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# Employees guide for work expenses

## **1 Relying on the Employees guide for work expenses**

We are committed to providing you with accurate, consistent and clear information to help you understand your rights and entitlements and your obligations.

If you follow our information and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we will take that into account when determining what action, if any, we should take.

Some of the information on this website applies to a specific financial year. This is clearly marked. Make sure you have the information for the right year before making decisions based on that information.

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## What this Guide is about

This *Employees guide for work expenses* will help you as an employee to decide whether your expenses are deductible, and what records you need to keep to substantiate them.

Not all expenses associated with your employment are deductible. This Guide explains:

- how to determine if an expense is deductible against your employment income
- how to apportion your expenses if they are only partly deductible
- how to work out whether you can claim a deduction in the year you incurred the expense or whether you need to claim a deduction for a decline in value over a number of years
- what records you need to keep.

The examples used throughout the guide assume that the people in them are employees and not in business.

## What's new in the 2019–20 income year

- An additional method for calculating running expenses incurred as a result of working from home (shortcut method) was introduced to help employees working from home during the COVID-19 pandemic. This method was initially only available to use from 1 March 2020 to 30 June 2020 but has now been extended to 30 September 2020.
- Taxation Ruling TR 2020/1 *Income tax: employees: deductions for work expenses under section 8-1 of the Income Tax Assessment Act 1997* was released. This Ruling provides guidance on when an employee can claim a deduction for a work expense.

More detail on changes we have made can be found at the end of each Part.

## See more:

- [Home office expenses](#)
- Practical Compliance Guideline [PCG 2020/3](#) *Claiming deductions for additional running expenses whilst working from home due to COVID-19*
- Taxation Ruling [TR 2020/1](#) *Income tax: employees: deductions for work expenses under section 8-1 of the Income Tax Assessment Act 1997*

## Common myths about work expense deductions

There are many myths about deductions that may lead you to make an incorrect claim. Here are some of the most common.

**Myth:** Everyone can automatically claim \$150 for clothing and laundry, 5000 km under the cents per kilometre method for car expenses, or \$300 for work-related expenses, even if they didn't spend the money.

**Fact:** There is no such thing as an 'automatic' or 'standard deduction'. Substantiation exceptions provide relief from the need to keep receipts in certain circumstances. While you don't need receipts for claims under \$300 for work-related expenses, \$150 for laundry expenses (**note:** this is for laundry expenses only and does not include clothing expenses) or if you are claiming 5,000 km or less for car expenses under the cents per kilometre method, you still must have spent the money, it must be related to earning your income, and you must be able to explain how you calculated your claim.

**See more:**

- [Laundry expenses](#)
- [Car expenses](#)
- [Substantiation requirements](#)
- [Exceptions and relief from substantiation requirements](#)

**Myth:** I don't need a receipt; I can just use my bank or credit card statement.

**Fact:** To claim a tax deduction you need to be able to show that you spent the money, what you spent it on, who the supplier was, and when you paid. Bank or credit card statements alone don't have this information. The only time you don't need these details is if substantiation exceptions apply.

**See more:**

- [Substantiation requirements](#)

**Myth:** I can claim makeup that contains sunscreen if I work outside.

**Fact:** We all like to look good, but cosmetics are usually a private expense and the addition of sun protection does not make it deductible. However, it may be deductible if the primary purpose of the product is sunscreen (that is, it has a high SPF rating), the cosmetic component is incidental, and you need to work outdoors in the sun.

**See more:**

- [Sunscreen](#)

**Myth:** I can claim my gym membership because I need to be fit for work.

**Fact:** While you might like to keep fit, there are only a very small number of people who can claim gym memberships, such as special operations personnel in the Australian Defence Force. To be eligible, your job would have to depend on you maintaining a very high level of fitness, for which you are regularly tested.

**See more:**

- [Gym fees and fitness-related expenses](#)

**Myth:** I can claim all my travel expenses if I add a conference or a few days' work to my holiday.

**Fact:** If you decide to add a conference or some work to your holiday, or a holiday to your work trip, you must apportion the travel expenses between the private and work-related components, and only claim the work-related component.

**See more:**

- [Conferences, seminars and training courses](#)
- [Overnight travel expenses](#)

**Myth:** I can claim my work clothes because my boss told me to wear a certain colour.

**Fact:** Unless your clothing is a uniform that is unique and distinct to your employer, or protective or occupation-specific clothing you are required to wear to earn your income, you won't be able to claim it. Plain clothes, like black pants, are not deductible even if your employer told you to wear them.

**See more:**

- [Clothing expenses](#)

**Myth:** I can claim my pay television subscription because I need to keep up to date for work.

**Fact:** A subscription to pay television is not ordinarily deductible. Keeping up to date on news, current affairs and other general matters usually will not have a sufficiently close connection with your employment activities to provide a basis for deducting these subscriptions. They are essentially private expenses.

**See more:**

- [Pay television and streaming services](#)

**Myth:** I can claim home to work travel because I need to get to work to earn my income.

**Fact:** For most of us, home to work travel is a private expense.

**See more:**

- [Transport expenses](#)

**Myth:** I've got a capped phone and internet plan, so I can claim both business and private phone calls and internet usage.

**Fact:** Unless you only use your phone and internet for work, you have to apportion the cost between work-related and private usage and only claim the work-related portion of your expenses.

**See more:**

- [Phones and other telecommunication devices](#)
- [Internet expenses](#)

## Part A – Claiming a deduction: the basic conditions

### The basic conditions – a summary

To claim a deduction against your assessable employment income, the work expense must meet several conditions. This guide explains these conditions in more detail and gives examples of how they apply.

We refer to expenses related to your employment as *work expenses* or *work-related expenses*.

You can only claim an expense as a general deduction if it meets all of the following conditions:

- you actually incurred the expense
- the expense was incurred gaining or producing your employment income
- it is not capital or capital in nature
- the expense is not private or domestic
- the expense was not incurred in gaining or producing exempt income or non-assessable non-exempt income
- you satisfy the relevant substantiation requirements.

Expenses that are capital or capital in nature may still be deductible, but they are claimed as a deduction for the decline in value of a depreciating asset over a period of time. If you have incurred an expense that is related to both earning your employment income and your private purposes, you need to apportion the expense and deduct only the portion that relates to your employment income.

#### See more:

- [Decline in value under the capital allowance provisions](#)
- [Apportioning work-related expenses](#)

### You must ‘incur’ the expense

To claim a deduction you must *incur* the expense yourself. To incur an expense means that you must actually pay, or be obliged to pay, for the good or service. A deduction is not allowed if someone else pays for the good or service or gives it to you for free or as a gift, or you are reimbursed by your employer.

#### *Example – gifts*

*Roisin’s parents buy her a leather-bound diary for Christmas. She uses it every day for her work. Roisin cannot claim a deduction for the expense as she did not incur any amount for the diary.*

If your employer pays you back for an expense, even if you haven’t paid for it yet, this is a reimbursement. You cannot claim a deduction for an expense that has been reimbursed.

#### See more:

- Taxation Ruling [TR 97/7](#) *Income tax: section 8-1 - meaning of ‘incurred’ – timing of deductions*

#### *Example – reimbursement of expense*

*Ramesh takes a taxi to attend a meeting with clients in another suburb. He spends \$46 on the taxi. When he returns to his office, he gives the receipt to his employer who repays him the \$46. As this is a reimbursement, Ramesh cannot claim a deduction for the taxi expense.*

#### **See more:**

- Taxation Ruling [TR 92/15](#) *Income tax and fringe benefits tax: the difference between an allowance and a reimbursement*

#### **Expenses incurred ‘in gaining or producing’ employment income**

For an expense to be incurred *in gaining or producing your employment (assessable) income* there must be more than just a general or broad connection between the expense and the earning of your assessable income. There must be real and close connection between the expenditure and your employment activities. In other words, the expense must directly relate to what you do to earn your employment income.

Your employment activities include the duties and tasks that are expected of you by your employment contract, position description or company directives. Incurring expenses to get you ready for duty – such as job searching or obtaining qualifications for a new job – are not incurred in earning your employment income. Expenses you incur to put you into a position to earn income or are a prerequisite to earning income are not deductible.

The fact your employer requires you to purchase a good or service does not mean the expense is automatically deductible. You still need to demonstrate how the expense has a genuine connection to your employment activities.

#### *Example – gaining or producing assessable income.*

*Joshua works as a sales assistant at a shoe store. His employer requires him to wear shoes of a similar kind to those sold in the store when he is at work, but they are not part of a uniform. The employer also requires Joshua to be well-groomed for his customer service role in the store.*

*Joshua cannot claim deductions for the cost of shoes he purchases, or any items he acquires to maintain his personal appearance. These are conventional clothing and grooming items that put him in a position to work, but are not directly related to the employment activities of selling shoes and maintaining the store through which he earns his income.*

*The expenses are considered private in nature.*

#### **See more:**

- [Expenses are not private or domestic](#)

## Expenses are not capital or capital in nature

Expenses that are *capital or capital in nature* are not deductible under the general rules. An amount is capital or capital in nature where the purchase has an enduring or lasting benefit such as a work tool, computer or motor vehicle. The law recognises that these purchases decline in value over time, however, so the annual decline in value on purchases of depreciating assets may be deductible under the capital allowance provisions.

### *Example – capital expenditure*

*Due to the nature of his employment, Ali is rarely in his work office and he needs to be able to write up documents while he is out of the office. He purchases a new laptop for \$2,100 to help him with his work on the road. As the laptop provides an enduring benefit, and is therefore a capital expense, Ali cannot claim a deduction for its cost under the general provisions. However, Ali should consider whether he is entitled to a deduction for the annual decline in value of his computer under the capital allowance provisions.*

#### See more:

- [Decline in value under the capital allowance provisions](#)
- [Guide to depreciating assets](#)

## Expenses are not private or domestic

*Private or domestic* generally means expenses that are personal or related to the home or household. Expenses like everyday clothing, food, drink and shelter are private or domestic, even if your employer has required you to purchase the items, or specified which type to buy.

### *Example – private expense*

*Brenton is an employee architect and purchases a coffee and lunch every day at work. Even though he spends the money while he is at work, food and drink is a private expense. There is nothing specifically about Brenton's work as an architect that requires him to spend money on food and drink.*

### *Example – domestic expense*

*Charlie is a teacher who often does her lesson planning and marking at home. Even though working at home, she cannot claim any of her rent costs as a work expense. This is because her rent is a domestic expense and therefore not deductible. Merely doing work at home does not make the expense deductible.*

#### See more:

- [Home office expenses](#)

## Gaining or producing exempt income or non-assessable non-exempt income

If the income you receive from your employment is tax exempt or non-assessable, you cannot claim a deduction for expenses relating to that employment. This includes some income of Australian Defence Force or Australian Federal Police personnel when they are deployed overseas.

## Part B – Apportioning work-related expenses

You can claim only the portion of an expense that relates to your work activities. When you incur an expense for a purpose that is not 100% work-related, you can only claim the work-related percentage.

For some deduction items there is a specific requirement to keep records to apportion your expenses, such as the logbook method for car expenses (see [Logbook method](#)). Otherwise you need to keep suitable records to show how you have worked out your work-related use. This could take the form of electronic records, data from applications or by keeping a work diary.

### Keeping a diary

To help show how you have worked out your apportionment of expenses such as home office items, mobile phone and internet expenses, you can keep a detailed diary for a four-week representative period. This shows the pattern of your usage, and the proportion of work to private use, which you can then apply to the rest of the year. You can use a representative period only if your work use proportion is consistent throughout the year. If your usage fluctuates, you will need to keep records for the whole year.

If you are keeping a diary, you should:

- keep it for a continuous four-week period
- fill it in at the time you undertake the activity, not retrospectively, and
- you should include sufficient detail to support your calculations.

Where a home office or internet connection is not just for one person's use, it is important to also show other people's usage as well, such as for a home office that is used both for work purposes and as a study area for children.

#### *Example – shared internet connection*

*Marcus is keeping a diary of his home internet use. On Monday he works from home and records internet use from 8:00am to 12:00pm and 12:30pm to 3:00pm for work purposes. In the afternoon his children use the internet for schoolwork from 3:30pm to 5:30pm. That evening his family use the internet to stream movies from 6:30pm to 9:30pm and Marcus and his partner browse the internet from 9:30pm to 10:30pm.*

*Marcus records all of these different sessions in his diary and clearly labels them as work-related or private usage. Once he has done this for four representative weeks, he can calculate his usage based on either the percentage of time the internet is used for employment activities versus private use, or for the amount of data downloaded for each separate use.*

Once you have established the proportion of your work and private use over a representative four-week period, apply this proportion to your working year. Take out any time when you are not working. For example, if you have a four-week holiday, you can claim a deduction only for 48 weeks' average usage.

The diary, along with itemised bills from suppliers such as telecommunication companies, will help you identify the usage that relates to your employment activities and your private activities.

### Example – mobile phone apportionment

Roz is a full-time real estate agent and uses her personal phone for work. She has a mobile phone plan that costs \$60 per month which includes \$600 worth of calls and 4 GB of data. She receives a bill which itemises all her phone calls and data usage.

Over the four-week representative period Roz made 428 calls of which she identifies 336 as being for work purposes. Roz decides to work out her work use percentage on the volume of calls rather than the time spent on the calls.

Calls for work purposes

$$\frac{\text{Total work calls}}{\text{Total number of calls}} = \text{Work use percentage for calls}$$
$$\frac{336}{428} = 80\%$$

Roz used 3 GB of her allocated data and from her bill she estimates that 2.1 GB was related to her work. She does this by comparing her usage on the bill with her work diary.

Data for work purposes

$$\frac{\text{Total work data use}}{\text{Total data use}} = \text{Work use percentage for data}$$
$$\frac{2.1}{3} = 70\%$$

Roz takes the average of these to determine her work use percentage.

$$\frac{\text{Work use percentage for calls} + \text{Work use percentage for data}}{2} = \text{Overall work use percentage}$$
$$\frac{80 + 70}{2} = 75\%$$

Therefore Roz can claim 75% of the total bill of \$60 for each month she worked as a real estate agent for the same employer.

$$\text{Total bill for each month} \times \text{Overall work use percentage} = \text{Monthly amount to be claimed}$$
$$\$60 \times 75\% = \$45$$

As Roz started on 1 April, she claims for the last three months of the income year.

*Monthly claim amount* × *Number of months* = *Total claim amount*

$$\$45 \times 3 = \$135$$

*Roz keeps a record of her bill that shows how she worked out the work-related use of her phone.*

**See more:**

- Law Administration Practice Statement [PS LA 2001/6](#) *Verification approaches for home office running expenses and electronic device expenses*

<b>Amendment history</b>		
	<b>Part</b>	<b>Detail</b>
August 2020	Throughout	Minor wording changes to improve clarity.

## Part C – Commonly claimed expenses

This section covers common scenarios where you might consider claiming a deduction. Each deduction you claim must meet either the basic deduction conditions or the requirements of the capital allowance provisions for the decline in value of a depreciating asset. Consider these for each deduction each time.

The deductibility of an expense depends on the specific duties that you do in your employment. This means that an expense that is deductible by one person may not be deductible by another, even if they have similar jobs.

This list is not exhaustive and does not cover every situation that may apply to you. If you cannot find content that covers your particular circumstances, you can refer to TR 2020/1 to help you work out if your expense is deductible. It provides a step-by-step instruction on working out deductibility for work-related expenses.

### See more:

- [Claiming a deduction: the basic conditions](#)
- [Decline in value under the capital allowance provisions](#)
- Taxation Ruling [TR 2020/1](#) *Income tax: employees: deductions for work expenses under section 8-1 of the Income Tax Assessment Act 1997*

### Accommodation

Normally accommodation expenses are private and not deductible. Accommodation can only be deductible if you are travelling and sleep away from your home overnight for work. You are not travelling and sleeping away from home overnight for work if you choose to stay at a location that is closer to your usual workplace, or you are living away from home.

#### *Example – accommodation expenses*

*Shaun is a salesperson working between Geelong and Warrnambool in southern Victoria. Once a month he is required to visit stores in and around Warrnambool and this requires him to stay overnight away from his home in Little River. The cost of the hotel room Shaun pays for when staying overnight in Warrnambool is deductible, as long as the cost is not reimbursed by his employer.*

### See more:

- [Overnight travel expenses](#)

### Agents and agency fees

This includes, for example: talent agents, employment agents, recruitment agents, modelling agents and booking agents.

