

Transcript of a talk given by Brian Tucker, CPA to the Society of Editors (Qld) Inc. on 2 May 2007 at the German Club

. . . As far as tax law is concerned, on the one hand it's quite simple and on the other it's quite complicated. Accountants, of course, will generally tell you it's more complicated than it is simple—and they would say that . . . But it's simple in the sense that the concepts are fairly straightforward. How those concepts get translated into language, of course, is a different kettle of fish entirely. I've often said that I suspect that the people who write tax laws—and probably corporate law in general—are paid by the word, and you don't write down in ten words what you can comfortably write in a thousand words. And, of course, someone is being paid to edit that, too . . .

What expenses are tax-deductible?

The tax laws are fairly simple in the sense that the legislation simply says, 'Any expense that has been incurred in the generation of income shall be an allowable deduction'. Now, it says it in a much more grandiose, flowery and longwinded way, but basically what it's saying is that any time you spend any money that's related to this particular activity which you consider to be a business, that expense is tax-deductible—which immediately answers the question raised earlier [during the EGM, about the cost of sitting for the accreditation examination]: will the subscription to the institute [IPEd] be tax-deductible? If you're a professional editor—you're generating income from editing—then certainly the subscription in that case will be tax-deductible as an expense that's incurred in the generation of this particular income-producing activity.

Now, the law is vague in one sense, because how often do you hear people say, 'Oh, you're starting off a business? You need to set up a company. That's the way to go'—as if setting up a company is now going to suddenly open for you a whole world of tax deductions that would have been denied you had you not had a company. 'You know, if you've got a company you can claim your car, and you can claim travel, and you can claim your house, and you can probably get a tax deduction for yourself and your kids if you want to.' But the law simply says 'any expense necessarily incurred in the derivation of income'. It doesn't mention in any way what type of structure you have. It just says 'any expense incurred'. It doesn't say 'any expense incurred by a company', 'any expense incurred by a sole trader'. No. Any expense.

The other thing it doesn't do is make any sort of suggestion as to whether what you are buying has to be new or second-hand. You'd be surprised at the number of people who still think that if something is second-hand, maybe you can't get a tax deduction for it. No reference to second-handability either.

Thirdly—and while this is not necessarily relevant, but it's nice to think upon—it also doesn't say 'any expense up to a certain level'. There is no capping. It simply says 'any expense'. So, as I often say, suppose you want to go to Sydney for the Sydney Writers Festival: you have a limousine pick you up at home and drive you to Brisbane airport or the Gold Coast airport; you fly business class, of course, even though it's only an hour; you are picked up at the airport by a limousine; it takes you to the Marriott Hotel. You tell the driver to park outside and wait while you have a leisurely bath; try some of the minibar at its exorbitant prices . . . You stroll down to the limousine, which takes you to The Rocks for the Writers Festival. You swan around, and the limmo takes you back. You spend a fairly large amount of money.

But is there anything that says that none of that is tax-deductible? You want to stay in the Marriott; you want to drive by limmo? The only thing that's preventing you doing that is your ability to pay for it in the first place. If you can pay for it with ease—it doesn't bother you—then it's all tax-deductible. There's no limit on what you can spend—only your wallet or your credit card limit. So 'any expense necessarily incurred in the derivation of income' simply means that if you've incurred an expense and it's related to your business activity, then it's tax-deductible.

That means that all you have to do when you're thinking about tax deductions is to ask two questions. The first question is: 'Has it cost me anything?' And the answer to that will usually be 'Yes'. It may not necessarily be 'Yes'. For example, my son Matthew was a drummer in a band. Could Matthew get a tax deduction for the depreciation of his drum kit? No—the reason being that Muggins here paid for it. Had Matthew promised to repay me the \$10,000-odd for his drum kit, it would have been tax-deductible for him. But that was unlikely on two counts: he was unlikely to commit himself to such a promise in the first place, knowing that I would remember it; and also that it was a promise that was made in the heat of passion and was unlikely to be fulfilled anyway.

So if you have paid for something, or if you are irrevocably committed to paying something—like it's gone on your credit card—then that's an expense that's been incurred. The only question you ask is, 'Is it related to my income-producing activity?' If there is some relationship between the expense on the one hand and the income-producing activity on the other, then that expense is tax-deductible. Now, it might not be 100 per cent tax deductible—in other words, the expense might have some private-use component. For example, you'll use your car for work and business, but you'll also use it to go and get the groceries. And while we might all try desperately to find a way in which grocery shopping can be tax-deductible, sadly that's not likely ever to be the case—for you and me, anyway.

