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Australian Taxation Office

Company tax return 2004 instructions

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Company tax return 2004 instructions

OUR COMMITMENT TO YOU

The information in this publication is current at May 2004 and we have made every effort to ensure it is accurate. However, if something in the publication is wrong or misleading and you make a mistake as a result, you will not be charged a penalty. You may have to pay interest, depending on the circumstances of your case.

If you feel this publication does not fully cover your circumstances, please seek help from the Tax Office or a professional adviser. Since we regularly revise our publications to take account of any changes to the law, you should make sure this edition is the latest. The easiest way to do this is by checking for a more recent version on our website at **www.ato.gov.au**

YOUR RIGHTS

It is important that you are aware of your rights and obligations when dealing with the Tax Office. These are explained in the taxpayers' charter, along with the service and other standards you can expect from the Tax Office. To view the taxpayers' charter, visit our website at **www.ato.gov.au** To get a printed copy of the *Taxpayers' Charter – what you need to know* (NAT 2548), phone our distribution service on **1300 720 092**.

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Canberra
May 2004

This publication is free from the Tax Office. We prohibit any party from selling it.

CONTENTS

INTRODUCTION

This publication is to assist in the completion of the *Company tax return 2004*, including the preparation of a head company's return for a consolidated group. This is NOT a guide to income tax law. More information is available on page 90.

This publication contains a number of abbreviations for names or technical terms. While each term abbreviated is spelt out the first time it is used we have also provided a list of abbreviations on page 89.

What's New

■ Consolidation

The consolidation information in these instructions has a green background for easy identification.

There are three new papers on the internet which may assist you. The first two can be found on the Consolidation home page (**www.ato.gov.au/large** then click on the Consolidation link.)

- A press release dated 7 April 2004 from the Assistant Treasurer titled *Improved tax loss recoupment rules for companies* (C021/04)—click on **Press releases**.
- A non-binding discussion paper released by the Tax Office in conjunction with the Assistant Treasurer's press release on the treatment of losses titled *The Same Business Test and Consolidated Groups*—click on **Administrative Issues**.
- A position paper dated 7 April 2004 (attached to the Treasury media release) titled *Loss Recoupment Rules for Companies* from the Department of Treasury website **www.treasury.gov.au**—click on **Media Releases**.

■ Country codes

Appendix 10 contains new three-character alphabetic country codes to be used to describe the ultimate holding company in item 1 on the tax return.

■ Foreign exchange (forex) gains and losses

New measures (the forex measures) have been introduced in Division 775 and Subdivisions 960-C and 960-D of the *Income Tax Assessment Act 1997* (ITAA 1997) which set out rules on the taxation of foreign exchange realisation gains and losses and the manner in which tax-relevant foreign currency amounts are to be translated into Australian dollars.

For more information on the forex measures refer to appendix 8 of this publication and our website at **www.ato.gov.au**

■ Functional currency

The recently passed *New Business Tax System (Taxation of Financial Arrangements) Act (No. 1) 2003* permits some taxpayers to elect to work out their taxable income employing a non-Australian dollar currency. There are two new labels on the tax return at item 8 to show the functional currency conversion rate and the functional currency chosen. Taxpayers who have chosen to employ a non-Australian dollar currency to work out their taxable income should also refer to the *Supplementary guide for functional currency taxpayers* available on **www.ato.gov.au**

■ Imputation – life insurance companies.

Changes have been introduced for life insurance companies, including the removal of an over-estimation penalty and the holding period requirement for franking credits.

■ Interposed entity election lodgment opportunity

On 15 April 2004, the Commissioner released *Practice Statement PS LA 2004/1 (GA)* setting out a one-off opportunity which may allow family entities to lodge with their tax return for the 2004 income year, an interposed entity election that should have been lodged with a previous year's return. (**Note**: The procedures do not require taxpayers or tax practitioners to obtain copies of earlier year election forms.) The Practice Statement clarifies the circumstances under which an entity which has not lodged an interposed entity election may now do so. Further information regarding this one-off opportunity and the procedures to be followed to take advantage of the opportunity can be found on our website **www.ato.gov.au** by entering FTE in the search function or phone the Business Infoline on **13 28 66** or Tax Practitioner Infoline on **13 72 86** Fast Key Code **2 1 3**.

■ Non-assessable non-exempt income (NANE)

Certain non-assessable non-exempt income is now required to be shown on the tax return at item 7, label **Q** – **Other income not included in assessable income** instead of label **V** – **Exempt income** as in previous years.

For life assurance companies and friendly societies, a change has been made to a label description on the tax return at item 13, label **J** – **Non-assessable management fees**. In previous years the label description was exempt management fees. However, there is no change to the types of amounts to be shown at the label.

■ Trans-Tasman imputation

This measure allows a New Zealand resident company to choose to enter the Australian imputation system. There is a new label on the tax return at item 7, label **C** – **Australian franking credits from a New Zealand company**. For more information refer to the publication *Trans-Tasman imputation: How to claim Australian franking credits attached to New Zealand dividends* or see our website **www.ato.gov.au**

■ Other measures

- Changes to the losses rules have been made law, see page 9.
- Proposed changes to the taxation treatment of certain foreign hybrid entities, see page 11.
- Proposed changes to foreign investment fund rules, see page 53.

■ Simplifying tax obligations for business

The Commissioner has released *Practice statement PS LA 2003/8 – Taxation treatment of expenditure on low cost items for taxpayers carrying on a business*. See page 28.

SCHEDULES

- Complete only ONE copy of the appropriate schedule.
- Attach all completed schedules to the *Company tax return 2004* unless specified otherwise.

Consolidated groups losses schedule

A head company of a consolidated group must complete a *Consolidated groups losses schedule 2004* and lodge it with the *Company tax return 2004* if the head company satisfies one or more of the following tests:

- It has a total of tax losses and net capital losses carried forward to later income years greater than $100,000.
- It has a total of tax losses and net capital losses transferred from joining entities greater than $100,000.
- It has a total of tax losses and net capital losses utilised by the consolidated group greater than $100,000.
- It has a total of foreign source losses carried forward to later income years greater than $100,000.
- It has a total of foreign source losses transferred from joining entities greater than $100,000.
- It has a total of foreign source losses utilised by the consolidated group greater than $100,000.
- It has a deduction for earlier year controlled foreign company (CFC) losses greater than $100,000.
- It has a total of CFC losses carried forward to later income years greater than $100,000.
- It is a life insurance company and has a total of virtual pooled superannuation trust (PST) tax losses and virtual PST net capital losses carried forward to the 2004–05 income year greater than $100,000.

Totals of tax losses carried forward and net capital losses carried forward in Part A of the *Consolidated groups losses schedule 2004* are transferred to the corresponding labels **U** and **V** at item 10 – Losses information on the company tax return.

For more information refer to the publication *Consolidated groups losses schedule 2004 instructions*.

If a head company needs to complete a consolidated groups losses schedule, it may also be necessary for the head company to complete a *Capital gains tax (CGT) schedule 2004*. For more information refer to the publication *Guide to capital gains tax*.

Dividend and interest schedule

The Tax Office requires a *Dividend and interest schedule 2004* to be lodged by or on behalf of every company, except subsidiary companies of consolidated groups, showing the following particulars:

- the names, addresses, dates of birth, gender and tax file numbers or Australian business number (ABN) (where quoted) of all **shareholders** (including employee shareholdings held in a consolidated group) to whom dividends have been paid during the year of income ended 30 June 2004, including the amount of dividend paid to each shareholder and any franking credits referable to that amount. Do NOT include dividends paid under a demerger in this schedule unless the head entity of the demerger group elected under subsection 44(2) of the *Income Tax Assessment Act 1936* (ITAA 1936) that those dividends will be treated as assessable dividends. Do NOT include dividends paid by one member to another within a consolidated group.

> **NOTE**
>
> If a subsidiary member of a consolidated group is required to lodge a company tax return for a period of non-membership during the year of income a schedule including the above particulars is required to be lodged by that company.

- the names, addresses, dates of birth, gender and tax file numbers or ABN (where quoted) of all **investors**, other than those investors in the business of providing business or consumer finance, to whom interest of $1 or more was paid or credited during the year of income ended 30 June 2004, and the amount of interest so paid or credited to each person. Include interest paid or credited by a subsidiary member of a consolidated group to an investor outside the group which, for the purposes of determining the head company's income tax liability or loss, is taken to have been paid or credited by the head company. Do NOT include interest paid by one member to another within a consolidated group.

> **NOTE**
>
> If a subsidiary member of a consolidated group is required to lodge a company tax return for a period of non-membership during the year of income a schedule including the above particulars is required to be lodged.

Where a company is required under subregulation 56(1) of the Income Tax Regulations 1936 to lodge an annual investment income report containing the above particulars, there is no further requirement to furnish this schedule.

Lodging the schedule

The schedule can be lodged with the company tax return or under separate cover, but in either event must be lodged by the due date for lodgment of the company tax return but not later than 14 May 2005 for companies whose income year ends on 30 June 2004. For companies with an approved substituted accounting period, this schedule must be lodged by 31 October 2004 or the due date for lodgment of the company tax return, whichever is later.

If lodged under separate cover, send the schedule to:

Australian Taxation Office
PO Box 2090
Chermside Centre Queensland 4032

> CONSOLIDATED SUBSIDIARY MEMBERS
>
> Those companies that have joined a consolidated group as a subsidiary member during the year of income do not have to complete a *Capital allowances schedule 2004*, *Capital gains tax (CGT) schedule 2004*, *Losses schedule 2004*, *Thin capitalisation schedule 2004, Schedule 25A 2004* or *Research and development tax concession schedule 2004*. Please ensure that the company prints **X** at item 3, label **Z2** – **Consolidated subsidiary member** on page 1 of the tax return.

Capital allowances schedule

If the company has included an amount greater than $15,000 at item 6, Expenses, label **X** – **Depreciation expenses** or item 7, label **F** – **Deduction for decline in value of depreciating assets** the company will need to complete and attach a *Capital allowances schedule 2004* unless:

- it is eligible to enter or continue in the simplified tax system (STS) and has chosen to do so, or
- it is exiting from the STS at item 5 or has previously exited from the STS, and the amount at label **X** relates entirely to STS depreciating assets.

If the company has included an amount greater than $1,000 at item 7, label **H** – **Deduction for project pool**, the company will need to complete and attach a *Capital allowances schedule 2004* unless it is eligible to enter or continue in the STS and has chosen to do so at item 5 – Simplified tax system (STS) elections. The company will also need to complete this schedule if it has included an amount of more than $75,000 at item 8, label **Z** – **Intangible depreciating assets first deducted** or item 8, label **A** – **Other depreciating assets first deducted**.

For more information refer to the publication *Capital allowances schedule 2004 instructions*.

Worksheets 1 and 2 in the publication *Guide to depreciating assets* will help to complete the *Capital allowances schedule 2004*. Labels **G**, **H**, **I**, **J** and **K** in Worksheet 1 and labels **L**, **M**, **N**, **O**, **P** and **Q** in Worksheet 2 correspond to labels in the capital allowances schedule.

Capital gains tax (CGT) schedule

Companies that have one or more CGT events happen during the income year must complete a *Capital gains tax (CGT) schedule 2004* and attach it to the *Company tax return 2004* if:

- total current year capital gains for the income year are greater than $10,000, or
- total current year capital losses for the income year are greater than $10,000.

The publication *Guide to capital gains tax* will assist companies to complete the CGT schedule. It also includes:

- a capital gain or capital loss worksheet for calculating a capital gain or capital loss for each CGT event
- a CGT summary worksheet for calculating a net capital gain or net capital loss for the income year
- the CGT schedule.

Losses schedule

Companies must complete and attach a losses schedule where the company is not required to submit a *Consolidated groups losses schedule 2004* and satisfies one or more of the following tests:

- It has a total of tax losses and net capital losses carried forward to the 2004–05 income year greater than $100,000.
- It is required to satisfy the 'same business test' of section 165-13 of ITAA 1997 to be able to claim a deduction for a tax loss or apply a net capital loss in the 2003–04 income year or later income year.
- It has unrealised losses as defined in the provisions of Subdivision 165-CC of ITAA 1997.
- It is a life insurance entity and has either a virtual pooled superannuation trust (PST) tax loss or a virtual PST net capital loss carried forward to the 2004–05 income year.
- It transfers out a tax loss or a net capital loss to another group company under Subdivision 170-A or Subdivision 170-B of ITAA 1997.
- It receives a tax loss or a net capital loss which is transferred to it from another group company under Subdivision 170-A or Subdivision 170-B of ITAA 1997.
- It claims a deduction for foreign source losses.
- It has 'current year' foreign source losses.
- It has foreign source losses carried forward to later income years.
- It claims a deduction for prior year controlled foreign company (CFC) losses, has 'current year' CFC losses or has CFC losses carried forward to later income years.

Where a *Losses schedule 2004* is required to be completed, totals of the amounts at Part A of the losses schedule are transferred to item 10, labels **U** and **V** on the company tax return. For more information refer to the publication *Losses schedule 2004 instructions*.

If a company needs to complete a losses schedule, under the above criteria, it may also need to complete a CGT schedule. For more information refer to the publication *Guide to capital gains tax*.

Non-individual PAYG payment summary schedule

Pay as you go (PAYG) withholding applies to several withholding events including:

- business to business transactions where the payee – those people or businesses who receive payments from payers – does not quote an ABN,
- payments under a labour hire arrangement or specified by regulations, and
- payments made under a PAYG voluntary agreement.

If an amount from a payment to the company was withheld by the payer because the company did not quote an ABN, the company (payee) should have received a *Payment summary – withholding where ABN not quoted* from the payer.

A payer may issue a receipt, remittance advice or similar document in place of the approved form, *Payment summary – withholding where ABN not quoted*. Where the company did not receive or has lost its copy of a payment summary, contact the payer responsible and request a signed photocopy of the payer's copy.

Details from each *Payment summary – withholding where ABN not quoted* must be included on a *Non-individual PAYG payment summary schedule 2004*.

Complete a *Non-individual PAYG payment summary schedule 2004* where amounts are reported at:

- item 6, label **A** – **Gross payments where ABN not quoted**
- Calculation statement, label **W** – **Credit for tax withheld where ABN not quoted**

When completing the non-individual PAYG payment summary schedule print neatly in BLOCK LETTERS with a black pen only. Print the company's tax file number (TFN) and name in the appropriate boxes at the top.

From each *Payment summary – withholding where ABN not quoted* record on the non-individual PAYG payment summary schedule:

- payer's ABN (or withholding payer number)
- total tax withheld
- gross payment, and
- payer's name.

When details of all these payment summaries have been copied to the schedule, attach the *Non-individual PAYG payment summary schedule 2004* to the company tax return.

Copies of any *Payment summary – withholding where ABN not quoted* are not attached to the company tax return and they should be kept with the company's copy of the tax return. A copy of the *Non-individual PAYG payment summary schedule 2004* should also be kept with the company's tax records.

Personal services income schedule

There are special rules for the income tax treatment of personal services income (PSI) earned by contractors and consultants which started on 1 July 2000.

For 2002–03 and later income years the measure also applies to payees under the former prescribed payments system who under transitional arrangements were not subject to the measure in the 2000–01 and 2001–02 income years.

If the company is receiving an individual's PSI, complete item 11 – Personal services income in the company tax return. Also complete a *Personal services income schedule 2004* (PSI schedule) and attach it to the tax return.

For more information on the PSI rules refer to the instructions that accompany the PSI schedule.

Research and development tax concession schedule

All companies claiming a deduction for the research and development (R&D) tax concession must complete the *Research and development tax concession schedule 2004* and attach it to the company tax return.

The schedule forms part of the publication *Research and development tax concession schedule 2004 instructions*. This publication, as well as an Excel version of the schedule and instructions are available at **www.ato.gov.au/randd** The Excel spreadsheet version is automated to self-calculate and provide guidance for correct completion of the schedule. This completed schedule will be accepted for lodgment with an original tax return or when forwarded to the Innovation Segment attached to an amendment request.

Amendments

Where a company seeks to claim a concessional deduction for R&D by way of amendment or seeks an amendment of a previous claim for the concession for the 2001–02 income year or a subsequent income year, then the request and an (amended) schedule is to be posted to:

Innovation Segment
GPO Box 2540
ADELAIDE SA 5001

Thin capitalisation schedule

If a company is subject to the thin capitalisation rules, the company must complete and send a *Thin capitalisation schedule 2004* either though the electronic lodgment service (ELS), or by completing the paper schedule and posting it to:

Australian Taxation Office
PO Box 1365
ALBURY NSW 2640

For more information refer to appendix 3 on page 75.

The *Guide to thin capitalisation* which is available on **www.ato.gov.au** contains more detailed information and includes an outline of the essential steps involved in completing the schedule.

GENERAL INFORMATION

Consolidation – taxing wholly owned groups as single entities

As part of the business tax reform package, the Australian Government introduced the income taxation of consolidated groups – that is, the taxing of eligible companies, partnerships and trusts that are wholly owned as if they are part of a single head company – from 1 July 2002. Many small businesses use simple structures (a single company, partnership or trust) and will not be affected by the consolidation legislation. It is not relevant to the business activity of individuals (such as people operating as sole traders or in partnership). However, consolidation may be an option for your business if the business structure includes a company that wholly owns one or more entities.

For more detailed information about the consolidation measures see the *Consolidation reference manual* and other relevant publications available on the consolidation homepage at **www.ato.gov.au**

If you are lodging a company tax return as a head company for a consolidated group you will need to print **X** in the box at item 3, label **Z1** – **Consolidated head company**.

If you are a subsidiary member of a consolidated group and are lodging a tax return because there were periods of non-membership during the year of income you will need to print **X** in the box at item 3, label **Z2** – **Consolidated subsidiary member**.

If you have completed label **Z2**:

- Do not complete the part year details at the top of page 1 of the tax return unless the company has an approved substituted accounting period. Even though the company will include only the income and deductions properly attributable to all of the periods of non-membership during the year, the tax return is still regarded as being for the whole of the income year that is, from 1 July to 30 June or equivalent substituted accounting period and is lodged at the usual time.
- You are not required to lodge schedules to the company tax return for capital allowances, CGT, losses, R&D, Schedule 25A and thin capitalisation. For more information see **Schedules** on page 2 in these instructions.
- Do NOT complete the **Final tax return** box on page 1 of the tax return if membership of the consolidated group is the only basis on which the company will not be required to lodge future returns.

For more detailed information about the consolidation measure visit **www.ato.gov.au** or phone the Tax Reform Infoline on **13 24 78**.

Some key elements of the consolidation regime

To consolidate, a group must consist of a head company and at least one other entity – a company, trust or partnership – wholly owned by the head company.

- The choice to consolidate is optional but irrevocable. If a head company chooses to consolidate, all its eligible wholly owned subsidiaries will be part of the consolidated group for income tax purposes.
- The head company can notify the Commissioner of the choice to consolidate up to the time the head company lodges its income tax return for the year in which the choice to consolidate first takes effect.
- On consolidation, the head company and all of its eligible wholly owned subsidiary members are treated as a single entity for the purposes of working out the group's income tax liability or losses: that is, each subsidiary member is treated as a part of the head company.
- Other than where a consolidated group exercises the transitional option of retaining existing tax costs during the transitional period 1 July 2002 to 30 June 2004, the tax costs of assets of an entity joining a consolidated group which become assets of the head company under the single entity rule are reset in accordance with special tax cost setting rules. The market value of these assets is relevant to the calculation of the tax cost setting amount. The transitional option can be exercised on a subsidiary-by-subsidiary basis on formation, provided the subsidiary is wholly owned on or before 30 June 2003 (and once wholly owned after 1 July 2002 it must remain so until the group consolidates).
- The consolidated group operates as a single entity for income tax purposes with the head company lodging a single income tax return and then paying a single set of PAYG instalments.
- A consequence of choosing to consolidate is that transactions that occur between members of the consolidated group are ignored for income tax purposes.
- Where an entity becomes a subsidiary member of a group part-way through its income year or it has a period in the year that it is not a subsidiary member for any other reason, it will also need to lodge a tax return for that income year. However, the tax return will be based only on amounts properly attributable to all of the periods that the company was not a subsidiary member of a consolidated group during the income year.
- The losses, franking credits, excess foreign tax credits, foreign dividend account surpluses, attribution account surpluses and attributed tax account surpluses of each subsidiary member can generally be brought into, and utilised by, the head company of a consolidated group.
- Carry-forward losses, franking balances, foreign dividend account surpluses and excess foreign tax credit balances transferred to the head company of the group remain with the head company when an entity leaves the group. Special rules apply regarding treatment of carry-forward losses transferred into the consolidated group.
- The consolidation regime does not affect a subsidiary member's obligations in relation to other taxes such as goods and services tax (GST), fringe benefits tax (FBT) and PAYG withholding.
- At the time of printing this publication, proposed legislation to permit certain corporate unit trusts and public trading trusts to head consolidated groups had not been enacted.

- Where a consolidated group includes one or more subsidiary members that are life insurance companies, special consolidation rules apply to take into account the particular taxation treatment of life insurance companies. Further details can be found in the *Consolidation reference manual*.

NOTE

Where a foreign company, either directly or through its wholly owned foreign group, has multiple entry points into Australia, special multiple entry consolidated (MEC) group rules will apply to the wholly owned resident entities. See the *Consolidation reference manual* for more information on MEC groups.

Operating as a consolidated group will require the head company to (among other things):

- notify the Tax Office of its decision to consolidate
- pay the group's PAYG instalments after the lodgment of the head company's first consolidated group tax return
- determine, report and make any balancing adjustments to meet the group's annual income tax liabilities
- manage any ongoing income tax liabilities and supply income tax information to us when required, and
- notify us of any members that join or leave the consolidated group.

Existing grouping provisions cease

The grouping provisions ended on 30 June 2003 or on the date of consolidation, whichever came first. However, where the head company has a substituted accounting period (SAP), the grouping provisions continue to be available until the next balance date of the group after 30 June 2003, provided the group consolidates on the first day of the next SAP income year. More details on the removal of the grouping provisions can be found in the publication *Consolidation reference manual*.

2004 consolidation groups – head company tax returns

The tax return disclosures are the head company's principal means of communicating its consolidated group tax data to the Tax Office. They are also used by the Commissioner to calculate the head company's instalment rate. This data needs to be useful in the context of our role as administrator of Australia's tax system so that we and the Government, as users of the tax return information, can evaluate and monitor the tax system for the benefit of the community.

We therefore expect that all tax return label disclosures where practicable (see below) will reflect correct, or materially correct, consolidated amounts at each label. Such amounts are net of transactions that occur between members of the consolidated group and give effect to the single entity principle. Correct or materially correct consolidated amounts at each label will retain the structural integrity of the disclosures to enable consistent monitoring and analysis of taxpayer data.

In addition, the concept of materiality applies only to the tax return labels impacted on by consolidation but not to item 7, label **T** – **Taxable income or loss** or those labels in the Calculation statement on page 4 of the tax return.

In determining if the consolidated amounts are materially correct, we will be guided by the accounting standard on materiality, *AASB 1031 – Materiality*.

We expect the completed consolidated tax return to be at least as relevant and as useful as other statutory financial reports.

For the company tax return, where groups can compile correct, or materially correct, consolidated data for the head company, net of transactions that occur between members of the consolidated group, label-by-label, we expect this data to be disclosed.

Furthermore, we require that the same calculation method used to compile the tax return consolidated data be used when completing the head company's *Instalment activity statement* throughout the period during which the head company's PAYG instalment rate is based on the data in the head company tax return. This is because a group's consolidated PAYG rate is adjusted by the data disclosed in the head company's 2004 consolidated group tax return.

As a result of representations from industry, we understand that groups will be able to return their correct taxable income or loss but due to ongoing implementation of systems some groups will not be able to return consolidated data at particular labels in the 2004 tax return.

To overcome this transitional difficulty for 2003–04, the Tax Office:

- recognises that consolidating groups will have different accounting and tax systems to compile the label amounts for the consolidated group tax return
- strongly advises consolidating groups to have robust audit trail records to explain what was done to compile and disclose the label amounts in the consolidated group tax return
- requires, where possible, consolidated data at each label on the tax return to reflect correct, or materially correct, amounts for the consolidated group
- will accept some aggregated data if necessary for items 6, 7 and 8 on the tax return provided the head company:
  - determines its **total profit or loss** at item 6 – Calculation of total profit or loss, label **T**, after intra-group eliminations have occurred, thus preventing or minimising having intra-group eliminations reflected in the item 7 reconciliation labels of the tax return
  - determines the **total dividends** at item 6, Income, label **H**, to be the consolidated amount net of all intra-group dividends
  - determines the correct or materially correct amounts for:
    - item 6, Income, label **F** – **Gross interest**
    - item 6, Income, label **R** – **Other gross income**

- item 6, Expenses, label **V** – **Interest expenses within Australia**
- item 6, Expenses, label **J** – **Interest expenses overseas**, and
- item 6, Expenses, label **S** – **All other expenses** after eliminating intra-group interest and management fee transactions at each of these five labels.

■ will accept, in the first instance, correct or materially correct consolidated data, label-by-label, for the Australian-resident consolidated group at item 8 – Financial and other information. If this data is not possible to compile, the Tax Office will accept aggregated data at item 8 provided it is aggregated data for the Australian-resident group, and

■ will require that the method used in dealing with transactions that occur between members of the consolidated group when completing the tax return be the same method used when completing the head company's *Instalment activity statement* throughout the period during which the head company's instalment rate is based on the data in the 2004 tax return. This is necessary to maintain the integrity of the PAYG instalments. Failure to comply with this requirement may result in a revision of instalments paid and/or penalties.

2004 schedules

Given that consolidation is about taxing wholly owned groups as single entities, a head company of a consolidated group is required to complete only one of each required schedule. Each required schedule will contain the group information for the head company of the consolidated group. We do not require individual schedules for subsidiary members of the consolidated group.

Future developments

For the 2005 company tax return, correct or materially correct consolidated data for an Australian-resident group will be the only acceptable basis for making tax return disclosures label-by-label. Groups are advised to put record keeping, accounting and tax systems in place from now on to ensure that materially correct consolidated data is available for next year's tax return.

Simplified imputation system

The simplified imputation system took effect from 1 July 2002 and, while changing the mechanics of the former imputation system, it generally achieves the same outcome as the former system.

Broadly the simplified imputation system and its impacts on the company tax return are as follows:

■ The gross-up and credit approach replaces the intercorporate dividend rebate for companies in receipt of franked distributions. Under this new approach a company that is paid a franked distribution on or after 1 July 2002 must include:
  – the franked amount of the distribution at item 6, Income, label **H** – **Total dividends**, and
  – the attached franking credits at item 7, label **J** – **Franking credits** (In circumstances where the shares are not held at risk as required under the holding period and related payments rules, or there is other manipulation of the imputation system, the franking credit is not included in assessable income at label **J** and there is no entitlement to a franking tax offset.)

■ The amount of franking credits included in assessable income is allowed as a rebate/tax offset and claimed in the Calculation statement at label **C** – **Rebates/tax offsets**.

■ The rules to allow an entitlement to claim a franking deficit tax (FDT) offset against an income tax liability have been enacted. They are contained in *Taxation Laws Amendment Act (No. 8) 2003* which received royal assent on 21 October 2003. Some special rules apply to life insurance companies to ensure that an FDT liability can only be offset against that part of the company's income tax liability that is attributable to shareholders. The new FDT offset rules contain provisions that replace the franking additional tax penalty provisions which operated under the former imputation rules. The new rule operates to reduce the amount of FDT that an entity can offset against its income tax liability. You will need to refer to the *Franking account tax return 2004 instructions* for further information on how to calculate this amount. There are also special rules that apply to late balancing entities that elect to determine their FDT on a 30 June basis. For more information refer to the fact sheets *Simplified imputation: Franking deficit tax offset* and *Simplified imputation: FDT offset for late balancers* which are available on **www.ato.gov.au** For further explanation on how to calculate the amount that can be claimed as an FDT offset for the income year see **Franking deficit tax offset** on page 61 in these instructions.

Other changes brought about by the simplified imputation system include the following:

■ The franking account now operates on a tax-paid basis and is also a rolling-balance account. As the franking account now operates on a tax-paid basis companies were required to convert their class C franking account balance on 1 July 2002. For more information see **Franking account balance** on page 49 in these instructions.

- The new provisions enable corporate tax entities to align the period for determination of their franking deficit tax liability with their income year.
- A new concept of franking period has been introduced and relates to the operation of the benchmark rule.
- Corporate tax entities will be able to choose the extent to which they frank frankable distributions made within a franking period. This choice, though, is subject to the benchmark rule.
- The benchmark rule replaces the 'required franking amount' rules and, while similarly limiting streaming opportunities, provides greater flexibility in allocating franking credits to frankable distributions. To comply with this rule, a corporate tax entity must ensure that all frankable distributions made within a franking period are franked to the same extent – the benchmark franking percentage. The benchmark franking percentage is equal to the franking percentage established for the first frankable distribution made in that franking period.
- A breach of the benchmark rule will not invalidate the allocation made to the distribution. However, a penalty will be imposed on the corporate tax entity. The penalty is either:
  - an over-franking tax, if the franking percentage for the distribution exceeds the benchmark franking percentage; or
  - a franking debit to the franking account, if the franking percentage for the distribution is less than the benchmark franking percentage.

The penalty is calculated by reference to the difference between the franking credits actually allocated and the benchmark franking percentage.