You cannot claim a deduction for upfront costs of joining or using the services of an employment and recruitment agency or an agent to get work. This is because the expense is incurred before you start the employment.

If your employment contract allows for the renegotiation, review or extending of the contract, the costs of doing so will be an allowable deduction. Such expenses are incurred in gaining your employment income.

#### *Example – agent fees*

*Zahra joins an acting agency to help further her career. She pays a setup fee as part of joining the agency. Zahra is offered a contract to be one of the leads in a TV series for one year with a mutual option to extend the contract. The show turns out to be a large success and her agency negotiates to extend the contract for another year.*

*Zahra is not able to claim the costs of joining the agency as it enables her to get work. She can claim the costs to renegotiate her contract as it is part of her employment activity.*

### **Annual practicing certificates, professional memberships and accreditations**

You can claim a deduction for the cost of renewing an annual practicing certificate, membership or accreditation if you need it to work in your field.

These can include trade licenses for plumbers, electricians and carpenters, crane, hoist and scaffolding licences for construction workers, responsible service of alcohol and gaming licences for hospitality workers and registration for nurses, teachers and doctors.

However, if you are required to have a practicing certificate, professional membership or accreditation before you can be employed in an occupation, the initial cost of obtaining it is not deductible. This is because you incurred the expense to enable you to start your employment, not during the course of your employment.

#### *Example – ongoing expense*

*Brenden needs an annual practicing certificate to work as a nurse. He can claim a deduction for the cost of renewing this each year. He incurs the expense in gaining his employment income.*

#### *Example – prerequisite expenses*

*Drew has finished his legal training in Townsville and is looking to start his career as a solicitor. To practice as a solicitor, Drew needs to apply to the Supreme Court of Queensland to be admitted as a lawyer and then apply for a practicing certificate. Until he is granted both, he cannot practice law.*

*Drew is not entitled to claim a deduction for the cost of his admission or practicing certificate because he incurs it so he can start earning employment income. Once he is employed, he will be able to deduct the cost of renewing his practice certificate each year, as it allows him to continue earning his employment income.*

You can only claim a deduction if the expense is related to your current employment.

#### **See more:**

- [Union and association fees](#)

### **Bags and cases for work items**

This also includes, for example: briefcases, laptop bags, luggage and handbags.

If you use a bag or a case to carry items for work, you are entitled to a deduction to the extent that it is used for work purposes. Work items include laptops, tools, client briefs and protective gear but do not include private and domestic items like gym gear, food or a

personal phone or tablet. Your job must require you to transport work items and the bag must be suitable for that purpose.

If the bag or case cost you \$300 or less, and you use it for work only, you can claim a deduction for the whole cost in the year you purchase it. Otherwise you can claim a deduction for the decline in its value over its effective life (see [Decline in value under the capital allowances](#)).

If you use a bag or case to carry both work and private items, you need to apportion the expense between work-related and private use, and you can only claim the work-related portion.

**See more:**

- [Decline in value under the capital allowance provisions](#)
- [Apportioning work-related expenses](#)

*Example – bag for personal items*

*Francisco is employed as a banker. He buys a holdall bag for \$250. He uses it every day to take his lunch, personal tablet and gym clothes to work. Francisco cannot claim a deduction for the bag, as he only uses it to transport private items to and from work.*

*Example – bag for a work laptop*

*Maria is employed as an account executive. Her job requires her to regularly attend meetings with clients. She has to take her work laptop, phone and the client's file with her to the meetings. She frequently works from home and sometimes goes directly to a client meeting before heading into the office. She buys a bag for \$565 that she uses to carry her work laptop and phone, chargers and client briefs. She carries her cash and cards, personal phone and other personal items in a smaller clutch bag. As Maria's bag is suitable to carry all the items that are necessary for her to transport, Maria can claim a deduction for the decline in value of the bag over its effective life.*

Luggage includes items generally used for overnight or longer trips, such as overnight bags, suitcases and carry-ons which tend not to be used on a day to day basis. If you use luggage for travel overnight for work you may be able to claim a deduction for the decline in value of the luggage, or if it cost \$300 or less, an immediate deduction under the capital allowance provisions. You need to apportion the cost of the luggage if it is used also for private travel.

*Example – cabin crew*

*Ibrahim works as cabin crew on long haul international flights. He buys luggage to use exclusively for work for \$200. He can claim an immediate deduction for the luggage in the income year he purchases it, as it costs under \$300.*

**Bank fees**

You cannot claim a deduction for account keeping fees or overdraft fees you incur, as these are not incurred in earning your employment income.

You can claim a deduction for a transaction fee that you are charged when you make a work-related purchase.

**See more:**

- [Interest](#)

*Example – transaction fees*

*Adrienne buys deductible work-related books from an international retailer and is charged an international transaction fee by her bank. Because the purchase is a work-related expense, Adrienne can also claim the cost of the international transaction fee imposed by her bank.*

**Books, periodicals and digital information services**

This includes, for example: online subscriptions, online resources, library subscriptions, academic journals and database subscriptions.

Books, periodicals and digital information expenses incurred as part of earning your employment income may be deductible (either outright or for their annual decline in value) if the content is sufficiently connected to your employment. Examples include midwifery journals for obstetric nurses, annotated legislation for lawyers, automotive reference manuals for mechanics and subscriptions to online technical journals for engineers.

*Example – digital subscription*

*Amy works as an editor and proof reader for a publishing house. She subscribes to a comprehensive online dictionary service that she uses many times a day. Amy only uses the online dictionary for work purposes. As the subscription is solely used for work, she would be able to claim a deduction for the full cost of her subscription.*

**Car expenses**

In some circumstances, you may be able to deduct car expenses to the extent you use your car for deductible transport. You will first need to check whether you are entitled to claim [transport expenses](#).

**What is a car?**

Not all vehicles are a 'car' for the purposes of claiming your expenses. A car is defined as a motor vehicle (excluding motorcycles and similar vehicles) designed to carry a load of less than 1 tonne and fewer than nine passengers.

**See more:**

- [Vehicles other than cars](#)

If your vehicle is a car, you may claim a deduction using either:

- the cents per kilometre method, or
- the logbook method.

You can choose which method to use in any given year, and you can use different methods for different cars.

If your vehicle does not meet the definition of a car, you may still be able to claim deductions for your transport expenses.

### **Expenses for using a car you own or lease**

You can claim a deduction for using a car that you owned, leased or hired under a hire purchase agreement using the cents per kilometre or logbook method. You cannot claim expenses under these methods for cars owned or leased by other people such as your employer or spouse.

However, if you can show that there is a family or private arrangement that made you the owner or lessee you may still claim expenses even if you are not the registered owner.

#### **Example – family arrangement**

*When Rory turned 18, she bought a car from her parents for \$1,000. Since then, she has paid for all the insurance, fuel, registration and other running costs and no one else has used the car but her. The registration has not been updated and the car is still showing in her mother's name.*

*Rory is still eligible to claim her work-related car expenses. Even though the registration has not been changed to her name, she would be treated as the owner because she can demonstrate that she bought the car from her parents and that she is now responsible for all of the ownership and running costs of the car.*

If you have access to the car under a salary sacrifice arrangement or a novated lease, it is usually your employer who is leasing the vehicle from the financing company and making it available for your use. As you do not own or lease the car yourself, you are not be entitled to claim any deductions for using the car, but can claim additional expenses, like parking and tolls associated with your work use of the car.

#### **Example – salary sacrifice car under a novated lease**

*Amy uses a salary sacrifice arrangement to get the use of a car under a novated lease. She starts parking at her office every day, which costs \$20. She drives to meetings at a different office and parks in the short-term parking bays which cost \$5. She is not reimbursed for the expense.*

*Amy can't claim her parking expenses at the main office as these are not incurred in deriving her assessable income. She also cannot claim any of the expenses related to the running of her car as it is on a salary sacrifice arrangement. She can claim the \$5 parking expense as the expense is incurred in travelling from one work site to another.*

### **Luxury cars**

A car is a luxury car if its cost exceeds the car limit in the income year when you purchase it or acquire the lease. If a luxury car is leased, it is treated as if it had been purchased by the lessee. For the purposes of calculating the decline in value of the vehicle, the cost element is limited to the car limit.

#### **See more:**

- [Car cost limit for depreciation](#)

### **Using someone else's car**

If you use someone else's car for work, you may be able to claim direct costs, such as fuel and car parking fees, to the extent that they relate to your work use of the car.

### **Cents per kilometre method**

Under the cents per kilometre method, you can claim a [set rate](#) for each work-related kilometre travelled. The maximum number of work-related kilometres you can claim under this method is 5,000.

You do not need written evidence to show exactly how many kilometres you have travelled, but you must make a reasonable estimate calculation. You must be able to show how you worked out your deduction, and this may be aided by documents such as calendars and diary records.

#### **Example – reasonable estimate**

*Once a week, Johan makes a 27 km round trip in his own car travelling from head office in the city to meet with clients. In addition, he makes a 106 km round trip to visit clients at another location, once a month. When Johan consults his diary at the end of the income year, he works out he was at work for 47 weeks, but he missed one weekly meeting with clients as he was sick. Although he was on leave for five weeks during the income year, he still makes twelve 106 km round trips to visit clients. He works out his estimated business kilometres as:*

$$\text{Number of weekly trips} \times \text{Distance of weekly trip} = \text{Total weekly trip kilometres}$$

$$46 \times 27 = 1,242 \text{ km}$$

$$\text{Number of monthly trips} \times \text{Distance of monthly trip} = \text{Total monthly trip kilometres}$$

$$12 \times 106 = 1,272 \text{ km}$$

$$\text{Total weekly trip kilometres} + \text{Total monthly trip kilometres} = \text{Total monthly trip kilometres}$$

$$1,242 + 1,272 = 2,544 \text{ km}$$

### **Joint owners**

Where a car is owned jointly, each owner can claim up to 5,000 work-related kilometres in respect of the car.

#### **Example – joint owners**

*Sean and Ashleigh own a car together. While Ashleigh mostly uses the car for her work travel as a real estate agent, Sean occasionally uses it for his own deductible work-related travel.*

At the end of the income year, Ashleigh works out that she has used the car to travel 4,900 work-related kilometres, and Sean works out that he has used the car to travel 450 work-related kilometres. Although the total work-related kilometres the car travelled is over 5,000 kilometres, as joint owners, they can each claim their full work-related kilometres, as their own use is each under 5,000 work-related kilometres.

You do not need to keep written records of all your expenses, but you will need to be able to show how you worked out your work-related kilometres.

### **Logbook method**

The logbook method allows you to claim the work-related portion of your actual car expenses. These include deductions such as fuel and repairs and the decline in value of capital costs such as the purchase price and improvements. To use this method, you must substantiate most of your car expenses and keep a valid logbook and odometer records.

For the logbook to be valid you must identify an income year for which you are keeping it, choose a period of at least 12 weeks for the logbook to cover and record the journeys that are related to your work-related activities (work-related journeys). One logbook can be used for up to five years.

During the record-keeping period, you must record each journey in the logbook by entering the following:

- the day the journey began and ended
- the car's odometer reading at the start and end of the journey
- how many kilometres the car travelled on the journey
- why the journey was made.

If you make two or more work-related journeys in a row on the same day, you can record them as one journey. You need to record each journey at the end of the journey, or as soon as possible afterwards. You cannot recreate a logbook at a later date.

### **See more:**

- [Decline in value under the capital allowance provisions](#)

### **Example – journey listing**

Camilla drives her own car from her office to a client's premises (Thompson Consulting) to have a sales meeting. She returns to the office straight after the meeting. She records the journey in her logbook as soon as she returns.

<b>18 March 2019</b>	
Odometer reading start	156,605
Odometer reading end	156,638
Kilometres travelled	33
Reason for journey	Return trip from head office to sales meeting with Thompson Consulting

Camilla records both trips as one journey as they were in a row.

The logbook must also contain:

- the dates the logbook period begins and ends
- the car's odometer reading at the start and the end of the period
- the total number of kilometres that the car travelled during the period
- the number of kilometres that the car travelled in the course of earning your assessable income
- the percentage of use for work-related activities.

In addition to a valid logbook, you must keep odometer records for the whole period you own or lease the car during the income year. For example, if you own the car for the whole income year, you must record the odometer reading on 1 July and on 30 June.

You must retain your logbook and odometer records until the end of the latest income year in which you rely on them to support your claim and then for another five years after that.

Calculate your work-related use percentage as follows:

$$\frac{\textit{Work-related kilometres for the income year}}{\textit{Total kilometres the car travelled in the period you held it}} = \textit{Work-related use percentage}$$

You calculate the work-related kilometres by making a reasonable estimate which must take into account:

- any logbook, odometer records or other records you have
- any variations in the pattern of use of the car, and
- any changes in the number of cars you used to undertake your work-related activities.

Although you are required to calculate work-related kilometres by making a reasonable estimate taking the above factors into account, you can generally apply the work-related use percentage established by your logbook to work out your work-related kilometres if your pattern of use for the period you held the car during the year is consistent with the travel you undertook during that logbook period.

However if the work-related use of your car has changed, for example because you have a different job, you have moved house or you have changed the number of cars you use to undertake work-related activities, you will need to calculate your business kilometres by making a reasonable estimate and recalculate your work-related use percentage. Depending on how different your use is, you may need to keep a new logbook.

#### *Example – working out the percentage*

*Tim decides to keep a logbook for an income year. He owns the car for the entire year, so he records the odometer reading on the first and last days of the income year (1 July and 30 June respectively). Tim's odometer records show that he travelled a total of 17,000 km during the year. During the 12-week logbook period, Tim drove 4,000 km of which 2,400 km was work-related travel.*

Tim works out that his work-related travel throughout the year is consistent with the travel he made during the period he kept his logbook. He estimates that he drove 10,200 km for work purposes.

$$\frac{\text{Total logbook work-related kilometres}}{\text{Total logbook kilometres}} = \text{Logbook work use percentage}$$

$$\frac{2,400}{4,000} = 60\%$$

$$\text{Total kilometres travelled} \times \text{Logbook work use percentage} = \text{Work-related travel kilometres}$$

$$17,000 \times 60\% = 10,200 \text{ km}$$

To work out the percentage of work-related travel, Tim made the following calculation:

$$\frac{\text{Work-related travel kilometres}}{\text{Total kilometres travelled}} \times 100 = \text{work use percentage}$$

$$\frac{10,200}{17,000} \times 100 = 60\%$$

If Tim changes jobs part way through the following income year, he cannot rely just on his logbook to work out his work-related kilometres. He may need to produce a new logbook if there are changes in how he travels for work.

A logbook is valid for up to five years, but you may start a new logbook at any time, or the Commissioner can request that you start a new one. You must keep a logbook for the first year for which you use the method with a car, but if you get a new car during the five years, you can nominate the new car to replace the original car.

When you have worked out the percentage of your work travel, you can work out your deduction.

#### Example – working out deduction

Tim has kept a compliant logbook and worked out that his work-related travel percentage is 60%. Tim can claim 60% of his actual expenses, including the decline in value on the car.

<i>Tim's actual expenses</i>	
<i>Decline in value</i>	<i>\$3,500</i>
<i>Fuel and oil costs</i>	<i>\$1,000</i>
<i>Registration</i>	<i>\$560</i>
<i>Compulsory third party insurance</i>	<i>\$340</i>
<b><i>Total expenses</i></b>	<b><i>\$5,400</i></b>

*Total expenses* × *Work use percentage* = *Claimable deduction*

$$5,400 \times 60\% = \$3,240$$

*Tim also spent \$800 to improve the muffler system on the car, but as that is a capital expense he cannot claim it as an immediate deduction and would claim the decline in value. Tim is entitled to claim a deduction for the decline in value of the muffler system under the capital allowance provisions.*

To claim a deduction under the logbook method you need to keep substantiation records for all of the car expenses you incur except for petrol and oil as well as a valid logbook. Substantiation records for petrol and oil costs can be kept, but they do not need to be as they can be estimated based on the odometer readings and the average price of petrol.

You will need to keep records for any expenses you incur.

