LOCAL GOVERNMENT
ELECTED MEMBERS TAXATION GUIDE

YEAR 2012/13

(ISSUED May 2013)

Prepared by UHY Haines Norton in conjunction with the WA Local Government Association
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Release 2013 1.0
**Introduction**

The following manual has been prepared specifically for Elected Members of WA local governments and administrative support officers.

Elected Members are elected by the community to represent the interests of the community. The term Elected Members incorporates the positions of Mayor, President and Councillor.

Elected Members are not employees or contractors of the local government. Therefore the tax rules and principles usually applied to employees and contractors (such as FBT) are not necessarily applicable to Elected Members. This Guide only details the tax rules and principles applicable to Elected Members.

**Contents**

**Section 1 - Elected Members’ Quick Reference Guide**

This section provides Elected Members with a summary of the personal tax implications relevant to their role. It is designed to be provided to Elected Members as a quick reference and cross references to 'Section 2 – Technical Guide' if more information is required.

**Section 2 - Technical Guide**

This section provides detailed guidance on aspects of taxation for both Elected Members and local governments in their dealings with Elected Members.

**Section 3 - Payment Summary Template**

This template is a resource to be completed by the local government and provided to the Elected Member as a summary of the taxable payments they have received during the income year.

**Section 4 - Frequently Asked Questions**

This section contains questions relating to Elected Members the WALGA Tax Service frequently receives together with the answers.

**Section 5 - Changes Since Last Publication**

This section contains details of the major changes to taxation affecting Elected Members since the last publication of the Elected Members taxation guide. When updates are provided they may be kept in this section as a reference.
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Assessable Income
In your capacity as an Elected Member you may receive income in a variety of forms. The tax treatment of the main forms of income is summarised below. Further details can be found in the technical guide (section 2).

<table>
<thead>
<tr>
<th>Item</th>
<th>Status</th>
<th>Ref.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attendance/sitting fees</td>
<td>Assessable</td>
<td>1.1</td>
</tr>
<tr>
<td>Allowances (e.g. travel)</td>
<td>Assessable</td>
<td>1.2</td>
</tr>
<tr>
<td>Reimbursements</td>
<td>Not assessable</td>
<td>1.3</td>
</tr>
<tr>
<td>Non cash benefits</td>
<td>Assessable</td>
<td>1.4</td>
</tr>
<tr>
<td>Honorariums</td>
<td>Not assessable</td>
<td>1.5</td>
</tr>
</tbody>
</table>

All assessable income you receive (in your capacity as an Elected Member) must be declared on your personal tax return in the year of receipt (at section 24 – other income).

Deductions
In your capacity as an Elected Member you may incur expenses. The tax deductibility of the most common expenses is summarised below. Further details can be found in Section 2 - Technical Guide (at the referenced subsection).

<table>
<thead>
<tr>
<th>Item</th>
<th>Status</th>
<th>Ref.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Briefcases</td>
<td>Deductible</td>
<td>2.4</td>
</tr>
<tr>
<td>Car expenses (work-related*)</td>
<td>Deductible</td>
<td>2.1</td>
</tr>
<tr>
<td>Car expenses (non work-related*)</td>
<td>Non-Deductible</td>
<td>2.1</td>
</tr>
<tr>
<td>Child care expenses</td>
<td>Non-Deductible</td>
<td>2.14</td>
</tr>
<tr>
<td>Clothing</td>
<td>Non-Deductible</td>
<td>2.15</td>
</tr>
<tr>
<td>Computers</td>
<td>Deductible</td>
<td>2.5</td>
</tr>
<tr>
<td>Computer software</td>
<td>Deductible</td>
<td>2.5</td>
</tr>
<tr>
<td>Conferences &amp; seminars</td>
<td>Deductible</td>
<td>2.3</td>
</tr>
<tr>
<td>Donations</td>
<td>Deductible</td>
<td>2.13</td>
</tr>
<tr>
<td>Driver’s licence</td>
<td>Non-Deductible</td>
<td>2.1</td>
</tr>
<tr>
<td>Election expenses</td>
<td>Deductible</td>
<td>2.10</td>
</tr>
<tr>
<td>Entertainment</td>
<td>Non-Deductible</td>
<td>2.11</td>
</tr>
<tr>
<td>Entertainment – associated with an election campaign</td>
<td>Deductible</td>
<td>2.11</td>
</tr>
<tr>
<td>and provided to public generally</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Home office expenses</td>
<td>Deductible</td>
<td>2.8</td>
</tr>
<tr>
<td>Internet access expenses (work-related*)</td>
<td>Deductible</td>
<td>2.7</td>
</tr>
<tr>
<td>Laundry (may be deductible if uniform is deductible)</td>
<td>Non-Deductible</td>
<td>2.15</td>
</tr>
<tr>
<td>Meal costs:</td>
<td>Non-Deductible</td>
<td>2.17</td>
</tr>
<tr>
<td>- Travelling for work-related purposes</td>
<td>Deductible</td>
<td>2.2</td>
</tr>
<tr>
<td>Membership fees;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Sporting/social club</td>
<td>Non-Deductible</td>
<td>2.16</td>
</tr>
<tr>
<td>- Community group (work-related*)</td>
<td>Deductible</td>
<td>2.16</td>
</tr>
<tr>
<td>Newspapers and magazines (work-related*)</td>
<td>Deductible</td>
<td>2.12</td>
</tr>
<tr>
<td>Parking fees</td>
<td>Deductible</td>
<td>2.2</td>
</tr>
<tr>
<td>Parking fines</td>
<td>Non-Deductible</td>
<td>2.1</td>
</tr>
<tr>
<td>Private and domestic expenditure</td>
<td>Non-Deductible</td>
<td>2-</td>
</tr>
<tr>
<td>Stationery (work-related*)</td>
<td>Deductible</td>
<td>2.9</td>
</tr>
<tr>
<td>Superannuation contributions:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- &lt; 10% income from employment</td>
<td>Deductible</td>
<td>2.18</td>
</tr>
<tr>
<td>Telephone expenses (work-related*)</td>
<td>Deductible</td>
<td>2.6</td>
</tr>
<tr>
<td>Travel expenses:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Work-related*</td>
<td>Deductible</td>
<td>2.2</td>
</tr>
<tr>
<td>- Commuting to and from work</td>
<td>Non-Deductible</td>
<td>2.2</td>
</tr>
</tbody>
</table>

* An expense is work-related for these purposes if it is incurred in gaining or producing assessable income and it is not private or domestic in nature. Therefore an expense will be work-related if you incur it in your capacity as an Elected Member provided it is not a private or domestic expense.
Deductions (continued)
A deduction for an allowable expense can only be claimed in your tax return if you meet the relevant substantiation requirements (see Section 1, Appendix 1).

Goods and Services Tax (GST)
When exercising your position as an Elected Member you are unable to obtain an ABN and therefore cannot register for GST. As a consequence, you are unable to reclaim the GST on any expenses you incur in your capacity as an Elected Member, however if the local government is reimbursing you for an expense they may be able to reclaim the GST and you should therefore obtain GST receipts all for such expenses.

Pay As You Go (PAYG) Withholding
As you are not an employee of the local government they will not withhold tax from payments they make to you. In addition you are unable to enter into a “voluntary agreement” with the local government to bring the payments you receive into the PAYG withholding system as you are unable to obtain an ABN.

The local government is not required to provide you with a payment summary however you may request they provide you with details of all of the payments they have made to you during the financial year. An example is supplied in Section 3 of this Manual.

Pay As You Go (PAYG) Instalments
If your income without tax deducted (as shown on your latest income tax return), is $2,000 or more the ATO will generally require you to make instalments towards your expected income tax liability for the current income year. These instalments are generally payable quarterly or twice a year although you may be eligible to pay an annual instalment.

If you are required to pay PAYG instalments the ATO will write to you to notify you and tell you the amount of your instalments.

Superannuation
As you are not an employee of the local government the local government is not required to make superannuation guarantee payments on your behalf.

You can make personal contributions into your superannuation fund. However a tax deduction for this contribution is only available if less than 10% of your total assessable income is in respect of employment activities.

Additionally, you are able to sacrifice all, or part, of the fees that are paid by the local government into your superannuation fund. In order to be an effective fee sacrifice arrangement there must be a written agreement that relates to the sacrifice of future and prospective fees (refer Section 2, Appendix 6).

Contribution Caps
Any contributions you make under a fee sacrifice arrangement and any voluntary contributions for which you claim a tax deduction count towards the concessional contributions cap. The level of the cap depends upon your age. The amount of the current caps can be found in Section 2 - Technical Guide.
Appendix 1 – Substantiation Requirements

When is written evidence required?
You must have written evidence to prove your claims if the total of the claims exceeds $300. The records must provide the total amount, not just the amount over $300.

