Individuals Tax Time checklist 2023

Written by The Tax Institute's Tax Policy and Advocacy Team

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Introduction

There is a lot to navigate this compliance season in preparing your clients' individual tax returns (**ITR**). This year presents particular challenges for practitioners. To assist practitioners in preparing the Individual tax return 2023 (**ITR**), we have prepared a series of checklists that highlight key changes and commonly overlooked provisions.

> **IMPORTANT**
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> These checklists do not contain a comprehensive or exhaustive list of issues you need to consider for your clients when preparing their 2023 ITR. Nor do they purport to serve as a complete set of instructions in how to complete every label of the ITR form.
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> These checklists serve as a guide to a range of issues that should be considered when preparing ITRs. They do not constitute advice, nor do they provide a detailed explanation of whether a taxpayer may be eligible for a deduction or a tax concession, or whether the relevant conditions for a provision or administrative approach apply or do not apply. There may be other considerations that should be taken into account in determining your clients' tax outcomes.

Contents

Record-keeping requirements and substantiation exceptions

Maintaining good records is essential for not only preparing the ITR but to ensure the taxpayer can prove their deduction claims if they are ever reviewed or audited by the ATO.

To claim a deduction for a work-related expense, the claim must meet three requirements:

- the cost of the deduction must be incurred by the employee and not reimbursed by their employer;
- the expense must be directly related to earning assessable income; and
- the employee has a record to prove they incurred the cost.

The records may be retained in paper or electronic form and should generally be retained for five years from the date the ITR is lodged.

Tax provisions requiring alternative substantiation requirements are detailed below.

Work-related expenses $300 or less

Section 900-35 of the ITAA 1997 allows individuals to claim a deduction for their work-related expenses without maintaining written records for the claim. This substantiation exception applies where the taxpayer's total work-related expenses are $300 or less. This threshold applies to laundry expenses, however it excludes motor vehicle expenses,[1] travel allowances expenses and overtime meal allowance expenses.

Depreciating assets costing $300 or less

Subsection 40-80(2) of the ITAA 1997 provides an immediate deduction for depreciating assets that a taxpayer begins to hold in an income year that cost no more than $300 and the asset is:

- used predominantly for the purpose of producing assessable income that is not income from carrying on a business;
- not part of a set of assets that the taxpayer started to hold in that income year where the total cost of the set of assets exceeds $300; and

[1] See subsection 900-30(6) of the ITAA 1997.

- not identical, or substantially identical, to any other asset that the taxpayer starts to hold in that income year that collectively cost more than $300.

A depreciating asset that does not meet all these conditions will be eligible for a deduction for the decline in value for that income year and for later income years based on the effective life of the asset.

Laundry expenses of $150 or less

Section 900-40 of the ITAA 1997 allows employees to deduct up to $150 of work-related laundry expenses without written evidence. A laundry expense is the work-related cost of washing, drying and ironing eligible work-related clothing.

The $150 laundry expenses substantiation exception can be used even if the amount of work-related expenses claimed is more than $300. This exception does not increase the $300 limit in section 900-35 of the ITAA 1997 to $450; the laundry expenses still count toward that limit.

Importantly, this exception does not provide an automatic laundry claim. The taxpayer must have actually incurred the expense for eligible work-related clothing and includes the cost of washing, drying or ironing clothes, but not dry-cleaning expenses.

The ATO considers that a reasonable basis for working out a laundry claim is:

- $1 per load if the load contains only eligible work-related clothing; or
- 50 cents per load if the load mixes personal items of clothing with eligible work-related clothing.

Evidence of small expenses

Section 900-125 of the ITAA 1997 allows individuals, in certain circumstances, to claim a deduction for small expenses without retaining supplier documents. To utilise this exception:

- each expense must be $10 or less;
- the total of all the small expenses must be no more than $200;
- the expenses must be incurred in the income year in which the deduction under this provision is sought; and
- the individual makes a record of the expense instead of getting a document from the supplier.

Overview of key changes

Removing the self-education expenses threshold

As part of the Federal Budget 2021–22, the previous Government announced the removal of the exclusion of the first $250 of deductions for prescribed courses of education contained in former section 82A of the ITAA 1936. As a result of these changes, *non-deductible category E* has been removed from **item D4** of the ITR.

Taxpayers are required to maintain records of expenses incurred in the course of their work-related self-education expenses. However, they are not required to maintain records of any non-deductible self-education expenses for tax purposes that, prior to the change, were first offset against the $250 non-deductible self-education expenses threshold.

Working from home

From 1 July 2022, taxpayers claiming working from home (**WFH**) expenses can only use the following methods to calculate the amount of their deduction:

- the revised fixed rate method (**RFRM**) set out in Practical Compliance Guideline PCG 2023/1; or
- the actual cost method.

Taxpayers can no longer use the previous fixed rate method (52 cents per hour) contained in PS LA 2001/6 (which applies to home office running expenses only up until 30 June 2022) or the temporary shortcut method (80 cents per hour) set out in PCG 2020/3.

For more information about the RFRM, see below and refer to our article in TaxVine Edition 4 released on 17 February 2023.

Low and middle income tax offset

From 1 July 2018 to 30 June 2022, taxpayers with a taxable income of less than $126,000 received a non-refundable tax offset. The LMITO is not available from 1 July 2022 onwards. The low income tax offset (up to $700) continues to be available to eligible taxpayers.

More information about historical LMITO rates can be found here.

Veterans' superannuation (invalidity pension) tax offset

The veterans' superannuation (invalidity pension) tax offset is a non-refundable tax offset designed to ensure that veterans and their beneficiaries do not pay more tax because of the decision in *Commissioner of Taxation v Douglas* [2020] FCAFC 220. The offset applies from 1 July 2007, and the ATO will work out the amount of the offset after the ITR is lodged.