**See more:**

- [Substantiation requirements](#)
- [Tolls](#)
- [Parking fees](#)
- Law Administration Practice Statement [PS LA 1999/2](#) *Calculating joint car expense deductions*
- Taxation Determination [TD 97/19](#) *Income tax: substantiation: car expenses: how do you calculate the cost of fuel and oil when using the 'one-third of actual expenses' method or the 'logbook' method, if you have not kept written evidence of the expense?*

**Child care**

You cannot claim a deduction for the cost of child care or before or after school care. It is a private expense that does not have the relevant connection with earning your employment income.

**Clothing expenses**

With a few exceptions, clothing is a private expense. Conventional clothing cannot be deducted as a work-related expense. 'Conventional clothing' is ordinary everyday clothing worn by people regardless of their occupation.

However, some types of clothing are deductible when they have sufficient connection with your employment activities. These types include:

- protective clothing
- compulsory uniforms
- registered non-compulsory uniforms
- occupation-specific clothing.

Each category has different criteria that must be met for the clothing to be deductible.

### ***Protective clothing***

You can claim a deduction for the cost of clothing and footwear you wear to protect yourself from specific risks of injury or illness at work. The clothing has to have features or functions that take it out of the class of conventional clothing. These sorts of items could include:

- heavy duty occupational wet weather gear
- protective boots such as steel-capped boots or rubber boots for concreters
- boiler suits that protect ordinary clothing
- fire resistant clothing
- non-slip nurses' shoes.

There has to be a link between your work-related activities, the risk presented by your work environment, and the form and function of the clothing to mitigate that risk.

#### ***Example – lack of risk***

*Wade is an accountant who works in an office in the suburbs. He buys steel-capped boots, which he wears only to work. While the boots provide protection, his office environment does not require the protection that the boots provide. Wade cannot claim a deduction for the boots.*

Ordinary clothes you wear at work (such as jeans, drill shorts, closed shoes, socks) are not protective clothing if they lack protective qualities designed for the risks of your work environment. Protective clothing needs to be able to cope with more rigorous conditions where conventional clothing would be inadequate. Examples of this include chainsaw-proof pants and abrasion-resistant clothing.

#### ***Example – changing to protective clothes***

*Ryan starts work on a building site and wears cotton drill pants and a drill safety shirt to work every day. He wears them as they are comfortable to work in and, though they aren't very durable, they provide some protection.*

*Ryan wears them at work and never in his private time. He cannot claim a deduction for the expense of buying them, because the clothing only provides a small amount of protection from injury and they are mostly fulfilling the private need of having to be clothed.*

*After a couple of weeks on the site, Ryan notices he is getting sunburnt through his shirt and that his pants are getting ripped and exposing his legs to potential harm. He buys some UPF 50 work shirts and some heavy-duty abrasion-resistant work trousers and starts wearing them to work. Ryan can claim a deduction for these expenses as they are specifically protecting him from harm at work.*

**See more:**

- Taxation Ruling [TR 2003/16](#) *Income tax: deductibility of protective items*
- Taxation Ruling [TR 97/12](#) *Income tax and fringe benefits tax: work-related expenses: deductibility of expenses on clothing, uniform and footwear*
- [Protective items](#)

**Compulsory uniform**

You can claim a deduction for a compulsory uniform. A compulsory uniform must be sufficiently distinctive to your particular organisation so that a casual observer can clearly identify you as working for a particular employer, or identify the products or services provided by your employer. To be considered compulsory, you must be expressly required to wear it by a workplace agreement or policy, which is strictly and consistently enforced. Conventional clothing is not a compulsory uniform even if your employer requires you to wear it, or you pin a name badge to it.

Shoes, socks and stockings are private, except in very limited circumstances such as where the employer has express guidelines that stipulate specific characteristics of the colour, style and type of those items and other accessories as an integral and distinctive part of the uniform. This differentiates them from ordinary clothing as they have become an integral part of a compulsory uniform.

**Example – conventional clothes worn with a uniform**

*Rick works at a supermarket. He is required to buy and wear a shirt with the supermarket's logo embroidered on it. The employee guidelines include a requirement to wear black pants and closed black shoes, but don't stipulate any other qualities of those items. Rick can claim a deduction for the cost of the shirts as they are a compulsory uniform, but he cannot claim the cost of the pants or shoes. Even though his employer requires him to wear a specific colour, they are not distinctive enough to make them part of his uniform and are still conventional clothes.*

**Non-compulsory uniforms**

If wearing a uniform is not compulsory, you will not be entitled to a deduction for the clothing items comprising the uniform unless the full non-compulsory uniform is approved and entered on the Register of Approved Occupational Clothing and you wear the uniform at work.

However, single items of clothing, such as a shirt, will not be registered for these purposes. Shoes, socks, and stockings will also not form part of a registered non-compulsory uniform. These items are not deductible.

**Occupation-specific clothing**

You can claim a deduction for occupation-specific clothing that distinctively identifies you as a person associated with a particular profession, trade, vocation, occupation or calling.

Clothing that is considered occupation specific are items like a cleric's ceremonial clothing, a judge's robes or a chef's chequered pants. The fact an item may be traditionally worn in a profession does not make it occupation specific if it may be worn by a number of professions.

#### *Example – occupation-specific clothing*

*Joe is a chef with two jobs. When working at a restaurant he wears the traditional chef's uniform of chequered pants, white jacket and chef's toque. He also works on a food truck, but just wears jeans and a t-shirt at that job. Joe can claim his traditional chef's uniform, but not his other outfit. The chef's clothing is particular and relevant to his profession, but the jeans and t-shirt are conventional clothes.*

#### **Conventional clothing**

Conventional clothing is ordinarily not deductible. The fact that your employer requires you to wear specific clothing does not make the clothing deductible. In most cases the cost of conventional clothing is a private expense that does not have the relevant connection with earning your employment income.

#### *Example – conventional clothing*

*Matt works as a sales assistant in a clothing store. His employer requires him to wear clothes of the kind available in the store. Matt earns his employment income mostly from the activity of selling clothes.*

*Although he must wear clothing in accordance with his employer's requirements, this is not sufficient to make the clothing deductible. There is no direct connection between his clothing expenditure and his work-related activity of selling clothes.*

#### **See more:**

- Taxation Ruling [TR 94/22](#) *Income tax: implications of the Edwards case for the deductibility of expenditure on conventional clothing by employees*

#### **Commissions**

If you pay your agency a commission for work you've gained, you can deduct the commission you actually incur. In other words, if your agency charges you a commission for work they have obtained for you, you may be entitled to a deduction. To claim the deduction, you must either pay the commission to the agency separately or the agency must deduct the commission from the fee you receive.

#### *Example – agency commission*

*Geoff is employed as an agency nurse. He works one night at a hospital and is paid \$600. Geoff must pay \$48 commission to the agency. Geoff's assessable income includes the \$600 but the \$48 commission is an allowable deduction. Geoff incurs these fees in the course of earning his wages as an agency nurse.*

#### **Computers and software**

This includes, for example: apps, subscriptions, anti-virus and anti-spyware software, virtual private networks, programs.

You can claim a deduction for the decline in value when you purchase and use a computer for your employment. You need to apportion expenses if you use the computer for work and private purposes.

If software is included as part of your purchase price for the computer system, you do not need to break up the costs to calculate the decline in value.

Additional software you purchase, or software that is separately purchased can be deducted if it costs \$300 or less. If it is more than \$300, you can deduct its decline in value.

Software includes physical CDs, apps that you pay to download, and annual subscriptions to software or services. You need to apportion expenses if you use the software for work and private purposes.

You can also claim a deduction for the cost of repairs to your computer. However, you need to apportion the cost of repairs if you use the computer for work and private purposes.

#### *Example – deductible expense*

*Mateo works from home two days a week. He buys a computer which comes with the operating system already installed. He pays for an annual subscription for antivirus software and uses gift cards that he has previously bought to buy some software that he needs for his work.*

*Mateo can claim a deduction for the decline in value of the computer and operating system. He can also claim a deduction for the anti-virus software, and the software he buys using the gift cards. If Matteo also uses the computer or software for personal use, he will need to apportion the expense and claim a deduction only for the percentage of his work use.*

#### **See more:**

- [Apportioning work-related expenses](#)
- [Self-education and study](#)

#### **Conferences, seminars and training courses**

You can claim a deduction for the cost of attending conferences, seminars, training courses and other events to maintain or increase the knowledge, capabilities or skills you need to earn your income in your current employment.

The costs you can claim include fares to attend the venue where the conference, seminar or course is held and registration costs. If you need to travel and stay away from home overnight to attend a conference, seminar, training course or other event, you can also claim the cost of accommodation and meals.

If there is a non-work component to attending the conference, seminar, training session or other event, then you may not be able to claim all of your expenses. If the non-work component is incidental to the course (such as catered lunches or a reception for delegates), then you can still claim all of the expenses you incurred to attend the conference, seminar or course. However, if the dominant purpose is non-work, and the conference, seminar or course is merely incidental, you can only claim the direct costs for the conference, seminar or course.

#### *Example – dominant purpose – holiday*

*Jodie is holidaying in Cairns when she becomes aware of a half-day work-related seminar nearby. Jodie attends the seminar, and can claim the cost of attending, but she cannot claim her airfares to and from Cairns, or her accommodation and meals, as the primary purpose of her travel is private.*

#### *Example – dual purpose*

*Megan flies to London for a 10-day international, work-related conference. Megan stays over for an extra 15 days to do some sightseeing. As the sightseeing is not an incidental part of the conference or the trip as a whole, Megan can only claim the work-related portion of the airfares (10 days/25 days) and the accommodation and meals for the 10 days she attends the conference. Megan cannot claim the cost of accommodation and meals for the 15 days of private travel.*

#### *Example – dominant purpose – work-related*

*Gary, a qualified architect, attends an eight-day work-related conference in Hawaii on modern trends in architecture. One day of the conference involves a sight-seeing tour of the island, and a networking game of golf is held on the final afternoon of the conference. As his main purpose is work-related, Gary can deduct all of the expenses he incurred for the conference (air fares, accommodation and meals).*

#### **See more:**

- [Accommodation](#)
- [Meals \(food and drink\)](#)
- [Overnight travel expenses](#)
- [Self-education and study](#)
- Taxation Ruling [TR 98/9](#) *Income tax: deductibility of self-education expenses incurred by an employee or a person in business*

#### **Drivers licences**

You cannot claim a deduction for the cost of acquiring or renewing your driver's licence. Drivers licences are a private expense, even if driving is an essential part of your employment and you must have a licence as a condition of your employment. You can, however, claim a deduction for additional costs you incur to obtain a special licence or condition on your licence in order to perform your duties.

#### *Example – heavy vehicle licence*

*Rhonda is a long-haul truck driver who needs a driver's licence and a heavy vehicle permit to work. Her driver's licence renewal costs her \$45 per year and it costs \$73 to apply for the heavy vehicle permit. The \$45 to renew her licence is not deductible because it is a private expense. The cost of the heavy vehicle permit (\$73) is deductible as it is an additional expense she incurs which is directly related to her employment duties and is not a private expense.*

## **Fines**

You cannot get a deduction for the cost of any fines you get when you travel to work, or during work, including parking fines, speeding fines, or penalties (for example for overloading your truck).

## **First aid courses**

You can claim a deduction if it is necessary for you, as a designated first aid person, to undertake first aid training to assist in emergency situations at work.

You cannot claim a deduction if your employer pays for the training or reimburses you.

### *Example – first aid course*

*Leanne is required to hold a first aid qualification to be a flight attendant as she is required to use these skills and knowledge in the event of an emergency whilst in flight. Leanne can claim a deduction for the cost of the first aid course.*

## **Functions and entertainment**

You cannot claim the cost of attending functions or participating in entertainment involving food, drink or recreation. This includes events, dinners, dances and cocktail parties, even if they are attended exclusively by your work colleagues, you discuss work at the functions, and they are compulsory. These are not deductible expenses.

### *Example – cost of attending work functions not deductible*

*Leroy, a business development manager, attends a number of functions such as lunches, cocktail parties and dinners where he engages with potential new clients as part of a strategy to build the customer base of the company that employs him.*

*Despite the fact that Leroy conducts work-related discussions at these functions, he cannot claim a deduction for the cost of attending these functions. The expense is for entertainment (food and drinks).*

## **Glasses and contact lenses**

### ***Prescription glasses and contact lenses***

You cannot claim a deduction for the cost of buying or repairing prescription glasses or contact lenses. These are private expenses.

### ***Sunglasses, photochromatic glasses and anti-glare glasses (including prescription)***

You can only claim a deduction for the cost of sunglasses, and glasses with filtering and glare-reducing qualities similar to sunglasses (such as photochromatic glasses or anti-glare glasses) if wearing them:

- has the necessary connection with earning your employment income, and
- protects you from the risk of illness or injury at work.

You need to apportion expenses if you use the glasses for work and private purposes.

#### *Example – prescription sunglasses and glasses*

*Sergei works as a landscaper and spends most of his days outdoors in the sun. He gets prescription sunglasses to help protect his eyes from the glare. When he is doing planning work in his office, he wears his regular prescription glasses.*

*Sergei can claim a deduction for his prescription sunglasses as they protect him from the risk of illness or injury while performing his work-related activity. The prescription glasses he wears in the office offer no protection and have the character of a private expense so he would not be able to claim a deduction for the cost of those glasses.*

*As Sergei wears his prescription sunglasses on his days off, he apportions the cost of his sunglasses to account for his private use.*

#### **See more:**

- Taxation Ruling [TR 2003/16](#) *Income tax: deductibility of protective items*
- Taxation Ruling [IT 2477](#) *Income tax: deductibility of tinted glasses used by a visual display unit (VDU) operator*
- [Apportioning work-related expenses](#)

#### **Gym fees and fitness-related expenses**

Except in very limited circumstances, gym fees and other fitness expenses (such as skipping ropes, weights and other fitness equipment) are private expenses, and cannot be claimed as a deduction. This is the case even if you are required to pass medical examinations and fitness tests to maintain your employment.

Members of the regular Australian Defence Force, police officers and firefighters cannot claim their fitness expenses.

However, there are very limited circumstances where employees who require an extremely high level of fitness can claim a deduction for these expenses. This will be the case where strenuous physical activity is an essential and regular element of your work. No deduction is available in any circumstances in respect of expenditure on items of conventional clothing which may be used in the course of keeping fit. This would include such things as tracksuits, running/aerobic shoes, socks, T-shirts or shorts.

#### *Example – private fitness expense*

*Mahendra is an intelligence officer for the Royal Australian Navy. He prepares intelligence briefings and generally carries out intelligence analysis tasks. Most of this work is done at his desk. Mahendra has a membership at a private gym and goes there three times a week to maintain the fitness levels required for his employment in the Navy.*

*Mahendra cannot claim the costs of his gym membership, as it is a private expense. While Mahendra needs to keep a level of fitness for his employment, his role does not entail strenuous physical activity as part of the performance of his duties.*

#### *Example – deductible fitness expense*

*Nola is a trapeze artist and tumbler with a circus. She has a gym membership and takes regular Pilates and yoga classes. She also trains and rehearses with her company to develop new trapeze and tumbling routines and performs six nights a week.*

*Nola would be able to claim her fitness costs. Her job is to rehearse and perform trapeze and tumbling acts for the circus which is a strenuous physical activity that is essential and regular part of her duties. Maintaining an extremely high level of physical fitness is essential to her job.*

#### **Example – deductible expense and private expense**

*Bill is a police academy physical training instructor. He regularly attends a commercial gym to ensure that he can perform his specific duties. Bill's fitness expenses for the year include gym fees and the cost of a tracksuit. As Bill's ordinary duties require regular strenuous physical activity, he can deduct his gym fees, but not the cost of the tracksuit. The tracksuit is conventional clothing, so the expense is private in nature.*

*If Bill was a general duties police officer, he would not be entitled to claim a deduction for his gym fees. Although he would have to maintain a standard level of fitness, his role would not involve strenuous physical activity. Bill's expenses in these circumstances would be private.*

#### **See more:**

- Taxation Determination [TD 93/114](#) *Income tax: is a police officer, who is required to maintain an adequate level of physical fitness in order to undertake police duties, entitled to claim a deduction for fitness related expenditure?*

#### **Home office expenses**

Expenses relating to the use or ownership of a home are domestic and are not deductible. However, in specific cases some expenses may be allowed as a deduction if there is a sufficient connection with your employment activities.

