

Business and professional items 2012

To help you prepare your schedule for individuals
for 1 July 2011 – 30 June 2012



Lodge online with e-tax

- Free, secure and convenient
- Built-in checks and calculators to help you get it right
- Save time by pre-filling your return with information reported to us by your employer, bank, health fund and others.

Go to www.ato.gov.au/etax

Use these instructions
if directed to by *Individual
tax return instructions
2012 or Individual tax
return instructions
supplement 2012.*

Lodge your tax return
by 31 October 2012.



Australian Government
Australian Taxation Office

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

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

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

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

This publication was current at **June 2012**.

HOW SELF-ASSESSMENT AFFECTS YOU

Self-assessment means the Tax Office uses the information you give on your tax return and any related schedules and forms to work out your refund or tax liability. We do not take any responsibility for checking the accuracy of the details you provide, although our system automatically checks the arithmetic.

Although we do not check the accuracy of your tax return at the time of processing, at a later date we may examine the details more thoroughly by reviewing specific parts, or by conducting an audit of your tax affairs. We also have a number of audit programs that are designed to continually check for missing, inaccurate or incomplete information.

What are your responsibilities?

It is your responsibility to lodge a tax return that is signed, complete and correct. Even if someone else, including a tax agent, helps you to prepare your tax return and any related schedules, you are still legally responsible for the accuracy of your information.

What if you lodge an incorrect tax return?

If you become aware that your tax return is incorrect, you must contact us straight away.

Initiatives to complement self-assessment

There are a number of systems and entitlements that complement self-assessment, including:

- the private ruling system (see below)
- the amendment system (if you find you have left something out of your tax return)
- your entitlement to interest on early payment or over-payment of a tax debt.

Do you need to ask for a private ruling?

If you are uncertain about how a tax law applies to your personal tax affairs, you can ask for a private ruling. To do this, complete a *Private ruling application form (not for tax professionals)* (NAT 13742), or contact us.

Lodge your tax return by the due date, even if you are waiting for the response to your application. You may need to request an amendment to your tax return once you have received the private ruling.

We publish all private rulings on our website. We edit the text to remove all information that could identify you.

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ABOUT THESE INSTRUCTIONS

Business and professional items 2012 will help you fill in the *Business and professional items schedule for individuals 2012*, found at the back of this publication.

In these instructions, we provide information about:

- streamlined provisions for small business entities
- personal services income (PSI)
- business income you must show on the schedule
- deductions you may be able to claim.

Who should use these instructions?

Use these instructions if you are an individual who completed items **14**, **15** or **16** on your tax return (supplementary section). You may also need to use these instructions if you have a net loss from a business activity carried on in partnership with others.

Publications and services

To find out how to get a publication referred to in these instructions and for information about our other services, see the inside back cover.

INTRODUCTION

WHO IS THIS SCHEDULE FOR?

If you complete items **14**, **15** or **16** of your tax return (supplementary section), you must fill in the *Business and professional items schedule for individuals 2012* and send it in with your tax return. These instructions will help you to fill in the schedule. If the business or professional items that apply to you are not filled in, your tax return will be sent back to you – we consider that your tax return has not been lodged until it is returned to us complete.

If your tax return and completed schedule are lodged late, you may be liable for a penalty. For information on the penalty for failing to lodge on time, see *Individual tax return instructions 2012* (NAT 71050).

If you have a net loss from a business activity carried on in partnership with others, you may need to complete items **P3** and **P9** of the schedule. See question **13** in *Individual tax return instructions supplement 2012* (NAT 71051). Do not include your partnership details at any other item on your schedule.

You will also need to complete the *Individual PAYG payment summary schedule 2012* if you received any of the following:

- *PAYG payment summary – business and personal services income* (NAT 72545)
- *PAYG payment summary – withholding where ABN not quoted guidelines*
- *PAYG withholding payment summary – foreign residents.*

These instructions will also help you fill in the *Individual PAYG payment schedule 2012*.

HOW LONG DID IT TAKE YOU TO COMPLETE THIS SCHEDULE?

We are committed to reducing the costs involved in complying with your tax obligations. Your response to this item will help us monitor these costs as closely as possible.

Write the number of hours it took you to prepare and complete your *Business and professional items schedule for individuals 2012* at **S** on page 4 of your schedule.

When completing this item, consider the time, rounded up to the nearest hour, you spent:

- reading the instructions
- collecting the necessary information to complete this schedule
- making any necessary calculations
- completing the schedule, and
- putting the tax affairs of your business in order so the information can be handed to your tax agent.

Your answer should reflect the time your business spent preparing and completing your schedule and the time spent by your tax agent and any other person whose assistance you obtained.

If you are a tax agent preparing this schedule on behalf of your client, include your time and a reliable estimate of their time.

RECORDS YOU NEED TO KEEP

You must keep records of most transactions in English for five years after you prepared or obtained them, or five years after you completed the transactions or acts to which they relate, whichever is the later. *Taxation Ruling TR 96/7 Income tax: record keeping – section 262A – general principles* clarifies the record-keeping obligations of small businesses, particularly for cash transactions. If you have losses, you should generally keep records for four years from the year of income when a tax loss is fully deducted or a net capital loss is fully applied.

We are helping small business operators to meet their record-keeping obligations by reviewing their record-keeping practices. These reviews start with a phone call or a brief visit to the business premises. You can ask questions and an interview is arranged for a later date.

Some of the more significant record-keeping problems we have identified are failure to:

- record cash income and expenditure
- account for personal drawings
- record goods for your own use
- separate private expenses from business expenses
- keep valid tax invoices for creditable acquisitions when registered for the goods and services tax (GST)
- keep adequate stock records
- keep adequate records to substantiate motor vehicle claims.

For more information, see *Record keeping for small business* (NAT 3029). To find out how to get this publication, see the inside back cover.

Choice of superannuation fund

You must keep records that show you have met your choice of superannuation fund obligations. For further information about the records you need to keep, go to www.ato.gov.au/superfunds or phone **13 28 64**.

HOBBY OR BUSINESS?

It is important to determine whether you are carrying on a business or pursuing a hobby, sport or recreational activity that does not produce income.

In general, you are considered to carry on a business if the activity:

- has started
- has a significant commercial purpose or character
- has a purpose of profit as well as a prospect of profit
- is carried out in a manner that is characteristic of the industry
- is repeated, regular or continuous
- cannot be more accurately described as a hobby, recreation or sporting activity.

For more information, see **Working out if you are operating a business** in *Tax basics for small business* (NAT 1908). If you are a primary producer, see *Taxation Ruling TR 97/11 – Income tax: am I carrying on a business of primary production?*

ASSETS PUT TO A TAX-PREFERRED USE

Division 250 of the ITAA 1997 applies to the leasing of assets and other similar arrangements to tax-preferred end users (such as tax-exempt entities and non-residents).

If Division 250 applies to an arrangement, then capital allowance deductions will be denied for the asset and the arrangement will be treated as a deemed loan that is taxed as a financial arrangement on a compounding accruals basis. Division 250 applies to all relevant arrangements where the tax-preferred use of an asset starts on or after 1 July 2007. However, Division 250 does not apply if the use occurs under a legally enforceable arrangement that was entered into before 1 July 2007.

Division 250 also does not apply if you are a small business entity for the income year in which the arrangement period for the tax-preferred use of the asset starts, and you choose to deduct amounts under Subdivision 328-D (capital allowances for small business entities) for the asset for that income year. Division 250 also does not apply to certain relatively short-term and lower-value arrangements. For more information, go to www.ato.gov.au and enter 'division 250' in the 'Search for' box at the top of the page.

When you have completed your *Business and professional items schedule for individuals 2012*, you will need to transfer:

- your **Net personal services income (PSI)** amount (if any) from **A** item **P1** on your schedule to **A** item **14** on page 13 of your tax return (supplementary section)
- your **NET INCOME OR LOSS FROM BUSINESS** amounts from **Y** and **Z** item **P8** on your schedule to **B** and **C** (respectively) item **15** on page 14 of your tax return (supplementary section).

Concessions for small business entities

Did you carry on a business at any time during the year and have an aggregated turnover of less than \$2 million?

NO ☐ Go to **P1 Personal services income (PSI)** on page 4.

YES ☐ Read on to find out more about concessions for small business entities.

You need to know

Small businesses with an aggregated turnover of less than \$2 million are called 'small business entities' and may qualify for a range of tax concessions.

Eligible businesses can choose to use the concessions that best suit their needs. It is not necessary to elect to be a small business entity each year in order to access the concessions – however, businesses must review their eligibility each year.

A small business entity may be eligible for the following concessions:

- CGT 15-year asset exemption
- CGT 50% active asset reduction
- CGT retirement exemption
- CGT small business rollover
- Simplified depreciation rules (see page 21)
- Simplified trading stock rules (see page 16)
- Deducting certain prepaid business expenses immediately (see page 21)
- Entrepreneurs tax offset
- Accounting for GST on a cash basis
- Annual apportionment of GST input tax credits
- Paying GST by quarterly instalments
- Fringe benefits tax car-parking exemption
- Pay as you go (PAYG) instalments based on gross domestic product (GDP) – adjusted notional tax.

ELIGIBILITY

You are a small business entity if you are carrying on a business and have an aggregated turnover of less than \$2 million.

Aggregated turnover is your annual turnover plus the annual turnovers of any entities that are **connected with you** or that are your **affiliates** (adjusted to ignore dealings between connected entities and affiliates). Using aggregated turnover prevents larger businesses from structuring or restructuring their affairs to take advantage of the small business entity concessions.

You must review your eligibility each year.

For more information on the aggregation rules, go to our website at www.ato.gov.au and enter 'What are the aggregation rules?' in the 'Search for' box at the top of the page or phone **13 28 66**.

CALCULATING YOUR TURNOVER

Turnover includes all ordinary income earned in the ordinary course of business for the income year. The following are some examples of amounts included and not included in ordinary income of a business:

TABLE: Calculating your turnover

Include these amounts	Do not include these amounts
<ul style="list-style-type: none">■ sales of trading stock■ fees for services provided■ interest from business bank accounts■ amounts received to replace something that would have had the character of business income	<ul style="list-style-type: none">■ GST charged on a transaction■ proceeds from the sale of business assets■ capital gains■ insurance proceeds for the loss or destruction of a business asset■ amounts received from repayments of farm management deposits

There are special rules for calculating your annual turnover if you have retail fuel sales or business dealings with associates.

The business operated for only part of the year

If you carried on a business for only part of the income year, your annual turnover is worked out using a reasonable estimate of what the turnover would have been if you had carried on the business for the whole of the income year. This includes winding up the business.

SATISFYING THE AGGREGATED TURNOVER THRESHOLD

Your business satisfies the \$2 million aggregated turnover requirement if you meet **one** of the following:

- your aggregated turnover for 2010–11 was less than \$2 million.
- you estimate at the beginning of 2011–12 that your aggregated turnover for the year will be less than \$2 million (and your aggregated turnover in 2009–10 or 2010–11 was less than \$2 million), or
- your actual aggregated turnover, worked out at the end of 2011–12, was less than \$2 million. You rely on this test only if you do not satisfy either of the other two tests above. If you satisfy this test only, you cannot use the GST and PAYG concessions for 2011–12.

For more information about these small business entity concessions, see *Concessions for small business entities* (NAT 71874).

FORMER SIMPLIFIED TAX SYSTEMS (STS) TAXPAYERS

Continued use of the STS accounting method

Although the STS has now ceased, you may continue using the STS accounting method for the 2011–12 income year if you:

- were an STS taxpayer continuously from the income year that started before 1 July 2005 and until the end of 2006–07
- used the STS accounting method from 2005–06 to 2010–11 and
- are a small business entity for 2011–12.

If you meet these **three** requirements, you can continue using the STS accounting method until you choose not to or you are no longer a small business entity.

If you continue to use the STS accounting method, you base the amounts you include at item **P8** on the STS accounting method. If your accounting system or financial statements do not reflect the STS accounting method, you may need to make additional reconciliation adjustments at **Reconciliation items** item **P8**. For more information, see pages 26–40. If another provision of the income tax law apports or alters the assessability or deductibility of a particular type of ordinary income or general deduction, the timing rule in the specific provision overrides the received or paid rule under the STS accounting method – for example, double wool clips or prepayment of a business expense for a period greater than 12 months. Because of these specific provisions, you may need to make adjustments at **Reconciliation items**.



The STS accounting method does not apply to income or deductions that receive specific treatment under income tax law – for example, net capital gains, dividends, depreciation expenses, bad debts and borrowing expenses.

Ceasing use of the STS accounting method

If you have discontinued using the STS accounting method, then business income and expenses that have not been accounted for (because they have not been received or paid) will be accounted for in this year. You may need to make additional reconciliation adjustments at **Reconciliation items**.

COMPLETING THE SCHEDULE

P1 PERSONAL SERVICES INCOME (PSI)

STOP

You do not have to complete item **P1** if your PSI is gained as an employee. Item **P1** concerns sole traders only.

You also do not have to complete item **P1** if your PSI was received through a company, partnership or trust.

Did you receive any PSI?

NO ☐ Print **X** in the **NO** box at item **P1** on your schedule. Go to **P2 Description of main business or professional activity** on page 9.

YES ☐ Print **X** in the **YES** box at item **P1** on your schedule. Read on.

You need to know

PSI is income that is mainly a reward for an individual's personal efforts or skills.

Examples of PSI are:

- income of a professional practitioner in a sole practice
- income payable under a contract which is wholly or principally for the labour or services of a person
- income derived by a professional sportsperson or entertainer from the exercise of professional skills
- income derived by consultants from the exercise of personal expertise.

PSI does not include income that is mainly:

- for supplying or selling goods – for example, from retailing, wholesaling or manufacturing
- generated by a significant income-producing asset, such as a bulldozer
- for granting a right to use property – for example, the copyright to a computer program
- generated by a business structure – for example, a large accounting firm.

If you have earned PSI but not as an employee, you may not be able to claim certain deductions in relation to earning that income – for example, rent, mortgage interest, rates or land tax for your home, or payments to your spouse (or other associate) for support work, such as secretarial duties. This depends on whether:

- you have a personal services business determination from the Commissioner of Taxation stating that your PSI was from conducting a personal services business for the whole of the period you earned PSI, or
- you satisfied one of the four tests in part A in the next column.

If you earned PSI as a sole trader, you need to read on and answer one or more of the questions in part A to determine whether deductions in relation to your PSI are affected by the PSI rules.

The PSI rules do not affect your legal, contractual or workplace arrangements; you won't be treated as an employee as a result of the rules.

Part A

Did you satisfy the results test?

If you earn PSI, you satisfy the results test in the income year if, in respect of at least 75% of this income, you can answer **yes** to **all** of the following three questions in relation to your work:

- under your contract or arrangement, was the PSI paid to achieve a specified result or outcome?
- did you have to provide the tools or equipment necessary (if any) to do your work? (If no tools or equipment were required, answer yes.)
- were you liable for rectifying defects in your work?

You are paid to achieve a result under your contract when your contract requires the production of a specified result or outcome, and payment is conditional upon that outcome being achieved. The essence of the contract is to achieve a result and not just do work as required.

NO ☐ Print **X** in the **NO** box at **P** item **P1** on your schedule. Read on.

YES ☐ Print **X** in the **YES** box at **P** item **P1** on your schedule. Go to **P2 Description of main business or professional activity** on page 9.

Have you received a personal services business determination from the Commissioner that was in force for the whole of the period you earned PSI?

This is a notice from the Commissioner stating that you are conducting a personal services business. If you have a personal services business determination from the Commissioner, the PSI rules do not apply to your PSI and any deductions.

NO ☐ Print **X** in the **NO** box at **C** item **P1** on your schedule. Read on.

YES ☐ Print **X** in the **YES** box at **C** item **P1** on your schedule. Go to **P2 Description of main business or professional activity** on page 9.

Did you receive 80% or more of your PSI from one source?

If you don't satisfy the results test and 80% or more of your PSI in the income year came from one client and its associates, you cannot self-assess whether you satisfy the other personal services business tests. The PSI rules apply to you unless you get a determination from the Commissioner.