More information can be found on the ATO website here.

FBT on electric vehicles

From 1 July 2022, car fringe benefits for eligible zero or low emission vehicles made available by employers to employees would be exempt from FBT.[2] However, car fringe benefits that are exempt from FBT will continue to be included in an employee's individual fringe benefits amount for the purposes of determining the employee's reportable fringe benefits amount for each FBT year in which the exempt benefit is provided.

More information can be found on the ATO website here.

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[2] See the *Treasury Laws Amendment (Electric Car Discount) Act 2022*.

Checklists

Income

Description	Tax return item Reference	
Allowances An allowance is the payment of a definite predetermined amount to cover estimated expenses for an employee. This contrasts with a reimbursement that compensates a recipient exactly for an expense already incurred. In determining if a payment is an allowance or reimbursement, more information can be found in TR 92/15 **The interaction of FBT and income tax** If an employee receives an allowance (excluding a living-away-from-home allowance), the allowance will generally be declared at this label. If the employee receives a reimbursement: ● the reimbursement is generally subject to FBT; ● the reimbursement is not included in the assessable income of the employee; and ● the employee cannot claim a deduction for the expense. **Other allowances** ● A car allowance may be provided to an employee as an alternative to a car benefit subject to FBT. Where an employee receives a car allowance, they must retain records in accordance with the car substantiation requirements. ● The substantiation requirements for car expenses can be found in the Deductions checklist on **page** 16**16**. More information on allowances can be found here.	**2** Allowances, earnings, tips, director's fees etc Section 15-2 of the ITAA 1997 TR 92/15	☐

Description	Tax return item Reference	
Allowances not reportable in the tax return ● Certain travel allowances or overtime meal allowances received under an industrial law, award or agreement should not be reported in the ITR where: ○ the allowance is not included in the employee's payment summary; ○ the whole amount of the allowance was spent on deductible expenses; and ○ the allowance does not exceed the Commissioner's reasonable allowance amount. ● The Commissioner's reasonable allowance amount can be found in: ○ TD 2023/3 *Income tax: what are the reasonable travel and overtime meal allowance expense amounts for the 2023–24 income year?* ○ TD 2022/10 *Income tax: what are the reasonable travel and overtime meal allowance expense amounts for the 2022–23 income year?* ● If the allowance is not recorded on the employee's income statement, it does not need to be included in the ITR provided: ○ the allowance is spent on work-related expenses; and ○ deductions are not claimed in relation to the allowance. More information can be found on the ATO website here.	Not included in tax return	☐

Description	Tax return item Reference	
Superannuation income streams for taxpayers aged 60 and over[3] Whether superannuation income streams are taxable will depend on a number of factors including: ● the taxpayer's preservation age; ● the age of the taxpayer when they receive the payment; ● the type of income stream received; ● whether the money in the superannuation account is tax-free; ● whether the taxpayer is receiving a death benefit income stream; and ● whether defined benefit income cap, low-rate cap, or untaxed plan cap has been exceeded. Broadly, superannuation income streams paid to recipients aged 60 years or over are generally characterised as non-assessable and non-exempt income if the payment is: ● sourced from untaxed funds; or ● a capped defined benefit income stream.	Not included in tax return Section 301-10 of the ITAA 1997	☐
Taxable superannuation streams If superannuation income streams are required to be reported, **item 7** need to be completed. More information can be found on the ATO website here.	**7** Australian annuities and superannuation income streams	

[3] Taxpayers entitled to a tax offset for an eligible superannuation income stream will also need to complete tax offset **Question T2**.

Description	Tax return item Reference	
Attributed personal services income The assessable income attributed to an individual from another entity (company, partnership or trust) under the PSI rules is included at this label. Attribution occurs where: ● the ordinary or statutory income of a personal services entity (**PSE**) includes the PSI of an individual; ● the PSE is not conducting a PSB; and ● the amount is not promptly[4] paid to the individual as salary or wages. More information on attributed PSI can be found here.	**9** Attributed personal services income Section 86-1 of the ITAA 1997	☐
Personal services income (PSI) An individual's PSI is included at different labels depending on whether the individual derives the PSI directly as a sole trader or by way of attribution from an entity. Where the PSI rules apply, the deductions claimed against the PSI are limited to the deductions available to employees.	**9** Attributed personal services income, or **14** Personal services income	☐

[4] An amount of PSI derived by a PSE is promptly paid to the individual if it is paid to the person, as an employee, as salary or wages within 14 days of the end of the PAYG withholding period during which the amount became the ordinary or statutory income of the PSE: subsection 86-15(4) of the ITAA 1997.

The PAYG withholding cycle is quarterly for small withholders (withhold $25,000 or less a year) or monthly for medium withholders (withhold $25,001 to $1 million a year). Large withholders (withhold more than $1 million in a previous financial year) do not typically fall within the PSI rules.

