TR 97/D8 - Income tax: substantiation of laundry expenses

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This document has been finalised by TR 98/5.

Draft Taxation Ruling
Income tax: substantiation of laundry expenses

other Rulings on this topic

TR 97/D3; TR 94/22; TR 96/16; TR 97/7; TR 97/12

contents para

What this Ruling is about 1
Class of person/arrangement 1
Cross-reference table of provisions 5
Date of effect 6
Previous Rulings 7
Definitions 8
Ruling 9
When is a deduction allowable for laundry expenses? 9
How do you substantiate laundry expenses? 18
Laundry expenses up to $150 18
Laundry expenses more than $150 23
Explanations 24
Examples 28
Your comments 36

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What this Ruling is about

Class of person/arrangement

1. The Tax Law Improvement Project is restructuring, renumbering and rewriting the income tax law in plain language. The Parliament is amending the income tax law progressively to reflect these aims. As new laws come into effect, Taxation Rulings about old laws are being brought into line with them.

2. Prior to 1995 there was no specific provision dealing with substantiation of laundry expenses. Such expenses were covered by section 82KZB of the *Income Tax Assessment Act 1936* ('the old Act') similar to other work expenses (see Taxation Determination TD 93/232). In 1995 a new provision was inserted in the old Act as subsection 2-6(1) of Schedule 2B. That subsection has now been renumbered and included in Subdivision 900-B of the *Income Tax Assessment Act 1997* ('the new Act' or 'the Act'). This Ruling explains the rewritten provision.

3. This Ruling provides guidance on the application of Subdivision 900-B of the new Act for the 1997-98 income year or a later income year or Schedule 2B of the old Act for the 1994-95, 1995-96 or 1996-97 income year as it relates to laundry expenses.

4. This Ruling sets out the rules for claiming a deduction for laundry expenses. It addresses separately the situations where total laundry expenses incurred for the income year are:

- up to $150; and
- are more than $150.

Cross-reference table of provisions

5. Taxation Determination TD 93/232 dealt with the old substantiation law (for income years up to and including 1993-94). In 1995 a new provision was inserted in the old Act as subsection 2-6(1) of Schedule 2B (for the 1994-95, 1995-96 or 1996-97 income year). The new section, which has been renumbered, is included in Subdivision 900-B of the new Act (for the 1997-98 or a later income year). The following table cross-refers provisions in the new Act to the corresponding provision in the old Act.

	New Law	**Old Law**	
Years	1997-98 or later	1994-95, 1995-96 and 1996-97	1993-94 and earlier
Statute	*Income Tax Assessment Act 1997*	*Income Tax Assessment Act 1936*	*Income Tax Assessment Act 1936*
Ruling	this Ruling	this Ruling	IT 2452, TD 93/232
Ordinary income	subsection 6-5(1)	subsection 25(1)	subsection 25(1)
Expense excluded from deductibility	subsection 34-10(2)	section 51AL	section 51AL
Non compulsory uniform/wardrobe	subsection 34-15(2)	subsection 51AL(4)	subsection 51AL(4)
Occupation specific clothing	subsection 34-20(1)	subsection 51AL(26)	subsection 51AL(26)
Protective clothing	subsection 34-20(2)	subsection 51AL(26)	subsection 51AL(26)
Work Expense	subsection 900-30(1)	subsection 2-2(1) of Schedule 2B	subsection 82KT(1)
Exception for small total of expenses	section 900-35	section 2-5 of Schedule 2B	subsection 82KZB(2)
Written evidence not required	subsection 900-40(1)	section 2-1 and subsection 2-6(1) of Schedule 2B	no comparable section

Laundry expenses as part of $300 limit	subsection 900-40(2)	subsection 2-6(2) of Schedule 2B	no comparable section
Written evidence from supplier	section 900-115	section 5-4 of Schedule 2B	subsection 82KU(1)
Evidence of small expenses	section 900-125	section 5-6 of Schedule 2B	subsections 82KU(6), (7), (8)

Date of effect

6. This Ruling applies for the 1994-95 or a later income year. This Ruling does not apply to taxpayers to the extent that it conflicts with the terms of a settlement of a dispute agreed to before the date of issue of the Ruling (see paragraphs 21 and 22 of Taxation Ruling TR 92/20).