If you don't satisfy the results test, you can self-assess against the other tests only if less than 80% of your PSI came from each client.

You should consider PSI obtained by merely putting your name with a labour hire firm, placement agency or similar organisation as income from one client.

Commission agents

Special rules apply to commission agents. For more information, phone **13 28 66**.

NO ☐ Print **X** in the **NO** box at **Q** item **P1** on your schedule. Read on.

YES ☐ Print **X** in the **YES** box at **Q** item **P1** on your schedule. Go to part B in the next column.

Did you satisfy the unrelated clients test?

You will satisfy the unrelated clients test in the income year if you can answer yes to the following question:

- did you receive PSI from two or more clients who are not associated with each other or with you?

You must also provide the personal services work as a direct result of making offers to the public – for example, by advertising. Do not count clients obtained by merely registering with a labour hire firm, placement agency or similar organisation. Remember: special rules apply to commission agents. For more information, phone **13 28 66**.

NO ☐ Read on.

YES ☐ Print **X** in the box at **D1** item **P1** on your schedule. Read on.

Did you satisfy the employment test?

You satisfy the employment test in the income year if you can answer **yes** to **either** of the following questions:

- did you have one or more apprentices for at least half the income year?
- did you have employees or did you engage subcontractors or entities who performed at least 20% (by market value) of your principal work?

Principal work is the main work that generates the PSI and does not usually include support work, such as secretarial duties. You can count a spouse or family member who does principal work but not companies, partnerships or trusts associated with you.

NO ☐ Read on.

YES ☐ Print **X** in the box at **E1** item **P1** on your schedule. Read on.

Did you satisfy the business premises test?

You satisfy the business premises test if you can answer **YES** to **all** of the following questions.

For the whole period during which you earned PSI:

- maintained by you?
- mainly used by you for work earning your PSI (for example, more than 50% of the use)?
- used exclusively by you?
- physically separate from your private residence or the private residence of any of your associates?
- physically separate from the business address of your clients or their associates?

NO ☐ Read on.

YES ☐ Print **X** in the box at **Q** item **P1** on your schedule. Read on.

If you printed **X** at **D1**, **E1** or **F1**, go to **P2 Description of main business or professional activity** on page 9. Otherwise read on.

Part B

STOP

Do not show in part B PSI amounts that were subject to foreign resident withholding. Show these at item **P8**.

You need to know

You must complete part B of item **P1** if you received PSI and you did **not**:

- receive a personal services business determination in relation to your PSI
- satisfy the results test, **or**
- satisfy at least one of the other three personal services business tests (if less than 80% of your PSI came from each client).

PSI is divided into:

- income that was subject to a PAYG voluntary agreement to withhold tax
- income from which tax has been withheld because you did not quote your Australian business number (ABN) to one of your payers
- income received under a labour hire arrangement or from a specified payment
- other PSI.

Goods and services tax (GST)

If you are registered or required to be registered for GST, do not include any GST amounts in your assessable income. Your deductions should not include any amounts that relate to input tax credit entitlements.

Former STS taxpayers

If you are eligible and are continuing to use the STS accounting method, you must complete the income and deduction parts of item **P1** using the STS accounting method. For more information read **Former STS taxpayers** on page 3.

YOU MAY NEED TO COMPLETE AN INDIVIDUAL PAYG PAYMENT SUMMARY SCHEDULE

If tax has been withheld from business income, you should have received a payment summary.

You will need to complete the *Individual PAYG payment summary schedule 2012* before completing the rest of item **P1** if you received one of the following payment summaries:

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

(There are two blank copies of the *Individual PAYG payment summary schedule 2012* at the back of this publication.)

While the *PAYG payment summary – business and personal services income* allows reporting of different payment types (including labour hire or other specified payments and voluntary agreement) you must specify on the schedule the nature of the income and the payment type made to you.

For more information, refer to the next section **How to complete the Individual PAYG payment summary schedule 2012.**

A payer may issue a receipt, remittance advice or similar document in place of the *PAYG payment summary – withholding where ABN not quoted*. This document must contain the same details as the payment summary and be signed by the payer.

If you received income from which tax was withheld and you did not receive or have lost your payment summary, contact your payer and ask for a copy.

How to complete the Individual PAYG payment summary schedule 2012

STEP 1 Write your tax file number (TFN) and name in the appropriate boxes at the top of the schedule.

STEP 2 Nature of income print **X** in the **Personal services income** box.

STEP 3 For each payment summary, transfer the following information to the schedule:

- the type of withholding (look at your payment summary to determine its type and complete the **Type** box, using the following key)
 - V** voluntary agreement
 - N** withholding where ABN not quoted
 - S** labour hire or other specified payments
- the payer's ABN or withholding payer number (WPN) and the payer's name in the appropriate boxes
- the total tax withheld in the **Tax withheld** box
- the gross payment in the **Gross payment** box.

STEP 4 Check that you have recorded details from all relevant payment summaries on your payment summary schedule then attach the schedule to page 3 of your tax return.

Do not attach the payment summaries to your tax return. You must keep them for a period of five years.

Payers must report to us details of payments where amounts of tax have been withheld. This information will be cross-checked with that on your tax return to make sure that you have declared the correct amount of income and the correct amount of tax withheld.

You may need two payment summary schedules

If you have both PSI (item **P1**) and business income (item **P8**), you will need to complete an *Individual PAYG payment summary schedule 2012* for each type of income.

INCOME

PSI – VOLUNTARY AGREEMENT

Did you receive any PSI that was subject to a PAYG voluntary agreement?

NO ☐ Go to **PSI – where Australian business number not quoted below.**

YES ☐ Read on.

The amount you show at **M** is the total income you received that was subject to a PAYG voluntary agreement, including amounts of tax withheld. You will be able to calculate this amount from your completed payment summary schedule.

Completing this item

Add up all the **Gross payment** amounts on your completed payment summary schedule that have a **V** in the corresponding **TYPE** box. Write the total at **M** item **P1**. Do not show cents.

If you complete **M** item **P1** you must also complete **G** item **14** on page 13 of your tax return (supplementary section).

PSI – WHERE AUSTRALIAN BUSINESS NUMBER NOT QUOTED

Did you have any amounts of tax withheld from your PSI for failure to quote your ABN?

NO ☐ Go to **PSI – labour hire or other specified payments** on the next page.

YES ☐ Read on.

The amount you show at **N** is your total PSI from which an amount has been withheld because you did not quote your ABN, including the amounts of tax withheld. You will be able to calculate this amount from your completed payment summary schedule.

Completing this item

Add up all the **Gross payment** amounts on your completed payment summary schedule that have an **N** in the corresponding **TYPE** box. Write the total at **N** item **P1**. Do not show cents.

If you complete **N** item **P1** you must also complete **H** item **14** on page 13 of your tax return (supplementary section).

PSI – LABOUR HIRE OR OTHER SPECIFIED PAYMENTS

Did you receive any PSI under a labour hire arrangement or from a specified payment?

Specified payments include:

- income from tutorial services provided for the Indigenous Tutorial Assistance Scheme of the Department of Education, Employment and Workplace Relations
- income from translation and interpretation services for the Translating and Interpreting Service National of the Department of Immigration and Citizenship
- income as a performing artist in a promotional activity.

NO ☐ Go to **PSI – other** in the next column.

YES ☐ Read on.

STOP

Do not include income received as an employee of a labour hire business. These amounts will appear on your *PAYG payment summary – individual non-business* and you should show them at item **1** on page 2 of your tax return.

The amount you show at **O** is the total income you received from labour hire or other specified payments, including amounts of tax withheld. You will be able to calculate this amount from your completed payment summary schedule.

Completing this item

Add up all the **Gross payment** amounts on your completed payment summary schedule that have an **S** in the corresponding **TYPE** box. Write the total at **O** item **P1**. Do not show cents.

If you complete **O** item **P1** you must also complete **J** item **14** on page 13 of your tax return (supplementary section).

PSI – OTHER

Did you receive any other PSI?

NO ☐ Go to **Deductions** below.

YES ☐ Read on.


Work out the total amount of other PSI and write this amount at **J** item **P1**.

If you are registered or required to be registered for GST, do not include any GST amounts in your assessable income.

DEDUCTIONS

Limited deductions against PSI

The PSI rules affect the deductions you can claim against your PSI. They do not affect your legal, contractual or workplace arrangements; you won't be treated as an employee as a result of the PSI rules.

 The information on this page is a guide only. You may need further information to determine whether a deduction is available in your circumstances. *Taxation Ruling TR 2003/10 – Income tax: deductions that relate to personal services income* explains the PSI deduction limitation rules.

What deductions you may be able to claim

Subject to specific exceptions, the general rule is that you may claim an amount that is incurred in gaining or producing your PSI if you could claim that amount if the income was payable to you as an employee.

The following are examples of items you may be able to claim a deduction for:

- premiums for workers compensation, public liability and professional indemnity insurance
- bank and other account-keeping fees and charges
- tax-related expenses, such as the cost of preparing and lodging a tax return or business activity statement (BAS)
- registration or licensing fees
- expenses for advertising, tendering and quoting for work
- deduction for decline in value of depreciating assets
- simplified depreciation (if you are a small business entity)
- running expenses for your home office, such as heating and lighting for using a room in your house as a home office (not including rent, mortgage interest, rates or land taxes)
- salary and wages for an arm's length employee (not an associate)
- contributions to a complying superannuation fund on behalf of an arm's length employee (not an associate)
- reasonable amounts paid to an associate for principal work
- contributions to a complying superannuation fund or retirement savings account up to the superannuation guarantee amount for an associate doing solely principal work.

Do not include any amount that was a superannuation contribution for yourself. Any deduction for your own superannuation contributions must be claimed at item **D12** on your tax return (supplementary section). See question **D12** in *Individual tax return instructions supplement 2012*.

What you cannot claim

You cannot claim an amount for the following if it related to gaining your PSI:

- rent, mortgage interest, rates or land tax for your residence (or the residence of an associate)
- amounts paid to an associate for non-principal work, for example, support such as secretarial work
- contributions to a superannuation fund for an associate doing solely non-principal work.

DEDUCTIONS FOR PAYMENTS TO ASSOCIATES FOR PRINCIPAL WORK

Do you have deductions for payments to associates for principal work?

NO ☐ Go to **Total amount of other deductions against PSI** below.

YES ☐ Read on.

Add up the total amount of payments made to associates for principal work. Write the total at **K** item **P1**.

TOTAL AMOUNT OF OTHER DEDUCTIONS AGAINST PSI

Do you have other allowable deductions against your PSI?

NO ☐ Go to **Net PSI** in the next column.

YES ☐ Read on.

You need to know

In answering this question you include only non-commercial business losses deferred from a prior year if they relate to a business activity which is the same as, or similar to, one of your current year business activities. See **P9 Business loss activity details** on page 41 for an explanation of how the non-commercial business loss rules work.

Your non-commercial business loss deduction may be reduced if:

- you earned net exempt income in this income year, or
- you became bankrupt or were released from any debts by the operation of an Act relating to bankruptcy.

For more information, phone **13 28 66**.

Completing this item

Add up the total amount of all other expenses (including non-commercial business losses deferred from a prior year) that you can deduct from your PSI. Write the amount at **L** item **P1**.

Do not include amounts already recorded at **K** item **P1**.

If you are registered or required to be registered for GST, your deductions should not include the amount that relates to input tax credit entitlements.

NET PSI

Completing this item

To work out your net PSI go through the following steps:

STEP 1 Add up the amounts shown at **M**, **N**, **O** and **J** item **P1**.

STEP 2 Add up the amounts shown at **K** and **L** item **P1**.

STEP 3 Take away the amount calculated at step 2 from the amount calculated at step 1. Write your answer at **A** item **P1**.

STEP 4 Transfer the amount at **A** item **P1** to **A** item **14** on page 13 of your tax return (supplementary section).

If the amount is a loss, you must:

- print **L** in the **LOSS** box at the right of **A** item **P1**
- print **L** in the **LOSS** box at the right of **A** item **14** on your tax return (supplementary section).

OTHER BUSINESS INCOME

Did you have any business income other than PSI?

YES ☐ Go to **P2 Description of main business or professional activity** on the next page.

NO ☐ Read on.

FINISHING YOUR SCHEDULE

If the only income you need to show on your schedule is personal services income, you need to complete only:

- item **P2 Description of main business or professional activity**, on the next page
- item **P3 Number of business activities**, on the next page
- item **P9 Business loss activity details** (if you had a loss), see page 41, and
- item **P10 Small business entity depreciating assets** (if you are a small business entity and have chosen to use the simplified depreciation rules), see page 46.

Check that you have...

- ☐ written your tax file number and your full name on page 1 of your *Business and professional items schedule for individuals 2012*
- ☐ transferred your net PSI amount from **A** item **P1** to **A** item **14** on your tax return (supplementary section). If this amount is a loss, check that you printed **L** in the **LOSS** box at the right of **A**
- ☐ attach your schedule to page 3 of your tax return
- ☐ completed and attached your *Individual PAYG payment summary schedule 2012* to page 3 of your tax return (if you received PSI that was subject to withholding).

P2 DESCRIPTION OF MAIN BUSINESS OR PROFESSIONAL ACTIVITY

Completing this item

Describe as accurately as possible the main business or professional activity where your gross income comes from – for example, beef cattle breeder, vegetable grower, clothing manufacturer, confectionery wholesaler, or electrical goods retailer. Do not use general descriptions, such as farmer, manufacturer or wholesaler.

Print the description of your main business or professional activity at item **P2** on page 2 of your schedule.

P3 NUMBER OF BUSINESS ACTIVITIES

Completing this item

Write at **B** the number of separate and distinct business activities you operated as a sole trader and in partnership during 2011–12. If you operated only one business activity, write **1**. The number of business activities you show at **B** should not be less than the number you show at item **P9 Business loss activity details**.

P4 STATUS OF BUSINESS

Completing this item

If you ceased your main business during 2011–12, print **X** at **C1** item **P4** on page 2 of your schedule.

If you commenced a new business during 2011–12, print **X** at **C2**.

If more than one option applies, select the first applicable option. If neither of them applies, leave the boxes blank.

P5 BUSINESS NAME OF MAIN BUSINESS AND ABN

The business name of the main business activity should be consistent from year to year, except in the year of a name change or when it is no longer the main business.

The business name does not have to be a registered name.

If the business name is legally changed, advise us in writing at the time the change is made. The current business name should be shown on your tax return.

Completing this item

Print the business name and Australian business number (ABN) of your main business at item **P5** on page 2 of your schedule.

P6 BUSINESS ADDRESS OF MAIN BUSINESS

Completing this item

Print the street address of the place where most of your business operations are conducted at item **P6** on page 2 of your schedule.

Write the postcode of this address at **D** item **P6**.

P7 DID YOU SELL ANY GOODS OR SERVICES USING THE INTERNET?

You need to know

You must answer **yes** at this item if, in deriving income, **one or more** of the following applied:

- you used the internet to receive orders for goods or services – for example, you received orders by email or a web page form (rather than by conventional post, phone or facsimile)
- you used the internet to receive payment for goods or services – for example, you received
 - credit card or charge card details by email or web page form (rather than by conventional post, phone or facsimile) or
 - digital cash.
- you used the internet to deliver goods or services – for example, you
 - used email, the world wide web or file transfer protocol (FTP) to deliver digitised music, news articles or software (rather than using conventional post to deliver software on a disk)
 - used email in conjunction with a website to give advice and received a payment in connection with this advice
 - advertised on the internet goods or services of other businesses for a fee, or
 - hosted internet sites or provided access to the internet.

You must answer **no** at this item if **none** of the above applied – for example, if you used the internet **only** to:

- advertise your goods and services
- give support to your customers
- buy your stock
- do your banking online.

Completing this item

If your answer is yes, print **X** in the **YES** box at **Q** item **P7** on page 2 of your schedule.

If your answer is no, print **X** in the **NO** box at **Q**.

