



# myTax 2018 Net income or loss from business

How to complete the business section of your return using myTax.

**Last updated** 28 June 2018

Complete **Net income or loss from business** if you derived income or incurred a loss from any business. This section covers:

- income from being a sole trader
- income or a loss from a primary production business
- income under a pay as you go (PAYG) voluntary agreement
- income from which an amount was withheld because you did not quote your Australian business number (ABN)
- income you derived as a foreign resident from which an amount was withheld because it was subject to foreign resident withholding
- income of an independent contractor working under a labour hire arrangement
- income from the following specified payments
  - payment for tutorial services provided under the Indigenous Student Success Programme (formerly known as the Indigenous Tutorial Assistance Scheme) of the Department of the Prime Minister and Cabinet
  - payment for translation and interpretation services provided for the Translating and Interpreting Service National of the Department of Immigration and Border Protection
  - income as a performing artist in a promotional activity
- any other business income.

A specified payment is a payment specified in tax law for PAYG withholding purposes.

**Net income or loss from business** consists of three sections:

- [Net primary production](#)
- [Net non-primary production](#)
- [Other business and professional items](#)

The income and expenses to be included in **Net primary production** and **Net non-primary production** are amounts derived from your accounting system or financial statements, except for the following which are to be shown at tax values:

- the values of opening and closing stock, and
- depreciation expenses for small business entities choosing to use the simplified depreciation rules.

The income and expense amounts included in this section should form part of your profit and loss statement and are the basis for calculating your net profit or loss. You should deal with any adjustments to these amounts for tax purposes at **Primary production – Business reconciliation items** and **Non-primary production – Business reconciliation items**.

### **Former STS taxpayers**

If you are eligible and are continuing to use the STS accounting method, you must complete the income and expenses sections using the STS accounting method, see [Former simplified tax system \(STS\) taxpayers](#).

For further help about this section, use the left hand side table of contents.

## **Depreciation and capital allowances tool**

You can use the Depreciation and capital allowances tool to work out any deductible decline in value, deductible balancing adjustments and assessable balancing adjustments. The tool can be accessed when you enter your business income or loss details.

**Note:** If you used the Depreciation and capital allowances tool, fields containing information from the tool cannot be directly adjusted in

myTax. To make any adjustments to this information, or to add new assets to the tool, select **Work it out**.

The following video shows you how to use the Depreciation and capital allowances tool.

**Media:** [How to use the Depreciation and capital allowance tool]

<https://tv.ato.gov.au/ato-tv/media?v=bd1bdiuboi7hki>  (Duration: 2:12)

## Net primary production

Guide on how to complete this section if you have business income and expenses from primary production activities.

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## Watch our video

This video shows you how to complete the business section in myTax.

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This video shows you how to complete the business section in myTax.

**Media:** [How to complete the business section in myTax]

<https://tv.ato.gov.au/ato-tv/media?v=bd1bdiubosijw7>  (**Duration:** 2:51)

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## Net primary production

Guide on how to complete this section if you have business income and expenses from primary production activities.

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Complete this section if you have business income and expenses from primary production activities. Primary production activities are described in [Information for primary producers](#).

## Completing this section

[Watch our video](#) for a demonstration on how to complete the business section in myTax.

You will need the [primary production worksheet](#) if you are a primary producer to determine some of the amounts in this section. Complete this worksheet before proceeding.

**Note:** If you received the following payment summaries, enter the details in the **Business payment summaries** section:

- *PAYG payment summary – business and personal services income*
- *PAYG payment summary – withholding where ABN not quoted*

Income and tax withheld amounts from these payment summaries will be transferred to this section if they relate to primary production business activities. Add, alter or delete these amounts in the **Business payment summaries** section.

1. Select **Net primary production** to expand the section.
2. Enter your total primary production government industry payments received at **Assessable government industry payments**. For more information, see [Assessable government industry payments](#).
3. Enter your other primary production business income or loss amounts at **Other business income**. For more information, see [Other business income](#).
4. Enter your primary production business expense amounts into the corresponding fields. For more information, see [Expenses](#).
5. Enter the reconciliation item amounts related to your primary production business activities into the corresponding fields. For more information, see [Reconciliation items](#).
6. Select **Save**.

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## Net non-primary production

Guide on how to complete this section if you have business income and expenses from non-primary production activities.

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Complete this section if you have business income and expenses from non-primary production activities.

## Completing this section

[Watch our video](#) for a demonstration on how to complete the business section in myTax.

**Note:** If you received the following payment summaries, enter the details in the **Business payment summaries** section:

- *PAYG payment summary – business and personal services income*
- *PAYG payment summary – withholding where ABN not quoted*
- *PAYG withholding payment summary – foreign residents*

Income and tax withheld amounts from these payment summaries will be transferred to this section if they relate to non-primary production business activities. Add, alter or delete these amounts in the **Business payment summaries** section.

If you have a reminder at the **Business and professional items** section that you received payments for building and construction services and tax has been withheld, include these amounts in the **Business payment summaries** section. These payments have been reported to us in a Taxable payments annual report. Review these payments to ensure your tax return is correct. Amounts invoiced but not actually paid to you in the financial year were not included in this year's report.

1. Select **Net non-primary production** to expand the section.
2. Enter your total non-primary production government industry payments received at **Assessable government industry payments**. For more information, see [Assessable government industry payments](#).
3. Enter your other non-primary production business income or loss amounts at **Other business income**. For more information, see [Other business income](#). Include amounts received where all of the following apply:
  - you have a reminder at the Business and professional items section that you received payments for building and construction services
  - no tax has been withheld, and
  - the payments are not personal services income.
4. Enter your non-primary production business expense amounts into the corresponding fields. For more information, see [Expenses](#).

5. Enter the reconciliation item amounts related to your non-primary production business activities into the corresponding fields. For more information, see [Reconciliation items](#).

6. Select **Save**.

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## Other business and professional items

Complete this section if you have any business income or expenses.

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### Completing this section

[Watch our video](#) for a demonstration on how to complete the business section in myTax.

1. Enter your small business entity depreciation information into the corresponding fields. For more information, see [Small business entity simplified depreciation](#).
2. Enter your other business and professional items information into the corresponding fields. For more information, see [More information on Other business and professional items](#).
3. Select **Save**.

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## More information on Other business and professional items

## On this page

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## Small business entity simplified depreciation

This section is only for small business entities using the simplified depreciation rules.

Small business entities can claim an immediate deduction for assets they start to use, or have installed ready for use, for a taxable purpose, provided each depreciable asset costs less than \$20,000. This temporarily replaces the instant asset write-off threshold of \$1,000.

This measure applies to expenditure incurred from 7.30pm (AEST) 12 May 2015 until 30 June 2018.

To complete these fields, use the:

- Depreciation and capital allowances tool, or
- amounts you calculated for small business entity depreciation deductions in [worksheet 2](#) and follow the steps:

1. At **Small business entity simplified depreciation – Deduction for certain assets** enter the amount from row **a** in the worksheet.



2. At **Small business entity simplified depreciation – Deduction for general small business pool** enter the total of the amounts from rows **b** and **c** in the worksheet.

Enter the depreciation deductions, not the pool balances.

## Trade debtors

This is the total amount owing to the business at the end of the year for goods and services provided during the income year (that is, current trade and other debtors).

Work out the total amount owing from trade and other debtors. If you have more than one business, add up all trade and other debtor amounts.

## Trade creditors

This is the total amount owed by the business at the end of the year for goods and services received during the income year (that is, current trade and other creditors).

Work out the total amount owing to trade and other creditors. If you have more than one business, add up all trade and other creditor amounts.

## Total salary and wage expenses

Salary, wages and other labour costs actually paid or payable to persons employed in your business (excluding those forming part of capital expenditure or paid for private domestic assistance) are usually deductible. However, you cannot be an employee of your business. Payments to you of salary are not allowable deductions in calculating your income or loss; treat these payments as an allocation of profits.

Include any salary and wage component of Cost of sales, such as allowances, bonuses, casual labour, retainers and commissions paid to people who received a retainer, and workers compensation paid through the payroll.

Also include direct and indirect labour, holiday pay, locums, long service leave, lump sum payments, other employee benefits, overtime, payments under an incentive or profit-sharing scheme, retiring

allowances and sick pay. Include any salary or wages paid to relatives and other related entities both here and at **Payments to associated persons**. Exclude agency fees, contract payments, sub-contract payments, service fees, superannuation, management fees and consultant fees.

Select from the drop-down list the letter that matches the description of the expense component where the salary and wage expenses have been wholly or predominantly reported.

## Payments to associated persons

These are amounts, including salary, wages, commissions or allowances, paid to your relatives. These also include superannuation contributions paid for the benefit of your relatives.

You must also include amounts of salary or wages paid to your relatives and a partnership in which your relatives are partners at **Total salary and wage expenses**.

You need to keep the following records:

- full name of relatives or related partnerships
- age, if under 18 years old
- relationship
- nature of duties performed
- hours worked
- total remuneration
- salary or wages claimed as deductions
- other amounts paid, for example, retiring gratuities, bonuses and commissions.

Excessive or unreasonable payments to your relatives, or a partnership in which your relatives are partners, may not be deductible. The PSI rules (see [Personal services income \(PSI\)](#)) also limit deductions for payments to associates.

## Intangible depreciating assets first deducted

Small business entities using the simplified depreciation rules do not complete this field.

The following intangible assets are regarded as depreciating assets (as long as they are not trading stock):

- certain items of intellectual property, such as patents, registered designs, copyrights and certain types of licences
- computer software (or a right to use computer software) that you acquire, develop or have someone else develop for your use for the purposes for which it is designed (in-house software)
- mining, quarrying or prospecting rights and information
- certain indefeasible rights to use a telecommunications cable system
- certain telecommunications site access rights
- spectrum licences
- datacasting transmitter licences.

A depreciating asset that you hold starts to decline in value from the time you use it or install it ready for use for any purpose, including a private purpose. However, you can only claim a deduction for the decline in value to the extent that you use the asset for a taxable purpose, such as for producing assessable income.

You need to show the cost of all intangible depreciating assets for which you are claiming a business deduction for decline in value for the first time. If you have allocated any intangible depreciating assets with a cost of less than \$1,000 to a low-value pool for the income year, you also need to include the cost of those assets here. Do not reduce the cost for estimated non-taxable use.

Expenditure on in-house software that you allocated to a software development pool is not shown here.

See also [Guide to depreciating assets](#).

## **Other depreciating assets first deducted**

Small business entities using the simplified depreciation rules do not complete this field.