- Payment of over-franking tax does not give rise to a franking credit in the franking account. Where an entity is liable to pay over-franking tax it is required to complete a *Franking account tax return 2004*.
- A disclosure rule operates. Corporate tax entities must notify the Commissioner in the approved form if they have significantly varied their benchmark franking percentage between franking periods. Corporate tax entities will disclose this information on the *Franking account tax return 2004*.

Intercorporate dividend rebate

Except in relation to the transitional rule discussed below, the entitlement to an intercorporate dividend rebate (ICDR) for unfranked dividends paid within a wholly owned group is not available for dividends paid on or after 1 July 2003. However, companies which were paid unfranked dividends within a wholly owned group before 1 July 2003 can still be entitled to claim an ICDR. This may be relevant for early balancing companies using the *Company tax return 2004*.

There is no entitlement to an ICDR on dividends paid on or after 1 July 2003 unless the transitional rule in relation to consolidated groups with substituted accounting periods applies. Under this transitional rule the rebate will continue to apply to dividends paid after 30 June 2003 within a wholly owned group if the consolidation date is the first day of the first income year of the group's head company starting after 30 June 2003 and before 1 July 2004. The rebate will not apply to dividends paid on or after the date of consolidation.

Companies able to claim the ICDR in respect of an unfranked dividend may access the ICDR under two alternative tests:

- the whole-of-year test that permits access to the ICDR where the companies involved are group companies for the whole of the income year or part of the income year that the companies were in existence, or
- the 12-month test that permits access to the ICDR provided the company paying the dividend and the company receiving it are part of the same wholly owned group at all times during the period of 12 months ending on the day on which the dividend was paid.

The ICDR, where allowable, should be claimed in the Calculation statement at label **C** – **Rebates/tax offsets**.

Franking account tax return

The legislation to allow corporate tax entities to claim an FDT offset against their income tax liability received royal assent on 21 October 2003. These new provisions are contained in *Taxation Laws Amendment Act (No. 8) 2003* and apply retrospectively from 1 July 2002. Further rules were enacted to replace the old franking additional tax provisions with a 30% reduction in the amount of FDT that can be offset against future income tax liabilities.

As a result of these new rules, the *Franking account tax return 2004* now requires you to complete Label **C** – **Offsettable portion of current year franking deficit tax**. This means that where the amount of FDT liability for the income year exceeds 10% of the total amount of franking credits that arose in the franking account that year, the FDT offset will be reduced by 30%.

This franking account tax return is to be completed on the approved Tax Office form for all Australian corporate tax entities (including head companies of consolidated groups, corporate limited partnerships, corporate unit trusts and public trading trusts) and New Zealand franking companies that have:

- a liability to pay franking deficit tax
- a liability to pay over-franking tax, and/or
- an obligation to disclose information to the Commissioner in relation to their benchmark franking percentage.

The approved Tax Office form is the pre-printed *Franking account tax return 2004*. The franking account tax return should be lodged separately to your income tax return. If you lodge your franking account tax return at the time your income tax return is due, your franking account tax return may be late and a general interest charge may apply to any outstanding tax amounts. Your franking account tax return is generally due one month after the end of your income year.

For more information on completing this tax return refer to the *Franking account tax return 2004* and its accompanying instruction guide.

> NOTE
>
> With the introduction of the simplified imputation system the deficit deferral tax under the former imputation system has been abolished and replaced with a mechanism for recalculation of the franking deficit tax liability. Consequently, the deficit deferral tax return has been removed.

Cooperatives – option to frank dividends

New rules apply to cooperative companies to allow them to frank distributions made to members on or after 1 July 2002.

This means that cooperative companies will now have the same access to accumulated franking credits as other companies. However, under the new rules, a deduction will continue to be allowed to the extent that a distribution of assessable income is not franked.

The amendments to provide cooperatives with the ability to frank distributions paid to members are contained in *Taxation Laws Amendment Act (No. 3) 2003* which received royal assent on 14 October 2003.

> NOTE
>
> For a range of more detailed information about simplified imputation, consolidations and the cooperatives measures, please visit **www.ato.gov.au** or phone the Tax Reform Infoline on **13 24 78**.

Life insurance companies

Imputation rules have been introduced for life insurance companies as a consequence of the core simplified imputation rules introduced in the *New Business Tax System (Imputation) Act 2002*.

These new imputation provisions generally replicate the former imputation provisions relating to life insurance companies except for the following changes:

- The over-estimation penalty for life insurance companies where they overestimated the total amount of franking credits they were entitled to receive during the income year has been removed.
- The holding period requirement in respect of franking credits arising from the receipt of franked dividends has been removed.
- A method is prescribed for determining the amount of income tax liability attributable to shareholders for an original and an amended assessment.

Amendments have also been made for the franking deficit tax offset rules for life insurance companies. The purpose of these amendments is to ensure that a franking deficit tax offset can only be applied against that part of the company's income tax liability that is referable to shareholders (after all other tax offsets have been deducted). A method is prescribed for working out the relevant amount that is attributable to shareholders.

Losses

No wastage of current year losses and optional use of prior year losses

The *Taxation Laws Amendment Act (No.5) 2003* received royal assent on 17 December 2003. The legislation gives effect to the no wastage of current year losses and optional use of prior year losses measures.

These measures are intended to ensure that corporate tax entities do not use up ('waste') losses against franked dividend income.

Subject to certain limitations, corporate tax entities can choose the amount of prior year losses they wish to deduct from the excess, if any, of their assessable income over total deductions (other than tax losses) in a later year of income. This also means that corporate tax entities can choose not to deduct prior year losses in order to pay sufficient tax to be able to frank their distributions. A company reflects the choice made by including the amount (including a nil amount) of tax loss deducted at item 7, label **R** – **Tax losses deducted**. A company cannot deduct an amount of a prior year loss if it either has an excess franking offset prior to deducting any tax loss, or the choice to deduct that particular amount of the tax loss would give rise to an excess franking offset.

Corporate tax entities can also treat a current year loss that would otherwise be incurred but for deriving franked dividend income as a tax loss for that income year and be able to carry forward the tax loss to a later year of income. The relevant current year loss will be determined by reference to the amount of any excess franking offset for the income year. The amount of excess franking offset that a company has must be disclosed at item 8, label **H** – **Excess franking rebate**. For more information see **Excess franking rebate** on page 49 in these instructions. The amount of tax loss that is created and carried forward to future income years must be included at item 10, label **U** – **Tax losses carried forward to later income years**.

The rule about choosing to deduct a prior year loss applies to deductions of tax losses in the year in which 1 July 2002 falls and later years. The rule ensuring current year losses are not wasted applies to the income year in which 1 July 2002 falls and later years.

> NOTE
>
> For a range of more detailed information about this new measure, please visit the simplified imputation section of **www.ato.gov.au** or phone the Tax Reform Infoline on **13 24 78**.

Accessing the same business test

The *Taxation Laws Amendment Act (No.5) 2003* removes an anomaly that prevented a company from accessing the same business test to determine its eligibility to deduct prior year losses.

The new law widens the circumstances in which the same business test will be available to companies to determine their eligibility to deduct prior year losses, if:

- the company fails the continuity of ownership test, or
- it is not practicable to show that the company meets the continuity of ownership test.

This is achieved by providing a default test time at which the same business test can be applied if the company is unable to determine precisely when it has failed the continuity of ownership test. In the case of tax losses, the test time for application of the same business test is the latest time that the company can show that it has satisfied the continuity of ownership test.

However, if it is not practicable for the company to show that it has maintained the same owners for any period since the start of the loss year, the default test time for application of the same business test is the start of the loss year or, if the company came into being during the loss year, the end of the loss year.

This amendment applies to assessments for the 1997–98 income year and later income years (Section 165-13 ITAA 1997).

The debt and equity rules

Under the debt equity measures which broadly operate in respect of interests entered into on or after 1 July 2001, certain interests, which are not shares in legal form, are treated in a similar way to shares for some tax law purposes. These interests are called 'non-share equity interests'. Examples are some income securities and some stapled securities. The *Guide to the debt and equity tests* provides an overview of the debt/equity rules and explains what a non-share equity interest is.

For the purposes of the imputation system, the measures dealing with non-share equity interests are designed to apply to non-share dividends in the same way that they apply to dividends. A non-share dividend may be franked or unfranked. Any amount of the dividend, whether it be franked or unfranked, or any amount of franking credit attached to the dividend, should be shown at the appropriate place in the tax return as if it were in respect of a share.

A non-share dividend is not deductible for tax purposes but may be frankable.

Clubs, societies and associations

Taxable clubs, associations, societies and organisations are generally treated as companies. However, non-profit companies are subject to special tax rules, which are explained in the *Income tax guide for non-profit organisations* (available on **www.ato.gov.au**). Non-profit companies that are resident and have taxable income of $416 or less are not required to lodge an income tax return, unless specifically requested.

Corporate unit trusts and public trading trusts

Trustees of corporate unit trusts and public trading trusts are subject to the company tax arrangements and lodge company tax returns.

The trust loss legislation in Schedule 2F to ITAA 1936 applies to these trusts.

General value shifting regime

The general value shifting regime (GVSR) replaces the value shifting rules in Divisions 138, 139 and 140 of ITAA 1997. Subject to transitional rules, the GVSR applies from 1 July 2002.

Broadly, value shifting describes transactions and other arrangements that reduce the value of an asset and (usually) increase the value of another asset.

The GVSR consists of direct value shifting (DVS) and indirect value shifting (IVS) rules that impact primarily on equity and loan interests in companies and trusts. There is also a DVS rule dealing with non-depreciating assets over which a right has been created. There are different consequences for particular interests according to whether the interest is held on capital account, or as a revenue asset or as trading stock.

Where the rules apply to a value shift there may be a deemed gain (but not a loss), adjustments to adjustable values (for example, cost bases), or adjustments to losses or gains on realisation of assets.

There are de minimus exceptions and exclusions which will minimise the cost of complying with the GVSR, particularly for small business. Entities dealing at arm's length or on market value terms are generally excluded from the GVSR.

For more information, visit **www.ato.gov.au** or phone the Tax Reform Infoline on **13 24 78**.

Trans-Tasman imputation

The Trans-Tasman imputation measure allows a New Zealand resident company to choose to enter the Australian imputation system. This allows a New Zealand company to maintain an Australian franking account from 1 April 2003 and to attach Australian franking credits to dividends it pays from 1 October 2003 or one month after the company makes an election, whichever is later. Australian shareholders of New Zealand companies may benefit from the Australian franking credits attached to distributions made by a New Zealand company that has elected into the trans-Tasman imputation measure (referred to as a 'New Zealand franking company').

Instructions to assist Australian shareholders of New Zealand franking companies in completing their income tax returns are in a separate publication *Trans-Tasman imputation: How to claim Australian franking credits attached to New Zealand dividends*.

For more information, visit the trans-Tasman imputation web page on **www.ato.gov.au** or phone the Tax Reform Infoline on **13 24 78**.

International taxation – changes to the taxation treatment of certain foreign hybrid entities

The Government has introduced Bills into Parliament which, when enacted, will change the taxation treatment of certain foreign hybrid entities to partnership treatment for the purposes of Australia's income tax laws.

Typically, foreign hybrid entities are treated for foreign tax purposes as a partnership in the foreign jurisdiction but as a company under current Australian taxation laws.

The new treatment will, if enacted, generally apply from the start of the 2003–04 income year.

At the time of printing, this measure had not become law. Further details may be found in the Minister for Revenue and Assistant Treasurer's press release No.C026/03 of 8 April 2003.

Interposed entity election lodgment opportunity

On 15 April 2004, the Commissioner released Practice Statement PS LA 2004/1 (GA) setting out a one-off opportunity which may allow family entities to lodge with their tax return for the 2004 income year, an interposed entity election that should have been lodged with a previous year's return. (**Note**: The procedures do not require taxpayers or tax practitioners to obtain copies of earlier year election forms.) The Practice Statement clarifies the circumstances under which an entity which has not lodged an interposed entity election may now do so.

Further information regarding this one-off opportunity and the procedures to be followed to take advantage of the opportunity can be found on the Tax Office website, **www.ato.gov.au** by entering FTE in the search function or phone the Business Infoline on **13 28 66** or Tax Practitioner Infoline on **13 72 86** Fast Key Code **2 1 3**.

Information matching

The Tax Office is making increasing use of information matching technology to verify the correctness of tax returns. Ensure that all information is fully and correctly declared on the company tax return.

Where possible, the company tax return should fully itemise all investment income, rather than including the income in gross business income or profit and loss statements. Failure to do so could result in the company receiving an income discrepancy query letter from the Tax Office.

Ensure that the company has not quoted an individual's TFN to a financial institution for any income it intends to declare in a company tax return, or vice versa.

In particular, we will be checking the following in the 2003–04 tax returns:

- distributions from partnerships and trusts, including unit trusts – see page 21
- income and credits for withholding where an ABN has not been quoted against information provided to us by payers – see pages 21 and 65
- total salary and wages will be cross checked against the PAYG withholding system – see page 52
- the amount of prior year losses claimed will reconcile with the amounts of losses carried forward in tax returns of earlier years – see page 40
- dividend and interest income – see page 23.

Strata title bodies corporate

Strata title bodies corporate are treated as public companies under the tax law and are required to lodge a company tax return for any year in which non-mutual income is earned. For more information on this type of income refer to the instructions contained in the publication *Strata title body corporate tax return 2004*.

If the strata title body corporate has:

- net capital gains
- losses brought forward from earlier income years claimed as a deduction
- overseas transactions or interests, and/or
- needs to make an interposed entity election,

then a company tax return needs to be completed. The company cannot complete its tax return using the strata title body corporate tax return.

Record keeping requirements

Record keeping and retention

Persons carrying on a business must keep records that record and explain all transactions and other acts, engaged in by the person, which are relevant for any taxation purpose. Subsection 262A(2) of ITAA 1936 prescribes the records to be kept as including:

- any documents that are relevant for the purpose of ascertaining the person's income or expenditure
- documents containing particulars of any election, estimate, determination or calculation made by the person for taxation purposes and, in the case of an estimate, determination or calculation, particulars showing the basis on which and the method by which the estimate, determination or calculation was made.

Generally, a company must keep all relevant records for five years after those records were prepared or obtained, or five years after the completion of the transactions or acts to which those records relate, whichever is the later, although this period may be extended in certain circumstances. Records must be in writing and in English; however, they may be kept in an electronic form or on microfiche on the condition that the records are in a form that Tax Office staff can access and understand to ascertain the person's taxation liability (refer to Taxation Ruling TR 96/7 and Taxation Ruling TR 97/21).

The company is not expected to duplicate records. Where the records that the company normally keeps contain the information specified in these instructions, the company need not prepare additional records.

For some items on the tax return, reference to specific record keeping requirements is made in these instructions. In general, the records specified are intended to cover instances where the required information may not be available in the normal company accounts. The record keeping requirements within the instructions indicate the information that the company uses to calculate the correct amounts to declare in the tax return but is not an exhaustive list of the records that a company maintains.

Documents that a company prepares and keeps include:
- a statement of financial position
- a detailed operating statement
- livestock and produce accounts for primary producers
- notices and elections
- documents containing particulars of any estimate, determination, or calculation made for the purpose of preparing the tax return, together with details of the basis and method used in arriving at the amounts in the tax return
- a statement describing and listing the accounting systems and records – for example, chart of accounts that are kept manually and electronically.

If an audit is conducted, we may request, and a company is expected to make readily available:
- a list and description of the main financial products – for example, bank overdrafts, bills, futures and swaps – that were used by the company to finance or manage its business activities during the income year
- for companies that have entered into transactions with associated entities overseas:
  - an organisational chart of the company group structure, and
  - all documents, including worksheets, that explain the nature and terms of the transactions entered into.

The company may be liable to additional tax if it does not declare the correct amount of taxable income and/or tax payable. Penalties also apply where inadequate or no records are kept by the company about business transactions or the items disclosed in the tax return.

Generally, the head company of a consolidated group is obliged to retain records that, amongst other things, document:
- the process of forming the consolidated group
- entries and exits of subsidiary members into and out of the group
- events which result in an entity being no longer eligible to be a head company, and
- consolidation eliminations or adjustments to derive the income tax outcome for the head company of the group.

This would be in addition to those records usually retained to ascertain the income tax liability of the head company.

More information on the record keeping and retention requirements of a consolidated group can be found in the publication *Consolidation reference manual* available on **www.ato.gov.au**

e-Record

e-Record is an electronic record keeping package that has been developed by the Tax Office to assist small/micro businesses and non-profit organisations keep good business records.

It is designed for businesses that use a cash basis of accounting and that wish to make the transition from paper based products to an electronic record keeping package. It is not designed for those businesses that are already using a commercially available accounting software package.

e-Record consists of a set of simple-to-use electronic worksheets that produce daily and weekly information, as well as monthly, quarterly and annual summaries, with the added benefit of automatic calculations and consolidations. This will assist businesses in the completion of their activity statements.

Businesses can download the latest version of *e-Record* from **www.ato.gov.au/erecord** or obtain a copy of the CD-ROM by phoning **1300 139 051**.

Capital gains tax record keeping

For more information on record keeping for capital gains tax refer to the publication *Guide to capital gains tax*. Refer also to Taxation Ruling TR 2002/10 for more detailed information about keeping a CGT asset register.

Tax losses record keeping

Where a company incurs tax losses, records may need to be kept longer than five years from the date when the losses were incurred. Generally tax losses incurred this year can be carried forward indefinitely, until they are applied by recoupment or in very limited circumstances transferred to another group company. When applied, the loss amount is a figure that leads to the calculation of the company's taxable income in that year. It is in the company's interest to keep records substantiating this year's losses until the amendment period for the assessment in which the losses are applied has lapsed (up to six years from the date of that assessment).

Record keeping for overseas transactions and interests

Keep records of any overseas transactions in which the company is involved – or has an interest in – during the income year.

The involvement can be direct or indirect – for example, through persons, trusts, companies or other entities. The interest can be vested or contingent, and includes a case where the company has direct or indirect control of:
- any income from sources outside Australia not disclosed elsewhere in the tax return, or
- any property – including money – situated outside Australia. Where this is the case keep a record of the following:
  - the location and nature of the property
  - the name and address of any partnership, trust, business or company the company has an interest in, and
  - the nature of the interest.

If an overseas interest was created by exercising any power of appointment, or if the company had an ability to control or achieve control of overseas income or property, keep a record of the following:
- the location and nature of the property, and
- the name and address of any partnership, trust, business, company, or other entity in which the company has an interest.

Tax return

First company tax return

A company applies for a TFN before lodging its first tax return to ensure that payments are credited to the correct account. This is done by completing an *Application to register for the new tax system*. The Tax Office cannot allocate a TFN until it receives this application.

If the company has applied for a TFN but has not received notification of its TFN at the time of lodging its tax return, the company must include a copy of the relevant application with its tax return. If that is not possible complete a new application and lodge this with the *Company tax return 2004*.

If the company has not applied for a TFN, attach a completed application with its tax return. There may be delays in processing a tax return lodged without a TFN.

Lodging the tax return, schedules, etc

Companies that derived assessable income in the 2003–04 income year must lodge a tax return for the 2003–04 income year. Companies that are carrying forward losses to the 2004–05 income year must also lodge a tax return for the 2003–04 income year even if no assessable income has been derived in the 2003–04 income year. Keep records so the information reported in the tax return can be verified at a later date, if required – see **Record keeping requirements** on page 11.

The addresses for lodging the company tax return are listed at appendix 11 on page 87.

The following are the ONLY schedules that are sent with the *Company tax return 2004*:

- *Capital gains tax (CGT) schedule 2004*
- *Capital allowances schedule 2004*
- *Consolidated groups losses schedule 2004*
- *Dividend and interest schedule 2004*
- *Interposed entity election 2004*
- *Losses schedule 2004*
- *Non-individual PAYG payment summary schedule 2004*
- *Personal services income schedule 2004*
- *Research and development tax concession schedule 2004*
- *Schedule 25A 2004*, and
- any elections required by Taxation Ruling IT 2624.

The *Thin capitalisation schedule 2004* is now available through the electronic lodgment service (ELS), or the company may choose to complete the paper schedule and post it to:

Australian Taxation Office
PO Box 1365
ALBURY NSW 2640

Only AMENDED Research and development tax concession schedules are to be forwarded to:

Innovation Segment
GPO Box 2540
ADELAIDE SA 5001

Do NOT send other schedules or documents with the *Company tax return 2004*. Keep these with the company's tax records.

The date for lodgment of the company tax return (including any relevant schedules) is notified in the *Commonwealth Gazette* (Gazette).

Do not attach the company's payment to the company tax return. The company can make payments by one of five methods. These are listed at appendix 12 on page 88.

Amendment under self-assessment

The taxable income and/or amount shown for tax offsets or some credits can be altered after the lodgment of the company's tax return. The company can request an amendment to a tax assessment or lodge an objection disputing an assessment generally up to four years following the assessment. The objection must state the full particulars of the issue in dispute. This is a basic guide only.

Private ruling by the Commissioner of Taxation

A private ruling is a written expression of opinion by the Commissioner of Taxation (Commissioner) about the way in which a tax law or tax laws would apply to a person in relation to an arrangement in respect of a specified income year.

An *Application for a private ruling* must be in writing and in accordance with the provisions of Part IVAA of the *Taxation Administration Act 1953* (TAA 1953).

The required information and documentation that accompanies a private ruling request must be sufficient for the Commissioner to make a private ruling. Such information will include the parties involved, the facts, income years covered by the arrangement, issues and questions raised that relate to specified tax laws, and also an analysis and opinion on such questions.

The Commissioner may request additional information to make a ruling. The Commissioner will then consider the request and either issue – or in certain limited circumstances refuse to issue a private ruling. For more information refer to Taxation Ruling TR 93/1 and Addendum.

Review rights

Taxpayers can object against adverse private rulings in much the same way as they can object against assessments. They also can seek a review of adverse objection decisions on a private ruling by the Administrative Appeals Tribunal (AAT) or a court.

An explanation of review rights and how to exercise them is issued with the private ruling. An objection to a ruling can be lodged within the later of:

- 60 days after the receipt of the ruling
- four years from the last day allowed for lodging a tax return for the income year covered by the ruling.

A taxpayer cannot object against a private ruling if an assessment has occurred covering the same facts and issues. The taxpayer could, of course, object against the assessment.

Where a taxpayer has objected against a private ruling, the taxpayer cannot object on the same grounds against a later assessment, unless the facts have changed.

Private rulings dealing with ITAA 1936 continue to apply to ITAA 1997, to the extent that the old law ruled on expresses the same ideas as the new law in ITAA 1997 – refer to Taxation Ruling TR 97/16.

Withdrawals

The Commissioner cannot withdraw a private ruling if the year of income for the ruling has started or ended. If the year of income has not started but the arrangement has started, the Commissioner can only withdraw a private ruling in very limited circumstances. If the arrangement has not started then generally the Commissioner can withdraw a private ruling.

Payment arrangements

Paying your tax debt

Income tax debts must be paid by the due date. For payment options see appendix 12 on page 88.

The tax payable by a company for a year of income becomes due and payable on the statutory due date, which is the first day of the sixth month of the following year of income. For example, for 30 June balancing companies the statutory due date is 1 December.

The general interest charge (GIC) is levied on outstanding amounts from the due date for payment. The GIC rate for a particular quarter is calculated by adding 7% to the relevant monthly average yield of 90-day bank accepted bills. The GIC rate is updated quarterly.

For more information on the GIC, phone the Business Infoline on **13 28 66**.

What if you cannot pay your tax debt by the due date?

To avoid action being taken to recover the debt, phone us on **13 11 42**. Taxpayers are expected to organise their affairs to ensure that they pay their debts on time. Nevertheless, we may allow taxpayers to pay their debts under a mutually agreed payment plan where they face genuine difficulty and have the capacity to eventually pay the debt. The GIC will continue to accrue on any outstanding amounts of tax during any payment arrangement. Approval for a payment arrangement is not given automatically. The company may need to provide details of its financial position, including a statement of the company's assets and liabilities and details of the company's income and expenditure. The Tax Office will also want to know what steps the company has taken to obtain funds to pay its tax debt and the steps it is taking to meet future tax debts on time.

Penalties

The law imposes penalties on companies for:

- failing to lodge a tax return on time
- having a tax shortfall or overclaiming a credit that is caused by:
  – making a false or misleading statement
  – taking a position that is not reasonably arguable
  – disregarding a private ruling
- refusing to provide a tax return from which the Commissioner can determine a liability
- failing to keep and produce proper records
- preventing access to premises and documents, or
- failing to retain or produce declarations.

A company is liable for the GIC where:

- tax, penalties and certain other amounts remain unpaid after the due date for payment, or
- a variation of the PAYG instalment rate is less than 85% of the instalment rate which would have covered the company's actual liability for the year.

COMPLETING THE TAX RETURN

PAGE 1

Is a payment due?

Print **YES** in the box if a payment is due now or at a later date. Otherwise print **NO**.

Is a refund due?

Print **YES** in the box if a refund is due. Otherwise print **NO**.

Tax file number (TFN)

Print the TFN of the company in the boxes provided. The head company of a consolidated group continues to use its existing TFN.

If the company has not previously been allocated a TFN, see **First company tax return** on page 13 in these instructions.

Name of company entity

When recording the name of the company entity:

- show the company name exactly as it appears on the company certificate of incorporation, and
- for subsequent tax returns, the company name should be consistent from year to year unless the name changes.

If the company name is legally changed, send the Tax Office written advice of the change at the time the change is made. Show on the tax return the current company name as registered with the Australian Securities and Investments Commission. In the case of the head company of a consolidated group, use only the head company's name.

Australian business number (ABN)

The ABN is a single, unique business identifier which will ultimately be used for all dealings with the Australian Government. It is also available to state, territory and local government regulatory bodies. Identification for taxation law purposes is only one of the objects of the ABN.

Print the ABN of the company in the boxes provided if the company is registered on the Australian Business Register. In the case of a consolidated group, print the ABN of the head company.

Follow the instructions on the *Company tax return 2004* for the following items:

- **Previous name of the company**
- **Current postal address**
- **Postal address on previous tax return**.

Business address of main business

Show the street address of the main business. It is the place where most of the business decisions are made. For a consolidated group, use the business address of the head company.

Final tax return

If it is considered that there will be no requirement for the company to lodge tax returns in future years, print **FINAL** in the box at this item.

Subsidiary members of consolidated groups should not print **FINAL** if membership of the consolidated group is the only basis on which the company will not be required to lodge future tax returns.

1 Ultimate and immediate holding company name and ABN or country code

Ultimate holding company name and ABN or country code

Show the name of the ultimate holding company in the group. This is the company that has ownership and controlling interest over the whole group of companies of which the company lodging the *Company tax return 2004* and the immediate holding company forms part. For a consolidated group, show the name of the ultimate holding company of the head company.

If the ultimate holding company is registered on the Australian Business Register, show the ABN of the ultimate holding company.

If it is resident in another country give the code for that country – see appendix 10 on page 84. Please note that new three-letter country codes apply.

Immediate holding company name and ABN

If the company has no immediate holding company, do not complete this item. Otherwise show the name of the immediate holding company. This is the company that has the largest share of the controlling interest in the operations of the company lodging the company tax return, and that is immediately above that company in the company group. If it is registered on the Australian Business Register show the ABN of the immediate holding company. For a consolidated group, show the name of the immediate holding company (if any) of the head company.

2 Description of main business activity

Describe as accurately as possible the business activity from which the company derived the **most** gross income – for example, beef cattle breeder, vegetable grower, clothing manufacturer, confectionery wholesaler, electrical goods retailer. Do not use general descriptions such as farmer, manufacturer or wholesaler. For a consolidated group, show the business activity from which the group derived the most gross income.

Industry code

Show at label **B** the appropriate industry code for the company's main business. If the company has applied for an ABN its industry code appears on the ABN notification of registration. If the company has not applied for an ABN or has not received notification of its ABN, find the appropriate business code for the company in the publication *Business industry codes* which is available on **www.ato.gov.au**

If the company has changed its main business activity since receiving its ABN notification of registration the company's industry code number is no longer valid. Describe and code the business activity as accurately as possible. The industry code is made up of five digits. For example, where the industry is 'dairy cattle farming', the code on the tax return will be shown as '01300'.

For a consolidated group, show the industry code for the business activity from which the group derived the most gross income.

An incorrect code may result in clients not receiving a necessary service or material from the Tax Office, or could lead to incorrect targeting of audits. In addition, we provide the Australian Bureau of Statistics (ABS) with aggregated client records for the preparation of national accounts and related economic surveys. Industry codes are an important part of the information we give to the ABS.

Percentage of foreign shareholding

Examine the top 10 shareholders of the company at the end of the income year. From these top 10 shareholders, identify the foreign shareholders and aggregate their percentage of shareholding held in the company. Show this percentage in whole numbers at label **A**. If this aggregate percentage is less than 10%, disregard this label.

For the purpose of this label, a foreign shareholder includes, but is not limited to, the following:

- a shareholder whose address in the share register is shown as being outside Australia
- a shareholder who has directed that their dividends be paid at a place outside Australia
- a shareholder who is entitled to dividends from a foreign dividend account (FDA)
- a shareholder which is a company that is not incorporated in Australia
- a shareholder which is a company that does not have an Australian Company Number (ACN).

3 Status of company

Labels C1 and C2

Print **X** in the box which shows the appropriate description.

Labels D1 to D10

Print **X** in the box which shows the appropriate description.