P8 BUSINESS INCOME AND EXPENSES

This item has three sections:

- Income
- Expenses
- Reconciliation items.

The amounts to be included in the **Income** and **Expenses** sections of item **P8** are amounts derived from your accounting system or financial statements, **except** for:

- the values of opening and closing stock, which are to be shown at tax values as explained on pages 15–16, and
- depreciation expenses for small business entities choosing to use the simplified depreciation rules, which are to be shown at tax values as explained on page 21.

The income and expense amounts to be included at item **P8** 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 in the **Reconciliation items** section of item **P8**.

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 STS taxpayers** on page 3.

STOP

You show personal services income and related expenses at item **P1**, with the one exception of personal services income subject to foreign resident withholding, which you show at this item.

Income

The business income to be shown at item **P8** is divided into:

- income from which tax has been withheld because you did not quote your ABN to one of your payers
- gross payments subject to foreign resident withholding
- income that was subject to a PAYG voluntary agreement to withhold tax
- income received under a labour-hire arrangement or from a specified payment
- assessable government industry payments
- other business income.

STOP

Do **not** show the following types of income at item **P8**:

- gross interest – show it at item **10** on your tax return
- dividends and franking credits – show them at item **11** on your tax return
- distributions from partnerships and trusts – show them at item **13** on your tax return (supplementary section)
- gross rental or similar income that is not derived from carrying on a business of renting property, such as agistment or hire fees – show it at item **21** on your tax return (supplementary section)
- net capital gains – show them at item **18** on your tax return (supplementary section)
- PSI shown at item **P1**
- farm management withdrawals – show them at item **17** on your tax return (supplementary section)
- attributed foreign income – show it at item **19** on your tax return (supplementary section)
- foreign source income – show it at item **20** on your tax return (supplementary section).

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, capital proceeds) and termination values.

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.

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 STS taxpayers** on page 3.

What you may need

- Primary production worksheet: If you are a primary producer, you will need this worksheet to help you determine some of the amounts in this section. The worksheet is included in *Information for primary producers 2012* (NAT 1712). To find out how to get this publication, see the inside back cover. Complete the worksheet before proceeding.
- *Individual PAYG payment summary schedule 2012* (NAT 3647).

Did you have amounts withheld from your business income – other than PSI included at item P1?

NO ☐ Go to **Assessable government industry payments** on page 13.

YES ☐ Read on.

If tax has been withheld from business income, you should have received a payment summary.

You will need to complete the *Individual PAYG payment summary schedule 2012* before completing item **P8** if you received any of the following payment summaries:

- *PAYG payment summary – business and personal services income* (NAT 72545)
- *PAYG payment summary – withholding where ABN not quoted*
- *PAYG payment summary – foreign resident withholding.*

There are two copies of the *Individual PAYG payment summary schedule 2012* at the back of this publication.

The *PAYG payment summary – business and personal services income* allows reporting of different payment types (including voluntary agreement, labour hire or other specified payments). When completing the individual payment summary schedule, you must specify the nature of the income and the payment type made to you.

For more information see the next section **How to complete the Individual PAYG payment summary schedule 2012**.

A payer may issue a receipt, remittance or similar document in place of the *PAYG payment summary – withholding where ABN not quoted*.

If you received income from which tax was withheld and you did not receive or have lost your payment summary, contact your payer and ask for a copy.

How to complete the Individual PAYG payment summary schedule 2012

Remember: If you have both business income (item **P8**) and personal services income (item **P1**) you will need to complete an *Individual PAYG payment summary schedule 2012* for each type of income.

STEP 1 Write your TFN and name in the appropriate boxes at the top of the schedule.

STEP 2 Nature of income, print **X** in the **Business income** box.

STEP 3 For each payment summary, transfer the following information to the schedule:

- the type of withholding – look at your payment summary carefully to determine its type and complete the **Type** box, using the following key:
 - V** voluntary agreement
 - S** labour hire or other specified payments
 - N** withholding where ABN not quoted
 - F** foreign resident withholding
- the payer's ABN or withholding payer number (WPN) and the payer's name in the appropriate boxes
- the total tax withheld in the **Tax withheld** box
- the gross payment in the **Gross payment** box.

STEP 4 Check that you have recorded details from all relevant payment summaries on your payment summary schedule, then attach the schedule to page 3 of your tax return.

Do not attach the payment summaries to your tax return – you must keep them for a period of five years.

Payers must report to us details of payments where amounts of tax have been withheld. This information will be cross-checked with that on your tax return to make sure that you have declared the correct amount of income and the correct amount of tax withheld.

GROSS PAYMENTS WHERE AUSTRALIAN BUSINESS NUMBER (ABN) NOT QUOTED

Did you have amounts of tax withheld for failure to quote an ABN?

NO ☐ Go to **Gross payments subject to foreign resident withholding** on the next page.

YES ☐ Read on.

You need to know

The amounts you show at **C** and **D** are the total income you received from which your payers have withheld an amount because you did not quote your ABN. You will be able to calculate these amounts from your completed *Individual PAYG payment summary schedule 2012*.

Completing this item

STEP 1 Add up all the **Gross payment** amounts on your completed payment summary schedule, derived from primary production activities that have an **N** in the **Type** box. Write the total at **C** item **P8** on page 2 of your schedule. Do not show cents.

STEP 2 Add up all the **Gross payment** amounts on your completed payment summary schedule, derived from non-primary production activities that have an **N** in the **Type** box. Write the total at **D**. Do not show cents.

STEP 3 Add up the amounts you have written at **C** and **D** and write the total in the adjacent **Totals** box.

If you complete **C** or **D** item **P8** you must complete **W** item **15** on page 14 of your tax return (supplementary section).

GROSS PAYMENTS SUBJECT TO FOREIGN RESIDENT WITHHOLDING

Did you receive any payments that were subject to foreign resident withholding?

NO ☐ Go to **Gross payments – voluntary agreement** below.

YES ☐ Read on.

You need to know

The amount you show at **B** is the total income you received from your payers which is subject to foreign resident withholding. It includes any amounts of tax withheld. You will be able to calculate this amount from your completed *Individual PAYG payment summary schedule 2012*.

Completing this item

STEP 1 Add up all the **Gross payment** amounts on your completed payment summary schedule, derived from non-primary production activities that have an **F** in the **Type** box. Write the total at **B** item **P8** on page 2 of your schedule. Do not show cents.

STEP 2 Transfer the amount at **B** to the adjacent **Totals** box.

If you complete **B** item **P8**, you must complete **E** item **15** on page 14 of your tax return (supplementary section).

You will not have any primary production amounts at this item. Leave **A** blank.

GROSS PAYMENTS – VOLUNTARY AGREEMENT

Did you receive any income that was subject to a PAYG voluntary agreement?

NO ☐ Go to **Gross payments – labour hire or other specified payments** in the next column.

YES ☐ Read on.

You need to know

The amounts you show at **E** and **F** are the total income you received that was subject to a voluntary agreement to withhold tax and include the tax withheld. You will be able to calculate this amount from your completed *Individual PAYG payment summary schedule 2012*.

Completing this item

STEP 1 Add up all the **Gross payment** amounts on your completed payment summary schedule, derived from primary production activities that have a **V** in the **Type** box. Write the total at **E** item **P8** on page 2 of your schedule. Do not show cents.

STEP 2 Add up all the **Gross payment** amounts on your completed payment summary schedule, derived from non-primary production activities that have a **V** in the **Type** box. Write the total at **F**. Do not show cents.

STEP 3 Add up the amounts you have written at **E** and **F**, and write the total in the adjacent **Totals** box.

If you complete **E** or **F** item **P8**, you must complete **D** item **15** on page 14 of your tax return (supplementary section).

GROSS PAYMENTS – LABOUR HIRE OR OTHER SPECIFIED PAYMENTS

Did you receive:

- income under a labour hire arrangement, or
- a specified payment, including
 - income from tutorial services provided for the Indigenous Tutorial Assistance Scheme of the Department of Education, Employment and Workplace Relations
 - income from translation and interpretation services for the Translating and Interpreting Service National of the Department of Immigration and Citizenship, or
 - income as a performing artist in a promotional activity?

NO ☐ Go to **Assessable government industry payments** on the next page.

YES ☐ Read on.

You need to know

The amount you show at **O** is the total income you received from labour hire or specified payments and includes the tax withheld. You will be able to calculate this amount from your completed *Individual PAYG payment summary schedule 2012*.

STOP

Do not include income received as an employee of a labour-hire business. These amounts will appear on your *PAYG payment summary – individual non-business*, and should be shown at item **1** on your tax return.

Completing this item

STEP 1 Add up all the **Gross payment** amounts on your completed payment summary schedule that have an **S** in the **Type** box. These amounts are non-primary production income. Write the total at **O** item **P8** on page 2 of your schedule. Do not show cents.

STEP 2 Transfer the amount at **O** to the adjacent **Totals** box.

If you complete **O** item **P8** you must complete **F** item **15** on page 14 of your tax return (supplementary section).

You will not have any primary production amounts at this item. Leave **N** blank.

ASSESSABLE GOVERNMENT INDUSTRY PAYMENTS

Did you receive assessable government industry assistance?

NO ☐ Go to **Other business income** in the next column.

YES ☐ Read on.

You need to know

Generally, government credits, grants, rebates, bounties and subsidies are assessable income in the hands 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 not be assessable income, but may give rise to a capital gain.

Examples of assessable government industry assistance are:

- bounties
- cleaner fuels grant
- drought relief
- employee subsidies
- export incentive grants
- fuel grant under the energy grants credits scheme
- fuel tax credits
- industry restructuring and adjustment payments
- producer rebate (wine equalisation tax)
- product stewardship (oil) benefit.

➤ For more information, see *Taxation Ruling TR 2006/3 – Income tax: government payments to industry to assist entities (including individuals) to continue, commence or cease business*.



STOP

Do not show 'Medicare payments received by medical practices' at this item. Show them at **Other business income**.

Completing this item

STEP 1 Write your total primary production government industry payments received by each business at **G** item **P8** on page 2 of your schedule. Do not show cents.

If you have completed the **Gross income from primary production** worksheet in *Information for primary producers 2012*, include at **G** the amount at **PP11** on the worksheet.

STEP 2 If your assessable primary production government industry payments include a fuel grant under the energy grants credits scheme or fuel tax credits, print **D** in the **Type** box at the right of the amount at **G**.

STEP 3 Write your total non-primary production government industry payments received by each business at **H**. Do not show cents.

STEP 4 If your assessable non-primary production government industry payments include a fuel grant under the energy grants credits scheme or fuel tax credits, print **D** in the **Type** box at the right of the amount at **H**.

STEP 5 Add up the amounts you have written at **G** and **H**, and write the total in the adjacent **Totals** box.

OTHER BUSINESS INCOME

Did you receive any other business income?

NO ☐ Go to **Total business income** on the next page.

YES ☐ Read on.

You need to know

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 item **P1**)
- 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 – for more information about forex gains, visit our website or see question **24** in *Individual tax return instructions supplement 2012*.

Your 'other business income' excludes amounts shown at **C**, **D**, **A**, **B**, **E**, **F**, **N**, **O**, **G** and **H** on your schedule.

If you are a primary producer, you must add the amounts shown at **PP1**, **PP2**, **PP6**, **PP7** and **PP10** on your **Gross income from primary production** worksheet. This worksheet is included in the publication *Information for primary producers 2012*. You must add the total to any other income from a business of primary production referred to above. You show the total of all other income from the business of primary production at **I** item **P8** on page 2 of your schedule.

Completing this item

STEP 1 Write your total amount of 'other' primary production business income or loss at **I** item **P8** on page 2 of your schedule. Do not show cents.

STEP 2 If you made a loss, print **L** in the box at the right of the amount at **I**.

STEP 3 Write your total amount of 'other' non-primary production business income or loss at **J**. Do not show cents.

STEP 4 If you made a loss, print **L** in the box at the right of the amount at **J**.

STEP 5 Add up your 'other' primary production and non-primary production business income or loss and write the total in the adjacent **Totals** box.

STEP 6 If you made a loss, print **L** in the box at the right of the **Totals** box.

TOTAL BUSINESS INCOME

Completing this item

STEP 1 Add up the primary production amounts shown at **C**, **A**, **E**, **N**, **G** and **I** item **P8** on your schedule. Write the total at **TOTAL BUSINESS INCOME** in the Primary production column. Remember that **A** and **N** will be blank.

STEP 2 If you made a loss, print **L** in the box at the right of the amount at **TOTAL BUSINESS INCOME** in the Primary production column.

STEP 3 Add up the non-primary production amounts shown at **D**, **B**, **F**, **O**, **H** and **J** item **P8**. Write the total at **TOTAL BUSINESS INCOME** in the Non-primary production column.

STEP 4 If you made a loss, print **L** in the box at the right of the amount at **TOTAL BUSINESS INCOME** in the Non-primary production column.

STEP 5 Add up the amounts at **TOTAL BUSINESS INCOME** in the Primary production and Non-primary production columns and write the total in the adjacent **Totals** box. If you made a loss, print **L** in the box at the right of this amount.

Expenses

STOP

Do not include the following expense items on your schedule:

- non-business interest and dividend income expenses – claim deductible expenses at items **D7** and **D8** on your tax return
- farm management deposits – take them into account as required at item **17** on your tax return (supplementary section)
- non-business rental expenses – claim deductible expenses at item **21** on your tax return (supplementary section)
- expenses and losses relating to foreign source income – take them into account as required at item **20** or, in the case of certain debt deductions, claim them at item **D15** on your tax return (supplementary section)
- expenses relating to your personal services income shown at item **P1** on your schedule
- low-value pool deduction where the pool contains assets used for work-related, self-education or non-business rental purposes; see question **D6** in *Individual tax return instructions 2012*.

You need to complete all items that relate to your business or businesses. You can deduct business expenses if the expenses were necessary to carry on your business for the purpose of earning assessable income.

If you are a primary producer you will need a primary production worksheet to help you work out some of the amounts in this section – this worksheet is included in the publication *Information for primary producers 2012*. 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 outgoing. 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 item **D10** on your tax return. Do not show the penalty on your *Business and professional items schedule for individuals 2012*. For more information, see *Individual tax return instructions 2012*.

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) in a future income year, 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.

For more information, see the publication *Deductions for prepaid expenses 2012* (NAT 4170).

Where expenses shown at item **P8** include prepaid expenses that differ from the amounts allowable as deductions in 2011–12, then make an expense reconciliation adjustment at **H** in the **Reconciliation items** section of item **P8**.

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.

Do the thin capitalisation provisions apply to you?

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 and you carry on business in Australia at or through a permanent establishment or otherwise have Australian income-producing assets.

The thin capitalisation rules will not apply to you if:

- your debt deductions (combined with the debt deductions of your associate entities) do not exceed \$250,000 in the income year, 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 apply to you, the amount of any debt deductions you can claim may be reduced by these rules. For more information, see the *Guide to thin capitalisation* which is available on our website.

OPENING STOCK

Did you have trading stock on hand at the start of the year?

NO ☐ Go to **Purchases and other costs** in the next column.

YES ☐ Read on.

You need to know

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 2011 schedule.

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** on your primary production worksheet. 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 in the relevant **Purchases and other costs** box.

Completing this item

STEP 1 Write the total value of your primary production opening stock at **Opening stock** in the Primary production column, item **P8** on page 3 of your schedule. Do not show cents.

STEP 2 Write the total value of your non-primary production opening stock at **Opening stock** in the Non-primary production column. Do not show cents.

STEP 3 Add up your primary production and non-primary production opening stock values and write the total at **K**.

PURCHASES AND OTHER COSTS

Did you have purchases and other costs?

NO ☐ Go to **Closing stock** on the next page.

YES ☐ Read on.

You need to know

This represents 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 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 include this amount as **Contractor, sub-contractor 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.

Completing this item

STEP 1 Work out the value of your primary production purchases and other costs directly related to trading stock. If you have more than one business, add up all your primary production purchases and costs.

