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Mr Shaun Thomas
Law Interpretation Officer
Individuals and intermediaries
Australian Taxation Office

Email: IAIPAG@ato.gov.au

9 October 2026

Dear Shaun,

LCR 2026/D5 The standard deduction for work-related expenses

CPA Australia is Australia's leading professional accounting body and one of the largest in the world. We represent the diverse interests of more than 176,000 members in over 100 countries and regions. We make this submission in response to the ATO's Draft Law Companion Ruling **LCR 2026/D5 The standard deduction for work-related expenses** (draft Ruling) on behalf of our members and in the broader public interest.

Executive summary

CPA Australia supports the policy objective of simplifying work-related expense claims for individual taxpayers. The draft Ruling explains the core calculation and addresses disallowed claims, Division 40 and fringe benefits tax interactions. The final Ruling should build on that foundation by resolving specific practical uncertainties about expense boundaries, consequential adjustments, record-keeping and less common multi-year or employer-payment scenarios. Clearer guidance will help taxpayers, employers and registered tax agents apply section 25-130 consistently and with confidence.

Key comments and recommendations

Our key comments and recommendations are that the ATO:

- Explain the dollar-for-dollar reduction mechanism in plain language and include clear examples showing that covered itemised deductions below the maximum standard deduction do not increase the taxpayer's total deduction.
- Clarify the boundaries between covered work-related expenses and deductions that may be claimed in addition to the standard deduction, particularly compulsory professional registrations, practising certificates and bundled fees.
- Clarify the legal effect of a partial or complete disallowance of covered itemised deductions, including how the varied amount affects the standard deduction and assessable labour income cap, and separately explain the ATO's administrative treatment of amended assessments, interest and penalties.
- Provide comprehensive guidance on record keeping, including working from home expenses, laundry, car expenses and the position of taxpayers who are uncertain whether their expenses will exceed the standard deduction.
- Supplement the existing Division 40 guidance with a targeted multi-year example showing how adjustable values and a later balancing adjustment are calculated when a taxpayer alternates between relying on the standard deduction and claiming covered itemised deductions.
- Supplement the existing FBT and salary-packaging guidance with examples that distinguish reimbursements from assessable allowances and show the consequences for employees' covered itemised deductions and remaining standard deduction.

- Refer policy issues that cannot be resolved administratively to Treasury for review, including the record keeping and compliance threshold effect, the assessable labour income cap, the removal of former written evidence exceptions and any broader integration of the standard deduction with PAYG withholding.

Please refer to Appendix A for our detailed discussion. If you have any queries, please contact me at jenny.wong@cpaaustralia.com.au or Bill Leung, Tax Technical Advisor, at bill.leung@cpaaustralia.com.au.

Yours sincerely,

Jenny Wong
Tax Policy Lead

Appendix A

Detailed discussion

Introduction

CPA Australia supports the policy objective of simplifying work-related expense claims and welcomes the opportunity to comment on Draft Law Companion Ruling LCR 2026/D5 (draft Ruling). The draft Ruling provides a useful foundation for applying the new standard deduction, but further guidance is needed to address practical uncertainties concerning expense boundaries, consequential adjustments, record keeping, Division 40 and employer-paid expenses. The following comments and recommendations are intended to support clear, consistent and administratively workable outcomes for taxpayers, employers and registered tax agents.

1. Explain the operation of the standard deduction more clearly

The draft Ruling explains that the maximum standard deduction is the lesser of $1,000 and the taxpayer's assessable labour income, and that covered itemised deductions reduce that amount dollar for dollar. The practical result is not a simple election between two deductions. Rather, the taxpayer's total deduction for covered expenses will generally equal the higher of the maximum standard deduction and the allowable covered itemised deductions claimed.

Recommendation: The final Ruling should state this outcome clearly near the beginning and include a comparison table covering itemised claims below, equal to and above $1,000, as well as taxpayers whose assessable labour income is below $1,000. The ATO should also use consistent terminology and avoid describing the mechanism as an election where that could imply that the provisions operate on an all-or-nothing basis.

2. Clarify expense boundaries

Section 25-130 excludes deductions for membership of a trade, business or professional association from the amounts that reduce the standard deduction. The remaining practical uncertainty is how to distinguish an excluded membership fee from a compulsory practising certificate, regulatory licence, accreditation or bundled payment that includes both membership and other services. Clear boundaries will be important where a payment has both employment and non-employment purposes.

Recommendation: The final Ruling should provide principles and targeted examples that distinguish an excluded professional association membership from a practising certificate, regulatory licence or accreditation. It should also explain the treatment and reasonable apportionment of bundled or mixed-purpose payments. A non-exhaustive schedule of common expenses would further support consistent application without limiting the operation of the legislation.

3. Address variations to covered itemised deductions

Example 3 explains that the standard deduction may increase when covered itemised deductions are later disallowed. Further guidance is needed where a claim is only partly disallowed, the assessable labour income cap applies, or the variation affects the shortfall interest charge or penalties. The legal effect of the variation should be distinguished from the ATO's administrative process for giving effect to it.