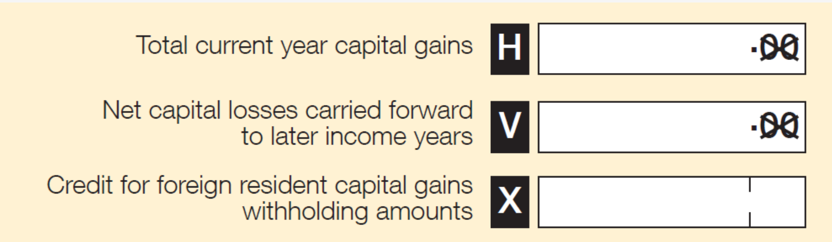
Description	Tax return item Reference	
(continued …) **Personal services business (PSB)** If an entity conducts a PSB, the PSI rules will not apply to attribute the PSI, limit the deductions and impose PAYG withholding obligations. Further, the income derived by the entity will be dealt with at the entity level according to the usual tax rules. This includes having regard to the potential application of the general anti-avoidance rules in Part IVA of the ITAA 1936 to any income-splitting arrangements. Where PSI is received by a sole trader, the business income and expenses must be declared at **item 15** of the ITR, and the Business and professional items section must be completed. To determine if PSI is derived from conducting a PSB, more information can be found in TR 2022/3 *Income tax: personal services income and personal services business.*	**15** Net income or loss from business Section 87-15 of the ITAA 1997 TR 2022/3	
Personal services income from sole trader activities Income is classified as PSI where the income derived is mainly from an individual's personal efforts or skills. Where more than 50% of the income received under a contract is for an individual's personal efforts or skills, then all income from that contract is PSI. Where PSI is derived as a sole trader, both **label P1** and **item 14** of the ITR must be completed. More information on PSI can be found here.	**P1** Personal services income (in the Business and professionals section) and **14** Personal services income Section 85-5 of the ITAA 1997	☐
Interest income Interest paid or credited to you from any source in Australia, including accounts and term deposits held with financial institutions in Australia is recorded at **item 10**. If changes are made to the ATO's pre-filled data, the appropriate code will need to be used. More information can be found on the ATO website here.	**10** Gross interest Section 6-5 of the ITAA 1997	☐

Description	Tax return item Reference	
Employee share schemes (ESS) The discount from an ESS interest is included at **item 12**. **Taxed-upfront schemes** The discount received on the ESS interest is included at this label when the individual acquired the interest. The discount is calculated as the difference between the market value of the ESS interests received and the amount paid for the ESS interests. Taxpayers who meet eligibility criteria may be able to reduce the discount by a maximum of $1,000 per annum. **Deferral schemes** Where there is a real risk the ESS interest might be forfeited, individuals may be able to include the gain made on the ESS interest at the deferred taxing point. The deferred taxing point is the earliest of: • the disposal date for the ESS interest; and • 15 years from when the ESS interest was acquired. Note that employment ceasing on or after 1 July 2023 will no longer be a deferred taxing point. For an individual to be eligible to use the deferral method, both the scheme and the employee must meet certain conditions. More information on the conditions for a tax-deferred scheme can be found here. TRAP If the employee disposes of their ESS interest within 30 days after the deferred taxing point, the deferred taxing point becomes the date of that disposal. This could result in the deferred taxing point being moved to a later income year. More information about ESS can be found here.	**12** Employee share schemes Section 83A-15 of the ITAA 1997 Section 83A-100 of the ITAA 1997	☐

Description	Tax return item Reference	
Income from trust distributions – General Income in the form of trust distributions is reported at this item. The statement of distribution showing the trust distribution may include capital gains and foreign income. Any capital gains and foreign income must be included at their respective labels:	**13** Partnerships and trusts Division 6 of Part III of the ITAA 1936	☐
● capital gains received from a trust distribution should be included under **label 18A**;	**18** Capital gains	
● foreign income received from a trust distribution should be included under **label 20E**; and	**20** Foreign source income	
● capital gains, foreign income and an individual's share of the net income of a trust should be included under the relevant **labels** in **item 13**.		
Exclusions Where the distribution is from a public trading trust or corporate unit trust, the income and deductions should generally be included under the respective label for the type of income being distributed. These include:		
● Interest	**10** Gross interest	
● Dividends	**11** Dividends	
● Distributions from trusts and partnerships	**13** Partnerships and trusts	
● Franking credits – this is entered at the label to which the respective income relates		
● Capital gains	**18** Capital gains	
● Foreign income and foreign income tax offsets	**19** Foreign source income	
More information on trust income can be found here.		

Description	Tax return item Reference	
Income from trust distributions – Reporting a capital gain and revenue loss When an individual's share of the net income of a trust includes a capital gain and a revenue loss, both of these amounts should be reported in the ITR as follows: ● the individual's share of the revenue loss should be reported at **label 13U**, as a negative amount; and ● the capital gain should be reported as described above at **label 18A**.	**13** Partnerships and trusts **18** Capital gains	☐
Income from trust distributions – Tax offsets Tax offsets relating to distributions of trust income fall into three separate categories: ● **Label M** *Credit for TFN amounts withheld from payments from closely held trusts* Includes amounts withheld from trust distributions made by a closely held trust (including family trusts) to a beneficiary who did not quote their TFN to the trustee by the required time. ● **Label S** *Share of credit for tax paid by trustee* Includes tax paid by a trustee in respect of a beneficiary's share of the net income of the trust where: ○ There was net income of the trust to which no beneficiary was presently entitled ○ A beneficiary under legal disability was presently entitled to a share of the net income of the trust ○ A trustee fails to lodge a correct trustee beneficiary statement in relation to a beneficiary's share of the trust's net income ● **Label A** *Share of credit for foreign resident withholding amounts (excluding capital gains)* Includes amounts that were withheld from income (apart from capital gains) distributed to the individual on the basis that they were (or were believed to be) a non-resident.	**13** Partnerships and trusts Sections 12-175 and 12-180 of Schedule 1 to the TAA Sections 99 and 99A of the ITAA 1936 Section 98 of the ITAA 1936 Section 102UK of the ITAA 1936 Sections 98A and 100 of the ITAA 1936	☐