A friendly society that carries on life insurance business must describe its status as **Public D10**; otherwise its status is **Non-profit D3**. For further information on friendly societies that carry on life insurance business, see the information on item 13 – Life insurance companies and friendly societies only on page 55 in these instructions.

Only complete one of these labels; if more than one applies, select the one that appears first.

Labels E1 to E3

Print **X** in the box which shows the appropriate description. If more than one label applies, select the one that appears first. If none applies, leave the boxes blank.

Labels Z1 and Z2

Print **X** in the box which shows the appropriate description. Only complete one of these labels.

- Select label **Z1** – **Consolidated head company** if the company was a head company of a consolidated group at any time during the income year.
- Select label **Z2** – **Consolidated subsidiary member** if **Z1** does not apply and the company was a subsidiary member of a consolidated group at any time during the income year.

If neither applies leave the boxes blank.

4 Interposed entity election status

This item must be completed if either of the following applies:

- The company has previously made one or more interposed entity elections specifying a day in the income years from 1994–95 to 2002–3 in accordance with section 272-85 of Schedule 2F to ITAA 1936 and, if applicable, item 23 or 23A of Schedule 1 to the *Taxation Laws Amendment (Trust Loss and Other Deductions) Act 1998* (Trust Loss Act).
- The company is making one or more interposed entity elections specifying a day in the 2003–04 income year in accordance with section 272-85 of Schedule 2F to ITAA 1936.

Details of any interposed entity election the company has previously made in accordance with section 272-85 of Schedule 2F to ITAA 1936 or item 23 or 23A of Schedule 1 to the Trust Loss Act specifying a day in an income year before the 2003–04 income year must have been provided in a 1999, 2000, 2001, 2002 or 2003 interposed entity election that was either:

- included in the company's tax return for the 1998–99, 1999–2000, 2000–01, 2001–02 or 2002–03 income year respectively, or
- if the company was not required to lodge a tax return for the relevant income year, sent to the Tax Office in accordance with the instructions to the 1999, 2000, 2001, 2002 or 2003 interposed entity election.

Election forms in relation to interposed entity elections made specifying a day in an income year BEFORE the 2003–04 income year must NOT be included in the *Company tax return 2004*.

If the company has previously made one or more elections specifying a day in an income year before the 2003–04 income year, print the appropriate election status code at label **F**. However, an interposed entity election in respect of that election is not required to be attached to the company tax return.

> **NOTE**
>
> On 15 April 2004, the Commissioner released *Practice Statement PS LA 2004/1 (GA)* setting out a one-off opportunity which may allow family entities to lodge, with their tax return for the 2004 income year, an interposed entity election that should have been lodged with a previous year's return. (**Note**: The procedures do not require taxpayers or tax practitioners to obtain copies of earlier year election forms.) The Practice Statement clarifies the circumstances under which an entity which has not lodged an interposed entity election may now do so. Further information regarding this one-off opportunity and the procedures to be followed to take advantage of the opportunity can be found on our website, **www.ato.gov.au** by entering FTE in the search function or phone the Business Infoline on **13 28 66** or Tax Practitioner Infoline on **13 72 86** Fast Key Code **2 1 3**.

If the company is making one or more interposed entity elections specifying a day in the 2003–04 income year, print the appropriate election status code at label **F** and complete an interposed entity election for each election specifying a day in the 2003–04 income year and attach it to the company tax return.

Instructions on how to complete the interposed entity election are provided on the approved form.

If the company tax return is not lodged using the electronic lodgment service (ELS), send the tax return including the interposed entity election to:

Australian Taxation Office
PO Box 9990
BOX HILL VIC 3128

Election status code

Print in the box at label **F** the code from **Table 1** which corresponds to the interposed entity election status of the company. Choose the code for the income year which has been specified in the interposed entity election made by the company – if only one interposed entity election is made – or the earliest income year which has been specified in all of the interposed entity elections made by the company – if more than one interposed entity election is made.

Table 1

Code	Income year specified in first interposed entity election
I	1994–95
J	1995–96
K	1996–97
L	1997–98
M	1998–99
N	1999–2000
O	2000–01
P	2001–02
Q	2002–03
S	2003–04

Example 1

A company has previously made an interposed entity election specifying a day in the 1994–95 income year in accordance with section 272-85 of ITAA 1936 and item 23 of Schedule 1 to the Trust Loss Act and is not making another interposed entity election specifying a day in the 2003–04 income year.

Print code **I** at label **F**. The company is not required to complete an interposed entity election or attach one to the company tax return.

Example 2

A company has previously made an interposed entity election specifying a day in the 1996–97 income year in accordance with section 272-85 of ITAA 1936 and item 23 or 23A of Schedule 1 to the Trust Loss Act – whichever is applicable – and wants to make another interposed entity election specifying a day in the 2003–04 income year.

Print code **K** at label **F**. The company provides details in an interposed entity election of the election it is making specifying a day in the 2003–04 income year. The completed interposed entity election is attached to the company tax return.

Example 3

A company has not previously made an interposed entity election specifying a day in an income year before the 2003–04 income year but the company wants to make an interposed entity election specifying a day in the 2003–04 income year in accordance with section 272-85 of Schedule 2F to ITAA 1997.

Print code **S** at label **F**. The company provides details in an interposed entity election of the election it is making. The completed interposed entity election is attached to the company tax return.

Family trust distribution tax

A company may make an interposed entity election under section 272-85 of Schedule 2F to ITAA 1936, to be included in the family group of an individual specified in a family trust election made by a trust under section 272-80 of Schedule 2F to ITAA 1936.

Refer to Subdivision 272-D of Schedule 2F to ITAA 1936. The making of an interposed entity election is optional.

A company that is wholly owned, directly or indirectly, by the relevant family may not need to make an interposed entity election to be included in the family group of the specified individual – refer to subsection 272-90(5) of Schedule 2F to ITAA 1936.

A consequence of a company making an interposed entity election is that under section 271-30 of Schedule 2F to ITAA 1936 the company pays a special tax, called family trust distribution (FTD) tax, at 48.5% on any conferral of present entitlement to, or distribution of, the company's income or capital to persons who are not members of the family group of the specified individual within the meaning of section 272-90 of Schedule 2F to ITAA 1936. For this purpose, a company's distribution of income or capital has the meaning given in sections 272-50 and 272-60 of Schedule 2F to ITAA 1936.

Payment of FTD tax is made by mail, using a *Family trust distribution tax payment advice* which is available on **www.ato.gov.au**

Make cheques or money orders payable to the Deputy Commissioner of Taxation and print 'Not negotiable' across the cheque. Tender all cheques in Australian currency. Do not send cash by post. Payment addresses are listed at appendix 12 on page 88.

5 Simplified tax system (STS) elections

Only complete this item if the company is:

- electing to enter the STS and is eligible to do so
- continuing in the STS and is eligible to do so, or
- exiting from the STS.

If the company wants to enter or continue in the STS and is eligible to do so, the company is required to complete labels **G**, **H** or **R**, and **I**.

If the company is exiting from the STS, it must complete label **S** or **T** – refer to **Exiting from the STS** on page 19 in these instructions.

Do not complete this item if the company

- is not eligible to enter the STS, or
- is eligible but does not want to enter the STS.

Is the company eligible to enter or continue in the STS?

The company is eligible to be an STS taxpayer for an income year if the company:

- carries on a business
- has an STS average turnover of less than $1 million. The STS average turnover includes the turnover of any entities the company is 'grouped with', and
- together with any entities the company is 'grouped with' has depreciating assets with a total adjustable value of less than $3 million at the end of the year.

Grouping rules

Special rules called the STS grouping rules will determine who the company is 'grouped with'. These rules prevent larger businesses from structuring or restructuring their affairs to take advantage of the STS. For more information on the grouping rules see Taxation Ruling TR 2002/6 or phone the Small Business Infoline on **13 28 66**.

For the year of income the company must have satisfied all three eligibility tests listed below.

Test 1

Was the company carrying on a business during the year?

If the company carried on a business at any time during the year of income, it satisfies this test.

Test 2

Is the STS average turnover of the company less than $1 million?

The STS average turnover for an income year is worked out either by looking back to actual turnover in previous years, or looking forward to estimated future turnover. Before the company can work out the STS average turnover, it needs to know its STS group turnover. For more information on calculating STS group turnover see Taxation Ruling TR 2002/11.

The STS group turnover of the company is the value of business supplies it makes in the ordinary course of its business, and the value of business supplies any businesses the company is grouped with make in the ordinary course of their business. It does not include any business supplies made between the company and businesses the company is grouped with.

Look back method

Under the look back method, the company generally calculates its STS average turnover using the average of its 'STS group turnovers' of any three years out of the previous four years (excluding the current year). If the company has been in business for less than three years, calculate the STS average turnover for the number of years the company has been in business (excluding the current year).

If the company has been in business for only part of any of those years, use a reasonable estimate of what the turnover for the year would have been if it was in business for the full year.

Use the following table for the calculation.

Table 2

Income year	STS group turnover
1999–2000	$
2000–01	$
2001–02	$
2002–03	$
Cross out the largest turnover amount if the company has been in business for each of the four income years.	
Total of the three* years	$
Divide by 3*	
STS average turnover	$
* or the number of years the company has been in business if less than three years	

If the STS average turnover is less than $1 million, the company satisfies this test and needs to consider test 3. Otherwise read on.

Look forward method

Under the look forward method, the STS average turnover is calculated using a reasonable estimate of 'STS group turnovers' for the current year and the two following years. Alternatively, the company can use its actual STS group turnover for the current year, and a reasonable estimate of its STS group turnover for each of the following two income years.

If the company has been in business for only part of one of those years, it must use a reasonable estimate of what the turnover for that year would have been if it was in business for the full year.

Use the following table for the calculation.

Table 3

Income year	STS group turnover
2003–04	$
2004–05	$
2005–06	$
Total	$
Divide by 3*	
STS average turnover	$
* or the number of years the company expects to be in business if less than three years	

If the STS average turnover of the company is less than $1 million it satisfies this test.

Test 3

Does the company and any businesses it is grouped with have depreciating assets with a total adjustable value of less than $3 million at 30 June 2004?

Broadly, the adjustable value of a depreciating asset is its cost less its decline in value since it was first used, or installed ready for use, for any purpose whether business or private. It is the value at the end of the year of income that is relevant.

If the total adjustable values of the depreciating assets of the company, and those of entities it is grouped with for the income year ended 30 June 2004, is less than $3 million at this time, the company satisfies this test.

Did the company satisfy the three eligibility tests?

If the company did not satisfy all three eligibility tests, it is not eligible to enter or continue in the STS and labels **G**, **H**, **R** and **I** should be left blank.

Entering the STS

If the company does satisfy all three eligibility tests and wants to enter the STS, labels **G**, **H** and **I** must be completed.

Print **Y** for yes at labels **G** and **H**.

Print **Y** for yes at label **I** if the company is grouped with another entity for any year relevant to the company's calculation of STS average turnover – otherwise print **N** for no at label **I**.

Continuing in the STS

If the company does satisfy all three eligibility tests and wants to continue in the STS, labels **G**, **R** and **I** must be completed.

Print **Y** for yes at labels **G** and **R**.

Print **Y** for yes at label **I** if the company is grouped with another entity for any year relevant to the company's calculation of STS average turnover – otherwise print **N** for no at label **I**.

Exiting from the STS

If the company does satisfy all three eligibility tests but wants to exit from the STS, label **S** must be completed.

Print **Y** for yes at label **S**. All other labels must be left blank.

If the company does not satisfy all three eligibility tests it must exit from the STS. Label **T** must be completed.

Print **Y** for yes at label **T**. All other labels must be left blank.

6 Calculation of total profit or loss

The Income and Expenses amounts to be shown at item 6 are accounting system amounts and correspond to the amounts in the company's financial statements for the income year.

Gross income for accounting purposes may include exempt income, other non-assessable income and foreign sourced income. Operating profit or loss may include extraordinary revenue or expenses, such as net domestic or foreign sourced gains or losses from events that are outside the ordinary operations of the company.

Adjustments to the accounting amounts for tax purposes are made at item 7 to determine taxable income or loss.

If the company is in receipt of franked distributions from a New Zealand franking company, refer to instructions in the publication *Trans-Tasman imputation: How to claim Australian franking credits attached to New Zealand dividends.*

Where GST is payable in relation to income, the GST must be excluded from the income derived. Deductions are reduced by the input tax credit entitlement. If the company is not registered nor required to be registered for GST purposes or not entitled to claim input tax credits, then the company's deductions are not adjusted for GST. The company claims the GST inclusive amount incurred on outgoings. Special rules apply to GST adjustments.

If the company is eligible to enter or continue in the STS and has chosen to do so at item 5 see **STS taxpayers** below. Otherwise refer to **All companies (including STS)** on page 21.

STS taxpayers

STS taxpayers must use the STS accounting method.

This accounting method recognises most income only when received. This type of income is called ordinary income – for example, sales of goods and/or services, professional fees and commissions.

If the company is registered or is required to be registered for GST, income amounts should exclude GST payable.

An STS taxpayer can claim deductions for the following expenses only when they are paid:

- general deductions – for example, stock purchases, wages and rent of business premises
- tax related expenses, and
- expenses for repairs.

If the company is registered or is required to be registered for GST, expense amounts should exclude input tax credit entitlements.

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

In addition, if another provision of the income tax law apportions 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 for STS taxpayers – for example, double wool clips or prepayment of a business expense for a period greater than 12 months. Because of these specific provisions adjustments may need to be made at item 7. For more information about the STS accounting method phone the Business Infoline on **13 28 66** or visit **www.ato.gov.au**

The amounts the company includes at item 6 – Calculation of total profit and loss should be based on the STS accounting method where possible. If the company's profit and loss statement does not reflect the STS accounting rules additional adjustments may need to be made at item 7.

For more information about these adjustments see **STS taxpayers** on page 31.

In addition to the STS cash accounting method there are also specific STS depreciation and trading stock rules. For more information see **Depreciation expenses** on page 27 and **Closing stock** on page 46.

ALL COMPANIES (INCLUDING STS)

INCOME

Gross payments where ABN not quoted

Show at label **A** gross payments made to the company that were subject to withholding where an ABN was not quoted. Gross payments include amounts of tax withheld.

Where an amount is shown at label **A** complete a *Non individual PAYG payment summary schedule 2004*. For instructions on completing the schedule see **Schedules** on page 2 in these instructions.

Where label **A** is completed ensure that the corresponding amount of tax withheld is shown at label **W** – **Credit for tax withheld where ABN not quoted** in the Calculation statement on page 4 of the tax return.

Other sales of goods and services

Show at label **C** the gross sales of trading stock including wool, produce and livestock – including the assessable value of forced disposal, manufactured goods, goods taken ex-stock, and gross earnings from services.

Do not include at label **C**:

- any payments where tax has been withheld for failure to quote an ABN. Show these amounts at label **A** – **Gross payments where ABN not quoted**.
- sales of shares and land.

Gross distribution from partnerships

Show at label **D** the gross distribution from all partnerships. Any adjustment for taxation purposes is shown at item 7, label **B** – **Other assessable income** or item 7, label **X** – **Other deductible expenses**.

> **NOTE**
>
> Special rules apply where an entity is a partner in a partnership and joins a consolidated group part-way through an income year. For further information, see the publication *Consolidation reference manual*.

The company's share of franking credit included in the gross distribution from the partnership should be shown in the Calculation statement at label **C**—**Rebates/tax offsets**. However, where the relevant interest is not held at risk as required under the holding period and related payments rules, or there is other manipulation of the imputation system, or where the gross distribution from the partnership is exempt income or non-assessable non-exempt income (other than because of certain provisions mentioned in section 207-120 of the ITAA 1997) then the company is not entitled to a franking tax offset. Do NOT show the amount of franking credit attached to these distributions at label **C**—**Rebates/tax offsets**.

If the company is in receipt of franked distributions directly or indirectly from a New Zealand franking company, refer to instructions in the publication *Trans-Tasman imputation: How to claim Australian franking credits attached to New Zealand dividends*.

If the amount at label **D** is a loss, print **L** in the box at the right of the amount.

To the extent that family trust distribution (FTD) tax has been paid on income received by the company from partnership(s), that amount is excluded from the assessable income of the company under section 271–105 of Schedule 2F to ITAA 1936.

If ultimate beneficiary non-disclosure tax (UBNT) has been paid on a share of the net income of a closely held trust to which another trust is presently entitled, that income attributable to the UBNT to which the company is presently entitled or which has been distributed to the company is excluded from the assessable income of the company under sections 102UK and 102UM of ITAA 1936.

Any losses or outgoings incurred in deriving an amount which is excluded from assessable income under section 271-105 of Schedule 2F or sections 102UK or 102UM of ITAA 1936 are not deductible. A tax offset cannot be claimed by the company for any franking credit attributable to the whole or a portion of a dividend that is excluded from assessable income under these provisions.

Record keeping

Keep a record of the following:

- full name of the partnership
- TFN of the partnership – if known
- amount of income
- deductible expenses relating to the amount of income that were not claimed in the partnership tax return and that are claimed in the company tax return.

Expenses incurred by the company as a partner are shown at item 6, Expenses, label **S** – **All other expenses**.

Non-deductible expenses are added back at item 7, label **W** – **Non-deductible expenses**.

Gross distribution from trusts

Show at label **E** the total amount of gross distributions received from trusts. Capital gains received from a trust are not included at label **E** but included at item 7, label **A** – **Net capital gain**. For information on how to include a capital gain received from a trust at label **A** – for example, how to gross-up a capital gain for a trust – refer to the publication *Guide to capital gains tax*.

The amount at label **E** cannot be a loss.

The company's share of franking credit included in the gross distribution from the trust should be shown in the Calculation statement at label **C** – **Rebates/tax offsets**. However, where the relevant interest is not held at risk as required under the holding period and related payments rules, or there is other manipulation of the imputation system, or where the gross distribution from the trust is exempt income or non-assessable non-exempt income (other than because of certain provisions mentioned in section 207-120 of the ITAA 1997) then the company is not entitled to a franking tax offset. Do NOT show the amount of franking credit attached to these distributions at label **C** – **Rebates/tax offsets**.

If the company is in receipt of franked distributions directly or indirectly from a New Zealand franking company, refer to instructions in the publication *Trans-Tasman imputation: How to claim Australian franking credits attached to New Zealand dividends*.

Any part of a distribution is included in the gross amount – for example, a part of a distribution that is not taxable income. Any adjustment for taxation purposes is then shown at item 7. In the example mentioned, that part of the distribution is shown at item 7, label **Q** – **Other income not included in assessable income**, to ensure that the amount is not included in taxable income.

> **NOTE**
> Special rules apply where an entity is a beneficiary or object of a trust and joins a consolidated group partway through an income year. For further information, see the publication *Consolidation reference manual*.

To the extent that FTD tax has been paid on income or capital of a trust to which the company is presently entitled or which has been distributed to the company, that income or capital is excluded from the assessable income of the company under section 271-105 of Schedule 2F to ITAA 1936.

If UBNT has been paid on a share of the net income of a closely held trust to which another trust is presently entitled, that income attributable to the UBNT to which the company is presently entitled or which has been distributed to the company is excluded from the assessable income of the company under sections 102UK and 102UM of ITAA 1936.

Any losses or outgoings incurred in deriving an amount which is excluded from assessable income under section 271-105 of Schedule 2F or sections 102UK or 102UM of ITAA 1936 are not deductible. A tax offset cannot be claimed by the company for any franking credit attributable to the whole or a portion of a dividend that is excluded from assessable income under the provisions.

Print in the CODE box the code from **Table 4**, which best describes the type of trust for the amount of income shown at label **E.** If this amount is from more than one type of trust, print the code that represents the trust with the greatest amount of income. Descriptions of the types of trusts listed in **Table 4** are at **Table 5**.

If the type of trust making the distribution is unknown, contact the trustee of that trust.

Table 4

Code	Type
D	Deceased estate
F	Fixed trust – other than a fixed unit trust or a public unit trust shown at **U**, **P** or **Q**
H	Hybrid trust
S	Discretionary trust – where the main source of income of the trust is from service and/or management activities
T	Discretionary trust – where the main source of income of the trust is from trading activities
I	Discretionary trust – where the main source of income of the trust is from investment activities
M	Cash management unit trust
U	Fixed unit trust – other than a public trust described in **P** or **Q**
P	Public unit trust (listed) – other than a cash management unit trust
Q	Public unit trust (unlisted) – other than a cash management unit trust

Table 5 Description of trusts

Fixed trust
A trust in which persons have fixed entitlements – as defined in section 272-5 of Schedule 2F to ITAA 1936 – to all of the income and capital of the trust at all times during the income year.

Hybrid trust
A trust which is not a fixed trust but in which persons have fixed entitlements – as defined in section 272-5 of Schedule 2F to ITAA 1936 – to income or capital of the trust during the income year.

Discretionary trust
A trust which is neither a fixed trust nor a hybrid trust and under which person(s) benefit from income or capital of the trust upon the exercise of a discretion by person(s), usually the trustee.

Fixed unit trust
A fixed trust in which interest in the income and capital of the trust are represented by units.

Public unit trust
A fixed unit trust which is a widely held unit trust – as defined in section 272-105 of Schedule 2F to ITAA 1936 – at all times during the income year.

Public unit trust – listed
A public unit trust in which any of its units were listed for quotation in the official list of a stock exchange in Australia or elsewhere during the income year.

Public unit trust – unlisted
A public unit trust in which none of its units was listed for quotation in the official list of a stock exchange in Australia or elsewhere during the income year.

Record keeping

Keep a record of the following:

- full name of the trust
- TFN of the trust – if known
- amount of income
- deductible expenses relating to the amount of income.

Expenses incurred by the company as a beneficiary are shown at item 6, Expenses, label **S** – **All other expenses**.

Non-deductible expenses are added back at item 7, label **W** – **Non-deductible expenses**.

Gross interest

Show at label **F** the total interest from all sources including interest received from or credited by an associate. The amount at this label cannot be a loss.

Record keeping

Keep a record of the following:

- name and address of the borrower
- amount received or credited.

Gross rent and other leasing and hiring income

Show at label **G** the total of these types of income received. The amount at this label cannot be a loss.

Total dividends

Show at label **H** total dividends including all dividends and non-share dividends franked and unfranked, foreign source dividends, bonus shares, deemed dividends, liquidators and other company distributions. The amount at this label cannot be a loss.

Do NOT include a dividend received under a demerger at label **H** unless the head entity of the demerger group has elected under subsection 44(2) ITAA 1936 that it be treated as an assessable dividend.

Do not include any franking credits that were attached to dividends received; these amounts are to be included at item 7, label **J** – **Franking credits**.

If the company is in receipt of a franked dividend from a New Zealand franking company, refer to instructions in the publication *Trans-Tasman imputation: How to claim Australian franking credits attached to New Zealand dividends*.

> **NOTE FOR CONSOLIDATED GROUPS**
>
> All transactions that occur between members of the consolidated group, including distributions between group members, are ignored for income tax purposes. Do NOT include at label **H** distributions between members of the same consolidated group.

Taxation Laws Amendment Act (No 3) 2000 made some changes to the film licensed investment company (FLIC) tax concession. The concession has been changed so that certain returns of concessional capital – that is, capital invested in a FLIC during its license period – are treated as franked dividends. This amendment is effective from 7 December 1998.

If you are an investor in a FLIC you may have received a notice from the company advising that it is returning to you an amount of concessional capital which, for tax purposes, is a franked dividend.

The FLIC advises you of the amount of your dividend and the franking credit.

To the extent that FTD tax has been paid on a dividend paid or credited to the company by another company which has made an interposed entity election, that amount is excluded from the assessable income of the company under section 271-105 of Schedule 2F to ITAA 1936. Any losses or outgoings incurred in deriving an amount which is excluded from assessable income under section 271-105 of Schedule 2F to ITAA 1936 are not deductible and a credit or tax offset cannot be claimed by the company for any franking credit attached to the whole or portion of the dividend which is excluded from assessable income under section 271-105 of Schedule 2F to ITAA 1936.

Record keeping

Keep a record of the following:

- name of the payer
- date dividend was received or credited
- franked amount of the dividend
- unfranked amount of the dividend
- franking credit allocated to the dividend
- franking percentage of the dividend
- gross amount of dividend
- type of distribution – for example, foreign source dividend, bonus shares, phasing-out dividend, liquidator's distribution.

Fringe benefit employee contributions

Show at label **I** all payments the company has received from recipients of fringe benefits.

Employee contributions form part of the employer's or associate's assessable income in situations where employees make payments for fringe benefits they have received.

> **NOTE FOR CONSOLIDATED GROUPS**
>
> If you are the head company of a consolidated group, include all fringe benefit employee contributions received by you or by an entity that was a subsidiary member of the group when the contribution was received.

Assessable government industry payments

Generally, government grants, rebates, benefits, 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 payments of a capital nature. However, payments relating to the commencement or cessation of a business may not be assessable.

Show at label **Q** the following assessable government industry payments:

- bounties
- diesel fuel rebate – see below
- diesel and alternative fuels grant – see below
- drought relief
- employee subsidies
- fuel grant under the energy grants credits scheme
- export incentive grants
- fuel sales grant
- industry assistance grants including grants relating to research and development
- Medicare payments to medical practice companies
- product stewardship (oil) benefit.

If this amount includes a diesel fuel rebate, a diesel and alternative fuels grant or a grant under the energy grants credits scheme, print **D** in the CODE box.

> NOTE
>
> For more information on fuel schemes, phone **1300 657 162**.

Other gross income

Show at label **R** other gross income, including royalties, insurance recoveries, bad debt recoveries, life insurance premiums, subsidies and assessable non-government assistance from all sources and profit on sale of depreciating assets (including assets used for R&D purposes).

This label excludes:

- amounts included at item 6, Income, labels **A** to **Q**, and
- extraordinary items included at item 6, Operating profit or loss, label **N**.

Extraordinary items are revenue and expenses – that is, gains and losses that are from events outside the ordinary operations of the company and not of a recurring nature.

Record keeping

Keep a record of the following:

- types of income – for example, sales, commissions
- amount derived for each type of income. Where various profit and loss account balances are combined when calculating label **R**, keep a list of the names and amounts of those accounts.

Total income

Show at label **S** the total of all income items shown at item 6, Income, labels **A** to **R**. If this amount is a loss, print **L** in the box at the right of the amount.

EXPENSES

Please note:

- All expense amounts from the company's financial statements are shown at labels **A** to **S** – see relevant item names and labels.
- Input tax credit entitlements that arise in relation to outgoings are excluded from expenses – see the information on item 6 – Calculation of total profit and loss on page 20.
- Show non-deductible expenses incurred in deriving any exempt income at the appropriate expense labels. These non-deductible expenses are added back at item 7, label **U** – **Non-deductible exempt income expenditure**.
- Other expenses, to the extent that they are not deductible in the 2003–04 income year, which have been included at item 6, Expenses, labels **A** to **S**, are added back at item 7, label **W** – **Non-deductible expenses.**
- If the company operates on a cash basis, claim any allowable deduction for prepaid expenses under the relevant expense label.
- Gifts and donations made to an organisation are no longer tax deductible to the donor unless the organisation is endorsed by the Tax Office as a deductible gift recipient (DGR) or specifically named in the income tax law. All receipts issued for gifts by a DGR must include the name of the fund, authority or institution to which the gift has been made, the DGR's ABN and must state that the receipt is for a gift. To check whether a recipient of a gift or donation is a DGR as listed on the Australian Business Register phone **1300 130 248** or visit the Business Entry Point website at **www.bep.gov.au**
- Under philanthropy measures deductions are allowable for gifts of property exceeding $5,000 to certain funds, authorities and institutions. Deductions are also allowable for donations to prescribed private funds. Deductions can also be apportioned over a five-year period for gifts made to the Cultural Gifts Program, heritage or environmental organisations, or of property valued by the Tax Office at more than $5,000.

Cost of sales

STS taxpayers

If the company is eligible to enter or continue in the STS and has chosen to do so at item 5 it will need to know the value of its closing stock in order to calculate cost of sales. STS taxpayers only need to account for changes in the value of their trading stock in limited circumstances. These are explained on page 46. If the company does not need to account for the change in value of closing stock, its closing stock will equal its opening stock value. If the company does need to account for the change in value of closing stock, or chooses to do so, refer to the information on item 8, label **B** – **Closing stock** on page 46 in these instructions for information about how to calculate the closing stock value. For further information on calculating cost of sales, read on.

All companies (including STS)

Show at label **A** the cost of anything produced, manufactured, acquired or purchased for manufacture, sale or exchange in deriving the gross proceeds or earnings of the business. This includes freight inwards and may include some external labour costs, if these are included in the cost of sales account in the normal accounting procedure of the business.

If the cost of sales account is in credit at the end of the income year – that is, a negative expense – print **L** in the box at the right of the amount at label **A**. Do not print brackets around this amount.

For more information on the circumstances in which packaging items held by a manufacturer, wholesaler or retailer are 'trading stock' as defined in Section 70-10 of ITAA 1997 refer to Taxation Ruling TR 98/7.

Do not include input tax credit entitlements in cost of sales.

Contractor, sub-contractor and commission expenses

Show at label **C** the expenditure incurred for labour and services provided under contract other than those in the nature of salaries and wages. For example:

- payments to self-employed people such as consultants and contractors – this includes those who operate under a labour hire arrangement or a voluntary agreement
- commissions paid to people not receiving a retainer
- agency fees – for example, advertising
- service fees – for example, plant service
- management fees
- consultant fees.