As an Elected Member is unable to register for GST they can claim a deduction for the GST inclusive cost of their deductible expenses. Therefore the $300 limit is GST inclusive.

The $300 limit does not apply to claims for car expenses.

What is written evidence?
- A document from the supplier of the goods or services – the document must show
  - Name of supplier;
  - Amount of expense;
  - Nature of the goods or services – if not shown taxpayer may write this on;
  - Date the expense was incurred; and
  - Date of the document.

- Another document or combination of documents containing the information listed above. Examples of documents in written or electronic form include:
  - Bank statements;
  - Credit card statements;
  - BPAY reference numbers;
  - Email receipts; and
  - Delivery notes.

- Any evidence that the taxpayer has recorded is acceptable in the following circumstances:
  - For expenses of $10 each or less, providing the total of these expenses is not more than $200; and
  - If the taxpayer is unable to obtain written evidence e.g. toll or parking fees where a receipt cannot be obtained.

Car Expenses
There are four methods of claiming car expenses however the methods available to an Elected Member will depend on how many kilometres they drive in the income year and the work related (business) percentage.

The records that must be kept to substantiate a deduction for car expenses depend upon the method the elected member has chosen to use:

1. **Log book method**

- Current logbook and odometer records that are representative of the pattern of use of the motor vehicle for the period which expenses are being claimed;
- Purchase or lease documents of the car for which a deduction is being claimed;
- Car registration certificate/papers for the period during which car expenses are being claimed;
Appendix 1 – Substantiation Requirements (continued)

Logbook method (continued)

- Details of how the claim was calculated, a description of each item and the amount claimed;
- Odometer records or original receipts for fuel and oil costs; and
- Original receipts for all other car expenses.

For the first year in which car expenses are claimed using the log book method, a log book recording each business journey must be kept for a minimum continuous period of at least 12 weeks at any time in the year. The 12 week period may overlap the start of an income year. Odometer records must also be kept showing the odometer reading of the car at the beginning and end of the 12 week period.

The log book must include for each business trip:

- The date the trip began and ended;
- Odometer readings at the start and end of each trip;
- Kilometres travelled on the journey; and
- The purpose of the trip.

A record must be made at the end of the trip or as soon as possible afterwards. Where two or more business journeys are made consecutively on the one day, only one log book entry for that day is required.

In addition, the log book must contain the following information:

- When the 12-week period began and ended;
- Odometer readings at the beginning and end of the period;
- Total number of kilometres travelled during the period;
- Total number of business kilometres travelled during the period on trips recorded in the log book; and
- Percentage of business kilometres to total kilometres.

The log book can be used for determining a reasonable estimate of business kilometres travelled during the following four years. Log books do not have to be kept in those years but the taxpayer must keep odometer records to establish total kilometres travelled during year each. A new log book will need to be kept after five years have passed.

2. Cents per kilometre

- Purchase or lease documents of the car for which a deduction is being claimed;
- Evidence such as diaries to support business kilometres were reasonably calculated;
- Car registration certificate/papers for the period during which car expenses are being claimed; and
- Details of the business travel undertaken during the income year from such sources as work diaries. For example, information about the purpose of the travel undertaken, the frequency of any work related travel, and the number of kilometres travelled for work related purposes.

3. 12% original value

- Purchase or lease documents of the car for which deduction is being claimed or evidence of the market value of the car when leased;
Appendix 1 – Substantiation Requirements (continued)

12% original value (continued)

- Car registration certificate/papers for the period during which car expenses are being claimed;
- Information to show the taxpayer travelled, or would have travelled, more than 5,000 kilometres if they used their car for work purposes for the whole of the income year; and
- Details of the business travel undertaken during the income year from such sources as work diaries. For example, information about the purpose of the travel undertaken, the frequency of any work related travel, and the number of kilometres travelled for work related purposes.

4. One third of actual expenses

- Purchase or lease documents of the car for which a deduction is being claimed
- Car registration certificate/papers for the period during which car expenses are being claimed;
- Information to show that the taxpayer travelled, or would have travelled more than 5,000 kilometres if they used their car for work purposes for the whole of the income year;
- Details of the business travel undertaken during the income year from such sources as work diaries. For example, information about the purpose of the travel undertaken, the frequency of any work related travel, and the number of kilometres travelled for work related purposes;
- Details of how the claim was calculated, a description of each item and the amount claimed;
- Odometer records or original receipts for fuel and oil costs; and
- Original receipts for all other car expenses.
Section 2

TECHNICAL GUIDE
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1. Assessable Income
A taxpayer’s assessable income consists of both ordinary and statutory income but excludes exempt income. Ordinary income is defined as income according to ordinary concepts and includes earnings from the performance of service, whether as an employee or otherwise. Statutory income is any amount, which under a specific provision of one of the Income Tax Acts, is to be included in assessable income, for example Capital Gains Tax.

Elected Members receive income in a variety of forms. The tax treatment of the most common forms of income received by Elected Members is discussed below.

1.1 Attendance/Sitting fees
The receipt of a fee for attending a local government meeting is assessable income for the Elected Member. In addition, any other payment the Elected Member receives for services or work performed will be assessable income.

1.2 Allowances
An allowance an Elected Member receives in their capacity as an Elected Member is assessable income. An Elected Member receives an allowance if they are paid a defined predetermined amount to cover an estimated expense, the payment is made regardless of whether the expense is incurred and spending of the amount is at the Elected Member’s discretion.

The Elected Member may be entitled to an income tax deduction for expenditure incurred in relation to the allowance. In these circumstances the full amount of the allowance must be included on the Elected Member’s tax return as assessable income and any allowable deductions must be included separately in the relevant box on the tax return. Receipts to substantiate the deduction must be retained.

Typical allowances an Elected Member may receive are as follows:

**Travel Allowance**
A travel allowance will form part of the Elected Member’s assessable income. The Elected Member may be entitled to a tax deduction for expenditure they incur on work-related travel (see 2.1 and 2.2).

**Communication and Information Technology Allowances**
Communication allowances and Information Technology allowances, for costs relating to telephone and internet usage, will form part of the Elected Member’s assessable income. The Elected Member may be entitled to a tax deduction for expenditure incurred for income producing purposes.

**Child Care Allowance**
A child care allowance will form part of the Elected Member’s assessable income. However, the Elected Member will not be entitled to a tax deduction for expenditure incurred on child care as this type of expenditure is of a private and domestic nature.

**Clothing Allowance**
A clothing allowance will form part of the Elected Member’s assessable income. The Elected Member may be entitled to a tax deduction for expenditure they incur on clothing and/or laundry (see 2.15).
1. Assessable Income (continued)

1.3 Reimbursements
A reimbursement of an expense an Elected Member has incurred on behalf of the local government and in their capacity as an Elected Member, does not form part of their assessable income.

The local government may be able to claim an input tax credit for expenses the Elected Member incurs on their behalf. In order to determine if an input tax credit is available an Elected Member should provide supporting documentation, i.e. a tax invoice, to the local government for all expenses for which they seek reimbursement.

An expense will be considered to be incurred on behalf of the local government if the Elected Member is entitled to the reimbursement in accordance with the local government’s policy or the relevant expense is prescribed as being reimbursable in accordance with Section 5.98 of the Local Government Act 1995 and Regulation 31 of the Local Government (Administration) Regulations 1996.

A reimbursement of an expense will only be treated as such if it is compensation for an expense previously incurred and is relevant to the amount of the expense incurred. The payment of an estimated expense is not a reimbursement, it is considered an allowance.

Child Care Expenses
If an Elected Member is reimbursed for child care expenses, incurred by them on behalf of the local government the reimbursement will not be assessable income. If the reimbursement is in accordance with the Local Government Act and solely as a result of the individual undertaking the role of an Elected Member, the expenditure is deemed to be incurred on behalf of the local government.

Under the Local Government (Administration) Regulations 1996, an Elected Member is entitled to be reimbursed for child care costs incurred as a result of the member’s attendance at a council meeting up to a maximum of $20 per hour. Any amounts incurred by the Elected Member in excess of $20 (or not because of their attendance at a council meeting) cannot be claimed as a deduction as it is considered to be a private and domestic expense.

1.4 Non-Cash Benefits
A non-cash benefit received by an Elected Member, such as the use of a vehicle, will be assessable income if it reflects the nature of income i.e. it is received as a consequence of their position as an Elected Member and it is in return for their personal services.

