

WELCOME

Happy New Year and welcome to our January 2017 edition of the StewartBrown newsletter. We hope to keep you informed of the important tax developments and issues affecting businesses in Australia today and throughout the year ahead.

STEWARTBROWN CLIENT PORTAL

As a progressive firm, StewartBrown ("SB") is committed to reducing our environmental impact and at the same time make it easier for you to communicate with us.

Over the last 12 months we have been on a journey to becoming a fully paperless office. As a next step in this process, we are excited to announce the launch of the SB Client Portal.

The SB Client Portal is a secure new way for us to communicate with you. It will enable you to sign documents (including tax returns, financial statements) electronically. It's simple, easy to use and is mobile/tablet friendly so you can review documents "on the go". You'll have 24/7 access to the portal and its free of charge for you to use!

Establishing an account to use the SB Client Portal the first time only takes a few minutes and all you need is an email address and password. You can rest assured that your personal data remains safe and in accordance with our terms of engagement with you.

Once you have a portal account with us we can upload documents for you to review and sign in a much more efficient and secure way than emailing them to you. You receive an email notification once documents have been posted to you on the portal and we are also notified once you have posted your documents back in the portal afterwards.

The option of using our portal is completely up to you. If you prefer to receive correspondence in paper format that is still OK. We would prefer to communicate with you electronically via our portal as it delivers a faster, more efficient service to you - but you need to "opt in" to use this free service.

If you are interested in finding out more please contact your StewartBrown Partner or Manager to find out how this new service could work for you.

PAPERLESS OFFICE - NEXT STEPS

One of the final measures we are taking here at StewartBrown in our transformation into a paperless office is the scanning of paper documents we are holding into electronic form. Over the next 3 – 6 months we will be transferring any permanent documents we are holding on your behalf (eg Trust deeds, company constitutions etc)

into electronic format. The original paper copies of these documents will be returned to you. This will enable us to more efficiently manage these permanent records and documents on behalf of our clients.

HOME OFFICE DEDUCTIONS

The Australian Bureau of Statistics ("ABS") reports a growing trend in people in the community working from home; either as part of their employment or operating a business. In fact in the 2011 census, 443,939 people reported that they worked from home. This trend is expected to continue.

The ATO provides some guidance as to what deductible expenses you might be able to claim if you are an employee working from home or you operate a home based business. Generally they classify expenses into two categories as follows:

- "occupancy" expenses, or
- "running" expenses.

As a general rule of thumb someone operating a home business from a dedicated area of the house will be able to claim both types of expenses. Employees who do some work from home for convenience are generally only entitled to claim running expenses but not occupancy costs. Of course there are exceptions to this general rule and it depends on the persons circumstances.

OCCUPANCY COST DEDUCTIONS

These relate to expenses for using the home, obviously but not directly tied to the business itself. Examples might be rental costs, perhaps mortgage interest, council rates or insurance premiums.

To claim a deduction for any occupancy expenses, the area you set aside for working needs to have the character of a place of business. In other words the business space should have the characteristics of a place that is exclusively set aside to offer the product or service that the home based business is involved in.

Taxpayers can generally claim the same percentage of occupancy expense as the percentage area of their home that is used to make income (for example if the home office is 10% of the total area of the home, then you can claim 10% of the rent costs, council rates and so on). However opting to claim occupancy expenses, especially mortgage interest, will mean you will be expected to account for any capital gain attributable to that same business area of the home when the house is sold. This capital gains tax expense is a critical factor to consider before any occupancy expenses are claimed for your main residence.

If the room(s) are also used for private purposes during the year the ATO will also expect you to pro-rate your deductions on a time basis.

NO SPECIFIC WORK AREA – NO OCCUPANCY EXPENSE DEDUCTIONS

You may work from home but may not have a particular area set aside primarily or exclusively for these income producing activities. For example a teacher may mark student work or write reports one day on the front porch and the next day on the kitchen table. There is no defined area where the work is ordinarily done. In these cases you can still claim deductions for utility usage such as gas and electricity (running expenses - see below). You just need to be able to apportion those expenses between private and work use and show the ATO (if ever queried) how you reached the amounts you have claimed.

You can also consider phone use for business purposes, and even the decline in value (depreciation) of plant and equipment (eg chair, desk, computer etc) to the extent that those items are being used for your income producing activities. To be clear however you will not be able to make any claims for renting or owning the house, rates and insurance etc if there is no specific defined work area.

RUNNING EXPENSES

These are those costs that directly result from using facilities in the home to help run the business, or enable you to do work from home. Typical examples include electricity, gas, phone bills and perhaps in some cases cleaning costs.

Running expenses may be deductible where someone with a home office can establish that they have incurred additional expenditure on those running expenses as a result of their income producing activities. Essentially taxpayers can claim a deduction actually incurred through their income earning activities that is additional to their private expenditure.

The ATO has actually issued an administrative concession for calculating running expense deductions. The home office deduction can be calculated at the rate of 45c per hour. You must keep a record of the number of hours worked at home (eg in log book) but are relieved of the burden of calculating the deductible amount for each type of running expense.

If you are running a home office, or occasionally working from home from time to time and need any assistance with calculating your eligible home office expense claims please contact your StewartBrown Partner or Manager for any assistance required.

SUBSTANTIATION OF HOME OFFICE EXPENSES

Home office expense claims are subject to the same general substantiation requirements as other deductions and documentation needs to be kept for the usual five years. In practice, full compliance may be difficult particularly where apportionments are used in arriving at your deductible claim. The ATO have however provided some administrative guidelines to help taxpayers meet their obligations in relation to substantiating their claims in this area.

The ATO will generally accept these three methods of calculating the business use proportion for a particular expense:

- Explicit evidence of business use (eg an itemised phone bill)
- Records of representative periods of use, such as a diary record or log book scanning a 4 week period
- Reasonable estimate. This is not defined by the ATO so the taxpayer must be able to demonstrate that a claim being made was reasonably likely under the circumstances.



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