STEP 2 Write the total value of your primary production purchases and other costs directly related to trading stock at **Purchases and other costs** in the Primary production column, item **P8** on page 2 of your schedule. Do not show cents.

STEP 3 Work out the value of your non-primary production purchases and other costs directly related to trading stock. If you have more than one business, add up all your non-primary production purchases and other costs.

STEP 4 Write the total value of your non-primary production purchases and other costs directly related to trading stock at **Purchases and other costs** in the Non-primary production column. Do not show cents.

STEP 5 Add up your primary production and non-primary production purchases and other costs directly related to trading stock and write the total at **L**.

Former STS taxpayers

If you are eligible and are continuing to use the STS accounting method, show at **L** only purchases and other costs that you have paid – see **Former STS taxpayers** on page 3.

CLOSING STOCK

Did you have trading stock on hand at the end of the year?

NO ☐ Go to **Cost of sales** on the next page.

YES ☐ Read on.

If you are a small business entity and are choosing to use the simplified trading stock rules, read on. Otherwise, go to **Other businesses** in the next column.

SMALL BUSINESS ENTITIES

You need to know

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, visit our website or phone **13 28 66**.

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

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.

Completing this item

STEP 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 put in both the Primary production and Non-primary production columns at item **P8** on page 3 of your schedule must be the same as the values you put at **Opening stock**. Do not put your reasonable estimate.

Add up your primary production and non-primary production closing stock values and write the total at **M**.

Write in the **TYPE** box at the right of **M** the code letter you used last year to value closing stock:

- C** cost
- M** market selling value
- R** replacement value.

If this is your first year in business, the value of your closing stock will be zero. Print **C** in the **TYPE** box.

Go to **Cost of sales** on the next page.

STEP 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 – see **Other businesses** below for information on how to complete this item.

You must include in your closing stock value at **M** item **P8** the value of all stock on hand, regardless of whether you have paid for the stock.

OTHER BUSINESSES

You need to know

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 in **Other business income** at **I** or **J** in the **Income** section of item **P8**. For more details about what constitutes trading stock, visit our website 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 item **P19** on your schedule.

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.

Completing this item

STEP 1 Work out the value of your primary production closing stock. If you have more than one business, add up all your primary production closing stock values.

STEP 2 Write the total value of your primary production closing stock at **Closing stock** in the Primary production column, item **P8** on page 3 of your schedule. Do not show cents.

STEP 3 Work out the value of your non-primary production closing stock. If you have more than one business, add up all your non-primary production closing stock values.

STEP 4 Write the total value of your non-primary production closing stock at **Closing stock** in the Non-primary production column. Do not show cents.

STEP 5 Add up your primary production and non-primary production closing stock values and write the total at **M**.

STEP 6 From the list below, choose the letter that matches the method you used to value closing stock. If more than one method was used, select the letter that applies to the largest value:

- C** cost
M market selling value
R replacement value.

STEP 7 Print the letter in the **TYPE** box at the right of the amount at **M**.

COST OF SALES

Did you have any cost of sales?

NO ☐ Go to **Foreign resident withholding expenses** in the next column.

YES ☐ Read on.

You need to know

Goods taken for your own use should not be accounted for as stock on hand at 30 June 2012. Include at **I** and **J** **Other business income** in the **Income** section of item **P8** on your schedule the value of:

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

Use **worksheet 1** in the next column to work out your cost of sales.

WORKSHEET 1: Cost of sales

	Primary production	Non-primary production	
Stock at 1 July 2011	\$	\$	(a)
Purchases at cost	\$	\$	(b)
Freight inwards	\$	\$	(c)
Other – for example, labour and services	\$	\$	(d)
Add (a), (b), (c) and (d).	\$	\$	(e)
Stock at 30 June 2012	\$	\$	(f)
Your cost of sales			
Take away (f) from (e).	\$	\$	

For further information on stock on hand at 1 July 2010, see **Opening stock** on page 15. For information on stock on hand at 30 June 2012, see **Closing stock** on page 16.

Completing this item

STEP 1 Write your total primary production cost of sales at **Cost of sales** in the Primary production column, item **P8** on page 3 of your schedule. Do not show cents.

STEP 2 If the cost of sales in the Primary production column, after taking away (f) from (e), is a negative amount, print **L** in the box at the right of this amount.

STEP 3 Write your total non-primary production cost of sales at **Cost of sales** in the Non-primary production column. Do not show cents.

STEP 4 If the cost of sales in the Non-primary production column, after taking (f) away from (e) is a negative amount, print **L** in the box at the right of this amount.

STEP 5 Add up your primary production and non-primary production cost of sales and write the total at **Cost of sales** in the Totals column.

STEP 6 If your total cost of sales is a negative amount, print **L** in the box at the right of this amount.

FOREIGN RESIDENT WITHHOLDING EXPENSES

Did you have any expenses directly relating to income subject to foreign resident withholding?

NO ☐ Go to **Contractor, sub-contractor and commission expenses** on the next page.

YES ☐ Read on.

Completing this item

STEP 1 Write your total non-primary production foreign resident withholding expenses at **Foreign resident withholding expenses** in the Non-primary production column, item **P8** on page 3 of your schedule. Do not show cents.

STEP 2 Transfer the amount you wrote at step 1 to the adjacent **Totals** box at **U**.

You will not have any primary production expense amounts at this item.

CONTRACTOR, SUB-CONTRACTOR AND COMMISSION EXPENSES

Did you have any contractor, sub-contractor or commission expenses in your business?

NO ☐ Go to **Superannuation expenses** in the next column.

YES ☐ Read on.

You need to know

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 item:

- 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**.

Completing this item

STEP 1 Write your total primary production contractor, sub-contractor and commission expenses at **Contractor, sub-contractor and commission expenses** in the Primary production column, item **P8** on page 3 of your schedule. Do not show cents.

STEP 2 Write your total non-primary production contractor, sub-contractor and commission expenses at **Contractor, sub-contractor and commission expenses** in the Non-primary production column. Do not show cents.

STEP 3 Add up your primary production and non-primary production contractor, sub-contractor and commission expenses and write the total at **F**.

SUPERANNUATION EXPENSES

Did you make any superannuation contributions on behalf of eligible employees or their dependants as a business expense?

NO ☐ Go to **Bad debts** on the next page.

YES ☐ Read on.

You need to know

Show 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 item **D12** on your tax return (supplementary section). See question **D12** in *Individual tax return instructions supplement 2012*.

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. Superannuation benefits mean individual personal benefits, pensions or retiring allowances. 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.

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 an exempt visitor) and may be subject to tax under the *Fringe Benefits Tax Assessment Act 1986*.

There is no limit on the amount of contributions that can be claimed as a deduction by an employer contributing to a complying superannuation fund or RSA for employees under the age of 75 years old. However, the employee may be subject to excess contributions tax if their concessional contributions in a financial year exceed \$25,000. This tax is levied at the tax rate of 31.5% on the amount by which the employee's concessional contributions in a financial year exceed their concessional contributions cap. A transitional arrangement allows a higher cap of \$50,000 for concessional contributions for the 2011–12 income year for individuals aged 50 years old or older on the last day of the income year.

If an employee is 75 years old or older, there is a restriction on the deduction that can be claimed for an employer contribution to a complying superannuation fund or RSA. For contributions made after the 28th day of the month following 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.

Completing this item

STEP 1 Write your total primary production superannuation contributions at **Superannuation expenses** in the Primary production column, item **P8** on page 3 of your schedule. Do not show cents.

STEP 2 Write your total non-primary production superannuation contributions at **Superannuation expenses** in the Non-primary production column. Do not show cents.

STEP 3 Add up your primary production and non-primary production superannuation contributions and write the total at **G**.

BAD DEBTS

Did you write off any bad debts in your business?

NO ☐ Go to **Lease expenses** in the next column.

YES ☐ Read on.

You need to know

Include income from the recovery of bad debts in **Other business income** at **I** or **J** in the **Income** section of item **P8**.

You are not allowed a deduction for bad debts unless you have previously included the amount in your assessable income or it is for money you lent in the ordinary course of a money-lending business carried on by you.

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 at **I**. You show them in the **Expenses** section at **All other expenses**, then add them back at **H Expense reconciliation adjustments** in the **Reconciliation items** section.

➤ For more information, see *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 in debt-for-equity swaps for debt written off; where under an arrangement you discharge, release or otherwise extinguish the whole or part of a debt owed to you in return for equity in the debtor.

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. The market value of the equity is the price quoted on the stock exchange or, if the equity is not listed, the net asset backing of the equity.

Where you are not in the business of lending money, the deduction is limited to the amount of the debt you have included in assessable income.

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
- the year that you returned the amount as income.

Completing this item

STEP 1 Write your total primary production bad debts at **Bad debts** in the Primary production column, item **P8** on page 3 of your schedule. Do not show cents.

STEP 2 Write your total non-primary production bad debts at **Bad debts** in the Non-primary production column. Do not show cents.

STEP 3 Add up your primary production and non-primary production bad debts and write the total at **I**.

LEASE EXPENSES

Did you have lease expenses in your business?

NO ☐ Go to **Rent expenses** on the next page.

YES ☐ Read on.

You need to know

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 **K Rent expenses**) or capital expenditure incurred to terminate a lease or licence. However, a five-year straight-line write-off is allowed 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** on page 36 and **note 3** on page 37 and the details under Change 3 in the fact sheet *Blackhole expenditure: business-related expenses* at www.ato.gov.au

In some circumstances, lease expenses may be debt deductions for the purposes of the thin capitalisation rules. For more information on thin capitalisation, see page 14.

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 **H Expense reconciliation adjustments** in the **Reconciliation items** section on your schedule.

Expenses incurred under a hire purchase agreement are not lease expenses. Such expenses are dealt with at **H Expense reconciliation adjustments** in the **Reconciliation items** on your schedule.

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 2011–12 is \$57,466.

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 **H Expense reconciliation adjustments** in the **Reconciliation items** section. For more information, see **Luxury car leasing** on page 34.

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.

Completing this item

STEP 1 Write your total primary production lease expenses at **Lease expenses** in the Primary production column, item **P8** on page 3 of your schedule. Do not show cents.

STEP 2 Write your total non-primary production lease expenses at **Lease expenses** in the Non-primary production column. Do not show cents.

STEP 3 Add up your primary production and non-primary production lease expenses and write the total at **J**.

RENT EXPENSES

Did you have rent as a business expense?

NO ☐ Go to **Interest expenses within Australia** in the next column.

YES ☐ Read on.

You need to know

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.

Completing this item

STEP 1 Write your total primary production rent expenses at **Rent expenses** in the Primary production column, item **P8** on page 3 of your schedule. Do not show cents.

STEP 2 Write your total non-primary production rent expenses at **Rent expenses** in the Non-primary production column. Do not show cents.

STEP 3 Add up your primary production and non-primary production rent expenses and write the total at **K**.

INTEREST EXPENSES WITHIN AUSTRALIA

Did you incur interest as a business expense on money borrowed within Australia?

NO ☐ Go to **Interest expenses overseas** below.

YES ☐ Read on.

You need to know

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 item **21** on your tax return (supplementary section).

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 **H Expense reconciliation adjustments** in the **Reconciliation items** section on your schedule. For more information on thin capitalisation, see page 14.

Completing this item

STEP 1 Write your total primary production interest expenses within Australia at **Interest expenses within Australia** in the Primary production column, item **P8** on page 3 of your schedule. Do not show cents.

STEP 2 Write your total non-primary production interest expenses within Australia at **Interest expenses within Australia** in the Non-primary production column, item **P8** on your schedule. Do not show cents.

STEP 3 Add up your primary production and non-primary production interest expenses within Australia and write the total at **Q**.

INTEREST EXPENSES OVERSEAS

Did you incur interest as a business expense on money borrowed overseas?

NO ☐ Go to **Depreciation expenses** on the next page.

YES ☐ Read on.

You need to know

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 item **21** on your tax return (supplementary section).

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.

If you paid or credited any interest or amounts in the nature of interest to a non-resident of Australia or to a resident's overseas branch, you will need to provide additional information. Print **SCHEDULE OF ADDITIONAL INFORMATION – ITEM 15** on the top of a separate piece of paper. Show the name and address of each recipient, total amounts paid or credited to each non-resident or overseas branch of a resident and the amount of tax withheld. If no tax was withheld, state the reason for this. Include your name, address and TFN. Print **X** in the **YES** box at *Taxpayer's declaration* question **2a** on your tax return. Attach the schedule to page 3 of your tax return.

➤ For more 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 **H Expense reconciliation adjustments** in the **Reconciliation items** section on your schedule. For more information on thin capitalisation, see page 14.

Completing this item

STEP 1 Write your total primary production overseas interest expenses at **Interest expenses overseas** in the Primary production column, item **P8** on page 3 of your schedule. Do not show cents.

STEP 2 Write your total non-primary production overseas interest expenses at **Interest expenses overseas** in the Non-primary production column. Do not show cents.

STEP 3 Add up your primary production and non-primary production overseas interest expenses and write the total at **R**.

DEPRECIATION EXPENSES

Did you have depreciation as a business expense?

NO ☐ Go to **Motor vehicle expenses** on page 25.

YES ☐ If you are a small business entity and are choosing to use the simplified depreciation rules, read on. Otherwise go to **Other businesses** on page 24.

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 item. Show such deductions at item **D15** on your tax return (supplementary section).

SMALL BUSINESS ENTITIES

You need to know

You show at **M Depreciation expenses** item **P8** the total depreciation deductions being 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 part B of item **P1**.

You do not need to complete a *Capital allowances schedule 2012* (NAT 3424).

Small business entities can claim an immediate deduction for most depreciating assets costing less than \$1,000 (excluding input tax credit entitlements) and can pool most of their other depreciating assets. There are two small business pools:

- a general small business pool for depreciating assets with an effective life of less than 25 years, and
- a long-life small business pool for depreciating assets with an effective life of 25 years or more.

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.

➤ For more information about the small business entity depreciation rules, visit our website or phone **13 28 66**.

Calculating your depreciation deductions

If your accounting system or financial statements provide you with the amounts to complete **worksheet 2** on page 24, write these amounts in the worksheet. Otherwise, use calculations 1 to 5 below to calculate your depreciation deductions.

The amounts you write in **worksheet 2** on page 24 must be tax values and not accounting values.

Calculation 1: Low-cost assets

A low-cost asset is an asset:

- whose cost at the end of the income year in which you started to use it for a taxable purpose, or had it installed ready for such use, was less than \$1,000 (excluding input tax credit entitlements), and
- that qualifies for a deduction under the small business entity depreciation rules.

Work out the taxable purpose proportion of each depreciating low-cost asset you acquired in 2011–12 and used, or held ready for use, for the purpose of producing assessable income. You calculate the deduction for each eligible asset as follows:

$$\text{asset's adjustable value} \times \text{taxable purpose proportion}$$

Add up these results and write the total at (a) in **worksheet 2** on page 24.

Do not include depreciating assets which cost less than \$1,000 (excluding input tax credit entitlements) that you acquired before commencing to use these simplified depreciation rules. You allocate these assets to the general small business pool (see calculation 2).

The **adjustable value** of a depreciating low-cost asset, at the time you first used it (or held it ready for use) for a taxable purpose, will be its cost, unless you previously used or held the asset solely for private purposes. For example, for a tool set bought on 1 December at a cost of \$800 (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 $\$800 \times 70\% = \560 .

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: Small business pool deductions

To calculate your deductions for both the general and long-life small business pools you must first calculate the opening pool balance of each pool.

If 2011–12 was the first income year for which you were a small business entity, your opening pool balance of a general or long-life 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 2011–12, and that were not excluded from the simplified depreciation rules.

Allocate each depreciating asset you hold at the start of the income year to the appropriate pool according to the asset's effective life. Include only the taxable purpose proportion of the adjustable value of each depreciating asset – for example, for an asset with an adjustable value of \$10,000 that is used only 50% for an income-producing purpose, you will add only \$5,000 to the pool.

You can choose not to allocate an asset to your long-life 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 each 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 each small business pool as follows.