If an Elected Member receives a benefit from someone other than the local government, such as a Christmas hamper or being taken out of dinner, this is unlikely to give rise to a non-cash benefit provided the local government were not involved in arranging for the non-cash benefit to be provided. These are likely to be in the nature of a gift and are unlikely to be in return for their personal services.

The local government will need to provide details of the value of any benefits provided to the Elected Member so they may be included in their tax return. The value is the arm’s length value of the benefit less any contributions made by the Elected Member.
1. Assessable Income (continued)

1.4 Non-Cash Benefits (continued)

For example, the value of a vehicle is its running costs, if owned by the local government, or the lease payments.

In addition, the value of the benefit is reduced to the extent the Elected Member would have received a tax deduction had they incurred the expense themselves.

If the total assessable value of an Elected Members non-cash benefits received during the income year does not exceed $300 they are not required to include it as assessable income.

The following examples show how the value of most common non-cash benefits received by Elected Members should be calculated.

**Example 1.4.1**

The local government provides an Elected Member with a car which the local government owns for the whole tax year. During the year the local government pays the following expenses:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance</td>
<td>$600</td>
</tr>
<tr>
<td>Registration</td>
<td>$800</td>
</tr>
<tr>
<td>Service</td>
<td>$300</td>
</tr>
<tr>
<td>Fuel</td>
<td>$2,500</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$4,200</strong></td>
</tr>
</tbody>
</table>

The Elected Member travelled 2,000 business kilometres during the year. The engine capacity of the car is 1.5 litres. The cents per kilometre rate for the car is 0.63c.

The value of the non-cash benefit received by the Elected Member is calculated as follows:

- Arm’s length value of benefit: $4,200
- Less: Amount Elected Member could claim as a tax deduction (2,000 x 0.63c): $1,260

**Value of benefit**: $2,940

If the Elected Member had kept a log book for 12 weeks the deduction for their business kilometres could be calculated under either the log book method or the cents per kilometre method.

If the Elected Member had made a contribution towards the car that would reduce the value of the benefit further.

**Example 1.4.2**

The local government provides an Elected Member with a mobile telephone for the whole tax year. During the year the local government incurred $1,000 expenditure on the mobile telephone.

The Elected Member’s work-related use of the phone is 30%.

The value of the benefit is $700 ($1,000 x (100% - 30%)).
1. Assessable Income (continued)

1.4 Non-Cash Benefits (continued)

**Example 1.4.3**

The local government pays for an Elected Member to go to a conference in Singapore.

*If the Elected Member only stays in Singapore for the duration of the conference no benefit arises. This is because the Elected Member would have received an income tax deduction for the incurred expenses.*

*If the Elected Member stays in Singapore after the conference has finished and has a holiday the portion of expenses that do not relate to the conference are a non-cash benefit for the Elected Member.*

*If the Elected Member’s partner accompanies them and the local government pays for the partner, the portion of expenses that relate to the partner are a non-cash benefit to the Elected Member.*

1.5 Honorariums

A honorarium is a reward for voluntary services or a fee for professional services voluntarily rendered. Honorary rewards for voluntary services are not assessable and income and related expenses are not deductible.

The following factors should be taken into account to determine if a payment received by an Elected Member is a non-assessable honorarium:

- The payment is to meet incurred or anticipated expenses;
- The payment has no connection to the recipient’s income-producing activities or services;
- The payment is not received as remuneration or as a consequence of employment;
- The payment is not relied upon or expected by the recipient for day-to-day living;
- The payment is not legally required or expected;
- There is no obligation on the part of the payer to make the payment; and/or
- The payment is a token amount compared to the services provided or expenses incurred by the recipient. Whether the payment is token depends on the full facts surrounding the payment and recipient’s circumstances.

Amounts received by Elected Members as office bearers of ‘Zones’ or council representatives are likely to be regarded as honorariums and therefore will not form part of the Elected Members assessable income. These amounts are usually unsubstantial and paid annually. The intent of these payments is to acknowledge the contribution of an Elected Member to the zone or to the region and are not a reward for their services.

1.6 Summary

Set out above are details of the most common types of income an Elected Member is likely to receive however these items are not exhaustive and an Elected Member may receive a payment of income that does not fall into one of the above categories. Income will be assessable if it is a payment in return for work performed by them in their capacity as an Elected Member and it is not a reimbursement for expenses incurred on behalf of the local government.
1. Assessable Income (continued)

1.6 Summary (continued)

Assessable income is taxable in the year that it is derived by the taxpayer. An Elected Member will derive assessable income they earn in their capacity as an Elected Member when it is received and this should be declared on their tax return in the year of receipt at section 24 – other income.

Section 24 can be found in the supplementary section of the tax return for individuals. Any assessable income the Elected Members derives from their position should be included in box V as Category 2 income.
2. Deductions

A taxpayer is entitled to a deduction for all losses and outgoings incurred in gaining or producing assessable income except to the extent they are of a capital, private or domestic nature, or are incurred in gaining or producing exempt income, or are otherwise deemed not to be deductible.

Elected Members will incur a variety of expenses in their capacity as an Elected Member. The tax deductibility of the most common expenses incurred by Elected Members is detailed below.

As an Elected Member is unable to register for GST they can claim a deduction for the GST inclusive cost of their deductible expenses.

The substantiation requirements for allowable expenses are contained in Appendix 4.

2.1 Car Expenses

An Elected Member can claim a deduction for any expenses they incur if they use their own car in their income producing activities. See section 2.2 for further details.

There are four methods of claiming car expenses however the methods available to an Elected Member will depend on how many kilometres they drive in the income year and the work related (business) percentage.

**Log Book Method**

A claim under this method is based on the business use percentage of the allowable expenses incurred on the car during the year. Deductible expenses for these purposes include fuel, repairs and servicing, lease charges, interest on a car loan, washing, bridge and road tolls, registration, insurance and motorists’ association membership fees. The cost of a driver’s licence and parking fines are not deductible expenses.

The business use percentage is the kilometres travelled during the period that relate to income producing activities as a percentage of the total kilometres travelled during the period. Travel between the Elected Member’s home and ‘workplace’ do not relate to income producing activities. The Elected Member is required to keep a log book (see Appendix 4 for requirements) for at least 12 weeks of the first year they claim car expenses under this method, and then every five years, as evidence of how they calculated their business use percentage.

In addition, for fuel and oil costs the Elected Member may keep receipts to determine their expenses or make an estimate based on odometer records (readings from the start and the end of the period they had the car during the year). Written evidence is needed for all other car expenses.

---

**Example 2.1.1**

During the year the Elected Member incurred the following car expenses:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fuel</td>
<td>$2,500</td>
</tr>
<tr>
<td>Service</td>
<td>$250</td>
</tr>
<tr>
<td>Interest on car loan</td>
<td>$10,000</td>
</tr>
<tr>
<td>Registration</td>
<td>$600</td>
</tr>
<tr>
<td>Insurance</td>
<td>$500</td>
</tr>
<tr>
<td>Car washes</td>
<td>$100</td>
</tr>
<tr>
<td>Drivers licence</td>
<td>$350</td>
</tr>
</tbody>
</table>
2. Deductions (continued)

2.1 Car Expenses (continued)

Example 2.1.1 cont.
The Elected Member kept a log book for 12 weeks which shows his business use percentage of the car is 40%. The Elected Member has written evidence for all car expenses.

The Elected Member’s claim for car expenses under the log book method is calculated as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total allowable car expenses:</td>
<td>$13,950</td>
</tr>
<tr>
<td>Multiplied by business use:</td>
<td>x 40 %</td>
</tr>
</tbody>
</table>

Cents per kilometre method

A claim under this method is based on a set rate for each business kilometre. The rate applicable will depend upon the engine capacity of the Elected Member’s car. The rates for the current year are shown in the Appendix 2.

An Elected Member can claim a maximum of 5,000 business kilometres under this method.

Written evidence is required to show how the Elected Member determined their business kilometres. Travel between the Elected Member’s home and ‘workplace’ should not be counted as business kilometres.

Example 2.1.2

During the year the Elected Member travelled 4,000 business kilometres.

The Elected Member’s car has a 1.5 litre engine capacity.

The Elected Member’s claim for car expenses under the cents per kilometre method is calculated as follows:

\[ 4,000 \times 0.63 \text{ cents} = $2,520 \]

If an Elected Member travels more than 5,000 business kilometres during the year the following methods are also available to them:

One-third of actual car expenses method

A claim under this method is for one third of the actual expenses incurred during the year. Allowable expenses include fuel, repairs and servicing, lease charges, interest on a car loan, washing, bridge and road tolls, registration, insurance and motorists’ association membership fees. The cost of a driver’s licence and parking fines are not deductible expenses.