A depreciating asset that you hold starts to decline in value from the time you use it or install it ready for use for any purpose, including a private purpose. However, you can claim a deduction for the decline in value only to the extent you use the asset for a taxable purpose, such as for producing assessable income.

You need to include the cost of all depreciating assets (other than intangible depreciating assets) for which you are claiming a business deduction for the decline in value for the first time.

If you have allocated any depreciating assets with a cost of less than \$1,000 to a low-value pool for the income year, you also need to include the cost of those assets here. Do not reduce the cost for estimated non-taxable use.

To calculate the decline in value of these assets use the Depreciation and capital allowances tool.

See also [Guide to depreciating assets](#).

## **Termination value of intangible depreciating assets**

Small business entities using the simplified depreciation rules do not complete this field.

Do not show at this field any consideration you received during the income year in relation to in-house software for which you have allocated expenditure to a software development pool.

Include the termination values for intangible depreciating assets (including intangible assets allocated to a low-value pool) that you stopped holding or using during the year (for example, assets you sold, or that were lost or destroyed).

Generally, the termination value is the amount you received or are deemed to have received for the asset that you stopped holding or using. It includes the market value of any non-cash benefits, such as goods and services, you received for the asset.

Include amounts you received or are deemed to have received for all intangible depreciating assets that you stopped holding or using in your business, other than:

- assets allocated in a prior year to the general small business pool or the formerly available long-life small business pool

- low-cost assets for which an immediate deduction has been allowed under the simplified depreciation rules
- in-house software for which you allocated expenditure to a software development pool.

**See also:**

- [Guide to depreciating assets](#)
- [Intangible depreciating assets first deducted.](#)

## Termination value of other depreciating assets

Small business entities using the simplified depreciation rules do not complete this field.

You include the termination values for other depreciating assets (including assets allocated to a low-value pool) that you stopped holding or using during 2017–18 (for example, assets you sold, or that were lost or destroyed).

Generally, the termination value is the amount you received or are deemed to have received for the asset that you stopped holding or using. It includes the market value of any non-cash benefits, such as goods and services, you received for the asset.

Include amounts you received or are deemed to have received for all depreciating assets that you stopped holding or using in your business other than:

- intangible depreciating assets
- assets allocated in a prior year to the general small business pool or the formerly available long-life small business pool
- low-cost assets for which an immediate deduction has been allowed under the simplified depreciation rules
- buildings or structures for which a deduction is available under the capital works provisions
- assets falling within the provisions relating to investments in Australian films.

**See also:**

- [Guide to depreciating assets](#).

## Trading stock election

If you have valued trading stock on hand at the end of 2017–18 at an amount that is less than the lowest amount available using one of the valuation methods at [Closing stock](#), you must notify the Commissioner.

If you must notify the Commissioner about your trading stock election, select **Yes**.

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## Business income and expenses

Use this guide on income and goods and services tax (GST) for your business.

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## Income

Your business income may include the funds or the Australian dollar value of property you received through the disposal of cryptocurrency in the ordinary course of your business or the Australian dollar value of cryptocurrency you received for goods or services you provide as part of your business. For more information, see [Tax treatment of cryptocurrencies](#).

Do not show the following types of income here:

- gross interest; show the amount of income at **Interest** on your tax return
- dividends and franking credits; show the amounts at **Dividends** on your tax return
- distributions from partnerships and trusts; show these at **Partnerships** and **Trusts** on your tax return

- gross rental or similar income that is not derived from carrying on a business of renting property, such as agistment or hire fees; show the amount at **Rent** on your tax return
- net capital gains; show these at **Capital gains or losses** on your tax return
- PSI shown at **Personal services income**
- farm management repayments; show these at **Net farm management deposits or repayment** on your tax return
- attributed foreign income or foreign source income; show these at **Foreign income, assets and entities** on your tax return.

## Goods and services tax (GST)

If you are registered or required to be registered for GST, the following apply:

- For income tax purposes, you should exclude GST from assessable income, exempt income and amounts received or receivable that you take into account in calculating income and deductions.
- You should reduce deductible losses and outgoings by the amount of input tax credit entitlement. In certain circumstances, for example, a change in how much you used an asset for business purposes, an adjustment for GST purposes results in an amount being included in assessable income (if the adjustment is a GST-decreasing adjustment) or being deductible (if the adjustment is a GST-increasing adjustment).
- You should also exclude GST components under other specific rules including capital gains tax (cost base, reduced cost base and capital proceeds) and capital allowances (the cost and termination value of a depreciating asset).

If you are not registered or required to be registered for GST, you do not need to adjust your income and deductions for GST. You can claim the GST-inclusive amount incurred on deductible outgoings.

# Assessable government industry payments

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Generally, government credits, grants, rebates, bounties and subsidies are assessable income of the recipient if they are received in, or in relation to, the carrying on of a business. This generally includes amounts of a capital nature. However, amounts relating to the commencement or cessation of a business may give rise to a capital gain.

Examples of assessable government industry assistance are:

- bounties
- employee subsidies
- export incentive grants
- fuel tax credits
- industry restructuring and adjustment payments
- producer rebate (wine equalisation tax)
- alcohol manufacturer refund
- product stewardship (oil) benefit.

See also [Taxation Ruling TR 2006/3](#) *Income tax: government payments to industry to assist entities (including individuals) to continue, commence or cease business.*

Do not include Medicare payments received by medical practices here. Include them at **Other business income**.

If you are a primary producer, you must include the amounts shown at PP11 on your [primary production worksheet](#).

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## Other business income



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Other business income includes:

- gross sales of trading stock
- gross sales from produce
- goods taken from stock for your own use
- value of livestock killed for rations
- value of livestock exchanged for other goods or services
- gross earnings from services
- rent derived from carrying on a business of renting property
- taxi driver earnings (income you earned as a non-employee taxi driver if it is not shown at **Personal services income**)
- amounts received as recoupment of expenses
- bad debts recovered
- profit on sale of depreciating assets
- royalties
- insurance recoveries
- subsidies
- employee contributions for fringe benefits
- assessable non-government assistance from all sources
- foreign exchange (forex) gains.

Your other business income excludes amounts shown at the **Business payment summaries** section and at the **Assessable government industry payments** field.

If you are a primary producer, you must add the amounts shown at PP1, PP2, PP6, PP7 and PP10 on your [primary production worksheet](#) to any other income from a business of primary production referred to above.

# Expenses

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Do not include the following expenses on your schedule:

- non-business interest and dividend income expenses; claim deductible expenses at **Interest deductions and Dividend deductions** on your tax return
- farm management deposits; include them at **Net farm management deposits or repayments** on your tax return
- non-business rental expenses; claim deductible expenses at **Rent** on your tax return
- expenses and losses relating to foreign source income; take them into account as required at **Foreign income, assets and entities**, or in the case of certain debt deductions, claim them at **Other deductions** on your tax return
- expenses relating to your personal services income shown at **Personal services income**
- low-value pool deduction, where the pool contains assets used for work-related, self-education or non-business rental purposes at **Low value pool deduction**.

Your expenses may include expenditure relating to the acquisition and disposal of cryptocurrency in the ordinary course of your business, or the arm's length value of the business item (including trading stock) acquired using cryptocurrency.

You need to complete all sections that relate to your business or businesses.

If you are a primary producer, you will need a [primary production worksheet](#) to help you work out some of the amounts. Complete the worksheet before proceeding.

## Goods and services tax

If you are registered or required to be registered for GST, exclude from the deductions any input tax credit entitlements that arise in relation to outgoings.

If you pay GST by instalments, and incurred a penalty for underestimating a varied GST instalment, you can claim a deduction for the penalty at **Cost of managing tax affairs** on your tax return. Do not show the penalty in this section.

### **Records you need to keep**

You must keep your business expenses records for five years after you prepared or obtained them, or five years after you completed the transactions or acts to which they relate.

### **Prepayments of \$1,000 or more**

If you made a prepayment of \$1,000 or more for something to be done (in whole or in part) after 30 June 2017, the timing of your deduction may be affected by the rules relating to prepayments. Generally, you will need to apportion your deduction for prepaid business expenditure over the service period, or 10 years, whichever is less. There is an exception for small business entities if the 12-month rule applies.

Where expenses shown in this section include prepaid expenses that differ from the amounts allowable as deductions in 2017–18, then make an expense reconciliation adjustment at **Expense reconciliation adjustment** in the **Business reconciliation items** section.

### **See also:**

- [Deductions for prepaid expenses](#).

### **Thin capitalisation**

The thin capitalisation provisions apply to entities (including individuals) to reduce certain deductions (called 'debt deductions') for costs incurred in obtaining and servicing debt finance, where the debt applicable to Australian operations exceeds the limits set out in Division 820 of the ITAA 1997.

The thin capitalisation rules may apply to you if:

- you are an Australian resident and you, or any of your associate entities, are an Australian controller of a foreign entity or carry on business overseas at or through a permanent establishment, or

- you are a foreign resident with operations or investments in Australia and you are claiming debt deductions.

The thin capitalisation rules will not affect you if:

- your debt deductions (combined with the debt deductions of your associate entities) do not exceed \$2,000,000 in 2017–18, or
- you are an Australian resident and the combined value of your associates' and your Australian assets is not less than 90% of the value of your associates' and your total assets.

If the thin capitalisation rules affect you, the amount of any debt deductions you can claim may be reduced by these rules.

**See also:**

- [Thin capitalisation](#).

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## Opening stock

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The opening value of an item of stock must equal its closing value in the previous year. The total value of all stock on hand at the start of the year is equal to the amount shown as closing stock on your 2017 tax return.

If you are a primary producer, you must add the value of your opening stock from your livestock account at PP4 on your primary production worksheet to the value of your opening stock from your produce account at PP9. The total of these amounts is the total value of your primary production opening stock.

Do not include any amounts representing opening stock of a business which commenced operations during the year. Include the purchase costs of these items at **Purchases and other costs**.

## Purchases and other costs

Purchases and other costs represent the direct cost of materials used for manufacture, sale or exchange in deriving the gross proceeds or earnings of the business. It includes inwards freight; and also the cost of stock acquired when starting or acquiring a business during the year. It may also include some costs for labour and services provided under contract, if these are recorded in the cost of sales account in your business books of account. If so, do not also include this amount at **Contractor, subcontractor and commission expenses**.

If you are a primary producer, you must include the value of your purchases from your livestock account at PP5 on your primary production worksheet.

### **Former STS taxpayers**

If you are eligible and are continuing to use the STS accounting method, include only purchases and other costs that you have paid. See [Former simplified tax system \(STS\) taxpayers](#).