If you work from home, you may be entitled to claim some running expenses of a home office. This may include heating, cooling, lighting, cleaning and depreciation of home office furniture and equipment. You cannot claim your home occupancy expenses such as rent, mortgage interest, water, and rates.

#### **Example – working from home**

*Calvin is employed as a software developer by ABC Pty Ltd, a company based in the Melbourne CBD. Calvin lives in a rented property in Geelong and wants to limit his need to commute to the office in the Melbourne CBD. His employer gives him permission to work frequently from home, but he needs to come into the office for team meetings and on other days as required.*

*Calvin sets up a spare room as his work office and he doesn't use it for any other purpose. Calvin would be able to claim running expenses in respect of his home office but would not be able to claim any portion of his rent as it is a cost of maintaining a place to live and domestic in nature (that is, an occupancy expense).*

If claiming for a home office, you can only claim the additional running expenses incurred as a result of working from home.

### **Example – additional running expenses**

*Ian occasionally works from home. As Ian has a dedicated room to work from, he is entitled to claim the additional running expenses that he incurs as a result of working from home during the day. This would include the cost of lighting, heating and cooling the room he works in for the time he spends working there.*

*If Ian had instead worked from his dining room or living room when other family members were present, he would not be entitled to claim a deduction for the running expenses such as the cost of lighting or heating and cooling as he incurs no additional cost as result of working from home in those circumstances.*

### **Running expenses**

If you are entitled to claim running expenses, you can claim the work-related portion of the following expenses:

- heating, cooling and lighting
- cleaning costs
- computer consumables (such as printer paper and ink), and stationery
- home office equipment such as computers, printers, furniture and telephones – for these you can claim the
  - the full cost for items up to \$300
  - decline in value for items over \$300.

You can claim running expenses either at the fixed rate or as actual expenses. In response to the increased number of employees working at home due to COVID-19, a new temporary method, called the shortcut method has also been introduced.

### **Shortcut method**

The shortcut method is a deduction of 80 cents per hour worked from home. This method is temporary and will only be available to use from 1 March 2020 to 30 September 2020.

To claim the shortcut method, you must:

- be working from home to fulfil your employment duties and not just carrying out minimal tasks such as occasionally checking emails or taking calls
- have incurred additional running expenses as a result of working from home.

You don't have to have a separate or dedicated area of your home set aside to work from, such as a private study.

The shortcut method covers all additional deductible running expenses, including decline in value of electronic devices. If you use this method, you can't claim any other expenses for working from home for that period.

When you are calculating the number of hours you worked from home, you need to exclude any time you took a break from working, for example the time you spent to stop and eat your lunch or to assist your children with home schooling.

You must keep a record of the number of hours you have worked from home. This could be a:

- timesheet
- roster
- diary, or
- similar document that sets out the hours you worked.

If you use the shortcut method to claim a deduction in your tax return, include the amount at the **other work-related expenses** question in your tax return and include 'COVID-hourly rate' as the description.

**See more:**

- Practical Compliance Guideline [PCG 2020/3](#) *Claiming deductions for additional running expenses whilst working from home due to COVID-19*

*Example – shortcut method*

*Ephrem is an employee and as a result of COVID-19 he is working from his home. In order to work from home, Ephrem purchases a computer on 15 March 2020 for \$1,299. He intends to use the shortcut rate to claim his additional running expenses for the 2019–20 income year.*

*During the entire period he is working from home as a result of COVID-19 (16 March 2020 to 7 August 2020), Ephrem notes in the calendar on his computer, when he starts and finishes each day along with a note about any breaks he has and how long those breaks were.*

*When it comes to lodging his 2019–20 tax return, Ephrem works out that during the period from 16 March to 30 June 2020, he worked a total of 456 hours. Ephrem calculates his deduction for the 2019–20 income year for additional running expenses as:*

$$\begin{array}{rcl} \text{Total hours worked} \times \text{Shortcut cents per hour} & = & \text{Total claim amount} \\ \\ 456 \times 80c & = & \$364.80 \end{array}$$

*As Ephrem has claimed his additional running expenses using the shortcut rate, he cannot claim a separate deduction for the decline in value of his computer. Ephrem keeps a record of the calendar entries he has made to demonstrate how he calculated the number of hours he worked from home. Ephrem also keeps the receipts for his computer purchase in case he is entitled to claim the decline in value of it in future income years. When he lodges his 2019–20 tax return using myTax, Ephrem includes the notation 'COVID-hourly rate'.*

*On 10 August 2020, at the request of his employer, Ephrem returns to work at his employer's premises. However, he comes to an agreement with his manager to work from home one day a week on an ongoing basis and sets up a dedicated work area at home for this purpose. Ephrem uses the laptop he bought on 15 March 2020 when he works from home and continues to keep a record of his hours.*

*Ephrem decides to claim his additional running expenses using the fixed rate method for the 2020–21 income year since he will be working from home at various times over the entire year (see below for more information on the fixed rate method). As Ephrem can*

claim the decline in value of his computer under the fixed rate method, Ephrem keeps a four-week diary of his laptop use.

Based on his record of hours for the 2020–21 income year, Ephrem worked at home for 660 hours and based on his diary Ephrem used his laptop 40% for work purposes.

Ephrem calculates his deduction for heating, cooling, lighting cleaning and the decline in value of his office furniture and furnishings as:

$$\text{Total hours worked} \times \text{Decline in value cents per hour} = \text{claim amount}$$

$$660 \times 52c = \$343.20$$

As Ephrem has kept the receipt for his laptop and a diary of his use, he can also claim a separate deduction for its decline in value. Ephrem uses the prime cost method and the calculator on [ato.gov.au](http://ato.gov.au) to calculate the decline in value of his laptop from when he first starting using it, which in this case was the day he purchased it (15 March 2020).

Income year	Opening adjustable value	Decline in value	Adjustable value at end of year
2019–20	\$1,299.00	\$192.18	\$1,106.82
2020–21	\$1,106.82	\$649.50	\$457.32
2021–22	\$457.32	\$457.32	\$0.00

Based on his diary of use, Ephrem calculates his deduction for the decline in value of his laptop for the 2020–21 income year as:

$$\text{Decline in value} \times \text{Work use percentage} = \text{Claim amount}$$

$$\$649.50 \times 40\% = \$259.80$$

In his return for the 2020–21 income year, Ephrem claims a deduction of \$603.00 (\$343.20 + \$259.80) for his additional running expenses.

#### Fixed rate for running expenses

Instead of keeping records of all of your actual expenses for heating, cooling, lighting, cleaning and the decline in value of furniture, you can claim a deduction of 52 cents for every hour you work at home. To use this method, you need to keep a record of the actual hours you spend working at home or keep a diary of a four-week period that represents your usage over the income year. You must also have a dedicated work area.

You still need to have documents to substantiate your other expenses, such as phone expenses, internet expenses, decline in value of electronic goods and computer consumables.

#### See more:

- [Phones and other telecommunication devices](#)

- [Internet expenses](#)
- [Decline in value under the capital allowance provisions](#)

#### Example – fixed rate method

Rosemary keeps a diary over a four-week period and works out that she has spent 16 days and a total of 128 hours working at home. This averages out to 32 hours per week. Based on her work diary, this is a representative sample of the hours she works at home for the entire year of income. Rosemary works for 48 weeks in the income year, so she works out that she spent a total of 1,536 hours working from home for the income year (32 hours per week x 48 weeks).

Rosemary uses a work-supplied computer so she cannot claim a decline in value deduction for that. However, she has bought a ream of paper, printer ink and stationery that has been used solely for work purposes costing \$250.

She calculates her home office expenses as follows:

1,536 hours x 52 cents/hour	\$798.72
Other expenses	\$250.00
<b>Total</b>	<b>\$1,048.72</b>

#### Actual expenses

If you have a dedicated work area, you can claim additional running costs and the decline in value of office furniture used in the area for work purposes.

To calculate the cost of lighting and heating/cooling you need to use the following formula:

$$A \times B \times C$$

where:

- **A** is the cost per unit of power used
- **B** is the average units used per hour
- **C** is the total annual hours the area used for work-related purposes.

Invoices for cleaning and the purchase of depreciating assets used for work purposes will also be required to claim the actual cost. Only the actual cost of cleaning the dedicated work area can be claimed. If you are claiming a deduction for the decline in value of the depreciating assets you need to apportion the expenses if you use these assets for work and private purposes.

#### See more:

- Taxation Ruling [TR 93/30](#) *Income tax: deductions for home office expenses*
- [Phones and other telecommunication devices](#)
- [Internet expenses](#)
- [Decline in value under the capital allowance provisions](#)
- [Apportioning work-related expenses](#)

## **Insurance**

Some employment-related insurance policies may be deductible, depending on what the policies cover.

### ***Income protection***

You can claim the cost of premiums you pay for insurance against the loss of your employment income. If the policy provides a benefit of an income nature during a period of disability (income protection or continuing salary cover) as well as a capital sum to compensate for injury, only the expense related to the income portion of the policy is deductible. You cannot claim a deduction for policies that are taken out through your superannuation where the premiums are deducted from your contributions.

#### *Example – apportioned deduction*

*Dee takes out an income protection and personal injury policy through her insurer. She pays \$250 a month, of which \$175 is for the income protection cover and \$75 is for the personal injury cover. Dee can claim \$175 a month for the insurance policy. The remaining \$75 is not deductible, because it is capital in nature.*

### ***Professional indemnity insurance***

You can deduct the cost of professional indemnity insurance for work-related purposes. If the insurance is paid for by your employer or later reimbursed, you cannot claim the deduction.

#### *Example – professional indemnity insurance not deductible*

*Ezra is required to have professional indemnity insurance in his role as a financial planner. As part of his salary package, his employer has agreed to pay his insurance each year he is employed at the firm. As Ezra did not incur the expense, he is unable to claim a deduction.*

## **Interest**

You can claim a deduction for interest incurred on money borrowed to pay for work-related expenses. This includes tools and equipment and other items or services. You must be able to show that the interest relates specifically to the work-related expenses that you have paid for and claimed as a deduction. You can deduct the interest only to the extent that the expenses are deductible.

### **See more:**

- For further information on the general principles regarding the deductibility of interest expenses refer to paragraphs 2 and 3 of Taxation Ruling [TR 95/25](#) *Income tax: deductions for interest under section 8-1 of the Income Tax Assessment Act 1997 following FC of T v. Roberts: FC of T v. Smith*

- For examples on how to do the calculation refer to paragraphs 53 to 73 in Taxation Ruling [TR 2000/2](#) *Income tax: deductibility of interest on moneys drawn down under line of credit facilities and redraw facilities*

### Internet expenses

You can claim a deduction for the cost of your internet use to the extent it relates to your employment activities. You need to apportion expenses if you use the internet for work and private purposes. You apportion your use by keeping records showing a detailed usage pattern by you and other members of your household.

Keeping a diary for a four-week representative period is the easiest way to determine the extent of your deduction. If you do not have a representative period, you will need to keep records for the full year. You cannot claim a deduction for installation or set-up costs.

#### See more:

- [Apportioning work-related expenses](#)
- Law Administration Practice Statement [PS LA 2001/6](#) *Verification approaches for home office running expenses and electronic device expenses.*

#### Example – apportioning internet expenses

Sometimes, Sam works from home connecting to his office via a virtual desktop. He keeps a work diary for a four-week period and compares it to his data usage on his home internet. Sam calculates his work use percentage on either the time used or download amounts for the work and private use.

Sam chooses to calculate his claim based on the download amounts. His household uses 240 GB of data in the four-week period, and Sam calculated that he used 48 GB while he was on work duty. This gives him a work use percentage of:

$$\frac{\text{Data used for work}}{\text{Total data use}} = \text{Work use percentage}$$

$$\frac{48}{240} = 20\%$$

Sam's internet costs \$60 per month so the total claim he could make in the month would be:

$$\text{Total bill for each month} \times \text{Work use percentage} = \text{Monthly amount to be claimed}$$

$$\$60 \times 20\% = \$12$$

As Sam took all of December off he wouldn't be able to claim for that month, so his total deduction at the end of the year would be:

$$\text{Monthly amount to be claimed} \times \text{Number of months} = \text{Total claim amount}$$

$$\$12 \times 11 = \$132$$

## Laundry expenses

You can claim a deduction for the cost of cleaning and maintaining clothing that falls into one or more of the categories of deductible clothing (see [Clothing expenses](#)). You can also deduct laundry expenses for clothing supplied by your employer. If your employer launders your clothing or reimburses you, you cannot claim a deduction.

When working out your laundry expenses (including washing, ironing and drying) we consider that a reasonable basis for working out your laundry claim is:

- \$1 per load if the load is just made up of work-related clothing, or
- 50c per load if other laundry items are included.

Repair and dry cleaning expenses are based on the actual cost you incurred for those services.

You may not require written evidence for your laundry expenses if your claim for laundry expenses is \$150 or less. This is even if your total claim for work-related expenses is more than \$300. However, this \$150 substantiation exception does not increase the \$300 work-related total expenses substantiation exception to \$450.

### Example – laundry expenses

*Jelani receives a uniform from her employer. She washes, dries and irons her uniforms in a separate load of washing twice a week. Jelani works 48 weeks during the year. Her claim of \$96 for laundry expenses is worked out as follows:*

$$\begin{array}{rcccl} \text{Number of claimable laundry loads per week} & \times & \text{Number of} & & \text{Total number of claimable} \\ & & \text{weeks} & = & \text{laundry loads} \end{array}$$

$$2 \times 48 = 96$$

$$\begin{array}{rcccl} \text{Total number of claimable laundry loads} & \times & \text{Reasonable} & & \text{Total claim amount} \\ & & \text{cost per load} & = & \end{array}$$

$$96 \times \$1 = \$96$$

*Jelani also claims \$250 in union fees for her job, but no other work-related expenses. As her total claim for laundry expenses is under \$150 (\$96) she does not have to provide written evidence of her laundry expenses. As her total claim for work-related expenses is over \$300 (\$346), Jelani will have to keep written records of her other work expenses (that is her union fees). Although Jelani is not required to substantiate her claim for laundry, if asked, she will still be required to explain how she calculated her claim.*

### See more:

- Taxation Ruling [TR 98/5](#) *Income tax: calculating and claiming a deduction for laundry expenses*

- [Substantiating laundry expenses](#)

### **Lunch boxes, travel mugs, coolers and similar**

You cannot claim a deduction for items that you use to take your food or drink to work, or use at work, even when travelling overnight for work. These are private expenses.

#### *Example – travel mug*

*Olivia is a train driver. As the train sways, she uses a travel mug to drink out of while she is driving. Olivia is not entitled to claim a deduction for her travel mug. It is a private expense. This would be the case even if Olivia used the travel mug on a shift where she was required to sleep away from home overnight.*

### **Meals (food and drink)**

With limited exceptions relating to travel and overtime, the cost of food and drink is private and not deductible.

#### *Example – purchasing food at work*

*Scarlett works evenings at the candy bar in a movie theatre. She gets a long break on which she buys dinner, and she usually buys some peanuts and water to snack on throughout her shift. Scarlett cannot claim a deduction for the snacks or evening meal. The cost of the food and drink she has bought is private and has no relevant connection to her employment activities.*

Similarly, you cannot claim the cost of a meal purchased when you are going between different jobs.

#### *Example – moving between jobs*

*Owen is a bank teller. He finishes work at 5pm and commences work at a liquor store at 6pm. Before starting work at his second job, Owen buys an evening meal. The cost of the food and drink is private and has no relevant connection to his employment activities.*

You can generally claim the cost of meals when you are required to travel and stay away from home overnight for work.

#### **See more:**

- [Overnight travel expenses](#)
- [Conferences, seminars and training courses](#)
- Taxation Ruling [TR 2017/D6](#) *Income tax and fringe benefits tax: when are deductions allowed for employees' travel expenses?*

You may also be able to claim a deduction for the cost of a meal you buy and eat while working overtime.

**See more:**

- [Overtime meal expenses](#)

**Newspapers and other news services and subscriptions**

The cost of newspapers, news services and other news subscriptions are private, and you cannot claim a deduction for them under normal circumstances. The benefits of staying informed on news matters will usually be no more than incidental to your work and the expense too remote from your income earning activities to be deductible.