So all you've got to do is say, "Has it cost me something? Is it related to my business?" If the answer to those two questions is 'Yes' and 'Yes', then you're

looking at a tax deduction in the face. You don't need to think about tax deductions in terms of particular items. I find when I'm talking to young people, whether they're art students or young artists who are just commencing, or whether they're writers or musicians . . . I say to them, 'If I say the words "tax deduction", what immediately comes into your mind?' and I'll point to you, and you'll fluster for a moment and you'll say, 'Um, um—telephone!' And I'll say, 'Good. Yes, telephone'. And I'll say, 'You!' and you'll say, 'Um, art books', and I'll say, 'Yes. Great'. And you go round the room and everybody is telling you all of these items that are going to be tax-deductible. But that's an unproductive way of thinking about tax deductions. What you're telling me is *what* is tax-deductible. What you want to know is, yes, but why is it tax-deductible? Because if you know *why* something is tax-deductible, then it just automatically follows that you will know *what* is tax-deductible. So you think about tax deductions simply in the context of 'Did it cost me money?' and 'Is it an expense related to my business?'

Not generating income?

If you're not generating income at all, are your expenses tax-deductible? You're a freelance editor, just finished uni., hanging up your shingle, going out there and chasing business. You're incurring all these expenses, but you're not generating income. So is your accountant going to say to you, 'Well, I'm sorry, you haven't got any income. The law says "any expense necessarily incurred in the generation of income". You've got no income. No income, no deductibility'. But you say, 'Hang on a second! Hang on a second! I went to the Society of Editors meeting and I heard this guy, and he swore black and blue that even though you might not have earned any income the expenses will still be tax-deductible'. And he'll go, 'Really? Really? Who said that?' And you'll say, 'A fellow called Brian Tucker'. And he'll say, 'Never heard of him', because I don't move in accounting circles. Accountants are generally on a par with lawyers as far as charisma is concerned—no doubt about that. And they probably give undertakers a little bit of a run for their money, but not by much . . .

What makes it tax-deductible doesn't depend on whether or not you're earning any income; it simply depends on whether you're carrying on this activity with a view to the generation of income. So, in other words, if you've started this activity and your plan is to make a lot of money as an editor—good luck to you—but if your plan is to be rich and famous as an editor, then the expenses will be tax-deductible even though for a period of time you may be doing an amount of work for nothing. You might be editing students' theses for nothing. You may be editing for a little magazine or a little handbook for a not-for-profit organisation—for nothing. Does that mean the expenses you incur are not deductible? Not at all, because what you're doing is creating a body of work that you can put onto your CV, so that you can say to someone down the track, 'I am a professional person.' . . .

Expenses incurred in connection with voluntary work normally would not apply because there's no income from voluntary work, so how can the expenses be tax-deductible? I'm the treasurer of about ten arts organisations. I do a lot

of voluntary work. I do a lot of work out in the communities. None of it gets paid. But I incur expenses. I'm flying up to Cairns next week to a floor talk at a gallery on starting an art collection: what sort of trepidatory hurdles do you need to jump over to start an art collection? I'm not getting paid to do that, and I'm flying up there and all of that sort of thing. Now, the tax office would probably say to me, 'Mr Tucker, you can't get a tax deduction for that airfare because there's no income associated with that activity. That's a voluntary thing that you're doing'. And I say, 'Yes, but that activity is part and parcel of my business. In other words, my business is in the arts; therefore, even though it's voluntary, it is related to my business'.

In the case of editing, if you're doing voluntary editing work, any expenses that you do incur will be tax deductible. There's one caveat, of course, and that is that if I was to go and give some advice to a youth service, which has nothing to do with the arts—it's an organisation that helps young people—maybe those expenses won't be tax-deductible because maybe that's not related to my work. Or if I was to draw up the constitution for a football club, that would probably not be tax-deductible because that's not related to my work.

