the sector to falsely claim payments for work.

"There is concern that some **company** officers of larger companies have falsely declared that they have paid small businesses contracted to work on **commercial** and **residential** projects when this is not the case", ASIC Commissioner Greg Tanzer said.

Thomson Reuters [Australian Tax Handbook 2014 – Tax Return Edition](#) provides information on claiming all kinds of tax deductions, including the rules relating to claiming rental properties and work-related expenses.

Terry Hayes is the editor-in-chief of tax news reporting at [Thomson Reuters](#), a leading Australian provider of tax, accounting and legal information solutions.

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