You can claim a deduction if you can show there is sufficient connection between your specific employment duties and the content of the specific publication. You need to apportion expenses if you use the publication for work and private purposes.

You can also claim a deduction for the cost of buying or subscribing to magazines that have content specifically related to your employment and that are not general in nature.

*Example – newspaper*

*Judy is a real estate agent who subscribes to the local paper to keep abreast of real estate. As the real estate section only appears in the Wednesday and weekend editions, Judy can claim a portion of the cost of the Wednesday, Saturday and Sunday newspapers.*

*Example – deductible professional journal*

*Jason is a civil engineer who subscribes to an engineering technical journal. Jason can claim a deduction as the content specifically relates to his work.*

**See more:**

- [Pay television and streaming services](#)

**Overnight travel expenses**

You can claim accommodation (see [Accommodation](#)), meals (see [Meals \(food and drink\)](#)) and incidental expenses when you travel in the course of performing your employment duties and are required to sleep away from your home overnight for work.

***Incidental expenses***

Incidental expenses are minor, but necessary expenses associated with your work-related travel. They might include a car parking fee, a bus ticket, or a charge for using the phone or internet for work-related purposes at your overnight accommodation. These are deductible to the extent that your accommodation and meals are deductible.

***Apportionment***

Only those expenses you incur while travelling for work purposes are deductible. You need to apportion your accommodation, meal and incidental expenses if the travel is for work and private purposes. If you add a few days onto a work trip to visit a relative you cannot claim the cost of your accommodation, meals and incidentals during that time.

Receiving an allowance from your employer does not automatically entitle you to a deduction for overnight travel expenses.

### **Substantiation rules**

There are special substantiation rules for accommodation, meals and incidental expenses.

**See more:**

- [Substantiation requirements](#)

#### *Example – attending a meeting*

*Beth is an executive in a large banking company. She travels from her usual workplace in Melbourne to Sydney for a three-day meeting. Beth can claim the cost of her flights, accommodation, meals and incidental expenses such as taxi fares from her hotel to the meeting venue each day. She incurs the expenses in the course of performing her employment duties. Therefore, they are deductible.*

#### *On duty while away from home*

Employees who are on duty while sleeping at a workplace near their home, such as a personal carer living on site, or an overnight supervisor at a boarding house are not sleeping away from home overnight for work. This is also true of employees who choose to sleep near their workplace rather than returning home between shifts. Accommodation and meal costs in these instances are not deductible

#### *Relocating or living away from home*

You can't claim accommodation, meals or incidental expenses you incur in the course of relocating or living away from home. These expenses are private or domestic.

**See more:**

- Taxation Ruling [TR 2017/D6](#) *Income tax and fringe benefits tax: when are deductions allowed for employees' travel expenses?*

### **Overtime meal expenses**

Although meals are a private expense, in limited circumstances meals eaten on overtime can be deductible. You can claim a deduction for the cost of a meal you buy and eat while working overtime if you receive an overtime meal allowance under an industrial award or enterprise agreement and the allowance is reported on your income statement and declared in your return.

An amount for overtime meals that has been folded into normal salary or wages, for example under a workplace agreement, is not considered to be an overtime meal allowance.

There are special substantiation rules for overtime meals – refer to [Substantiating overtime meals](#).

#### *Example – overtime meal*

*Moana completes her eight-hour shift and is asked to work for an additional three hours. She is given a meal break and paid a meal allowance of \$20 under her enterprise bargaining agreement. Moana buys and eats a meal costing her \$21 during her overtime. Moana can claim a deduction for \$21 as the expenditure on meals she eats while on duty for extended hours is incurred in earning her employment income and is not private in nature.*

#### *Example – food consumed after overtime*

*Michael is asked to work three hours overtime after finishing his normal shift. He is given a meal break and paid a meal allowance of \$20 under his enterprise agreement. Michael takes his break but doesn't buy any food. After his overtime shift finishes, he buys some food on the way home. Michael cannot claim a deduction for this food, as he didn't incur the expense as part of earning his assessable income.*

### **Parking fees**

You cannot claim a deduction for parking expenses that you incur to go to your workplace. This is a private expense.

You can claim a deduction for parking expenses when they relate to a work journey and are not reimbursed by your employer.

#### **See more:**

- [Transport expenses](#)

#### *Example – non-deductible parking expense*

*Carissa is an engineer working in the city centre. There is no parking for employees in her building, so Carissa pays for car parking nearby. Carissa cannot claim a deduction for the cost of the car parking.*

#### *Example – deductible parking expense*

*Karlyn works for a law firm. She has to rush some legal documents to the court before it closes for the day. Karlyn drives and parks directly in front of the court and pays a fee for parking. Karlyn can claim the cost of the car parking.*

### **Pay television and streaming services**

You cannot claim a deduction for the cost of pay television or streaming services. This is a private expense.

#### *Example – non-deductible pay television*

*Glenn is a pilot for a domestic airline. He subscribes to a pay television service that has a real time weather channel. Glenn checks the weather channel in the morning before flights as he does some preliminary planning for his flights that day. Glenn's employer also supplies weather information to him when he arrives at the airport. He is expected to use this information in his flight planning.*

*Glenn cannot claim any part of the cost of his pay television subscription, as the benefit he gains from the subscription is too remote and the proportion that relates to his work is incidental.*

### **Personal appearance and grooming**

Generally, the costs related to personal appearance, including cosmetics or makeup, skin care, shaving products, haircuts, hairdressing and hair products are not deductible as they are private expenses. The fact that your employer expects you to maintain certain standards of grooming or pays you an allowance to cover your grooming expenses does not make the expense deductible.

#### *Example – cosmetics not deductible*

*Isabella works as an executive assistant to the managing director of a large international company. She is always required to be well groomed at work and her employer has advised that her presentation will be regularly monitored. In recognition of the importance of grooming to her employer, Isabella is paid a grooming allowance of \$50 a week.*

*Even though Isabella buys cosmetics that she uses solely for work with the allowance she receives, and her employer expects her to be well groomed, she cannot claim a deduction. The connection between Isabella's expenditure on cosmetics and her employment activities is insufficient. The character of the cosmetics remains private.*

#### *Example – haircuts not deductible*

*Hugo is in the army and is required to maintain a short hairstyle. Hugo cannot claim a deduction for the cost of haircuts, as this is a private expense.*

In limited circumstances there may be sufficient connection between personal appearance expenditure and earning your employment income to make the expenditure deductible.

#### *Example – performer incurring hairdressing and makeup expenses*

*Johannes is employed to perform in a touring production that runs for six months. The role requires him to keep his hair in a short buzz cut, and he buys makeup to age his appearance by 20 years. As the makeup and hairdressing expenses have a sufficient connection to the earning of his employment income, Johannes can claim a deduction.*

#### **See more:**

- Taxation Ruling [TR 96/18](#) *Income tax: cosmetics and other personal grooming expenses*

### **Phones and other telecommunication devices**

You can claim a deduction for expenses you incur on phone and other telecommunication devices, including data, if you use the devices for work purposes. If the device cost more than \$300, you can only claim its decline in value as a deduction.

You need to apportion expenses if you use your phone or devices for work and private purposes. You cannot claim a deduction for installation and set up costs.

**See more:**

- [Decline in value under the capital allowance provisions](#)
- [Apportioning work-related expenses](#)

*Example – connection expense*

*Mark is transferring his home phone and internet connection to the NBN. He must pay a one-off fee for the cost of the modem and connection. He cannot claim a deduction for this fee. The expense is capital in nature.*

You cannot claim a deduction for obtaining or maintaining a silent number. Obtaining and maintaining a silent number preserves anonymity and privacy and is therefore private in nature.

*Example – silent number*

*Hunter is an employee lawyer who works on criminal cases. He maintains a silent home telephone number because he does not wish to expose his family to threatening calls. The additional cost of maintaining the silent telephone number is not deductible. The expense is not incurred in the course of earning his employment income. It is a private expense.*

**See more:**

- Law Administration Practice Statement [PS LA 2001/6](#) *Verification approaches for home office running expenses and electronic device expenses*

**Protective items**

You may be able to claim a deduction for protective items you purchase and use at work. To be deductible **both** of the following must apply:

- You must have incurred the expense yourself.
- It must have a sufficient connection with the earning of your assessable income, which means
  - you are exposed to the risk of illness or injury in the course of carrying out your income-earning activities
  - the risk is not remote or negligible
  - the protective item is of a kind that provides protection from that risk and would reasonably be expected to be used in the circumstances
  - you use the item in the course of carrying out your income-earning activities.

**COVID-19**

During the COVID-19 pandemic, more people may have had to purchase protective items. These could include items like face masks and gloves. If your specific employment duties require you to have physical contact or be in close proximity to customers or clients while carrying out your duties or you are involved in cleaning premises, you can claim a deduction for expenditure on protective items. Examples of this type of work include the:

- medical industry (such as doctors, nurses, dentists and allied health workers)
- cleaning industry
- airline industry
- hairdressing and beautician industry
- retail, café and restaurant industry.

If you work in these industries or occupations, the risk is not remote or negligible.

If you use items for both work-related and private purposes, you can only claim a deduction for the portion of the expense that relates to your work-related use.

#### *Example – helmet and safety visor*

*Wiremu works on a building site. He is required to wear a helmet and safety visor on site and if he doesn't wear them, he is at risk of being injured. There is connection between the expense he incurred on the helmet and safety visor and the protection the items provide for him during his employment. Wiremu can claim a deduction for the cost of the helmet and safety visor.*

#### *Example – Non-deductible protective item*

*Kate is a manager who works in an air-conditioned building. She applies moisturiser to her face and hands while at work. The risk of illness from Kate's work environment is not sufficient to make it necessary for her to use moisturiser to counter that risk. Kate cannot claim a deduction as there is no connection between her expenditure and her employment activities.*

### **Removal and relocation expenses**

You cannot claim a deduction for expenses you incur to transfer to a new work location for an existing job, or when taking up a new job. This is the case even if relocating is a condition of your employment. Where you chose to live, and the expenses related to it never have a sufficient connection to earning your employment income and remains private or domestic.

#### *Example – relocation due to transfer*

*Cailyn, a Commonwealth public servant is transferred by her department from a state office to the central office in Canberra. Cailyn cannot claim a deduction for her removal or relocation costs, as the move is private in nature and does not have the necessary connection with earning her employment income.*

#### *Example – relocation due to promotion*

*Otto is a regional sales manager for Tasmania. His employer offers him a promotion to become the national sales manager for Australia. A condition of accepting the job is that he moves to the head office in Sydney. Otto is not able to claim for any of his removal or relocation expenses as his decision to move is private in nature and does not have sufficient connection with earning his employment income.*

## School fees (including university and TAFE fees)

You cannot claim a deduction for the cost of educating your children (or any other students), including school fees, university fees and TAFE fees. This has no relevant connection with earning your employment income and is a private expense.

### *Example – private school fees*

*Troy, a single father, works two jobs so that he can afford private school fees for his twins Yasmine and Jasmine. Troy cannot claim a deduction for the school fees. The expense has no connection to Troy's employment income and is private in nature.*

**See more:**

- [Self-education and study](#)

## Self-education and study

Self-education and study include courses undertaken at an educational institution (whether it leads to a formal qualification or not), attendance at work-related conferences or seminars, self-paced learning and study tours.

**See more:**

- [Conferences, seminars and training courses](#)

You can claim a deduction for study and self-education expenses if your course relates directly to your current employment and:

- maintains or improves the specific skills or knowledge you require in your current employment – such as a trainee accountant studying commerce part-time at university, or
- results in, or is likely to result in, an increase in your income from your current employment – such as a lawyer upgrading their Bachelor of Laws with a Master of Laws.

### *Example – maintains or improves specific skills or knowledge*

*Cyril is employed as communications officer at a large company. He enrolls in a weekend seminar on emergency communications, which is part of the duties he performs at work. The course deepens his knowledge on communications issues and directly ties into the work he does from day to day and is therefore deductible.*

### *Example – does not maintain or improve specific skills or knowledge*

*Brunhilda works at the university computer labs. Her duties consist of mostly making sure the labs are kept tidy, setting up new computers and providing some minor technical support for students. She is studying a Master of Computer Science – Data Science. Even though there is some minor connection between the work she performs and her study, the duties she undertakes with her job and the specific knowledge she gains from her study are unrelated. She cannot, therefore, claim a deduction for the costs of obtaining the master's degree.*

You cannot claim a deduction for study or self-education for a course that:

- doesn't have a connection with your current employment or relates only in a general way to your current employment or profession – such as undertaking a full-time fashion photography course and working as a casual sales assistant on the weekends, or
- may enable you to get employment or change employment – such as moving from employment as a personal care assistant to a nurse, or from employment as a nurse to a doctor.

#### *Example – different work activities*

*Terry works as an orderly in a hospital. He is also studying a Bachelor of Nursing to become a registered nurse. The duties of an orderly are to ensure the wards are kept tidy, to lift and turn patients and transport them in wheelchairs and moveable beds, to make beds and serve food. An orderly does not administer medication or maintain medical records for patients.*

*Terry's employer promises him a job as a registered nurse (which would lead to an increase in pay) if he successfully completes the course. The duties of a registered nurse include assessing and evaluating patients, working in consultation with doctors and specialists to care for patients, maintaining medical records, administering medication and monitoring for side effects and implementing nursing care plans.*

*While Terry works with nurses when he is carrying out his duties, becoming a registered nurse would significantly change his work activities. When he completes the degree, although he will be engaged with the same employer, he will change jobs and have significantly different responsibilities. He will also enter into a new employment contract.*

*The study will allow him to obtain a new job and increase his income, but there is not a sufficient connection with his present employment activities. Terry cannot claim a deduction for the expense of his study.*

#### *Example – deductible study expense*

*Renee is employed as a senior manager in a business consulting firm. Her employer offers an increase in pay grade for staff members who gain a Master of Business Administration. Renee enrolls in the course and, once she completes it, receives the pay increase. Renee can deduct her self-education expenses as it has led to increased income from her current employment activities.*

### **Expenses you can claim**

If your self-education expenses are deductible, you can claim expenses such as course fees, student and amenities fees, textbooks, academic journals and stationery expenses. If any of the assets cost over \$300 you may be able to claim a decline in value of the asset. If you have set aside a home office, you may also be able to claim home office running expenses, but not occupancy expenses.

**See more:**

- [Course fees](#)
- [Home office expenses](#)

- [Decline in value under the capital allowance provisions](#)

#### *Travel, meals and accommodation*

Meals and accommodation are private in nature and not deductible, except in very limited circumstances. However, if you are required to be away from home for one or more nights for your self-education, you may be able to claim your transport, meal and accommodation costs.

#### **See more:**

- [Transport expenses](#)
- [Accommodation](#)
- [Overnight travel expenses](#)

#### *Example – interstate study travel*

*Renee is studying her Master of Business Administration at an interstate university. The successful completion of the course will result in an increase in her income from her current employment and her self-education expenses relating to the course are deductible. She mostly does the course online, but occasionally she has to attend the university in person.*

*Renee needs to attend a four-day workshop to complete a subject. She flies in on the morning of the first day and flies out on the evening of the last day. The cost of the flights, meals and accommodation while she is studying are deductible, as she has had to spend three nights away from home.*

You may also be able to claim your daily travel from your home to your place of education and back, and from your place of work to your place of education and back.

However, you cannot claim the cost of the last stage of your journey if you go from your home to your place of education and then to work, or your place of work to place of education and then home.

#### *Example – daily travel for study*

*Arjun is a solicitor who is studying his Master of Laws. Arjun has to attend two classes each week. One is on Saturday morning and one is on Tuesday afternoon. He drives from home to class on Saturday morning, and then drives straight back home. Arjun could claim both trips between home and the university when he attends a class on a Saturday as a self-education expense.*

*On Tuesdays, Arjun drives to work. He then drives to university and heads home straight after. He would only be able to claim the cost of the trip from work to university on those days.*

If you receive a taxable scholarship and you are not employed by the scholarship provider, you are unable to claim the cost of travel from your home to your normal place of education and back.

It is important to keep records of travel related to self-education even where the expense may not be deductible.