Description	Tax return item Reference	
Capital gains – Did you have a CGT event during the year? This label must be completed irrespective of whether an exemption or CGT rollover resulted in no capital gain or loss arising from the CGT event. **18 Capital gains** Did you have a capital gains tax event during the year? **G** Print **Y** for yes or **N** for no. You r… amou… Have you applied an exemption, rollover or additional discount? **M** CODE Print **Y** for yes or **N** for no. Common examples where this may occur include the following: ● Main residence exemption ● CGT rollover on marriage or relationship breakdown ● A CGT rollover ● Capital gain disregarded as a result of a CGT event happening to a pre-CGT asset ● Capital gain or loss from a CGT event happening to a personal use asset or collectable ● Creation, variation or termination of a granny flat interest ● Small business 15-year exemption ● Small business retirement exemption The ATO's list of tax return labels for CGT exemptions and rollovers can be found here.	**18G** Did you have a capital gains tax event during the year? Section 100-30 of the ITAA 1997	☐
Capital gains – Discounted capital gains from trust distributions If an individual has applied the 50% CGT discount and/or the 50% small business reduction to capital gains they made during the income year, the amount reported at **label 18H** should be prior to the application of the discount and reduction. The net capital gain on assets for which: ● **either** the 50% CGT discount or small business 50% reduction were claimed should be multiplied by **2** ● **both** the 50% CGT discount and small business 50% reduction were claimed should be multiplied by **4**.	**18H** Total current year capital gains Sections 115-5 and 152-205 of the ITAA 1997	☐

Description	Tax return item Reference	
Foreign resident capital gains withholding (FRCGW) credits If an individual is entitled to credits because amounts were withheld on the basis they were (or were believed to have been) a foreign resident by the purchaser, these amounts should be disclosed at the following labels: ● **Label 18H** *Total current year capital gains* The gain on the relevant asset(s) should be reported at this label, including the amount withheld from the individual by the purchaser. ● **Label 18X** *Credit for foreign resident capital gains withholding amounts* Australian residents can avoid amounts being withheld from the capital proceeds of CGT assets they sell by providing a *clearance certificate* for Australian real property sales (or a *vendor declaration* for other asset types) to the purchaser prior to settlement.  Total current year capital gains H .00 Net capital losses carried forward to later income years V .00 Credit for foreign resident capital gains withholding amounts X More information on the FRCGW rules can be found here.	Section 14-200 of Schedule 1 to the TAA **18H** Total current year capital gains **18X** Credit for foreign resident capital gains withholding amounts	☐

Description	Tax return item Reference	
Foreign assets totalling more than $50,000	**20** Foreign source income and assets or property	☐

Label 20P asks whether the individual owned or held interests in assets located outside Australia at any time during 2022–23 that totalled $50,000 AUD or more.

Relevant assets include:

- Real property
- Shares in foreign companies
- Interests in foreign trusts, partnerships and other entities
- Businesses
- Money held in overseas accounts and other parties
- Deposits.

During the year did you own, or have an interest in, assets located outside Australia which had a total value of AUD$50,000 or more?	**P** ☐	Print **Y** for yes or **N** for no.

> **NOTE**
>
> This amount includes both legal and beneficial interests, as well as interests that are indirectly held through one or more interposed entities.

Assets should be valued at the greater of their historical cost or market value. They should be translated into AUD using the ATO's exchange rates for 30 June 2023.[5]

If the asset was disposed during the 2022–23 income year, the exchange rate on the date of disposal should be used.

> **NOTE**
>
> Amounts reported under **item 19** *Foreign entities* should not be included at **label 20P**.

[5] Use the rate for 31 December 2022 if the individual has a substituted accounting period of 31 December.

Deductions

The general deduction provisions, contained in section 8-1 of the ITAA 1997, enable taxpayers to deduct a loss or an outgoings from their assessable income to the extent it is:

- incurred in gaining or producing their assessable income; or
- necessarily incurred in carrying on a business.

Deductions cannot be claimed where the loss or outgoing falls under one of the negative limbs in subsection 8-1(2) of the ITAA 1997.

The deductions in the checklist below may be affected by alternative legislative provisions in the ITAA 1997. The operation of the relevant provisions are detailed below to the extent they affect the tax return label.

Description	Tax return item Reference	
Work-related car expenses Work-related costs incurred by employees for a car the taxpayer owns, leases or hires under a hire-purchase agreement are claimed at **label D1**. A car is defined as a motor vehicle (except a motor cycle or similar vehicle) designed to carry a load of less than one tonne and fewer than nine passengers. Two methods under Division 28 of the ITAA 1997 can be used to claim deductions for car expenses: ● Cents per kilometre method (see **page 17**) ● Logbook method (see **page 18**). Key exclusions from claiming expenses at **label D1** are as follows: ● Travel between home and a regular workplace, where the employee is working at home due to convenience, is not deductible. However, when an employee is not provided with an alternative work location and the home becomes their sole base of operations, then travel to other locations to undertake work may be deductible. ● Costs incurred when using someone else's car for work-related purposes are claimed at Work-related travel expenses (**label D2**). ● Costs incurred when using a motor vehicle that is not a car.	**D1** Work-related car expenses Sections 8-1 and 25-100 of the ITAA 1997 Division 28 of the ITAA 1997	☐

Description	Tax return item Reference	
(continued ...) The ATO has provided updated information on contemporary travel situations and the deductibility of employees' transport expenses in TR 2021/1. Many taxpayers' working arrangements may have been impacted by COVID-19 so their work travel may not be the same as prior years. Additionally, their working arrangements may have permanently changed. More information can be found on the ATO website here.	**D1** Work-related car expenses Sections 8-1 and 25-100 of the ITAA 1997 Division 28 of the ITAA 1997	☐
Cents per kilometre method The cents per kilometre method can be used for claims of up to 5,000 km per car per income year. The ATO rate includes all expenses incurred for the decline in value, registration, insurance, repairs and maintenance. The rate is **78 cents** per kilometre for the 2022–23 income year.[6] NOTE Electric vehicles are subject to the same rules as other vehicles. Electric vehicle owners may use either the cents per kilometre method or logbook method in calculating their work-related car expenses. NOTE The Commissioner's administrative approach concerning the rate for home charging an electric vehicle in PCG 2023/D1 (4.2 cents per kilometre for the 2022–23 income year) **cannot** be used if the cents per kilometre method is used for an electric vehicle.	**D1** Work-related car expenses Section 8-5 of the ITAA 1997 Section 28-25 of the ITAA 1997	☐

6 The rate was **72 cents** per kilometre for the 2021–22 income year and is **85 cents** per kilometre for the 2023–24 income year.

