A strategy to increase deductions for simply doing your tax

Most taxpayers know that they can claim a deduction for paying a registered tax agent to prepare and lodge their tax return. However many may not know that the regulations that provide for this deduction operate in a different way compared with most other tax rules that allow deductions for other expenses.

Why should taxpayers care which particular rule allows them to get a deduction for paying their accountant? Because in this case the specific regulations operating here create unique opportunities for business owners, especially where their affairs involve multiple taxpayers.

What are the basics?

Before discussing some of the ways a taxpayer can use this rule to their advantage, it is good to have a basic idea of how the rule works. Basically, if your tax agent issues you an invoice for:

- managing a taxpayer's tax affairs, or
- complying with an obligation imposed on another taxpayer by a Commonwealth law (insofar as that obligation relates to the tax affairs of that entity),

then, as long as the accountant is a registered tax or BAS agent (or legal practitioner) a deduction can generally be claimed by the person on the invoice.

Don't you need to earn assessable income before you can claim?

No — unlike most expenses that require a taxpayer to earn assessable income before they are able to make a claim, this type of expense can be claimed even where a taxpayer earns absolutely no assessable income. In other words, this type of expense can create a carried forward tax loss for an entity that can be offset against income from future financial years.

Tax affairs of another entity can be claimed?

That's right — where a taxpayer incurs an expense (that is invoiced) for the preparation and lodgement of a tax return or for managing the tax affairs of someone else, they can claim a deduction under this rule.

This might be useful where a spouse in a couple earns much more than the other spouse (and therefore is subject to a higher tax rate) because the spouse on the higher income can claim a deduction for managing the affairs of his or her partner. This also becomes useful when an accountant invoices an individual taxpayer in relation to a business run within a company or trust. However, a taxpayer must be wary that a superannuation fund should not pay accounting fees for an individual because of the interaction with superannuation regulations.

The bottom line is that a taxpayer is able to be flexible in terms of which entity in their group – be it an individual, a trust, a company or other taxpaying entity — is invoiced for managing the tax affairs of the group, and therefore which entity can claim a deduction for this type of expense. It can be a potentially valuable strategy.