



Peregian Accounting Services
Adaptive Accounting Pty Ltd

Unit 3, 12 Grebe Street Peregian Beach
Box 678 Coolumb Beach Q 4573
Telephone **07 5448 1218**
Facsimile 07 5448 1221
E-Mail geoff@adaptive.net.au

ABN

19 181 296 335

Basic Record-Keeping

How to maximise your claim for your business purchases

The best way to pay more tax is to miss out on claiming expenses you are entitled to because of poor-record keeping.

There are 2 simple steps for keeping better records to maximise your claim and pay only the tax you owe:

1. Keep a dedicated bank account for business that all business income and expenses are paid into and from. Personal transactions are kept to a minimum and transfers to private accounts can be restricted to a nominal amount, for example \$1,000 per transaction.
2. Don't use cash unless absolutely necessary; use a debit card or cheque book plus online banking from a dedicated business bank account, or a business-only credit card.

Using this method has a number of major benefits:

- ✘ It is impossible to miss something, as the bank statement is reconciled and therefore all income and expenses are recorded.
- ✘ Receipts from cash transactions get lost or destroyed, but transactions from the bank account can be accessed as needed.
- ✘ Manually calculating and giving us summaries, while acceptable, invariably results in underclaiming expenses. When we get the bank statements and double check the figures in summary format we always find more expenses than previously advised. We use the word "invariably" precisely: we have never had a case so far where that has not been true in almost 15 years of doing this job. Most recently, we turned up almost \$16,000 of extra expenses that would have been missed! This case was uncommonly high, but the principle is still the same.
- ✘ Summaries of expenses are also usually an example of false economy – you may think you are saving on the costs for us to process your information but if you miss a \$1,000 deduction you may come out poorer for it at the end.
- ✘ We often see things on the bank statement that mean things to us that you might not have thought to mention. This occurs regularly.
- ✘ Mixing and matching private and business transactions in one account makes apportioning bank fees complicated. Accounts with such mingling of transactions are called "tainted". It is possible to claim the relevant fees but how do you work out what fees are private and what fees are business? We know, of course, but it is not simple and the messy situation can be avoided altogether with dedicated business accounts.
- ✘ There is less paper to give us when it comes time. You can keep most invoices unless they are for one-off irregular purchases like cars and finance agreements, sale/purchase of shares or property and other big ticket items.
- ✘ You can have more confidence that the final result is accurate.
- ✘ Finally, the ATO would prefer a dedicated account. Usually it is not essential, but there are a slew of reasons why the tax office prefers it and some occasions where they insist upon it (such as when paying a refund to businesses that are not sole traders).

If a dedicated bank account is used, presenting accounts to us for processing is as simple as giving us a copy of the bank statement with income and expenses noted in the copy if needed. Many of the entries will be obvious and if so no comment is needed. Put a "P" next to private transactions and, if it is not obvious, write a note next to the transaction. If the GST is not 10% - such as when the purchase is part GST-free - make a note on the statement next to the transaction of the actual amount. If most bills are paid electronically, you can enter text online (most banks call this the "reference") that explains the expense clearly, saving even more time notating the bank statements.

What you need to claim your home office and other sundry expenses

If you use your home or car to carry out business/work as a convenience rather than because it is a job requirement, you cannot claim the expenses as a deduction. The expenses claimed must be an expected part of your role and "necessarily incurred".

The tax office has several acceptable methods for claiming your home office, if you are entitled to. The methods are summarised in the following table:

Expense	Suggested Method
Telephone/Internet	<ul style="list-style-type: none"> •✘ Diary (if your bills are not itemised, eg prepaid mobile) •✘ Pattern of Usage (where each call is itemised and you can tell who it was to/from)
Computers & Office Equipment	<ul style="list-style-type: none"> •✘ Diary
Cleaning	<ul style="list-style-type: none"> •✘ Actual usage, but only that part that is directly attributable to the home office
Electricity	<ul style="list-style-type: none"> •✘ Fixed rate from the ATO •✘ Actual usage <p><i>NB: You cannot claim electricity if there is usually someone else in the room using electricity who is not working. For example, if you work in the lounge room while others watch TV you cannot claim electricity.</i></p>
Travel	<ul style="list-style-type: none"> •✘ Diary & deemed rates from the ATO •✘ Receipts – can claim food, taxi and other fares, accommodation and many other travel costs if the travel involves an overnight stay
Coffee, food or drink of almost any kind when travelling in your local area	<ul style="list-style-type: none"> •✘ NOT claimable for customers or for you (unless you have to stay overnight and then only your part is deductible)