Description	Tax return item Reference	
(continued ...) **Evidentiary requirements** While there is no requirement to retain receipts, the taxpayer must show how the business kilometres were determined to substantiate claim using the cents per kilometre method. This could be evidenced by recording work-related trips: ● in a diary ● in myDeductions in the ATO app. More information on the cents per kilometre method can be found here.	**D1** Work-related car expenses Section 8-5 of the ITAA 1997 Section 28-25 of the ITAA 1997	
Logbook method The logbook method enables a taxpayer to claim a deduction for work-related car expenses where the taxpayer held the car for some of or all the income year. While there is no requirement for the work-related travel to exceed 5,000 kilometres to be eligible to use the logbook method, this method is generally used by taxpayers who: ● travel more than 5,000 kilometres a year (as the cents per kilometre method caps the claim at 5,000 kilometres per car per year); or ● have a particularly high business use percentage. **Evidentiary requirements** A logbook is valid for five years, however if the work use changes within this period (e.g. changed role, changed employment or changed place of residence), the ATO suggest a new logbook should be completed.	**D1** Work-related car expenses Section 8-1 of the ITAA 1997 Division 28 of the ITAA 1997	☐

Description	Tax return item Reference	
(continued …) The logbook must: • cover a minimum continuous period of at least 12 weeks that is broadly representative of the work-related travel throughout the year (this can straddle two income years); • include the purpose of every journey, odometer reading at the start and end of each journey and total kilometres travelled during the period; and • include odometer readings at the start and end of each income year for which the logbook is used. In each of the four income years following the first income year, the taxpayer needs to retain: • odometer readings for the start and end of the full period claimed; • the work-related use percentage based on the logbook. More information on the logbook method can be found here. **NOTE** PCG 2023/D1 contains the Commissioner's administrative approach to calculating the costs for home charging an electric vehicle if a taxpayer uses the logbook method. The proposed rate for is 4.2 cents per kilometre from 1 July 2022.	**D1** Work-related car expenses Section 8-1 of the ITAA 1997 Division 28 of the ITAA 1997	

Description	Tax return item Reference	
Work-related travel expenses Travel expenses that are incidental and relevant to deriving assessable income are deductible to the extent they are work-related. Travel expenses at this label include: ● **Transportation costs:** ○ Public transport, air travel, taxi fares/ride-share costs ○ Bridge and road tolls, parking fees and short-term car hire ○ Expenses for motorcycles and vehicles with a carrying capacity of one tonne or more, or nine or more passengers ○ Actual expenses, such as petrol, repair and maintenance costs, incurred when using a car owned by someone else. ● **Travel costs:** ○ Meal, accommodation and incidental expenses incurred while working away from home (overnight)	**D2** Work-related travel expenses Section 8-1 of the ITAA 1997	☐
Evidentiary requirements Unless an exception applies, travel expense records must be retained. This may be a combination of: ● Written evidence – where the expense was incurred in a country outside Australia, the document can be in a language of that country.	Subdivision 900-E of the ITAA 1997	
● Travel diary – where the work-related travel exceeds 6 or more nights in a row, travel records must be kept.		
● The travel records are required to demonstrate that the activities were work-related and should specify: ○ the nature of the activity ○ the date and approximate time the activity began ○ the length of the activity ○ the taxpayer's engagement in the activity. The activities should be recorded before it ends or as soon as possible afterwards. Each entry must be in English.	Subdivision 900-F of the ITAA 1997	

Description	Tax return item Reference	
Travel expense record keeping exceptions Reduced record-keeping requirements exist for work-related expenses relating to: ● award transport payments ● domestic travel allowances ● overseas travel allowances ● reasonable overtime meal allowances ● crew members on international flights. The Commissioner's reasonable expense amounts can be found in: ● TD 2022/10 Income tax: what are the reasonable travel and overtime meal allowance expense amounts for the 2022–23 income year? ● TD 2021/6 Income tax: what are the reasonable travel and overtime meal allowance expense amounts for the 2021–22 income year? **Other helpful information** ● TR 2021/1 Income tax: when are deductions allowed for employees' transport expenses? ● TR 95/34 Income tax: employees carrying out itinerant work – deductions, allowances and reimbursements for transport expenses More information on travel deductions can be found here.	Sections 900-45, 900-50, 900-55, 900-60 and 900-65 of the ITAA 1997 TR 2004/6	