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## **Closing stock**

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### **Small business entities**

If you are a small business entity and are choosing to use the simplified trading stock rules you need to account for changes in the value of your trading stock only if there is a difference of more than \$5,000 between the value of all your stock on hand at the start of the income year and a reasonable estimate of the value of all your stock on hand at the end of the income year.

The value of your stock on hand at the start of the income year is the same value as the closing value shown on your schedule in the previous year. This may not necessarily reflect the actual value of your stock if you did not account for the change in value of your stock in the previous year. For more information on a reasonable estimate of the value of stock, see [ato.gov.au](http://ato.gov.au) or phone **13 28 66**.

You can still choose to conduct a stocktake and account for changes in the value of trading stock, if you wish.

**Is the difference between the value of your opening stock and a reasonable estimate of your closing stock more than \$5,000?**

**Yes** – You must account for changes in the value of your trading stock. Go to Step 2.

**No** – If you choose not to account for changes in the value of your trading stock, go to Step 1. Otherwise, go to Step 2.

1. If the difference referred to above is \$5,000 or less and you choose not to account for this difference, the closing stock values you enter must be the same as the values you enter at **Opening stock**. Do not enter your reasonable estimate.

If this is your first year in business, the value of your **Closing stock** will be zero.

Go to [Cost of sales](#).

2. If the difference referred to above is more than \$5,000 or you choose to account for the difference in trading stock, the **Closing stock** values must be brought to account under section 70-35 of the ITAA 1997. For more information, see Other businesses below.

You must include in your **Closing stock** amount the value of all stock on hand, regardless of whether you have paid for the stock.

## **Other businesses**

The amount that is shown at [Closing stock](#) is the total of the value of all items of trading stock, with the value of each item calculated for tax purposes in accordance with section 70-45 of the ITAA 1997.

Trading stock is anything you have on hand which you produced, manufactured, acquired or purchased for the purpose of sale,

manufacture or exchange. For example, trading stock includes livestock but not working animals (except those used by a primary producer), crops and timber when harvested, and wool after it is removed from the sheep.

Manufacturers must include as trading stock partly manufactured goods and materials on hand. However, closing stock excludes any amount that represented closing stock of a business that ceased operations during the year. This amount is included at **Other business income**. For more details about what constitutes trading stock, see [Simplified trading stock rules](#) or phone **13 28 66**.

You can choose one of the following three methods to value your trading stock:

- cost
- market selling value
- replacement value.

You may elect to value an item of trading stock below the lowest value calculated by any of these methods because of obsolescence or other special circumstances. The value you elect must be reasonable. Where you elect to value an item of trading stock below cost, market selling value and replacement value, you must complete the **Trading stock election**.

You may use different methods to calculate each item of trading stock in different years or for different items in the same year. However, the opening value of each item in a particular year must be the same as the closing value for that item in the previous year.

If you are registered for GST, the value of closing stock should not include an amount equal to the input tax credit that would arise if you had acquired the item solely for business purposes at the end of the income year. Input tax credits do not arise for some items of trading stock, such as shares.

If you are a primary producer, you must add the value of your closing stock from your livestock account at PP3 on your primary production worksheet to the value of your closing stock from your produce account at PP8 on your primary production worksheet.

The total of these amounts is the total value of your primary production closing stock.

As the tax values of closing stock on hand are shown at PP3 and at PP8 on your primary production worksheet, you cannot reduce these values by accounting entries. Keep records showing how each item was valued.

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## Cost of sales

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[Superannuation expenses](#)

[Bad debts](#)

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[Rent expenses](#)

[Interest expenses within Australia](#)

[Interest expenses overseas](#)

Goods taken for your own use should not be accounted for as stock on hand at 30 June 2017. Include at **Other business income** the value of:

- livestock killed for rations
- livestock exchanged for other goods or services
- goods taken for your own use.

MyTax will work out your **Cost of sales** from the information you provide.

Select the **Closing stock value type**:

- **C**: cost
- **M**: market selling value



- **R:** replacement value.

Foreign resident withholding expenses (excluding capital gains)

Enter your total non-primary production expenses directly related to income subject to foreign resident withholding (excluding capital gains). You will not have any primary production amounts here.

## Contractor, sub-contractor and commission expenses

These are expenses for labour and services provided under contract, other than salaries or wages, for example:

- payments to self-employed people, such as consultants and contractors, including payments subject to a PAYG voluntary agreement to withhold, and payments made under a labour-hire arrangement
- commissions paid to people not receiving a retainer
- agency fees, for example, for services provided by an advertising agency
- service fees, for example, plant service
- management fees
- consultant fees.

Do not include the following at this field:

- expenses for external labour which have been included in the business cost of sales account
- expenses for accounting or legal services; include these at [All other expenses](#).


## Superannuation expenses

If you made superannuation contributions on behalf of eligible employees or their dependants as a business expense, enter the superannuation expenses for the income year. Do not include any amount that was a contribution for yourself. The deduction for your own superannuation contributions must be claimed at **Personal super contributions** on your tax return.

Employers are entitled to a deduction for the contributions they made to a complying superannuation, provident, benefit or retirement fund or retirement savings account (RSA) where the contributions are to provide superannuation benefits for employees or to provide benefits to the employee's dependants on the employee's death. A deduction is allowable in the income year in which the contributions are made.

Contributions made to a non-complying fund:

- are not allowable as a deduction, and
- do not count towards superannuation guarantee obligations.

You can check the compliance status of superannuation funds at [superfundlookup.gov.au](https://superfundlookup.gov.au) . Under the superannuation guarantee, an employer needs to provide a minimum level of superannuation for employees. If the employer does not make the minimum contribution by the relevant date, the employer is required to pay the superannuation guarantee charge on the superannuation guarantee shortfall. The superannuation guarantee charge is not a superannuation contribution and is not tax deductible. Contributions made by employers to offset a superannuation guarantee charge liability are not deductible.

Contributions paid by an employer to a non-complying superannuation fund on behalf of an employee are generally fringe benefits (other than where the contributions are made for a temporary resident) and may be subject to tax under the *Fringe Benefits Tax Assessment Act 1986*.

There is no age-related limit on deductions for contributions made on or before the 28th day following the end of the month in which the employee turns 75. However, the employee may be liable to pay additional tax if their concessional contributions exceed their concessional contributions cap.

**See also:**

- [Super contributions – too much can mean extra tax.](#)

For contributions made after the 28th day following the end of the month of the employee's 75th birthday, the deduction claimable is limited to:

- the amount of the contribution required under an industrial award, determination or notional agreement preserving State awards, or

- the amount of the contribution that reduces an employer's charge percentage under the Superannuation Guarantee (Administration) Act 1992 in respect of the employee, or
- where both amounts are applicable, the greater of the two amounts is to be applied.

## Bad debts

If you wrote off any bad debts in your business include income from the recovery of bad debts at **Other business income**.

You are not allowed a deduction for bad debts unless you have previously included the amount in your assessable income and it relates to money you lent in the ordinary course of a money-lending business or it represents a business loss or outgoing of a revenue nature.

Before you can claim a bad debt, it must be bad and not merely doubtful. The question of whether a debt is a bad debt will depend on the facts in each case and, where applicable, the action taken for recovery.

Do not include accounting provisions for doubtful debts. You include them at **All other expenses**, then add them back at **Expense reconciliation adjustments** in the **Business reconciliation items** section.

See also [Taxation Ruling TR 92/18](#) *Income tax: bad debts*.

You can also claim a deduction for:

- partial debt write-offs; where only part of a debt is bad and is written off, you may claim a deduction for the amount written off
- losses incurred for debt written off under a debt-for-equity swap where you discharge, release or otherwise extinguish the whole or part of a debt owed to you in return for equity in the debtor.

In the case of a debt-for-equity swap, you can claim a deduction for the difference between the amount of the debt and the greater of the market value of the equity at the time of issue or the value of the equity recorded in your books at the time of issue.

### Records you need to keep

Keep a statement for all debtors whose bad debts you wrote off during the year, showing:

- their name and address
- the amount of the debt
- the reason you regarded the debt as bad
- where applicable, the year that you returned the amount as income.

## Lease expenses

This is expenditure incurred on financial leases and on operating leases for assets such as motor vehicles and plant. Do not include the cost of leasing real estate (show this cost at **Rent expenses**).

If you include capital expenditure incurred to terminate a lease or licence you will need to add back the amount at **Expense reconciliation adjustments**. Although capital expenditure to terminate a lease or licence is not deductible in one year, a five-year straight-line write-off may be allowable (see [section 25-110](#) of the ITAA 1997) for certain capital expenditure incurred to terminate a lease or licence if the expenditure is incurred in the course of carrying on a business, or in connection with ceasing to carry on a business. See [worksheet 4](#) and [note 3](#).

In some circumstances, lease expenses may be debt deductions for the purposes of the [thin capitalisation](#) rules.

If you include an amount of lease expense which is not allowable as a deduction, such as amounts disallowed under the thin capitalisation rules, you will need to add back the amount at **Expense reconciliation adjustments**.

Expenses incurred under a hire purchase agreement are not lease expenses. Such expenses are included at **Expense reconciliation adjustments**.

Special rules apply to leased cars if the cost of the car exceeds the car limit that applies for the financial year in which the lease commences. The car limit for 2017–18 is \$57,581.

If you lease a car that is subject to the special rules, the reconciliation between the lease expense and the tax treatment is carried out at

**Expense reconciliation adjustments.** For more information, see [Luxury car leasing](#).

### **Records you need to keep**

List the assets leased and keep full details of the leasing expenses for each item, including motor vehicles, and details of any private use. Leasing expenses of certain cars fall under the substantiation rules.

## **Rent expenses**

This is expenditure you incurred as a tenant for rental of land and buildings used in the production of income. Include the cost of leasing real estate.

## **Interest expenses within Australia**

Include interest you incurred on money borrowed within Australia to acquire income-producing assets used in your business, to finance business operations or to meet current business expenses.

Do not include interest incurred in deriving rental income. Claim this at **Rent** on your tax return.

If you include an amount of interest which is not allowable as a deduction, such as amounts denied by the [thin capitalisation](#) rules, you will need to add back the amount at **Expense reconciliation adjustments**.

## **Interest expenses overseas**

Include any interest incurred on money borrowed from overseas sources to acquire income-producing assets used in your business, to finance business operations or to meet current business expenses.

Do not include interest incurred in deriving rental income. Claim this at **Rent** on your tax return.

Generally, you are required to withhold an amount of withholding tax from interest paid or payable to non-residents and from interest derived by a resident through an overseas branch. You must send these amounts to us. You cannot deduct an interest expense if you were required to withhold tax on that interest and you failed to do so.

For information on the tax treatment of interest paid to non-residents, phone **13 28 66**.