Do not include the following at label **C**:

- expenses for external labour which are incorporated into the amount shown at item 6, Expenses, label **A** – **Cost of sales**
- expenses for accounting or legal services – these are shown at item 6, Expenses, label **S** – **All other expenses**.

Record keeping

Keep a record of the following:

- name and address of the payee
- nature of the services provided
- the amount paid.

Employee superannuation

Show at label **D** the employee superannuation expenses incurred for the income year.

Employers are entitled to a deduction for contributions made to a complying superannuation, provident, benefit or retirement fund, or retirement savings account (RSA), where the contribution is to provide superannuation benefits for eligible 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.

The amount of contributions that can be claimed as a deduction by an employer contributing to a resident complying superannuation fund or RSA in respect of eligible employees is limited by the age of each relevant employee.

Where an employee has reached the age of 70, there is a further restriction on the deduction that can be claimed for an employer contribution to a complying superannuation fund or RSA.

For the 2003–04 income year these age based limits are as follows:

Table 6

Age in years	Deduction limit
under 35	$13,233
35 to 49	$36,754
50 and over*	$91,149

* For contributions made after the 28th day of the month following the employee's 70th birthday, the deduction claimable is limited to the amount of the contribution required:

- under a federal, state or territory award, or
- to meet the employer's superannuation guarantee obligation on salary or wages paid to the employee before the employee's 70th birthday.

The employee's age limit is determined at the end of the day on which the last contribution for the income year was made by the employer or an associate of the employer for the benefit of the employee.

Employer contributions paid to the Superannuation Holding Accounts Reserve (SHAR) are allowable deductions up to a limit of $1,200 per employee.

The adjustments for taxation purposes are included at item 7, label **W** – **Non-deductible expenses**.

No deduction is allowable where the fund is a non-complying fund.

In addition, contributions made to a non-complying fund do not count towards superannuation guarantee obligations. The superannuation guarantee charge is a tax payable to the Commissioner. As such, it is not a superannuation contribution and is not tax deductible.

Contributions paid by an employer for eligible employees to a non-complying superannuation fund are 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*.

Consolidated groups

The head company shows at label **D** the employee superannuation expenses of all the members of the consolidated group.

The head company includes at item 7, label **W** – **Non-deductible expenses** any non-deductible employee superannuation expenses of all the members of the consolidated group.

Bad debts

Show at label **E** the bad debts expense incurred for the income year.

Please note:

- Show recovery of bad debts at item 6, Income, label **R** – **Other gross income**.
- A deduction for bad debts is not allowable unless the debt which is bad has previously been included in assessable income, or is for money lent in the ordinary course of the business of the lending of money by a company carrying on that business – refer to section 25-35(1) of ITAA 1997.
- Do not include accounting provisions for doubtful debts at label **E**. Show these at item 6, Expenses, label **S** – **All other expenses** and add them back at item 7, label **W** – **Non-deductible expenses**.
- Before a bad debt can be claimed, it must be bad and not merely doubtful. The deduction depends on the facts in each case and, where applicable, the action taken for recovery. For more information refer to Taxation Ruling TR 92/18.

A deduction can also be claimed for:

- partial debt write-offs where only part of a debt is bad and is written off, and
- losses incurred in debt for equity swaps for debt written off after 26 February 1992 if the provisions of section 63E to 63F of ITAA 1936 are satisfied.

  The deduction is allowable for the difference between the amount of the debt extinguished and the greater of the market value of the equity or the value at which the equity is recorded in the creditor's books at the time of issue. The market value of the equity is the price quoted on the stock exchange or, where the equity is not listed, the net asset backing of the equity.

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

A deduction for a bad debt or loss on a debt for equity swap is only allowable where the company claiming the deduction can satisfy either:

- a continuity of ownership test from the date on which the debt was incurred through to the end of the income year in which it writes off the debt – refer to Subdivision 165-C of ITAA 1997, or
- the same business test – refer to Subdivision 165-E of ITAA 1997. For the operation of this test refer to Taxation Ruling TR 1999/9.

The continuity of ownership test is subject to the following provisions of ITAA 1997:

- sections 165-120(2) and 165-195(3)
- Subdivision 165-C – the anti-avoidance provisions which include changes in the real control of the company
- Subdivision 175-C – receipt of scheme benefits and abuse of rights of continuing shareholders.

The provisions of Subdivision 165-C of ITAA 1997 prevent prior year losses arising as a result of manipulating the bad debt provisions.

Deductions for bad debts may also be reduced by the commercial debt forgiveness provisions – see appendix 1 on page 70.

Record keeping

If the company writes off bad debts during the income year, keep a statement for all debtors in respect of which a write-off occurred showing:

- their name and address
- the amount of the debt
- the reason why the debt is regarded as bad
- the income year that the amount was returned as income.

Lease expenses within Australia

Show at label **F** the expenditure incurred through both financial and operating leases on leasing assets – motor vehicles and depreciating assets such as plant. Do not include the cost of leasing real estate.

Expenses incurred under a hire purchase agreement are not lease expenses. Such expenses are referred to in appendix 7 on page 77

Lease expenses overseas

Show at label **I** the lease expenses incurred through both finance and operating leases on leasing depreciating assets – including motor vehicles. Exclude the cost of leasing real estate and expenditure on items other than depreciating assets leased from non-residents.

Record keeping

If a deduction is claimed for the cost of leasing depreciating assets, keep a record of the following:

- a description of the items leased
- where applicable the country from which the items were leased
- full particulars of the lease expenses for each item of property – including motor vehicles – showing:
  - to whom the payments were made
  - where applicable the country to whom the payments were made
  - the terms of the payments including details of any prepayments, or deferred payments
  - if any assignment, defeasance or re-direction to pay the payments were entered into, full particulars of those arrangements, including to whom the payments were made
- details of any use other than for producing assessable income
- any documentation on or relating to the lease of the item.

Rent expenses

Show at label **H** the expenditure incurred, as a tenant, on rental of land and buildings used in the production of income.

Interest expenses within Australia

Show at label **V** the deductible interest incurred on money borrowed from Australian sources.

An amount of interest may not be an allowable deduction – for example, where the thin capitalisation provisions disallow an interest deduction. Include the amount of interest not allowable at item 7, label **W** – **Non-deductible expenses**.

For information relating to thin capitalisation see appendix 3 on page 75.

Interest expenses overseas

Show at label **J** the interest expenses incurred on money borrowed from overseas sources.

An amount of tax – withholding tax – is generally withheld from interest paid or payable to non-residents and to overseas branches of residents. These amounts must be remitted to the Tax Office.

An amount of interest may not be an allowable deduction – for example, where the thin capitalisation provisions disallow an interest deduction. Include the amount of interest not allowable at item 7, label **W** – **Non-deductible expenses**.

For information on thin capitalisation see appendix 3 on page 75.

Record keeping

If interest is paid to non-residents keep a record of the following:

- name and address of recipient(s)
- amount of interest paid or credited
- amount of withholding tax withheld and the date on which it was remitted to the Tax Office.

Royalty expenses within Australia

Show at label **W** the royalty expenses paid during the income year to Australian residents.

Record keeping

Keep a record of the following:

- name and address of recipient(s)
- amounts paid
- nature of the benefit derived – for example, a copy of the royalty agreement
- details of tax withheld where applicable and the date on which it was remitted to the Tax Office.

Royalty expenses overseas

Show at label **U** the royalty expenses incurred during the income year to non-residents.

An amount of tax – withholding tax – is generally withheld from royalties paid or payable to non-residents and to overseas branches of residents, and must be remitted to the Tax Office. For more information phone the Tax Office infoline for investments and withholding on **13 28 66**.

Record keeping

Keep a record of the following:

- name and address of recipient(s)
- amounts paid or credited
- nature of the benefit derived – for example, a copy of the royalty agreement
- details of tax withheld where applicable and the date on which it was remitted to the Tax Office.

Depreciation expenses

If the company is eligible to enter or continue in the STS and has chosen to do so at item 5 refer to **STS taxpayers** on page 28. Otherwise refer to **Non-STS taxpayers** following.

Non-STS taxpayers

Show at label **X** – **Depreciation expenses** the book depreciation expenses for depreciating assets. This amount does not include:

- profit on sale of depreciating assets – shown at item 6, Income, label **R** – **Other gross income**
- loss on sale of depreciating assets – shown at item 6, Expenses, label **S** – **All other expenses**.

Where an amount is shown at label **X**, reconciliation adjustments must be made at item 7 even if the depreciation expense is the same amount as the deduction for decline in value.

For reconciliation purposes, the amount shown at label **X** will need to be split into R&D and non-R&D amounts when being added back at item 7. Non-R&D amounts will be included at item 7, label **W** – **Non-deductible expenses** when being added back. R&D amounts will be included at item 7, label **D** – **R&D accounting expenditure claimed under R&D tax concession** when being added back.

The deduction for decline in value of most depreciating assets is shown at item 7, label **F** – **Deduction for decline in value of depreciating assets**. Where a depreciating asset is subject to the R&D tax concession, the deduction for its decline in value is shown at item 7 label **L** – **R&D tax concession claim (100%, 125% not 50% increment)**.

> **NOTE**
>
> If the company has included an amount greater than $15,000 at label **X** it will need to complete and attach a *Capital allowances schedule 2004* unless it is exiting from the STS at item 5 or has previously exited from the STS, and the amount at label **X** relates entirely to STS depreciating assets. For more information see the *Capital allowances schedule 2004 instructions*.

If the company is exiting the STS or has previously exited the STS, and is continuing to claim a deduction in respect of any prior STS pool at label **X** – **Depreciation expenses**, you will also need to print in the CODE box at label **X** the appropriate code from the following table.

Table 7

Code	Type of depreciation expense
S	The amount at label **X** relates entirely to STS depreciating assets. Do not complete a *Capital allowances schedule 2004*
M	The amount at label **X** relates to both STS depreciating assets and to UCA items. You will need to complete and attach a *Capital allowances schedule 2004* if the total amount at label **X** exceeds $15,000.
In all other cases leave the CODE box blank.	

NOTE

Practice Statement PS LA 2003/8 provides guidance on two straightforward methods accepable to the Tax Office which can be used by taxpayers carrying on a business to help them determine whether expenditure incurred to acquire certain low-cost assets is to be treated as revenue or capital.

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. Under the threshold rule, low-cost items with a typically short life costing $100 or less are assumed to be revenue in nature and are immediately deductible. The sampling rule allows taxpayers with a low-value pool to use statistical sampling to determine the proportion of the total purchases on low-cost tangible assets that are revenue expenditure.

STS taxpayers

Show at label **X** – **Depreciation expenses** the total depreciation deductions being claimed under the STS depreciation (capital allowance) rules and the UCA rules. The company does NOT need to complete a capital allowances schedule.

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

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

Some depreciating assets are excluded from the STS rules but a deduction may be available under the UCA or the R&D depreciating asset regime. For more information about the STS depreciation rules refer to the Tax Office publication *The simplified tax system – A guide for tax agents and small businesses* or phone the Business Infoline on **13 28 66** or visit **www.ato.gov.au**

Calculating depreciation deductions for STS taxpayers

Only use steps 1 to 5 following to calculate the depreciation deductions if the company is eligible to enter or continue in the STS and has chosen to do so at item 5.

If the company's profit and loss statement provides the amounts to complete **Table 8** on page 30, write these amounts in the table. Otherwise, use steps 1 to 5 to calculate its depreciation deductions.

The amounts in the table must be tax and not accounting values.

Step 1 Low cost assets

For each depreciating asset

- the company started to hold this income year and used (or installed ready for use) for a taxable purpose such as for producing assessable income
- whose cost at the end of this year is less than $1,000 (excluding input tax credit entitlements), and
- which qualifies for a deduction under the STS depreciation rules

work out the extent it is used for the purpose of producing assessable income (taxable purpose proportion). The deduction for each eligible asset is calculated as follows:

Asset's adjustable value multiplied by its taxable purpose proportion

The adjustable value of an asset is its cost less its decline in value since it was first used (or installed ready for use) for any purpose. The adjustable value of an asset, at the time it was first used (or installed ready for use) for a taxable purpose, will be its cost unless the asset was previously used (or installed ready for use) by the company solely for non-taxable purposes. For example, for a tool set bought on 1 December 2003 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 x 70% = $560.

Add up these results and write the total at (a) in **Table 8** on page 30.

Do NOT include in this calculation amounts for depreciating assets the company started to hold prior to entering the STS and that cost less than $1,000. These assets are allocated to an STS pool (see step 2).

Step 2 STS pool deductions

To calculate the deductions for both the general and long life STS pools, the company must first calculate the opening pool balance of each pool.

For a company that is continuing in the STS, the opening pool balance of each STS pool is the closing pool balance for the 2002–03 income year, except where an adjustment is made to reflect the changed business use of a pooled asset.

For a company that is entering the STS, allocate each depreciating asset it holds at the start of the income year to the appropriate pool according to the asset's effective life. Only include the taxable purpose proportion of the adjustable value of each depreciating asset.

For example, for an asset with an adjustable value of $10,000 which is used only 50% for an income-producing purpose, only $5,000 will be added to the pool.

The company can choose not to allocate an asset to the long life STS pool if the asset was first used, or installed ready for use, for a taxable purpose before 1 July 2001. A company making this choice would depreciate such assets under the normal UCA rules.

The opening pool balance for each STS pool is calculated by adding the value of all depreciating assets allocated to the relevant pool.

Calculate the deduction for each STS pool and complete as follows:

General STS pool deduction: Opening pool balance $ x 30% Insert the result at (b) in **Table 8.**
Long life STS pool deduction: Opening pool balance $ x 5% Insert the result at (c) in **Table 8.**

NOTE

If either pool balance (after taking into account additions and disposals but before calculating the deductions in steps 2 and 3) is below $1,000, the company calculates the deduction for the pool using step 5(b).

Step 3 Depreciating assets first used for a taxable purpose during the income year and improvements made to assets already allocated to a pool

The company calculates the deduction at half the relevant pool rate for:

- depreciating assets that the company first used or installed ready for use for a taxable purpose during the year, and
- improvements made during the year to assets already allocated to an STS pool.

The company calculates the deduction for the income year 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% for general STS pool assets or 2.5% for long life pool assets, plus
- the taxable purpose proportion of the cost of the improvement multiplied by 15% for general STS pool assets or 2.5% for long life pool assets.

Insert the total deduction for general STS pool assets at (d) in **Table 8.**

Insert the total deduction for long life STS pool assets at (e) in **Table 8.**

Step 4 Other depreciating assets

Calculate the deduction for the decline in value of all the other depreciating assets of the company that are not included in steps 1 to 3. Refer to the publication *Guide to depreciating assets* for information on how to calculate the decline in value of these assets.

Insert the company's total deduction at (f) in **Table 8.**

Do NOT include in **Table 8** at (f) depreciating assets which qualify for a deduction under Subdivision 40-F or 40-G as water facilities or landcare operations in the company's primary production business and for which the company has chosen to claim a deduction under these subdivisions and not the STS rules. Show these deductions at item 7, label **N** – **Landcare operations and deduction for decline in value of water facility.**

Step 5 Disposal of depreciating assets

(a) Low cost assets

If the company has disposed of a low cost asset for which it has claimed an immediate deduction in step 1 this year or in a previous year, it must include the taxable purpose proportion of the termination value at item 7, label **B** – **Other 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. 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 STS pools

Where the company disposes of depreciating assets that have been allocated to either the general or long life STS pools, the taxable purpose proportion of the termination value is deducted 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 (after taking into account any additions and disposals but before calculating the deductions in steps 2 and 3) is below $1,000, the company can claim an immediate deduction for this amount.

Write this deduction against the appropriate pool at (b) or (c) in **Table 8.**

If the closing pool balance is less than zero, the amount below zero is included in the company's assessable income at item 7, label **B** – **Other assessable income.** For more information about closing pool balances see page 30.

(c) Other depreciating assets

Refer to the publication *Guide to depreciating assets* for information on how to calculate any balancing adjustment amounts on the disposal of other depreciating assets.

Assessable balancing adjustment amounts are included at item 7, label **B** – **Other assessable income.** Deductible balancing adjustment amounts are included at item 7, label **X** – **Other deductible expenses.** Refer to Worksheet 1 on pages 67–69.

Table 8 Depreciation deductions (STS taxpayers only)

	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) to (f)	(g)

Transfer the amount at (g) to item 6, label **X** – **Depreciation expenses**

Transfer the amount at (a) to item 9, label **A** – **Low cost assets**

Transfer the total of the amounts at (b) and (d) to item 9, label **B** – **General pool assets**

Transfer the total of the amounts at (c) and (e) to item 9, label **C** – **Long life pool assets**.

Closing pool balance

The closing balance of each STS pool for an income year is the sum of:

- the opening pool balance (see step 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 step 3), plus
- the taxable purpose proportion of the cost of any improvements made to assets in the pool during the year (see step 3), less
- the taxable purpose proportion of the termination value of any pooled assets disposed of during the year (see step 5(b)), less
- the STS pool deduction (see step 2), less
- the deduction for assets first used by the taxpayer during the year (see step 3), less
- the deduction for the cost of improvements made to the pooled assets during the year (see step 3).

If the company's closing pool balance is less than zero (**0**) see step 5(b).

The closing pool balance for this year becomes the opening pool balance for the 2004–05 income year except where an adjustment is made to reflect the changed business use of a pooled asset.

The company will need its opening pool balance to work out the pool deduction next year. Do not write the closing pool balance on the company's tax return.

Motor vehicle expenses

Show at label **Y** motor vehicle running expenses only. These expenses include fuel, repairs, registration fees and insurance premiums. They do not include the following expenses shown at:

- item 6, Expenses, label **F** – **Lease expenses within Australia**
- item 6, Expenses, label **I** – **Lease expenses overseas**
- item 6, Expenses, label **J** – **Interest expenses overseas**
- item 6, Expenses, label **V** – **Interest expenses within Australia**
- item 6, Expenses, label **X** – **Depreciation expenses**.

Repairs and maintenance

Show at label **Z** the expenditure on repairs and maintenance of plant, machinery, implements and premises.

Any item of a capital nature shown at label **Z** is written back at item 7, label **W** – **Non-deductible expenses.**

Provided it is not expenditure of a capital nature, the company may deduct the cost of repairs to property, plant, machinery or equipment used 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 in the circumstances.

Where items are newly acquired, including by way of a legacy or gift, the cost of remedying 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.

All other expenses

Show at label **S** the total of all other expenses for the 2003–04 income year which have not been included at item 6, Expenses, labels **A** to **Z**. Losses on the disposal of depreciating assets (including assets used for R&D purposes) are shown at this label.

Calculation of some deductions may be affected by the commercial debt forgiveness provisions – see appendix 1 on page 70.

Total expenses

Show at label **Q** the total of all expense items shown at item 6, Expenses, labels **A** to **S**.

If there is a negative amount at label **A** – **Cost of sales** which exceeds the total of labels **C** to **S**, print **L** in the box at the right of the amount at label **Q**.

OPERATING PROFIT OR LOSS

The amount at label **R** is calculated by subtracting label **Q** – **Total expenses** from label **S** – **Total income**.

If this amount is a loss, print **L** in the box at the right of the amount at label **R**.

Extraordinary items are excluded from label **R**. These are shown at item 6, Operating profit or loss, label **N** – **Extraordinary revenue or expenses**.

Extraordinary revenue or expenses

Show at label **N** any amounts of extraordinary revenue or expenses. Extraordinary items are revenue and expenses or gains and losses that are from events outside the ordinary operations of the company and that are not of a recurring nature.

If this amount is a loss, print **L** in the box at the right of the amount shown at label **N**. Where an accounting capital gain or capital loss has resulted from an extraordinary item, the net amount is shown at label **N**.

Please note:

- Adjustments for tax purposes are made at item 7.
- An extraordinary loss is added back at item 7, label **W** – **Non-deductible expenses**.
- An extraordinary gain is added back at item 7, label **Q** – **Other income not included in assessable income**.
- Any net domestic and foreign sourced capital gain for taxation purposes is shown at item 7, label **A** – **Net capital gain**.
- Any net domestic and foreign capital loss is included with any unapplied capital losses carried forward to later income years and is shown at item 10, label **V** – **Net capital losses carried forward to later income years**.

Total profit or loss

Show at label **T** the total profit or loss of the company. Total profit or loss is the amount shown at item 6, Operating profit or loss, label **R** plus or minus the amount at item 6, Operating profit or loss, label **N**. If this amount is a loss, print **L** in the box at the right of the amount at label **T**.

7 Reconciliation to taxable income or loss

The items under this heading are the adjustments for tax purposes to reconcile the amount at item 6, Operating profit or loss, label **T** – **Total profit or loss** with item 7, label **T** – **Taxable income or loss**. Worksheet 1 on pages 67–69 will assist with the calculations.

STS taxpayers

If the company is eligible to enter or continue in the STS and has chosen to do so at item 5, additional adjustments may be required.

STS taxpayers must use the STS accounting method.

This accounting method only recognises most income when received and most expenses when paid. More information about the STS accounting method can be obtained by phoning the Business Infoline on **13 28 66**.

The company will need to make adjustments at item 7 if:

- the amounts the company has shown at the Income and Expenses sections of item 6 – Calculation of total profit and loss are not based on the STS accounting method, or
- the company's accounting method has not taken into account adjustments necessary when it enters the STS, or
- the company has disposed of depreciating assets during the year.

These adjustments are explained in more detail below. Worksheet 1 on pages 67–69 will assist with the calculations.

Trade debtors and creditors as at 30 June 2004

If the company has included at any Income labels at item 6 amounts of ordinary income that have been derived but not received in the 2003–04 income year, the amounts not received are not assessable under the STS rules this year – for example, trade debtors as at 30 June 2004.

These amounts are included at item 7, label **Q** – **Other income not included in assessable income**.

If the company has included at any Expenses labels at item 6 amounts of general deductions including repairs and tax-related expenses that have been incurred but not paid in the 2003–04 income year, the amounts not paid are not deductible under the STS rules this year – for example, trade creditors as at 30 June 2004.

These amounts are included at item 7, label **W** – **Non-deductible expenses**.

Adjustments when entering the STS

If the company has included at any Income labels at item 6 amounts of ordinary income received in 2003–04 that have been included in a previous year's assessable income, these amounts are not assessable again under the STS rules – for example, trade debtors as at 30 June 2003.

These amounts are included at item 7, label **Q** – **Other income not included in assessable income**.

If the company has included at any Expenses labels at item 6 amounts for general deductions, repairs and tax-related expenses that have been deducted in a previous year, these amounts are not deducted again under the STS rules – for example, trade creditors as at 30 June 2003.

These amounts are included at item 7, label **W** – **Non-deductible expenses**.

Disposal of depreciating assets

If the company has disposed of depreciating assets during the income year, include the following amounts (if any) at item 7, label **B** – **Other assessable income**:

- taxable purpose proportion of the termination value of low cost assets disposed of, for which an immediate deduction has been claimed
- if the closing pool balance of an STS pool is less than zero, the amount below zero, and
- assessable balancing adjustment amounts on the disposal of depreciating assets not subject to the STS depreciation rules.

Any deductible balancing adjustment amounts on the disposal of depreciating assets not deducted under the STS depreciation rules are included at item 7, label **X – Other deductible expenses**.

Any profit or loss on sale of depreciating assets included at either item 6, Income, label **R – Other gross income** or item 6, Expenses, label **S – All other expenses** are also included at item 7, label **Q – Other income not included in assessable income** and item 7, label **W – Non-deductible expenses**, respectively. See Worksheet 1 on pages 67–69.

Prepaid expenses

STS taxpayers are entitled to an immediate deduction for prepaid expenses where the expenditure is incurred for a period of service not exceeding 12 months and the eligible service period ends on or before the last day of the next year of income. If the eligible service period is more than 12 months, or ends after the next year of income, the deduction for the expenditure must be apportioned over the eligible service period or 10 years, whichever is less. The immediate deduction under this 12 month rule does not apply to expenditure incurred under a tax shelter agreement except where it is for certain expenditure incurred under a plantation forestry managed agreement. For more information refer to the publication *Deductions for prepaid expenses*. Where expense labels include prepaid expenses that differ from the amounts allowable as deductions in the 2003–04 income year, include the reconciliation adjustment at item 7, label **W – Non-deductible expenses** or label **X – Other deductible expenses** as required. Refer to Worksheet 1 on pages 67–69.

Non-STS taxpayers

Did you exit from the STS this year?

If the company has exited from the STS this year and has not included at any Income labels at item 6 amounts of ordinary income that were derived but not received whilst in the STS, these amounts are assessable this year – for example, trade debtors as at 30 June 2003.

Include these amounts at item 7, label **B – Other assessable income**.

If the company has exited from the STS this year and has not included at any Expenses labels at item 6 amounts of general deductions including repairs and tax-related expenses that were incurred but not paid whilst in the STS, these amounts are deductible this year – for example, trade creditors as at 30 June 2003.

Include these amounts at item 7, label **X – Other deductible expenses**.

Worksheet 1 on pages 67–69 will assist with the calculations.

ALL COMPANIES (INCLUDING STS)

Did you have a CGT event during the year?

If the company had a CGT event happen during the income year, or if the company received a distribution of a capital gain from a trust, print **Y** for yes at label **G**. Otherwise print **N** for no.

CGT events are the different types of transactions or events that may result in a capital gain or capital loss. Many CGT events involve a CGT asset – for example, the disposal of a CGT asset – while other CGT events relate directly to capital receipts (capital proceeds).

An Australian resident company makes a capital gain or capital loss if a CGT event happens to any of its worldwide CGT assets. A company that is not an Australian resident makes a capital gain or capital loss, generally speaking, if a CGT event happens to any of its CGT assets which have the necessary connection with Australia just before the CGT event happens.

If the company ceases to hold or to use a depreciating asset that was used for both taxable and non-taxable purposes, a CGT event may happen to the asset. A capital gain or capital loss may arise to the extent that the asset was used for a non-taxable purpose.

For more information about CGT events refer to the publication *Guide to capital gains tax*.

> **!** NOTE FOR CONSOLIDATED GROUPS
> Transfers of assets between members of the same consolidated group are ignored.

The publication *Guide to capital gains tax* includes:

- a capital gain or capital loss worksheet for calculating a capital gain or capital loss for each CGT event
- a CGT summary worksheet for calculating the company's net capital gain or capital loss
- a CGT schedule.

The worksheets assist in calculating a company's net capital gain or capital loss for the income year and completing the CGT tax return labels. Completion of the worksheets is not mandatory. They are not to be attached to the company tax return but are kept with the company's tax records.

However, if the company has:

- total current year capital gains for the income year greater than $10,000, or
- total current year capital losses for the income year greater than $10,000

a CGT schedule must be completed and attached to the company tax return.

ADD-BACK ITEMS

Add the following items to item 6, Operating profit or loss, label **T** – **Total profit or loss**.

Net capital gain

Show at item 7, label **A** the company's net capital gain. If the company has used the CGT summary worksheet or CGT schedule this is the amount at:

- label **G** at Part H of the CGT summary worksheet, or
- label **G** at Part H of the CGT schedule.

The company's net capital gain is the total capital gains it made for the income year (that are not disregarded other than by one of the small business concessions listed below) reduced by current year capital losses (that are not disregarded), prior year net capital losses and then (if applicable):

- the small business 50% active asset reduction
- the small business retirement exemption, and
- the small business roll-over relief.

A company is not eligible for the CGT discount.

Any net capital loss is included with any unapplied net capital losses carried forward to later income years and is recorded at item 10, label **V** – **Net capital losses carried forward to later income years**.

For more information about capital gains tax, refer to the publication *Guide to capital gains tax*. For information regarding the small business concessions refer to the publication *Capital gains tax concessions for small business*.

> **NOTE**
>
> The company may need to complete a *Losses schedule 2004*. For more information refer to the *Losses schedule 2004 instructions*.

Non-deductible exempt income expenditure

Show at label **U** any expenditure incurred in deriving exempt income shown at item 7, label **V** – **Exempt income**. Do not include expenditure incurred in deriving exempt income from retirement savings accounts (RSAs) and expenditure allowed by section 25–90 of ITAA 1997.

Franking credits

Show at label **J** – **Franking credits** the amount of franking credits attached to assessable distributions received from Australian corporate tax entities.

Do NOT include franking credits attached to:

- a distribution that is exempt income or non-assessable non-exempt income, or
- franked distributions received from a New Zealand franking company. If the company is in receipt of franked distributions from a New Zealand franking company, refer to instructions in the publication *Trans-Tasman imputation: How to claim Australian franking credits attached to New Zealand dividends*.

Under the simplified imputation system a company is required to include, in its assessable income, the amount of franking credits attached to assessable franked distributions received.

Note that the amount of franking credits attached to a distribution cannot exceed the maximum franking credits for the distribution. To work out the maximum franking credit, take the amount of the frankable distribution and multiply it by 30/70.

For example:
Bee Jay's Honey Pty Ltd received the following three dividend distributions for the income year:

- Company X paid Bee Jay's Honey a franked distribution of $700 with a $200 franking credit attached.
- Company Y paid Bee Jay's Honey a franked distribution of $7,000 purportedly with a $3,500 franking credit attached.
- Company Z paid Bee Jay's Honey a franked distribution of $14,000 with a $6,000 franking credit attached.