Description	Tax return item Reference	
Work-related clothing, laundry and dry-cleaning expenses Only costs for the following clothing can be claimed: ● occupation-specific clothing ● protective clothing ● compulsory work uniforms ● non-compulsory work uniforms registered with AusIndustry's Textile, Clothing and Footwear (**TCF**) Corporatewear Register. The cost of buying, hiring, repairing or cleaning conventional clothing used for work cannot be claimed. Written evidence is required for laundry expenses (other than dry-cleaning expenses) greater than $150. **Evidentiary requirements** ● Receipts, invoices or other written evidence ● Diary records of laundry costs if: ○ the amount of the laundry expense claim is greater than $150; and ○ the total claim for work-related expenses exceeds $300. For laundry expenses up to $150, the Commissioner's estimate detailed in TR 98/5 allows: ● a claim of $1 per load where only eligible work-related clothing is laundered; and ● 50 cents per load where both private and eligible work-related clothing is laundered at the same time. Where the Commissioner's estimate is used, the taxpayer should retain details of the number of washes that were done during the year, and what type of clothes (eligible work-related, private or both) were included in each wash. More information can be found on the ATO website here.	**D3** Work-related clothing, laundry and dry-cleaning expenses Section 8-1 of the ITAA 1997 Section 900-40 of the ITAA 1997	☐

Description	Tax return item Reference	
Work-related self-education expenses Work-related self-education expenses can be claimed by employees where the self-education or study will either: ● maintain or improve the specific skills or knowledge the taxpayer requires in their current employment activities; or ● result in, or is likely to result in, an increase in the taxpayer's income from their current employment activities. More information about self-education expenses can be found here. The ATO's self-education expenses calculator can be found here. **IMPORTANT** With effect from 1 July 2022, the $250 non-deductible threshold for claiming self-education expenses was removed.[7] This means that taxpayers no longer need to reduce their allowable expenses by $250; they can claim a deduction for all allowable self-education expenses.	**D4** Work-related self-education expenses	☐
Work-related working from home (WFH) expenses Two methods are available to claim the running expenses incurred by an employee who works from home: ● the revised fixed rate method (**RFRM**) under the Commissioner's administrative approach in **PCG 2023/1**; or ● the actual cost method. More information on these methods can be found on the ATO website here.	**D5** Other work-related expenses Section 8-1 of the ITAA 1997 TR 93/30 PCG 2023/1	☐

[7] Former section 82A of the ITAA 1936 was repealed by Schedule 3 to the *Treasury Laws Amendment (2022 Measures No. 2) Act 2022*. The term 'property' has a broad meaning. It can include trading stock, land, personal property, digital assets and other non-cash items.

Description	Tax return item Reference	
Working from home expenses — RFRM The RFRM allows the taxpayer to claim a deduction for qualifying expenses when WFH at the rate of **67 cents** per hour from 1 July 2022. Qualifying expenses include: ● energy expenses, such as electricity and gas for lighting, heating and cooling when working from home; ● internet expenses; ● mobile and home phone expenses; and ● stationery and computer consumables. NOTE The decline in value of depreciating assets is not covered by the RFRM. This means that taxpayers who use the RFRM to claim their WFH expenses can separately claim a deduction for the decline in value of these assets. **Eligibility criteria** To use the RFRM, taxpayers must: ● be WFH while carrying out their employment duties, or carrying on their business, on or after 1 July 2022 (minimal tasks such as occasionally checking emails do not count as WFH); ● incur an 'additional running expense' — that is, the taxpayer must incur one of the qualifying expenses above; and ● maintain the relevant records. NOTE Taxpayers do not need to incur all the types of qualifying expenses to be eligible to use the RFRM.	**D5** Other work-related expenses Section 8-1 of the ITAA 1997 PCG 2023/1	☐

Description	Tax return item Reference	
(continued …) **Evidentiary requirements** Taxpayers will need to keep: ● a contemporaneous record of the total number of actual hours they worked from home – this can be in any form (e.g. time sheets, logs, roster, diary, time tracking apps etc.); and **IMPORTANT** From 1 July 2022 to 28 February 2023, taxpayers only need to keep a record that is representative of the total number of hours worked from home during this period. Actual records must be kept from 1 March 2023 onwards. ● one document showing each of the expenses incurred – if the bill is not in the taxpayer's name, they will have to keep additional evidence showing the expense was incurred (e.g. joint credit card statement). **NOTE** Taxpayers who incur more than one expense will need to keep multiple records to be eligible. E.g. taxpayers who incur stationery, phone and internet expenses will need to keep three documents evidencing the expenses. More information on the RFRM can be found here.	**D5** Other work-related expenses Section 8-1 of the ITAA 1997 PCG 2023/1	

Description	Tax return item Reference	
Working from home expenses – actual cost method The actual cost method can be used where the individual: ● incurs additional running expenses as a result of WFH ● retains records showing the amount: ○ spent on expenses ○ spent on depreciating assets purchased and used while WFH ○ of the work-related use the expenses and depreciating assets. If other members of the household (who are not WFH) are in the same room the employee is claiming the costs for while WFH, no additional running expenses are incurred and no deduction is available. **Evidentiary requirements** Substantiation of the expenses will depend on the type of expense incurred. Claims using the actual cost method can be worked out using the ATO's Home office expenses calculator. More information can be found here.	**D5** Other work-related expenses Section 8-1 of the ITAA 1997 TR 93/30	

Description	Tax return item Reference	
Gifts and donations Individuals may be entitled to claim deductions for gifts and donations. However, rules apply that limit the types of payments that are deductible and the amount that may be claimed. ● A donation or gift cannot create or increase a current year tax loss. Where a tax loss is created as result of the donation or gift, the deduction is limited to the maximum amount deducted without resulting in a tax loss for the current income year. ● An annual deduction limit of $1,500 applies to contributions and gifts to political parties, independent candidates or members. ● An annual deduction limit of $5,000 applies to donations of listed shares valued at $5,000 or less, provided the shares were held by the taxpayer for a minimum period of 12 months before the donation. More information on donating shares can be found here. ● A deduction for property may be claimed if the property value is $2 or more and the property was donated within 12 months of its purchase by the donor. Where property is gifted, CGT event A1 may occur.[8] ● A deduction for a donation cannot be claimed where the individual received a personal benefit from it. ● Deductions for certain gifts valued at more than $5,000 may be spread over five years. This is available only for deductions and recipients covered by items 1 and 2 in section 30-15 of the ITAA 1997. Prior to claiming deduction for a donation, it is important to ensure that the recipient is a deductible gift recipient (**DGR**). The DGR status of an organisation can be checked on the ABR website here. More information can be found on the ATO website here.	**D9** Gifts or donations Division 30 of the ITAA 1997	☐

[8] As no consideration will be received by the donor for the CGT asset, the market value substitution rule in section 116-30 of the ITAA 1997 may apply.