[Question about the unpaid hours a person spends in earning an income]

You cannot charge yourself for your own labour. In other words, your own labour, if it's used in a voluntary capacity, has no scope for tax deductions. I suppose a corollary might be if you were a writer and an editor and you said to yourself, 'Can I charge this hat as a writer by this hat as an editor? Can I charge editing fees and get my writing income down—get a tax deduction for it?' The answer is 'No' because your time costs you nothing but opportunities forgone. Secondly if this editing hat was to charge this writing hat \$2,000 for an edit, this writing hat says, 'Beauty! I've got a \$2,000 tax deduction'. Trouble is, the editing hat says, 'Bugger! I've got \$2,000 worth of income'. So they just cancel themselves out. Voluntary hours, generally, no.

But there's only one circumstance where voluntary hours will figure into financial statements, and that's for a not-for-profit organisation that wants to record the voluntary hours as in-kind support. So what it says is, 'Okay. We've got all these volunteers who've given us \$5,000 worth of free labour'. That comes in as income in the financial statements, and then it immediately goes out as \$5,000 worth of expenses. So it's an in-and-out transaction. There's no tax deduction for voluntary labour—sorry—because if there was, man, I'd be on toast!

[In response to a question]

There was a writer in Canberra who wrote a book on the history of the four-wheel dray in Australia between, say, 1820 and 1835. He contacted me because he'd had trouble with the ATO. I said, 'Frankly, I don't think I can help you'. But I read later in the court reports that he'd taken it all the way.

I'm going to answer the question by slightly going on with a comment about this notion of deductibility, and then you'll see how the question gets answered. 'Any expense necessarily incurred in the derivation of income' may be reworded to say, 'Any expense necessarily incurred in the carrying on of an activity from which you hope to generate some income or some commercial gain'.

Now, the commercial gain doesn't have to happen today; it might not happen for two years, three years, five years, ten years. But there has to be an expectation down the track that this is a commercial activity. Now, if you've got no income, how can you demonstrate that it's a commercial activity? The tax office used to say, 'Well, you've got no income; it's obviously a hobby', or 'You're not trying hard enough; bugger off'. But they've adopted a more lenient attitude—to the arts particularly—because they recognise that it's not an industry where you open up a shop today and you start selling something this afternoon. That doesn't happen in the arts. But there must be some expectation on your part that there are going to be commercial gains down the track.

How you demonstrate that that is actually a reflection of how you see the business yourself. So I say to people, 'Look, if you're really in business you'll be marketing your skills'. Maybe you've got a website established; you're a member of the Society of Editors; you're out there chasing work; you're in touch with the universities, publishers, writers—anybody that you can think of who might give you some work, you're contacting them. You're also working on stuff. You're also going through the process of upskilling yourself, professionally developing yourself, becoming a better and better editor. You're engaging with other editors. You're going to conferences. You're buying books and magazines, computers, computer software, printers and consumables, and God knows what. So you're incurring all of these expenses, and at the same time you want to get a tax deduction for all this. You don't want this money going down the drain with nothing coming back, so you're keeping all your receipts; you're keeping a logbook for your motor vehicle. When you go to Sydney for that conference you keep a travel diary; you keep all your accommodation records; you keep a record of all of your telephone calls, your Internet stuff, your books, your magazines, your movies—everything you do that's related to this business, you're keeping records.

Now, if the tax office says to you, 'Demonstrate that you're in business', you say, "Okay, mate. I've got this huge, great box of receipts here; have a trawl through that'. And what's there? Records of telephone calls and emails that you've printed off to writers and publishers seeking their involvement in your skills. So, in other words, because you're in business you will keep the evidence that shows you're in business. If you can establish that you're in business fair dinkum and you're keeping all the records, the only other question you might have to argue about is the commercial reality of what you're doing.

Now, the problem with this poor guy who's doing the history of the four-wheel dray in Australia between 1830 and 1835—or whatever the dates were that I said the last time—of course, there's a very limited market for this particular publication. There are not that many people who need to know about the history of the four-wheel dray in Australia between 1830 and 1835. It's a very narrow window of time we're talking about, and it's a very specialised subject—and we're not even talking about two-wheel drays; we're just talking about four-wheel drays. In other words, this guy is likely never to make a profit from selling this book. At the very best, he might get back enough to cover one of his trips out to Biloela, or wherever he went.