In addition, for fuel and oil costs the Elected Member may keep receipts to determine their expenses or make an estimate based on odometer records (readings from the start and the end of the period they had the car during the year). Written evidence is needed for all other car expenses.
2. Deductions (continued)

2.1 Car Expenses (continued)

Example 2.1.3

During the year the Elected Member incurred the following car expenses:

<table>
<thead>
<tr>
<th>Expense</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fuel</td>
<td>$2,500</td>
</tr>
<tr>
<td>Service</td>
<td>$250</td>
</tr>
<tr>
<td>Interest on car loan</td>
<td>$10,000</td>
</tr>
<tr>
<td>Registration</td>
<td>$600</td>
</tr>
<tr>
<td>Insurance</td>
<td>$500</td>
</tr>
<tr>
<td>Car washes</td>
<td>$100</td>
</tr>
<tr>
<td>Drivers licence</td>
<td>$350</td>
</tr>
</tbody>
</table>

During the year the Elected Member travelled 6,000 business kilometres.

The Elected Member’s claim for car expenses under the one-third of actual expenses method is calculated as follows:

Total allowable car expenses: $13,950 (drivers licence not allowable)

Multiplied by one third: \( \frac{1}{3} \) = $4,650

12% of original value method

A claim under this method is for 12% of the original cost of the car or in the case of a lease 12% of its market value at the time it was first leased (subject to the luxury car limits, see Appendix 2).

The only written evidence an Elected Member is required to keep if using this method is how they determined their business kilometres. This method can only be used if the Elected Member has travelled more than 5,000 business kilometres.

Example 2.1.4

During the year the Elected Member travelled 6,000 business kilometres.

The Elected Member acquired their car in 2010 for $35,000.

The Elected Member’s claim for car expenses under the 12% of original value method is calculated as follows:

$35,000 \times 12\% = $4,200

2.2 Travel Expenses

Travel expenses incidental and relevant to the derivation of assessable income are deductible subject to certain limitations.

The costs of travelling between home and a normal place of work are not deductible by an Elected Member. This is the case even if they perform incidental tasks en route. However the costs of the following journeys are deductible:

- Travel between two separate workplaces;
- Travel from a normal workplace to an alternate workplace and back to a normal workplace or directly home; and
- Travel from home to an alternate workplace and then to a normal workplace or directly home.
2. Deductions (continued)
2.2 Travel Expenses (continued)

Example 2.2.1
An Elected Member can claim for the following trips:
- Travel between the council offices and another location that they are attending in their official capacity; and
- Travel between their home and a location, other than the council offices, they are attending in their official capacity.

An Elected Member cannot claim for the journey between their home and the council offices.

Travel expenses for these purposes not only include transportation costs but also car parking fees, the costs of meals, accommodation and travel between the accommodation and the place or places of business visited while away.

If the travel undertaken was partly for private purposes the Elected Member can only claim a deduction for the part relating to income producing activities.

2.3 Conferences, Seminars & Training Courses

Expenses incurred in attending conferences, seminars or training courses are deductible if they have a connection with the production of the taxpayer’s assessable income.

Where the costs have not been reimbursed, an Elected Member will be able to deduct the costs incurred for attending conferences, seminars or training courses if it maintains or improves the specific skills or knowledge they require in their role. The deductible costs include fees for attending, travel expenses, and accommodation and meal expenses where the Elected Member is required to be away from home overnight.

2.4 Briefcases

A deduction is allowable for decline in value of a briefcase used by the Elected Member in their income producing activities.

If the briefcase cost $300 or less the Elected Member can claim a deduction for the full cost in the year it was first used. However if the briefcase cost more than $300 the Elected Member may choose which method to use to calculate the decline in value. Information on how to calculate the decline in value can be found in Appendix 2.

2.5 Computers (inc. laptops, ipads/tablets) & Software

A deduction is allowable for the decline in value of a computer and/or an iPad/tablet and any software used by the Elected Member in their income producing activities.

If the item cost $300 or less the Elected Member can claim a deduction for the full cost in the year it was first used. However if it cost more then $300 the Elected Member may choose which method to use to calculate the decline in value. Information on how to calculate the decline in value can be found in Appendix 2.

In addition, a deduction is allowable for the cost of any repairs to the computer and interest on any money borrowed to finance the computer.
2. Deductions (continued)

2.5 Computers (inc. laptops, ipads/tablets) & Software

A deduction is only allowable for the proportion of usage that relates to income producing activities. It is therefore necessary for an Elected Member to determine what percentage of their overall usage of the computer and/or software relates to income producing activities.

2.6 Telephone Expenses

The cost of installing a telephone is a non-deductible capital expense. However, the cost of phone calls that relate to income producing purposes are a deductible expense.

Additionally, an Elected Member can claim a deduction for telephone rental expenses in proportion to the business usage of the telephone.

A deduction is also allowable for the decline in value of a mobile telephone used by the Elected Member in their income producing activities.

If the mobile telephone cost $300 or less the Elected Member can claim a deduction for the full cost in the year it was first used. However, if the mobile telephone cost more than $300 the Elected Member may choose which method to use to calculate the decline in value. Information on how to calculate the decline in value can be found in Appendix 2.

A deduction is only allowable for the proportion of usage that relates to income producing activities. It is therefore necessary for an Elected Member to determine what percentage of their overall usage of the mobile telephone relates to income producing activities.

2.7 Internet Access

The cost of installing the internet is a non-deductible capital expense. However, a deduction is allowable for ongoing cost of using the internet that relates to income producing activities. It is therefore necessary for an Elected Member to determine what percentage of their overall usage of the internet relates to income producing activities.

2.8 Home Office Expenses

A deduction may be allowable for the proportion of expenses associated with an Elected Member’s home if part of the home is used in connection with their income producing activities e.g. an area of the home is a private study.

A deduction is not allowable for occupancy expenses such as rent, mortgage interest or rates. However, a deduction is allowable for additional running expenses, e.g. costs of heating/cooling and lighting expenses. Where the Elected Member uses an office or study exclusively for income producing activities all of the running costs attributable to that area of the member’s home are allowable, however, where the member also uses the office or study for other purposes the member must apportion the running expenses.

The Elected Member is entitled to claim the difference between what was actually paid for heating, cooling and lighting, and what would have been paid had they not worked from home. Alternatively they can claim a set rate (see Appendix 2) for each hour that they are in their home office and using it exclusively for income producing purposes.
2. Deductions (continued)

2.8 Home Office Expenses (continued)

If an Elected Member claims depreciation or substantial expenses for using part of their main residence as a place of business it may have other tax implications, in particular in relation to capital gains tax. Elected Members are not ordinarily considered to be in business and therefore these issues are unlikely to affect them, however, if an Elected Member is unsure if they are in business and the tax implications relating to this they should seek further advice from their accountant or tax advisor.

2.9 Stationery

A deduction is allowable for the cost of stationery to the extent to which an Elected Member uses it for income producing activities.

2.10 Election Expenses

A deduction of up to $1,000 is allowed for expenses incurred in seeking election to a local government body. The $1,000 limit applies to each election contested, whether successful or not.

Expenses that are deductible include any item included in the return of electoral expenditure, interest paid on money borrowed to finance the election campaign, travel and accommodation costs associated with the campaign, salaries paid to persons employed for campaign purposes and costs of the production of campaign novelty items.

2.11 Entertainment

A deduction is allowable for expenditure incurred on entertainment associated with an election campaign if the entertainment is provided to the public generally.

A deduction is not allowable for any other expenditure on entertainment.

2.12 Newspapers & Magazines

Subscriptions to trade, business or professional journals, newspapers and magazines are deductible if they relate to the Elected Member’s income producing activities.

An expense an Elected Member incurs in purchasing a magazine or newspaper will only be deductible if it is purchased specifically for work-related purposes, the content has a sufficient connection with their role or is utilised directly as part of related activities.

2.13 Gifts & Donations

A deduction is allowed for a voluntary transfer of money or property that an Elected Member makes and receives no material benefit or advantage for. The gift must be made to a ‘deductible gift recipient’ (DGR) and if the gift is of money it must be $2 or more.

DGRs are either endorsed by the ATO or listed by name in the tax law.

There are two types of DGR endorsement:

- Endorsement of the organizations as a whole e.g. public hospitals and public universities; and
2. Deductions (continued)

2.13 Gifts & Donations (continued)

- Endorsement of the organization for the operation of a fund, authority or institution that it owns or includes, e.g., school building funds and council libraries.

Further details of the funds that have DGR status can be found on the ATO website.