General small business pool deduction:

$$\text{opening pool balance (\$)} \times 30\%$$

Long-life small business pool deduction:

$$\text{opening pool balance (\$)} \times 5\%$$

Where necessary, make a reasonable apportionment for each small business pool deduction between primary production and non-primary production activities.

Write the result of your general small business pool deduction at (b) in **worksheet 2**.

Write the result of your long-life small business pool deduction at (c) in **worksheet 2**.

If either pool balance is below \$1,000 (after taking into account additions and disposals but before working out the deductions in calculations 2 and 3), you instead work out the deduction for the pool using calculation 5(b).

Calculation 3: Depreciating assets first used for a taxable purpose during 2011–12 and cost addition amounts for assets already allocated to a pool

You calculate your deduction at half the relevant pool rate for:

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

(This calculation does not apply to any asset allocated to an opening pool balance in calculation 2.)

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% (general pool assets) or 2.5% (long-life pool assets), plus
- the taxable purpose proportion of the cost addition amounts multiplied by 15% (general pool assets) or 2.5% (long-life pool assets).

Write the total deduction for general pool assets at (d) and the total deduction for long-life pool assets at (e) 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.

➤ See the *Guide to depreciating assets 2012* (NAT 1996) for information on how to calculate the decline in value of these assets. To find out how to get this publication, see the inside back cover.

Write your total deduction for other depreciating assets at (f) in **worksheet 2**.

Do not include at (f) in the worksheet depreciating assets which qualify for a deduction under Subdivision 40-F or 40-G of the ITAA 1997 as water facilities 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. Show these deductions at **W Landcare operations and business deduction for decline in value of water facility** item **P8 – reconciliation items**.

Calculation 5: Disposal of depreciating assets

(a) Low-cost assets

If you have disposed of a low-cost asset for which you have claimed an immediate deduction in calculation 1 this year or in a prior year, include the taxable purpose proportion of the termination value in the **Reconciliation items** section of item **P8** – for example, for a low-cost asset used only 50% for an income-producing purpose which was sold for \$200 (excluding GST), only \$100 will be assessable and included as a reconciliation adjustment.

(b) Assets allocated to small business pools

Where you dispose of depreciating assets that have been allocated to either the general or long-life pools, you deduct the taxable purpose proportion of the termination value from the closing pool balance – for example, for a pooled depreciating asset used only 50% for an income-producing purpose which 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 \$1,000 but greater than zero (after taking into account any additions and disposals but before calculating the deductions in calculations 2 and 3) you can claim an immediate deduction for this amount. Write this deduction against the appropriate pool at (b) or (c) in **worksheet 2**.

If the closing pool balance is less than zero, you include the amount below zero in your assessable income in the **Reconciliation items** section of item **P8**. For more information about closing pool balances, see the next column.

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

(c) Other depreciating assets

➤ See the *Guide to depreciating assets 2012* for information on how to calculate any balancing adjustment amounts on the disposal of other depreciating assets.

Balancing adjustment amounts are included in the **Reconciliation items** section of item **P8**. See **What are income reconciliation adjustments?** and **What are expense reconciliation adjustments?** on page 32.

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(b)], **less**
- the 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(b).

The closing pool balance for this year becomes the opening pool balance for 2012–13 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 write your closing pool balance on your tax return (supplementary section).

WORKSHEET 2: Depreciation deductions for small business entities

	Primary production (\$)	Non-primary production (\$)	Total (\$)	
Low-cost assets				(a)
General pool				(b)
Long-life pool				(c)
General pool (1/2 rate)				(d)
Long-life pool (1/2 rate)				(e)
Other assets				(f)
Depreciation expenses: add (a), (b), (c), (d), (e) and (f).				(g)

Completing this item

STEP 1 Write your total primary production depreciation deductions at **Depreciation expenses** in the Primary production column, item **P8** on page 3 of your schedule. Do not show cents.

STEP 2 Write your total non-primary production depreciation deductions at **Depreciation expenses** in the Non-primary production column. Do not show cents. Do not show any amount included at part B of item **P1**.

STEP 3 Transfer the amount at (g) in **worksheet 2** to **M Depreciation expenses** item **P8**. Do not show cents.

STEP 4 Transfer the amount at (a) in **worksheet 2** to **A item P10 Small business entity depreciating assets** on page 4 of your schedule. Do not show cents.

STEP 5 Add up the amounts at (b) and (d) in **worksheet 2** and write the total at **B item P10**. Do not show cents.

STEP 6 Add up the amounts at (c) and (e) in **worksheet 4** and write the total at **C item P10**. Do not show cents.

STEP 7 Go to **Motor vehicle expenses** on the next page.

Five-year restriction

If you are a small business entity and have chosen to use these simplified depreciation rules but then, in a later year, choose to stop using this concession, you cannot choose to use the simplified depreciation rules again until at least five years after the income year in which you chose to stop using the rules.

OTHER BUSINESSES


You need to know

You show at **M Depreciation expenses** item **P8** the depreciation claimed in your books of account other than 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 information about small business entity capital allowances (depreciation) deductions, see page 22.

The depreciation amount shown at **M** item **P8** should not include profit or loss on the sale of depreciating assets. You should include profits on the sale of depreciating assets in **Other business income** at **I** or **J** in the **Income** section of item **P8** on your schedule. You should include losses on the sale of depreciating assets at **P All other expenses** in the **Expenses** section.

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 **H Expense reconciliation adjustments** in the **Reconciliation items** section of item **P8**.

 You can use the decline in value calculator on our website to calculate the decline in value of these assets or see the *Guide to depreciating assets 2012* for more information on how to calculate decline in value.

Is expenditure revenue or capital in nature?

Law Administration Practice Statement PS LA 2003/8 – Taxation treatment of expenditure on low cost items for taxpayers carrying on a business 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.

Completing this item

STEP 1 Write your total primary production depreciation expenses at **Depreciation expenses** in the Primary production column, item **P8** on page 3 of your schedule. Do not show cents.

STEP 2 Write your total non-primary production depreciation expenses at **Depreciation expenses** in the Non-primary production column. Do not show cents.

STEP 3 Add up your primary production and non-primary production depreciation expenses and write the total at **M** **Depreciation expenses**.

MOTOR VEHICLE EXPENSES

Did you have motor vehicle expenses in your business?

NO ☐ Go to **Repairs and maintenance** in the next column.

YES ☐ Read on.

You need to know

Special substantiation and calculation rules for car expenses apply to an individual. Under these rules, motor vehicle expenses can be claimed using one of four 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 or fewer than nine passengers. For an explanation of these methods, see question **D1** in *Individual tax return instructions 2012*.

Do not include depreciation, finance leasing charges or interest paid. You should include these at **M** **Depreciation expenses**, **J** **Lease expenses**, **Q** **Interest expenses within Australia** or **R** **Interest expenses overseas** item **P8** on your schedule.

Completing this item

STEP 1 Write your total primary production motor vehicle expenses at **Motor vehicle expenses** in the Primary production column, item **P8** on page 3 of your schedule. Do not show cents.

STEP 2 Write your total non-primary production motor vehicle expenses at **Motor vehicle expenses** in the Non-primary production column. Do not show cents.

STEP 3 Add up your primary production and non-primary production motor vehicle expenses and write the total at **N** item **P8** on your schedule.

STEP 4 If you worked out the amount you are claiming for motor vehicle expenses using one of the four methods described in question **D1** in *Individual tax return instructions 2012*, find the code letter that identifies the method you used and print it in the **Type** box at the right of the amount at **N**.

S – if you used the ‘cents per kilometre’ method
T – if you used the ‘12% of original value’ method
O – if you used the ‘one-third of actual expenses’ method
B – if you used the ‘logbook’ method.

Print the code letter **N** in the **TYPE** box if the amount shown at **N** relates to a:

- motorcycle
- taxi taken on hire
- road vehicle designed to carry a load of one tonne or more, or nine or more passengers
- any other motor vehicle expenses covered by question **D2** in *Individual tax return instructions 2012*.

If you have more than one code, print the code that applies to the largest claim.

REPAIRS AND MAINTENANCE

Did you have repairs and maintenance as a business expense?

NO ☐ Go to **All other expenses** on the next page.

YES ☐ Read on.

You need to know

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 item, should also be included at **H** **Expense reconciliation adjustments** in the **Reconciliation items** section item **P8** on your schedule. 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.

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.

Completing this item

STEP 1 Write your total primary production repairs and maintenance expenses at **Repairs and maintenance** in the Primary production column, item **P8** on page 3 of your schedule. Do not show cents.

STEP 2 Write your total non-primary production repairs and maintenance expenses at **Repairs and maintenance** in the Non-primary production column. Do not show cents.

STEP 3 Add up your primary production and non-primary production repairs and maintenance expenses and write the total at **O**. Do not show cents.

ALL OTHER EXPENSES

Did you have any other business expenses?

NO ☐ Go to **Total expenses** in the next column.

YES ☐ Read on.

You need to know

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 at item **P8**. 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 item **P8**. You should not claim these amounts at the gifts and donations label or the cost of managing tax affairs label on your individual tax return.

➤ For more information about forex losses, visit our website or see question **D15** in *Individual tax return instructions supplement 2012*.

You should also include capital and other non-deductible items (including debt deductions denied by thin capitalisation rules) shown here at **H Expense reconciliation adjustments** in the **Reconciliation items** section of item **P8** on your schedule. See **Income and expense reconciliation adjustments** on page 32 for more information.

For more information on thin capitalisation, see page 14.

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.

➤ For more information, see *Taxation Ruling TR 93/30 – Income tax: deductions for home office expenses* and *Law Administration Practice Statement PS LA 2001/6 – Home office expenses: diaries of use and calculation of home office 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.

Completing this item

STEP 1 Write your total 'other' primary production expenses at **All other expenses** in the Primary production column, item **P8** on page 3 of your schedule. Do not show cents.

STEP 2 Write your total 'other' non-primary production expenses at **All other expenses** in the Non-primary production column. Do not show cents.

STEP 3 Add up your 'other' primary production and 'other' non-primary production expenses and write the total at **P** item **P8** on your schedule.

TOTAL EXPENSES

Completing this item

STEP 1 Add up all the expenses you have written in the Primary production column, from **Cost of sales** down to and including **All other expenses**. Write the total at **S** item **P8** on page 3 of your schedule. Do not show cents.

STEP 2 If your total of primary production expenses is a negative amount, print **L** in the box at the right of the amount at **S**.

STEP 3 Add up all the expenses you have written in the Non-primary production column, from **Cost of sales** down to and including **All other expenses**. Write the total at **T**. Do not show cents.

STEP 4 If your total of non-primary production expenses is a negative amount, print **L** in the box at the right of the amount at **T**.

STEP 5 Add up your primary production and non-primary production expenses. Write the total at **TOTAL EXPENSES** in the Totals column.

STEP 6 If your total expenses is a negative amount, print **L** in the box at the right of this amount.

Reconciliation items

Consider the items on pages 26–32 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** on page 32.

DEDUCTION FOR ENVIRONMENTAL PROTECTION EXPENSES

Did you have a business expense for environmental protection activities?

NO ☐ Go to **Section 40-880 deduction** on the next page.

YES ☐ Read on.

You need to know

Show here the amount of allowable expenditure on environmental protection activities (EPA).

You can deduct expenditure to the extent that you incur it for the sole or dominant purpose of carrying on EPA. EPA are activities undertaken to prevent, fight or remedy pollution, or to treat, clean up, remove or store waste from your earning activity. Your earning activity is one you carried on, carry on or propose to carry on for the purpose of:

- producing assessable income (other than a net capital gain)
- exploration or prospecting, or
- mining site rehabilitation.

You may also claim a deduction for cleaning up a site on which a predecessor carried on substantially the same business activity.

The deduction is not available for:

- EPA bonds and security deposits
- expenditure for acquiring land
- expenditure for constructing or altering buildings, structures or structural improvements
- expenditure to the extent that you can deduct an amount for it under another provision.

Accordingly, expenditure which forms part of the cost of a depreciating asset is not deductible as expenditure on EPA if a deduction is available for the decline in value of the asset. See the *Guide to depreciating assets 2012* for information on the deduction for decline in value.

Expenditure incurred on or after 19 August 1992 on certain earthworks constructed as a result of carrying out EPA can be written off at the rate of 2.5% per annum under the provisions for capital works expenditure.

Expenditure on an environmental assessment of a project is not deductible as expenditure on EPA. If it is capital expenditure directly connected with a project, it could be a project amount for which a deduction would be available over the project life; see **Business deduction for project pool** on the next page. An example would be a study to determine the quantity and type of pollutants which will be produced from a process used in a proposed business.

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

Any recoupment of the expenditure would be assessable income.

Completing this item

STEP 1 Write your total primary production EPA expenses at **Deduction for environmental protection expenses** in the Primary production column, item **P8** on page 3 of your schedule. Do not show cents.

STEP 2 Write your total non-primary production EPA expenses at **Deduction for environmental protection expenses** in the Non-primary production column. Do not show cents.

STEP 3 Add up your primary production and non-primary production EPA expenses and write the total at **V**.

SECTION 40-880 DEDUCTION

Can you deduct business-related costs under section 40-880?

NO ☐ Go to **Business deduction for project pool** on the next page.

YES ☐ Read on.

You need to know

Section 40-880 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, and
- 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 30 June 2011, you generally 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 all the amounts deferred for this item in the year the business commences.

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.

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 item **D15** on your tax return (supplementary section).

You must show any recoupment of the expenditure as assessable income, either at **Other business income** or as part of your **Income reconciliation adjustments** in the **Reconciliation items** section of item **P8** on your schedule.

Completing this item

STEP 1 Write your deduction for primary production business-related costs at **Section 40-880 deduction** in the Primary production column, item **P8** on page 3 of your schedule. Do not show cents.

STEP 2 Write your deduction for non-primary production business-related costs at **Section 40-880 deduction** in the Non-primary production column. Do not show cents.

STEP 3 Add up your primary production and non-primary production deductions for business-related costs and write the total at **A**.

BUSINESS DEDUCTION FOR PROJECT POOL

Did you have capital expenditure directly connected with a business project?

NO ☐

Go to **Small business and general business tax break** on the next page.

YES ☐

Read on.

You need to know

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 – however, simply 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 on these project amounts, see the *Guide to depreciating assets 2012*.

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. For projects which started to operate on or after 10 May 2006 the calculation is as follows:

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

Value of the project pool at 30 June 2012. This is the closing pool value for 2010–11 (if any) plus the sum of the project amounts you allocated to the pool in 2011–12.	\$	(a)
Your estimate of the life of the project (in years)	years	(b)
Divide (a) by (b).	\$	(c)
Multiply (c) by 200%. This is your 2011–12 deduction for the project pool.	\$	(d)
Your deduction at (d) must not be more than the amount at (a).		
If a project operated in 2011–12 for purposes other than earning assessable business income, you must reduce your deduction at (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

Value of the project pool at 30 June 2012. This is the closing pool value for 2010–11 (if any) plus the sum of the project amounts you allocated to the pool in 2011–12.	\$	(a)
Your estimate of the life of the project (in years)	years	(b)
Divide (a) by (b).	\$	(c)
Multiply (c) by 150%. This is your 2011–12 deduction for the project pool.	\$	(d)
Your deduction at (d) must not be more than the amount at (a).		
If a project operated in 2011–12 for purposes other than earning assessable business income, you must reduce your deduction at (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 2011–12

This is (a) minus (d) in **worksheet 3A** and **worksheet 3B**. You will need the closing pool value for 2011–12 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 as part of your **Income reconciliation adjustments** in the **Reconciliation items** section of item **P8** on your schedule.

Where a project was abandoned, sold or otherwise disposed of in 2011–12

In this case, whether or not the project had begun to operate, you can claim a deduction for the 2010–11 closing pool value (if any) plus any project amounts allocated to the pool in the 2011–12 year. You must show any proceeds from the abandonment, sale or disposal of the project as assessable income either at **Other business income** or as part of your **Income reconciliation adjustments** in the **Reconciliation items** section of your schedule.