In other words, in terms of going up and doing this work on the Atherton Tablelands—a part of Australia dear to my heart; I went to primary school at Atherton—it's not likely to be commercially successful. So what you've got to be able to show in that context is that it's part of a broader activity in terms of being able to demonstrate to someone that you're in business. You've got to show that this isn't an expense that has been incurred to help you think about getting started in a business. You actually have to have started the business now, or preferably a few months ago or a couple of years ago. So I can go up to Arnhem Land to talk to an art centre about their accounting problems and bookkeeping things and audits and stuff, and I might not get any work out of that whatsoever. It might be just a trip that's going to go nowhere, but because it's part and parcel of a business that I'm carrying on right now, today, it does become tax-deductible even though there is no income associated with it. So it's that sort of fleshing out of the relationship between the activity and its down-the-track, income-producing likelihood.

[Question]

The question is: 'I've gone to Mauritius and I did work while I was there. So does that make the trip to Mauritius, or part of it, tax-deductible?' The answer to that question on the face of it is 'No', unless you're a bit inventive in terms of your thinking. The tax office will look at the trip to Mauritius and they will say, 'The expenses—are they related to an activity that's being carried on in Mauritius that is related to this particular business?' In this particular case, that work could have been done in Australia. If the work had to be done in Mauritius because you had to go to libraries in Mauritius to research local dialects or things like that, then you'd say, 'Absolutely'. The tax office might say, 'Couldn't you have just Googled it?' and you say, "No. If we're going to do this properly, we don't bugarise around with computers. We go and we talk to the horse's mouth"—or whatever the expression is.

But I am reminded of a Brisbane writer and poet who wrote a travel book a little while ago. In the book [the writer] refers to his honeymoon and how they went to Vanuatu or somewhere like that. When [he] had all those expenses we put them through as travelling expenses, and the tax office rang up and said, 'We're going to allow the trip to Nepal, but we're going to disallow the Thailand trip'. I said, 'How can you do that?' They said, 'Well, clearly the Nepal trip was

business, but we don't think the trip to Thailand was'. And I said, 'And on what grounds do you make that decision?' He said, 'Well, we noticed that in the Thai trip there were actually two guests on the invoices and receipts that you supplied as part of the audit'. I said, 'Yes, but you'll also notice that we didn't claim the whole lot—only [his] share'. 'No, no, no. We picked up on that', he says. 'But we also did a search through Births, Deaths and Marriages and we found that they were actually married the day before they went to Thailand', and I said, 'What's that got to do with it?'—you know, hot flushes to the ear! And he said, 'Well, doesn't it occur to you that that could be a honeymoon?' And I said, 'The guy's a travel writer. He writes travel stories, and he wrote a travel story while he was in Thailand'. And he says, 'Well, you might believe that; your client might believe that; but I can tell you that the Administrative Appeals Tribunal will not believe it!' When I phoned [him] he said, 'Oh well, let it go. We didn't claim much'. Now, you read his book . . . and there's the whole box-and-dice story about Thailand. I saw [him] at the opening of GoMA and I said, 'We should reopen that case because you did write about it, and you did earn money from that trip'. But it's all water under the bridge now.

In the case of Mauritius, you have to be able to show that the trip was related to an income-producing activity primarily, principally—not solely—but primarily and principally and not as a by-product of something else. So I'm sorry to say that unless you can find some other reason for going to Mauritius, that's one that's probably going to have to slip by the keeper, as they say! . . .

So what you've got to be able to show is that this is a commercial activity from your perspective and that you're carrying it on in a commercial way . . .

It's only when the business has commenced that the expenses become deductible. They're not deductible before then because that's just an expense incurred prior to starting the business. In the case of the trip to the Atherton Tablelands or your trip to Mauritius, what say you actually went up there for a holiday and while you were there you saw this opportunity for a story for a novel or a book or a magazine article and you thought, 'That's an idea!'. You come back to Brisbane, and a few weeks later you decide to take this one step further, so you do a bit of Googling, and then you make another trip up there and get a bit more information. Then you start writing the story. The question is: would that first trip be tax-deductible? The answer is probably 'No', because when you made that trip you didn't have any plans for any sort of business outcome. So because there was no business outcome planned at that time, the expenses wouldn't be tax-deductible . . .

ABN

Once you've established that this is a business—for those who are just starting out—the very first thing you need to do is to get yourself an Australian Business Number: an ABN, not an 'ABN number', for obvious reasons—although in the fullness of time it will be like 'ATM machines' and 'body corporate'. It will enter in the lexicon—is that the right word? Vaguely.

