

Personal living expenses

Provides guidance about the types of information we need when looking at a taxpayer's personal living expenses as part of a cash economy audit

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We are committed to providing you with accurate, consistent and clear information to help you understand your rights and entitlements and meet your obligations.

If you follow our information in this publication and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we must still apply the law correctly. If that means you owe us money, we must ask you to pay it but we will not charge you a penalty. Also, if you acted reasonably and in good faith we will not charge you interest.

If you make an honest mistake in trying to follow our information in this publication and you owe us money as a result, we will not charge you a penalty. However, we will ask you to pay the money, and we may also charge you interest. If correcting the mistake means we owe you money, we will pay it to you. We will also pay you any interest you are entitled to.

If you feel that this publication does not fully cover your circumstances, or you are unsure how it applies to you, you can seek further assistance from us.

We regularly revise our publications to take account of any changes to the law, so make sure that you have the latest information. If you are unsure, you can check for more recent information on our website at www.ato.gov.au or contact us.

This publication was current at **July 2011**.

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ABOUT THIS GUIDE

This guide explains the importance we place on examining taxpayers' household expenditure when seeking to identify unreported cash income in the course of reviews or audits.

Included are personal living expenses worksheets that we developed for taxpayers as a result of received feedback.

This guide details the type of information we require when looking at household expenditure. In the course of an audit we may seek even more detail.

We are making this information available to allow taxpayers to:

- self-assess their potential for being selected for an audit
- work out if they need to make adjustments to their business and record-keeping practices.

HOW WE IDENTIFY BUSINESSES FOR AUDIT OR REVIEW

We use a broad range of indicators to identify taxpayers for review or audit that may be avoiding their tax obligations, including:

- data matched from external sources suggesting inconsistencies in reported income, for example unreported income from:
 - other government agencies
 - financial institutions
 - trade suppliers
- comparing a business against *Small business benchmarks* for their industry
- businesses that report net income that appears to be lower than required to support the business operators personal living expenses
- monitoring the behaviour of previously audited taxpayers to encourage their continued compliance
- allegations of tax evasion sourced from the community.

PERSONAL LIVING EXPENSES WORKSHEETS

During an audit process, we often ask taxpayers to complete a questionnaire detailing the living expenses for their household.

We have developed two worksheets – a concise version and a more detailed one – to help taxpayers better understand what we look at during this process.

The worksheets detail the type of information we look at when examining taxpayers' personal living expenses.

Taxpayers may choose to use the personal living expenses worksheets to:

- compare their household incoming funds to expenses and assess if their declared income is enough to support their actual lifestyle
- review their record keeping
- make adjustments to their reported income
- consider making a voluntary disclosure if necessary.

We understand the majority of small businesses use the services of registered tax agents. Tax agents may find the worksheets a useful tool to help their clients review the accuracy and completeness of their record-keeping.

 To obtain a copy of the personal living expenses worksheets, visit www.ato.gov.au/casheconomy

CONCISE PERSONAL LIVING EXPENSES WORKSHEET

Can you afford to support your household?

Personal living expenses concise worksheet (NAT 72960) provides an overview of household incomings and outgoings. Significant outgoings only are deducted from income and the remaining amount needs to be enough to cover the taxpayers' other household expenses.

COMPREHENSIVE PERSONAL LIVING EXPENSES WORKSHEET

Comparing household annual funds and expenditure

Personal living expenses comprehensive worksheet (NAT 72959) provides an in-depth analysis of all household incomings and outgoings. By comparing annual household funds and expenditure taxpayers can self-assess if their declared income is enough to support their actual lifestyle.

PERSONAL LIVING EXPENSES – EXAMPLES

The examples below show:

- the type and depth of information we may require when looking at personal living expenses
- how and when to use the worksheets (concise and comprehensive).

EXAMPLE 1: Concise personal living expenses analysis

Jack is a concreter who runs his own business. He meets with his tax agent to discuss his annual tax returns. Because Jack's business records are not complete his tax agent suggests they quickly look at his personal living expenses using the concise worksheet.

Jack is married and has two school age children. He lives with his wife and children in a home they are paying off. He recently obtained a mortgage to purchase a second home where his parents, who are pensioners, live rent free. He also provides assistance to his brother who lives overseas.

Using both business and personal records Jack completes the concise personal living expenses worksheet with the help of his tax agent (as shown in the **sample worksheet 1**). Their analysis shows a reported annual household income of \$50,829 for both Jack and his wife.

The family's outgoings are \$65,900, which exceeds their reported income by \$15,071, without taking into account basic household expenses such as food, clothing and entertainment.

As Jack's household outgoings significantly exceed his incoming funds, he will need to look at his records and be prepared to explain the difference.

After explaining the effect of non-cash items in his tax return such as depreciation, his tax agent recommends Jack review his invoices and business expenses to ensure nothing has been missed. He also offers Jack help with his record-keeping practices for his business.