Bee Jay's Honey will complete label **J** in the following way:

Co. 1	Amount of frankable distribution $ 2	Franking credit attached to distribution received $ 3	Maximum franking credit $ 4	Allowable franking credit (lesser of columns 3 & 4) $ 5
X	700	200	300	200
Y	7,000	3,500	3,000	3,000
Z	14,000	6,000	6,000	6,000

The amount recorded at label **J** is the sum of all allowable franking credits for the income year. In this example Bee Jay's Honey would record $9,200 ($200+$3,000+$6,000) at label **J** as the amount of allowable franking credits for the income year. Bee Jay's Honey **does not** record $9,700, as declared on the distribution statements it received, at label **J**. This is because the amount of franking credit allocated to the distribution received from Company Y exceeded the maximum amount of franking credits that can be allocated to that distribution.

For most companies the amount of franking credits included at label **J** is allowable as a tax offset and should be claimed in the Calculation statement at label **C** – **Rebates/tax offsets.** If the company is a life insurance company or organisation entitled to claim a refund of excess franking credits, the refundable amount is claimed in the Calculation statement at label **Z** – **Other refundable credits**, not label **C**.

In circumstances where the shares are not held at risk as required under the holding period and related payments rules, or there is other manipulation of the imputation system, the franking credit is not included in assessable income at label **J** and there is no entitlement to a franking tax offset.

Australian franking credits from a New Zealand company

Label **C** has been introduced as a consequence of the Trans-Tasman imputation reforms. If the company is in receipt of franked distributions directly or indirectly from a New Zealand franking company, refer to instructions in the publication *Trans-Tasman imputation: How to claim Australian franking credits attached to New Zealand dividends*.

Other assessable income

The amount shown at label **B** excludes capital gains. Generally, the amounts included at this label are amounts that are not included as income at item 6 but which form part of assessable income – for example, attributed foreign income of a CFC, and timing adjustments such as that which reconciles interest receivable to assessable interest income. For more information on specific items see the list of items in Worksheet 1 on pages 67–69.

The following items are shown at label **B**:

- If the company ceases to hold or to use a depreciating asset, a balancing adjustment event occurs. For assets subject to the STS rules, including those where the company has exited the STS, see **Step 5** on page 29. For assets not subject to the STS rules, the company will need to calculate a balancing adjustment amount to include in its assessable income or to claim as a deduction. If the asset was used for both taxable and non-taxable purposes, the balancing adjustment amount is reduced by the amount attributable to the non-taxable use. A capital gain or capital loss amount may arise attributable to that non-taxable use. For more information refer to the publication *Guide to depreciating assets*.
- The assessable balancing adjustment amount is shown at label **B** for non-R&D assets. The assessable balancing adjustment amount for assets used in R&D activities is taken into account in the Part A, item 17 calculation in the *Research and development tax concession schedule 2004* – refer to the information on item 7, label **L** – **R&D concession claim (100%, 125% not 50% increment)** on page 37 in these instructions.
- If a company receives a distribution from a partnership or trust, and the partnership or trust claimed a deduction in respect of an 'LIC capital gain amount', the company is required to 'add-back' as income its share of the deduction – refer to section 115-280 of ITAA 1997. There is an exception for life insurance companies. For more information see the information on item 13 – Life insurance companies and friendly societies only on page 55.
- Show at label **B** the excess of the company's foreign sourced income and attributed foreign income for taxation purposes over income from such sources shown in the accounts – refer to section 6AB of ITAA 1936. Foreign sourced income must be grossed up by the amount of foreign tax paid – refer to section 6AC of ITAA 1936. Any add-back or subtraction adjustment to expenses claimed against such income is separately shown at item 7, label **W** – **Non-deductible expenses** or at item 7, label **X** – **Other deductible expenses**. Parliament is presently considering changes to the foreign investment fund (FIF) rules with application from 1 July 2003. For more information, refer to **Foreign investment fund income** on page 53.
- Show at label **B** assessable foreign exchange gains to the extent that they have not been included in item 6 or in any other label of item 7. See appendix 8 on page 82 for more information on the forex measures.
- Under the limited recourse debt rules contained in Division 243 of ITAA 1997, excessive deductions for capital allowances are to be included in assessable income where expenditure on property has been financed or re-financed wholly or partly by limited recourse debt. This will occur where:
  - 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 taxpayer. Special rules apply in working out whether the debt has been fully paid.

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 that has been financed by the debt, or is security for the debt or rights in relation to such property.

A debt is also limited recourse debt if, notwithstanding that there may be no specific conditions to that effect, it is reasonable to conclude that the creditors rights as against the debtor are capable of being so limited. Where a hire purchase agreement is treated as a notional loan under Division 240 it will also fall into the definition of limited recourse debt.

The amount that is included within assessable income is shown at item 7, label **B** – **Other assessable income**.

Division 45 of ITAA 1997 may also affect the amount shown at label **B**. Broadly, where a taxpayer holds plant which has been used principally for leasing and some part of the lease period occurred on or after 22 February 1999, Division 45 and related amendments may apply from that date to include an amount in the assessable income of the taxpayer upon disposal of such plant, or an interest in the plant, or an interest in, or rights under, a lease of the plant.

Similar tax consequences arise for a partner in a partnership if the partnership holds plant which has been used principally for leasing and some part of the lease period occurred on or after 22 February 1999 – refer to sections 45-5 and 45-10 of ITAA 1997.

When more than 50% direct or indirect beneficial ownership in the shares of a subsidiary of a wholly owned company group is acquired on or after 22 February 1999 by an entity or entities, none of which is a member of the wholly owned group, the subsidiary is treated under

Division 45 as if it had disposed of and immediately reacquired plant it holds, if the plant has been used principally for leasing and some part of the lease period occurred on or after 22 February 1999 and, at that acquisition time, the plant's tax adjustable value is less than the plant's market value. This treatment does not apply if the main business of each acquiring entity is the same as the main business of the wholly owned group immediately before the relevant acquisition – refer to section 45-15 of ITAA 1997.

Each company in the wholly owned group may become jointly and severally liable for any outstanding amount of tax payable by the subsidiary because of section 45-15 at the end of six months from the time such tax becomes due and payable by the subsidiary – refer to section 45-25 of ITAA 1997. Similar tax consequences arise where the subsidiary is a partner in a leasing partnership – refer to sections 45-20 and 45-25 of ITAA 1997.

Transitional provisions modify the operation of Division 45 for the period from 22 February 1999 to 11.45 am by legal time in the Australian Capital Territory on 21 September 1999.

Non-deductible expenses

Show at label **W** expense related adjustments that are added back to the amount shown at item 6, Operating profit or loss, label **T** – **Total profit or loss** to reconcile with the amount shown at item 7, label **T** – **Taxable income or loss**.

The amount shown at label **W** excludes:

- any amount shown at item 7, label **U** – **Non-deductible exempt income expenditure**, and
- any amount shown at item 7, label **D** – **R&D accounting expenditure claimed under R&D tax concession**.

Generally, label **W** shows the amounts that are an expense for accounting purposes but are not deductible for income tax purposes, including timing variations. Examples are debt deductions disallowed under the thin capitalisation rules or expenses incurred in deriving non-assessable non-exempt income such as foreign income that is non-assessable non-exempt income under sections 23AH or 23AJ of ITAA 1936.

Another example, to the extent that it is an expense for accounting purposes, and therefore taken into account in determining total profit and loss, is a non-share dividend, which is not deductible for income tax purposes. For more examples of specific items see Worksheet 1 on pages 67–69.

Where a foreign exchange loss for accounting purposes, included in item 6, exceeds the deductible forex loss, show the difference at label **W**. See appendix 8 on page 82 for more information on the forex measures.

Where foreign sourced income expenses for accounting purposes exceed allowable deductions for income tax purposes, show the excess at label **W**.

> **NOTE**
>
> Most debt deductions incurred in the derivation of assessable foreign income are not subject to the foreign loss quarantining provisions and so they would not be included. An exception would be debt deductions attributable to an overseas permanent establishment, which are still subject to the foreign loss quarantining provisions. For more information refer to the publication *Guide to thin capitalisation* which is available on **www.ato.gov.au**

Where Australian and foreign sourced capital losses for accounting purposes are included at item 6, Income, label **S** – **All other expenses** or item 6, Operating profit or loss, label **N** – **Extraordinary revenue or expenses**, they are also shown at label **W**. For Australian taxation purposes, any net capital loss is included with any unapplied capital losses carried forward to later income years and is shown at item 10, label **V** – **Net capital losses carried forward to later income years**.

R&D accounting expenditure claimed under R&D tax concession

Show at label **D** the expense amounts included at item 6 – Calculation of total profit or loss, which relate to amounts that are subject to the R&D tax concession provisions. Generally, these amounts include expense amounts for accounting purposes, related to R&D activities, for which different amounts will be claimed for income tax purposes. If no expense amounts relating to R&D deductions have been included at item 6 (for example, amounts are capitalised) enter a zero at label **D**.

The amount shown at label **D** in the company tax return must be the same as the amount shown at label **D** – **Write-back of R&D accounting expenditure** under the heading Preliminary calculation – label **D** in the *Research and development tax concession schedule 2004*.

Subtotal

Show the sum of the amount transferred from item 6, Operating profit or loss, label **T** – **Total profit or loss** and the add-back items at item 7, labels **A**, **U**, **J**, **C**, **B**, **W** and **D**.

SUBTRACTION ITEMS

Deduct the following items from the amount at **Subtotal**.

Section 46FA deduction for flow-on dividends

Show at label **C** any amounts claimed as a deduction during the 2003–04 income year that are deductible under section 46FA of ITAA 1936.

This deduction is allowable in certain cases for an on-payment of unfranked non-portfolio dividend by a resident company to its non-resident parent.

Where a deduction is claimed under section 46FA, the claiming entity is required to maintain an unfranked non-portfolio dividend account under section 46FB of ITAA 1936 and complete item 8, label **L** – **Balance of unfranked non-portfolio dividend account at year end**.

At the time of printing, legislation to allow a section 46FA deduction in relation to flow-on dividends paid out of unfranked dividends paid on or after 1 July 2003 had not been enacted. A deduction is, however, still available for flow-on dividends paid from unfranked dividends paid before this time. For more information visit **www.ato.gov.au** or phone the Tax Reform Infoline on **13 24 78**.

Deduction for decline in value of depreciating assets

If the company is not an STS taxpayer, the deduction for decline in value of most depreciating assets for taxation purposes is shown at label **F**.

This amount is often different from the amount of depreciation calculated for accounting purposes which is shown at item 6, label **X** – **Depreciation expenses** and added back at item 7, label **W** – **Non-deductible expenses**.

If the company has allocated depreciating assets to a low-value pool, the deduction for decline in value of those assets is also included at label **F**.

The deduction for decline in value of R&D depreciating assets which is subject to the R&D tax concession is included at item 7, label **L** – **R&D concession claim (100%, 125% not 50% increment)**.

The decline in value of water facilities is shown at item 7, label **N** – **Landcare operations and deduction for decline in value of water facility**.

For information about how to work out deductions for decline in value, see appendix 7 on page 77.

If the company is an STS taxpayer, deductions for depreciating assets are shown at item 6, Expenses, label **X** – **Depreciation expenses**.

> **NOTE**
>
> If the company has included an amount greater than $15,000 at label **F** it will need to complete and attach a *Capital allowances schedule 2004* unless the company is eligible to enter or continue in the STS and has chosen to do so at item 5. For more information see the *Capital allowances schedule 2004 instructions*.

> **NOTE**
>
> *Practice Statement PS LA 2003/8* provides guidance on two straightforward methods acceptable to Tax Office which can be used by taxpayers carrying on a business to help them determine whether expenditure incurred to acquire certain low-cost assets is to be treated as revenue or capital.
>
> 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. Under the threshold rule, low cost items with a typically short life costing $100 or less are assumed to be revenue in nature and are immediately deductible. The sampling rule allows taxpayers with a low-value pool to use statistical sampling to determine the proportion of the total purchases on low cost tangible assets that are revenue expenditure.

Immediate deduction for capital expenditure

Companies in the mining, petroleum and quarrying industries show at label **E** the total amount of capital expenditure (other than on depreciating assets) claimed as an immediate deduction for:

- exploration and prospecting
- rehabilitation of mining or quarrying sites, and
- paying petroleum resource rent tax.

For more information about these deductions, see the publication *Guide to depreciating assets*.

Deduction for project pool

Show at label **H** the total amount of the company's deductions for project pools.

If a project is abandoned, sold or otherwise disposed of the company can deduct the project pool value at that time. This deduction is also included at label **H**.

The expenditure allocated to the project pool for the income year must be shown at item 7, label **W** – **Non-deductible expenses** to the extent that it has been included as an expense at item 6.

For more information about project pools see appendix 7 on page 77.

> **NOTE**
>
> If the company has included an amount greater than $1,000 at label **H** the company will need to complete and attach a *Capital allowances schedule 2004* unless the company is eligible to enter or continue in the STS and has chosen to do so at item 5. For more information refer to the *Capital allowances schedule 2004 instructions*.

Capital works deductions

Show at label **I** the deduction claimed for capital expenditure on special buildings, which includes eligible capital expenditure on extensions, alterations or improvements. Exclude capital expenditure for mining infrastructure buildings and timber milling buildings.

For more information on capital works deductions see appendix 2 on page 73. Commercial debt forgiveness provisions may affect the calculation of some deductions – see appendix 1 on page 70.

Section 40-880 deduction

Show at label **Z** the total of the company's deductions allowable under section 40-880 of ITAA 1997.

The expenditure deductible under section 40-880 must be shown at item 7, label **W** – **Non-deductible expenses** to the extent that it has been included as an expense at item 6.

For information about section 40-880 deductions see appendix 7 on page 77.

Development allowance

Label **K** should be left blank as the development allowance deduction is no longer available.

R&D concession claim (100%, 125% not 50% increment)

To complete and claim at:

- item 7, label **D** – **R&D accounting expenditure claimed under R&D tax concession**
- item 7, label **L** – **R&D concession claim (100%, 125% not 50% increment)**
- item 7, label **M** – **R&D incremental concession – additional 50% increment**
- item 7, label **Y** – **Election to take R&D tax offset**

companies are required to meet the annual registration requirements under the Industry, *Research and Development Act 1986*. Companies choosing to claim the R&D tax offset must be registered at the time they make this choice. The R&D tax offset is subject to the refundable tax offset rules. The offset directly reduces tax payable by a company. Where the amount of the offset exceeds the amount of tax that the company would otherwise have to pay, then the excess is refundable.

Companies claiming an R&D tax concession amount are required to complete the *Research and development tax concession schedule 2004*. For further information see **Schedules** on page 2 and the *Research and development tax concession schedule 2004 instructions*.

Show at label **L** – **R&D concession claim (100%, 125% not 50% increment)**, the amount of the R&D concession claim calculated at label **L** – **Total claim (including concession)** in Part A, item 17 of the *Research and development tax concession schedule 2004*. The amount shown at item 7, label **L** in the company tax return must be the same as the amount shown at label **L** in the research and development tax concession schedule. If this amount is negative, print code **L** in the box at the right of item 7, label **L**. A negative amount may arise from profits on disposal or assessable balancing adjustment amounts occurring in relation to R&D depreciating assets.

> **NOTE**
>
> The syndicated research and development label has been removed from the company tax return. Interest incurred as a syndicate member after the cessation of the R&D syndicate program is not to be claimed at item 7, label **L** or item 7, label **M** – **R&D incremental concession – additional 50% increment**.

R&D incremental concession – additional 50% increment

Show at label **M** the amount of the R&D increment claim calculated at label **M** – **R&D incremental concession** in Part D, item 2 of the *Research and development tax concession schedule 2004*. The amount shown at item 7, label **M** in the company tax return must be the same as the amount shown at label **M** in the research and development tax concession schedule.

In the box at the right of label **M** print code **G** if the company is a grouped taxpayer in accordance with the grouping rules in section 73L of ITAA 1936 and another taxpayer in the same group is also claiming the additional 50% deduction.

Landcare operations and deduction for decline in value of water facility

Show at label **N** the company's total deductions for landcare operations expenses and for water facilities.

The deduction for the decline in value of water facilities is not included at item 7, label **F** – **Deduction for decline in value of depreciating assets**.

The expenditure on landcare operations and water facilities must be shown at item 7, label **W** – **Non-deductible expenses** to the extent that it has been included as an expense at item 6.

For information about deductions for landcare operations and water facilities see appendix 7 on page 77.

Deduction for environmental protection expenses

Show at label **O** the amount of allowable expenditure on environmental protection activities.

The deductible expenditure on environmental protection activities must also be shown at item 7, label **W** – **Non-deductible expenses** to the extent that it has been included as an expense at item 6.

For information about deductions for expenditure on environmental protection activities see appendix 7 on page 77.

Offshore banking unit adjustment

Only use label **P** if the company has been declared to be an offshore banking unit (OBU) by the Treasurer under subsection 128AE(2) of ITAA 1936. Otherwise disregard label **P**.

Subject to certain exceptions, an OBU is effectively taxed at the rate of 10% on income derived from offshore banking (OB) activities. In calculating an OBU's total income for the year, gross income from OB activities is shown at item 6, Income, label **R** – **Other gross income**.

Total expenses from OB activities are shown at item 6, Expenses, label **S** – **All other expenses**.

It is not necessary to separate gross income or total expenses from OB activities into the various income and expenses categories that appear at item 6. These categories only apply to income and expenses that do not relate to OB activities.

The 10% tax rate on OB activity income is achieved by applying the normal company tax rate of 30% to an amount known as the 'eligible fraction', which is defined in section 121EG of ITAA 1936 and is currently 10/30. The effect of section 121EG means that an OBU's taxable income includes only 10/30 of its net income from OB activities.

Calculation of the offshore banking unit adjustment

Label **P** ensures that the net income from OB activities is taxed at 10%. The amount shown at label **P** is the difference between the OBU's net income from OB activities and the eligible fraction:

Label **P** = Net OB income – (net OB income x eligible fraction)

When the amount shown at label **P** is deducted from the OBU's total profit, this results in only the eligible fraction shown at item 7, label **T** – **Taxable income or loss**. This is illustrated in the following examples:

Example 4

An OBU has income and expenses from various activities as follows:

	Relating to OB activities $	Relating to non-OB activities $	Total activities $
Income Interest	200	400	600
Rent	–	500	500
Dividends	100	400	500
Total Income	300	1,300	1,600
Expenses Rent expenses	–	600	600
Interest (within Australia)	200	300	500
Total expenses	200	900	1,100
Net profit	**100**	**400**	**500**

Complete item 6 as follows:

Income		**$**
Gross interest	**F**	400
Gross rent and other leasing and hiring income	**G**	500
Total dividends	**H**	400
Other gross income	**R**	300
Total income	**S**	1,600
Expenses Rent expenses	**H**	600
Interest expenses within Australia	**V**	300
All other expenses	**S**	200
Total expenses	**Q**	1,100
Total profit or loss	**T**	**500**

If this company was not an OBU the amount of tax payable at 30% on a taxable income of $500 is $150. However, because the company is an OBU it is entitled to the 10% tax rate on its net profit of $100 from OB activities. This is achieved by recording at label **P** the untaxed proportion of the net profit from OB activities which, in this example, is calculated as follows:

Label **P**	=	net OB income – (net OB income x eligible fraction)
	=	$100 – (100 x 10/30)
	=	$67 (amount shown at item 7)

The eligible fraction is, therefore, $33 and is the only part of the net profit from OB activities shown at item 7, label **T** – **Taxable income or loss**.

Item 7 in this example contains the following entries:

Total profit or loss amount shown at label **T**	$500
Less:	
Offshore banking unit adjustment at label **P**	$67
Taxable income or loss at label **T**	$433
The tax payable at 30% on a taxable income of $433 is $130, which is the same as the total of the tax payable on:	
Taxable non-OBU activity income of $400 at 30%	$120
Add:	
Taxable OBU activity income of $100 at 10%	$10
Tax payable	$130

OBU losses

Do not use label **P** to record a loss from OBU activities.

Where a loss is incurred, make the adjustment at item 7, label **W** – **Non-deductible expenses** to ensure that the company is taxed at the correct rate.

The adjustment is made by inserting the following amount at label **W**:

Net OB Loss – (net OB loss x eligible fraction)

Example 5

An OBU has income and expenses relating to both OB and non-OB activities as follows:

	Relating to OB activities $	Relating to non-OB activities $	Total $
Gross income	200	1,300	1,500
Expenses	300	900	1,200
Net income	**(100)**	**400**	**300**

Although the company's net income is $300, its taxable income is actually $367. This is because only 10/30 – the eligible fraction – of the income and expenses from OB activities is taken into account in calculating an OBU's taxable income – that is:

Net income from non-OB activities			$400
Less:			
Loss from OB activities (100 x 10/30)			$(33)
Taxable income			$367
Label **W**	=	Net OB loss – (net OB loss x eligible fraction)	
	=	$100 – (100 x 10/30)	
	=	67	

In this example, the company tax return would show the following entries:

Item 6	Total income (label **S**)	$1,500
	Total expenses (label **Q**)	$1,200
	Total profit/loss (label **T**)	$300
Add:		
Item 7	Non-deductible expenses (label **W**)	$67
	Taxable income or loss (label **T**)	$367

For more information on the taxation of OBUs refer to Taxation Determinations TD 93/202 to 93/217, TD 93/241, TD 95/1 and 95/2.

Exempt income

Show at label **V** all income that is exempt from Australian tax.

Do not show at label **V** amounts that are not assessable income and not exempt income, for example, any foreign income amounts that are treated as non-assessable non-exempt income under section 23AH, 23AI, 23AJ, 23AK or 99B(2A) of ITAA 1936. These amounts are shown at item 7, label **Q** – **Other income not included in assessable income.**

Do not show at label **V** income exempt under an RSA . Exempt income from RSAs is shown at item 15, label **S** – **Exempt income from RSAs**.

Other income not included in assessable income

Show at label **Q** income related adjustments that have to be subtracted from item 6, Operating profit or loss, label **T** – **Total profit or loss** to reconcile with item 7, label **T** – **Taxable Income or loss**. Amounts included at item 7, labels **C** to **V** are not shown again here.

Generally the amounts that are included at label **Q** are income for accounting purposes but not assessable for income tax purposes – for example, non taxable OBU income.

Exempt income is shown separately at item 7, label **V** – **Exempt income**. For more information on specific items see Worksheet 1 on pages 67–69.

Include the following items at label **Q**:

- Any excess of gross foreign source income shown in the income labels at item 6 over the amount, which represents assessable income. In calculating the excess, include dividends and other amounts that are not assessable because of Sections 23AH, 23AI, 23AJ, 23AK and 99B(2A) of ITAA 1936. Note that you must attach a *Schedule 25A 2004* if the company received dividends or other amounts covered by any of these provisions. Parliament is presently considering changes to the foreign investment fund (FIF) rules with application from 1 July 2003. For more information, refer to **Foreign investment fund income** on page 53.
- Other amounts of non-assessable non-exempt income (do not include demerger dividends or other amounts not shown at item 6).
- Profits on disposal of assets used in R&D activities.
- Australian and foreign sourced capital gains for accounting purposes which have been included at item 6, Income, label **R** – **Other gross income** or item 6, Operating profit or loss, label **N** – **Extraordinary revenue or expenses.** For Australian taxation purposes, any net capital gain is included at item 7 label **A** – **Net capital gain.**
- Where a foreign exchange gain for accounting purposes, included at item 6, exceeds the assessable forex gain, show the difference at label **Q**. See appendix 8 on page 82 for more information on the forex measures.

Other deductible expenses

Show at label **X** expense related adjustments that are subtracted from item 6, Operating profit or loss, label **T** – **Total profit or loss** to reconcile with item 7, label **T** – **Taxable income or loss.** Items included under item 7, labels **C** to **P** are not shown again here. Generally label **X** shows amounts, including timing differences, that are an allowable deduction for income tax purposes but are not shown in the accounts or specifically shown at item 7, labels **C** to **P**.

For examples of specific items to be included, see Worksheet 1 on pages 67–69.

A further example includes incentive deductions for investment in Australian films – refer to Division 10BA of Part III of ITAA 1936 and Subdivision 375-G of ITAA 1997.

For assets subject to the STS rules see **Depreciation Expense STS taxpayers – Step 5** on page 29.

A company is not entitled to a deduction if it receives a dividend from a listed investment company (LIC), which includes an LIC capital gain amount. There is an exception for life insurance companies. For more information see item 13 – Life insurance companies and friendly societies only.

Two further specific examples are luxury car leasing and hire purchase agreements.

Another example is foreign exchange losses. Show at label **X** deductible foreign exchange losses to the extent that they have not been included in item 6 or in any other label of item 7. See appendix 8 on page 82 for more information on the forex measures.

Tax losses deducted

> **NOTE**
> The company may need to complete a *Losses schedule 2004*. For more information see **Schedules** on page 2 or refer to the *Losses schedule 2004 instructions*.

Show at label **R** only tax losses of a prior income year deducted during the 2003–04 income year under section 36-17 of ITAA 1997. Subject to various rules, a prior year tax loss is deducted in a later income year in the order in which it was incurred – to the extent that it has not already been deducted – as follows.

If the company has no net exempt income and has an excess of assessable income over total deductions – other than tax losses – deduct the tax loss from the excess assessable income – refer to subsection 36-17(2) of ITAA 1997.

On 17 December 2003 *Taxation Laws Amendment Act (No. 5) 2003* received royal assent. It allows a company to choose the amount of tax loss that it wants to deduct. Providing this choice means, for example, that a company could choose not to deduct prior year losses in order to pay sufficient tax to be able to frank distributions. These rules apply to deductions of tax losses in the income year in which 1 July 2002 falls and later years.

Under the new rules, a company is required to determine whether it has an excess franking offset **before** making a choice in relation to how much tax loss it wants to deduct from its 2003–04 assessable income. This is because a company **cannot** deduct a prior year loss if it either:

- has an excess franking offset prior to deducting any tax loss, or
- the choice to deduct a particular amount of tax loss would give rise to an excess franking offset.

A company has an excess franking offset if the amount of franking tax offsets (ignoring any franking tax offsets that are subject to the refundable tax offset rules) that the company is entitled to **exceeds** the amount of income tax that the company would have to pay on its taxable income for the year if it did not have:

- any franking tax offsets, and
- any tax offsets subject to the tax offset carry forward rules or the refundable tax offset rules, and
- any offset arising from a franking deficit tax liability,

but had all its other tax offsets.

For most companies, franking tax offsets are not subject to the refundable tax offset rules in Division 67 of ITAA 1997. However, there is an exception for life insurance companies: franking tax offsets of a life insurance company are generally subject to the refundable tax offset rules to the extent they relate to distributions on shares and other membership interests held on behalf of policy-holders.

If the company has no net exempt income and has an excess of assessable income over total deductions – other than tax losses – the company may, subject to certain limitations, deduct from this excess assessable income so much of the tax loss as the company chooses – refer to subsection 36-17(2) of ITAA 1997.

Example 6

For the 2003–04 income year, Company A has:

- a tax loss of **$150** from a previous income year, and
- assessable income of $200 (franked distribution of $70, franking credit of $30 and $100 of income from other sources)
- no allowable deductions, and
- no net exempt income.

The $30 franking credit generates a franking tax offset of $30. The $30 franking tax offset is not subject to the refundable tax offset rules in Division 67 of ITAA 1997. Company A would not have an excess franking offset for the year if the tax loss was disregarded. This is because the tax offset of $30 is less than $60, which is the amount of income tax that Company A would have to pay on the $200 taxable income if it did not have the tax loss and the franking tax offset. Consequently, Company A may choose to deduct some of its tax loss subject to the limitation that Company A cannot choose to deduct an amount of its loss that would result in it having an amount of excess franking offsets for the year. If Company A were to consider deducting the full tax loss of **$150** it would generate an excess franking offset of $15, calculated as follows:

	$	$
Taxable income	50	(200 – 150)
Gross tax	15	(50 x 30%)
Rebates/tax offsets	30	franking tax offset
Excess franking offset	15	

Company A therefore, **cannot** make this choice. The maximum amount of tax loss that Company A may deduct is **$100** as this will not generate any excess franking offset, that is:

	$	$
Taxable income	100	(200 – 100)
Gross tax	30	(100 x 30%)
Rebates/tax offsets	30	franking tax offset
Excess franking offset	0	

To calculate the excess franking offset, refer to **Excess franking rebate** on page 49.

In the above example, in completing its income tax return, Company A would record $100 at item 7, label **R** – **Tax losses deducted** and would record $50 at item 10, label **U** – **Tax losses carried forward to later income years**.

If the company has exempt income and an excess of assessable income over total deductions (other than tax losses) the company must deduct the tax loss from the net exempt income, then may deduct from the excess assessable income so much of the tax loss as the company chooses – refer to subsection 36-17(3) of ITAA 1997. In making the choice to deduct a tax loss from the excess assessable income, a company must apply the rules discussed above.

If the company has net exempt income and an excess of total deductions – other than tax losses – over assessable income, the company must subtract the excess deductions from the net exempt income and then deduct the tax loss from any net exempt income that remains – refer to subsection 36-17(4) of ITAA 1997.

A company's net exempt income is calculated in accordance with section 36-20 of ITAA 1997.

This amount is not necessarily the same as the amount shown at item 7, label **V** – **Exempt income**.

A tax loss of an earlier income year is not allowable unless a company maintains the same owners as prescribed under section 165-12 of ITAA 1997, the continuity of ownership test or, if the company fails to meet a condition of subsection 165-12(2), (3) or (4) or it is not practicable to show that the company meets the conditions in those subsections, the conditions relating to carrying on the same business under section 165-13 are satisfied (refer TR 1999/9).