Let's suppose I start my business on 2 January, but I don't actually get around to getting an ABN until 3 December. Does that mean that all the expenses that I've incurred between the first date and the second date are not tax-deductible? The answer to that question is probably 'No'. The question is: when in your mind did that business commence? Did you actually commence that business on 2 January by putting yourself out there available for work? The work you were doing may not have been paid at the time, but remember that doesn't matter. Were you putting yourself out there for professional engagement as an editor or an indexer or whatever, and if you were then the expenses became tax-deductible from the point at which the business commenced.

I do a bit of writing. I've got about 250,000 to 300,000 words on paper at the moment. I haven't incurred much in the way of expenses, but if I had incurred expenses none of those would be tax-deductible because at the moment I'm not really doing it with a view to getting something published. That's dreams, and at the moment I haven't got time for those sorts of dreams. But one day I'll say to myself: Brian, get up off your arse. You've got a coffee mug that says, 'Finish the damned book!'. And one day I'll open up the cupboard door and I'll see that mug and 'Finish the damned book!', and I'll say, 'Damned right I will!' Now I'm serious, and I'll start approaching maybe manuscript appraisers to get them to start looking at it. I'll get in touch with someone from the Society of Editors to start doing some construction and spelling checks and grammar and all that sort of thing.

Because from that point I've got a commercial objective, any expenses that I incur from then will be tax-deductible—because now it's gone from being what the tax office calls 'a non-commercial activity' to a commercial activity. I might start that commercial activity in six months time: okay, I'm going to get myself a manuscript appraiser to start going through this stuff. I'm going to get an editor to start going through it and chopping out a hundred thousand words that are just absolute crap. But do I get an ABN? No, I'm too busy; I haven't got time—I mean, I've got an ABN, but let's suppose I didn't have an ABN. 'No. I've got more important things to think about than getting an ABN . . . I haven't got time to be worrying about filling out those stupid forms for the tax office. No.' But then, of course, one day, I think: 'I'd better get that ABN. I'll sit down at the keyboard tonight and I'll apply online'. But that doesn't mean that because I only got the ABN (long after I commenced the commercial activity) all of those expenses are not tax-deductible. They're deductible from the point at which mentally you've made that leap from a non-commercial hobby or recreational pursuit to a business, and whether you've got an ABN doesn't matter one iota.

But it matters in one sense: let's suppose you're an indexer and you get an assignment to do a job, and the person says, 'Okay. Agreed on a price—\$5,000. How do you want to be paid?' You say, 'Well, I'd like it all now, please', and they say, 'No, you can wait till you've finished the job'. You say, 'Okay'. So at the end of the job you give them an invoice for \$5,000, and they say, 'Where's your ABN?' and you say, 'Oh, I've been too busy; I haven't had time to get one

yet'. 'Well, you don't have an ABN?' and you say, 'No, no. I'll get one tomorrow. I'll get one next week. I'll get one next year—when it suits me'. And they say, 'Well, I'm very sorry but we're going to have to take out 48 and a-half per cent tax from what we're going to pay you because you don't have an ABN', and you say, 'I'll get one this afternoon'. It's like not giving your bank your tax file number: they'll take out 48 and a-half per cent tax from your interest. If you don't have an ABN and someone in business takes out 48 and a-half per cent tax, you'll get an ABN pretty damn quickly after that, I can tell you—not unless you're so rich it doesn't really worry you that 48 and a-half per cent tax is being taken out.

For some people that happens. A young girl phoned me from a boat at the Galapagos Islands when the GST came in. She said, 'I've just signed with Simon and Schuster to do a book and they want to know if I'm going to get an ABN. What should I do?' I said, 'What you should do is come straight back here to Australia and let me take your place on the boat, so you can come here and do tax returns and I'll go over there and make wildlife documentaries'. But she wasn't going to be in that for a minute.

So anyway I said to her, 'What you've got to do is think about this: if you don't get an ABN, Simon and Schuster are going to take out 48 and a-half per cent tax from your advances and from your royalties. But that's no big deal; you're earning a hundred thousand dollars as a documentary producer, so you're going to be paying 48 and a-half per cent tax anyway. Probably you should get an ABN because Simon and Schuster might think you're more professional if you've got an ABN than if you don't have an ABN, and they probably don't want to be going through the drama of taking out 48 and a-half per cent tax anyway'. So she got an ABN.