2.14 Child Care

A deduction is not allowable for any childcare expenses incurred by an Elected Member as these are of a private and domestic nature. Therefore if an Elected Member receives a child care allowance it is taxable in full.

2.15 Clothing Expenses

Any expenditure incurred on ‘conventional’ clothing by an Elected Member is not allowable as a deduction as it is of a private and domestic nature. Additionally, laundry and dry cleaning expenses are not deductible.

However, if the Elected Member wears a compulsory uniform or a non-compulsory uniform on the Register of Approved Occupational Clothing a deduction is allowable for the cost of the uniform and any laundry or dry-cleaning expenses. An example of a non-compulsory uniform would be a local government logo shirt.

2.16 Membership Fees

Membership fees for a social or sporting club are not deductible. However, a deduction is allowable for membership fees of a community group if the Elected Member’s involvement with the community group is for work-related purposes and the fees are not of a private nature. A deduction is not allowable for membership fees where a community group is established or carried on mainly to provide facilities for the use or benefit of its members for drinking, dining, recreation or entertainment.

2.17 Meals

The cost of meals is generally a non-deductible private expense. However the cost of meal expenditure incurred by an Elected Member during the course of travelling on a campaign is deductible unless it is incurred in the course of entertaining a third party.

2.18 Personal Superannuation Contributions

An Elected Member may claim a deduction for contributions they make to their superannuation fund if less than 10% of the total of their assessable income, reportable fringe benefits, and reportable employer super contributions for the income year is in respect of employment activities.

If a member is aged 75 years or older there are requirements to meet regarding the timing of their personal contributions. They should seek further advice from their financial advisor or accountant.
2. Deductions (continued)

2.18 Personal Superannuation Contributions (continued)

An Elected Member may also make contributions to their spouse’s superannuation fund. Tax relief may be available for these contributions; however, it is dependent on their personal circumstances. For further information the Elected Member should contact their financial planner or accountant.

2.19 Airport Lounge Fees

A deduction is allowable for annual fees paid for Airport Lounge membership to the extent to which the Elected Member uses the membership for work-related purposes.

2.20 Summary

The deductions listed above are the most common types of expenses an Elected Member may incur however the list is not exhaustive and an Elected Member may incur an expense that does not fall into one of the above categories. The expense will be deductible if it is incurred in gaining or producing assessable income except to the extent that it is of a capital, private or domestic nature, incurred in gaining or producing exempt income, or it otherwise prevented from being deductible.

An expense is deductible in the year that it is incurred by the taxpayer. An Elected Member will incur an expense in their capacity as an Elected Member when it is paid by them and should be declared on their tax return in the year of payment at section D15 – other deductions.

Section D15 can be found in the supplementary section of the tax return for individuals. Any election expenses incurred by the Elected Member should be included in box E whilst all other expenses should be included in box J.
3. Goods and Services Tax (GST)

Elected Members are not entitled to obtain an Australian Business Number ("ABN") or register for GST in respect of their role as a local government Elected Member.

Therefore, Elected Members are not required to remit GST on their income nor are they entitled to input tax credits on any expenditure they incur in their role.

The local government may be able to claim an input tax credit for expenses the Elected Member incurs on their behalf. In order to determine if an input tax credit is available an Elected Member should provide supporting documentation, i.e. a tax invoice, to the local government for all expenses for which they are reimbursed.

3.1 When a Supplier Does Not Quote an ABN

If a business supplies goods or services they should quote their ABN to the purchaser. If they do not quote an ABN, generally, the purchaser is required to withhold at the top rate of tax plus Medicare levy from the payment to the supplier and send it to the ATO.

An amount should not be withheld from a supplier who is not entitled to an ABN as they are not carrying on a business or enterprise in Australia. Therefore, as Elected Members are not entitled to an ABN in their respect of their role, no tax should be withheld from payments to them on the basis that they have not provided an ABN.
4. Pay As You Go (PAYG) Withholding

4.1 Employees

A local government that pays salary, wages, commission, bonuses or allowances to an individual as an employee must withhold an amount from the payment under the PAYG system. ‘Employee’ for these purposes has its ordinary meaning and therefore does not include Elected Members as they are not employees of local government.

Additionally a local government that pays salary, wages, commission, bonuses or allowances to an individual as office holder must withhold an amount from the payment under the PAYG system. An Elected Member of a local government will only be an office holder for these purposes if the local government has unanimously resolved it is to be treated as an eligible local governing body (see Appendix 5).

Elected Members are not able to enter into ‘voluntary agreements’ with their local government to bring payments to them into the PAYG withholding system. In order to enter into one of these agreements the individual must have an ABN however Elected Members are specifically excluded from obtaining an ABN in respect of their role as an Elected Member.

4.2 Payment Summaries

If amounts have been withheld under PAYG the payer is required to produce a payment summary for each payee detailing the total payments made to them during the financial year and how much tax was withheld from those payments.

As local governments are not required to withhold on payments made to Elected Members under PAYG they are not required to provide Elected Members with a payment summary. However, it is good practice for a local government to provide a summary to each Elected Member of the payments they have received during the year in a similar format to a payment summary at the end of the financial year.

A template of a payment summary for an Elected Member can be found in Section 3 of this manual.
5. Pay As You Go (PAYG) Instalments

PAYG instalments is a system for paying instalments towards a taxpayer’s expected income tax liability for the current income year. When a taxpayer’s actual tax liability is determined, following assessment of their annual income tax return, any PAYG instalments made during the year are credited against their assessment to determine if they owe more tax or are owed a refund.

If a taxpayer is required to pay PAYG instalments they will be notified by the ATO in writing. An individual will generally be required to pay PAYG instalments if their income without tax deducted at source (as shown on their latest income tax return) is $2,000 or more.

PAYG instalments are generally payable either quarterly or twice a year however some taxpayers are eligible to pay one annual instalment per year.

A taxpayer can vary the instalments they pay by notifying the ATO however they may be liable to pay interest if the varied amount is less than 85% of the actual tax payable on income without tax deducted.

As the payments an Elected Member receives from local government is not subject to PAYG an Elected Member may be required to pay PAYG instalments depending upon their level of income.
6. Superannuation

6.1 Superannuation Guarantee
The superannuation guarantee scheme requires employers to provide a minimum level of superannuation support for each of their employees.

The term ‘employee’ for these purposes has its ordinary common law meaning but is extended by the Superannuation Guarantee (Administration) Act 1992 (SGAA) to expressly cover various other persons.

The SGAA specifically excludes a person who holds office as a member of a local government council from the definition of employee for these purposes. Therefore, the default position is an Elected Member is not an employee of the local government and the local government is not required to make superannuation guarantee contributions on their behalf.

However, under the SGAA if the local government unanimously resolves, it is to be treated as an eligible local governing body (see Appendix 5) an Elected Member will fall within the definition of employee for these purposes. As a consequence of any such resolution a local government will be required to make superannuation guarantee contributions at the required percentage on behalf of the Elected Member.

6.2 Superannuation Contributions
An Elected Member can make personal contributions into their superannuation fund. A tax deduction for this contribution may be available if less than 10% of the total of the Elected Member’s assessable income, reportable fringe benefits, and reportable employer super contributions for the income year is in respect of employment activities. For further information see 2.18.

Additionally, an Elected Member can forego part of their remuneration in exchange for the local government making contributions to a complying superannuation fund. These contributions will not be assessable income for the Elected Member but will be assessable income in relation to the superannuation fund.

This type of arrangement is commonly known as a fee sacrifice arrangement. For this sacrifice to be effective for tax purposes it must take the form of a written agreement that relates to future and prospective fees. If the agreement includes fees already earned prior to the date of the agreement it will be ineffective and the income will be assessable income for the Elected Member.

It is recommended the written agreement between the local government and the Elected Member clearly states all of the terms under which the arrangement will take place. Critical terms are as follows:

- Percentage/amount to be sacrificed;
- Effective date;
- Name of superannuation fund; and
- Confirmation that local government is not an eligible local governing body.

A fee sacrifice agreement template can be found at Appendix 6.
6. Superannuation (continued)

6.3 Contribution Limits

Concessional Contributions
Superannuation guarantee payments, contributions made under a fee sacrifice arrangement and voluntary contributions for which the Elected Member claims a tax deduction count towards the concessional contributions cap. The cap depends upon the age of the member and the current caps can be found in Appendix 2.

If total concessional contributions in respect of a particular member exceed their cap during the year the excess is subject to excess contributions tax.

From 1 July 2012, individuals who breach the concessional contributions cap by $10,000 or less can request the excess contributions be withdrawn from their super fund and refunded to them. This is a current one-off concession. Those excess concessional contributions will be taxed at the individual’s marginal tax rate.