**See more:**

- [\\$250 reduction in expenses](#)

### *Course fees*

While course fees may be deductible, fees incurred under the Higher Education Contribution Scheme Higher Education Loan Program (HECS-HELP) scheme are not deductible. HECS-HELP is the Australian Government loan scheme that covers degrees at universities and other higher education providers that offer Commonwealth supported places. These are usually at the undergraduate level.

With other deductible course fees, you claim the deduction when the debt is incurred, not when the repayment is made. Debts are generally incurred when they become a legal obligation you need to pay back.

### *Example – when the expense is incurred*

*Tara enrolls in two subjects for her Master of Business Administration course. The subjects have a census date of 22 March, meaning if she pulls out prior to that date she does not have to pay the course fees. Due to an unexpected increase in her workload, Tara withdraws from one subject on 17 March. On 22 March Tara incurs the cost of the one subject she is still enrolled in, even though she has deferred payment through the FEE-HELP system.*

The repayments you make on debts you have under the schemes such as the Higher Education Loan Program, Trade Support Loan Program, Student Financial Supplement Scheme and Student Start-up Loan are not deductible.

### *\$250 reduction in expenses*

Generally, the first \$250 of self-education expenses are not deductible, and you must reduce your overall claim for self-education by that amount. You can, however, offset the \$250 reduction through expenses that are not normally deductible. These expenses include:

- childcare expenses while attending self-education activities
- travel expenses for the last stage of travel from your home to place of education and then to your workplace, or workplace to your place of education and then to your home
- if you are a taxable scholarship recipient who is not employed by the scholarship provider, the travel expenses from your home to your normal place of education and back
- capital expenses related to self-education, such as the purchase of a desk.

### Example – \$250 reduction

Tobias incurs deductible self-education expenses of \$2,100 in the income year. He also incurs \$80 of childcare and \$70 of travel that are not ordinarily deductible self-education expenses. Tobias calculates his deduction for self-education expenses in the following way:

$$\begin{array}{r} \$250 \text{ reduction amount} - \text{Self-education expenses} \\ \text{not normally deductible} \end{array} = \text{Reduction amount}$$

$$\$250 - (\$80 + \$70) = \$100$$

$$\begin{array}{r} \text{Deductible self-education expenses} - \text{Reduction} \\ \text{amount} \end{array} = \text{Total claim amount}$$

$$\$2,100 - \$100 = \$2,000$$

### See more:

- Taxation Ruling [TR 98/9](#) *Income tax: deductibility of self-education expenses incurred by an employee or a person in business*

### Stationery

You can claim a deduction for the cost of diaries, pens, logbooks, or other stationery that has the necessary connection with earning your employment income.

### Example – diary

Phillip is a salesperson. His duties require him to meet with several different clients every day. Phillip prefers to keep a paper diary to record his meetings with clients, so he buys one at the start of each year. Phillip is entitled to a deduction for the cost of the diary.

### Sunscreen

You can only claim a deduction for the cost of sunscreen if wearing it:

- has the necessary connection with earning your employment income, and
- protects you from the risk of illness or injury at work because your employment duties require you to spend prolonged periods outdoors.

You need to apportion your expenses for sunscreen if you use it for work and private purposes.

You cannot claim a deduction for sunscreen if:

- your work does not require you to perform your duties in the sun, or
- you purchase a cosmetic with added sunblock protection.

If a product is safe and effective as a sunscreen, it's given an Australian Register of Therapeutic Goods (ARTG ID) number by the Therapeutic Goods Administration which is displayed on the product as an AUST L number.

Any product with an ARTG ID and an AUST L number on the label will be accepted as sunscreen. The AUST L number is different to the SPF number.

**See more:**

- To find out whether a product has been given an ARTG ID, visit the [Therapeutic Goods Administration](#) website

**Example – deductible sun protection**

*Jackie, a teacher, buys a bottle of high protection sunscreen to wear once a week at the school sports afternoons held outdoors, which she is required to attend. She also wears a sunhat and sunglasses to protect herself from exposure to the sun. She does not wear that sunscreen at any other time. Jackie can claim a deduction for the cost of the sunscreen, as well as the sunglasses and sunhat. If Jackie uses the sunglasses and sunhat for private purposes as well, she will have to apportion her deduction for those items.*

**See more:**

- Taxation Ruling [TR 2003/16](#) *Income tax: deductibility of protective items*

## Tolls

You can claim a deduction for tolls you incur when they relate to a work journey.

**Example – deductible toll**

*Kath, an employee hairdresser is required by her employer to travel from her usual salon to one of their other salons for a meeting. She drives her car and uses a tollway to get to the other salon. Kath can claim a deduction for the cost of the road toll as she is undertaking a work-related journey.*

**See more:**

- [Car expenses](#)
- [Transport expenses](#)

## Tools and equipment

### ***Purchasing tools and equipment***

You can claim a deduction for the cost of tools or equipment if you use them for a work-related purpose. You need to apportion the cost of the tools or equipment if you use them for work and private purposes.

Tools and equipment are generally depreciating assets. If it is a depreciating asset and it cost you more than \$300, or is a part of a set that cost you more than \$300, you need to claim a deduction for its decline in value over the effective life of the asset.

#### *Example – private use of tools*

*Deric works as an aircraft maintenance engineer and buys a coupler kit to use at work. He also occasionally uses the coupler kit to maintain his personal plane on the weekends. Deric calculates that during the income year he uses the kit for his personal plane for 10% of the time. He therefore reduces his deduction by this amount.*

#### **See more:**

- [Apportioning work-related expenses](#)
- [Decline in value under the capital allowance provisions](#)
- [Depreciating assets](#)

#### ***Insuring tools and equipment***

You can claim a deduction for the cost of insuring tools and equipment to the extent of their work-related use.

#### *Example – insuring tools*

*Mark, an employee carpenter has an extensive collection of tools that he uses solely at work. He has portable and valuable items cover in case his tools are ever lost, damaged or stolen at work. Mark can claim a deduction for the cost of the insurance for the tools.*

#### ***Repairs to tools and equipment***

You can claim a deduction for the cost of repairs to tools and equipment to the extent of their work-related use.

#### *Example – repairs to tools*

*Rod is a tree lopper. The chainsaw that Rod uses solely for work breaks down and needs to be repaired. Rod can claim the entire cost of repairing the chainsaw.*

#### **Transport expenses**

This includes, for example: car expenses, flights, taxis, ride-share and ride-sourcing costs and other public transport costs.

You can claim transport expenses when you travel in the course of performing your employment duties. This includes the cost of driving your car, flying or catching a train, taxi or bus.

#### ***Home to work travel***

You cannot claim a deduction for transport expenses incurred in travelling between home and work as this is a private expense. This doesn't change even if:

- you do incidental tasks on the way, such as stop at the post office to collect mail for your employer, or
- you work outside usual business hours or are on call.

#### **Example – private travel to work**

*Tim works at his local cinema. He is often required to work late into the night. The only available bus does not operate past 7pm so Tim has to drive to and from work. The cost of this trip is not deductible as it is private in nature. The expense is incurred to put Tim in the position to earn his employment income.*

#### **See more**

- [Travel between home and work and between workplaces](#)
- [Car expenses](#)
- To determine if the vehicle you use is a car, refer to [What is a car?](#)

#### **Bulky tools and equipment**

Where the nature of your job creates a practical necessity to transport bulky tools or work equipment by car between home and work, the journey may be a deductible work journey rather than ordinary private travel to and from work. This will only apply if:

- the tools or work equipment are essential for the performance of your employment duties
- the tools or work equipment are bulky, meaning they are of such large size or weight that transportation by car or other private vehicle is the only realistic option, and
- transporting the items between home and work is a practical necessity (for example, there is no appropriate storage for such items at the workplace, or the items need to be transported to a different work site on a subsequent day).

These requirements are necessary for the cost of the trip to be deductible. It will not be sufficient if you transport items merely as a matter of choice. For example, if your employer provides reasonably secure storage, your decision to transport items home will be a matter of choice and not a practical necessity. The cost of the trip will not be deductible.

#### **Example – bulky equipment**

*Masahito is employed to play double bass in an orchestra. The orchestra plays in a number of locations and he often travels directly from home to the various venues. He practices regularly at home, which is also the only place available to store his instrument when not being used. When the double bass is in its case, it is over 2 m tall and 75 cm wide and is awkward to transport. Masahito can claim a deduction for the car travel between home and his workplaces. The need to transport his cumbersome double bass by car to the different workplaces means that the journeys are not ordinary home to work travel.*

#### **Example – non-bulky tools**

*Yandi works at a mobile phone repair booth in the shopping mall. There is no room to store her tools at the kiosk, so her employer expects her to bring her tools to and from work. Yandi keeps her tools in a tool box that is 30 cm by 20 cm by 10 cm. The toolbox is easy to carry in her backpack when she takes it home each day. While there is no place to store the tools and she needs them to do her work, the tools themselves are not bulky and*

would not affect the way she travels to and from work. Those journeys still have the character of private home to work travel and the travel expenses would not be deductible.

#### *Example – transport of tools due to personal choice*

Marcus is a short haul truck driver who decides it is important to take his truck repair tool kit with him on every trip. The tool kit needs two people to move it and there is nowhere for him to store the tools safely at the home depot. His employer supplies a basic tool kit for minor repairs in each truck and, if the trucks break down, employees must call the duty mechanic to come out and do the repairs. While the tools would be considered bulky and there is no safe space to store them at work, he does not require the tools to do his job. Marcus would not be able to claim a deduction for his travel to work as it is his personal choice to carry tools that are not relevant to his driving duties. His employment has not created a need to transport bulky tools between home and work. The costs of travelling between home and work are private expenses.

#### *Example – secure storage available*

Merinda works as a fitter and turner on a mine site that she drives to every work day. Her work depot is surrounded by a fence and people need to come through a security gate to get on to the premises. There is a building supplied for staff to store their tools when not on duty. The staff have their own personal tool lockers which have combination locks.

Merinda requires a number of tools to do her job, so her toolkit is large and heavy. Although there is room to store the toolkit in her locker, she takes it home every day. Although her tools would be considered bulky, Merinda has a secure place to store them at the work depot and it is her personal decision to transport them between home and work each day. Her work has not created a practical need to transport bulky tools between home and work, and so the daily trips remain ordinary private journeys. She would not be able to claim a deduction for her travel.

#### **See more:**

- Taxation Ruling [TR 95/34](#) *Income tax: employees carrying out itinerant work – deductions, allowances and reimbursements for transport expenses.*
- Taxation Ruling [IT 2543](#) *Income tax : transport allowances: deductibility of expenses incurred in travelling between home and work*

#### ***Itinerant work***

If your work is itinerant, you will be entitled to claim a deduction for transport expenses incurred in travelling between home to work. Your work is itinerant if you have shifting places of work. The following factors may indicate you do itinerant work:

- travel is a fundamental part of your work
- you have a web of workplaces you travel to throughout the day, that is you have no fixed place of work
- you continually travel from one work site to another
- you are often uncertain of the location of your worksite
- your home is a base of operations that is, you start work at home and must go to another site to complete it

- your employer provides an allowance in recognition of the need to travel between different work sites.

#### *Example – work that is not itinerant*

*Chloe is a substitute teacher, who travels to different schools when teachers are away. She sometimes attends a school for just one day, and at other times for a few weeks. Chloe is not carrying out itinerant work. While she may not know where she is going to work each day, she will only ever work at one location during the day. She cannot claim a deduction for the cost of the transport between home and work.*

#### *Example – work that is itinerant*

*Mitchell works as an apprentice roof tiler and is dispatched to various sites each day. He travels to the first location from his home and returns home at the end of the day from the last site at which he has worked. Mitchell is carrying out itinerant work as he is travelling between sites all day and can claim a deduction for the transport expenses he incurs when he travels between home and work each day.*

*Mitchell can also claim the cost of his transport to travel between each site during the day. However, if Mitchell only attended one site and worked there for several days until the job was finished, he would not be carrying out itinerant work.*

It is important to also note that the travel needs to be fundamentally tied to your employment income. If the travel is merely a matter of convenience for you or the employer, it will still be considered a private expense and therefore not deductible.

#### **See more:**

- Taxation Ruling [TR 95/34](#) *Income tax: employees carrying out itinerant work – deductions, allowances and reimbursements for transport expenses*

### **Home as a base of employment**

Your home may be a base of employment if:

- you commenced work at or before the time of leaving home to travel to work, and
- the responsibility for completing that work is not discharged until you attend the worksite.

Undertaking the work in two locations must be a necessary obligation arising from the nature of your duties, not merely a matter of convenience.

If you do small tasks at home or work at home as a matter of convenience, then you cannot claim that your home is a base of employment.

#### *Example – home is a base of employment*

*Tom is the IT Security Director of a data storage company. He is on call 24 hours a day to be notified of a security breach. His employer has installed a secure terminal so he can work from home if he receives a call out of hours. Normally, Tom would provide advice over the phone to the staff on site, and sometimes he would log into the secure terminal at his home to correct the issue.*

*At times, Tom needs to drive into head office out of hours so he can resolve the issue on site. On those occasions when he starts working from the home terminal then drives into work to resolve the issue, the journey is deductible, as his home becomes a base of employment. However, his regular daily drive into work is not deductible.*

#### **Example – home is not a base of employment**

*Una is employed as a copywriter at an advertising agency. She often works from home as it is more convenient for her. Occasionally, she starts the day working at home but drives into the office in the afternoon to meet with her colleagues or check in with her manager. As she chooses to work from home and it is not generally necessary for her to go to her office, her home is not a base of employment and the journey to work remains private. She cannot claim a deduction for her home to work travel.*

#### **Travel to earn your income**

You can claim a deduction for your transport expenses when they are incurred in the course of earning your employment income. This is when:

- you travel directly between two separate places of employment, as long as one of them is not where you live
- you attend work-related conferences or meetings away from your usual workplace
- you travel from your regular place of work to an alternative place of work (a place of work you don't regularly travel to) and back to your regular place of work
- you travel to and from your home to an alternative place of work.

#### **Example – regular workplace**

*Brock works for a large company with two offices in Melbourne. He usually works from the city location but occasionally his boss directs him to attend the office in Box Hill. Brock can claim a deduction for the cost of driving to and from the Box Hill office. However, if Brock works from the city location every Monday to Thursday and from the Box Hill office every Friday as a standard arrangement, then both places are his regular places of work and he cannot get a deduction for any of his travel.*

#### **Example – direct travel between two separate workplaces**

*Ahmit works primarily as a drafter but has another part-time job as a security guard. On Tuesdays and Thursdays, he drives directly from his job as a drafter to his job as a security guard. As the travel is between two workplaces, he can claim a deduction for that travel.*

#### **Example – non-deductible travel**

*Michelle is a piano teacher who offers lessons from her home after work and on weekends. Monday to Friday she works as a receptionist at the local doctor's surgery. Michelle cannot claim a deduction for travel to and from the doctor's surgery, as this is home to work travel, even though she earns income as a piano teacher at home.*

## See more:

- Draft Taxation Ruling [TR 2019/D7](#) Income tax: when are deductions allowed for *employees' transport* expenses?
- For car expenses when you undertake self-education see [Self-education and study](#)

## Travel

Travel includes transport expenses (refer to [Transport expenses](#)) and overnight travel expenses – being accommodation (refer to [Accommodation](#)), meals (refer to [Meals \(food and drink\)](#)) and incidental expenses (refer to [Overnight travel expenses](#)).

## Union and association fees

You can claim a deduction for the cost of union, trade, business or professional association fees for the industry that you are employed in.

You can also claim up to \$42 per income year for each subscription you incur for membership of a trade, business or professional association that is not directly related to the earning of your assessable income.

### *Example – union fees*

*Justin is an employee high school teacher in Cairns. He belongs to the Queensland Teachers Union. Each year Justin pays an amount to the Queensland Teachers Union to be a member. Justin can claim a deduction for the fees he pays.*

### *Example – subscriptions*

*Michael is an accountant and pays \$700 a year for membership of his professional accounting body. He is also studying actuarial science and decides to join that professional body as a student member which costs \$200 per year.*

*Michael can claim the full amount of \$700 for the accounting body membership as that relates to his employment. He can claim \$42 of the actuarial professional membership, as it is not related to his employment activity.*

## Vehicles other than cars

This includes, for example: motorcycles, bikes, bicycles, scooters, trucks, heavy vehicles and buses.