Refer also to the rules on arrangements affecting beneficial ownership in section 165-180 of ITAA 1997.

The following conditions apply to the continuity of ownership test:

- Where tax losses are claimed in an income year ending after 21 September 1999, majority ownership must be maintained from the start of the loss year to the end of the income year (ownership test period).
- There must be persons who maintained rights to more than 50% of the voting power in the company, and rights to more than 50% of the dividends and capital distributions of the company at all times during the ownership test period. Refer to sections 165-150 to 165-160 of ITAA 1997.
- Where tax losses are claimed in an income year ending after 21 September 1999, the company must meet the 'same share and interest' rule, except where the 'saving' rule applies. Refer to section 165-165 and subsection 165-12(7) of ITAA 1997.
- A modified version of the above rules applies to shares held by a listed public company in a wholly owned subsidiary, whether directly or indirectly owned. Refer to Division 166 of ITAA 1997.

NOTE

If the company is claiming a deduction for losses under the same business test provisions of section 165-13 of ITAA 1997, or will be required to satisfy that test in respect of any losses being carried forward to a later income year, complete a *Losses schedule 2004* and attach it to the company tax return. For more information refer to the *Losses schedule 2004 instructions*.

If the company fails the control test in section 165-15 of ITAA 1997 this does not prevent the company from deducting the tax loss if the conditions relating to the carrying on of the same business under subsections 165-15(2) and (3) are satisfied.

The anti-avoidance provisions in Subdivisions 175-A and 175-B of ITAA 1997 may apply.

Please note:

- The company must keep a record of tax losses and account for any adjustments including those made by the Tax Office. These records must be retained for five years after the end of the year in which the losses of the company were fully recouped or otherwise applied.
- A prior year tax loss may be reduced by the commercial debt forgiveness provisions – see appendix 1 on page 70.
- Non-primary production losses for the 1988–89 and earlier income years are not deductible. Refer to subsection 80(2) of ITAA 1936.
- Losses incurred in relation to deriving foreign income are not included at label **R**. For rules which quarantine classes of deductions and losses of previous years incurred in producing foreign source income refer to sections 79D and 160AFD of ITAA 1936. Allowable foreign losses are taken into account in the calculation of assessable foreign income for taxation purposes. Any adjustment to reconcile deductions claimed against foreign income are made at the appropriate labels at item 7 – see the information on label **W** – **Non-deductible expenses**.

- The film component of any tax loss (film loss) is excluded from label **R**. For a film loss to be deductible refer to Divisions 36 and 375 of ITAA 1997. Film losses are only deducted from net exempt film income or net assessable film income for taxation purposes and are shown at either item 7, label **W** – **Non-deductible expenses** or item 7, label **X** – **Other deductible expenses**.
- Pooled development fund (PDF) tax losses are excluded from label **R**. For deductibility of PDF tax losses refer to Division 195 of ITAA 1997.
- Capital losses may only be applied in accordance with Division 102 of ITAA 1997.

Tax losses deducted – consolidated groups

NOTE

The head company may need to complete a *Consolidated groups losses schedule 2004*. For more information see **Schedules** on page 2 or refer to the *Consolidated groups losses schedule 2004 instructions*.

Show at label **R** tax losses deducted during the year of income under section 36-17 of ITAA 1997.

A head company may be entitled to utilise carry forward losses broadly comprising:

- losses generated by the consolidated group in a prior year – group losses, and/or
- transferred losses that were generated by an entity before it became a member of the group.

Before utilising a group loss or a transferred loss, a head company is required to pass the continuity of ownership and control tests or the same business test. For more information on the conditions applying to the continuity of ownership test, see the *Consolidated groups losses schedule 2004 instructions*. For more information on the same business test, refer to sections 165-13 and 165-210 of ITAA 1997 and Taxation Ruling TR 1999/9. To find out how to obtain a copy of the ruling, see the inside back cover.

Transferred losses

The operation of the continuity of ownership test is modified by Subdivision 707-B of ITAA 1997. Firstly, the loss year is modified so that it starts from when the loss was transferred to the head company. Secondly, in determining whether a head company can use a loss transferred to it from a company as a result of passing the continuity of ownership and control tests, changes in ownership of a loss company **prior** to it joining the consolidated group are recognised. Refer to section 707-210 of ITAA 1997.

Tax losses generated by a consolidated group – group losses – are effectively utilised **before** transferred tax losses. Refer to paragraph 707-310(3)(b) of ITAA 1997.

Concessional tax losses are used after group tax losses and are effectively used before other transferred tax losses. Refer to subsection 707-350(2) of the *Income Tax (Transitional Provisions) Act 1997*.

All losses transferred to a head company for the first time from the entity that actually made them constitute a bundle of losses. Losses within the bundle will be categorised by sort, such as a tax loss or net capital loss. Refer to section 707-315 of ITAA 1997.

There is no ordering rule for usage of losses within a bundle or between different bundles, regardless of their age.

Available fraction

A single available fraction is worked out for each loss bundle. The available fraction limits the annual rate at which the bundle's losses may be recouped by the head company. However, for utilisation purposes, losses in one bundle may be subject to the available fraction for another loss bundle if the value and loss donor concession applies.

Where losses are transferred for the first time, the available fraction is calculated like this:

$$\frac{\text{modified market value of the joining loss entity at the initial transfer time}}{\text{adjusted market value of the head company at the initial transfer time}}$$

The modified market value of a joining entity is the amount that would be the market value of the entity at the joining time if:

- the entity has no losses and the balance of its franking account is nil
- the subsidiary members of the group at the time are separate entities and not divisions or parts of the head company of the group
- the entity's market value did **not** include an amount attributable (directly or indirectly) to a membership interest in a member of the group (other than the entity) that is a corporate tax entity or an entity that transferred losses to the head company, and
- a trust (other than a corporate tax entity or a trust with losses) contributes to the joining entity's market value only to the extent attributable to fixed entitlements (at joining time) to income or capital of the trust that is not attributable (directly or indirectly) to membership interests in another member of the group that is a corporate tax entity or a trust with losses.

Refer to section 707-325 of ITAA 1997.

An increase in the value of the loss entity is excluded from the entity's modified market value if the increase results from either:

- an injection of capital into the loss entity, its associate or, if the loss entity is a trust, an associate of the trustee, or
- a non-arm's length transaction that involved the loss entity, its associate or, if the loss entity is a trust, an associate of the trustee.

This anti-inflation rule applies to events that occur in the four years before the loss entity joins the group; however, it does not apply to events that occurred before 9 December 2000. Refer to subsections 707-325(2) and (4) of ITAA 1997 and section 707-329 of the *Income Tax (Transitional Provisions) Act 1997*.

The head company's adjusted market value at the initial transfer time is the amount that would be the market value at that time if:

- the head company did not have a loss of any sort for an income year ending before that time, and
- the balance of the head company's franking account was nil at that time.

Refer to subsection 707-320(1) of ITAA 1997. The value for the head company is worked out on the basis that subsidiary members of the consolidated group are part of the head company.

> **NOTE**
> The Commissioner of Taxation will have a statutory obligation to ensure compliance with the market valuation requirements of the consolidation regime and to form a view as to whether valuations undertaken are accurate. To assist taxpayers to meet their obligations, the *Consolidation reference manual* has a section dealing with market valuation guidelines.

The available fraction is adjusted if certain events happen – for example, the consolidated group acquires a new loss entity or the sum of the available fraction in the group exceeds 1. Refer to subsection 707-320(2) of ITAA 1997.

The use of transferred losses is apportioned if their available fraction applied for only part of the income year or when the available fraction changes during the income year. Refer to section 707-335 of ITAA 1997.

Apply the available fraction using a three-step process as follows:

1. Work out the amount of each category of the group's income or gains as specified in column 2 of the table in subsection 707-310(3) of ITAA 1997. This is the group's total income or gains for each category less relevant deductions, including group losses and concessional losses (but not transferred losses whose use is limited by their available fraction).
2. Multiply each category amount by the bundle's available fraction. The result is taken to be the head company's only income or gains for that category.
3. On the basis of the step 2 assumption, work out a notional taxable income for the head company.

This process enables the head company to determine the amount of transferred losses of each sort it can use from the loss bundle to determine its actual taxable income.

Tax losses must first be deducted against exempt income. A special rule provides that the head company, in working out its actual taxable income, can offset its transferred tax losses against assessable income provided they have been first utilised against a fraction of its total exempt income. Refer to section 707-340 of ITAA 1997.

Increasing the available fraction – value donor concession

A loss entity (the 'real loss-maker'), in calculating its available fraction, may add to its modified market value the modified market value of another company (the 'value donor'). Certain losses from the value donor are also able to be notionally transferred to the real loss-maker. This enables those losses to be utilised using the available fraction for the real loss-maker. Only company losses may benefit from the concession to donate value and losses.

The conditions for adding an amount of modified market value from the value donor to the real loss-maker are as follows:

- Both the real loss-maker and the value donor join the group when it first consolidates before 1 July 2004.
- The real loss-maker has a 'test loss' – a tax loss or net capital loss that is **not** a concessional loss.
- The real loss-maker could have transferred its test loss to the value donor under Subdivision 170-A or 170-B of ITAA 1997 for an income year – generally the trial year.
- The value donor – assuming it had made the test loss – could have transferred it to the head company under Subdivision 707-A.
- The head company chooses to increase the real loss-maker's modified market value by a portion of the value donor's modified market value.

Refer to subsections 707-325(1) and (2) of the *Income Tax (Transitional Provisions) Act 1997*.

The increase in the modified market value of the real loss-maker is worked out using a formula. Refer to subsections 707-325(3) and (4) of the *Income Tax (Transitional Provisions) Act 1997*.

The increase to an available fraction provided by this value donor concession can be affected by the anti-inflation rule in section 707-325 of ITAA 1997. Given the nature of the relationship between a value donor and the real loss-maker, it is appropriate to waive the effect of certain inflationary events occurring between these related entities. The group waiver rule ignores the effect of the anti-inflation rule in respect of injections and transactions involving group members if certain conditions are met. The single waiver rule ignores the effect of the anti-inflation rule in respect of injections and transactions involving two group members only if certain conditions are met. Refer to sections 707-326 and 707-328A of the *Income Tax (Transitional Provisions) Act 1997*.

The conditions for donating losses from the value donor (referred to here as the 'loss donor') to the real loss-maker are as follows:

- The loss donor has also donated an amount of modified market value to the real loss-maker (the amount can be nil).
- The loss to be donated is a tax loss or a net capital loss that is **not** a concessional loss.
- The loss was transferred under Subdivision 707-A from the loss donor to the head company at the time when the consolidated group came into existence.

- The loss donor could have transferred the loss to the real loss-maker – and any other value donor to the real loss-maker – under Subdivision 170-A or 170-B of ITAA 1997 for an income year – generally the trial year.
- The real loss-maker – and any other value donor of the real loss-maker – could have transferred the loss to the head company under Subdivision 707-A.
- The head company chooses that the loss be included in the real loss-maker's bundle.

Refer to subsections 707-327(1), (2) and (3) of the *Income Tax (Transitional Provisions) Act 1997*.

Where a loss is donated, the group's use of the loss is governed by the real loss-maker's available fraction.

A loss can only be taken into account under either the value donor rule or the loss donor rule but not both. Refer to subsection 707-327(6) of the *Income Tax (Transitional Provisions) Act 1997*.

A choice to donate losses must be made by the head company by the day it lodges its income tax return for the first income year for which it uses transferred losses by the available fraction method.

When applying Subdivisions 170-A or 170-B of ITAA 1997 for the purposes of the value donor and loss donor rules, the income year is modified and certain conditions apply. Refer to section 707-328 of the *Income Tax (Transitional Provisions) Act 1997*.

Concessional losses

A transferred tax loss, in a particular loss bundle, may be used in accordance with the concessional method if the loss meets certain conditions and the head company has chosen to use the concessional method for **all** losses in the bundle that meet these conditions. The conditions are that the tax loss:

- was originally made outside the consolidated group by a company – the real loss-maker – for an income year ending on or before 21 September 1999
- is transferred from the real loss-maker to the head company of the group when the group first consolidates before 1 July 2004
- is transferred because the continuity of ownership and control tests were passed, and
- has not been previously transferred to a group.

Refer to subsection 707-350(1) of the *Income Tax (Transitional Provisions) Act 1997*.

Concessional losses may be utilised by the head company over three years, subject to the general loss recoupment tests as modified. Refer to subsection 707-350(3) of the *Income Tax (Transitional Provisions) Act 1997*. This limit on utilisation replaces that which would otherwise apply under the available fraction method.

Tax losses claimed on a concessional basis are effectively utilised before other transferred tax losses. Group tax losses must be utilised before concessional losses.

Tax losses transferred in

NOTE

The company completes a *Losses schedule 2004* if any tax loss or net capital loss is transferred between group companies under Division 170 of ITAA 1997. For more information see **Schedules** on page 2 or refer to the *Losses schedule 2004 instructions*.

Show at label **S** the amount of tax losses transferred to the company from group companies under Subdivision 170-A of ITAA 1997.

A group company may transfer the whole or a part of a tax loss to another company in the same wholly-owned group where either:

- One of the companies is an Australian branch of a foreign bank, and the other company is:
  (i) the head company of a consolidated group or MEC group, or
  (ii) not a member of a consolidatable group.

  OR
- Both companies joined a consolidated group or MEC group on its formation where the consolidation day is both:
  (i) the first day of the first income year starting after 30 June 2003 of the group's head company or provisional head company, and
  (ii) before 1 July 2004.

Further conditions in Subdivision 170-A of ITAA 1997 must be satisfied. See also the specific rules in items 37, 38 and 39 of Schedule 3 to the *New Business Tax System (Consolidation) Act (No 1) 2002*.

Please note:

- The loss transferred to the income company is deductible to the income company in accordance with the provisions of section 36-17 of ITAA 1997. For example, the tax loss transferred to the income company is first offset against the income company's net exempt income, then against its assessable income.
- Tax losses transferred cannot be used to create a tax loss.
- The Commissioner has power in certain circumstances to amend assessments to disallow a deduction for an amount of transferred tax loss despite section 170 of ITAA 1936 – refer to section 170-70 of ITAA 1997.

Tax losses transferred in – consolidated groups

Tax losses cannot be transferred to a head company from subsidiary companies under Subdivision 170-A of ITAA 1997 when consolidation occurs part-way through the head company's income year. Therefore, label **S** is not applicable in this circumstance.

Do NOT show tax losses transferred from subsidiary companies under Subdivision 707-A of ITAA 1997. These losses should be shown in Part A of the *Consolidated groups losses schedule 2004* at item 1 or item 2.

Subtraction items subtotal

Show the sum of the amounts at labels **C**, **F**, **E**, **H**, **I**, **Z**, **K**, **L**, **M**, **N**, **O**, **P**, **V**, **Q**, **X**, **R** and **S** in the subtraction items subtotal. The total amount cannot be a loss.

Election to take R&D tax offset

Show at label **Y** the amount of the R&D deduction subject to the R&D tax offset shown at label **Y** – **R&D claim subject to the R&D tax offset** in Part E, item 2 of the *Research and development tax concession schedule 2004*. The amount shown at label **Y** in the company tax return must be the same as the amount shown at label **Y** in Part E, item 2 of the research and development tax concession schedule.

> **NOTE**
>
> Inclusion of an amount at label **Y** has the effect that the company will be taken to have made the choice under subsection 73I(1) of ITAA 1936 to take the tax offset instead of the tax deduction under the R&D tax concession provisions.

Taxable income or loss

Show at label **T** all assessable income less allowable deductions which equals the amount at item 6, Operating profit or loss, label **T** – **Total profit or loss** plus or minus the reconciliation adjustments at item 7, plus the amount shown at item 7, label **Y** – **Election to take R&D tax offset**.

If the company has excess franking offsets that under section 36-55 of ITAA 1997 can be converted into a tax loss to be carried forward (see **Excess franking rebate** on page 49), do not include at label **T** the amount of that loss. The amount is taken into account only at item 10, label **U** – **Tax losses carried forward to later income years**. This means that a company may have a taxable income at label **T** and a tax loss carried forward at item 10. Alternatively, if the company has a loss at label **T**, the amount of that loss will not be the company's tax loss for the income year.

Where the company has a taxable income of $1 or more, transfer the amount at label **T** to label **A** – **Taxable or net income** in the Calculation statement on page 4 of the tax return.

Where the amount calculated for label **T** is a loss and an amount is shown at item 7, label **V** – **Exempt income**, then the company's allowable current year loss – before taking into account prior year or transferred losses or any loss created from the conversion of excess franking offsets – has to be calculated.

The company's allowable current year loss at label **T** is its deductible amounts less total assessable income less net exempt income – refer to section 36-10 of ITAA 1997 – disregarding any tax loss created from the conversion of excess franking offsets. The company's net exempt income is calculated under section 36-20 of ITAA 1997 and is not necessarily equal to the amount shown at item 7, label **V** – **Exempt income**. Once the company's allowable current year loss is calculated, this amount is shown at label **T**. Where the amount is a taxable loss print **L** in the box at the right of the amount. The amount of net exempt income taken into account in calculating the company's allowable current year loss is shown at item 7, label **B** – **Other assessable income**. Where the company has an allowable current year loss, print zero (**0**) at label **A** – **Taxable or net income** in the Calculation statement.

8 Financial and other information

Functional currency translation rate

Complete label **N** if the company keeps its accounts solely or predominantly in a foreign currency (its applicable functional currency) and has elected to use that functional currency for its tax accounts which it then translates to Australian dollars to complete its tax return.

Do not complete label **N** if the company has elected to employ a non-Australian dollar functional currency only to calculate income attributable to the activities of an overseas permanent establishment, controlled foreign company, off-shore banking unit or transferor trust. For more information refer to the *Foreign income return form guide* available from **www.ato.gov.au**

If the company is using a functional currency, refer to the instructions in the *Supplementary guide for functional currency taxpayers* available from **www.ato.gov.au**

Show at label **N** the exchange rate employed to translate the taxable income figure from the applicable functional currency into Australian dollars. The translation rate is the amount by which the functional currency amount must be divided in order to reflect an equivalent amount of Australian dollars (AUD) that is, the number of non-AUD currency units that equal one AUD, rounded to four significant figures.

Where label **N** is completed, also complete label **O** – **Functional currency chosen**.

Functional currency chosen

Label **O** must be completed where label **N** – **Functional currency translation rate** has been completed.

Show at label **O** the currency code from International Standard ISO 4217 which corresponds to the functional currency chosen by the company. For more information refer to the *Supplementary guide for functional currency taxpayers* available from **www.ato.gov.au**.

Opening stock

Show at label **A** the total value of all trading stock on hand at the beginning of the income year or accounting period for which the company tax return is being prepared. The amount shown by the company at label **A** is the value for income tax purposes under section 70-40 or for STS taxpayers subsection 328-295(1) of ITAA 1997. The opening value of an item of stock must equal its closing value in the previous income year. If a taxpayer did not have any trading stock in the previous year, the value of trading stock at the start of the year is zero. This might occur in the case of a new business or in the first year a taxpayer has trading stock.

Include motor vehicle floor plan stock and work in progress of manufactured goods.

Exclude any amount that represents opening stock of a business that commenced operations during the income year. Show this amount at item 8, label **S** – **Purchases and other costs**.

For consolidated groups, refer to the *Consolidation reference manual* for more information on trading stock held by its subsidiary members at joining time.

Purchases and other costs

Show at label **S** the cost of direct materials used for manufacture, sale or exchange in deriving the gross proceeds or earnings of the business.

If the company is an STS taxpayer only show at label **S** costs which the company has paid.

For information on GST and input tax credits see the information on item 6 – Calculation of total profit or loss in these instructions.

Closing stock

If the company is eligible to enter or continue in the STS and has chosen to do so at item 5 refer to **STS taxpayers** below. Otherwise refer to **Non-STS taxpayers** in the next column.

STS taxpayers

The company only needs to account for changes in the value of its trading stock if:

- the value of the company's stock on hand at the start of the income year as shown at label **A** – **Opening stock**, and
- a reasonable estimate of the value of the company's stock on hand at the end of the income year

varies by more than $5,000. For more information relating to 'reasonable estimate' phone **13 28 66**.

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

If the difference between the value of the opening stock and a reasonable estimate of its closing stock is more than $5,000 the company must account for changes in the value of its trading stock. Go to step 2. Otherwise go to step 1.

Step 1

If the difference referred to above is $5,000 or less and the company chooses not to account for this difference, the closing stock value put at label **B** is the same value the company put for opening stock at item 8, label **A**. Do NOT put the company's reasonable estimate at label **B**.

Print in the CODE box at label **B** the code from **Table 9** that matches the code the company used to value closing stock in the previous year.

Table 9

Code	Valuation method
C	Cost
M	Market selling value
R	Replacement value

If this is the company's first year in business, the value of its closing stock will be zero. Print code **C** in the CODE box.

Step 2

If the difference referred to above is more than $5,000 or the company chooses to account for the difference in trading stock, the closing stock values must be brought to account under section 70-35 of ITAA 1997. See the following instructions for **Non-STS taxpayers** for calculating the value of trading stock.

In the case above, the company must include in closing stock value at label **B** the value of all stock on hand, regardless of whether the company has paid for the stock.

Non-STS taxpayers

Show at label **B** the total value of all trading stock on hand at the end of the income year or accounting period for which the company tax return is being prepared. The amount at label **B** is the value calculated for income tax purposes under section 70-45 of ITAA 1997.

If the company is registered for GST, the value of closing stock should not include an amount equal to the input tax credit that the company has claimed or is entitled to claim. Input tax credits do not arise for some items of trading stock, such as shares.

Include floor plan stock and work in progress of manufactured goods.

Exclude any amount that represents closing stock of a business that ceased operations during the income year. This amount is shown at item 6, Income, label **R** – **Other gross income**.

Print in the CODE box the code from **Table 10** indicating the method used to value closing stock for income tax purposes. Where more than one method is used, use the code applicable to the method representing the highest value.

Table 10

Code	Valuation method
C	Cost
M	Market selling value
R	Replacement value

Different methods of valuation may be used to value the same item of trading stock in different income years, and similar items may be valued using different methods in the same income year.

However, the opening value of an item in a particular income year must equal the closing value for that item in the previous income year. The company cannot reduce the value of stock on hand by creating reserves to offset future diminution of the value of stock, or any other factors. Keep records showing how each item was valued.

If incorrect trading stock information has been included in a tax return, advise the Tax Office by submitting a full statement of the facts, accompanied by a reconciliation of the value of stock as returned for each income year with the values permissible under the law.

Companies engaged in manufacturing include the value of partly manufactured goods as part of their stock and materials on hand at the end of the income year.

For more information on the circumstances in which packaging items held by a manufacturer, wholesaler or retailer are 'trading stock' as defined in section 70-10 of ITAA 1997 refer to Taxation Ruling TR 98/7 and Taxation Ruling TR 98/8.

Consolidated groups

If the company was a subsidiary member of a consolidated group at the end of the income year and is completing a tax return because of a non-membership period, it should show at label **B** the value for trading stock on hand as at the end of the non-membership period. The amount at label **B** is a tax neutral value unless the company joined the group as a chosen transitional entity or a continuing majority-owned entity. For more information refer to the *Consolidation reference manual*.

Trading stock election

A company may elect to value an item of trading stock below the lowest value of cost, market selling value, or replacement value, because of obsolescence or any other special circumstances. The value it elects must be reasonable.

For guidelines on trading stock valuations where obsolescence or other special circumstances exist refer to Taxation Ruling TR 93/23.

Where an election is made, print **Y** for yes in the box at this item. Otherwise leave blank.

Trade debtors

Show at label **C** the total amounts owing to the company at year end for goods and services provided during the income year, that is the gross amount of current trade debtors from the company's accounts. Also include this amount at item 8, label **D** – **All current assets**.

STS taxpayers do not need to complete this label.

Consolidated groups

If the company was a subsidiary member of a consolidated group at the end of the income year and is completing a tax return because of a non-membership period, it should show at label **C** the relevant amount as at the end of the non-membership period.

All current assets

Show at label **D** all current assets of the company, including cash on hand, trade debtors, short-term bills receivable, inventories and cash at bank. Also include the amount shown at item 8, label **C** – **Trade debtors**.

Consolidated groups

If the company was a subsidiary member of a consolidated group at the end of the income year and is completing a tax return because of a non-membership period, it should show at label **D** the relevant amount as at the end of the non-membership period.

Total assets

Show at label **E** all assets of the company, including current, fixed, tangible and intangible assets. Also include the amount shown at item 8, label **D** – **All current assets**.

Consolidated groups

For a consolidated group include all the assets of the group as disclosed in the financial accounts and not the amounts that are calculated by way of the allocable cost amount.

If the company was a subsidiary member of a consolidated group at the end of the income year and is completing a tax return because of a non-membership period, it should show at label **E** the relevant amount as at the end of the non-membership period.

Trade creditors

Show at label **F** the total amounts owed by the company at year end for goods and services received during the income year, that is current trade creditors. Also include this amount at item 8, label **G** – **All current liabilities**.

STS taxpayers do not need to complete this label.

Consolidated groups

If the company was a subsidiary member of a consolidated group at the end of the income year and is completing a tax return because of a non-membership period, it should show at label **F** the relevant amount as at the end of the non-membership period.

All current liabilities

Show at label **G** the total obligations payable by the company within the coming year. Also include the amount shown at item 8, label **F** – **Trade creditors**.

Consolidated groups

If the company was a subsidiary member of a consolidated group at the end of the income year and is completing a tax return because of a non-membership period, it should show at label **G** the relevant amount as at the end of the non-membership period.

Total liabilities

Show at label **H** all liabilities of the company, including other creditors and deferred liabilities such as loans secured by mortgage and long-term loans. Also include the amount shown at item 8, label **G** – **All current liabilities**.

Consolidated groups

If the company was a subsidiary member of a consolidated group at the end of the income year and is completing a tax return because of a non-membership period, it should show at label **H** the relevant amount as at the end of the non-membership period.

Total debt

Show at label **J** the average total debt of the company for the income year. The average total debt is calculated by adding the opening and closing balances of the total debt of the entity for the income year, and dividing this sum by 2.

The total debt of a company includes all financial instruments and arrangements that were used by the company to provide funds for their operations and investments. The instruments and arrangements that are shown at label **J** include all loans, securities and instruments that give rise to deductible finance expenses, which include any of the following:

- interest, a payment in the nature of interest, or a payment in substitution for interest
- payments made for assignment(s) of the right to interest
- a discount on a security in relation to a finance arrangement
- an amount that is taken under a law to be an amount of interest in respect of a lease, a hire purchase arrangement or any other financial instrument specified by law
- any application or processing fee in respect of a finance arrangement
- any finance expense in respect of a repurchase agreement or securities lending arrangement
- any other form of yield associated with a finance arrangement
- any such amount that, instead of being paid to a party to the arrangement, is dealt with in any way on behalf of that party.

Accordingly, there is no requirement that amounts included at label **J** satisfy the definition of 'debt interest' for the purposes of Division 974 of ITAA 1997 (the debt/equity rules). The publication *Guide to the debt and equity tests* provides an overview of the debt/equity rules.

Consolidated groups

If the company was a subsidiary member of a consolidated group at the end of the income year and is completing a tax return because of a non-membership period, it should show at label **J** the relevant amount calculated as at the end of the non-membership period.

Commercial debt forgiveness

Show at label **K** the net amount of commercial debts owed by the company that were forgiven during the income year – refer to Division 245 of Schedule 2C to ITAA 1936. Broadly, a debt is a commercial debt if any part of the interest payable on the debt is or would be an allowable deduction. A debt is forgiven if the company's obligation to pay the debt is released or waived or otherwise extinguished other than by payment in cash.

The net amount of commercial debts forgiven must be applied to reduce the company's deductible revenue losses, net capital losses, certain undeducted revenue or capital expenditure and the cost base of assets, in that order.

For more information see appendix 1 on page 70.

Shareholders' funds

Show at label **R** the net shareholders' funds as per the accounting records. The amount shown at item 8, label **E** – **Total assets** less the amount shown at item 8, label **H** – **Total liabilities**, equals the amount shown at label **R**.

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

Consolidated groups

If the company was a subsidiary member of a consolidated group at the end of the income year and is completing a tax return because of a non-membership period, it should show at label **R** the relevant amount as at the end of the non-membership period.

Franked dividends paid

Show at label **J** the amount of fully franked dividends paid or credited during the income year. Where a partly franked dividend has been paid during the income year, show the franked portion at label **J** and the unfranked portion at item 8, label **K** – **Unfranked dividends paid.** Do NOT include dividends paid by one member to another within a consolidated group.

Record keeping

Keep a record of the following:

- dividends paid
- recipient(s)
- dates paid
- amounts paid.

Unfranked dividends paid

Show at label **K** the amounts deemed to be dividends by various sections of ITAA 1936 and ITAA 1997. Do NOT include dividends paid by one member to another within a consolidated group.

Under Division 7A of Part III of ITAA 1936, payments and loans – unless they come within specified exclusions – by a private company to a shareholder and their associates are treated as assessable dividends to the extent of the distributable surplus – including realised and unrealised profit. In addition, debts owed by a shareholder or associate which are forgiven by a private company are treated as dividends.

Do not include a dividend paid under a demerger at label **K** unless the head entity of the demerger group has elected under subsection 44(2) of ITAA 1936 that it be treated as an assessable dividend.