Non-concessional Contributions
Voluntary contributions (which are not claimed as a tax deduction) and excess concessional contributions count towards the member’s non-concessional cap (see Appendix 2 for the current cap). The consequences of breaching the cap will depend on the member’s age.

If the member is under 65 breaching the cap triggers the “bring forward rule” whereby the non-concessional cap becomes three times the limit over three years. Where this three-year cap is breached or, if the member is 65 or over, the excess is subject to tax at 46.5 percent.
7. Fringe Benefits Tax

Fringe benefits tax (FBT) is tax payable by employers on the value of certain benefits, known as ‘fringe benefits’, that have been provided to their employees. Local governments are not liable for FBT in respect of benefits provided to Elected Members as Elected Members are not employees of local government. Instead, the local government should provide the taxable value of the benefit to the Elected Member as it may need to be included in their assessable income as a non-cash benefit (see 1.4 for further information). It should be noted the taxable value for these purposes is not the same as the taxable value for FBT purposes.

If the local government has unanimously resolved it is to be treated as an eligible local governing body (see Appendix 5) an Elected Member will fall within the definition of employee for these purposes. In these circumstances local government may be required to pay FBT in respect of benefits provided to Elected Members.
Appendix 1 – Income Tax Rates & Medicare
Resident Individual Income Tax Rates

2012/13, 2013/14 and 2014/15

<table>
<thead>
<tr>
<th>Taxable Income</th>
<th>Tax on this income</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - $18,200</td>
<td>Nil</td>
</tr>
<tr>
<td>$18,201 - $37,000</td>
<td>19c for each $1 over $18,200</td>
</tr>
<tr>
<td>$37,001 - $80,000</td>
<td>$3,572 plus 32.5c for each $1 over $37,000</td>
</tr>
<tr>
<td>$80,001 - $180,000</td>
<td>$17,547 plus 37c for each $1 over $80,000</td>
</tr>
<tr>
<td>$180,001 and over</td>
<td>$54,547 plus 45c for each $1 over $180,000</td>
</tr>
</tbody>
</table>

**Medicare Levy & Surcharge**

The Medicare levy is paid in addition to income tax by resident individuals. It is paid at a rate of 1.5% on taxable income however individuals and families with income below a certain threshold may qualify for a reduction. From 1 July 2014, the Medicare Levy is to increase by 0.5% to 2% to fund the National Disability Insurance Scheme while certain reductions are still available.

The Medicare levy surcharge is payable by those whose income is above a certain threshold who do not have appropriate private patient hospital cover. The surcharge is in addition to the Medicare levy of 1.5%.

An individual’s ‘income for surcharge purposes’ is used to determine if they are liable to pay the surcharge. If the individual has a spouse their combined income for surcharge purposes will be used. An individual’s income for surcharge purposes is the sum of:

- taxable income;
- exempt foreign employment income;
- reportable fringe benefits;
- total net investment losses; and
- reportable superannuation contributions.

The income test thresholds for the 2012-13 income year are:

<table>
<thead>
<tr>
<th></th>
<th>Base tier</th>
<th>Tier 1</th>
<th>Tier 2</th>
<th>Tier 3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Singles</strong></td>
<td>$84,000 or less</td>
<td>$84,001-97,000</td>
<td>$97,001-130,000</td>
<td>$130,001 or more</td>
</tr>
<tr>
<td><strong>Families</strong></td>
<td>$168,000 or less</td>
<td>$168,001-194,000</td>
<td>$194,001-260,000</td>
<td>$260,001 or more</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th><strong>Medicare Levy Surcharge</strong></th>
<th>Rate</th>
<th>1.0%</th>
<th>1.25%</th>
<th>1.5%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rate</strong></td>
<td></td>
<td>0.0%</td>
<td>1.0%</td>
<td>1.25%</td>
<td>1.5%</td>
</tr>
</tbody>
</table>

The family threshold increased by $1,500 for each dependent child you have after the first.
Appendix 2 – Other Rates & Thresholds

Rates per Business Kilometre

<table>
<thead>
<tr>
<th>Engine Capacity</th>
<th>Cents per kilometre</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ordinary car</strong></td>
<td><strong>Rotary engine car</strong></td>
</tr>
<tr>
<td>1,600cc (1.6 litre) or less</td>
<td>800cc (0.8 litre) or less</td>
</tr>
<tr>
<td>1,601cc – 2,600cc (1.601 litre – 2.6 litre)</td>
<td>801cc – 1,300cc (0.801 litre – 1.3 litre)</td>
</tr>
<tr>
<td>2,601cc (2.601 litre) or over</td>
<td>1,301cc (1.301 litre or over)</td>
</tr>
</tbody>
</table>

Luxury Car Limit
The luxury car limit for the 2012-13 financial year is $59,133.

The fuel-efficient car limit for the 2012-13 financial year is $75,375.

Home office expenses
You can claim a deduction for the electricity and gas you use and the decline in value of your office furniture at a rate of 34c for each hour you occupy the home office providing you use it exclusively for income producing activities.

Superannuation Contributions Caps

Concessional contributions cap

<table>
<thead>
<tr>
<th>Income year</th>
<th>Amount of cap</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-13</td>
<td>$25,000</td>
</tr>
<tr>
<td>2013-14</td>
<td>$25,000(if 60 and under)/$35,000(if over 60)*</td>
</tr>
</tbody>
</table>

* For people over the age of 60, the concessional contribution cap will increase from $25,000 to $35,000 from 1 July 2013. From 1 July 2014 the cap will increase to $35,000 for everyone over the age of 50.

Non-concessional contributions cap
The current non-concessional contributions cap is $150,000.
Appendix 3 – Decline in Value/Depreciation

Methods
There are two methods of calculating the decline in value, the prime cost method and the diminishing value method. The Elected Member can choose which method to use.

Method 1: Prime Cost Method
The prime cost method assumes the value of a depreciating asset decreased uniformly over its effective life. The formula for the annual decline in value using the prime cost method is:

\[
\text{Annual Decline in Value} = \left( \frac{\text{Days held}}{365} \right) \times \frac{100\%}{\text{Asset’s effective life}} \times \text{BU}\%
\]

Effective Lives & Depreciation Rates

<table>
<thead>
<tr>
<th>Asset</th>
<th>Effective life (years)</th>
<th>Prime cost (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Briefcase</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Computer – Desktop</td>
<td>4</td>
<td>25</td>
</tr>
<tr>
<td>Computer – Laptop</td>
<td>3</td>
<td>33.33</td>
</tr>
<tr>
<td>Software</td>
<td>4</td>
<td>25</td>
</tr>
<tr>
<td>Mobile Telephone</td>
<td>6 ⅔</td>
<td>15</td>
</tr>
</tbody>
</table>

Example:
The Elected Member bought a desktop computer, which has an effective life of 4 years, on 1 January 2012 for $1,000. The Elected Member’s business use of the computer is 50%.

The deductions the Elected Member can claim under the prime cost method are as follows:

2011-12 (part year):

\[
$1,000 \times \frac{181}{366} \times \frac{100\%}{4} = $123.63 \times 50\% = $61.82
\]

2012-13:

\[
$1,000 \times \frac{365}{365} \times \frac{100\%}{4} = $250 \times 50\% = $125.00
\]

2013-14:

\[
$1,000 \times \frac{365}{365} \times \frac{100\%}{4} = $250 \times 50\% = $125.00
\]

2014-15:

\[
$1,000 \times \frac{365}{365} \times \frac{100\%}{4} = $250 \times 50\% = $125.00
\]

2015-16: (final year) Total cost of asset – deductions for decline in value (before adjustment for private use)

\[
$1,000 - ($123.63 + $250 + $250 + $250) = $126.37 \\
\times 50\% = $63.19
\]
Appendix 3 – Decline in Value/Depreciation (continued)
Effective Lives & Depreciation Rates (continued)

Method 2: Diminishing Value Method
The diminishing value method assumes that the decline in value each year is a constant proportion of the remaining value and produces a progressively smaller decline over time. The formula for the annual decline in value using the diminishing value method is:

\[ \text{Base Value} \times \frac{\text{Days held}}{365} \times \frac{200\%}{\text{Asset’s effective life}} \times \text{BU}\% \]

The base value for the income year in which an asset is first used is the asset’s cost. For all later income years the base value is the asset’s cost less any amounts claimed as a deduction in prior years.