If you include an amount of interest which is not allowable as a deduction, such as amounts denied by the [thin capitalisation](#) rules, you will need to add back the amount at **Expense reconciliation adjustments**.

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## Depreciation expenses

Last updated 28 June 2018

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### Continuing small business pools

If you are not carrying on a business this year, but in a prior year you allocated assets to a general small business pool or long-life small business pool (or the law allocated the assets to such a pool), do not include the pool deductions at this section. Show such deductions at **Other deductions** on your tax return.

## Small business entities

Include amounts for depreciation deductions claimed under the small business entity capital allowances (depreciation) rules and for the business use of other assets under the uniform capital allowances (UCA) rules. This includes your deduction under the small business entity rules for depreciating assets used for work-related or self-

education purposes. However, this excludes any amount included at **Personal services income**.

Small business entities can claim an immediate deduction for most depreciating assets costing less than \$20,000 (excluding input tax credit entitlements) and can pool most of their other depreciating assets in a general small business pool.

Some depreciating assets are excluded from these simplified depreciation rules, but a deduction may be available under the UCA rules.

If you are a small business entity and are choosing to use these simplified depreciation rules, you must use immediate write-off and pooling as applicable. You cannot choose to use one and not the other.

### **Five-year restriction**

Small business entities that have previously elected out of the simplified depreciation rules are no longer subject to the 'lock-out' rule (which prevented small businesses from re-entering the simplified depreciation regime for five years if they had opted out). These entities may re-elect to use the simplified depreciation rules.

The \$20,000 threshold and suspension of the five-year restriction only apply from 7.30pm AEST 12 May 2015 to 30 June 2018.

See [Simplified depreciation – rules and calculations](#) or phone **13 28 66**.

### **Calculating your depreciation deductions**

You can work out your depreciation and capital allowance claims by using the Depreciation and capital allowances tool. If you want to manually calculate your amounts read on.

If your accounting system or financial statements provide you with the amounts to complete [worksheet 2](#), enter these amounts in the worksheet. Otherwise, use calculations 1 to 5 below to calculate your depreciation deductions.

The amounts you enter in [worksheet 2](#) must be tax values and not accounting values.

### **Calculation 1: Deduction for certain assets (costing less than \$20,000)**

An immediate deduction is available for certain depreciating assets:

- which you started to use, or have installed ready for use during the income year
- whose cost at the end of the year is less than \$20,000 (excluding input tax credit entitlements)
- that qualify for a deduction under the small business entity depreciation rules.

Work out the taxable purpose proportion of each of these types of assets. You calculate the deduction as follows:

- multiply each asset's adjustable value by the taxable purpose proportion
- add these results and enter the total at (a) in [worksheet 2](#).

The adjustable value of an asset, at the time it was first used (or installed ready for use) for a taxable purpose, will be its cost unless the asset was previously used (or installed ready for use) by the small business solely for private purposes. For example, for a vehicle bought on 1 December at a cost of \$19,990 (excluding input tax credit entitlements) and used for producing assessable income from that date at an estimated 70% of the time, the immediate deduction would be  $\$19,990 \times 70\% = \$13,993$ .

Do not include the following amounts in this calculation; allocate these assets to the general small business pool (see [Calculation 2](#)):

- depreciating assets costing less than \$20,000 which you held prior to using the simplified depreciation rules
- depreciating assets that cost \$20,000 or more. Such assets must be allocated to the general small business pool (see calculation 2) even if the taxable purpose proportion is less than \$20,000. For example, if the vehicle above cost \$20,200, the taxable purpose proportion is \$14,140 ( $\$20,200 \times 70\%$ ). However, you cannot obtain an instant deduction and the vehicle must still be allocated to the general small business pool because its cost is not less than \$20,000.

## Definitions

**Adjustable value** of a depreciating asset is its cost (excluding input tax credit entitlements) less its decline in value since you first used it or installed it ready for use for any purpose, including a private purpose.



**Assessable balancing adjustment amount** arises where the termination value of the depreciating asset is more than the adjustable value.

**Cost addition amounts** include the cost of capital improvements to assets and costs reasonably attributable to disposing of or permanently ceasing to use an asset (this may include advertising and commission costs or the costs of demolishing the asset).

**Decline in value** (previously 'depreciation') is the value that an asset loses over its effective life.

**Deductible balancing adjustment amount** arises where the termination value of the depreciating asset is less than the adjustable value.

**Depreciating asset** is an asset with a limited effective life which declines in value over that life.

**Taxable purpose** includes the purpose of producing assessable income.

**Taxable purpose proportion** is the extent to which you use the asset for a taxable purpose, such as for the purpose of producing assessable income.

**Termination value** includes money received from the sale of an asset or insurance money received as the result of the loss or destruction of an asset. Exclude the GST component where the amount received is for a taxable supply.

## **Calculation 2: General small business pool deduction**

To calculate your deductions for the general small business pool you must first calculate the opening pool balance of the pool.

If 2017–18 was the first income year for which you were a small business entity and chose to apply the simplified depreciation rules, the opening balance of the general small business pool is the sum of the taxable purpose proportions of the adjustable values of the depreciating assets that were:

- used, or held for use, just before the start of 2017–18
- not excluded from the simplified depreciation rules.

Include only the taxable purpose proportion of the adjustable value of each depreciating asset. For example:

- for an asset with an adjustable value of \$50,000 which is used only 50% for an income-producing purpose, add only \$25,000 to the pool
- for an asset with an adjustable value of \$20,200 which is used 70% for an income-producing purpose, add only \$14,140 to the pool.

You can choose not to allocate an asset to your general small business pool if you first used it, or installed it ready for use, for a taxable purpose before 1 July 2001.

For an income year that is not the first income year for which you were a small business entity, the opening pool balance of the general small business pool is the closing pool balance for the previous income year, except where you make an adjustment to reflect the changed business use of a pooled asset.

Calculate your deduction for the general small business pool in 2017–18 as follows:

- opening pool balance  $\times 30\%$
- where necessary, make a reasonable apportionment for the general small business pool deduction between primary production and non-primary production activities
- enter the result of your general small business pool deduction at (b) in [worksheet 2](#)
- if the pool balance (after taking into account additions and disposals but before calculating the deductions in steps 2, 3 and 4) is below \$20,000, you instead work out the deduction for the pool using calculation 5.

**Calculation 3: Depreciating assets including motor vehicles first used for a taxable purpose during 2017–18 and cost addition amounts for assets already allocated to a pool**

You calculate your deduction at half the general small business pool rate for:

- depreciating assets that you first used or installed ready for use for a taxable purpose during the year
- cost addition amounts for assets already allocated to the general small business pool.

Calculate your deduction as follows:

- the taxable purpose proportion of the adjustable value of each depreciating asset first used for a taxable purpose this year multiplied by 15%, plus
- the taxable purpose proportion of the cost addition amounts multiplied by 15%.

Enter the total deduction for general small business pool assets at (c) in [worksheet 2](#).

#### **Calculation 4: Other depreciating assets**

Work out your deduction for the decline in value of all your other depreciating assets that are not included in calculations 1 to 3.

For information on how to calculate the decline in value of these assets, see [Guide to depreciating assets](#).

Enter your total deduction for other depreciating assets at (e) in [worksheet 2](#).

Do not include at (e) in the worksheet depreciating assets which qualify for a deduction under Subdivision 40-F or 40-G of the ITAA 1997 as water facilities, fencing assets, fodder storage assets or landcare operations in your primary production business and for which you have chosen to claim a deduction under those Subdivisions and not these small business entity depreciation rules. Enter these deductions at **Landcare operations and business deduction for decline in value of water facility, fencing asset and fodder storage asset**.

#### **Calculation 5: Disposal of depreciating assets**

(a) Certain assets (costing less than \$20,000) and low-cost assets claimed in previous years.

If you have disposed of a depreciating asset (costing less than \$20,000) for which you have claimed an immediate deduction in calculation 1 this year or a low-cost asset for which you have claimed an immediate deduction in a prior year, include the taxable purpose proportion of the termination value in the **Business reconciliation items** section.

For example, you acquired an asset on 1 February 2013 for \$6,400 for 100% taxable use and claimed an immediate write-off under the threshold which existed at that time. You disposed of this asset at

arm's length on 1 February 2018 for \$3,000. Include \$3,000 as income at the **Business reconciliation items** section.

(b) Assets allocated to the general small business pool.

Where you dispose of depreciating assets that have been allocated to the general small business pool, you deduct the taxable purpose proportion of the termination value from the closing pool balance. For example, for a pooled depreciating asset which used only 50% for an income-producing purpose, and was sold for \$3,000 (excluding GST), only \$1,500 will be deducted from the closing pool balance. If the balance of a pool is below \$20,000 but greater than zero (after taking into account any additions and disposals but before calculating the deductions in calculations 2, 3 and 4) you claim an immediate deduction for this amount. Enter this deduction against general small business pool assets at row b in [worksheet 2](#).

If the [closing pool balance](#) is less than zero, you include the amount below zero in your assessable income in the **Business reconciliation items** section.

If expenses are incurred in disposing of a depreciating asset, these expenses may be taken into account in [calculation 3](#).

(c) Other depreciating assets.

For information on how to calculate any balancing adjustment amounts on the disposal of other depreciating assets, see [Guide to depreciating assets](#).

Balancing adjustment amounts are included in the **Business reconciliation items** section. See [What are income reconciliation adjustments?](#) and [What are expense reconciliation adjustments?](#)

### **Closing pool balance**

The closing balance of each small business pool for an income year is:

- the opening pool balance (see [calculation 2](#)) plus
- the taxable purpose proportion of the adjustable value of assets that were first used, or installed ready for use, for a taxable purpose during the year (see [calculation 3](#)) plus
- the taxable purpose proportion of any cost addition amounts for assets in the pool during the year (see [calculation 3](#)) less

- the taxable purpose proportion of the termination value of any pooled assets disposed of during the year (see [calculation 5](#)) less
- the general small business pool deduction (see [calculation 2](#)) less
- the deduction for assets first used by you during the year (see [calculation 3](#)) less
- the deduction for any cost addition amounts for pooled assets during the year (see [calculation 3](#)).

If your closing pool balance is less than zero, see [calculation 5](#).

The closing pool balance for this year becomes the opening pool balance for 2018–19 except where you made an adjustment to reflect the changed business use of a pooled asset.

You will need your opening pool balance to work out the pool deduction next year. Do not enter your closing pool balance on your tax return.