SAMPLE WORKSHEET 1: Personal living expenses concise worksheet

Annual household incoming funds from all sources		
Taxpayer's income	After tax	32,200
Spouse's income	After tax	5,750
Family Tax Benefit Part A		10,449
Family Tax Benefit Part B		2,430
Total annual household funds available		\$50,829

The figures below have not already been accounted for in the tax returns.

Significant household outgoings		
Housing	Mortgage	14,400
Motor vehicle	Fuel, registration, insurance and maintenance	4,500
Health care	Health insurance	2,860
Super	Spouse	3,000
Loan repayments	Credit card repayments	2,400
Other significant outgoings	Mortgage on second property	21,250
	Money transferred overseas	9,990
Schooling	Private school fees	7,500
Total significant annual household outgoings		\$65,900
Difference	(Total annual household funds available – total significant annual household outgoings) = difference	– (\$15,071)

EXAMPLE 2: Comprehensive personal living expenses

Gertrude, who owns a small painting business, visits her tax agent to discuss her annual tax returns. Gertrude has recently purchased a boat and is concerned about being selected for audit as a result of our data-matching program.

Gertrude's tax agent advises her that her reported income is low when compared to other similar painting businesses and suggests she complete a comprehensive worksheet about her family, their income, assets and expenses.

Gertrude lives with her husband, who does not work, in a home they paid off 10 years ago. They have three children – aged 16, 20 and 24 years old. The youngest lives at home; while the eldest lives in a property his parents purchased with an interest only mortgage.

Using both business and personal records, including bank and credit card statements, Gertrude completes the personal living expenses comprehensive worksheet and records a household income of \$36,275 for the year. The family's expenses are \$81,275, which exceeds their reported income by \$45,000, as illustrated by **sample worksheet 2**.

As Gertrude's household outgoings exceed incoming funds, she needs to look at her records and be prepared to explain the difference. Her tax agent calculates that some of the difference is due to non-cash items in the painter's tax return such as depreciation. However, a significant difference still needs to be explained.

If Gertrude was asked to complete a personal living expenses questionnaire during an audit, we would question her about the accuracy of her reported income and household expenses, as \$600 for clothing and footwear for a household of two adults and a teenager is low.

If Gertrude was audited, she would be required to produce detailed documentary evidence in support of her explanation. If she was unable to fully explain the difference and unable to produce suitable supporting evidence, we would re-assess her income to a higher figure. She would have to pay tax on any shortfall of omitted income plus penalties and interest.

SAMPLE WORKSHEET 2: Personal living expenses comprehensive worksheet**Annual household incoming funds from all sources**

Taxpayer's income	After tax	27,800
Family Tax Benefit Part A		5,800
Family Tax Benefit Part B		2,675
Total annual household funds available		\$36,275

The figures below have not already been accounted for in the tax returns.

All annual household outgoings

Housing	Furniture and equipment, rates	1,800
Food and groceries	Groceries, meat, fruit and vegetables, pet food	9,600
	tobacco and alcohol	1,200
Utilities	Heating, power, water and sewerage	2,475
Services	Phone, gardening and security	1,800
Entertainment and recreation	Eating out, takeaways, lunches and coffees	1,920
	Newspapers, magazine subscriptions, sporting equipment	1,800
	Sporting fees	360
	Lottery tickets	240
Clothing	Clothing and footwear	600
Grooming	Personal care	960
Motor vehicles	Fuel, registration, insurance and maintenance	4,800
Health care	Health insurance	2,160
Super		2,000
Loan repayments	Boat	8,400
	Mortgage on second property	28,800
Holidays	Family trip overseas	5,400
Significant purchases		nil
Schooling	Private school fees and childcare	6,960
Other household expenses	Money transferred overseas, support of relatives	nil
Total annual household outgoings		\$81,275
Difference	(Total annual household funds available – total annual household outgoings) = difference	-\$45,000

VOLUNTARY DISCLOSURE

If after completing a personal living expenses worksheet, your client finds a discrepancy in their return, they should make adjustments to their reported income by making a voluntary disclosure.

If taxpayers voluntarily inform us of any mistakes prior to audit, reduced penalties may apply.

- For more information about voluntary disclosures, refer to *Guide to correcting mistakes and disputing our decisions* (NAT 73730).

BLANK WORKSHEETS

You can download a printable version of either worksheet:

- *Personal living expenses concise worksheet* (NAT 72960)
- *Personal living expenses comprehensive worksheet* (NAT 72959).



Personal living expenses concise worksheet

This worksheet describes the type of information we request during an audit.

Depending on the circumstances, we may require additional information and documentation.

HOW TO USE THIS WORKSHEET

You can use this worksheet to:

- self-assess your risk of us selecting you for an audit
- find out if you need to improve your business and record keeping practices.