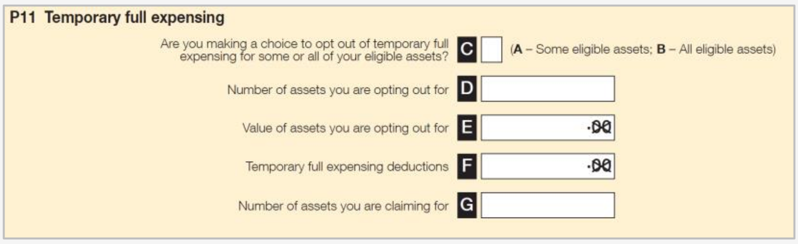
Description	Tax return item Reference	
Section 290-170 Notice of intent to claim a deduction Individuals wanting to claim a personal tax deduction for superannuation contributions made during the income year must: • provide the trustee of the fund with a written notice of their intent to claim a deduction – the approved form can be found here; and • receive acknowledgement from the trustee of receipt of the notice. The notice must be given to the trustee by the earlier of: • the day on which the tax return for the income year in which the contribution was made was lodged; or • the end of the next income year. The notice is not valid if, at the time it was given to the trustee: • the individual was not a member of the fund; • the trustee no longer holds the contribution (e.g. it was rolled over to another fund); or • the trustee has begun to pay a superannuation income stream based in whole or part on the contribution. If the notice is not valid or not provided when required, the taxpayer may not be able to claim a deduction for the contribution – this would result in the character of the contribution changing from concessional to non-concessional. **Label D12** on the ITR must also be completed: **D12 Personal superannuation contributions** Did you provide your fund (including a retirement savings account) with a notice of intent to claim a deduction for personal superannuation contributions, and receive an acknowledgement from your fund? YES ☐ NO ☐	**D12** Personal superannuation contributions Section 290-170 of the ITAA 1997	☐

Offsets, losses and other labels

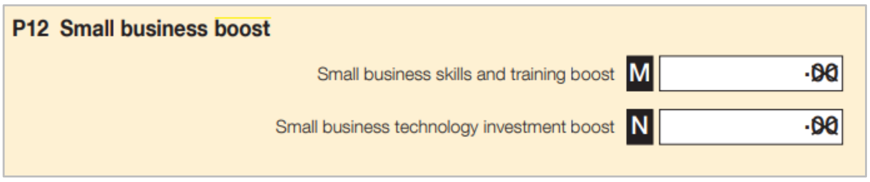
Description	Tax return item Reference	
Low income tax offset (LITO) The maximum amount of the LITO remained at $700 for 2022–23.[9] The LITO is capped at the income tax liability of the individual and does not apply to offset any liability to the Medicare Levy. The LITO is automatically calculated by the ATO on assessment following lodgment of the 2023 ITR. It does not need to be claimed in the ITR.	Not included in tax return Section 61-115 of the ITAA 1997	☐
Tax losses A prior year tax loss must be claimed at the first available opportunity. Taxpayers cannot choose to hold onto a loss and continue to carry it forward to a later income year if they have a taxable income. Carried forward tax losses are offset first against exempt income and then against assessable income. Losses must be applied in the order they were incurred. More information on tax losses can be found here.	**L1** Tax losses of earlier income years Section 36-15 of the ITAA 1997	☐

9 The low and middle income tax offset (**LMITO**) ended on 30 June 2022

Description	Tax return item Reference	
Reportable employer superannuation contributions (RESC) Contributions made by an employer under a salary sacrifice arrangement, or for an employee above the minimum amount required by law, are included at this label. An amount will be a RESC where: ● the individual has some capacity, or might reasonably be expected to have some capacity, to affect the size of the contribution or the way it is made ● the contributions are additional to the compulsory contributions an employer must make under: ○ the superannuation guarantee (SG) scheme ○ an industrial award ○ a fund's governing rules or trust deed ○ a federal, state or territory law. ● More information can be found here.	**IT2** Reportable employer superannuation contributions Section 16-182 of Schedule 1 to the TAA	☐
Non-commercial loss provisions These rules prevent sole traders and individual partners of a partnership from offsetting losses from activities that are unlikely to be profitable and do not have a significant commercial purpose or character against their other income. Non-commercial losses must be deferred to a later income year if the conditions in subsection 35-10(1) are not satisfied by the business. The Commissioner's discretion is available in certain circumstances (see section 35-55). A loss is not available where the individual's income calculated according to subsection 35-10(2E) is $250,000 or more. **IMPORTANT** PCG 2022/1 contains a safe harbour for the Commissioner's discretion contained in section 35-55 of the ITAA 1997. Taxpayers can self-assess as if the discretion has been granted for the 2019–20, 2020–21, 2021–22 and 2022–23 income years if they meet the requirements and were impacted by bushfires, floods or COVID-19.	**P9** Business loss activity details Section 35-10 of the ITAA 1997 PCG 2022/1	☐