If the vehicle you drive while travelling for work is not a car as defined, you can claim the actual expenses related to your work travel. Vehicles other than cars include motorcycles, a vehicle with greater than 1 tonne carrying capacity or a van with capacity for nine or more passengers.

These expenses can include fuel, oil, and repair and maintenance costs. You cannot claim the purchase of the vehicle, but you can claim the decline in value of the vehicle over its effective life.

You need to keep records of all your expenses to prove your claims, as well as records that show how you have calculated your work travel as a percentage of your overall travel. While it is not a requirement to keep a logbook, it is the easiest way to show how you have calculated your work-related use of the vehicle.

### Example – claimable expenses

Samid buys a motorcycle that he uses for his work making local deliveries. His logbook shows he travels a total of 3,000 km for the year and during the 12-week logbook period he travels 800 km in total with 600 km being work-related travel. He calculates his work use percentage as 75%.

$$\frac{\text{Total logbook work-related kilometres}}{\text{Total logbook kilometres}} = \text{Logbook work use percentage}$$

$$\frac{600}{800} = 75\%$$

Samid keeps receipts for his expenses. These were for:

Fuel and oil	\$560
Repair	\$400
Registration	\$540
CTP	\$300
Decline in value	\$1,800
<b>Total</b>	<b>\$3,600</b>

Samid multiplies his work use percentage by the total expense to get his deduction.

$$\text{Total expenses} \times \text{Work use percentage} = \text{Claimable deduction}$$

$$\$3,600 \times 75\% = \$2,700$$

### See more:

- [Logbook method](#)

### Wages

If you are an employee who earns commission-only income, you may be able to claim a deduction if you pay someone to provide you with services and assistance directly relating to your employment activities. You need to demonstrate that the arrangement is not a private arrangement and that hiring the person allows you to earn additional income from your employment activities.

### Example – deductible expense

Claire is employed as a regional wine sales executive and works on a commission-only basis. She hires Jake as an administration support person who works four hours a day, five days a week. Jake fills Claire's sales orders with the warehouse and books her appointments with clients in future weeks. Hiring Jake allows Claire to earn more income

from selling wine. Claire can claim a deduction for Jake's wages expense as there is a clear connection with her employment activity.

#### *Example – non-deductible expense*

*Pawel is employed as a computer systems salesperson and he only receives commission income. He pays his son \$100 a week to answer the home phone when he is not around. Pawel does not expect his son to be at home at certain times and if he doesn't answer the phone, it will divert to his mobile. He rarely gives his home phone number out to clients. Pawel cannot deduct the expense of paying his son as there is no connection between the expense and his employment activities.*

If you are paying wages to a relative, a deduction is only available to the extent it is no more than a reasonable payment for the service performed. A reasonable payment is the amount the employee would be expected to pay to an unrelated person who had similar skills and experience in the same role.

#### *Example – overpayment*

*Verity is employed as a real estate agent on a commission-only basis. She pays her son \$50 an hour to deliver advertising leaflets in the region in which she operates. The market rate for such a service is only \$21 an hour. Therefore, Verity can only claim a deduction of \$21 an hour for the wage expenses.*

### **Watches**

A deduction is not allowable for the cost of purchasing or repairing an ordinary wristwatch as the expense is generally considered private or domestic. However, you may be able to deduct the cost of purchasing or repairing a speciality watch that has the necessary connection with your work.

If the watch cost more than \$300, you can only claim its decline in value as a deduction.

You need to apportion expenses if you use the watch for work and private purposes

### **Smart watches**

Similarly to ordinary watches, a smart watch (that connects to a phone or other device to provide notifications, apps and GPS, for example) is a private expense and not deductible under ordinary circumstances.

However, if you require some of the smart watch's functions as an essential part of your employment activities you may be able to apportion the expense between your private and work use. In order to show your work-related use of the watch, you will need to keep a diary or similar record of your use of the device for a representative period.

### **See more:**

- [Phones and other telecommunication devices](#)
- [Apportioning work-related expenses](#)
- [Decline in value under the capital allowance provisions](#)

*Example – specialty watch deductible*

*Alastair is employed as a nurse. When he started working in a hospital he bought a nurses' fob watch for \$150, which he wears only during work hours. Alastair cannot wear a normal wrist watch for hygiene reasons. Alastair can claim a deduction for the expense.*

*Example – specialty watch apportioned for private use*

*Bianca works on the police Diving Squad. She buys a diving watch that she uses every day for work. She also uses the watch when she goes diving recreationally. As the watch cost more than \$300, she is entitled to claim the decline in value of the watch as a deduction. However, Bianca would need to apportion the decline in value amount between her work and private use and claim only the portion that relates to her work.*

*Example – ordinary watch not deductible*

*Carlos is a travelling salesman. He buys a watch so he can make sure he is on time for his appointments. Carlos cannot claim a deduction for his expense as it is not a speciality watch and the expense is private and domestic in nature.*

*Example – smart watch not deductible*

*Dianna is a police officer who primarily works on bicycle patrol. As part of her role, she needs to keep GPS records of where she travels. The department has provided her with a GPS for this purpose. Dianna purchases a smart watch so it is easier for her to keep personal GPS records and to check messages sent to her phone while she is on patrol. She receives both private and work-related messages via the smart watch. Dianna cannot claim a deduction for the smart watch, because her employer provides her with the necessary tools to fulfil her work functions. The ability to check messages on her phone with her watch is not a part of her employment duties and the cost of the watch is not a deductible expense for her work.*

## **Working dogs**

Generally the cost of acquiring and taking care of dogs or other pets is a private expense. However if your dog has a necessary connection to earning your employment income, you may be able to claim a deduction for the purchase and care of the dog. Working dogs are trained for their role from a young age and are not treated like pets.

*Example – working dog connected to employment*

*Greg is a truck driver who exclusively transports cattle. He owns Hamish, an Australian cattle dog which is a breed developed for droving cattle. Hamish has also been raised and trained as a cattle dog. Greg takes Hamish on his cattle runs and Hamish herds the cattle in and out of the truck. Because of the connection with Greg's employment, he can claim a deduction for the costs incurred with maintaining Hamish to the extent of the work-related use of the dog.*

*Example – companion dog not connected to employment*

*Sammy works as a long haul truck driver who hauls a variety of goods around Australia. She owns Buster who is an Australian kelpie, a breed that was developed for herding*

livestock. Sammy takes Buster on her trips as a companion and guard dog, but he is never used for herding livestock. There is no connection between Buster and Sammy's employment and therefore Sammy cannot claim a deduction for expenses for Buster's upkeep.

**Example – guard dog not connected to employment**

Gabby is a police officer who owns a German shepherd as a guard dog for her protection at home. Gabby cannot claim a deduction for maintaining the dog as it is a private expense.

Amendment history		
	Part	Detail
February 2021	Gym fees and fitness-related expenses	Content amended to clearly set out the ATO view, which is outlined in Taxation Determination TD 93/114 <i>Income tax: is a police officer, who is required to maintain an adequate level of physical fitness in order to undertake police duties, entitled to claim a deduction for fitness related expenditure?</i> , regarding gym clothes and other items of conventional clothing and footwear used in the course of keeping fit.
August 2020	Introduction Home office expenses  Protective items  Sunscreen  Throughout	Reference added to TR 2020/1.  Detail of shortcut method available to calculate running expenses for a defined period of time relating to COVID-19 added. Additional example showing operation of the shortcut method included.  Detail relevant to potential items purchased as a result of the COVID-19 pandemic added.  Updated to include detail in relation to the ARTG ID.  Minor wording changes to improve clarity.

## Part D – Substantiation requirements

To claim a deduction for a work expense, including the decline in value of a depreciating asset (see [Decline in value under the capital allowance provisions](#)) you must substantiate it by getting written evidence. This evidence can be in paper or electronic form. For most work expenses you need a receipt or similar document from the supplier that shows all the following:

- the name or business name of the supplier
- the amount of the expense or cost of the asset
- the nature of the goods or services that you purchased
- the date you purchased the goods or services
- the date the document was produced.

### *Example – valid receipt*

*Carla, who works on a construction site, buys a new pair of steel-capped boots from an online store. She gets a receipt by email that shows that she bought and paid \$229 for the boots from Workwear Online on 23 January 2019, and that the receipt was generated on 25 January 2019, when the boots were posted. The receipt is suitable substantiation, as it has all the information required, even though it was in electronic form.*

If you don't get, or can't get a receipt, you can provide other forms of evidence for your expenditure which might include bank statements, invoices, or purchase orders for example. Together, the other forms of evidence need to show all of the items of information described above that would be required on a receipt.

### *Example – alternative substantiation*

*Amy pays her annual professional association fees but does not get the receipt. She has the letter from the organisation showing the amount due and payable and a credit card statement that shows she paid the organisation the same amount for 'Professional fees' a few days later. The combination of documents is sufficient for Amy to substantiate her expenses.*

### *Example – insufficient substantiation*

*Mark buys some tools from a hardware store, but he does not keep the receipt. He paid with cash that he had withdrawn from an ATM that day. While he has bank records that show he made the withdrawal and the date the withdrawal was made, the bank statements do not show the name of the hardware store, the nature of the goods purchased or the cost of the tools he purchased. Mark has not substantiated the tools and he cannot claim a deduction for them.*

### **See more:**

- Law Administration Practice Statement [PS LA 2005/7](#) *Substantiating an individual's work-related expenses*

### **Additional requirements for depreciating assets**

As well as the original purchase documents that meet the substantiation requirements, you will need to keep additional records in respect of the depreciating assets you wish to claim. These records must show:

- the rate or effective life you used to work out the decline in value, and how you calculated it if you didn't use the Commissioner's rate
- the method you used to calculate the decline in value
- your work-related percentage and how you calculated it.

### **Substantiating overnight travel expenses**

If you meet the criteria to claim [overnight travel expenses](#) ([accommodation](#), [meals \(food and drink\)](#), or expenses incidental to the travel) as a work-related expense, generally you need to keep records for all of the overnight travel expenses you have incurred and intend to claim. This can include receipts for meal purchases, accommodation and other incidental expenses.

The specific records you need to keep depend on a number of factors including whether:

- you receive a travel allowance
- the allowance is reported on your payment summary
- the travel allowance is to cover domestic or overseas travel
- you travel away from home for six nights or more in a row.

If the travel is longer than six nights away from home, you need to keep a travel diary, unless an exception applies.

#### ***Travel diary***

A travel diary is a record of your work trip where you record the dates, places, times and duration of your activities and travel. The diary allows you to accurately calculate the work-related and private parts of the trip. You can only claim the work-related part of the trip.

There may be some exceptions from substantiation for your overnight travel expenses. Please refer to [Exceptions for overnight travel](#) for further information.

- For more information on how to keep a travel diary, see [Travel diary](#).

### **Substantiation of car expenses**

Work-related car expenses have some additional requirements for substantiation and how you calculate your deduction. For information on these requirements see [Car expenses](#).

<b>Amendment history</b>		
	<b>Part</b>	<b>Detail</b>
August 2020	Throughout	Minor wording changes to improve clarity.

## Part E – Exceptions and relief from substantiation requirements

There are some exceptions from the substantiation requirements for work-related expenses. However, it is important to keep a record of how you calculated your claim even if you are not required to keep written evidence of the actual expenses. You can only claim the expenses you actually incurred.

### Exceptions for overnight travel

When you receive an allowance to cover your overnight travel expenses, you may not have to obtain or keep receipts and a travel diary (see [Substantiation requirements – quick guide](#) for when that will be the case). You can still only claim expenses you actually incurred.

The exception applies only to substantiating expenses that your allowance covers. For example, if you are paid an allowance for food and drink, you cannot rely on the exception for your accommodation or incidental expenses, and you need to substantiate them.

#### *Example – meal allowances*

*Kim is paid an allowance for dinner and breakfast during an overnight trip. She also buys lunch before the flight home. As her allowance covers only her dinner and breakfast, she cannot rely on the exception from substantiation for her lunch expenses. To claim a deduction for her lunch, Kim would be required to substantiate its full cost.*

### **Exceptions for substantiation: reasonable amounts**

Each year, the ATO publishes reasonable amounts for the exceptions to substantiation for travel expenses. These reasonable amounts are only used to work out the exceptions for substantiation: you cannot claim more than the reasonable amount unless you have receipts for all your overnight travel expenses.

#### **See more:**

- [Exceptions for keeping travel expense records](#) provides a link to the taxation ruling which provides the reasonable amounts for the current year

### **General travel allowances**

For the exception to apply, your allowance must be paid for a specific work journey. It can't be a fixed amount that you receive regardless of how much you travel. In addition, the allowance must be an amount that could be reasonably expected to cover your expenses, and not merely a token amount.

An amount for travel expenses folded into your normal salary or wages, – under a workplace agreement, for example – is not considered to be an allowance. If an allowance has been folded into normal salary or wages, the exception from substantiation does not apply.

*Example – allowance folded into salary – substantiation exception does not apply*

*Malcolm works as a travelling sales representative for a telecommunications company. His employer realises that he travels a lot, so has increased his base salary to account for travel he does.*

*Malcolm cannot rely on the exception from substantiation for his travel expenses, as he does not receive a separate allowance to cover his costs.*

*Malcolm can claim a deduction for the expenditure he incurs on accommodation, food and drink and incidentals when he is travelling overnight for work and he must substantiate all his expenses.*

**Domestic exception**

If you receive an allowance from your employer for travel for specific journeys within Australia, and the expenses you incur and therefore claim are up to the reasonable amount, you do not need to keep a travel diary or receipts for food and drink, accommodation or incidental expenses. However, you still need to be able to show how you calculate your claim.

You can only claim a deduction if the allowance is shown on your income statement and you have declared the allowance in your return.

*Example – substantiation for domestic travel*

*Zoran works in Melbourne. His employer requires him to travel to the office in Sydney for a work week. Zoran is paid a \$120 meal allowance per day to cover his breakfast, lunch and dinner expenses for the five days he is required to be in Sydney.*

*Zoran's employer pays for the accommodation directly. Zoran spends less than the reasonable amount set by the Commissioner for each of the meals that he purchased while in Sydney and the total for his meals came to \$380.*

*Zoran is not required to keep receipts for his expenses on food and drink for this trip to Sydney as the domestic substantiation exception applies.*

*If the ATO asks, Zoran still has to demonstrate that he was travelling for work, that he has credit card statements or other records to show he spent the amount of \$380 during the work trip, and that he declared the \$600 allowance in his tax return.*

*Zoran cannot claim a deduction for accommodation because his employer paid for it directly. Zoran must keep all receipts for any incidental work expenses he incurs when in Sydney. As he did not receive an allowance for incidental expenses, he cannot rely on a substantiation exception for those.*

**International exception**

If you travel internationally for work and receive a travel allowance from your employer for that specific journey, you do not need to substantiate the food, drink and incidental expenses you incur if they are up to the reasonable amounts.

You still need to keep records to substantiate your accommodation expenses. If you travel for more than six nights, you also need to keep a travel diary.

You can only claim a deduction if the allowance is shown on your income statement and you have declared the allowance in your return.

If you are an aircrew member working on international flights, you don't need to keep a travel diary if:

- your allowance covers travel you undertake as a crew member of an aircraft
- the travel is principally outside Australia, and
- the total expenses you claim for the travel covered by the allowance does not exceed the allowance you receive.

**Documentation**

If you are claiming less than the reasonable amounts and you are relying on the exception from getting and keeping substantiation you must still be able to show:

- that you incurred an expense in the course of performing your work duties
- how you worked out your claim
- that you spent the money yourself and you weren't reimbursed
- that you declared the allowance as income on your tax return.

**Substantiation requirements quick guide**

*Table 1: No travel allowance received*

Nights travelled	Domestic travel		Overseas travel	
	Written evidence	Travel diary	Written evidence	Travel diary
Less than 6 nights in a row	Yes	No	Yes	No
6 or more nights in a row	Yes	Yes	Yes	Yes

*Table 2: Travel allowance received*

Claim <b>exceeds</b> the reasonable allowance amount:				
Nights travelled	Domestic travel		Overseas travel	
	Written evidence	Travel diary	Written evidence	Travel diary
Less than 6 nights in a row	Yes	No	Yes	No
6 or more nights in a row	Yes	Yes	Yes	Yes Exception for international air crew: no substantiation required when the claim is less

				than the allowance
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Claim <b>does not exceed</b> the reasonable allowance amount:				
Nights travelled	Domestic travel		Overseas travel	
	Written evidence	Travel diary	Written evidence	Travel diary
Less than 6 nights in a row	No	No	Accommodation – Yes Food, drink and incidentals – No	No
6 or more nights in a row	No	No	Accommodation – Yes Food, drink and incidentals – No	Yes Exception for international air crew: no substantiation required when the claim is less than the allowance

**See more:**

- [Keeping travel expense records](#)

**Substantiating overtime meals**

If you receive an overtime meal allowance under an award or enterprise agreement, you may not be required to keep written evidence of your expenses. If the expenses you intend to claim for your overtime meals are no more than the reasonable amount, you do not need to keep written records.