Fill in details of your income and significant expenses to get a snap-shot of your household incomings and outgoings. If you want to consider your entire household expenses, use the *Personal living expenses comprehensive worksheet* (NAT 72959).

HOW DOES IT WORK?

Once completed, the difference between your income and significant outgoings needs to be enough to cover all other household expenses such as food, household utilities and services, clothing, grooming, entertainment and recreation.

ANNUAL HOUSEHOLD INCOMING FUNDS FROM ALL SOURCES

Source categories		Month	Annual
Householder income from tax returns – include income of all household members	After tax		
Other sources of funds – include any other incoming funds not reported on income tax returns	Pension, benefits, Centrelink allowances (including Family Tax Benefit Part A and Part B), superannuation received, scholarships, grants, sale of assets, gifts, winnings		
Child support received			
Non-business loans	Funds received from family member or others		
Total annual household funds available			

SIGNIFICANT ANNUAL HOUSEHOLD OUTGOINGS

Outgoing categories		Month	Annual
Housing	Mortgage/rent, body corporate fees, renovations		
Motor vehicles, caravans, trailers, boats	Payments, fuel, tyres, registration, insurance, maintenance		
Health care	Health insurance, medicine, natural remedies, doctor, dentist, specialists, optical, physiotherapy, massage, acupuncture, chiropractor etc.		
Superannuation	Contributions		
Loan repayments	Credit card, personal loans, line of credit, investment loans, other mortgages		
Significant purchases	Holidays, shares, investments, household goods		
Bank account deposits	Savings, wealth creation etc		
Schooling	Private school fees, books, uniforms, incidentals, university expenses, childcare		
Other significant household expenses	Child support payments, money transferred overseas, support of relatives		
Total significant annual household outgoings			

DIFFERENCE

Total annual household funds available – total significant annual household outgoings = difference



It is important that the details provided are as comprehensive as possible. The incoming and outgoing figures above should reflect your actual details and additional information should be added where necessary.

Does the difference leave you enough money to cover your household costs such as, food, house related utilities and services, clothing, grooming, entertainment and recreation?

No Yes

 If the difference is not enough to cover these household costs, you should review your records to ensure no income has been omitted.

In an audit situation, if you can't explain the difference and don't have suitable documentary evidence, your income tax assessments will be amended and penalties may apply.

 For a more in-depth look at your household incomings and outgoings, refer to the *Personal living expenses comprehensive worksheet* (NAT 72959). Your tax practitioner may be able to advise you on business and record keeping practices.

VOLUNTARY DISCLOSURE

If after completing a personal living expenses worksheet you find a discrepancy, you may need to make adjustments to your reported income or consider making a voluntary disclosure.

When preparing current year tax returns, it may be helpful to inform us about any income that may have been omitted from previous income tax returns or activity statements.

If you make a voluntary disclosure before an audit begins, reduced penalties may apply.

 For more information about voluntary disclosures, visit our website at www.ato.gov.au/voldisclosureform

MORE INFORMATION

For more information about:

- small business benchmarks, visit our website at www.ato.gov.au/businessbenchmarks
- record keeping for small businesses, visit our website at www.ato.gov.au/recordkeeping
- our approach to the cash economy, visit our website at www.ato.gov.au/casheconomy
- how we can help your small business
 - visit our website at www.ato.gov.au/businesses
 - phone us on **13 28 66** between 8.00am and 6.00pm, Monday to Friday.

If you do not speak English well and need help from the ATO, phone the Translating and Interpreting Service on **13 14 50**.

If you are deaf, or have a hearing or speech impairment, phone the ATO through the National Relay Service (NRS) on the numbers listed below:

- TTY users, phone **13 36 77** and ask for the ATO number you need
- Speak and Listen (speech-to-speech relay) users, phone **1300 555 727** and ask for the ATO number you need
- internet relay users, connect to the NRS on www.relayservice.com.au and ask for the ATO number you need.



Personal living expenses comprehensive worksheet

This worksheet describes the type of information we request during an audit.

Depending on the circumstances, we may require additional information and documentation.

HOW TO USE THIS WORKSHEET

You can use this worksheet to:

- self-assess your risk of us selecting you for an audit
- find out if you need to improve your business and record keeping practices.

List all sources of your incoming funds and all household outgoings. You should add details of any income or expenses not already categorised. If you want a snapshot of household incomings and outgoings, use the *Personal living expenses concise worksheet* (NAT 72960).

HOW DOES IT WORK?

By comparing annual household incoming funds and expenditure, you can self-assess whether your declared income is enough to support your actual lifestyle.