Completing this item

STEP 1 Write your total primary production project pool business deduction at **Business deduction for project pool** in the Primary production column, item **P8** on page 3 of your schedule. Do not show cents.

STEP 2 Write your total non-primary production project pool business deduction at **Business deduction for project pool** in the Non-primary production column. Do not show cents.

STEP 3 Add up your primary production and non-primary production project pool business deductions and write the total at **L**.

SMALL BUSINESS AND GENERAL BUSINESS TAX BREAK

Can you claim the small business and general business tax break?

NO ☐ Go to **Landcare operations and business deduction for decline in value of water facility** on the next page.

YES ☐ Read on.

You need to know

The small business and general business tax break, in the form of an investment allowance, is available for expenditure on eligible new tangible depreciating assets.

The investment allowance may be available where a small business entity committed to investing in the asset between 13 December 2008 and 31 December 2009 inclusive, and first used the asset, or installed it ready for use, or in the case of new investment in an existing asset brought the asset to its modified or improved state, on or before 30 June 2010 (for the full allowance) or 31 December 2010 (for the reduced allowance).

2012 is the final year in which a claim for the allowance may be made. A claim for this allowance will, ordinarily, only be available in 2011–2012 to taxpayers with a substituted accounting period (SAP), and will ordinarily be limited to claims for the reduced allowance.

For more information, go to www.ato.gov.au and enter 'small business and general business tax break' in the 'Search for' box at the top of the page.

Completing this item

STEP 1 Write your deduction for the tax break for your primary production business at **Small business and general business tax break** in the Primary production column, item **P8** on page 3 of your schedule. Do not show cents.

STEP 2 Write your deduction for the tax break for your non-primary production business at **Small business and general business tax break** in the Non-primary production column. Do not show cents.

STEP 3 Add up your primary production and non-primary production deductions for the small business and general business tax break and write the total at **F**.

LANDCARE OPERATIONS AND BUSINESS DEDUCTION FOR DECLINE IN VALUE OF WATER FACILITY

Did you have landcare operations and/or water conservation/conveying expenses?

NO ☐ Go to **Income and expense reconciliation adjustments** on page 32.

YES ☐ Read on.

You need to know

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 you can deduct expenditure under both the water facilities and landcare operation rules, you can only deduct the expenditure as expenditure on a water facility; see **Water conservation and conveyance facilities** on the next page. If you can deduct expenditure under both the carbon sink forests and landcare operation rules, you can only deduct the expenditure as expenditure on carbon sink forests; go to www.ato.gov.au for more information.

Unless you are a rural land irrigation water provider, the deduction is available to the extent 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.

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:

- 1 erecting fences to separate different land classes in accordance with an approved land management plan
- 2 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
- 3 constructing a levee or similar improvements
- 4 constructing drainage works, other than the draining of swamps or low-lying land, primarily and principally to control salinity or assist in drainage control
- 5 an operation primarily and principally for eradicating or exterminating animal pests from the land
- 6 an operation primarily and principally for eradicating, exterminating or destroying plant growth detrimental to the land
- 7 an operation primarily and principally for preventing or combating land degradation other than by erecting fences, or
- 8 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. Where a levee is constructed primarily and principally for water conservation, it would be a water facility and no deduction would be allowable under these rules. Its decline in value would need to be worked out under the rules for water facilities – see **Water conservation and conveyance facilities** below.

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** in the **Income** section of item **P8** on your schedule or as part of your **Income reconciliation adjustments** in the **Reconciliation items** section of item **P8**. For more information, see the *Guide to depreciating assets 2012* 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. The expenditure must be incurred primarily and principally for conserving or conveying water for use in a primary production business on land in Australia.

'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.

A deduction for the decline in value of a water facility can be claimed in equal instalments over three 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. Any recoupment of the expenditure may be assessable income. For more information phone **13 28 66**.

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** in the **Income** section of item **P8** on your schedule or as part of your **Income reconciliation adjustments** in the **Reconciliation items** section of item **P8**. For more information, see the *Guide to depreciating assets 2012*. For more information phone **13 28 66**.

Small business entities

The amount you show at **W** 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.

Completing this item

STEP 1 Write your total deductions for primary production landcare operations expenses and for water facilities at **Landcare operations and business deduction for decline in value of water facility** in the Primary production column, item **P8** on page 3 of your schedule. Do not show cents.

STEP 2 Write your total deduction for non-primary production landcare operations expenses and water facilities at **Landcare operations and business deduction for decline in value of water facility** in the Non-primary production column. Do not show cents.

STEP 3 Add up your primary production and non-primary production deductions for landcare operations and water facilities and write the total at **W**.

INCOME AND EXPENSE RECONCILIATION ADJUSTMENTS

Do you need to make any income or expense reconciliation adjustments?

NO ☐ Go to **Net income or loss from business this year** on page 39.

YES ☐ Read on.

You need to know

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 written at **C Gross payments where Australian business number not quoted** to **W Landcare operations and business deduction for decline in value of water facility** item **P8** on your schedule 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 on page 36 will assist you with your calculations.

What are income reconciliation adjustments?

Income reconciliation adjustments include:

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

Your income reconciliation adjustment is:

your total income	–	your total income
add backs		subtractions

Use **worksheet 4** on page 36 to work out your income reconciliation adjustments for your primary and non-primary production businesses. The amount you write at **X Income reconciliation adjustments** item **P8** on your schedule is the total of your primary production and non-primary production income adjustments.

If the amount is negative, print **L** in the box at the right of the amount.

What are expense reconciliation adjustments?

Expense reconciliation adjustments include:

- expense add backs; expenses shown in the accounts which are not tax deductible, including timing deductions, such as
 - prepaid expenses not deductible in this year
 - depreciation
 - loss on sale of a depreciating asset, and
 - 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 more information on thin capitalisation, see page 14 and for PSI deductions see page 7.)
- expense subtractions; items not shown as expenses which are deductible for tax purposes, such as
 - prepaid expenses deductible this year but not included elsewhere
 - deduction for decline in value of depreciating assets
 - deductible balancing adjustment amounts on disposal of depreciating assets, and
 - other items deductible for tax purposes.

Your expense reconciliation adjustment is:

your total expense	–	your total expense
add backs		subtractions

Use **worksheet 4** on page 36 to work out your expense reconciliation adjustments for your primary and non-primary production businesses. The amount you write at **H Expense reconciliation adjustments** item **P8** on your schedule is the total of your primary production and non-primary production expense adjustments.

If the amount is negative, print **L** in the box at the right of the amount.

SPECIFIC RECONCILIATION ADJUSTMENTS

There are examples of specific reconciliation adjustments on pages 34–35 – that may apply to you.

If you were previously in the STS read **Former STS taxpayers** below first. Otherwise, go to page 34.

FORMER STS TAXPAYERS

Make adjustments in this section of item **P8** on your schedule 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 of item **P8** are not based on the STS accounting method, or
- have stopped using the STS accounting method.

These adjustments are explained in more detail below.

Worksheet 4 on page 36 will assist you with your calculations.

Income derived but not received as at 30 June 2012 and expenses incurred but not paid as at 30 June 2012

If you are eligible and have chosen to continue using the STS accounting method and have included at item **P8** amounts of ordinary income that have been derived but not received in 2011–12, the amounts not received are not assessable this year – for example, trade debtors as at 30 June 2012.

These amounts form part of your income reconciliation adjustments at **X** item **P8** – include these amounts at (f) on **worksheet 4**, page 36.

If you are eligible and have chosen to continue using the STS accounting method and have included at item **P8** amounts for general deductions, repairs and tax-related expenses that have been incurred but not paid in 2011–12, the amounts not paid are not deductible this year – for example, trade creditors as at 30 June 2012.

These amounts form part of your expense reconciliation adjustments at **H** item **P8** – include these amounts at (n) on **worksheet 4** on page 36.

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 any amount at **Income** at item **P8**, amounts of ordinary income that were derived but not received while using the STS accounting method are assessable this year – for example, trade debtors as at 30 June 2011.

Include these amounts at (b) on **worksheet 4** on page 36.

If you have not included any amount at **Expenses** at item **P8**, amounts of general deductions, repairs or tax-related expenses that were incurred but not paid while using the STS accounting method are deductible this year – for example, trade debtors as at 30 June 2011.

Include these amounts (other than tax-related expenses) at (t) on **worksheet 4** on page 36. Write your deduction for tax-related expenses at item **D10** 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** at **X** item **P8**:

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

See the **Definitions** on page 22 for an explanation of these terms.

Include the amounts at (b) on **worksheet 4** on page 36.

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** at **H** item **P8** – include these amounts at (q) on **worksheet 4** on page 36.

➤ For more information on assessable balancing adjustment amounts and deductible balancing adjustment amounts, see the *Guide to depreciating assets 2012*.

Read the information in the next two pages to determine if you need to make any further reconciliation adjustments.

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 (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 (s) on **worksheet 4**.

➤ For more information about the prepayment rules, see the publication *Deductions for prepaid expenses 2012*.

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 2011–12 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, see the *Guide to depreciating assets 2012*, 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, see question **D6** in *Individual tax return instructions 2012*.

Do not include the deduction at item **P8** on your schedule. 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 (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 (r) on **worksheet 4**.

You should also add back the depreciation charged in your accounts and shown at **M** **Depreciation expenses** in the **Expenses** section of item **P8** as an expense reconciliation adjustment – include the amount at (h) on **worksheet 4**. The amount at (h) should not include any small business pool deductions which you have claimed at **M**.

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 2011–12 is \$57,466.

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 at **H** item **P8** on your schedule – include the amount at (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 the *Guide to depreciating assets 2012*.

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

- the accrual amount, and
- 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 page 21 to calculate the deduction under the simplified depreciation rules.

If you have included the lease expense at **J** **Lease expenses** in the **Expenses** section of item **P8** in your schedule, the amount should also form part of your expense reconciliation adjustments at **H** item **P8** – include the amount at (i) on **worksheet 4**. Include the deduction for the accrual amount at (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 5 for small business entities on page 23.

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 at **H** item **P8** on your schedule – include the amount at (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 at item **P8** on your schedule, the amount should also form part of your expense reconciliation adjustments at **H** item **P8** – include the amount at (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, and
- 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 at **X** item **P8** on your schedule – include the amount at (b) on **worksheet 4**.

WORKSHEET 4: Reconciliation statement

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

INCOME RECONCILIATION ADJUSTMENTS		Primary production	Non-primary production
Additions	Assessable balancing adjustment amounts on disposal of depreciating assets	\$	\$ (a)
	Assessable business income not included in the profit and loss statement	\$	\$ (b)
	Subtotal: add (a) and (b).	\$	\$ (c)
Subtractions	Net exempt income (gross exempt income less expenses relating to that exempt income)	\$	\$ (d)
	Profit on sale of depreciating assets included in accounts	\$	\$ (e)
	Other non-assessable income included in the profit and loss statement	\$	\$ (f)
	Subtotal: add (d), (e) and (f).	\$	\$ (g)
Income reconciliation adjustments: take (g) away from (c).		\$	\$

EXPENSE RECONCILIATION ADJUSTMENTS		Primary production	Non-primary production
Additions	Depreciation charged in accounts	\$	\$ (h)
	Lease payments for luxury cars	\$	\$ (i)
	Loss on sale of depreciating assets included in accounts	\$	\$ (j)
	Part of prepaid expenses not deductible this year	\$	\$ (k)
	Items not allowable as deductions:		
	– capital expenditure	\$	\$ (l)
	– additions to provisions and reserves	\$	\$ (m)
	– other non-deductible items, including income tax	\$	\$ (n)
	Subtotal: add (h), (i), (j), (k), (l), (m) and (n).	\$	\$ (o)
Subtractions	Accrual amount deduction for lessee of luxury cars	\$	\$ (p)
	Deductible balancing adjustment amounts on disposal of depreciating assets	\$	\$ (q)
	Deduction for decline in value of depreciating assets	\$	\$ (r)
	Part of prepaid expenses deductible this year but not included elsewhere	\$	\$ (s)
	Other items deductible for tax purposes not included in the profit and loss statement	\$	\$ (t)
	Subtotal: add (p), (q), (r), (s) and (t).	\$	\$ (u)
Expense reconciliation adjustments: take (u) away from (o).		\$	\$

Note 1 Include amounts at (h) only if you are not using the simplified depreciation rules. However, exclude any pool deductions which you have included at **M** item **P8** which relate to a continuing small business pool.

Note 2 See the *Guide to depreciating assets 2012* for an explanation of depreciating assets.

Note 3 If you have included an amount of capital expenditure incurred to terminate a lease or licence at **J** **Lease expenses** item **P8**, make a reconciliation adjustment at **H** **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 this item

STEP 1 Complete **worksheet 4** using the explanations provided on pages 34–35. This will give you your total income and expense reconciliation amounts (primary and non-primary production) that you need for your schedule.

STEP 2 Transfer the totals in the yellow rows on the worksheet to the appropriate boxes on page 3 of your schedule. Do not show cents.

STEP 3 If any of the reconciliation adjustment amounts is negative, print **L** in the box at the right of the amount.

STEP 4 Add up your primary production and non-primary production income reconciliation adjustments and write the total at **X**.

STEP 5 Add up your primary production and non-primary production expense reconciliation adjustments and write the total at **H**.

STEP 6 If the total income reconciliation adjustment amount is negative, print **L** in the box at the right of the amount at **X**. If the total expense reconciliation adjustment amount is negative, print **L** in the box at the right of **H**.

Do not include in the amount at (t) on **worksheet 4**:

- environmental protection expenditure
- section 40-880 deductions
- business deductions for project pools
- small business and general business tax break
- deductions for landcare operations and water facilities.

Reconciliation adjustments for these amounts are shown separately at **V**, **A**, **L**, **F** and **W** on your schedule.

WORKSHEET 5: Working out your net income or loss from primary production business this year

Write your primary production total business income shown in the Primary production column at TOTAL BUSINESS INCOME item P8 .	\$		(a)
Write your primary production total business expenses shown at S item P8 .	\$		(b)
Add up the amounts of any deductions for primary production environmental protection expenses, section 40-880 expenditure, project pool, small business and general business tax break and landcare operations and water facilities and write the total at (c).	\$		(c)
Add the amount at (b) to the amount at (c).	\$		(d)
Take the amount at (d) away from the amount at (a).	\$		(e)
Write your primary production income reconciliation adjustment (if any).	\$		(f)
Write your primary production expense reconciliation adjustment (if any).	\$		(g)
Your net income or loss from your primary production business: add (e), (f) and (g).	\$		(h)

If the amount at (d) is more than the amount at (a), the amount at (e) is a loss. If it is, or if you have a negative amount at (f) or (g), the examples below will help you to work out your loss from primary production business.

WORKSHEET 6: Working out your net income or loss from non-primary production business this year

Write your non-primary production total business income shown in the Non-primary production column at TOTAL BUSINESS INCOME item P8 .	\$		(i)
Write your non-primary production total business expenses shown at T item P8 .	\$		(j)
Add up the amounts of any deductions for non-primary production environmental protection expenses, section 40-880 expenditure, project pool, small business and general business tax break and landcare operations and write the total at (k).	\$		(k)
Add the amount at (j) to the amount at (k).	\$		(l)
Take away the amount at (l) from the amount at (i).	\$		(m)
Write your non-primary production income reconciliation adjustment (if any).	\$		(n)
Write your non-primary production expense reconciliation adjustment (if any).	\$		(o)
Your net income or loss from your non-primary production business: add (m), (n) and (o).	\$		(p)

If the amount at (l) is more than the amount at (i), the amount at (m) is a loss. If it is, or if you have a negative amount at (n) or (o), the examples below will help you to work out your loss from non-primary production business.

EXAMPLES

- If the amount at (e) is a \$5,000 loss, the amount at (f) is \$12,000 income and the amount at (g) is a \$1,000 loss, the net income from the primary production business at (h) is \$6,000.
- If the amount at (e) is \$5,000 profit, the amount at (f) is \$2,000 income and the amount at (g) is an \$8,000 loss, the loss from the primary production business at (h) is \$1,000.
- If the amount at (m) is a \$5,000 loss, the amount at (n) is a \$4,000 loss and the amount at (o) is a \$1,000 loss, the loss from the non-primary production business at (p) is \$10,000.