Regardless of which method you use, the tax office requires you to keep whatever you used to work out your claim amount (calculations, diaries, receipts, etc) for 5 years after your return was lodged. You must also be able to show that any calculations or assumptions are reasonable. The record-keeping requirements for each method are as follows:

1. Diary method:
 - a. Must be recorded for no less than 4 weeks and must record ALL usage, not just business usage
 - b. Must be done for each financial year, and must allow for holidays and illnesses.
 - c. Divide business usage by total usage to get a percentage of business usage and apply this to your bills for the financial year.
2. Pattern of Usage:

- a. Choose a bill that best represents your normal usage, total up the cost of business calls and divide that by the total cost of the bill to get a business percentage to apply to your bills for the financial year.
3. Actual usage:
 - a. Use the actual cost as displayed on the invoices
4. Fixed rate:
 - a. Used for depreciation on office furniture & electricity costs.
 - b. Multiply number of hours you spend using the home office for work by the ATO fixed rate of \$0.34 per hour to calculate your claim
 - c. To use this method your home office MUST NOT be used for any other purpose, eg no blankets stored in the cupboards, no personal appliances being used in the home office, no occasional bed in the corner. Room must be lockable.

What about home office expenses such as rent, rates, house repairs, mortgage interest and insurance and other expenses not easily apportioned ?

These are expenses you pay to occupy the home office, aka “occupancy expenses”, instead of running it. If you use your home to carry out business as a convenience, rather than because you have nowhere else, you can't claim occupancy expenses as a deduction. If you can claim occupancy expenses, to be eligible the home office must be a clearly identified place of business used exclusively for business and must not be used for any domestic purposes (eg no blankets stored in cupboards, no spare beds, no occasional bed in the corner. Room must be lockable). If you rent, and your home office is eligible then your rent claim is most often calculated using Floor Area method where you work out how much of your home's undercover floor area the home office occupies and apply this percentage to your bills.

Important: If you own your home, then any part of your home that is used as a home office for income producing activities may be subject to Capital Gains Tax when you sell. Whether you claim the expense or not, that part of the home that is used exclusively for work/business will be subject to Capital Gains Tax on sale. If the area is not 100% work/business, no claim is possible but then neither is it taxed on sale. If you wish to claim occupancy expenses, they can also be calculated using the Floor Area method.