## Worksheet 2: Depreciation deductions for small business entities

Row	Calculation elements	Primary production (\$)	Non-primary production (\$)	Total (\$)
a	Certain assets			
b	General small business pool			
c	General small business pool (half rate)			
d	Other assets			

e	Depreciation expenses: add the amounts at rows <b>a, b, c</b> and <b>d</b> .			
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Do not include any amount shown at **Personal services income**.

1. Enter the amount at row **e** at **Depreciation expenses**.
2. Enter the total amount at row **a** at **Small business entity simplified depreciation - Deduction for certain assets**.
3. Add up the total amounts at rows **b** and **c** and enter the amount at **Small business entity simplified depreciation - Deduction for general small business pool**.

## Other businesses

To calculate the decline in value of these assets you can use the Depreciation and capital allowances tool.

Include amounts for the depreciation claimed in your books of account, except for those assets allocated in a prior year to a general pool or a long-life pool. For assets allocated to such a pool, include here the amount of the pool deduction to be claimed for tax purposes. For further information, see [Definitions](#).

The depreciation amount should not include profit or loss on the sale of depreciating assets. You should include profits on the sale of depreciating assets at **Other business income**. You should include losses on the sale of depreciating assets at **All other expenses**.

Accounting or book depreciation may differ from the deduction for the decline in value of depreciating assets.

You carry out the reconciliation between accounting depreciation and the deduction for decline in value at **Expense reconciliation adjustments**.

See also [Guide to depreciating assets](#).

**Is expenditure revenue or capital in nature?**

[Law Administration Practice Statement PS LA 2003/8](#) *Practical approaches to low-cost business expenses* provides guidance on two straightforward methods that can be used by taxpayers carrying on a business to help determine whether expenditure incurred to acquire certain low-cost items is to be treated as revenue expenditure or capital expenditure.

Subject to certain qualifications, the two methods cover expenditure below a threshold and the use of statistical sampling to estimate total revenue expenditure on low-cost items. The threshold rule allows an immediate deduction for qualifying low-cost business items costing \$100 or less. The sampling rule allows taxpayers with a low-value pool to use statistical sampling to determine the proportion of the total purchases on qualifying low-cost business items that are revenue expenditure.

We will accept a deduction for expenditure incurred on low-cost assets calculated in accordance with this practice statement.

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## Motor vehicle expenses

**Last updated** 28 June 2018

### On this page

[Repairs and maintenance](#)

[All other expenses](#)

Special substantiation and calculation rules for car expenses apply to an individual. Under these rules, motor vehicle expenses can be claimed using one of two methods where the expense is for a motor car, station wagon, panel van, utility truck or other road vehicle designed to carry a load of less than one tonne and fewer than nine passengers. For an explanation of these methods, see [Work-related car expenses](#).

Do not include depreciation, finance leasing charges or interest paid. You should include these at **Depreciation expenses**, **Lease expenses**, **Interest expenses within Australia** or **Interest expenses overseas**.

## Repairs and maintenance

This is expenditure shown in your accounts for repairs and maintenance of premises, plant, machinery, implements, utensils, rolling stock or articles associated with the production of income. Any non-deductible expenditure, such as items of a capital nature or amounts relating to private use of an item, included at this field, should also be included at **Expenses reconciliation adjustments**. The following information on deductions for repairs will assist you to work out whether you need to make an expense reconciliation adjustment.

### Repairs

You may deduct the cost of repairs (not being expenditure of a capital nature) to premises and depreciating assets such as plant, machinery or equipment used solely for producing assessable income, or in carrying on a business for that purpose.

Expenditure on repairs to property used partially for business or income-producing purposes (for example, where the property is also used for private purposes or in the production of exempt income) is deductible only to the extent that is reasonable, taking account of such use. For example, if the asset was used 45% in the business, 40% for private use and 15% to produce exempt income, a reasonable deduction would be 45% of the expenditure.

Where items are newly acquired, including by way of a legacy or gift, the cost of repairs to defects in existence at the time of acquisition is generally of a capital nature.

Expenditure incurred in making alterations, additions or improvements is of a capital nature and is not deductible.

For more information on deductions for repairs, see [Taxation Ruling TR 97/23](#) *Income tax: deductions for repairs*.

### Records you need to keep

To support your claim for the cost of repairs, you must keep full details, including source documents, of the nature and cost of repairs to each item.



## All other expenses

This is the total of all other expenses which you incurred in deriving your profit or loss and which you have not already shown elsewhere. Other expenses include wages, accounting and professional fees, advertising, office supplies, foreign exchange (forex) losses and any loss on the sale of a depreciating asset as shown in your accounts.

You should also include gifts and donations that are a business expense and amounts you pay professionals in managing the tax affairs of the business at this section. You should not claim these amounts at **Gifts or donations** or **Cost of managing tax affairs** on your tax return.

For information about forex losses, go to [ato.gov.au](https://www.ato.gov.au) or see [Other deductions](#).

You should also include capital and other non-deductible items (including debt deductions denied by thin capitalisation rules) shown here at **Expense reconciliation adjustments**.

### See also:

- [Income and expense reconciliation adjustments](#)
- [Thin capitalisation](#).

## Home office expenses

If part of your home was specifically set aside as your place of business and used solely for the purpose of conducting your business affairs and you had no other place from where they were mainly carried on, the following expenses are partly deductible:

- occupancy expenses, including rent, mortgage interest, rates, and house and contents insurance
- running expenses, including electricity, cleaning, depreciation, leasing charges and repairs to furniture and furnishings in the office.

In most cases, you can apportion expenses on a floor area basis and, if the area of your home was a place of business for only part of the year, on a time basis.

Where you used part of your home as a home office but it did not qualify as a place of business, only the additional running expenses you incurred may be deductible.

See also:

- [Taxation Ruling TR 93/30](#) *Income tax: deductions for home office expenses*
- [Law Administration Practice Statement PS LA 2001/6](#) *Home office and electronic device expenses.*

### Records you need to keep

You should keep records to show how you have calculated your home office expenses. We may ask you for these at a later date.

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## Reconciliation items

Last updated 28 June 2018

### On this page

[Section 40-880 deduction](#)

[Business deduction for project pool](#)

Consider the following items to see whether you qualify for a deduction.

Any adjustments to your income and expense amounts are dealt with at [Income and expense reconciliation adjustments](#).

## Section 40-880 deduction

### Immediate deductibility for small business start-up expenses

[Section 40-880 of the Income Tax Assessment Act 1997](#) allows for certain start-up expenses, including costs associated with raising capital, to be immediately deductible where they are incurred by a small business entity or an entity that is not in business. These provisions applied from 2015–16.

If you are an individual (operating either alone or in partnership), the non-commercial loss provisions may apply to defer your deduction to a later income year.

### **Claimable business related start-up costs**

Expenses can be fully deductible in the year in which the expenditure is incurred if the expenditure relates to a small business that is proposed to be carried on and is either:

- incurred in obtaining advice or services relating to the proposed structure or the proposed operation of the business
- a payment to an Australian government agency of a fee, tax or charge incurred in relation to setting up the business or establishing its operating structure.

**See also:** [Other capital expenses \(including capital works deductions\)](#).

### **Five-year write-off for a range of business related costs not recognised elsewhere in the tax law**

Section 40-880 also provides a five-year write-off for certain capital expenditure incurred by you in relation to a past, present or prospective business if the expenditure is not already taken into account or not denied a deduction by another provision.

You can claim a deduction for capital expenditure:

- in relation to your business
- in relation to a business that used to be carried on, such as capital expenses incurred in order to cease the business
- in relation to a business proposed to be carried on, such as the costs of feasibility studies, market research or setting up the business entity
- as a shareholder, beneficiary or partner to liquidate or deregister a company or to wind up a trust or partnership (the company, trust or partnership must have carried on a business).

If you incur expenditure in relation to your existing business, a business that you used to carry on or a business that you propose to carry on, the expenditure is deductible to the extent the business is, was or is proposed to be carried on for a taxable purpose.

You cannot deduct expenditure in relation to an existing business that is carried on by another entity. However, you can deduct expenditure you incur in relation to a business that used to be, or is proposed to be, carried on by another entity. The expenditure is only deductible to the extent that:

- the business was, or is proposed to be, carried on for a taxable purpose
- the expenditure is in connection with the business that was or is proposed to be carried on and with you deriving assessable income from the business.

Generally, you can deduct 20% of the expenditure in the year you incur it and in each of the following four years. However, for some pre- and post-business expenditure you may have to defer your claim for a deduction because the non-commercial loss rules apply.

For example, if you were carrying on a business during the year, but your relevant capital expenditure relates to a new business that did not commence before 1 July 2018, you cannot claim a deduction for the expenses incurred until the business activity commences. If you incur such expenditure in these circumstances, you should not claim the deductible amount (20%) but note it in your business or taxation records and claim the amounts deferred for this item in the year the business commences. However, these claims may be subject to further deferral to the extent that they would otherwise give rise to a business loss in the current year.

**See also:**

- [Losses](#)

The deduction cannot be claimed for capital expenditure if it:

- can be deducted under another provision
- forms part of the cost of a depreciating asset you hold, used to hold or will hold
- forms part of the cost of land
- relates to a lease or other legal or equitable right
- would be taken into account in working out an assessable profit or deductible loss

- could be taken into account in working out a capital gain or a capital loss
- would be specifically not deductible under the income tax laws if the expenditure was not capital expenditure
- is specifically not deductible under the income tax laws for a reason other than the expenditure is capital expenditure
- is of a private or domestic nature
- is incurred in relation to gaining or producing exempt income or non-assessable non-exempt income
- is excluded from the cost or cost base of an asset because, under special rules in the UCA or capital gains tax regimes respectively, the cost or cost base of the asset was taken to be the market value
- is a return of or on capital or is a return of a non-assessable amount (for example, repayments of loan principal).

Claim the amount deductible under section 40-880 here if you carried on a business as an individual at any time during the year, or if the amounts relates to a proposed primary production or performing arts business.

If you have incurred relevant capital expenses that relate to a business that ceased in a previous income year and you carried on the business as a sole trader or through a partnership, claim the expenses here. If you carried on the business through a company or trust, you claim the amount deductible (20%) at **Other deductions** on your tax return.

You must show any recoupment of the expenditure as assessable income, either at **Other business income** or **Income reconciliation adjustments**.

## Business deduction for project pool

Certain capital expenditure you incurred after 30 June 2001 which is directly connected with a project you carry on or propose to carry on for a taxable purpose can be allocated to a project pool and written off over the life of the project. Each project has a separate project pool. The project must be of sufficient substance and be sufficiently identified that it can be shown that the capital expenditure said to be a 'project amount' is directly connected with the project.

You are carrying on a project if it involves a continuity of activity and active participation. Merely holding a passive investment, such as a rental property, would not be regarded as carrying on a project.