Recommendation: The final Ruling should extend Example 3 to address partial and complete disallowance, the assessable labour income cap and the resulting amount of the standard deduction. Separately, the ATO should publish administrative guidance explaining whether its systems will recalculate the standard deduction when an assessment is amended, how the adjustment will be shown on the notice of amended assessment, and how the recalculated tax shortfall will affect interest and any applicable penalties.

4. Give practical record keeping guidance

Taxpayers may not know until late in the income year whether their covered expenses will exceed the standard deduction. The removal of the former $300 work-related expense, $150 laundry and award transport payment

written-evidence exceptions heightens the risk that taxpayers will cease keeping records and later be unable to substantiate a larger valid claim. Example 7 also creates uncertainty by stating that Mei must retain records to substantiate a $100 balancing adjustment deduction. If the same amount would otherwise be available as part of her standard deduction, the practical need to retain records is unclear, particularly given paragraph 10's statement that records are not required where work-related expenses are covered by the standard deduction.

Recommendation: The final Ruling should include a dedicated record keeping section that:

- confirms that no evidence of covered expenditure is required where the taxpayer relies only on the standard deduction;
- explains that any covered itemised deductions claimed must satisfy the applicable deductibility, substantiation and record keeping requirements;
- addresses working from home diaries, car records, laundry calculations and digital records;
- encourages taxpayers who may have covered expenses exceeding their maximum standard deduction to retain records throughout the year and determine, when preparing their return, whether to claim those expenses as covered itemised deductions; and
- clarify in Example 7 whether Mei must retain records because she claims the balancing adjustment deduction as a covered itemised deduction, notwithstanding that the claim produces no increase in her total deduction, and whether she could instead rely solely on the standard deduction without separately claiming or substantiating that amount.

5. Supplement the Division 40 guidance

Part B already addresses decline in value, balancing adjustments, private use apportionment and low-value pools. A remaining practical gap arises where a depreciating asset spans several income years and the taxpayer alternates between relying on the standard deduction and claiming covered itemised deductions. Taxpayers and advisers would benefit from an example showing that the underlying Division 40 calculations continue independently of the separate operation of section 25-130.

Recommendation: The final Ruling should supplement the existing Division 40 examples with a multi-year example in which a taxpayer alternates between relying on the standard deduction and claiming covered itemised deductions. The example should track opening and closing adjustable values, private use apportionment and a later balancing adjustment, and clearly distinguish the calculation under Division 40 from the effect of section 25-130 on the amount deductible in each year.

6. Clarify remaining employer-payment interactions

Part C addresses expense payment fringe benefits, salary packaging and the otherwise deductible rule. Further guidance would be useful on the distinction between a reimbursement and an assessable allowance, particularly where an allowance is paid with no liability to account or exceeds the employee's expenditure. The guidance should also make clear that an employee cannot claim an itemised deduction for expenditure they did not incur or, generally, to the extent that the employer reimbursed the expenditure and bore the cost. Receipt of an allowance does not itself establish that the underlying expenditure is deductible. Example 13 is also potentially confusing because it does not clearly explain the terms that make the conference expense part of a salary packaging arrangement, rather than the employer directly meeting a business expense.

Recommendation: The final Ruling should supplement the existing Part C examples with a coordinated comparison of (1) an employer reimbursement and (2) an assessable allowance paid with no liability to account. For each arrangement, the example should show whether the employee has incurred deductible expenditure, whether the expenditure is covered by section 25-130 and the effect on the employee's remaining standard deduction. Example 13 should clarify the terms of the salary packaging arrangement, including that Bec agreed to forgo salary in return for the employer meeting the conference expense. It should also explain why the arrangement is treated as salary packaging rather than as the employer directly meeting a business expense. Any administrative material should cross-reference the employer's FBT treatment without suggesting that the employee's standard deduction determines whether the otherwise deductible rule applies.

7. Matters requiring legislative consideration

The draft Ruling generally provides clear explanations of how the standard deduction operates. However, the level of detail required also illustrates the underlying legislative complexity of a measure intended to simplify compliance. This broader policy issue is a matter for Treasury. Some concerns raised by the measure arise from the legislation rather than the Commissioner's interpretation and cannot appropriately be resolved through a public ruling. These include:

- the record-keeping and compliance threshold effect for taxpayers whose covered expenses are only slightly above the maximum standard deduction;
- the assessable labour income cap, which limits the maximum standard deduction to the taxpayer's assessable labour income and may therefore provide a smaller deduction for low-income and casual workers, but does not itself create an additional tax liability;
- the removal of former written evidence exceptions; and
- any broader integration of the standard deduction with PAYG withholding.

Recommendation: The ATO should identify these matters in the consultation compendium and refer them to Treasury for monitoring and, where appropriate, legislative review. The final Ruling should not imply that administrative guidance can alter the statutory outcome.

Conclusion

CPA Australia supports practical measures that reduce compliance costs while maintaining the integrity of the tax system. With clearer boundary rules, stronger examples, coordinated guidance and well-designed digital implementation, the final Ruling can provide better certainty needed for by taxpayers, employers, registered tax agents and advisers to apply the standard deduction correctly from the 2026–27 income year.