NET INCOME OR LOSS FROM BUSINESS THIS YEAR

Use **worksheet 5** and **worksheet 6** on page 38 to work out your net income or loss from your primary and non-primary production businesses this year, not including any non-commercial business losses deferred from a prior year.

Completing this item

STEP 1 Transfer the amount at (h) on **worksheet 5** to **B** item **P8** on page 3 of your schedule. Do not show cents. If the amount is a loss, print **L** in the box at the right of this amount.

STEP 2 Transfer the amount at (p) on **worksheet 6** to **C** item **P8** on page 3 of your schedule. Do not show cents. If the amount is a loss, print **L** in the box at the right of this amount.

STEP 3 Add **B** and **C** and write the total in the adjacent **Totals** column. The amount shown should not include any non-commercial business losses deferred from a prior year (which are shown at **D** or **E** – see **Deferred non-commercial business losses from a prior year** in the next column).

If you made a loss from your business, print **L** in the box at the right of this amount.

If the amount at **B** or **C** includes details from more than one business activity, and any one of these activities resulted in a net loss, you also need to complete items **P3** and **P9** on your schedule.

DEFERRED NON-COMMERCIAL BUSINESS LOSSES FROM A PRIOR YEAR

Do you have any deferred non-commercial business losses from a prior year?

NO ☐ Go to **Net income or loss from business** on the next page.

YES ☐ Read on.

You need to know

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 the fact sheet *Non-commercial losses: deferral of losses* under the heading Foreign business losses.

The non-commercial business loss may be reduced if you:

- earned net exempt income in this income year, or
- became bankrupt or were released from any debts by the operation of an Act relating to bankruptcy.

For more information, phone **13 28 66**.

Completing this item

STEP 1 At **D** item **P8** on page 3 of your schedule write the amount of any primary production losses you deferred in a prior year from activities that are the same or similar to your current year activity. Do not show cents.

STEP 2 At **E** write the amount of any non-primary production losses you deferred in a prior year from activities that are the same or similar to your current year activity. Do not show cents.

STEP 3 Add up your primary and non-primary production deferred non-commercial business losses. Write the total at **Deferred non-commercial business losses from a prior year** in the **Totals** column.

NET INCOME OR LOSS FROM BUSINESS

This amount takes into account non-commercial losses deferred from a prior year.

Completing this item

STEP 1 If you have **net income** from primary production business this year at **B**, take away from it the amount of your deferred non-commercial primary production business losses from a prior year shown at **D**. Write the answer at **Y** **Net income or loss from business** item **P8** on page 3 of your schedule.

If the amount at **Y** is negative, print **L** in the box at the right of the amount.

If you have a loss from primary production business this year at **B**, add it to the amount of your deferred non-commercial primary production business losses from a prior year shown at **D**. Write the total at **Y** **Net income or loss from business** item **P8** on your schedule and print **L** in the box at the right of the amount.

If you have printed **L** in the box at the right of the amount at **Y**, you also need to complete items **P3** and **P9** on your schedule.

STEP 2 If you have **net income** from non-primary production business this year at **C**, take away from it the amount of your deferred non-commercial non-primary production business losses from a prior year shown at **E**. Write the answer at **Z** **Net income or loss from business** item **P8** on page 3 of your schedule.

If the amount at **Z** is negative, print **L** in the box at the right of the amount.

If you have a loss from non-primary production business this year at **C**, add it to the amount of your deferred non-commercial non-primary production business losses from a prior year shown at **E**. Write the total at **Z** **Net income or loss from business** item **P8** on your schedule and print **L** in the box at the right of the amount.

If you have printed **L** in the box at the right of the amount at **Z**, you also need to complete items **P3** and **P9** on your schedule.

STEP 3 Add up the amounts shown at **Y** and **Z**.

Write the answer at **Net income or loss from business** in the **Totals** column. If the total is negative, print **L** in the box at the right of the amount.

STEP 4 Transfer the amounts at **Y** and **Z** on your schedule to **B** and **C** (respectively) item **15** on your tax return (supplementary section).

P9 BUSINESS LOSS ACTIVITY DETAILS

Did you have a loss from a business activity you carried on either as a sole trader or in partnership?

NO ☐

If you are a small business entity using the simplified depreciation rules, go to **P10 Small business entity depreciating assets** on page 46. Otherwise, go to **Other business and professional items** on page 46.

YES ☐

Read on.

Business losses

You must read all the information in this question and complete **Activity 1** and (if necessary) **Activity 2** and **Activity 3**, before you complete item **16** on your tax return (supplementary section). Foreign business losses shown at **M** item **20** are to be included here. If your activity is carried on partly in Australia and partly overseas you need to combine the results of both to see if you have an overall loss from the activity before completing this item.

You need to know

Under the rules for non-commercial business losses, you can use a 2011–12 loss from a business activity you conduct either as a sole trader or in partnership to calculate your 2011–12 taxable income **only** if it meets one of these conditions:

- an exception applies (see below)
- you meet the income requirement **and** one of the four tests (see page 42) is satisfied
- you meet the income requirement and none of the four tests is satisfied, but the Commissioner of Taxation has exercised his discretion, or ruled that it will be exercised, to allow you to claim the loss
- you do not meet the income requirement but the Commissioner has exercised his discretion, or ruled that it will be exercised, to allow you to claim the loss.

You cannot claim losses arising from activities you conduct that are a private recreational pursuit or hobby, or if there is no likelihood of profit.

The rules for non-commercial business losses apply to both foreign and Australian business activities.

Keep records of each of the net losses deferred for your separate business activities.

The exceptions

If you operated a **primary production** business or a **professional arts** business and your assessable income for 2011–12 (except any net capital gain) from other sources that did not relate to that activity is less than \$40,000, you may claim your business loss this year.

A professional arts business is a business you carry on as an author of a literary, dramatic, musical or artistic work, as a performing artist, or as a production associate.

If a tax loss for your business activity has been created solely because of deductions you claimed at **F Small business and general business tax break at Reconciliation items** item **P8**, you do not need to defer your loss. You need to use a specific **Type of loss** code (see page 43).

GST excluded

Your assessable income excludes any goods and services tax (GST) on a taxable supply you make. You must be registered or required to be registered for GST to make a taxable supply.

The income requirement

You must meet the income requirement to continue to have access to the four tests to offset your loss from a business activity against other assessable income.

If you do not meet the income requirement, you may request that the Commissioner exercise his discretion to allow your loss – see **The Commissioner's discretion** on the next page.

We will work out whether or not you meet the income requirement based on information you provide at item **P9** and at other labels on your tax return.

You will meet the income requirement and have access to the four tests (see page 42) if the **total** of the following amounts is less than \$250,000:

- **Taxable income** – which is the amount shown on page 4 of your tax return. Any business losses you are claiming at item **P9** will be ignored when working out this amount. If you had a loss, we will use zero for this calculation.
- **Total reportable fringe benefits** – shown on your payment summary and are totalled at **W** item **IT1** on your tax return.
- **Reportable superannuation contributions** – your reportable employer superannuation contributions (shown on your payment summary and are totalled at **T** item **IT2** on your tax return) plus any deductible personal superannuation contributions shown at item **D12** on your tax return (Supplementary Section).
- **Net investment losses** – the total of your financial investment losses (shown at **X** item **IT5** on your tax return) and rental property losses (shown at **Y** item **IT6** on your tax return).

If you do not meet the income requirement, you will have to defer your loss unless the Commissioner has exercised his discretion or ruled that it will be exercised, or you satisfy another exception.

The four tests

You will not have to defer your loss from your business activity if you meet the income requirement and the activity satisfies at least **one** of the following four tests:

- There is at least \$20,000 of assessable income from the business activity for this income year.
- The business activity has produced a profit for tax purposes in three out of the past five years, including the current year.
- The value of real property assets (excluding any private dwelling) used on a continuing basis in carrying on the business activity is at least \$500,000.
- The value of certain other assets (except cars, motorcycles and similar vehicles) used on a continuing basis in carrying on the business activity is at least \$100,000.

Special rules apply for these four tests if you are undertaking a business activity in partnership – see *Non-commercial losses: partnerships* (NAT 3385) available at www.ato.gov.au, or phone **13 28 66**.

The Commissioner's discretion

Where you meet the income requirement for the most recent income year ending before you request that the discretion be exercised, the Commissioner can exercise his discretion to allow a loss from a business activity to be claimed in the year it arises, even though none of the four tests are satisfied, provided that **either**:

- the business activity has been affected by special circumstances outside the control of the operators of the business – for example, natural disasters – where the activity would have satisfied one of the four tests but for these special circumstances, **or**
- the business activity, because of its nature, has a lead time and, for this reason, does not or will not satisfy any of the four tests, but there is an objective expectation that within a period that is commercially viable for the industry, **either**
 - it will satisfy one of the four tests, **or**
 - produce assessable income for an income year greater than the deduction attributable to that income for that year. 'Commercial viability' is measured against independent industry standards.

Where you exceed the income requirement for the most recent income year ending before you request that the discretion be exercised, the Commissioner can exercise his discretion to allow a loss from a business activity in more limited circumstances. The Commissioner can exercise his discretion in this instance if:

- the business activity has been affected by special circumstances outside the control of the operators of the business – for example, natural disasters – where the activity was unable to produce a tax profit and would have satisfied one of the four tests but for these special circumstances, **or**

- the business activity, because of its nature, has a lead time and, for this reason, does not or will not produce assessable income greater than the deduction attributable to that income, but there is an objective expectation that it will do so within a period that is commercially viable for the industry concerned. 'Commercial viability' is measured against independent industry standards.

Applying for the Commissioner's discretion

You must apply in writing for advice on whether the Commissioner will exercise his discretion. To do this, complete the *Application for a private ruling on the exercise of the Commissioner's discretion for non-commercial business losses* (NAT 5806). For more details about these rules, phone **13 28 66** for assistance.

Deferring your loss

If you are unable to claim your loss this year because of these rules, you must defer the loss.

This deferred loss is not disallowed – instead, you take it into account for the next income year in which you carry on this business activity, or one of a similar kind.

The deferred loss is a deduction when calculating any net profit or loss from the activity in that future year.

Whether any overall loss can be taken into account in your calculation of taxable income for that future year will depend on the application of the deferral rules for non-commercial business losses in that year.

If you are unable to claim your loss against other income this year because of these rules, you must defer your loss by showing the amount at item **16** on your tax return (supplementary section). The amount shown at item **16** cannot be used to reduce your 2011–12 taxable income.

Make sure you complete **Activity 1**, **Activity 2** and **Activity 3** on page 4 of your schedule before you complete item **16** on your tax return (supplementary section).

What you may need

If you are a partner in a partnership, you will need the following details for **each** business activity that you, as a partner, were involved in:

- the amount of assessable income earned by the partnership for the activity
- the share of the partnerships' assessable income, real property and certain other assets, attributable to partners who are not individuals
- your share of income or loss from the partnership of the activity.

ACTIVITY 1

DESCRIPTION OF ACTIVITY

Completing this item

Describe the business activity from which you made the largest loss and print this at **D** item **P9** on page 4 of your schedule. If your business activity is the result of an investment in a tax-effective arrangement, print the name of the project at **D**.

PARTNERSHIP OR SOLE TRADER

Completing this item

At **F** item **P9**, print either **P** in the box at **Partnership** (loss from a business activity carried on in partnership with others) or **S** in the box at **Sole trader** (loss from a business activity carried on as a sole trader).

TYPE OF LOSS

Select the most appropriate number code from the following list and write it at **G** item **P9** on page 4 of your schedule:

- 1 Your assessable income from the business activity for this income year was at least \$20,000 and you met the income requirement.
- 2 The business activity produced a profit for tax purposes in three out of the past five years (including the current year) and you met the income requirement.
- 3 The value of real property assets or interests in real property (excluding any private dwelling) used on a continuing basis in carrying on the business activity was at least \$500,000 and you met the income requirement.
- 4 The value of certain other assets (except cars, motor cycles or similar vehicles) used on a continuing basis in carrying on the business activity was at least \$100,000 and you met the income requirement.
- 5 We have advised you in writing that the Commissioner will exercise his discretion to allow you to claim a loss for that business activity for this income year. This is where the Commissioner has issued a product ruling or a private binding ruling allowing losses to be claimed from an activity you participated in.
- 6 The loss was from a business activity you operated that was a professional arts business and your assessable income (excluding any net capital gain) from sources not related to that activity was less than \$40,000. A professional arts business is a business you carry on as an author of a literary, dramatic, musical or artistic work, as a performing artist, or as a production associate.
- 7 The loss is from a business activity you operated that is a primary production business and your assessable income (excluding any net capital gain) from sources not related to that activity was less than \$40,000.
- 8 The above loss codes don't apply and the loss was not solely due to Division 41 deductions (see loss code 9). You must defer your loss and complete item **16** on your tax return (supplementary section).

Using loss code 5

Some business activities may be covered by a product ruling or private ruling that does not relate to the current income year. Use loss code **5** only if you have advice in writing that the Commissioner's discretion will be exercised for 2011–12. If you have applied for a private binding ruling about the exercise of the Commissioner's discretion for 2011–12 but have not yet received the ruling, use loss code **8** unless another code applies.

Using loss code 8

If you wrote code **8** at **G**, **M** or **S** item **P9** you must defer your loss. You must also complete item **16** on your tax return (supplementary section).

Electronic lodgments

For some tax returns lodged electronically:

- where there is a loss from a partnership from a passive investment – for example, from a rental property – you need to use code **0** at **G** item **P9**
- where you have correctly shown the relevant loss code but an electronic edit prevents you from lodging your tax return electronically, phone **13 28 66**.

Did you use loss code 5 at **G** item **P9**?

NO ☐ Go to **Deferred non-commercial business loss from a prior year** on the next page.

YES ☐ You must complete **Reference for code 5** at **C** item **P9** on page 4 of your schedule. Read on.

REFERENCE FOR CODE 5

Completing this item

If your business activity is covered by a product ruling that includes advice that the Commissioner will exercise his discretion to allow a loss from that business activity:

- print **PR** at **C** in the **Code** section of **Reference for code 5** item **P9** on page 4 of your schedule
- write the year of the product ruling at **Y** in the **Year** section
- write the product ruling number at **A** in the **Number** section (do not include the year of the product ruling or the slash / at **A**).

Alternatively, if your business activity is covered by a private ruling that includes advice that the Commissioner will exercise his discretion to allow a loss from that business activity:

- print **AN** at **C** in the **Code** section of **Reference for code 5** item **P9** on page 4 of your schedule
- leave **Y** blank in the **Year** section
- write the authorisation number which was printed on the front page of your notice of private ruling at **A** in the **Number** section.

STOP

You must provide one of these numbers if you used loss code **5** at **G** **Type of loss**. Using an invalid ruling or authorisation number – one which does not apply to you or one which does not apply for the 2011–12 income year – may result in an understatement of your tax payable. Penalties and interest may apply.

DEFERRED NON-COMMERCIAL BUSINESS LOSS FROM A PRIOR YEAR

Completing this item

Write the amount of your deferred non-commercial business loss from a prior year for the business activity at **H** item **P9** on page 4 of your schedule. Do not show cents.

NET LOSS

Completing this item

Write your net loss from the business activity for 2011–12 at **I** item **P9** on page 4 of your schedule. Do not show cents. For partners in a partnership, this would be your share of the net loss from the business activity and includes any deferred non-commercial business losses from the prior year claimed at **X** or **Y** item **13** on your tax return (supplementary section).

The example below will help you work out what to include at item **P9**.

EXAMPLE

The following example shows how to fill in items **P8** and **P9** on your schedule and how the amounts link to your tax return (supplementary section).