Such capital expenditure, known as a project amount, is expenditure incurred on:

- creating or upgrading community infrastructure for a community associated with the project; this expenditure must be paid (not just incurred) to be a project amount
- site preparation for depreciating assets (other than to drain swamp or low-lying land or to clear land for horticultural plants, including grapevines)
- feasibility studies for the project
- environmental assessments for the project
- obtaining information associated with the project
- seeking to obtain a right to intellectual property
- ornamental trees or shrubs.

Project amounts also include mining capital expenditure and expenditure on certain facilities used to transport minerals or quarry materials. For more information, see [Guide to depreciating assets](#).

The expenditure must not be otherwise deductible or form part of the cost of a depreciating asset. If the expenditure incurred arises from a non-arm's length dealing and is more than the market value of what it was for, the amount of the expenditure is taken to be that market value.

Project amounts are allocated to a 'project pool'. Your deduction for project amounts allocated to a project pool is spread over the 'project life'. The project life is the period from the date on which the project starts to operate until the date on which it stops operating. The period must be limited by something inherent in the project. If there is no limited project life, no deduction is available under these rules.

A deduction is available from the income year in which you started to operate a project to gain or produce assessable income. The deduction is worked out on the value of the project pool at the end of the income year at the rate of 150%. For pools containing only project amounts incurred on or after 10 May 2006 for projects starting on or after that day, the rate is 200%. Your deductions are capped at 150% if

on or after 10 May 2006 you abandon, sell or otherwise dispose of an existing project and then restart it after that date in circumstances where it would be reasonable to conclude that this was done for the main purpose of ensuring that deductions would be calculated using the higher rate.

Use worksheet 3A or worksheet 3B to work out your deduction.

### Worksheet 3A: Project pool deduction for projects which started on or after 10 May 2006

Row	Calculation elements	Amount
a	Value of the project pool at 30 June 2018. This is the closing pool value for 2016–17 (if any) plus the sum of the project amounts you allocated to the pool in 2017–18.	\$
b	Your estimate of the life of the project (in years).	years
c	Divide the amount at row <b>a</b> by the amount at row <b>b</b> .	\$
d	Multiply the amount at row <b>c</b> by 200%. This is your 2017–18 deduction for the project pool.	\$

Your deduction at row **d** must not be more than the amount at row **a**.

If a project operated in 2017–18 for purposes other than earning assessable business income, you must reduce your deduction at row **d** by a reasonable amount for the extent to which the project operated for such other purposes.

### Worksheet 3B: Project pool deduction for projects which started before 10 May 2006

Row	Calculation elements	Amount
a	Value of the project pool at 30 June 2018. This is the closing pool value for 2016–17 (if any) plus the sum of the project	\$

	amounts you allocated to the pool in 2017–18.	
b	Your estimate of the life of the project (in years)	years
c	Divide the amount at row <b>a</b> by the amount at row <b>b</b> .	\$
d	Multiply the amount at row <b>c</b> by 150%. This is your 2017–18 deduction for the project pool.	\$

Your deduction at row **d** must not be more than the amount at row **a**.

If a project operated in 2017–18 for purposes other than earning assessable business income, you must reduce your deduction at row **d** by a reasonable amount for the extent to which the project operated for such other purposes.

The pool value can be subject to adjustments, for example, a foreign exchange (forex) adjustment may apply where you met an obligation to pay foreign currency incurred as a project amount which you had allocated to a project pool.

### **Closing pool value for 2017–18**

This is row **a** minus row **d** in **worksheet 3A** and **worksheet 3B**. You will need the closing pool value for 2017–18 to work out your deduction for the project pool next year.

Any recoupment of the expenditure must be shown as assessable income either at **Other business income** or **Income reconciliation adjustments**.

### **Where a project was abandoned, sold or otherwise disposed of in 2017–18**

In this case, whether or not the project had begun to operate, you can claim a deduction for the 2016–17 closing pool value (if any) plus any project amounts allocated to the pool in the 2017–18 year. You must show any proceeds from the abandonment, sale or disposal of the project as assessable income either at **Other business income** or **Income reconciliation adjustments**.



# Landcare operations and decline in value of water facility, fencing and fodder storage assets

Last updated 28 June 2018

## Landcare operations expenses

You can claim a deduction for capital expenditure you incur on a landcare operation for land in Australia in the year it is incurred.

If the water facilities and landcare operation rules both apply, you can only deduct the expenditure as expenditure on a water facility; see [Water conservation and conveyance facilities](#). If the carbon sink forest and landcare operation rules both apply, you can only deduct the expenditure as expenditure on [carbon sink forests](#).

Unless you are a rural land irrigation water provider, the deduction is available if you use the land for either:

- a primary production business, or
- in the case of rural land, a business for the purpose of producing assessable income from the use of that land, except a business of mining or quarrying.

However your deduction is reduced by a reasonable amount to reflect your use of the land other than for the purpose of carrying on the relevant business in an income year after you incurred the expenditure.

You may claim the deduction even if you are only a lessee of the land.

Rural land irrigation water providers can claim a deduction for certain expenditure they incur. A rural land irrigation water provider is an entity whose business is primarily and principally supplying water to entities for use in primary production businesses on land in Australia or businesses (except mining or quarrying businesses) using rural land in Australia. The supply of water by using a motor vehicle is excluded.

If you are a rural land irrigation water provider, you can claim a deduction for capital expenditure you incurred on a landcare operation

for land used by other entities that you supply with water if the land is:

- land in Australia that those entities use at the time for primary production businesses, or
- rural land in Australia that those entities use at the time for carrying on businesses for a taxable purpose, except a business of mining or quarrying.

If you are a rural land irrigation water provider your deduction is reduced by a reasonable amount to reflect an entity's use of the land for other than a taxable purpose in an income year after you incurred the expenditure.

A landcare operation is one of the following:

- erecting fences to separate different land classes in accordance with an approved land management plan
- erecting fences primarily and principally to keep animals out of areas affected by land degradation in order to prevent or limit further damage and assist in reclaiming the areas
- constructing a levee or similar improvements
- constructing drainage works, other than the draining of swamps or low-lying land, primarily and principally to control salinity or assist in drainage control
- an operation primarily and principally for eradicating or exterminating animal pests from the land
- an operation primarily and principally for eradicating, exterminating or destroying plant growth detrimental to the land
- an operation primarily and principally for preventing or fighting land degradation other than by erecting fences, or
- an extension, alteration or addition to any of the assets described in 1 to 4 above or an extension of an operation described in 5 to 7 above.

A landcare operation also includes:

- a repair of a capital nature to an asset described in 1 to 4 above
- constructing a structural improvement that is reasonably incidental to levees (or similar improvements) or drainage works deductible as capital expenditure on a landcare operation

- a repair of a capital nature, or an alteration, addition or extension to a structural improvement that is reasonably incidental to levees (or similar improvements) or drainage works deductible as capital expenditure on a landcare operation.

An example of a structural improvement that may be reasonably incidental to drainage works is a fence constructed to prevent livestock entering a drain that was constructed to control salinity.

No deduction is available if the capital expenditure is on plant unless it is on certain fences, dams or other structural improvements.

If the expenditure incurred arose from a non-arm's length dealing and was more than the market value of what the expenditure was for, the amount of the expenditure is taken to be that market value instead.

These deductions are not available to a partnership. Expenses for landcare operations incurred by a partnership are allocated to each partner, who can then claim the relevant deduction for their share of the expenditure.

You may need to show any recoupment of the expenditure as assessable income either at **Other business income** or **Income reconciliation adjustments**.

For further information, see [Guide to depreciating assets](#) or phone **13 28 66**.

### **Water conservation and conveyance facilities**

You can claim a deduction for the decline in value of a water facility. A water facility includes plant or a structural improvement, or an alteration, addition or extension to plant or a structural improvement, that is primarily or principally for the purpose of conserving or conveying water.

Water facility includes dams, tank stands, bores, wells, irrigation channels, pipes, pumps, water towers and windmills. Water facility also includes certain other expenditure incurred on or after 1 July 2004 for:

- a repair of a capital nature to plant or a structural improvement that is primarily or principally for the purpose of conserving or conveying water, for example, if you purchase a pump that needs substantial work done to it before it can be used in your business, the cost of repairing the pump may be treated as a water facility

- a structural improvement, or an alteration, addition or extension to a structural improvement that is reasonably incidental to conserving or conveying water
- a repair of a capital nature to a structural improvement that is reasonably incidental to conserving or conveying water.

Examples of structural improvements that are reasonably incidental to conserving or conveying water include a bridge over an irrigation channel, a culvert (a length of pipe or multiple pipes that are laid under a road to allow the flow of water in a channel to pass under the road), or a fence preventing livestock entering an irrigation channel.

If you incurred the expenditure from 7.30pm (AEST), 12 May 2015 you claim the full amount in the year you incurred it. If you incurred the expenditure before this time, you deduct one-third of the amount in the income year in which you incurred it, and one-third in each of the following two years.

Unless you are an irrigation water provider, the expenditure must be incurred primarily and principally for conserving or conveying water for use in a primary production business you conduct on land in Australia. You may claim the deduction even when you do not own the land. Therefore, if you are a lessee carrying on a business of primary production on the land, you can still claim the deduction. Your deduction is reduced where the facility is not wholly used for either:

- carrying on a primary production business on land in Australia, or
- a taxable purpose, for example, producing assessable income.

Irrigation water providers are entitled to a deduction for water facilities expenditure incurred on or after 1 July 2004. An irrigation water provider is an entity whose business is primarily and principally the supply of water to entities for use in primary production businesses on land in Australia. The supply of water by using a motor vehicle is excluded.

If you are an irrigation water provider, you must incur the expenditure primarily and principally for the purpose of conserving or conveying water for use in primary production businesses conducted by other entities on land in Australia (being entities supplied with water by you). The deduction is reduced if the facility is not used wholly for a taxable purpose.

If the expenditure incurred arose from a non-arm's length dealing and was more than the market value of what the expenditure was for, the amount of the expenditure is taken to be that market value instead.

These deductions are not available to a partnership. Costs incurred by a partnership for facilities to conserve or convey water are allocated to each partner who can then claim the relevant deduction for their share of the expenditure.

You may need to show any recoupment of the expenditure as assessable income either at **Other business income** or **Income reconciliation adjustments**. For further information, see [Guide to depreciating assets](#) or phone **13 28 66**.

### **Fencing assets**

You can claim a deduction for the decline in value of a fencing asset. A fencing asset includes a structural improvement, a repair of a capital nature, or an alteration, addition or extension to a fence.