Effective Lives & Depreciation Rates

<table>
<thead>
<tr>
<th>Asset</th>
<th>Effective life (years)</th>
<th>Diminishing value (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Briefcase</td>
<td>10</td>
<td>20</td>
</tr>
<tr>
<td>Computer – Desktop</td>
<td>4</td>
<td>50</td>
</tr>
<tr>
<td>Computer – Laptop</td>
<td>3</td>
<td>66.67</td>
</tr>
<tr>
<td>Software</td>
<td>2.5</td>
<td>N/A</td>
</tr>
<tr>
<td>Mobile Telephone</td>
<td>6 ⅔</td>
<td>30</td>
</tr>
</tbody>
</table>

Using the same facts as in the previous example, the deductions the Elected Member can claim under the **diminishing value method** are as follows:

2011-12 (part year)

\[ $1,000 \times \frac{181}{365} \times \frac{200\%}{4} = \$247.27 \times 50\% = \$123.63 \]

2012-13

\[ \$1,000 - \$247.27 \times \frac{365}{365} \times \frac{200\%}{4} = \$376.37 \times 50\% = \$188.18 \]

2013-14

\[ \$752.73 - \$376.37 \times \frac{365}{365} \times \frac{200\%}{4} = \$188.18 \times 50\% = \$94.09 \]

2014-15

\[ \$376.36 - \$188.18 \times \frac{365}{365} \times \frac{200\%}{4} = \$94.09 \times 50\% = \$47.05 \]

2015-16

\[ \$188.18 - \$94.09 \times \frac{365}{366} \times \frac{200\%}{4} = \$47.05 \times 50\% = \$23.52 \]

2016-17 onwards The decline in value is calculated as above until the base value is nil.
Appendix 4 – Substantiation Requirements

When is written evidence required?
You must have written evidence to prove your claims if the total of the claims exceeds $300. The records must prove the total amount, not just the amount over $300.

As an Elected Member is unable to register for GST they can claim a deduction for the GST inclusive cost of their deductible expenses. Therefore the $300 limit is GST inclusive.

The $300 limit does not apply to claims for car expenses.

What is written evidence?
- A document from the supplier of the goods or services – the document must show
  - Name of supplier;
  - Amount of expense;
  - Nature of the goods or services (if not shown taxpayer may write this on);
  - Date the expense was incurred; and
  - Date of the document.

- Another document or combination of documents containing the information listed above. Examples of documents in written or electronic form include:
  - Bank statements;
  - Credit card statements;
  - BPAY reference numbers;
  - Email receipts; and
  - Delivery notes.

- Any evidence that the taxpayer has recorded is acceptable in the following circumstances:
  - For expenses of $10 each or less, providing the total of these expenses is not more than $200; and
  - If the taxpayer is unable to obtain written evidence e.g. toll or parking fees where a receipt cannot be obtained.

Car Expenses
To substantiate a deduction for car expenses the following records must be kept:

Log book method
- Current logbook and odometer records that is representative of the pattern of use of the motor vehicle for the period which expenses are being claimed;
- Purchase or lease documents of the car for which a deduction is being claimed;
- Car registration certificate/papers for the period during which car expenses are being claimed;
- Details of how the claim was calculated, a description of each item and the amount claimed;
- Odometer records or original receipts for fuel and oil costs; and
- Original receipts for all other car expenses.

Log Book Requirements:
For the first year in which car expenses are claimed using the log book method, a log book recording each business journey must be kept for a minimum continuous period of at least 12 weeks at any time in the year. The 12 week period may overlap the start of
Appendix 4 – Substantiation Requirements (continued)

Log book requirements (continued)

an income year. Odometer records must also be kept showing the odometer reading of the car at the beginning and end of the 12 week period.

The log book must include for each business trip:

- The date the trip began and ended;
- Odometer readings at the start and end of each trip;
- Kilometres travelled on the journey; and
- The purpose of the trip.

The record must be made at the end of the trip or as soon as possible afterwards. Where two or more business journeys are made consecutively on the one day, only one log book entry for that day is required.

In addition, the log book must contain the following information:

- When the 12-week period began and ended;
- Odometer readings at the beginning and end of the period;
- Total number of kilometres travelled during the period;
- Total number of business kilometres travelled during the period on trips recorded in the log book; and
- Percentage of business kilometres to total kilometres.

This log book can be used for determining a reasonable estimate of business kilometres travelled during the following four years. Log books do not have to be kept in those years but the taxpayer must keep odometer records to establish total kilometres travelled during year each. A new log book will need to be kept after five years have passed.

Cents per kilometre

- Purchase or lease documents of the car for which a deduction is being claimed;
- Evidence such as diaries to support business kilometres were reasonably calculated;
- Car registration certificate/papers for the period during which car expenses are being claimed; and
- Details of the business travel undertaken during the income year from such sources as work diaries. For example, information about the purpose of the travel undertaken, the frequency of any work related travel, and the number of kilometres travelled for work related purposes.

12% original value

- Purchase or lease documents of the car for which deduction is being claimed or evidence of the market value of the car when leased;
- Car registration certificate/papers for the period during which car expenses are being claimed;
- Information to show the taxpayer travelled, or would have travelled, more than 5,000 kilometres if they used their car for work purposes for the whole of the income year; and
- Details of the business travel undertaken during the income year from such sources as work diaries. For example, information about the purpose of the travel undertaken, the frequency of any work related travel, and the number of kilometres travelled for work related purposes.
Appendix 4 – Substantiation Requirements (continued)

One third of actual expenses

- Purchase or lease documents of the car for which a deduction is being claimed;
- Car registration certificate/papers for the period during which car expenses are being claimed;
- Information to show that the taxpayer travelled, or would have travelled more than 5,000 kilometres if they used their car for work purposes for the whole of the income year;
- Details of the business travel undertaken during the income year from such sources as work diaries. For example, information about the purpose of the travel undertaken, the frequency of any work related travel, and the number of kilometres travelled for work related purposes;
- Details of how the claim was calculated, a description of each item and the amount claimed;
- Odometer records or original receipts for fuel and oil costs; and
- Original receipts for all other car expenses.
Appendix 5 – Eligible Local Governing Body

A local government may unanimously resolve to be treated as an eligible local governing body by providing written notice to the Commissioner of Taxation under section 446 Schedule 1 of the Taxation Administration Act 1953. The effect is to capture payments and benefits to Elected Members within the PAYG and FBT provisions.

We are unaware of any local government in Western Australia that have made such an election as there does not appear to be the same motivation as exists in other States. For example, Queensland local governments pay Elected Members remuneration at a level that in some cases may form their only source of income. In these circumstances it may be more convenient for the Elected Members to be treated in a similar way to an employee for tax purposes.

PAYG Implications
If the local government makes such a resolution PAYG withholding obligations will apply to payments made to Elected Members. Therefore the local government must withhold tax from any payments to the Elected Members and remit it to the ATO. In addition local governments will be obliged to provide payment summaries to all Elected Members detailing the total of the payments made to them during the financial year together with the amounts withheld from those payments.

FBT Implications
If the local government makes such a resolution, the FBT rules are applicable to all benefits provided to Elected Members. The local government will therefore be required to determine the taxable value of all benefits provided to Elected Members, report the benefits on their annual FBT returns and pay any FBT due on those benefits.

Other Implications
There are other implications of a local government resolving to be an eligible local governing body, such as superannuation guarantee obligations.
Appendix 6 – Agreement to Sacrifice Fees

Template Elected Member
AGREEMENT TO SACRIFICE FEES

Parties
Elected Member

Local Government

Date

Agreement

I <Elected Member> hereby instruct <Local Government> to sacrifice fees on my behalf to superannuation for the period XX/XX/20XX TO XX/XX/20XX:

<Local Government> has not resolved to be treated as an eligible local governing body under section 446 Schedule 1 of the Taxation Administration Act 1953.