Record keeping

Keep a record of the following:

- dividends paid
- recipient(s)
- dates paid
- amounts paid.

Franking account balance

Show at label **M** the balance of the franking account at the end of the 2003–04 income year, unless it is a deficit balance.

If there is a deficit balance in the franking account at the end of the income year, a *Franking account tax return 2004* must be lodged and payment made by the last day of the month following the close of the income year. If the company is a late balancing company that has elected to have its franking deficit tax liability determined on 30 June 2004 then it is required to lodge its franking account tax return on or before 31 July 2004.

From 1 July 2002, companies were required to maintain their franking accounts on a 'tax-paid' basis. To do this, companies whose income year ends either on 30 June or who are late balancing companies, were required to:

- close off their old class C franking accounts on 30 June 2002. This includes squaring off franking accounts that have a franking deficit (total franking debits exceed total franking credits) to crystallise their franking deficit tax liability
- enter a credit in their class C franking account, on 30 June 2002, to cancel any outstanding franking debits that arose due to an estimated debit determination made before 1 July 2002
- at the start of 1 July 2002 establish a franking account under the new imputation system, and
- roll over any class C franking account surpluses (total franking credits exceed total franking debits) from the former imputation system into the new franking account and the new franking period by applying a factor of 30/70.

For information on how early balancing companies were required to convert their franking account to a tax paid basis, refer to the fact sheet *Simplified imputation: consequential amendments for an early balancing corporate tax entity to convert its franking account to a tax paid basis* which is available on **www.ato.gov.au**

The class C franking account balance referred to above should already be reflecting a 30% company tax rate at the end of 30 June 2002. If the class C franking account balance does not already reflect a 30% company tax rate at the end of 30 June 2002, refer to the information 'Company tax rate consequentials (imputation and infrastructure borrowings) – questions and answers' published under the heading 'Company tax and imputation' under the Simplified imputation system section on **www.ato.gov.au**

If the company is a PDF and its venture capital sub-account is in deficit at the end of the franking year, the company is liable to pay venture capital deficit tax. If the PDF has a liability to venture capital deficit tax, a venture capital deficit tax return must be lodged.

Please note:

- Shareholder loans and other advances made by private companies that are deemed dividends are not frankable, but the company's franking account is debited as if the deemed dividend had been franked.
- A company determines whether its franking account needs adjustment, because the measures may affect franking benefits available to shareholders, deny franking credits or give rise to additional franking debits.

For a range of more detailed information about simplified imputation, refer to the imputation products on **www.ato.gov.au**

Consolidated groups

If the company was a subsidiary member of a consolidated group at the end of the income year and is completing a tax return because of a non-membership period, it should show at label **M** its franking account balance as at the end of the non-membership period if it is a surplus balance. If there is a deficit balance at the end of any non-membership period, the company must lodge a Franking account tax return and pay the franking deficit tax.

Excess franking rebate

Legislation to ensure companies will not waste prior year or current year losses against franked dividend income has been enacted. The rule about choosing to deduct a prior year loss applies to deductions of tax losses in the year in which 1 July 2002 falls and later years. The rule ensuring current year losses are not wasted applies to the income year in which 1 July 2002 falls and later years. These new rules may be found in Schedule 8 to *Taxation Laws Amendment Act (No.5) 2003*.

Under these rules a current year loss (that is, the excess of allowable deductions over assessable income and exempt income) that would otherwise be incurred but for deriving franked dividend income may be carried forward as a tax loss for consideration as a deduction in later income years. Broadly, the amount of current year loss that may be carried forward under these rules is determined by reference to the amount of any excess franking offset.

If the company is in receipt of franked distributions from a New Zealand franking company, refer to instructions in the publication *Trans-Tasman imputation: How to claim Australian franking credits attached to New Zealand dividends*.

Show at label **H**, any excess franking offset calculated as follows:

Step 1: Calculate the amount of franking tax offsets that the company is entitled to. Franking tax offsets are available under Division 207 of ITAA 1997 as a result of receiving a franked distribution and Subdivision 210-H of ITAA 1997 as a result of receiving a franked distribution franked with a venture capital credit. The amount of franking tax offset that a company is entitled to is equal to the share of franking credits included in distributions received from partnerships and trusts, and the amount of franking credits included at item 7, label **J** – **Franking credits**. Do not include any franking tax offsets that are subject to the refundable tax offset rules under Division 67. For example, franking tax offsets of a life insurance company are generally subject to the refundable tax offset rules to the extent they relate to distributions paid on shares and other membership interests held on behalf of policy-holders. These amounts should not be included. Generally, however, the franking tax offsets of other companies are not subject to the refundable tax offset rules.

Step 2: Calculate the amount of income tax payable:

- ignoring the amount of tax offsets calculated in step 1 above, tax offsets subject to the refundable tax offset rules or the carry forward tax offset rules, and franking deficit tax offsets, and
- taking into account all other tax offsets, if any.

Step 3: Calculate the amount of excess franking offset. If the amount of franking tax offsets from step 1 exceeds the amount of hypothetical tax calculated at step 2 the excess is the amount of excess franking offset which should be recorded at label **H** – **Excess franking rebate**.

Example 7

For the 2003–04 income year ABC Company Ltd has the following:

Total dividends	Item 6 label **H**	$140	Franked distribution
Franking credits	Item 7 label **J**	$ 60	
Other deductible expenses	Item 7 label **X**	$100	

The $60 franking tax offset is not subject to the refundable tax offset rules in Division 67 of ITAA 1997. ABC Company Ltd has no net exempt income for the year and it does not have a tax loss for the year.

ABC Company Ltd would work out its excess franking offset as follows:

Step 1: Calculate the amount of franking tax offsets that it is entitled to. In this instance, ABC Company Ltd's franking tax offsets are not subject to the refundable tax offset rules, therefore it is entitled to franking tax offsets of $60. However, for the purposes of calculating the excess franking offset, these offsets are ignored in step 2 below.

Step 2: Calculate the amount of income tax payable ignoring franking tax offsets:

Taxable income	$100	($140 + $60 – $100)
Gross tax	$ 30	
Rebates/tax offsets	nil	ABC Company Ltd is required to disregard the franking tax offset
Tax payable	$ 30	

Step 3: Excess franking offset is $30. That is, the amount left over after deducting the amount at step 2 from the amount at step 1.

ABC Company Ltd would record $30 at item 8, label **H** – **Excess franking rebate**.

ABC Company Ltd would now convert this amount of excess franking offset into a tax loss by dividing the excess franking offset amount ($30) by the corporate tax rate (30%) which results in a tax loss amount of $100. ABC Company Ltd would record the amount of this tax loss at item 10, label **U** – **Tax losses carried forward to later income years**.

Balance of unfranked non-portfolio dividend account at year end

Where a claim is made under section 46FA of ITAA 1936, the claiming entity is required to maintain an unfranked non-portfolio dividend account under section 46FB of ITAA 1936. Show at label **L** the balance of this account as at the last day of the income year.

Loans to shareholders and their associates

Complete label **N** only if:

- the company is a private company
- the company had a loan account to a shareholder or an associate which had a debit balance at any time during the income year, and
- the recipient of the loan was a natural person, partnership or trust.

Show at label **N** the net sum of the loan account balances of all such loan accounts at the end of the income year. The net sum is shown in whole figures only.

Do NOT include brackets, or plus or minus signs.

For example, –$34,677 becomes $34,677.

Table 11

Print in the CODE box at the right of the amount at label **N** the code indicating whether:

D	the net balance is a debit balance (money owed to the company).
C	the net balance is a credit balance (money owed by the company).
N	the net balance is nil.

Under Division 7A of Part III of ITAA 1936, loans by a private company to a shareholder and their associates – unless they come within specified exclusions – are treated as assessable dividends to the extent of the distributable surplus – including realised and unrealised profit. Advances or loans to shareholders or associates may represent a distribution of profits and may be assessed to the recipient as unfranked dividends.

Intangible depreciating assets first deducted

If the company is eligible to enter or continue in the STS and has chosen to do so at item 5 do not include an amount at this label.

Show at label **Z** the cost of all intangible depreciating assets for which the company is claiming a deduction for decline in value for the first time.

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

- certain items of intellectual property (patents, registered designs, copyrights and licences of these)
- computer software (or a right to use computer software) that the company acquires, develops or has someone else develop for its use for the purposes for which it is designed (in-house software)
- mining, quarrying or prospecting rights and information
- spectrum licences
- datacasting transmitter licences

- certain indefeasible rights to use international submarine cable systems (IRUs).

A depreciating asset that the company holds starts to decline in value from the time the company uses it (or installs it ready for use) for any purpose. However, the company can only claim a deduction for the decline in value to the extent it uses the asset for a taxable purpose, such as for producing assessable income.

If the company has allocated any intangible depreciating assets with a cost of less than $1,000 to a low-value pool for the income year, the company also needs to include the cost of those assets at label **Z**. Do not reduce the cost for estimated non-taxable use.

Expenditure on in-house software which has been allocated to a software development pool is not included at label **Z**.

For more information on decline in value, cost, low-value pools, in-house software and software development pools, refer to the publication *Guide to depreciating assets*.

NOTE

If the company has included an amount of more than $75,000 at label **Z**, it needs to complete a *Capital allowances schedule 2004* and attach it to the company tax return. For more information refer to the publication *Capital allowances schedule 2004* instructions.

Consolidated groups

The head company must also include the cost of depreciating assets that a subsidiary member would have included at label **Z** if it had not joined the consolidated group. However, the head company must not include the cost of depreciating assets at label **Z** where it is deducting their decline in value for the first time simply as a consequence of consolidation.

For a company that was a subsidiary member of a consolidated group for part of the income year and is completing a tax return because of a non-membership period, show at label Z the cost of intangible depreciating assets first deducted during the non-membership period. However, do not include the cost of depreciating assets that the company is deducting their decline in value for the first time simply as a consequence of leaving a consolidated group.

Other depreciating assets first deducted

If the company is eligible to enter or continue in the STS and has chosen to do so at item 5 do not include an amount at this label.

A depreciating asset that the company holds starts to decline in value from the time the company uses it (or installs it ready for use) for any purpose. However, the company can only claim a deduction for the decline in value to the extent it uses the asset for a taxable purpose, such as for producing assessable income.

Show at label **A** the cost of all depreciating assets (other than intangible depreciating assets) for which the company is claiming a deduction for the decline in value for the first time.

If the company has allocated any assets (other than intangible depreciating assets) with a cost of less than $1,000 to a low-value pool for the income year, the company also needs to include the cost of those assets at label **A**. Do not reduce the cost for estimated non-taxable use.

For information on decline in value, cost and low-value pools, refer to the publication *Guide to depreciating assets*.

NOTE

If the company has included an amount of more than $75,000 at label **A**, the company needs to complete a *Capital allowances schedule 2004* and attach it to the company tax return. For more information refer to the publication *Capital allowances schedule 2004 instructions*.

Consolidated groups

The head company must also include the cost of depreciating assets that a subsidiary member would have included at label **A** if it had not joined the consolidated group. However, the head company must not include the cost of depreciating assets at label **A** where it is deducting their decline in value for the first time simply as a consequence of consolidation.

For a company that was a subsidiary member of a consolidated group for part of the income year and is completing a tax return because of a non-membership period, show at label **A** the cost of depreciating assets first deducted during the non-membership period. However, do not include the cost of depreciating assets that the company is deducting their decline in value for the first time simply as a consequence of leaving a consolidated group.

Termination value of intangible depreciating assets

If the company is eligible to enter the STS and has elected to do so at item 5 do not include an amount at this label.

For information on intangible depreciating assets refer to **Intangible depreciating assets first deducted** on page 50.

Show at label **P** the termination value of each balancing adjustment event occurring for intangible depreciating assets – including assets allocated to a low-value pool.

Do NOT show at label **P** any termination value in relation to:

- assets allocated in a prior year to a general STS pool or long life STS pool
- in-house software for which the company has allocated expenditure to a software development pool
- assets falling within the provisions relating to investments in Australian films
- IRUs where the expenditure was incurred at or before 11.45 am (by legal time in the ACT) on 21 September 1999
- IRUs used at or before that time for telecommunications purposes.

A balancing adjustment event occurs if the company stops holding or using a depreciating asset or decides not to use it in the future – for example, assets were sold, lost or destroyed.

Generally, the termination value is the amount the company received or is deemed to receive in relation to the balancing adjustment event. It also includes the market value of any non-cash benefits such as goods and services the company receives for the asset.

For more information on balancing adjustment events, termination value, in-house software and software development pools, refer to the publication *Guide to depreciating assets*.

Termination value of other depreciating assets

If the company is eligible to enter or continue in the STS and has chosen to do so at item 5 do not include an amount at this label.

Show at label **E** the termination value of each balancing adjustment event occurring for depreciating assets – including assets allocated to a low-value pool.

Do NOT show at label **E** any termination value in relation to:

- assets allocated in a prior year to a general STS pool or long life STS pool
- intangible depreciating assets
- buildings or structures for which a deduction is available under the capital works provisions
- assets used in research and development activities, and
- assets falling within the provisions relating to investments in Australian films.

A balancing adjustment event occurs if the company stops holding or using a depreciating asset or decides not to use it in the future – for example, assets were sold, lost or destroyed.

Generally, the termination value is the amount the company received or is deemed to receive in relation to the balancing adjustment event. It also includes the market value of any non-cash benefits such as goods and services the company receives for the asset.

For more information on balancing adjustment events and termination value, refer to the publication *Guide to depreciating assets*.

Total salary and wage expenses

Show at label **D** the total salary, wage and other labour costs incurred, including directors' remuneration, as per payment summaries.

These expenses include any salary and wage component of item 6, Expenses, label **A** – **Cost of sales** – that is, allowances, bonuses, casual labour, retainers and commissions paid to people who received a retainer, and workers' compensation paid through the payroll.

Also included are direct and indirect labour costs, directors' fees, 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. Any salary and wage paid by a private company to a current or former shareholder or director of the company, or to an associate of such a person, is included here and at item 8, label **Q** – **Payments to associated persons**.

However, these expenses exclude agency fees, contract payments, sub-contract payments, service fees, superannuation, reimbursements or allowances for travel, management fees, consultant fees and wages or salaries reimbursed under a government program.

Print in the CODE box at the right of the amount at label **D** the code from **Table 12** that matches the description of the expense component where salary and wage expenses have been wholly or predominantly reported.

Table 12

	Code
Included in the expense component of: Cost of sales	C
All other expenses	A
Included in both the expense components of: Cost of sales and All other expenses	B
Included in other than: Cost of sales and/or All other expenses	O

Payments to associated persons

Show at label **Q** the amounts, including salaries, wages, commissions, superannuation contributions, allowances and payments in consequence of retirement or termination of employment, paid by a private company to associated persons. An associated person is a current or former shareholder or director of the company, or an associate of such a person.

Also include the amounts of salaries and wages paid to associated persons at item 8, label **D** – **Total salary and wage expenses**.

Record keeping

Excessive remuneration paid to an associated person may not be deductible and could be treated as an unfranked dividend (see section 109 ITAA 1936). Records to establish the reasonableness of remuneration include:

- age – if under 18
- hours worked

- nature of duties performed
- other amounts paid – for example, retiring gratuities, bonuses and commissions
- total remuneration.

Net foreign income

Show at label **R** assessable income derived by the company from foreign sources, net of expenses. This amount includes foreign source capital gains – after offsetting any unapplied capital losses – but excludes attributed foreign income.

Parliament is presently considering changes to the Foreign Investment Fund (FIF) rules with application from 1 July 2003. For more information, refer to **Foreign investment fund income** in the next column.

If the company is in receipt of franked distributions from a New Zealand franking company, refer to instructions in the publication *Trans-Tasman imputation: How to claim Australian franking credits attached to New Zealand dividends*.

Foreign source tax losses may be offset only against foreign source income. Do not show negative amounts at label **R**. Any excess of foreign source tax losses over foreign source income may be carried forward to be offset against future foreign source income of the same class – refer to the publication *Foreign income return form guide*.

Foreign source capital gains are made by an Australian resident company if a CGT event happens to any of its worldwide CGT assets.

Any capital gain made from CGT assets is also included in the company's net capital gain for the income year and is shown at item 7, label **A** – **Net capital gain**. For more information about capital gains tax refer to the publication *Guide to capital gains tax*.

Debt deductions other than those attributable to an overseas permanent establishment of the taxpayer are not applied against foreign source income for the purpose of calculating net foreign income or identifying a foreign loss.

> **NOTE**
>
> Complete a *Losses schedule 2004* if the company has:
> - claimed a deduction for foreign source losses
> - 'current year' foreign source losses
> - foreign source losses carried forward to later income years
> - claimed a deduction for prior year CFC losses
> - 'current year' CFC losses
> - CFC losses carried forward to later income years.
>
> For more information refer to the *Losses schedule 2004 instructions.*

Tax spared foreign tax credits

Show at label **S** the amount of foreign tax credit relating to foreign tax forgone under an investment incentive scheme provided by a foreign government where that tax forgone is deemed to have been paid for the purposes of Australia's foreign tax credit system.

ATTRIBUTED FOREIGN INCOME

Broad-exemption listed country

Show at label **B** the amount of attributed foreign income from controlled foreign entities in broad-exemption listed countries. Broad-exemption listed countries are listed in Part 1 of Schedule 10 to the Income Tax Regulations.

Do not include amounts attributed from transferor trusts – see **Transferor trust** below.

Limited-exemption listed country

Show at label **C** the amount of attributed foreign income from controlled foreign entities in limited-exemption listed countries. Limited-exemption listed countries are listed in Part 2 of Schedule 10 to the Income Tax Regulations.

Do not include amounts attributed from transferor trusts – see **Transferor trust** below.

Unlisted country

Show at label **U** the amount of attributed foreign income from controlled foreign entities in unlisted countries. Unlisted countries are countries that are not listed in Schedule 10 to the Income Tax Regulations.

Do not include amounts attributed from transferor trusts – see below.

Transferor trust

Show at label **V** the amount of attributed foreign income from transferor trusts.

Foreign investment fund income

Show at label **W** the amount of attributed foreign income from foreign investment funds. The term 'foreign investment fund' has the meaning set out in Part XI of ITAA 1936.

Parliament is presently considering changes to the foreign investment fund (FIF) rules with application from 1 July 2003 in most cases. Broadly, the changes include measures to:

- increase the balanced portfolio FIF exemption from 5 per cent to 10 per cent; and
- exclude from the operation of the FIF rules certain investments in FIFs that primarily engage in managing funds.
- exempt complying superannuation entities (and certain assets of life insurance companies) from the FIF rules.

At the time of printing, these measures had not become law. For more information call the Tax Reform Infoline on **13 28 66**.

Foreign life policy

Show at label **X** the amount of attributed foreign income from foreign life policies. The term 'foreign life policy' has the meaning set out in Part XI of ITAA 1936.

> **NOTE**
> For more information on the calculation of the amounts shown at item 8, labels **B**, **C**, **U** and **V** refer to the publication *Foreign income return form guide*. For more information on the calculation of the amounts shown at labels **W** and **X** refer to the publication *Foreign investment funds guide*.

Section 128F exempt interest paid

Show at label **O** the total amount of interest paid to non-residents that is exempt from interest withholding tax under section 128F of ITAA 1936.

9 STS depreciating assets

Only complete this item if the company is eligible to enter or continue in the STS and has chosen to do so at item 5 – Simplified tax system (STS) elections.

To complete this item use the amounts the company calculated for STS depreciation deductions at item 6, Expenses, label **X** – **Depreciation expenses**:

Low cost assets – show at label **A** the total amount the company claimed at item 6 relating to low-cost assets.

General pool assets – show at label **B** the total amount the company claimed at item 6 relating to the general STS pool.

Long life pool assets – show at label **C** the total amount the company claimed at item 6 relating to the long life STS pool.

> **NOTE**
> Do NOT show at label **A**, **B** or **C** the balance of any STS pool or the cost of assets transferred to a pool.

10 Losses information

Any company which is a subsidiary member of a consolidated group at the end of the 2003–04 income year is not required to complete labels **U** and **V.** Other companies, including the head company of a consolidated group at the end of the 2003–04 income year, may need to complete labels **U** and **V**.

Tax losses carried forward to later income years

Show at label **U** the unapplied – that is, undeducted or not transferred – amount of tax losses incurred by the company and carried forward to the 2004–05 income year under section 36-17 of ITAA 1997.

Net exempt income reduces a current year tax loss and, to the extent of any excess, reduces prior year tax losses. Tax losses carried forward may be affected by the commercial debt forgiveness provisions – see appendix 1 on page 70.

New rules contained in Schedule 8 to *Taxation Laws Amendment Act (No. 5) 2003* ensure that companies will not waste losses against franked dividend income. Under these rules a company is:

- subject to certain limitations, able to choose the amount of prior year losses it wishes to deduct in a later year of income from the excess, if any, of its assessable income over total deductions (other than tax losses). This rule applies to deductions of tax losses in the year in which 1 July 2002 falls and later years. Providing choice means that companies can choose not to deduct prior year losses in order to pay sufficient tax to be able to frank their distributions
- able to treat a current year loss that would otherwise be incurred but for deriving franked dividend income as a tax loss for that income year and be able to carry forward the tax loss for consideration as a deduction in a later year of income. This rule applies to the income year in which 1 July 2002 falls and later years. The relevant current year loss is determined by reference to the amount of any excess franking offsets.

If the company has excess franking offsets at item 8, label **H** – **Excess franking rebate**, the entity's tax loss for the income year may be calculated as follows. First, divide the amount of excess franking offset by the corporate tax rate. Second, add the result of the division to what would have been the entity's tax loss for the year if both the entity's net exempt income for the year, and the excess franking offset were disregarded. Third, reduce the aggregate amount by the net exempt income (if any) for the income year. The result (if a positive amount) is taken to be the tax loss for the income year. Show this amount at label **U** together with any unapplied prior year losses.

If a company is required to complete a *Losses schedule 2004*, the amount of the tax losses shown at label **U** – **Tax losses carried forward to later income years** in Part A of that schedule must be the same as the amount shown at label **U** in the company tax return.

Any net capital losses to be carried forward to later income years are not included at label **U** but are shown separately at item 10, label **V** – **Net capital losses carried forward to later income years** and in the CGT schedule, if a CGT schedule is required.

Consolidated groups

If a head company is required to complete a *Consolidated groups losses schedule 2004*, the amount of the tax losses shown at label **U** – **Tax losses carried forward to later income years** in Part A of that schedule must also be the same as the amount shown at label **U** in the company tax return.

Where the company is a subsidiary member of a consolidated group at the end of the income year, label **U** is not applicable.

Net capital losses carried forward to later income years

Show at label **V** the total of any unapplied net capital losses from collectables and unapplied net capital losses from all other CGT assets and events. This information is calculated or transferred from:

- label **V** in part I of the CGT summary worksheet, or
- labels **H** and **I** in part I of the CGT schedule, if a CGT schedule is required.

For more information refer to the publication *Guide to capital gains tax*.

If the company is required to complete the *Losses schedule 2004*, the amount of the tax losses shown at label **V** – **Net capital losses carried forward to later income years** in Part A of that schedule must also be the same as the amount shown at label **V** in the company tax return.

Consolidated groups

If a head company is required to complete a *Consolidated groups losses schedule 2004,* the amount of the net capital losses shown at label **V** – **Net capital losses carried forward to later income years** in Part A of that schedule must also be the same as the amount shown at label **V** in the company tax return.

Where the company is a subsidiary member of a consolidated group at the end of the income year, label **V** is not applicable.

11 Personal services income

There are special rules for the income tax treatment of personal services income (PSI) earned by contractors and consultants.

If the company receives an individual's PSI other than in the course of conducting a personal services business, and does not promptly pay it to the individual as salary or wages:

- the net amount of PSI is attributed to the individual and is not assessable to the company, and
- certain related expenses are not deductible under the special rules.

For more information refer to the *Personal services income schedule 2004 instructions.*

Adjustments relating to non-deductible expenses and attributed PSI are included at:

- item 7, label **W** – **Non-deductible expenses**
- item 7, label **Q** – **Other income not included in assessable income**.

See Worksheet 1 on pages 67–69 and note 5 on page 69.

Does your income include an individual's personal services income?

Print **Y** for yes at label **N** if the company's income includes an individual's PSI. Otherwise print **N** for no at label **N**.

If you printed **Y** at label **N**, complete and attach a PSI schedule to the company tax return.

PSI is income that is mainly a reward for an individual's personal efforts or skills (or would mainly be such a reward if it was derived by the individual).

A company may derive income which includes the PSI of one or more individuals. Examples include:

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

PSI does not include income that is mainly:

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

12 Licensed clubs only

Percentage of non-member income

Show at label **A** the percentage, in whole figures, of total income attributable to non-members – that is, visitors.

13 Life insurance companies and friendly societies only

A life insurance company is defined for tax purposes in section 995-1 of ITAA 1997 as a company registered under the *Life Insurance Act 1995* and includes:

- life insurance companies
- life reinsurance companies, and
- friendly societies carrying on life insurance business.

If a friendly society does not conduct life insurance business, print zero (**0**) at labels **B** to **J**.

A friendly society that does conduct life insurance business should follow these instructions as a life insurance company.

Life insurance companies separate their taxable income into two classes – the ordinary class and the complying superannuation class – and multiply the taxable income of each class by the appropriate tax rate to determine their gross tax.

The tax rates to assist with the calculation of the gross tax amount for life insurance companies are listed at appendix 9 on page 82.

Life insurance companies, including friendly societies carrying on life insurance business, are entitled to a franking tax offset for franked dividends, although mutual friendly societies are not entitled to maintain a franking account.

Where franking tax offsets exceed the tax that would be payable after all other tax offsets are taken into account, life insurance companies may be entitled to a refund of the excess to the extent it relates to distributions paid on shares and other membership interests held on behalf of policy-holders. The amount of the excess franking tax offset which is refundable is claimed at label **Z** – **Other refundable credits** in the Calculation statement.

If a life insurance company receives a dividend from a listed investment company which includes an 'LIC capital gain amount', the life insurance company is entitled to a deduction of $33^1/_3$% of the 'LIC capital gain amount' if the shares in the listed investment company are virtual PST assets. The deduction should be shown at item 7, label **X** – **Other deductible expenses.**

If the virtual PST component of the complying superannuation class of a life insurance company includes a distribution from a partnership or trust that claimed a deduction in respect of an LIC capital gain amount, the life insurance company is required to 'add-back' as income one-third of its share of the deduction claimed by the partnership or trust. The amount of income added back is shown at item 7, label **B** – **Other assessable income**.

If the ordinary class of a life insurance company includes a distribution from a partnership or trust that claimed a deduction in respect of an LIC capital gain amount, the life insurance company is required to 'add-back' as income its share of the deduction claimed by the partnership or trust. The amount of income added back is shown at item 7, label **B** – **Other assessable income**.

Virtual PST

Show at item 13, label **B** the amount of the virtual PST component of the taxable income of the company.

> **NOTE**
>
> If the company is a life insurance company and has virtual PST tax losses carried forward to later income years or virtual PST net capital losses carried forward to later income years complete a *Losses schedule 2004*. For more information refer to the *Losses schedule 2004 instructions*.

Net capital gain – complying super class

Show at label **C** the amount of the net capital gain that is included in the virtual PST component of the complying superannuation class of taxable income.

Net capital gain – ordinary class

Show at label **D** the amount of the net capital gain that is included in the ordinary class of taxable income.

Gross taxable contributions

Show at label **E** taxable contributions of complying superannuation funds that were transferred to the life insurance company and are included in the assessable income of the company under section 275 of ITAA 1936.

Fees and charges

Show at label **F** the amount of all fees and charges included in assessable income. This includes premium based fees, establishment fees, time based account fees, asset fees, switching fees, surrender penalties, buy/sell margins, exit fees and interest on overdue premiums. Any fees and charges that are not assessable income under section 320-40 of ITAA 1997 are not shown at label **F** but at label **J** – **Non-assessable management fees.**

Non-assessable management fees

Show at label **J** the amount of any management fees that are not assessable income under section 320-40 of ITAA 1997.

14 Pooled development funds

Small and medium sized enterprises income

Show at label **G** the amount of income received by a pooled development fund from small and medium sized enterprises.

Unregulated investment income

Show at label **H** the amount of income received from unregulated investments.

15 Retirement savings accounts (RSAs) providers only

RSA providers only are to complete labels **R** *to* **V**

RSA providers other than life insurance companies separate the RSA component of their income and multiply the net taxable income from RSAs at the appropriate rate. For information on the tax rate, see appendix 9 on page 82.

Gross income of RSAs

Show at label **R** the gross income of the RSA provider that is not a life insurance company, or the RSA component of the complying superannuation class of a life insurance company.

This includes gross taxable contributions received by the RSA provider.

Gross taxable contributions of RSAs

Show at label **W** all taxable contributions received by the RSA provider.

Total deductions from RSAs

Show at label **T** the total deductions claimed against all income relating to gross income of RSAs.

Exempt income from RSAs

Show at label **S** the amounts – other than contributions – credited to RSAs paying current pensions and annuities.

Net taxable income from RSAs

Show at label **V** the RSA component of the taxable income of the RSA provider that is not a life insurance company, or the RSA component of the complying superannuation class of the taxable income of a life insurance company.

16 Landcare and water facility tax offset

The company cannot choose a tax offset for expenditure incurred after the 2000–01 income year on landcare operations or water facilities. A company may have a landcare or water facility tax offset carried forward to this income year if its income tax liability for an earlier year did not absorb all of the tax offset available to it for that earlier year.