Previous Rulings

7. Taxation Ruling IT 2452 *'Income tax : substantiation - upkeep of uniforms and/or protective clothing'* and Taxation Determination TD 93/232 *' Income tax: how are laundry expense claims for work clothes calculated and substantiated for the purposes of subsection 51(1) and section 82KZB of the Income Tax Assessment Act 1936?'*, which applied in relation to the period before 1 July 1994, will be withdrawn on finalisation of this Ruling.

Definitions

8. Some of the terms used in this Ruling are explained below:

- **Compulsory uniform/wardrobe -** This clothing must be prescribed by the employer in an expressed policy which makes it a requirement for all or a particular class of employees to wear that clothing while at work. The clothing must also identify the relevant employer. The employer's compulsory clothing policy guidelines should stipulate the characteristics of the colour, style and type of clothing and accessories that qualify them as being a distinctive part of the compulsory uniform/wardrobe. The wearing of the clothing must also be strictly and consistently enforced (see paragraph 32 of Taxation

Ruling TR 97/12 *'Income tax and fringe benefits tax: work-related expenses: deductibility of expenses on clothing, uniform and footwear'*).

- **Conventional clothing -** This is clothing that would ordinarily be worn, or which could reasonably be expected to be worn, by a person irrespective of whether that person is working or not (e.g., jeans, dress suit, etc.). See Taxation Ruling TR 94/22 *'Income tax: implications of the Edwards case for the deductibility of expenditure on conventional clothing by employees'* and paragraphs 19 to 24 of Taxation Ruling TR 97/12.
- **Laundry expense -** This is a work expense to do with washing, drying or ironing clothes (but not dry cleaning).
- **Non-compulsory uniform/wardrobe -** This is similar to compulsory uniform/wardrobe in that it identifies the employer, but the wearing of the clothing at work is not compulsory, or, if compulsory, the wearing of the clothing is not consistently enforced (subsection 34-15(2) of the new Act (formerly subsection 51AL(4) of the old Act)). The design of the uniform/wardrobe has to be entered on the Register of Approved Occupational Clothing. (Paragraphs 36 to 40 of Taxation Ruling TR 97/12 describes what is considered to be non-compulsory uniform/wardrobe).
- **Occupation specific clothing -** This is clothing that distinctively identifies the employee as belonging to a particular profession, trade, vocation, occupation or calling (e.g., a female nurses' traditional uniform, a chef's checked pants and a religious cleric's ceremonial robes). It is not clothing that could be worn in a number of occupations. See subsection 34-20(1) of the new Act (formerly subsection 51AL(26) of the old Act).
- **Protective clothing and footwear -** This is clothing that when worn while working protects persons from:

  (i) death (e.g., lead aprons for x-ray machine operators); or

  (ii) disease - including the contraction, aggravation, acceleration or recurrence of a disease (e.g., protective gloves for dentists); or

  (iii) injury - including the aggravation, acceleration or recurrence of an injury (e.g., steel capped safety boots for builders); or

(iv) damage to other clothing worn by the wearer where such damage would otherwise be a normal result of the taxpayer's income earning activities (e.g., overalls and boiler suits for boilermakers); or

(v) damage to an artificial limb or other artificial substitute, or a medical, surgical or other similar aid or appliance.

See subsection 34-20(2) of the new Act (formerly subsection 51AL(26) of the old Act).

- **Work expense -** An expense incurred in the course of producing salary or wages - subsection 900-30(1) of the new Act (formerly subsection 2-2(1) of Schedule 2B of the old Act).
- **Written evidence** - A document or other records that can be used to demonstrate that the expense was incurred. It can be:

  (i) a document from the supplier of the goods (e.g., receipts) - section 900-115 of the new Act (formerly section 5-4 of Schedule 2B of the old Act); or

  (ii) evidence you have recorded yourself for small expenses - section 900-125 of the new Act (formerly section 5-6 of Schedule 2B of the old Act - see paragraph 26 of this Ruling).

Ruling

When is a deduction allowable for laundry expenses?