If you incurred the expenditure from 7.30pm (AEST), 12 May 2015 you claim the full amount in the year you incurred it. If you incurred the expenditure before this time (or if the expenditure relates to a stockyard, pen or portable fence), the previous decline in value rules that apply to fences based on their effective life continue to apply.

The expenditure must be incurred by you on the construction, manufacture, installation or acquisition of a fencing asset that is used primarily and principally in a primary production business you conduct on land in Australia. You may claim the deduction even when you do not own the land. Therefore, if you are a lessee carrying on a business of primary production on the land, you can still claim the deduction. Your deduction is reduced where the fencing asset is not wholly used for either:

- carrying on a primary production business on land in Australia, or
- a taxable purpose, for example, producing assessable income.

If the expenditure incurred arose from a non-arm's length dealing and was more than the market value of what the expenditure was for, the amount of the expenditure is taken to be that market value instead.

These deductions are not available to a partnership. Costs incurred by a partnership on fencing assets are allocated to each partner who can then claim the relevant deduction for their share of the expenditure.

You may need to show any recoupment of the expenditure as assessable income either at **Other business income** or **Income reconciliation adjustment**. For further information, see [Guide to depreciating assets](#) or phone **13 28 66**.

### **Fodder storage assets**

You can claim a deduction for the decline in value of a fodder storage asset. A fodder storage asset is an asset that is primarily and principally for the purpose of storing fodder. It includes a structural improvement, a repair of a capital nature, or an alteration, addition or extension, to an asset or structural improvement, that is primarily and principally for the purpose of storing fodder.

Fodder refers to food for livestock, usually but not exclusively dried, such as grain, hay or silage. Fodder can include liquid feed and supplements. Examples of typical fodder storage assets include:

- silos
- liquid feed supplement storage tanks
- bins for storing dried grain
- hay sheds
- grain storage sheds
- above-ground bunkers.

If you incurred the expenditure from 7.30pm (AEST), 12 May 2015 you deduct one-third of the amount in the income year in which you incurred it, and one-third in each of the following two years. If you incurred the expenditure before this time, the previous decline in value rules that apply to fodder storage assets based on their effective life continue to apply.

The expenditure must be incurred by you on the construction, manufacture, installation or acquisition of a fodder storage asset that is used primarily and principally in a primary production business you conduct on land in Australia. You may claim the deduction even when you do not own the land. Therefore, if you are a lessee carrying on a business of primary production on the land, you can still claim the deduction. Your deduction is reduced where the fodder storage asset is not wholly used for either:

- carrying on a primary production business on land in Australia, or

- a taxable purpose, for example, producing assessable income.

If the expenditure incurred arose from a non-arm's length dealing and was more than the market value of what the expenditure was for, the amount of the expenditure is taken to be that market value instead.

These deductions are not available to a partnership. Costs incurred by a partnership on fodder storage assets are allocated to each partner who can then claim the relevant deduction for their share of the expenditure.

You may need to show any recoupment of the expenditure as assessable income either at **Other business income** or **Income reconciliation adjustments**. For further information, see [Guide to depreciating assets](#) or phone **13 28 66**.

### **Small business entities**

Small businesses are able to claim an immediate deduction for assets they start to use, or have installed ready for use for a taxable purpose, provided each depreciable asset costs less than \$20,000. This will temporarily replace the previous instant asset write-off threshold of \$1,000.

This measure applies to expenditure incurred from 7.30pm (AEST) 12 May 2015 and will end on 30 June 2018.

The amount you show here must not include any amount relating to a depreciating asset used in your primary production business if you have chosen to claim a deduction for it under the small business entity depreciation rules.

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## **Income and expense reconciliation adjustments**

**Last updated** 28 June 2018

### **On this page**

## [Depreciating assets deducted under the simplified depreciation rules](#)

### [Worksheet 4: Reconciliation statement](#)

#### [Completing Income and Expense reconciliation adjustments](#)

You may need to make income reconciliation adjustments or expense reconciliation adjustments. These adjustments reconcile your business operating profit or loss with your business taxable income.

Do not complete any income reconciliation adjustments or expense reconciliation adjustments if all the amounts you have shown between **ABN not quoted** and **Landcare operations and decline in value of water facility, fencing and fodder storage assets** (inclusive) are assessable income or allowable tax deductions for income tax purposes.

If you have included amounts such as exempt income or non-deductible expenses or have not included amounts which are assessable income or expenditure that is deductible, you must work out your reconciliation adjustments.

[Worksheet 4](#) will assist you with your calculations.

#### **What are income reconciliation adjustments?**

Income reconciliation adjustments include:

- income add backs; this is income not shown in the accounts which is assessable income for tax purposes, such as
  - assessable balancing adjustment amounts on disposal of depreciating assets
  - other assessable income not included in the profit and loss statement
- income subtractions; this is income shown in the accounts which is not assessable income, such as
  - profit on sale of depreciating assets
  - other income that is not assessable for income tax purposes, for example, gross exempt income.



Your income reconciliation adjustment is your total income add backs less your total income subtractions.

Use [worksheet 4](#) to work out your income reconciliation adjustments for your primary and non-primary production businesses.

### **What are expense reconciliation adjustments?**

Expense reconciliation adjustments include the following.

- Expense add backs are expenses shown in the accounts which are not tax deductible, such as
  - prepaid expenses not deductible in this year
  - depreciation
  - loss on sale of a depreciating asset
  - other items not allowable as a deduction, for example, capital expenditure, additions to provisions and reserves, income tax expense, expenses relating to exempt income, debt deductions denied by the thin capitalisation rules, other non-deductible expenses; for further information, see [Thin capitalisation](#) and [PSI deductions](#).
- Expense subtractions are items not shown as expenses in the accounts but which are deductible for tax purposes, such as
  - prepaid expenses from a prior year that are deductible this year but not included elsewhere
  - deduction for decline in value of depreciating assets
  - deductible balancing adjustment amounts on disposal of depreciating assets
  - deduction for environmental protection expenses
  - other items deductible for tax purposes.

Your expense reconciliation adjustment is your total expense add backs less your total expense subtractions.

Use [worksheet 4](#) to work out your expense reconciliation adjustments for your primary and non-primary production businesses.

### **Specific reconciliation adjustments**

Following are examples of specific reconciliation adjustments that may apply to you.

If you were previously in the STS read **Former STS taxpayers** below first. Otherwise, go to [Depreciating assets deducted under the simplified depreciation rules](#).

### **Former STS taxpayers**

Make adjustments in this section if you:

- are eligible and have chosen to continue using the STS accounting method and the amounts you have shown at the Income and Expense sections are not based on the STS accounting method, or
- stopped using the STS accounting method in the 2017–18 income year.

These adjustments are explained in more detail at [Adjustments when ceasing to use the STS accounting method](#).

[Worksheet 4](#) will assist you with your calculations.

### **Income derived but not received as at 30 June 2018 and expenses incurred but not paid as at 30 June 2018**

If you are eligible and have chosen to continue using the STS accounting method and have included amounts of ordinary income that have been derived but not received in 2017–18, the amounts not received are not assessable this year, for example, trade debtors as at 30 June 2018.

These amounts form part of your income reconciliation adjustments. Include these amounts at row **f** on [worksheet 4](#).

If you are eligible and have chosen to continue using the STS accounting method and have included amounts for general deductions, repairs and tax-related expenses that have been incurred but not paid in 2017–18, the amounts not paid are not deductible this year, for example, trade creditors as at 30 June 2018.

These amounts form part of your expense reconciliation adjustments. Include these amounts at row **n** on [worksheet 4](#)

### **Adjustments when ceasing to use the STS accounting method**

If you have discontinued using the STS accounting method read on.

If you have not included at the **Business income** section any amounts of ordinary income that were derived but not received while using the STS accounting method, these amounts are assessable this year, for example, trade debtors as at 30 June 2017.

Include these amounts at row **b** on [worksheet 4](#).

If you have not included at the **Business expenses** section any amounts of general deductions, repairs or tax-related expenses that were incurred but not paid while using the STS accounting method, these amounts are deductible this year, for example, trade creditors as at 30 June 2017.

Include these amounts (other than tax-related expenses) at row **t** on [worksheet 4](#). Enter your deduction for tax-related expenses at **Cost of managing tax affairs** on your tax return.

## Depreciating assets deducted under the simplified depreciation rules

### Disposal of depreciating assets

If you disposed of any depreciating assets during the income year, the following amounts (if any) form part of your income reconciliation adjustments:

- the taxable purpose proportion of the termination value of assets that have been disposed of for which an immediate deduction has been claimed either this year or in a prior year
- if the closing pool balance of a general small business pool is less than zero, the amount below zero
- assessable balancing adjustment amounts on the disposal of depreciating assets not allocated to a general small business pool.

See [Definitions](#) for an explanation of these terms.

Include the amounts at row **b** on [worksheet 4](#).

Any deductible balancing adjustment amounts on the disposal of depreciating assets that you have not allocated to a small business pool form part of your Expense reconciliation adjustments. Include these amounts at **q** on [worksheet 4](#).

See also: [Guide to depreciating assets](#), or you can work out your depreciation and capital allowance claims by using the Depreciation and capital allowances tool.

### **Prepaid expenses**

Special rules may affect the timing of deductions for prepaid expenditure. Under these rules you may need to apportion certain prepaid expenses over more than one income year. You must make an expense reconciliation adjustment to add back that part of the expense that is not deductible in the year it is incurred. Show the adjustment at row **k** on [worksheet 4](#).

If you had a prepaid expense in a prior year which is to be apportioned over the service period and you are entitled to a deduction for part of the expense this year but have not included it elsewhere, show the adjustment as an expense subtraction at row **s** on [worksheet 4](#).

See also [Deductions for prepaid expenses](#).

### **Deduction for decline in value**

A deduction for a decline in value of a depreciating asset calculated under income tax law may differ from the accounting or book calculation of depreciation. Different rules regarding such things as effective life, the calculation of balancing adjustment amounts and the treatment of debt forgiveness amounts can produce a discrepancy between the two calculations.

Under income tax law you can deduct an amount equal to the decline in value of a depreciating asset in 2017–18 if you held the depreciating asset for any time during the year and used it (or installed it ready for use) for a taxable purpose, such as for producing assessable income.

The deduction is reduced to the extent you do not use the asset for a taxable purpose.

To help you calculate your deduction for decline in value, use the Depreciation and capital allowances tool, or see [Guide to depreciating assets](#) which also provides explanations of relevant terms. The publication also explains the option to allocate to a low-value pool depreciating assets that cost less than \$1,000 (excluding input tax credit entitlements) and depreciating assets that have an opening adjustable value of less than \$1,000.