That's why you get an ABN: you get an ABN to stop people taking 48 and a-half per cent tax—not for any other reason because by law you don't have to have an ABN. It's like you don't have to have a tax file number; it's just that life is impossible if you don't have a tax file number, so you get one just to keep everybody happy . . .

[In response to a question]

The ATO—and Centrelink in a slightly different way—their mission in life is diametrically opposed to yours. Your mission in life is to show that, even though this activity has generated no income, it is a business and your losses are tax-deductible. The ATO's mission in life is to say, 'No. It's a hobby and the expenses are not tax-deductible'. On the other hand, of course, and flipping it around another way, you've just won a \$20,000 writing prize, and you want to say, 'No. That's a windfall gain and that's not assessable', and the ATO is going to say, 'No. It's a business and it is assessable'. They want their cake and eat it as well.

[Question about incurring expenses but not earning anything, and whether a tax return should be lodged]

Yes, and claim those losses as a deduction. What you've got to be able to show is that even though you're doing this voluntary work that's not going to be paid for, you are at the same time not necessarily looking for work, but looking for business income. They can't be expenses prior to the commencement of the business. So you've got to show that you're out there marketing yourself. You've got maybe a website, business cards, and maybe you're on a freelance register. If you've got those bases covered, home and hosed; no worries; none at all.

It's like an actor: actors get hardly any work, but if they have an agent their expenses are tax-deductible because the agent's role is to get them work. They might not be very good at it, but the fact that they've got an agent means that they're out there and they're available for work, and that means available for income-producing activities.

But you really have to nail that business about being out there and chasing work. The tax office says, 'You haven't got an ABN. How can you be in business?' You say, 'I'm too lazy. I'm too busy. I can't be bothered. I can't work out how to do it on your stupid website because it keeps going down halfway through the application, and I've given up three nights in a row. You fix your website and I'll get an ABN' . . . Having an ABN simply stops people taking 48 and a-half per cent tax out of what you've earned. It doesn't say you're not in business—although, if have an ABN, it's another little tick in the box about you being in business, along with keeping proper records and not just throwing all your dockets in a box. You may have some accounting software or a spreadsheet, or something like that.

So the moment you are contemplating starting in business or doing something that's going to generate income, get yourself an ABN.

GST

The next question then is: do I need to register for GST? As Jenny [Beale] said earlier, I said to her, 'Forget about it. If you're not earning \$50,000, you don't have to register for GST, so don't register for GST'.

My thoughts about the GST have mellowed a little bit in the last six years. What I say to people now is: you would register for GST when the cost to you of registration is less than the perceived benefits. I'll give you an example of how that might work. Very soon after the GST came in, a young girl who suffers from muscular dystrophy came to see me. She was a poet. She had been told to register for GST, which she did. She asked if she could come to see me for help in filling out the first BAS. She's a very determined, independent young lady, and she insisted on turning over all the receipts herself—not letting me do it. She would turn them over one by one to check that the GST was all right and

proper, and I was adding it up on the calculator as we went. At the end of the hour or so that it took us to do it, we filled out the BAS and put in her bank account details. I said, 'You should get about \$33 in your bank within the next ten days'. She says, 'Very good', goes downstairs, and off she trots.

Three months later she comes back again, and we went through the same process all over again. This time she's getting a refund of \$27. At the end of that session I said, 'Look, frankly, I reckon you should be cancelling your GST registration'. She said, 'Do you think so?' and I said, 'Yes'. She said, 'Why?' I said, 'You've had to get someone to drive you down from Ipswich. They've been sitting downstairs for the last hour and a-half while you and I have been doing this. I'm not charging you, so it's not costing you anything, but just imagine if I was. You now have to get your carer to drive you back to Ipswich. And all that for \$27. Frankly, I don't think it's worth it'. She thinks for about two seconds and says, 'You're right. How do I do that?' So we cancelled it there and then.

Now, that's \$33 and \$27. What suppose she was getting a refund of a hundred dollars? Would it be worth it? Maybe. Maybe not. What if she's getting a refund of a thousand dollars? Yes, definitely. In other words, if you're in a situation where you're going to be outlaying a lot of money on computers, computer software, travel, things like that, you might think: better to get that 10 per cent back than not get it back—bearing in mind that many of the people that you're dealing with—your clients—will be registered for GST, so if you're charging them GST, it's no skin off their nose; they're going to get it back from the tax office anyway.