9. In short, a deduction is allowable if an expense:

   (a) is incurred;

   (b) meets the deductibility tests (there is sufficient connection to assessable income);

   (c) satisfies the substantiation rules which apply to employees; and

   (d) is not excluded from deductibility under section 51AH of the old Act or subsection 34-10(2) of the new Act (formerly section 51AL of the old Act).

(a) Expense must be incurred

10. The laundry expense must be incurred by the taxpayer to be an allowable deduction. Generally, an expense is incurred when you have spent the money, or paid by cheque or credit card (see Taxation Ruling TR 97/7 *'Income tax: subsection 51(1) - meaning of 'incurred' - timing of deductions'* for the meaning of 'incurred').

(b) Expense must meet the deductibility tests

11. The laundry expense must be incurred in the course of producing salary or wage income. If the laundry expense is partly for work purposes and partly for private purposes, then only the work related portion is an allowable deduction.

12. A deduction is only allowable for the cost of washing, drying or ironing clothes that fall into one or more of the following categories:

- **compulsory uniform/wardrobe**(see paragraph 8);
- **non-compulsory uniform/wardrobe** (see paragraph 8);
- **occupation specific clothing** (see paragraph 8); or
- **protective clothing** (see paragraph 8).

13. A deduction is not allowable for the cost of laundering conventional clothing, unless special circumstances apply (see Taxation Ruling TR 94/22 and Taxation Ruling TR 96/16 *'Income tax: work-related expenses: deductibility of expenses on compulsory uniform shoes, socks and stockings'*).

14. A deduction is not allowable if the expense is incurred in earning tax exempt income (e.g., laundry of uniforms for members of the Army Reserve).

Laundry Allowance

15. The receipt of an allowance for laundry expenses does not automatically mean that the expenditure is deductible. However, allowances received for laundry, clothing, uniform/wardrobe and related expenditure are fully assessable under subsection 6-5(1) of the new Act (formerly subsection 25(1) of the old Act) or paragraph 26(e) of the old Act. See *Mansfield v. FC of T* 96 ATC 4001 at 4006; (1996) 31 ATR 367 at 372.

(c) Expense satisfies the substantiation requirements

16. A deduction for laundry expenses is not allowable in circumstances where the substantiation requirements (see paragraphs

17-20) contained in Subdivision 900-B of the new Act (formerly Schedule 2B of the old Act) are not met. However, if the nature and quality of the evidence available to substantiate a claim is sufficient, the Commissioner may exercise a discretion in some circumstances and provide relief - see Taxation Ruling TR 97/D3 *'Income tax: relief from the substantiation requirements'*).

17. Subdivision 900-B requires written evidence to be kept that prove the expense was incurred.

(d) Expense is not excluded from deductibility under section 51AH of the old Act or subsection 34-10(2) of the new Act (formerly section 51AL of the old Act)

18. Under section 51AH of the old Act where all or part of the expenditure is reimbursed, and the reimbursement constitutes a fringe benefit under the *Fringe Benefits Tax Assessment Act 1986*, the amount reimbursed is not an allowable deduction.

19. Under subsection 34-10(2) of the new Act (formerly section 51AL of the old Act) a deduction is not allowable for laundry expenses associated with a non-compulsory uniform/wardrobe unless the design of the uniform/wardrobe has been entered on the Register of Approved Occupational Clothing.

How do you substantiate laundry expenses?

Laundry expenses up to $150

20. Where the total amount of laundry expenses incurred in the income year is up to $150, there is no need to retain written evidence of each laundry expense - subsection 900-40(1) of the Act (formerly section 2-1 and subsection 2-6(1) of Schedule 2B of the old Act).

21. The taxpayer may calculate their laundry expenses by keeping written evidence.

22. Where a taxpayer does not keep written evidence of their laundry expenses, the Commissioner will allow a claim of $1 per load (which covers washing, drying and ironing) in situations where only work-related clothing is being laundered, and 50 cents per load where both private and work-related clothing is being laundered at the same time. This is hereafter referred to as the 'Commissioner's estimate'.