Description	Tax return item Reference	
Temporary full expensing (TFE) The TFE regime ended on 30 June 2023. It temporarily superseded: ● the instant asset write-off (IAWO) rules in section 328-180 of the ITAA 1997 until 1 July 2023;[10] and ● the immediate deduction rules in section 40-82 of the ITAA 1997 for medium and larger businesses until 31 December 2020. To fully expense a depreciating asset in 2022–23, the asset must be first held by 30 June 2023 and first used or installed ready for use also by 30 June 2023. If either of these falls after 30 June 2023, then the asset must be depreciated in accordance with the normal rules. **Note:** ● If the taxpayer's aggregated turnover is $5 billion or more, the alternative income test may enable the taxpayer to use TFE. ● Small business entities who choose to use the simplified depreciation rules in Subdivision 328-D of the ITAA 1997 cannot opt out of TFE. Other businesses are able to opt out of TFE. ● Where businesses opt out of TFE, they must complete **label P11.**  **P11 Temporary full expensing** Are you making a choice to opt out of temporary full expensing for some or all of your eligible assets? C (**A** – Some eligible assets; **B** – All eligible assets) Number of assets you are opting out for D Value of assets you are opting out for E .00 Temporary full expensing deductions F .00 Number of assets you are claiming for G More information can be found on the ATO website here.	**P11** Temporary full expensing Section 328-180 and 328-181 of the IT(TP)A Subdiv 40-BB of the IT(TP)A	

10 From 1 July 2023, the IAWO threshold for SBEs (aggregated turnover of less than $10 million, which includes sole traders) will be temporarily increased to $20,000 for 12 months. It is expected to revert to $1,000 from 1 July 2024.

Description	**Tax return item** **Reference**	
Skills and training boost and technology investment for small businesses Eligible small businesses with an aggregated turnover of less than $50 million can claim a bonus deduction of 20% for eligible expenditure on: ● external training courses (**skills and training boost**)[11]; and ● digital technology, capped at $100,000 of expenditure per annum **(technology investment boost)**[12] — includes business expenses and depreciating assets that support their digital adoption, such as portable payment devices, cyber security systems or subscriptions to cloud based services. For eligible expenditure incurred from 7:30pm AEDT on 29 March 2022 until 30 June 2023, the bonus deduction is claimed in the 2022–23 income year (the bonus deduction for expenditure incurred in both the 2021–22 and 2022–23 income years is claimed in the 2023 ITR). The skills and training boost is available until 30 June 2024, however the technology investment boost ended on 30 June 2023. Only the amount of the bonus deductions is claimed at **item P12**.  P12 Small business boost Small business skills and training boost M .00 Small business technology investment boost N .00 More information can be found on the ATO website here.	**P12** Business income and expenses Section 328-445 and section 328-450 (skills and training boost) and section 328-455 and section 328-460 (technology investment boost) of the IT(TP)A	

[11] Given effect by Schedule 4 to the *Treasury Laws Amendment (2022 Measures No. 4) Act 2023*.

[12] Given effect by Schedule 5 to the *Treasury Laws Amendment (2022 Measures No. 4) Act 2023*.

Conclusion

ATO resources

The ATO website contains many resources that may help practitioners in preparing clients' ITRs. Some of the ATO's key resources include:

- Individual tax return 2023 (for agents) (PDF)
- Individual tax return instructions 2023
- myDeductions – free record-keeping tool in the ATO app
- Occupation and industry specific guides

  On this ATO webpage:

  - the complete occupation or industry guide including income, expenses, record-keeping and examples can be found using the link in the left column of the table; and
  - a summary of common work-related expenses for the particular occupation or industry (downloadable as a PDF and printable) can be found using the link in the right column of the table.
- Tax time toolkit for individuals.

2022–23 tax rates and thresholds

The Tax Rates Tables set out helpful rates and thresholds that will assist you prepare your clients' tax returns. The marginal tax rates for 2022–23 are in the Tax Rates Tables, which can be found here.

Final thoughts

The checklists above are not an exhaustive list of all labels in the ITR. The checklists serve as a reminder of some of the traps that practitioners and taxpayers may encounter when preparing the 2023 ITR.

Underpinning the preparation of a tax return is the key requirement for taxpayers to maintain good records substantiating any claims.

The ATO has announced its key focus areas this tax time. These are:

- rental property deductions;
- work related expenses; and
- capital gains tax.

It is important to pay extra attention to these areas, and assist your clients avoid the common pitfalls and traps in these areas.

We welcome your feedback on what other traps practitioners encounter when preparing ITR in our Community member-only forum.

Abbreviations and acronyms

Legislative abbreviations

Abbreviation	Description
ITAA 1936	*Income Tax Assessment Act 1936*
ITAA 1997	*Income Tax Assessment Act 1997*
IT(TP)A	*Income Tax (Transitional Provisions) Act 1997*
TAA	*Tax Administration Act 1953*

Acronyms and other abbreviations

Abbreviation	Description
AEDT	Australian Eastern Daylight Time
ATO	Australian Taxation Office
CGT	Capital gains tax
Commissioner	Commissioner of Taxation
DGR	Deductible gift recipient
ESS	Employee share scheme
FBT	Fringe benefits tax
FRCGW	Foreign resident capital gains withholding
IAWO	Instant asset write-off
ITR	Individual tax return

Abbreviation	Description
LITO	Low Income tax offset
LMITO	Low and Middle Income tax offset
PAYG	Pay as you go
PSB	Personal services business
PSE	Personal services entity
PSI	Personal services income
RESC	Reportable employer superannuation contribution
RFRM	Revised fixed rate method
SG	Superannuation Guarantee
TFE	Temporary full expensing
TFN	Tax File Number
WFH	Working from home

Further guidance and information

Further guidance and information can be found on the ATO website.

If you have any specific concerns that have not been outlined above, please email taxpolicy@taxinstitute.com.au.