It's the question about the GST that you're paying on your airfares, on your travel, on your subscriptions, on your magazines, on the books you buy, on the computer software, on professional development and all that sort of thing—trips to Mauritius and God knows where. All of that 10 per cent could be back in your pocket. It's when that refund potential becomes significant that you say, 'Okay, I'll register for GST because I'd sooner have that money than leave it in the pocket of the tax office'.

That's really my take on whether you register or don't register. Of course, if your fees from editing, et cetera are more than \$50,000 a year, you have no choice in the matter; you've got to register for GST regardless . . . If you register for GST, you always elect to report on a cash basis. That means that when you get the money in your bank account, you give them one-eleventh of it. The alternative is what is called accruals accounting.

I can remember that when the GST came in, I was doing a workshop with Queensland Artworkers Alliance. It was a double bill with a tax person and me, and he went on first. I'm just sitting at the back there listening to what he's got to say. In all deadly seriousness—and he's talking to a group of visual artists—he said, 'You realise, of course, that if your turnover is more than \$50,000—which I'm sure it will be—you'll have to register for GST. Furthermore, you may report quarterly, but if your turnover is more than a million dollars a year, then

you'll have to report monthly'. These poor artists, who might earn twenty grand in a good year—you've got to be dead to earn a million dollars a year as an artist.

[Question: How did you deregister your client?]

You can do it in two ways: you lodge a download off the ATO's website to change particulars or to change GST registration. If you're registered as an electronic commerce interface client, or whatever they call themselves, then you can probably do it online. Otherwise, you download the form, put in your ABN and the details, and put an X in the 'Cancel the GST registration'. If you cancel the GST registration, it means first of all that you don't get what's called an input tax credit for the GST that you've paid to your suppliers; you just get a tax deduction. So if a subscription is \$110 and \$10 is GST, you just claim a tax deduction for \$110 rather than \$100. By the same token, if you're billing people for work done, you don't charge them GST—in fact, you're not allowed to charge and cannot charge GST if you're not registered.

If you're dealing with private individuals, of course, that won't be a factor because a private individual—like doing student theses, for example—will probably not be able to claim a tax credit for the GST anyway. So if you charge them GST, you're effectively adding 10 per cent to your price. But if it's for a business, if it's for a university or a publisher or some other entity that's registered for GST, they get a credit for that GST.

There was what you'd call a side benefit to registering for GST, and that was that people now had to start keeping their records, and they had to keep them so that at the end of each quarter they knew how much they'd earned and how much they'd spent. So that became a real discipline particularly for people working as musicians, writers, artists—not editors because they're always very well organised. I've often thought that the only profession more anally retentive than an editor is possibly historians, because people who write histories are extremely pedantic . . . You guys will be right on top of keeping your records because that's the nature of your mindset: it's neat, it's tidy, it's ordered. Don't disappoint me!

Once you've decided that something is a tax deduction, I've said there were only two questions, but there are actually four questions—because I didn't want to frighten you too much right at the outset: 'How am I going to remember four questions? I can remember two; I can't remember four'. I've mentioned the two, and here are another two: you have to keep receipts; you've got to keep records; you've got to keep documentation.

If you're audited and the tax office say to you, 'I see that you've claimed \$3,290 on a trip to Mauritius. What was that in connection with?' So you go through all the spiel about why you had to go to Mauritius to research dialects that are fast disappearing and need to be written about and edited and documented and everything else. 'Oh, yes, we can see how that's related to your work as an

editor. Yep'. Tick. 'Now let's have a look at all your receipts and your travel diary and your logbook and all that sort of thing'. And you pull out a little, scrappy half-dozen receipts and voluminous notes in your diary, and you're starting to squirm and they can sense it—like dogs, they can smell when there's fear in the blood of a taxpayer. It's got the making of a book, really, hasn't it! Anyway, they want to see the receipts. You've got to document everything. And if you didn't get a receipt, you've got to have a good reason why you didn't get a receipt. If you didn't get a receipt, you write it down: currency, date, what you bought, everything.