Laundry expenses more than $150

23. Where the total amount of work expenses incurred in the income year is $300 or less, there is no need for written evidence to be kept for

laundry or other work expenses even if the laundry expenses are more than $150 - section 900-35 of the new Act (formerly section 2-5 of Schedule 2B of the old Act). The taxpayer may use the Commissioner's estimate of laundry expenses or calculate their laundry expenses by keeping written evidence. However, where the total amount of work expenses is more than $300, then to claim laundry expenses that total more than $150, a taxpayer must keep written evidence of **all** their laundry expenses (not just the amount above $150).

Explanations

24. Laundry expenses are considered to fall within the definition of '**work expenses**'.

25. A taxpayer is entitled to claim as a deduction $300 or less of work expenses without the need to keep written evidence. Even if the total work expenses claimed exceed $300, up to $150 of laundry expenses may be claimed without keeping written evidence. However, this exception does not increase the $300 limit to $450 - subsection 900-40(2) of the Act (formerly subsection 2-6(2) of Schedule 2B of the old Act).

26. Written evidence of costs such as cleaning agents (detergents, etc.) may be kept in the form of receipts. Where each expense is $10 or less, and the total of all the taxpayer's small work expenses, not just laundry expenses, is $200 or less for the year of income, then the individual costs may be recorded in a diary and there is no need to keep receipts - section 900-125 of the Act (formerly section 5-6 of Schedule 2B of the old Act).

27. Electricity expenses may be calculated by reference to the average power consumption for household appliances guide that is available from the taxpayer's local electricity authority. Diaries and other records may also be used to determine the pattern of usage (the Commissioner will generally accept a diary that has been maintained for a minimum period of one month).

Examples

Example 1

Total laundry expenses are up to $150 and when added to other work expenses the total is $300 or less

28. Joe works as a mechanic. He incurred $90 in purchasing overalls. Joe washed his overalls twice a week for 48 weeks of the year and did no other washing at the same time (i.e., his overalls were washed separately from all his other clothes). He did not keep detailed records of his laundry expenses and has chosen to use the Commissioner's estimate.

Joe calculates his deduction as follows:

$1 per wash x 2 washes per week x 48 weeks = $96

Joe's total work expenses are as follows:

Laundry	$96
Other work expenses	$90
Total work expenses	**$186**

29. Where the total of laundry and other work expenses is $300 or less, there is no need to retain written evidence of each expense incurred. As Joe's laundry expenses total less than $151, and his total work expenses are less than $301, he does not need to keep written evidence of either his laundry expenses or his other work expenses.

Example 2

Total laundry expenses are up to $150 and when added to other work expenses the total is more than $300

30. Lisa works as a nurse. She incurred $290 in purchasing her compulsory nurse's uniform. Lisa washed her uniform twice a week for 48 weeks of the year and did no other washing at the same time (i.e., her uniform was washed separately from all her other clothes). She did not keep detailed records of her laundry expenses and has chosen to use the Commissioner's estimate.

Lisa calculates her deduction as follows:

$1 per wash x 2 washes per week x 48 weeks = $96

Lisa's total work expenses are as follows:

Laundry	$96
Other work expenses	$290
Total work expenses	**$386**

31. Where the total of laundry expenses is up to $150 and the total of laundry expenses and other work expenses is more than $300, written evidence of each work expense incurred (other than laundry expenses) must be kept. As Lisa's total work expenses are more than $300 she must keep written evidence of her other work expenses (i.e., the cost of purchasing her uniform). She does not need to keep written evidence of her laundry expenses as they total less than $151.

Example 3

Total laundry expenses are more than $150 and when added to other work expenses the total is $300 or less

32. Julie works as a plumber. She incurred $40 in purchasing overalls and washed her overalls five times a week (50 weeks for the year) - no other washing was done at the same time (i.e., her overalls were washed separately from all her other clothes). She did not keep detailed records of her laundry expenses and has chosen to use the Commissioner's estimate.

Julie calculates her deduction as follows:

$1 per wash x 5 washes per week x 50 weeks = $250

Julie's total work expenses are as follows:

Laundry	$250
Other work expenses	$40
Total work expenses	**$290**

33. Where laundry expenses total more than $150 and the total of work expenses (including laundry) is $300 or less, there is no need to retain written evidence of each expense incurred. As Julie's total work expenses are less than $301 she does not need to keep written evidence of either her laundry expenses or her other work expenses.