If you choose to use the low-value pool method to calculate the decline in value of low-cost or low-value depreciating assets and the

pool contains assets used for work-related, self-education or non-business rental purposes, read [Low value pool deduction](#). Do not include the deduction at the **Business income or losses** section. If none of the depreciating assets in the pool is used for any of those purposes, include the amount of your low-value pool deduction at row **r** on [worksheet 4](#). Where necessary, make a reasonable apportionment between primary production and non-primary production activities.

You should also include the deduction for decline in value of depreciating assets not allocated to a pool at row **r** on [worksheet 4](#).

You should also add back the depreciation charged in your accounts and shown at **Depreciation expenses** in the **Business Expenses** section as an expense reconciliation adjustment. Include the amount at row **h** on [worksheet 4](#). The amount at row **h** should not include any small business pool deductions which you have claimed at **Depreciation expenses**.

### **Luxury car leasing**

A leased car, either new or second-hand, is a luxury car if its cost exceeds the car limit that applies for the income year in which the lease commences. The car limit for 2017–18 is \$57,581.

A luxury car lease entered into after 7.30pm (by legal time in the ACT) on 20 August 1996 (other than genuine short-term hire arrangements) is treated as a notional sale-and-loan transaction.

The cost or value of the car specified in the lease (or the market value if the parties were not dealing at arm's length in connection with the lease) is taken to be the cost of the car for the lessee and the amount loaned by the lessor to the lessee to buy the car.

In relation to the notional loan, the actual lease payments are divided into notional principal and finance charge components. That part of the finance charge component for the notional loan applicable for the particular period (the accrual amount) is deductible to the lessee, subject to any reduction required under the [thin capitalisation](#) rules.

The amount forms part of your expense reconciliation adjustments. Include the amount at row **p** on [worksheet 4](#).

In relation to the notional sale, the lessee is treated as the holder of the luxury car and may be entitled to claim a deduction for the decline in value of the car. If the lessee is a small business entity using the simplified depreciation rules for the income year in which the lease is

entered into, the lessee allocates the car to their general small business pool.

For the purpose of calculating the deduction, the cost of the car is limited to the car limit for the income year in which the lease is granted.

For more information on deductions for the decline in value of leased luxury cars, see [Guide to depreciating assets](#).

In summary, the lessee is entitled to deductions equal to:

- the accrual amount
- the decline in value of the luxury car, based on the applicable car limit, unless the car is allocated to the general small business pool.

You reduce both deductions to reflect any use of the car for a non-taxable purpose.

Where you allocated the car to the general small business pool with the cost based on the applicable car limit, see [Calculating your depreciation deductions](#).

If you have included the lease expense at **Lease expenses** in the **Business expenses** section, the amount should also form part of your expense reconciliation adjustments. Include the amount at row **i** on [worksheet 4](#). Include the deduction for the accrual amount at row **p**.

If the lease terminates or is not extended or renewed and the lessee does not actually acquire the car from the lessor, the lessee is treated under the rules as disposing of the car by way of sale to the lessor. This constitutes a balancing adjustment event. If the car is not subject to the simplified depreciation rules, any assessable or deductible balancing adjustment amount for the lessee must be determined. If the car has been allocated to the lessee's general small business pool, see [calculation 4](#) for small business entities.

### **Hire-purchase agreements**

Hire-purchase and instalment sale agreements of goods are treated as a sale of the property by the financier (or hire-purchase company) to the hirer (or instalment purchaser).

The sale is treated as being financed by a loan from the financier to the hirer at a sale price of either their agreed cost or value or the property's arm's length value.

The periodic hire-purchase (or instalment) payments are treated as payments of principal and interest under the notional loan. The interest component is deductible to the hirer, subject to any reduction required under the [thin capitalisation](#) rules. This amount forms part of the expense reconciliation adjustments. Include the amount at row **t** on [worksheet 4](#).

In relation to the notional sale, the hirer of a depreciating asset is treated as the holder of the asset and either allocates the asset to the appropriate small business pool if they are a small business entity using the simplified depreciation rules for the income year, or may be entitled to claim a deduction for the decline in value of the depreciating asset. The cost of the asset for this purpose is taken to be the agreed cost or value, or the arm's length value if the dealing is not at arm's length.

If you have included hire-purchase charges as an expense, the amount should also form part of your expense reconciliation adjustments. Include the amount at row **n** on [worksheet 4](#).

### **Termination of a limited recourse debt**

Excessive deductions for capital allowances are included in assessable income under the limited recourse debt rules contained in Division 243 of the ITAA 1997. This will occur where:

- expenditure on property has been financed or re-financed wholly or partly by the limited recourse debt
- the limited recourse debt is terminated after 27 February 1998 but has not been paid in full by the debtor
- because the debt has not been paid in full, the capital allowance deductions allowed for the expenditure exceed the deductions that would be allowable if the unpaid amount of the debt was not counted as capital expenditure of the debtor. Special rules apply in working out whether the debt has been fully paid.

A limited recourse debt is a debt where the rights of the creditor as against the debtor, in the event of default in payment of the debt or of interest, are limited wholly or predominantly to the property which has been financed by the debt or is security for the debt, or rights in relation to such property. A debt is also a limited recourse debt if, notwithstanding that there may be no specific conditions to that effect, it is reasonable to conclude that the creditor's rights as against the debtor's are capable of being so limited.

A limited recourse debt includes a notional loan under a hire-purchase or instalment sale agreement of goods to which Division 240 of the ITAA 1997 applies, see section 243-20.

The amount that is included within assessable income as a result of these provisions forms part of your income reconciliation adjustments. Include the amount at row **b** on worksheet 4.

## Worksheet 4: Reconciliation statement

Reconcile your primary production and non-primary production items separately.

### Part 1a: Income reconciliation adjustments – Additions

Row	Calculation elements	Primary production	Non-primary production
a	Assessable balancing adjustment amounts on disposal of depreciating assets	\$	\$
b	Assessable business income not included in the profit and loss statement	\$	\$
c	Subtotal: add the amounts at row <b>a</b> and row <b>b</b> .	\$	\$

### Part 1b: Income reconciliation adjustments – Subtractions

Row	Calculation elements	Primary production	Non-primary production
d	Net exempt income (gross exempt income less	\$	\$



	expenses relating to that exempt income)		
e	Profit on sale of depreciating assets included in accounts	\$	\$
f	Other non-assessable income included in the profit and loss statement	\$	\$
g	Subtotal: add the amounts at rows <b>d</b> , <b>e</b> and <b>f</b> .	\$	\$
	Income reconciliation adjustments: take the amount at row <b>g</b> away from the amount at row <b>c</b> .	\$	\$

### Part 2a: Expense reconciliation adjustments – Additions

Row	Calculation elements	Primary production	Non-primary production
h	Depreciation charged in accounts	\$	\$
i	Lease payments for luxury cars	\$	\$
j	Loss on sale of depreciating assets included in accounts	\$	\$
k	Part of prepaid expenses not deductible this year	\$	\$

**Part 2b: Expense reconciliation adjustments – Items not allowable as deductions**

Row	Calculation elements	Primary production	Non-primary production
l	Capital expenditure	\$	\$
m	Additions to provisions and reserves	\$	\$
n	Other non-deductible items, including income tax	\$	\$
o	Subtotal: add the amounts at rows <b>h</b> , <b>i</b> , <b>j</b> , <b>k</b> , <b>l</b> , <b>m</b> and <b>n</b> .	\$	\$

**Part 2c: Expense reconciliation adjustments – Subtractions**

Row	Calculation elements	Primary production	Non-primary production
p	Accrual amount deduction for lessee of luxury cars	\$	\$
q	Deductible balancing adjustment amounts on disposal of depreciating assets	\$	\$
r	Deduction for decline in value of depreciating assets	\$	\$
s	Part of prepaid expenses deductible	\$	\$

	this year but not included elsewhere		
t	Other items deductible for tax purposes not included in the profit and loss statement	\$	\$
u	Subtotal: add the amounts at rows <b>p</b> , <b>q</b> , <b>r</b> , <b>s</b> and <b>t</b> .	\$	\$
	Expense reconciliation adjustments: take the amount at row <b>u</b> away from the amount from row <b>o</b> .	\$	\$

#### Notes:

1. Include amounts at row **h** only if you are not using the simplified depreciation rules. However, exclude any pool deductions which you have included at **Depreciation expenses** which relate to a continuing small business pool.
2. See [Guide to depreciating assets](#) for an explanation of depreciating assets.
3. If you have included an amount of capital expenditure incurred to terminate a lease or licence at **Lease expenses**, make a reconciliation adjustment at **Expense reconciliation adjustments** by including the amount of capital expenditure as an expense add back and taking away that part of the expense which is allowed as a tax deduction.

## Completing Income and Expense reconciliation adjustments

1. Complete [worksheet 4](#) using the [explanations](#) provided. This will give you your total income and expense reconciliation adjustment amounts.

2. Transfer the totals in the Income reconciliation adjustments (below row **g**) and the Expense reconciliation adjustments (below row **u**) on the worksheet to the appropriate fields.

Do not include in the amount at row **t** on [worksheet 4](#):

- section 40-880 deductions
- business deductions for project pools
- deductions for landcare operations, water facilities, fencing assets and fodder storage assets.

Reconciliation adjustments for these amounts are shown separately at:

- **Section 40-880 deduction**
- **Business deduction for project pool**
- **Landcare operations and business deduction for decline in value of water facility, fencing asset and fodder storage.**

#### **Deferred non-commercial business losses from a prior year**

A deferred non-commercial business loss is a loss you incurred in a prior year which you were unable to claim against other income. If your activity is carried on partly in Australia and partly overseas phone **13 28 66** or see [How to defer your losses](#).

Your prior year deferred non-commercial business loss for a business activity may be reduced if you earned net exempt income in 2017–18. For more information see [How to offset your losses](#).

If you became bankrupt (or received a relief from debt) the deferred losses will no longer be available. The loss cannot be deducted in the current year or any future year.

For more information about how exempt income and bankruptcy affect deferred non-commercial business losses, phone **13 28 66**.

Include the amount of any losses you deferred in a prior year from activities that are the same or similar to your current year activity.

# Small business income tax offset

**Last updated** 28 June 2018

If you are a small business entity, you may be entitled to the small business income tax offset. For more information, see [Small business income tax offset](#).

QC 55562

## Our commitment to you

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 and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we will take that into account when determining what action, if any, we should take.

Some of the information on this website applies to a specific financial year. This is clearly marked. Make sure you have the information for the right year before making decisions based on that information.

If you feel that our information does not fully cover your circumstances, or you are unsure how it applies to you, contact us or seek professional advice.

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