HOUSEHOLD INCOMING FUNDS FROM ALL SOURCES

Source categories		Month	Annual
Householder income from tax return	After tax	<input type="text"/>	<input type="text"/>
Spouse income from tax return	After tax	<input type="text"/>	<input type="text"/>
Other household members income from tax return	After tax	<input type="text"/>	<input type="text"/>
Benefits received	Pension, benefits, Centrelink allowances (including Family Tax Benefit Part A and Part B), superannuation received	<input type="text"/>	<input type="text"/>
Child support received		<input type="text"/>	<input type="text"/>
Sale of assets	Trade in vehicles, antiques, real estate	<input type="text"/>	<input type="text"/>
Gifts received	Funds received from family members and others	<input type="text"/>	<input type="text"/>
Inheritance		<input type="text"/>	<input type="text"/>
Dividends and interest (If not already included in income from tax return)		<input type="text"/>	<input type="text"/>
Windfall gains	Prizes, lotteries, gambling	<input type="text"/>	<input type="text"/>
Non-business loans	Funds received from family members and others	<input type="text"/>	<input type="text"/>
Other sources of funds	Scholarships, grants, any other income funds not included in income tax returns or above	<input type="text"/>	<input type="text"/>
Total annual household funds available		<input type="text"/>	<input type="text"/>

ALL ANNUAL HOUSEHOLD OUTGOINGS

Outgoing categories		Month	Annual
Housing	Rent, mortgage, insurance, maintenance, rates and taxes, body corporate fees, renovations	<input type="text"/>	<input type="text"/>
	Furnishings and equipment (furniture, appliances, linen, cutlery, glassware and tools)	<input type="text"/>	<input type="text"/>
Food and groceries	Groceries, meat, fruit and vegetables, pet food	<input type="text"/>	<input type="text"/>
	Tobacco and alcohol	<input type="text"/>	<input type="text"/>
Utilities	Heating, power, water and sewerage	<input type="text"/>	<input type="text"/>
Services	Phone, postage, pest control, gardening, swimming pool costs, housekeeping and security	<input type="text"/>	<input type="text"/>
Entertainment and recreation	Eating out, takeaways, lunches and coffees	<input type="text"/>	<input type="text"/>
	TV, radio, stereo, home entertainment, computer, software, newspapers, magazine subscriptions, books, CDs, DVDs, sporting equipment, toys	<input type="text"/>	<input type="text"/>
	Sporting fees, cinema, theatre, concerts, pay TV, internet access, entrance fees	<input type="text"/>	<input type="text"/>
	Lottery tickets, gambling	<input type="text"/>	<input type="text"/>
Clothing	Clothing and footwear	<input type="text"/>	<input type="text"/>
Grooming	Personal care, toiletries, cosmetics, haircuts	<input type="text"/>	<input type="text"/>
Motor vehicles, caravans, trailers, boats	Payments	<input type="text"/>	<input type="text"/>
	Fuel, tyres, registration, insurance, maintenance, car parking fares and tolls	<input type="text"/>	<input type="text"/>
Health care	Health insurance, medicine, natural remedies, doctor, dentist, specialists, optical, physiotherapy, massage, acupuncture, chiropractor etc	<input type="text"/>	<input type="text"/>
Superannuation	Contributions	<input type="text"/>	<input type="text"/>
Loan repayments (other than home loan on principle residence)	Credit card	<input type="text"/>	<input type="text"/>
	Line of credit	<input type="text"/>	<input type="text"/>
	Personal loan	<input type="text"/>	<input type="text"/>
Holidays	Domestic and international airfares, accommodation, camping fees	<input type="text"/>	<input type="text"/>
Significant purchases	Shares, investments	<input type="text"/>	<input type="text"/>
Bank account deposits	Savings etc	<input type="text"/>	<input type="text"/>
Schooling	Private school fees, books, uniforms, incidentals, university expenses, childcare	<input type="text"/>	<input type="text"/>
Child support payments		<input type="text"/>	<input type="text"/>
Other household expenses	Money transferred overseas, support of relatives, any other expenses not already included	<input type="text"/>	<input type="text"/>
Total annual household outgoings		<input type="text"/>	<input type="text"/>

DIFFERENCETotal annual household funds available – total annual household outgoings = difference 

It is important that the details provided are as comprehensive as possible. The incomings and outgoings figures above should reflect your actual details. You should include additional information where necessary.

Do your total outgoings exceed your incomings?

No Yes

 If your outgoings exceed your incoming funds, you need to look at your records and consider how the difference can be explained.

In an audit situation, if you can't explain the difference and don't have suitable documentary evidence, your income tax assessments will be amended and penalties may apply.

 Your tax practitioner may be able to advise you on business and record keeping practices.

VOLUNTARY DISCLOSURE

If after completing a personal living expenses worksheet you find a discrepancy, you may need to make adjustments to your reported income or consider making a voluntary disclosure.

When preparing current year tax returns, it may be helpful to inform us about any income that may have been omitted from previous income tax returns or activity statements.

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