What you need to claim vehicle expenses

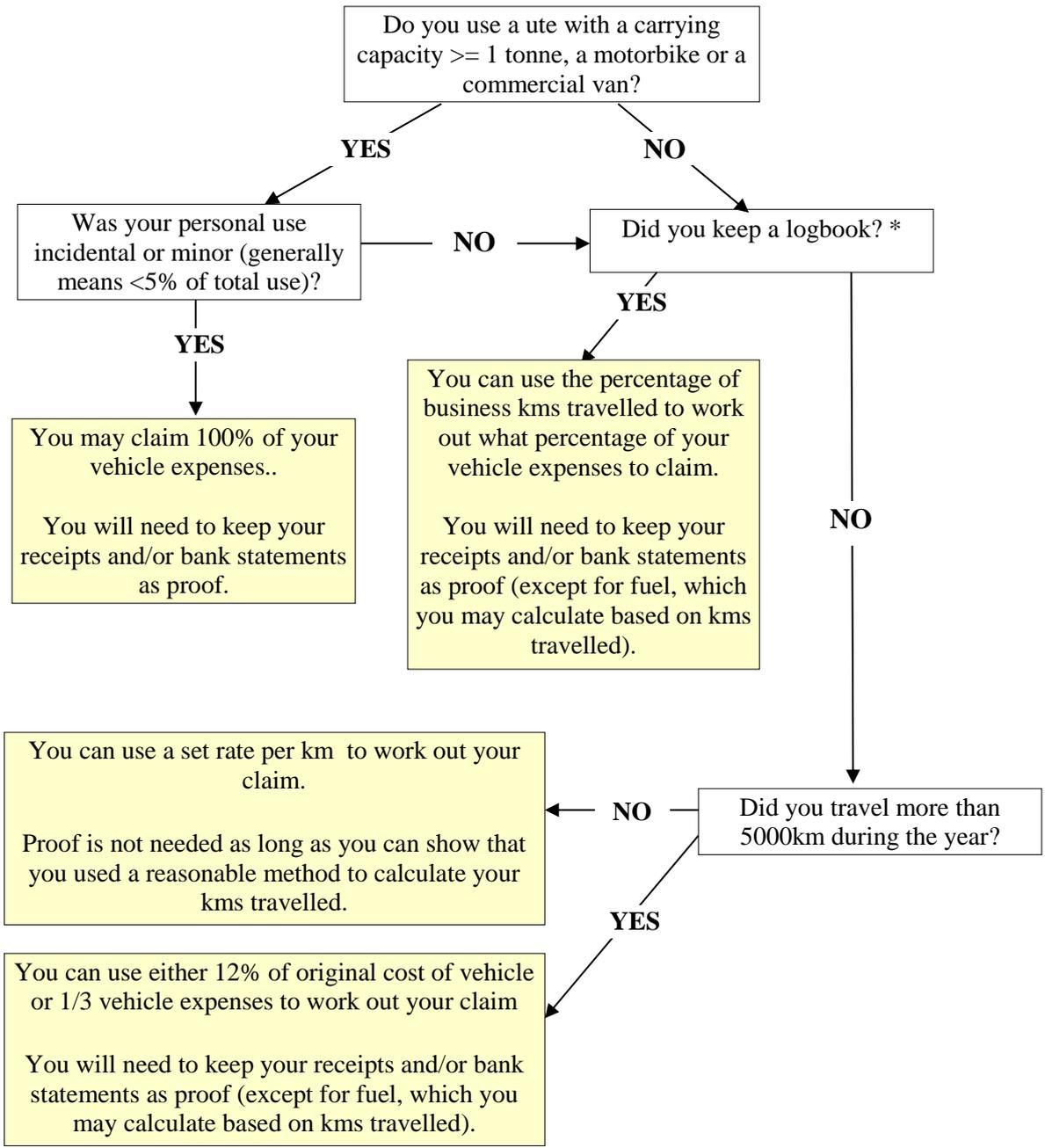
When working out vehicle expenses or how many business kms you travelled:

- 🚗 You can't claim trips between home and work - even if you're collecting mail on the way, working after hours, or there are no other means of getting to work. Exceptions: You can claim the cost of trips between home and work if you were carrying bulky or heavy items that you used for work but can't leave at work, or if your home is your base of employment.
- 🚗 You can claim the travel if you make a special trip to and from the Post Office or bank and not just on the way home.
- 🚗 You can claim trips directly from one work site to the next

Motor vehicle expenses include:

- 🚗 Fuel, fuel additives and oil
- 🚗 Registration
- 🚗 Insurance
- 🚗 Interest paid on motor vehicle loans
- 🚗 Lease payments
- 🚗 Repairs and servicing
- 🚗 Breakdown service membership (eg RACQ)
- 🚗 Towballs and cargo barriers - if you can show that you need these for work.
- 🚗 Depreciation - but only if you own the car and are using either the “1/3 actual expenses” or “logbook” method (see below)

Following are several ways to claim expenses from using your vehicle for business/work-related trips, and if you are eligible to use more than one method the ATO allows you to choose the one that gives you the biggest deduction. You may only use one method per vehicle per year, however.



* Keeping a Log book:

- a. Must be kept for 12 weeks ending no later than 30 June to be used that year
- b. Must record beginning and ending odometer readings for each trip
- c. Must record beginning and ending odometer readings as at 1 July and 30 June each year
- d. Purpose of trip must state more than "business"
- e. Valid for 5 years or until "pattern of use" change.

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NOT ALL ACCOUNTANTS ARE THE SAME