However, you can only claim a deduction for the amount you have actually spent on food and drink that was consumed during the overtime. You can only claim a deduction if the allowance is shown on your income statement and you have declared the allowance in your return.

If you claim more than the reasonable amount, you need to keep written evidence for the whole amount, not just the excess.

**See more:**

- [Overtime meal expenses](#) to see if you are eligible to claim a deduction

### Substantiating laundry expenses

If laundry expenses for your deductible work-related clothing are \$150 or less, you can claim the amount you incur on laundry without providing written evidence. You need to be able to show how you have come up with the total of your claim.

**See more:**

- [Laundry expenses](#)
- [Clothing expenses](#)

### Total work-related expenses \$300 or less

If the total of your work expenses is \$300 or less (including laundry expenses but excluding car, travel and overtime meal allowance expenses) you can claim the amount expended without keeping records. You can only claim the amount you spend and you need to show how you have come up with the total of your claim.

### Relief from substantiation

If you fail to provide substantiation, the Commissioner may grant you relief from substantiation in some limited circumstances. This may occur where:

- there is sufficient evidence to indicate that you incurred the expense and it is deductible
- there is a reasonable expectation that you would not have needed to substantiate the expense
- documents have been lost or destroyed despite your taking reasonable precautions.

**See more:**

- Taxation Ruling [TR 2004/6](#) *Income tax: substantiation exception for reasonable travel and overtime meal allowance expenses*
- Taxation Ruling [TR 97/24](#) *Income tax: relief from the effects of failing to substantiate*

Amendment history		
	Part	Detail
August 2020	Throughout	Minor wording changes to improve clarity.

## Part F – Decline in value under the capital allowance provisions

Assets that have a longer life, normally more than one income year, may be capital assets. These might include items such as tools, computers and books. The expense incurred to purchase these items is capital expenditure and it cannot be claimed under the general deduction provisions (see [Claiming a deduction: the basic conditions](#)). Instead, it may be possible to claim the decline in value of the capital expenditure each year under the capital allowance provisions.

For the cost of a capital asset to be deductible in this way, it needs to be a depreciating asset. A depreciating asset is an asset that has a limited effective life and can reasonably be expected to decline in value over the time it is used.

### *Example – asset categories*

*Rosa buys a replacement arc welder to use as part of her work. She also buys some disposable welding helmet lens covers. The arc welder is a capital asset as it has a useful life longer than a year. But, as it has a limited effective life and will decline in value over time, it is a depreciating asset that may be deductible under the capital allowance provisions.*

*The disposable welding helmet lens covers are not a capital asset, as their effective life is very short. The covers are considered under the general conditions for claiming a deduction.*

### **Depreciating assets**

You can claim a deduction for capital expenditure if you hold a depreciating asset during the year, and you use it in earning your employment income. For an employee, holding an asset usually means that you are its legal owner. There are two different treatments for depreciating assets, depending on whether they cost more or less than \$300.

#### ***Assets costing \$300 or less***

An immediate deduction for assets costing \$300 or less may be available under the capital allowance provisions if you use the assets more than half the time for work purposes. You need to apportion the expense if you use the asset for work and private purposes.

To be able to claim the immediate deduction, you need to meet all four of the following tests:

- the asset costs \$300 or less
- you use the asset mainly to produce non-business assessable income
- the asset is not a part of the set costing more than \$300
- the asset is not one of a number of items that are identical or almost identical

We consider each of these in more detail below.

### *Test 1 – the asset costs \$300 or less*

The cost of the asset is generally what you pay for it. Where the asset cost less than \$300, you may be able to claim an immediate deduction for the full purchase price. If you hold an asset jointly with others, your interest in the asset (that is, the portion you own) is considered the relevant asset for the test. Therefore, if the cost of your share in the asset is \$300 or less then you can claim the immediate deduction, even if the total cost is above \$300.

#### *Example – jointly held assets*

*Yousef and Giovanni purchase a laptop for \$1,000, with Yousef contributing \$750 and Giovanni contributing \$250. They therefore own 75% and 25% of the laptop respectively. Giovanni may be able to claim an immediate deduction because the cost of his interest in the laptop doesn't exceed \$300. Yousef cannot claim an immediate deduction as the cost of his interest exceeds \$300, but he can claim the deduction for the decline in value of the asset.*

### *Test 2 – you use the asset mainly to produce non-business assessable income*

To claim the immediate deduction, over 50% of your use of the asset must be for producing non-business assessable income.

#### *Example – multiple use asset*

*Rob buys a calculator for \$150. He uses the calculator 40% of the time in his sole-trader business and 60% of the time for his job as an employee bookkeeper. As the calculator is used more than 50% of the time for producing assessable income in his employee role, Rob can claim an immediate deduction of \$150.*

*If Rob used his calculator 40% of the time for private purposes and 60% of the time for his job, he is still using the calculator more than 50% of the time for producing non-business assessable income. However, his deduction would be reduced by 40% to reflect his private use of the asset.*

### *Test 3 – the asset not part of a set costing more than \$300*

Assets that form part of a set that cost more than \$300 are not eligible for the immediate deduction. You must decide on a case by case basis whether items form a set. Items are part of a set if they are:

- interdependent
- marketed as a set, or
- designed and intended to be used together.

#### *Example – set of books*

*Anh works as a lawyer at a suburban firm. She discovers a series of three books about conveyancing that would greatly help in her work. The series is marketed as a set, and each volume builds on the knowledge of the previous one. The three books are a set.*

*The three books cost \$600 together but can be bought separately for \$200 each. Anh buys one book each month for three consecutive months in the same income year for a total cost of \$600.*

*Although the cost of each book is less than \$300, Anh cannot claim an immediate deduction for the books, because they are a set and the cost of the set is over \$300.*

A group of assets acquired in an income year may be a set in themselves. This is the case even if they also form part of a larger set acquired over more than one income year. Assets acquired in another income year aren't considered when working out whether items form a set or the total cost of a set.

#### **Example – set of items part of a larger set**

*Paula, a primary school teacher, hears about a series of twelve progressive reading books. The books are designed to develop children's reading skills in stages. Pupils move on to the next book only when they have successfully completed the previous book. The first six books are at a basic level while the second six are at an advanced level.*

*Paula buys one book a month beginning in January and by 30 June she holds the first six books (the basic readers) at a total cost of \$240. Because of the interdependency of the books, these six books are a set even though they can be purchased individually and form part of a larger set. An immediate deduction is available for each book because the cost of the set Paula acquired during the income year was not more than \$300.*

*If Paula acquires the other six books (the advanced readers) in the following income year, they would be regarded as a set acquired in that year.*

#### **Example – items not forming part of a set**

*Mary buys some new tools for her work as a carpenter. She buys a shifting spanner, a boxed set of screwdrivers and a hammer for her toolkit. Each item costs \$300 or less.*

*While these tools may comprise or add to Mary's toolkit, they're not a set because they are not interdependent or designed to be used together. It would make no difference if Mary purchased the items at the same time and from the same supplier or manufacturer.*

*An immediate deduction is available for all the items, including the screwdrivers. The screwdrivers are a set, as they are marketed as a set. However, as the cost is \$300 or less the deduction is available.*

A set needs to have more than one depreciating asset. In some cases, a single depreciating asset may be made up of more than one item.

#### **Example – multiple items that are not a set**

*Shelley works as editor and buys a three-volume dictionary for her reference library. Although she calls it a 'set' of dictionaries, it is a single edition, with the three volumes having a single integrated function. It is a single depreciating asset and the set test doesn't apply.*

#### **Test 4 – asset not one of a number of items that are identical or substantially identical**

If you acquire more than one depreciating asset that is identical or substantially identical, you need to work out whether their total cost is more than \$300. Items are identical if they are the same in all respects. Items are substantially identical if they are the same in most

respects even if there may be some minor or incidental differences. Factors to consider include colour, shape, function, texture, composition, brand and design.

#### *Example – identical or substantially identical items*

*Tahir is employed as a cabinet maker and he supplies his own tools for work. He buys 10 300 mm F-clamps for \$40 each. They are all from the same manufacturer. Each clamp is sold separately and comes in its own packaging. They have a total cost of \$400.*

*Tahir's 300 mm F-clamps are all identical as they are all from the same brand and have the same design, manufacture and use. They are not eligible for immediate deduction.*

### **Assets costing over \$300**

If your work-related asset cost more than \$300, you can claim its cost over its effective life.

You need to apportion the expense if you use the asset for both private and work purposes.

#### **See more:**

- [Apportioning work-related expenses](#)

### **Effective life**

An asset's effective life is how long it can be expected to last considering how it is used. The ATO publishes the effective life of most assets, which you may use to calculate the decline in value. These are updated and published annually. Alternatively, you can use your own estimate based on your expected usage pattern.

You can recalculate the effective life of an asset if you make an improvement to the asset that increases its cost by 10% or more in the income year, or if circumstances arise that result in your initial estimate of the effective life being inaccurate.

#### **See more:**

- [Capital allowances: effective life – rulings, law and objections](#) lists the annual rulings published by the ATO on effective lives of depreciating assets

### **Start time**

The start time of a depreciating asset is when you first use it, or install it to use for any purpose, including a private purpose. The asset declines in value from its start time, but you can only claim a deduction for the decline in value when you start using it to earn employment income. If you initially purchase an asset for private use, then later use it to earn employment income, you need to work out the decline in value from the start time.

#### *Example – start time before use to earn employment income*

*Stacey purchases a laptop computer on 1 July 2017 and uses it for private purposes only, until 1 July 2018, when she starts using it partially for work.*

*Laptop computers have a two-year effective life, so Stacey needs to work out the decline in value from 1 July 2017 onwards, but she can start claiming a deduction for the decline*

*in value from 1 July 2018. This means Stacey can only claim the decline in value for the last year of the effective life of the laptop.*

*The amount she can claim will need to be apportioned for the amount of time she uses the laptop for work and private purposes.*

### **The elements of cost**

To work out the decline in value of a depreciating asset, you also need to know its cost, which has two elements.

Generally, the first element of cost is the amount you have paid to hold the asset. This is most commonly the purchase price, but also includes any other expenses you incur to acquire the asset (such as shipping).

The second element of cost is generally the amounts you have paid after you have acquired the asset. These costs include those to bring the asset to its present condition and location, including improvements to the asset.

#### **Example – first and second elements of cost**

*Tom is employed as an arborist and he buys a new chainsaw for \$2,300 online. It costs an additional \$50 to get the chainsaw delivered to his house. After one month Tom spends \$150 to upgrade the muffler on the chainsaw.*

*The first element of the cost is \$2,350. This amount includes the purchase cost of the chainsaw and the delivery cost. The delivery cost is included in the first element of the cost as it is directly connected with Tom starting to hold the chainsaw.*

*The \$150 Tom spent to upgrade the muffler is added to the second element of the cost of the chainsaw as it was incurred after he began to hold the asset.*

### **Prime cost and diminishing value methods**

To claim the decline in value of a depreciating asset, you use either the prime cost method or the diminishing value method. You can choose whichever method you prefer. However, once you make the choice, you cannot change the method in future years. If you acquire the asset from an associate, such as your spouse or a business partner, you have to continue using the same method that they chose to depreciate the asset.

The prime cost method assumes that the value of a depreciating asset decreases uniformly over its effective life. The diminishing value method assumes that the value of a depreciating asset decreases faster earlier in its effective life.

#### **See more:**

- For help with the calculation of the annual decline in value you can use the [depreciation and capital allowances tool](#)

#### **Example – depreciating asset**

*Ben installs a new desktop computer on 5 February 2019 that he bought for \$3,000. He uses it 40% for work and 60% privately. It has an effective life of four years. Ben calculates the decline in value under both methods to work out which suits him better.*

### Prime cost method

The formula for calculating the annual decline in value using the prime cost method is:

$$\text{Asset's cost} \times \frac{\text{Days held}}{365} \times \frac{100\%}{\text{Asset's effective life}}$$

Ben calculates the decline in value under the prime cost method for the first year as below:

$$\$3,000 \times \frac{146}{365} \times \frac{100\%}{4} = \$300$$

As he only uses the computer 40% for work, he calculates his deduction for the decline in value as follows:

$$\text{Decline in value} \times \text{Work use percentage} = \text{Claim amount}$$

$$\$300 \times 40\% = \$120$$

Ben uses the calculator on **ato.gov.au** to work out the decline in value for future years and records the following results. He is aware that he needs to adjust for any second element costs, such as costs to improve the asset, or if he disposes of the asset.

Income year	Decline in value	Taxable use	Deductible decline in value
2018–19	\$300.00	40%	\$120.00
2019–20	\$752.05*	40%	\$300.82
2020–21	\$750.00	40%	\$300.00
2021–22	\$750.00	40%	\$300.00
2022–23	\$447.95	40%	\$179.18

\*The decline in value is higher in 2019–20 year as it is a leap year.

### Diminishing value method

The formula for working out the annual decline in value under the diminishing value method in the income year where the asset's start time occurs is:

$$\text{Base value} \times \frac{\text{Days held}}{365} \times \frac{200\%}{\text{Asset's effective life}}$$

The base value in the income year of the asset's start date is the asset's cost. In future years the base value is the asset's opening adjustable value for that year, plus any second elements of cost, such as costs to improve the asset, incurred in the year.

Ben calculates the decline in value under the diminishing value method for the first year as follows:

$$\$3,000 \times \frac{146}{365} \times \frac{200\%}{4} = \$600$$

As he only uses the computer for work for 40% of the time, he calculates his deduction for the decline in value as follows:

$$\text{Decline in value} \times \text{Work use percentage} = \text{Claim amount}$$

$$\$600 \times 40\% = \$240$$

Ben needs to calculate the adjustable value of the asset on 30 June 2019. This is the asset's cost less the decline in value:

$$\text{Base value} - \text{Decline in value} = \text{Adjustable value}$$

$$\$3,000 - \$600 = \$2,400$$

This amount (along with any second element costs) forms the base value of the asset for the next year.

Ben uses the calculator on [ato.gov.au](http://ato.gov.au) to work out the depreciation for the future years and records the following results. He is aware that he will need to do an adjustment if he has any second element costs or if he disposes of the asset.

Income year	Opening adjustable value	Decline in value	Taxable use	Deductible decline in value	Adjustable value at end of year
2018–19	\$3,000.00	\$600.00	40%	\$240.00	\$2,400.00
2019–20	\$2,400.00	\$1,203.28	40%	\$481.31*	\$1,196.72
2020–21	\$1,196.72	\$598.36	40%	\$239.34	\$598.36
2021–22	\$598.36	\$299.18	40%	\$119.67	\$299.18
2022–23	\$299.18	\$149.59	40%	\$59.84	\$149.59
2023–24	\$149.59	\$75.00	40%	\$30.00*	\$74.59
2024–25	\$74.59	\$37.30	40%	\$14.92	\$37.29
2025–26	\$37.29	\$18.65	40%	\$7.46	\$18.64
2026–27	\$18.64	\$9.32	40%	\$3.73	\$9.32
2027–28	\$9.32	\$4.67	40%	\$1.87*	\$4.65
2028–29	\$4.65	\$2.33	40%	\$0.93	\$2.32
2029–30	\$2.32	\$1.16	40%	\$0.46	\$1.16
2030–31	\$1.16	\$1.16	40%	\$0.46	\$0.

Ben ultimately chooses to use the prime cost method as he thinks that method will suit him best.

\* The days held are 366 in a leap year if the asset is held for the whole year.

**See more:**

- [Guide to depreciating assets](#)

<b>Amendment history</b>		
	<b>Part</b>	<b>Detail</b>
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