In 2011 Kieren had to defer his non-commercial business loss of \$6,000 from his beef cattle primary production business activity. He also had to defer his non-commercial business loss of \$3,000 from his retail business activity. Because he operated the same activities in the 2012 income year, he can claim the \$6,000 business loss from the beef cattle primary production business activity as a deduction for calculating any net profit or loss from that business activity for this income year, and the \$3,000 business loss from the retail non-primary production business activity as a deduction for calculating any net profit or loss from that business activity for this income year. Kieren would show the amount of \$6,000 as a deduction at **D** item **P8**, the amount of \$3,000 as a deduction at **E** item **P8**, and \$9,000 at **Totals** on his *Business and professional items schedule for individuals 2012*.

P8 Business income and expenses

	Primary production	Non-primary production	Totals
Deferred non-commercial business losses from a prior year	D 6,000.00	E 3,000.00	9,000.00

Item **P8** from Kieren's completed schedule, showing Deferred non-commercial business losses from a prior year – Primary production **D** 6,000, Non-primary production **E** 3,000 and Total 9,000.

This year, Kieren made a loss of \$4,000 from the beef cattle primary production business. After taking into account his deferred non-commercial primary production business loss of \$6,000 from the prior year, he made a net loss of \$10,000. He did not satisfy any of the non-commercial business loss criteria that allow a business loss to be used to reduce other income, so he must defer the \$10,000 net loss this year.

ACTIVITY 2 AND ACTIVITY 3

Fill out details for the second and third-largest losses (if applicable) in the same way you have done for **Activity 1**.

If you made a loss from more than three business activities, determine whether you need to defer the loss for each additional business activity. You will need the total amount of your deferred non-commercial business losses to complete item **16** on your tax return (supplementary section).

Kieren would show the \$6,000 deferred non-commercial business loss from the prior year at **H** item **P9**, and the net loss of \$10,000 at **I** item **P9** on his *Business and professional items schedule for individuals 2012*. As the loss is to be deferred he would show loss code **8** at **G** item **P9** in the **Type of loss** box – see **Type of loss** on page 43 for a description of the loss codes.

P9 Business loss activity details

Show details of up to three business activities in which you made a net loss this year. List them in order of size of loss – greatest first. If you are completing this item because you have deferred non-commercial business losses, you must also complete item **16** on your tax return (supplementary section).

ACTIVITY 1

[illegible]Tax Office 

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use only

F Partnership ☐ Sole trader **S**

Type of loss **G** **8**

Reference for code 5 **C** **Y** / **A**

Deferred non-commercial business loss from a prior year	H		.		6	0	0	0	.00			Net loss	I		.	1	0	0	0	.00	
--	---	--	---	--	---	---	---	---	-----	--	--	----------	---	--	---	---	---	---	---	-----	--

Item **P9, Activity 1** from Kieren's completed schedule, showing Description of activity **D** : Beef cattle; Business type **F** S; Type of loss **G** 8; Deferred non-commercial loss from a business year **H** 6,000 and Net loss **I** 10,000.

This year, Kieren made a loss of \$5,000 from the computer repairs non-primary production business. After taking into account his deferred non-commercial non-primary production business loss of \$3,000 from the prior year, he made a net loss of \$8,000. He did not satisfy any of the non-commercial business loss criteria that allow a business loss to be used to reduce other income, so he must defer the \$8,000 net loss this year.

Kieren would show the \$3,000 deferred non-commercial business loss from the prior year at **N** item **P9**, and the net loss of \$8,000 at **O** item **P9** on his *Business and professional items schedule for individuals 2012*. As the loss is to be deferred, he would show loss code **8** at **M** item **P9** in the **Type of loss** box – see **Type of loss** on page 43 for a description of the loss codes.

ACTIVITY 2

Description of activity	J														
	C	O	M	P	U	T	E	R	R	E	P	A	I	R	S

Tax Office use only **K**

☒ Partnership ☐ Sole trader ☐ S

Type of loss **M** **8**

Reference for code 5

CODE		YEAR				NUMBER						
C		Y				/	A					

Deferred non-commercial
business loss from a prior year N . 3 . 0 0 0 . 00

Net loss O . 8 . 0 0 0 . 00

Item 9, Activity 2 from Kieren's completed schedule, showing Description of activity **D**: Computer repairs; Business type **L** S: Type of loss **M** 8: Deferred non-commercial loss from a business year **N** 3,000 and Net loss **O** 8,000.

Kieren would also need to complete **G**, **I** and **J** item **16** on his tax return (supplementary section), deferring his net losses of \$10,000 from primary production and \$8,000 from non-primary production – a total deferred net loss of \$18,000. He would not be able to use this net loss to reduce his other income this year.

16 Deferred non-commercial business losses

Your share of deferred losses from partnership activities

F				.			.00
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Deferred losses from sole trader activities **G**

Item **P9** on the *Business and professional items schedule for individuals 2011* must be completed before you complete this item.

Primary production deferred losses 1 0 0 0 0 .00

Non-primary production deferred losses J 8 0 0 0 .00

Item 16 from Kieren's tax return (supplementary section) showing Deferred losses from sole trader activities **G** 18,000, Primary production deferred losses **I** 10,000 and Non-primary production deferred losses **J** 8,000.

P10 SMALL BUSINESS ENTITY DEPRECIATING ASSETS

Item **P10** is only for small business entities using the simplified depreciation rules.

Completing this item

To complete this item, use the amounts you calculated for small business entity depreciation deductions in **worksheet 2** on page 24.

At **A** **Deduction for low-cost assets (less than \$1,000)** item **P10** on page 4 of your schedule, write the amount at (a) in the worksheet.

At **B** **Deduction for general pool assets (less than 25 years)**, write the total of the amounts at (b) and (d) in the worksheet.

At **C** **Deduction for long-life pool assets (25 years or more)**, write the total of the amounts at (c) and (e) in the worksheet.

STOP

Remember: write the depreciation deductions, not the pool balances, at **A**, **B** and **C**.

OTHER BUSINESS AND PROFESSIONAL ITEMS

For **P11** to **P19** you need to fill in all items relating to your business expenses.

If you have more than one business you must add the figures for all businesses, irrespective of whether they are primary or non-primary production, and write only one figure at each item.

P11 TRADE DEBTORS

Did you have any trade debtors?

NO ☐ Go to **P12 Trade creditors** in the next column.

YES ☐ Read on.

You need to know

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.

Completing this item

STEP 1 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.

STEP 2 Write the total at **E** item **P11** on page 4 of your schedule. Do not show cents.

P12 TRADE CREDITORS

Did you have any trade creditors?

NO ☐ Go to **P13 Total salary and wage expenses** below.

YES ☐ Read on.

You need to know

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.

Completing this item

STEP 1 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.

STEP 2 Write the total at **F** item **P12** on page 4 of your schedule. Do not show cents.

P13 TOTAL SALARY AND WAGE EXPENSES

Did you pay salary and wages as a business expense?

NO ☐ Go to **P14 Payments to associated persons** on the next page.

YES ☐ Read on.

You need to know

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 (we deem these payments to be an allocation of profits) are not allowable deductions in calculating your income or loss.

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.

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 **H** item **P14** on your schedule. Exclude agency fees, contract payments, sub-contract payments, service fees, superannuation, management fees and consultant fees.

Completing this item

STEP 1 Add up total salary and wage expenses from each business.

STEP 2 Write the total at **G** item **P13** on page 4 of your schedule. Do not show cents.

STEP 3 Select from the following list the letter that matches the description of the expense component where the salary and wage expenses have been wholly or predominantly reported at item **P8**:

- C** All included in the expense component **Cost of sales**
- A** All included in the expense component **All other expenses**
- B** Included in the expense component of both **Cost of sales** and **All other expenses**
- O** Included in expense components other than **Cost of sales** and **All other expenses**.

STEP 4 Print the appropriate letter in the **TYPE** box at the right of the amount at **G**.

P14 PAYMENTS TO ASSOCIATED PERSONS

Did you make any payments to associated persons as a business expense?

NO ☐ Go to **P15 Intangible depreciating assets first deducted** in the next column.

YES ☐ Read on.

You need to know

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 **G** item **P13** on your schedule.

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, and
- 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 **P1 Personal services income**) also limit deductions for payments to associates.

Completing this item

STEP 1 Add up payments made to relatives and related partnerships from each business.

STEP 2 Write the total at **H** item **P14** on page 4 of your schedule. Do not show cents.

P15 INTANGIBLE DEPRECIATING ASSETS FIRST DEDUCTED

– SMALL BUSINESS ENTITIES USING THE SIMPLIFIED DEPRECIATION RULES –
do not complete this item.

Did you start to deduct the decline in value of any intangible depreciating assets?

NO ☐ Go to **P16 Other depreciating assets first deducted** on the next page.

YES ☐ Read on.

You need to know

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

- certain items of intellectual property
- 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.

At item **P15** 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 at item **P15**. 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 at item **P15**.


➤ For more information on decline in value, cost, low-value pools, in-house software and software development pools, see *Guide to depreciating assets 2012*.

Completing this item

STEP 1 Add up the costs.

STEP 2 Write the total at **I** item **P15** on page 4 of your schedule. Do not show cents.

P16 OTHER DEPRECIATING ASSETS FIRST DEDUCTED

 **SMALL BUSINESS ENTITIES USING THE SIMPLIFIED DEPRECIATION RULES** – do not complete this item.

Did you start to deduct the decline in value of any other depreciating assets in 2011–12?

NO ☐ Go to **P17 Termination value of intangible depreciating assets** in the next column.


YES ☐ Read on.

You need to know

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.

At item **P16** 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 at item **P16**. Do not reduce the cost for estimated non-taxable use.


 For more information on decline in value, cost and low-value pools, see *Guide to depreciating assets 2012*.

Completing this item

STEP 1 Add up the costs.

STEP 2 Write the total at **J** item **P16** on page 4 of your schedule. Do not show cents.

P17 TERMINATION VALUE OF INTANGIBLE DEPRECIATING ASSETS


 **SMALL BUSINESS ENTITIES USING THE SIMPLIFIED DEPRECIATION RULES** – do not complete this item.

Did you stop holding or using any intangible depreciating assets in 2011–12?

NO ☐ Go to **P18 Termination value of other depreciating assets** on the next page.

YES ☐ Read on.

You need to know

 Do not show at this item 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.

For more information on termination value, in-house software and software development pools, see *Guide to depreciating assets 2012*.

See **P15 Intangible depreciating assets first deducted** on page 47 for more information about intangible depreciating assets.

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.


Completing this item

STEP 1 Add up any 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 to a general small business pool or a long-life small business pool in a prior year
- 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
- assets falling within the provisions relating to investments in Australian films.

STEP 2 Write the total at **D** item **P17** on page 4 of your schedule. Do not show cents.

P18 TERMINATION VALUE OF OTHER DEPRECIATING ASSETS

 **SMALL BUSINESS ENTITIES USING THE SIMPLIFIED DEPRECIATION RULES – do not complete this item.**

Did you stop holding or using any other depreciating assets in 2011–12?


NO ☐ Go to **P19 Trading stock election** in the next column.

YES ☐ Read on.

You need to know

At item **P18** you include the termination values for other depreciating assets (including assets allocated to a low-value pool) that you stopped holding or using during the income 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.

 For more information on termination value, see *Guide to depreciating assets 2012*.

Completing this item

STEP 1 Add up the 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 to a general small business pool or a long-life small business pool in a prior year
- 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.

STEP 2 Write the total at **K** item **P18** on page 4 of your schedule. Do not show cents.

P19 TRADING STOCK ELECTION

Have you made a trading stock election?

NO ☐ Go to **Check that you have...** below.

YES ☐ Read on.

You need to know

If you have valued trading stock on hand at the end of the income year at an amount that is less than the lowest amount available using one of the valuation methods at **Closing stock** on page 16, you must notify the Commissioner.

Completing this item

If you must notify the Commissioner about your trading stock election, print **Y** at **P** item **P19** on page 4 of your schedule. Otherwise leave **P** blank.

Check that you have ...

- ☐ written your tax file number and your full name on page 1 of your *Business and professional items schedule for individuals 2012*
- ☐ written the correct amount on your schedule for each item that applies to you
- ☐ correctly transferred the amount at **A** **Net PSI** item **P1** on your *Business and professional items schedule for individuals 2012* to **A** item **14** on page 13 of your tax return (supplementary section)
- ☐ correctly transferred the amounts at **Y** and **Z** **NET INCOME OR LOSS FROM BUSINESS** item **P8** on your *Business and professional items schedule for individuals 2012* to **B** and **C** (respectively) item **15** on page 14 of your tax return (supplementary section)
- ☐ attached your *Business and professional items schedule for individuals 2012* to page 3 of your tax return
- ☐ completed and attached the *Individual PAYG payment summary schedule 2012* to page 3 of your tax return, if you received business income that was subject to withholding
- ☐ kept your records to prove your claims, where required.

MORE INFORMATION

INTERNET

- For general tax information and to download publications and rulings, go to **www.ato.gov.au**

PUBLICATIONS

Publications referred to in this guide are:

- *Application for a private ruling on the exercise of the Commissioner's discretion for non-commercial business losses* (NAT 5806)
- *Blackhole expenditure: business related expenses*
- *Capital allowances schedule 2012* (NAT 3424)
- *Capital allowances schedule instructions 2012* (NAT 4089)
- *Concessions for small business entities* (NAT 71874)
- *Deductions for prepaid expenses 2012* (NAT 4170)
- *Fringe Benefits Tax (application to the Commonwealth) Act 1986*
- *Guide to depreciating assets 2012* (NAT 1996)
- *Income Tax Assessment Act 1997*
- *Information for primary producers 2012* (NAT 1712)
- *Law Administration Practice Statement PS LA 2001/6 – Home office expenses: diaries of use and calculation of home office expenses*
- *Law Administration Practice Statement PS LA 2003/8 – Taxation treatment of expenditure on low cost items for taxpayers carrying on a business*
- *Non-commercial losses: partnerships* (NAT 3385)
- *Private ruling application form (not for tax professionals)* (NAT 13742)
- *Record keeping for small business* (NAT 3029)
- *Tax basics for small business* (NAT 1908)
- *Taxation Ruling TR 92/18 – Income tax: bad debts*
- *Taxation Ruling TR 93/30 – Income tax: deductions for home office expenses*
- *Taxation Ruling TR 96/7 – Income tax: record keeping – section 262A – general principles*
- *Taxation Ruling TR 97/11 – Income tax: am I carrying on a business of primary production?*
- *Taxation Ruling TR 97/23 – Income tax: deductions for repairs*
- *Taxation Ruling TR 2003/10 – Income tax: deductions that relate to personal services income*
- *Taxation Ruling TR 2006/3 – Income tax: government payments to industry to assist entities (including individuals) to continue, commence or cease business*
- *Taxation Ruling TR 2007/6 – Income tax: non-commercial losses: Commissioner's discretion*
- *Individual tax return instructions 2012* (NAT 71050)
- *Individual tax return instructions supplement 2012* (NAT 71051)
- *What are the aggregation rules?* (NAT 71874)

To get any publication referred to in this guide:

- go to **www.ato.gov.au/publications**
- phone **1300 720 092**, or
- visit one of our shopfronts.

For our shopfront addresses you can visit our website.

PHONE

We can offer a more personalised service if you provide your tax file number (TFN) when you phone us.

- | | |
|--|-----------------|
| ■ Business | 13 28 66 |
| Information about business income tax, fringe benefits tax (FBT), fuel tax credits (FTC), goods and services tax (GST), pay as you go (PAYG) and activity statements, including lodgment and payment, accounts and business registration (including Australian business number and tax file number), and dividend and royalty withholding tax. | |
| ■ Individual | 13 28 61 |
| Individual income tax and general personal tax enquiries | |
| ■ Superannuation | 13 10 20 |
| ■ Tax agents | 13 72 86 |

OTHER SERVICES

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

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

- TTY users, phone **13 36 77**. For ATO 1800 free call numbers, phone **1800 555 677**.
- Speak and Listen (speech-to-speech relay) users, phone **1300 555 727**. For ATO 1800 free call numbers, phone **1800 555 727**.
- Internet relay users, connect to the NRS at **www.relayservice.com.au**

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