I wish to contribute my additional contributions to the following superannuation fund:

Amount of Contribution: $ ____________

(fixed value or percentage of fees)

Frequency of Contribution: Monthly/Quarterly/Once off

Super Fund Name:

Super Fund Address:

Bank Account:

Signatures:

Elected Member

CEO
PAYMENT SUMMARY

TEMPLATE
## Elected Members

### Payment summary for the year ending 30 June 2013

#### Payee details

<table>
<thead>
<tr>
<th>Payee name</th>
<th>Address</th>
<th>Location</th>
<th>Postcode</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr A Jones</td>
<td>30 North Street</td>
<td>Somewhere</td>
<td>WA 6160</td>
</tr>
</tbody>
</table>

#### Period during which payments were made

<table>
<thead>
<tr>
<th>Day/Month/Year</th>
<th>Start</th>
<th>End</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/07/2012</td>
<td>to</td>
<td>30/06/2013</td>
</tr>
</tbody>
</table>

#### Payments Made During the Year

<table>
<thead>
<tr>
<th>Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sitting fees</td>
<td>$10,000.00</td>
</tr>
<tr>
<td>Allowances</td>
<td>$10,000.00</td>
</tr>
<tr>
<td>Non-Cash Benefits</td>
<td>$4,000.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$24,000.00</strong></td>
</tr>
</tbody>
</table>

#### Allowances

<table>
<thead>
<tr>
<th>Allowance</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Travel allowance</td>
<td>$5,000.00</td>
</tr>
<tr>
<td>Communication allowance</td>
<td>$2,500.00</td>
</tr>
<tr>
<td>Clothing allowance</td>
<td>$2,500.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$10,000.00</strong></td>
</tr>
</tbody>
</table>

#### Non-Cash Benefits

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Car</td>
<td>$3,000.00</td>
</tr>
<tr>
<td>Mobile telephone</td>
<td>$1,000.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$4,000.00</strong></td>
</tr>
</tbody>
</table>

#### Payer details

<table>
<thead>
<tr>
<th>Local Government name</th>
<th>Shire of Somewhere</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td></td>
</tr>
<tr>
<td>Date</td>
<td>30/06/2013</td>
</tr>
</tbody>
</table>
### Elected Members Payments made for the year ending 30 June 2013

#### Payee details

<table>
<thead>
<tr>
<th>Payee</th>
<th>Address</th>
<th>Period during which payments were made</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr A Jones</td>
<td>30 North Street, Somewhere, WA 6160</td>
<td>1/07/2012 to 30/06/2013</td>
</tr>
</tbody>
</table>

#### Payments Made During the Year

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>30-Jul-12</td>
<td>$2,000.00</td>
<td>AJONES001</td>
</tr>
<tr>
<td>30-Aug-12</td>
<td>$2,000.00</td>
<td>AJONES002</td>
</tr>
<tr>
<td>30-Sep-12</td>
<td>$2,000.00</td>
<td>AJONES003</td>
</tr>
<tr>
<td>30-Oct-12</td>
<td>$2,000.00</td>
<td>AJONES004</td>
</tr>
<tr>
<td>30-Nov-12</td>
<td>$2,000.00</td>
<td>AJONES005</td>
</tr>
<tr>
<td>30-Dec-12</td>
<td>$2,000.00</td>
<td>AJONES006</td>
</tr>
<tr>
<td>30-Jan-13</td>
<td>$2,000.00</td>
<td>AJONES007</td>
</tr>
<tr>
<td>28-Feb-13</td>
<td>$2,000.00</td>
<td>AJONES008</td>
</tr>
<tr>
<td>30-Mar-13</td>
<td>$2,000.00</td>
<td>AJONES009</td>
</tr>
<tr>
<td>30-Apr-13</td>
<td>$2,000.00</td>
<td>AJONES010</td>
</tr>
<tr>
<td>30-May-13</td>
<td>$2,000.00</td>
<td>AJONES011</td>
</tr>
<tr>
<td>30-Jun-13</td>
<td>$2,000.00</td>
<td>AJONES012</td>
</tr>
</tbody>
</table>

**Total** $24,000.00

#### Payer details

<table>
<thead>
<tr>
<th>Local Government name</th>
<th>CEO</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shire of Somewhere</td>
<td></td>
<td>30/06/2013</td>
</tr>
</tbody>
</table>

**EXAMPLE**
# Template Elected Members

Payment summary for the year ending 30 June 20XX

## Payee details

<table>
<thead>
<tr>
<th>Day/Month/Year</th>
<th>Day/Month/Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/07/</td>
<td>XX</td>
</tr>
<tr>
<td>to</td>
<td>30/06/</td>
</tr>
</tbody>
</table>

## Payments Made During the Year

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sitting fees</td>
<td>$0.00</td>
</tr>
<tr>
<td>Allowances</td>
<td>$0.00</td>
</tr>
<tr>
<td>Non-Cash Benefits</td>
<td>$0.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$0.00</strong></td>
</tr>
</tbody>
</table>

| Allowances            | $0.00  |
|                       | $0.00  |
|                       | $0.00  |
| **Total**             | **$0.00** |

| Non-Cash Benefits     | $0.00  |
|                       | $0.00  |
|                       | $0.00  |
| **Total**             | **$0.00** |

## Payer details

<table>
<thead>
<tr>
<th>Local Government name</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td></td>
</tr>
</tbody>
</table>

Date: 30/06/

This template should be used to summarise the payments made to an Elected Member during the year. The template overleaf can be used to list the payments made the Elected Member during the year.

This template is available for download from our website: www.uhyhnwalgs.com.au
Template Elected Members
Payments made for the year ending 30 June 20XX

Payee details

Period during which payments were made
Day/Month/Year
1/07/ XX to 30/06/ XX

Payments Made During the Year

Total

Payer details

Local Government name

CEO

Date: 30/06/

This template is available for download from our website:
www.uhyhnwalgs.com.au
FREQUENTLY ASKED QUESTIONS
Frequently Asked Questions (FAQs)

1. Income Tax

1.1 Question
We have an Elected Member who is considering gifting his annual sitting fees to an organisation rather than receiving it. How does this impact his personal tax situation? Will he still be taxed even though he hasn’t received it?

1.1 Answer
If an Elected Member decides to gift his annual sitting fees to an organisation, it will still form part of his assessable income even though he hasn't received it. He will, however, be able to claim a deduction against his taxable income via his tax return if that gift (i.e. donation) was made to a deductible gift recipient. Unfortunately no deduction can be claimed if the payment is not to a deductible gift recipient.

1.2 Question
If Elected Members choose not to take their allowances is it still assessable income?

1.2 Answer
No. Sitting fees will be taxable in the Elected Member’s personal tax return only when they receive the monies or when it is dealt with as they direct.

2. Pay As You Go Withholding (PAYG)

2.1 Question
One of our Elected Members has stated they have heard we are to supply them with a group certificate, or a statement of earnings. Can you please advise if any such requirement exists?

2.1 Answer
As Elected Members are not employees of the local government, the local government is not required to issue a Payment Summary (previously known as a Group Certificate).

The Elected Member is obliged to show the income received in their personal income tax return at Question 24 – Other Income.

We are not aware of any legislation or regulations that require a payment summary or a statement of earnings to be issued but a local government may choose to provide a statement to each Elected Member showing assessable income for the year.

2.2 Question
Can you please confirm whether local governments are under any obligation to deduct PAYG tax from an Elected Member’s fees & allowances?

2.2 Answer
As councillors are not employees of the local government, the local government should not deduct PAYG withholding tax from an Elected Member’s fees and allowances.
Frequently Asked Questions (FAQs)

3. Fringe Benefits Tax (FBT)

3.1 Question
Is GST claimable on the payment for the Elected Member Christmas function, which included meals and refreshments?

3.2 Answer
If you use the 50/50 method to calculate the FBT on meal entertainment, an input tax credit can only be claimed in respect of 50% of a local government’s total meal entertainment expenditure irrespective of who is being entertained (i.e. employees, contractors, councilors etc).

If you use the actual method, an input tax credit can only be claimed in respect of that portion of meal entertainment that relates to employees and associates and is subject to FBT. Under this method, input tax credits cannot be claimed for the cost of Councillors attending the Christmas party.

4. Superannuation

4.1 Question
Could you please advise on the ability of Elected Members to sacrifice their various payments into superannuation and the possible taxation consequences of doing so. In particular, will payments paid to a superannuation fund instead, of the Elected Member, need to be declared as income by the Elected Member?

4.1 Answer
A local government can contribute an Elected Member’s allowance into a complying superfund. The ATO has issued ID 2007/205 advising that amounts paid by a local government in the form of contributions are assessable to the superfund under section 295-160 of the ITAA 1997 and will not be assessable income to the Elected Member.

For the sacrifice arrangement to be effective for tax purposes, it must take the form of a written agreement that relates to future or prospective fees. If the agreement attempts to include fees already earned prior to date of agreement, it will be treated as ineffective and the income will be treated as earned by the Elected Member (and taxed in their hands).

We recommend this practice be evidenced by a written agreement between the local government and the Elected Member that clearly states all the terms under which the arrangement will take place. Critical terms are:

1. Percentage;
2. Effective date;
3. Name of Superannuation Fund; and
4. Local government is not an eligible Local governing body.

A fee sacrifice agreement template can be found at Appendix 6 of Section 2 - Technical Guide.
Section 5

CHANGES SINCE LAST PUBLICATION
Changes Since Last Publication (2012 – 2013)

Tax rates have been updated to reflect the current rates for 2013-2014.
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