In other words, a tax audit is firstly about determining 'Why is this expense tax-deductible?' and secondly it's about documentation. If you haven't got the documentation, and if you haven't got the documentation that they want to see, those expenses will be disallowed. It doesn't matter how legitimate they were; it doesn't matter how correct, how appropriate; if you haven't got the paperwork, it won't be allowed. So keep the records; keep your receipts.

The fourth thing is that you need to determine what percentage of the expense is tax-deductible. Is it 100 per cent tax deductible, or is it maybe 50 per cent tax-deductible, or maybe only 10 per cent? You want to get the percentage up as high as you can, of course. But in most cases it will be fairly clear to you: in other words, subscription to the Institute, fully tax-deductible. 'How else could I become a member of the Institute if I'm not an accredited, professional, hard-working, hard-core editor?' Tick. A hundred per cent tax-deductible. Telephone: 'Say, 80 per cent, because I do make calls to my mum and dad and the kids and things, so we'll say 20 per cent'. 'So how did you arrive at 20 per cent?' 'I just guessed, you know. I figured that I spend about a fifth of my time talking to my wife, or the kids, or my grandmother, or my mother-in-law.' 'Well, sorry, Mr Tucker, but you'll have to do better than that.' 'Okay, we'll, I just happen to have this. I was only joking. I happen to have this big sheet of phone calls that I made over a three-month period which actually proved that 20 per cent of the calls were to my wife, kids, mother, mother-in-law, grandmother'—in other words, non-business calls.

Mind you, not all the calls I make to my wife will be not-deductible. If I'm out in the desert and I've got the satellite phone and I ring up: 'Di, any messages?' and she says, 'One message . . .' 'Any other news?' 'Oh, I got an email from Fiona. She's going well . . . the kids have been not too bad', and blah-de-blah-de-blah. The main purpose of the phone call was to check to see if I had any messages. The fact that she wants to launch into what's happening at the bowls club and how the kids are going and that sort of thing—that's not my fault! I just wanted to find out have I got any messages? That's the principal reason for the call; therefore it's tax-deductible. But if I rang her and said—and I must admit I don't do this very often, which is to my eternal shame—'How are you, Di? Have you been well? No dramas in the house? Everything's going well? Gas is all okay? Stove hasn't broken down? Fridge hasn't needed defrosting?' and all that sort of thing—that would be a non-business call, and I'd probably be a little bit naughty if I tried to claim that as a tax deduction. But as long as I

keep a record for a period of time to determine what percentage of the calls are business and what percentage are non-business, then that's the percentage that I'm going to claim of my telephone bill. My mobile phone is a hundred per cent business because I never use it for anything other than business calls . . .

The car is 62 per cent business. I know that for a fact because I keep a logbook of every business trip I make: the opening speedo, the closing speedo, the date, the difference between the two, and the purpose of the trip. You need to keep a logbook for only twelve weeks, and you need to do that once every five years. I've actually kept the logbook from day one when I bought the vehicle in about 1996 . . . The reason is that I know if I stop after twelve weeks I'll never do it again, because the five years will roll round and the next thing it'll be six years, then ten years, and I won't have done it . . .

[In response to a question]

You don't have to have commercial car registration to claim a tax deduction for your car—never have, never will. The only reason you need commercial registration, as far as I can tell, is if it's going to be used in town and you want to get cheap parking or not get hauled off by the Brisbane City Council parking police—who are only marginally more taxpayer-friendly than the tax office. Well, that's actually questionable . . .

You do need to establish what proportion of the expense is tax-deductible, and how do you document that proportionality? Sometimes the tax office will tell you how you've got to do it: you've got to keep a logbook; you've got to keep a travel diary. Sometimes it's just a matter of commonsense. 'I'm using part of my home as an office. I'm renting that much space. That much of it is being used as my office. That's 12 per cent of the total, so I'm going to claim 12 per cent of my rent'. How did I arrive at 12 per cent? I drew a little map and I measured it, and it's a reasonably accurate map.

[Question: If you get audited, do they come and find you or do you have to go somewhere with your receipts and records?]

Either. Sometimes you've got to go to them; sometimes they'll go to you. Often they'll go to you because they want to see what your situation is . . .

I'll wind up there. You can always send me an email. On my new website, when it's properly set up, there'll be a question-and-answer thing.

Hope I didn't leave anything out.

End of transcript