Example 4

Total laundry expenses are more than $150 and when added to other work expenses the total is more than $300

34. Charles works as a bank teller in Victoria. He incurred $500 in purchasing his compulsory bank uniform and washed his bank uniform twice a week for 48 weeks of the year and washed his other clothes at the same time. He kept detailed records of his laundry expenses which showed that each load cost him $4.07.

Charles calculates the total cost of **all** the washes he did for the whole year (2 per week for 52 weeks of the year) as follows:

Expense	Cost	Total
Depreciation of washing machine	$1000 x 20%	$200.00
Water	14,000 litres per year @ $0.00065 per litre*	$ 9.10
Electricity - washing machine	$9.00 per quarter**	$ 36.00
Detergent	$7.00 per 20 washes x 104 washes for the year***	$ 36.40
Depreciation of clothes dryer	$400 x 20%	$ 80.00
Electricity - clothes dryer	$14.00 per quarter**	$ 56.00
Electricity - Iron	$1.40 per quarter**	$ 5.60
		$423.10

* The water usage for Charles' washing machine was obtained from the guide *'How much water do you use?'* issued by South East Water (each taxpayer should use the guide issued by their local authority). Each taxpayer should also obtain the cost per litre of water used from their local authority.

** The electricity cost for Charles' washing machine, clothes dryer and iron were obtained from the *Guide to Operating Costs of Domestic Electrical Appliances* issued by United Energy (each taxpayer should use the guide issued by their local authority).

*** A bottle of detergent, which lasted 20 washes, cost Charles $7.00. Therefore, the cost of detergent per wash is $7.00 / 20 washes = 35 cents per wash.

The average cost per wash = $423.10/104 = $4.07

However, as Charles washed his private clothes with his work clothes the cost of a 'work related wash' must be halved:

$4.07/2 = $2.04 (rounded)

Charles must multiply the average cost per wash by the number of times he washed his uniform:

$2.04 per wash x 2 washes per week x 48 weeks = $196

Charles' total work expenses are as follows:

Laundry	$196
Other work expenses	$500
Total work expenses	**$696**

35. Where laundry expenses total more than $150 and the total of work expenses (including laundry) is more than $300, written evidence of each expense incurred (including laundry) must be kept. As Charles' total work expenses are more than $300 he must keep written evidence of his other work expenses (i.e., the cost of purchasing his uniform). He also needs to keep written evidence of his laundry expenses as they total more than $150.

Your comments

36. If you wish to comment on this draft Ruling please send your comments by: 22 August 1997

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subject references
- cleaning expenses
- clothing
- clothing expenses
- corporate & compulsory clothing expenses
- deductions & expenses
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- laundry & dry cleaning expenses
- laundry expense allowance

- laundry other than dry cleaning allowance
- occupation specific clothing expenses
- protective clothing expenses
- work related expenses

legislative references
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- ITAA97 34-10(2)
- ITAA97 34-15(2)
- ITAA97 34-20(1)
- ITAA97 34-20(2)
- ITAA97 Subdiv 900-B
- ITAA97 900-30(1)
- ITAA97 900-35
- ITAA97 900-40(1)
- ITAA97 900-40(2)
- ITAA97 900-115
- ITAA97 900-125

- ITAA36 25(1)
- ITAA36 26(e)
- ITAA36 51AH
- ITAA36 51AL
- ITAA36 51AL(4)
- ITAA36 51AL(26)
- ITAA36 82KT(1)
- ITAA36 82KU(1)
- ITAA36 82KU(6)
- ITAA36 82KU(7)
- ITAA36 82KU(8)
- ITAA36 82KZB
- ITAA36 82KZB(2)
- ITAA36 Schedule 2B
- ITAA36 Schedule 2B 2-1
- ITAA36 Schedule 2B 2-2(1)
- ITAA36 Schedule 2B 2-2(1)
- ITAA36 Schedule 2B 2-5
- ITAA36 Schedule 2B 2-6(2)
- ITAA36 Schedule 2B 2-6(4)
- ITAA36 Schedule 2B 5-4
- ITAA36 Schedule 2B 5-6
- FBTAA

case references
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