Landcare and water facility tax offset brought forward from prior years

Show at label **K** the total of any landcare and water facility tax offsets carried forward and available for offset in this income year.

Before applying a carried forward tax offset in 2003–04 a company must apply it to reduce any unused net exempt income to nil for that year or for any earlier income year after the year in which the tax offset arose provided the company had a taxable income in that earlier year. For the 2003–04 income year any exempt income is reduced by $1 for each 30 cents of the tax offset.

The company cannot apply a tax offset it has carried forward if Subdivision 165-A of ITAA 1997 would prevent the company from deducting a tax loss for the current year.

17 Internet trading

Print **Y** for yes at label **Q** if, in deriving income, the company used the internet to:

- receive orders for goods and/or services. For example, the company received orders by email or a web page form – rather than by conventional post, telephone or facsimile
- receive payment for goods and/or services. For example, the company received:
  - credit card or charge card details by email or web page form – rather than by conventional post, telephone or facsimile
  - digital cash
- deliver goods and/or services. For example, the company:
  - used email, the World Wide Web (www) or file transfer protocol (FTP) to deliver digitised music, news articles or software – rather than conventional post to deliver software on a floppy disc
  - used email, in conjunction with a website, to give advice and received a payment in connection with this advice
  - advertised goods or services of other businesses for a fee on the internet
  - hosted websites, or
  - provided access to the internet.

Print **N** for no at label **Q** if the company only used the internet to:

- advertise the company's goods or services
- give support to the company's customers
- buy the company's stock
- do the company's banking online.

ITEMS 18 TO 23 – OVERSEAS TRANSACTIONS OR INTERESTS/THIN CAPITALISATION/FOREIGN SOURCE INCOME

These items must be answered even if you have no overseas transactions or interests.

Agents for non-residents

Where a tax return that includes income or deductions from only the following activities is lodged in accordance with the following sections of ITAA 1936 and does not include income or deductions from any other source, print **N** for no at item 18, label **X**; item 19, label **Y** and item 20, label **Z**. Do not complete a *Schedule 25A 2004*.

Table 13

Industry type	Industry code	Section number
Overseas shipping	99020	129
Agents for non-resident insurer	99050	144
Agents for non-resident reinsurers	99050	148
Control of non-resident's money	99070	255

Dividends as the only international transactions

Where dividends were paid to or received from a related overseas entity and those dividends were the only transactions with related overseas entities, print **N** for no at item 18, label **X** and item 19, label **Y** in respect of overseas transactions and do not complete Section A of *Schedule 25A 2004*. Answer items 20, 21, 22 and 23 as required.

Schedule 25A and the thin capitalisation schedule

Where a *Schedule 25A 2004* or *Thin capitalisation schedule 2004* is required to be lodged, more information is available in the instructions to these schedules.

18 Did you have any transactions or dealings with international related parties (irrespective of whether they were on revenue or capital account)?

Print **Y** for yes or **N** for no at label **X**.

'International related parties' are persons, including permanent establishments, who are parties to international dealings that can be subject to Division 13 of ITAA 1936 and/or the business profits article, or associated enterprises article, of a relevant double tax agreement. The term includes the following:

- any overseas entity or person who participates directly or indirectly in the company's management, control or capital
- any overseas entity or person in respect of which the company participates directly or indirectly in the management, control or capital
- any overseas entity or person in respect of which persons who participate directly or indirectly in its management, control or capital are the same persons who participate directly or indirectly in the company's management, control or capital
- a permanent establishment and its head office
- two permanent establishments of the same person.

'Participates' includes a right of participation, the exercise of which is contingent on an agreed event occurring. 'Person' has the same meaning as in subsection 6(1) of ITAA 1936 and section 995-1 of ITAA 1997.

The type of 'dealings or transactions' that will require the entity to print **Y** for yes at this question are dealings by the entity with related parties as above, such as an overseas holding company, overseas subsidiary, an overseas permanent establishment of the entity, or a nonresident trust in which the entity has an interest. These dealings or transactions may be the provision or receipt of services, or transactions in which money or property has been sent out of Australia, or received in Australia from an overseas source during the income year. The dealings may also include transfer of tangible or intangible property, provision or receipt of services, or the provision or receipt of loans or financial services.

Where money or property is not actually sent out of Australia or received in Australia, but accounting entries are made that have the effect of money or property being transferred, this is also to be taken as an international transaction.

19 Was the aggregate amount of the transactions or dealings with international related parties (including the value of property transferred or the balance outstanding on any loans) greater than $1 million?

Print **Y** for yes or **N** for no at label **Y**.

The aggregate amount of the dealings is the total amount of all dealings, whether on revenue or capital account, and includes the balance of any loans or borrowings outstanding with international related parties.

If the answer is yes, complete Section A of *Schedule 25A 2004*, together with any other relevant part of the schedule. Attach the completed schedule to the company tax return.

20 Overseas interests

Did you have an overseas branch or a direct or indirect interest in a foreign trust, controlled foreign entity, transferor trust, foreign investment fund or foreign life policy?

Print **Y** for yes or **N** for no at label **Z**.

You must answer yes if the company received a dividend or other amount that is treated as non-assessable non-exempt income under section 23AH, 23AI, 23AJ, 23AK or 99B(2A) of ITAA 1936.

If the answer is yes, complete Section B and any other relevant part of *Schedule 25A 2004*. The schedule must be completed, attached to the company tax return, and lodged as part of the tax return.

The 'interests' in item 20 that will require the entity to complete the schedule are those where:

- the entity has an interest in a controlled foreign company or trust
- the entity has an interest in a foreign investment fund or foreign life assurance policy, or
- the entity has transferred property, at any time, including money or services, to a non-resident trust, or is able to influence the decisions relating to a non-resident trust.

An interest in a controlled foreign company or trust may be either direct or indirect, and is taken to have the same meaning as set out in Division 3 Part X of ITAA 1936.

An interest in a foreign investment fund or foreign life assurance policy has the same meaning as set out in section 483 of ITAA 1936.

A company has an interest in a transferor trust if the company has ever made, or caused to be made, a transfer of property or services to a non-resident trust. 'Transfer', 'property' and 'services' are defined in section 102AAB of ITAA 1936. Sections 102AAJ and 102AAK of ITAA 1936 provide guidance in relation to whether there has been a transfer or deemed transfer of property or services to a non-resident trust.

21 Thin capitalisation

Did the thin capitalisation provisions apply as outlined in the instructions and the *Guide to thin capitalisation*?

Print **Y** for yes or **N** for no at label **O**. If the answer is yes a *Thin capitalisation schedule 2004* is required. This schedule is now available through the electronic lodgement service (ELS), or the company may choose to complete the paper schedule and post it to:

Australian Taxation Office
PO Box 1365
ALBURY NSW 2640

For information on whether the thin capitalisation provisions apply, refer to appendix 3 on page 75 in these instructions and to the *Guide to thin capitalisation* which is available on **www.ato.gov.au**

22 Foreign source income

Was the amount of foreign tax credits paid or carried forward greater than $100,000 OR was the amount of assessable foreign income greater than $500,000?

Print **Y** for yes or **N** for no at label **P**.

Assessable foreign income is all income sourced from overseas, and includes interest, dividends, attributable foreign income, and foreign sourced capital gains.

23 Transactions with specified countries

Did you directly or indirectly send to, or receive from, one of the countries specified in the instructions, any funds or property; or

Do you have the ability or expectation, to control, whether directly or indirectly, the disposition of any funds, property, assets or investments located in, or located elsewhere but controlled or managed from one of those countries?

Print **Y** for yes or **N** for no at label **I**.

The specified countries are as follows:

Table 14 Specified countries

Andorra	Cayman Islands	Liberia	Samoa
Anguilla	Cook Islands	Liechtenstein	San Marino
Antigua & Barbuda	Cyprus	Malta	Seychelles
Aruba	Dominica	Marshall Islands	St Kitts & Nevis
Bahamas	Gibraltar	Mauritius	St Lucia
Bahrain	Grenada	Montserrat	St Vincent & the Grenadines
Barbados	Guernsey	Nauru	Turks and Caicos Islands
Belize	Isle of Man	Netherlands Antilles	US Virgin Islands
Bermuda	Jersey	Niue	Vanuatu
British Virgin Islands	Labuan	Panama	

CALCULATION STATEMENT

This statement works out the tax liability, if any, where there is a taxable or net income. It also takes into account amounts which reduce the tax liability. The final outcome is the net amount to be paid by the company or to be refunded by the Tax Office.

The information provided at certain labels of the Calculation statement is used to calculate the Commissioner's instalment rate and Tax Office calculated instalment amounts for taxpayers under the PAYG instalment system for the next income year. Complete all labels as accurately as possible to ensure that the rate and instalment amounts calculated by the Tax Office result in a reliable estimate of tax payable for the 2004–05 income year.

To work through the Calculation statement on the tax return, begin with the right hand column. Two of the labels in the right hand column (label **G** – **Total of labels D and E**, and label **R** – **Total of labels T, V, W, Y, U and Z)** require certain labels in the left hand column to be completed so that the total (or the reduced total where required) can be inserted at the appropriate label.

Calculation Statement

Foreign tax credits	D	:
Franking deficit tax offset	E	:
PAYG instalments raised	T	:
Credit for interest on early payments—amount of interest	V	:
Credit for tax withheld where ABN not quoted	W	.00
Tax withheld from interest/investments	Y	:
R&D tax offset	U	:
Other refundable credits	Z	:

	Taxable or net income	A	.00
	Gross tax	B	:
Less:	Rebates/tax offsets	C	:
	Tax assessed		:
Less:	**Total of labels D and E**	G	:
	Tax payable		:
Add:	Sec102AAM interest	H	:
Less:	**Total of labels T, V, W, Y, U and Z**	R	:
	Total amount of tax payable (+) or refundable (–)	S	: **F**

Taxable or net income

If the company is a resident, taxable income equals assessable income derived from all sources less allowable deductions incurred in gaining that income.
If the company is a non-resident, taxable income equals assessable income derived from sources within Australia, plus income that is included on some basis other than having an Australian source, less allowable deductions incurred in gaining that income.

Taxable income takes into account any concessions or adjustments allowable for income tax purposes.

Show at label **A** the amount of taxable income of $1 or more. This is the amount shown at item 7, label **T** – **Taxable income or loss**.

Print zero (**0**) at label **A** if the company has no taxable income or has a loss amount shown at item 7, label **T** – **Taxable income or loss** with **L** in the box at the right of the amount.

Public trading trusts and corporate unit trusts show net income at label **A**.

Gross tax

Show at label **B** the amount of tax payable before the allowance of any rebates/tax offsets, credits or franking deficit tax offsets.

The tax rates applicable to companies are listed at appendix 9 on page 82.

Rebates/tax offsets

Show at label **C** the total of actual rebates/tax offsets available – in dollars and cents – and not the amounts giving rise to those tax offsets.

Tax offsets to be shown at label **C** include:

- allowable franking tax offsets for the income year. The amount claimed here should include the share of franking credit included in gross distributions from partnerships and gross distributions from trusts and the amount recorded at item 7, label **J** – **Franking credits**. In circumstances where the shares or relevant interest are not held at risk as required under the holding period and related payments rules, or there is other manipulation of the imputation system, there is no entitlement to a franking tax offset. If the company is in receipt of franked distributions directly or indirectly from a New Zealand franking company, refer to instructions in the publication *Trans-Tasman imputation: How to claim Australian franking credits attached to New Zealand dividends*.
- tax offsets available under section 46 of ITAA 1936 for unfranked dividends paid within a wholly owned group. Except in relation to the transitional rule discussed at page 8 above under the heading **Intercorporate dividend rebate**, the entitlement to an intercorporate dividend rebate (ICDR) for unfranked dividends paid within a wholly owned group is not available for dividends paid on or after 1 July 2003. However, companies who were paid unfranked dividends within a wholly owned group before 1 July 2003 can still be entitled to claim an ICDR. This may be relevant for early balancing companies using the *Company tax return 2004*. Companies able to claim the ICDR in respect of an unfranked dividend may access the ICDR under two alternative tests:
  - the whole of year test that permits access to the ICDR where the companies involved are group companies for the whole of the income year or part of the income year that the companies were in existence, or
  - the 12 month test that permits access to the ICDR provided the company paying the dividend and the company receiving it are part of the same wholly owned group at all times during the period of 12 months ending on the day on which the dividend was paid
- tax offsets for bonuses and certain other amounts received under short-term life insurance policies taken out after 27 August 1982
- tax offsets for interest on certain government and semi-government securities
- tax offsets on approved heritage conservation expenditure – see appendix 6 on page 77
- tax offsets to approved resident lenders for infrastructure borrowings – see appendix 5 on page 77.

Do NOT show at label **C**:

- any foreign tax credit – show these amounts at label **D** – **Foreign tax credits**
- any franking deficit tax offset – show this amount at label **E** – **Franking deficit tax offset**
- any R&D tax offset – show this amount at label **U** – **R&D tax offset**

The rebates/tax offsets shown at label **C** are not refundable nor can they be carried forward; they can only be offset against gross tax. Where the total of rebates/tax offsets is more than the amount at label **B** – **Gross tax,** reduce the amount at label **C** so that it equals the amount at label **B**. The aggregate amount at label **C** cannot exceed label **B** – **Gross tax**.

By contrast, the following tax offsets are subject to refundable tax offset rules:

- R&D tax offset
- film tax offset under Division 376 of ITAA 1997
- franking tax offsets claimed by life insurance companies to the extent they relate to distributions paid on shares and other membership interests held on behalf of policy-holders
- franking credits claimed by endorsed income tax exempt charities and deductible gift recipients that are entitled to a refund of excess franking credits. These entities may complete the *Application for refund of franking credits – endorsed income tax exempt charities and deductible gift recipients* rather than the company tax return to obtain a refund.

The company may have a refundable amount to the extent that the total of these tax offsets exceeds the tax that would otherwise be payable by the company after all its other tax offsets are taken into account. Show the R&D tax offset at label **U** – **R&D tax offset** and the excess of other refundable tax offsets at label **Z** – **Other refundable credits** not at label **C**.

Record keeping

Keep a record of the following:

- for section 46 of ITAA 1936 tax offset and the franking tax offset:

  the distribution statement which contains:
  - name of the payer
  - date the dividend was received or credited
  - franked amount of the dividend
  - unfranked amount of the dividend
  - franking credit allocated to the dividend
  - amount of franking credit tax offsets allowable for each franked dividend received
  - franking percentage of the dividend

  and other records to substantiate:
  - deductions relating to dividends
  - type of distribution – for example, foreign source dividend, bonus shares, phasing-out dividend, liquidator's distribution
  - dates that shares, in respect of which dividends were received and tax offsets claimed, were acquired and disposed
- for short-term life insurance policies
  - a copy of the policy
  - the amount of the bonus included in assessable income under section 26AH of ITAA 1936
- for interest on certain government and semi-government securities
  - a copy of the security documentation
  - the amount of gross interest received or credited
  - deductions solely referable to the gross interest
- the type of tax offset
- the amount claimed for each type.

Tax assessed

Gross tax (label **B**) less rebates/tax offsets (label **C**) equals the amount at **Tax assessed**. This cannot be a negative amount – see **Rebates/tax offsets** on page 60.

Foreign tax credits

Show at label **D** allowable foreign tax credits. If the company is in receipt of franked distributions directly and indirectly from a New Zealand franking company, refer to instructions in the publication *Trans-Tasman imputation: How to claim Australian franking credits attached to New Zealand dividends*.

A foreign tax credit may be allowable in respect of foreign tax paid by the company on foreign income only where the conditions in section 160AF of ITAA 1936 are satisfied. The Australian resident company may be entitled to a credit of the lesser of

- the foreign tax paid – reduced by any foreign relief
- the Australian tax payable in respect of the foreign income

where it is an Australian resident, includes foreign income within its assessable income (upon which foreign tax was paid or taken to have been paid) and it was personally liable or taken to be personally liable for the foreign tax paid on that foreign income.

When determining whether a foreign tax credit is allowable, the company must refer to and adhere to the provisions of Division 18 of Part III (including section 160AF), and the other relevant provisions of ITAA 1936.

Note specifically the following key points:

- Subsection 160AF(7) of ITAA 1936 requires the quarantining of foreign income into its four categories – passive income, offshore banking income, section 27CAA of ITAA 1936 income and other income. Foreign tax credits must be calculated separately for each class of foreign income. An allowable foreign tax credit arising from a particular class of foreign income can only be applied against that class of foreign income.
- A foreign tax credit is not allowable in respect of sections 459 and 459A of ITAA 1936 – amounts of foreign income.
- A foreign tax credit is not allowable in certain circumstances where there has been a refund of foreign tax or benefit in respect of the payment of foreign tax – refer to subsection 6AB(5A) of ITAA 1936.
- Allowable excess foreign tax credits can only be carried forward for a period of five years, can only be applied against the same class of foreign income and must be utilised in the order in which they arise – refer to section 160AFE of ITAA 1936.
- Allowable foreign tax credits for foreign tax foregone on foreign income by foreign countries under tax sparing arrangements is shown at label **D** – refer to subsection 6AB(5), 6AC and 160AFF of ITAA 1936.
- Foreign tax credits may be allowable in respect of overseas tax paid on certain shipping income – refer to Division 18B of Part III of ITAA 1936.
- Foreign tax credits of a head company of a consolidated group will reflect any excess foreign tax credits transferred to it from subsidiary members who joined the group during the year. Special consolidation provisions govern the use of those credits by the head company. See the publication *Consolidation reference manual* for additional information.

Foreign tax credits may be self-determined by the company under section 160AIA of ITAA 1936. For more machinery provisions refer to Division 19 of Part III of ITAA 1936.
For more information on how to calculate the company's allowable foreign tax credits refer to the publication *Foreign income return form guide*.

Franking deficit tax offset

Show this amount at label **E**.

Taxation Laws Amendment Act (No. 8) 2003 inserted rules in the simplified imputation system to allow entities which have incurred an FDT liability to offset the whole or part of this amount against an income tax liability. Some special rules apply to life insurance companies to ensure that an FDT liability can only be offset against that part of the company's income tax liability that is attributable to shareholders. More information on calculating FDT offset for life insurance companies can be found at **www.ato.gov.au**

The new FDT offset rules contain provisions that replace the franking additional tax penalty provisions which operated under the former imputation rules. The new rule operates to reduce the amount of FDT that an entity can offset against its income tax liability. For further information on how to calculate this amount, refer to the *Franking account tax return 2004 instructions*.

A corporate tax entity will be entitled to apply an FDT offset to reduce its income tax liability for an income year where it satisfies the residency requirement and at least one of the following three conditions are met:

- it incurred a liability to pay FDT in that year
- there is an amount of FDT offset carried forward from a previous year, and not all the FDT offset could be applied against a previous income tax liability
- it incurred a liability to pay FDT in a previous year when it did not meet the residency requirement, and that liability has not been included in calculating an FDT offset.

Generally, an entity satisfies the residency requirement for an income year if it is an Australian resident for more than one half of the year, or it is a resident at all times during the year when it exists.

To determine the amount of the FDT offset to which the company is entitled for the income year if it satisfies the residency requirement, the following method statement must be used to calculate the correct amount.

> **NOTE**
>
> These steps are modified for certain late balancing entities under section 205-70 of the *Income Tax (Transitional Provisions) Act 1997*. For further information refer to **Late balancing entities – special rules** on page 63 of these instructions.

Step 1: Work out the amount of FDT that the entity has incurred a liability to pay in the income year. Reduce this by 30% if it exceeds 10% of the total amount of franking credits that arose in the franking account in that year. This amount is equal to the amount you completed in label **C – Offsettable portion of current year FDT** in the *Franking account tax return 2004*.

Step 2: For each previous income year for which the entity did not meet the residency requirement work out the amount of FDT liability that was incurred in that year and has not previously been included in calculating an FDT offset. Reduce each of these amounts by 30% if it exceeds 10% of the total amount of franking credits that arose in the franking account for that income year.

Step 3: Add up the amounts covered by Step 2 for all the previous income years covered.

Step 4: Work out the amount of any FDT offset that has been excess in a previous year (that is, has exceeded the tax liability for a previous year after applying all other tax offsets) and has not previously been included in calculating an FDT offset.

Step 5: Add up the totals of steps 1, 3 and 4. This amount is the FDT offset that the entity is entitled to for the income year.

The amount calculated at Step 5 is the entity's entitlement to the FDT offset. This amount is not necessarily the same as the actual amount that can be claimed this year in the Calculation statement at label **E – Franking Deficit Tax Offset**. The amount that can be claimed this year is limited to the amount that would be the income tax liability after all other tax offsets (including foreign tax credits and refundable tax offsets) have been deducted. Any excess is carried forward and taken into account in calculating the amount of FDT offset for the next income year for which the entity satisfies the residency requirement.

Example 8

Square Co Pty Ltd has calculated that it is entitled to an FDT offset of $3,000 for its 2003–04 income year.

Square Co Pty Ltd's final tax liability for 2003–04 is calculated as follows:

	$	$	$
Sales Income	25,000		
Dividends received	2,000		
Franking credits received	857		
ASSESSABLE INCOME	27,857		
Less			
Deductions	12,000		
Carry forward loss	5,000		
TAXABLE INCOME	10,857		
Tax on taxable income (30%)	3,257		
Less franking tax offset	857		2,400
Less FDT offset		3,000	
Excess FDT offset			(600)
TAX PAYABLE	**0**		

While Square Co Pty Ltd is entitled to an amount of $3000 FDT offset, it will only show an amount of $2,400 as the amount that can be claimed in the Calculation statement at label **E – Franking Deficit Tax Offset**. This means that $600 of the FDT offset has exceeded the income tax liability in the 2003–04 income year. Therefore, when calculating the FDT offset for the 2004–05 income year, $600 will be included at Step 4 and may be able to be offset in calculating any income tax liability (after all other tax offsets) for the 2004–05 income year.

30% reduction in FDT that can be offset

Steps 1 and 2 in the above method statement show that the amount of the FDT offset that the company can claim may have to be reduced in some situations. The FDT offset will be reduced by 30% if the amount of FDT liability for the income year exceeds 10% of the total amount of franking credits that arose in the franking account in that year. This amount is equal to the amount you completed in label **C – Offsettable portion of current year FDT** in the *Franking account tax return 2004*.

Example 9

In the 2003-04 income year Stripe Co Pty Ltd's franking account has a $3,000 deficit at the end of the income year, resulting in the company incurring a liability for FDT of this amount. The company's franking account showed that there were franking credits of $10,000 that arose during the year. As the franking deficit is greater than 10% of the total franking credits that arose during the year, Stripe Co Pty Ltd will therefore only be able to offset $2,100 of its FDT liability of $3000 against its current or future income tax liabilities. The remaining $900 will not be offsettable at any time.

> **NOTE**
> This rule replaces the former franking additional tax that was imposed where there had been excessive over-franking by a company.

Priority of the tax offset

The amount of the FDT offset that can be claimed this year cannot exceed the amount that would have been the entity's income tax liability if it did not have the FDT offset, but had all its other tax offsets (including foreign tax credits and refundable tax offsets).

Example 10

For the 2003–04 income year Circle Co has:

- a franking deficit tax liability of $60,000 (the company's FDT liability at the end of the income year) and an unapplied FDT offset from a previous year of $20,000
- before its tax offsets are applied, Circle Co has gross tax for the income year of $100,000 and
- an entitlement to a foreign tax credit of $80,000.

The foreign tax credit must be applied before the FDT offset is applied. As a result, that credit and $20,000 of the FDT offset combine to reduce the entity's income tax liability to nil. The remaining $60,000 of the FDT offset will be included in the FDT offset for the next income year for which the company satisfies the residency requirement.

> **NOTE**
> If you have refundable tax offsets, before you can calculate the amount to include at label **E**, you will need to complete labels **B** – **Gross tax**, **C** – **Rebates/tax offsets**, **D** – **Foreign tax credits**, **U** – **R&D tax offset** and **Z** – **Other refundable credits** if applicable.

To calculate the amount to include at Label **E** – **Franking deficit tax offset** use the following steps:

- Add up any amounts you have at labels **C** – **Rebates/tax offsets, D** – **Foreign tax credits**, **U** – **R&D tax offset** and any other refundable tax offsets shown at **Z** – **Other refundable credits**
- If the total of these offsets is greater than the amount of gross tax shown at label **B** – **Gross tax**, then you will not be eligible to claim an amount of FDT offset at label **E**. This amount will be carried forward to the next income year in which the residency requirement is satisfied.
- If these offsets amount to less than the amount shown at label **B** – **Gross tax**, then you will be entitled to an FDT offset at label **E** equal to the lesser of:
  – your FDT offset entitlement, or
  – the difference between the gross tax and those offset amounts.

Example 11

Triangle Co has the following amounts to calculate in its *Company tax return 2004* as follows:

Gross tax	**B**	$1,000
Rebates/tax offsets	**C**	$ 800
Tax assessed		$ 200
R&D tax offset	**U**	$ 500

The company has calculated an entitlement to a FDT offset of $150 for 2003–04.

As labels **C** and **U** ($1300) are greater than the amount of gross tax at label **B** $1,000, the total amount of tax payable or refundable will be determined by applying the R&D tax offset of $500 against tax assessed of $200. This will result in an amount refundable of $300 that is shown at label **S** – **Total amount of tax refundable**. Triangle Co will not be able to claim any of the $150 FDT offset at label **E** in the 2003–04 income year. This amount will be carried forward to the next income year and included in working out the amount to include at label **E** – **Franking deficit tax offset** in the calculation statement in its *Company tax return 2005*.

For further information refer to the fact sheet *Simplified imputation – Franking deficit tax offset* which can be found on **www.ato.gov.au** under the Simplified imputation section.

Late balancing entities – special rules

Special rules apply to certain late balancing entities.

If a late balancing entity has made an election to have its FDT liability determined on 30 June instead of at the end of its income year, there are special rules that apply to calculating the amount of an FDT offset on an ongoing basis for those entities.

This ensures the 30% reduction works appropriately in the situation where the entity may cease to be a franking entity (or join a consolidated group) between 30 June and the end of its income year. In this case the 30% reduction rule must be applied to compare the deficit only to credits that have arisen since 30 June.

The method statement is modified for these entities to take into account FDT liabilities incurred on or before 30 June and then separately consider FDT liabilities that are incurred after 30 June in the income year.

For further information on these special rules for late balancing entities refer to the fact sheet *Simplified imputation – FDT offset for late balancers* which can be found on **www.ato.gov.au** under the Simplified imputation section.

> **NOTE**
> The amount completed at label **E** – **Franking deficit tax offset** in this return will not necessarily be the same as the amount shown at Section B label **C** – **Offsettable portion** of current year FDT in the *Franking account tax return 2004*. Refer to the *Franking account tax return 2004 instructions* for information on how to complete Section B label **C** – **Offsettable portion of current year FDT**.

Total of labels D and E

The amount calculated at label **G** is not refundable – it can only reduce tax assessed.

Add the amounts shown at labels **D** and **E**.

Where the total of labels **D** and **E** is less than or equal to the amount at Tax assessed, show the total at label **G**.

Where the total of labels **D** and **E** is more than the amount at **Tax assessed**, reduce the total so that the amount shown at label **G** equals the amount at **Tax assessed**.

Tax payable

Subtract the amount at label **G** from the amount at **Tax assessed**. The amount shown at label **G** must be less than or equal to the amount at **Tax assessed**. It cannot be a negative amount.

Section 102AAM interest

Show at label **H** any Section 102AAM interest relating to a distribution received from a non-resident trust. Section 102AAM of ITAA 1936 imposes an interest charge on certain distributions from non-resident trusts. Refer to chapter 2 of the publication *Foreign income return form guide* available on **www.ato.gov.au**

PAYG instalments raised

Show at label **T** the total of the company's PAYG instalments for the income year of the tax return, whether or not the instalments have actually been paid.

Include in the total instalment amount

- where the company used the instalment amount(s) worked out by the Tax Office which it did not vary – the amount(s) pre-printed at label **T7** on its quarterly activity statements or at label **T5** on its annual instalment activity statement, and
- where the company did not use the instalment amount(s) worked out by the Tax Office – the amount(s) it reported at label **5A** on its activity statement(s), reduced by any credit(s) it claimed at label **5B**.

To ensure the company receives the correct amount of credit for its PAYG instalments, make sure all of its activity statements are lodged before its income tax return is lodged. The company should lodge any outstanding activity statements even if it has paid the instalments, or had nothing to pay.

The company is entitled to a credit for its PAYG instalments even if it has not actually paid a particular instalment. However, the company will be charged interest for any outstanding instalment for the period from the due date for the instalment until the date it is fully paid.

This label is only to be used for the four quarterly instalments raised during the financial year. The amount recorded at the label must not include 'wash up' or residual payments.

Members of consolidated groups

A **head company** is entitled to claim credit for its own instalments plus any subsidiary member's instalments that are attributable to the time the subsidiary was a member of the consolidated group during the head company's income year.

Where a subsidiary was a member of a particular consolidated group for only part of the head company's income year, the instalment credit which can be claimed by the head company is the amount which can be reasonably attributed to the head company's assessment and is to be worked out between the head company and the subsidiary member.

Show at label **T** the total amount of instalments as above for the head company and those claimed for subsidiary members.

Instalment credits belonging to a **subsidiary** member not claimed by a head company may be claimed by the subsidiary member against its assessment.

Credit for interest on early payments – amount of interest

Show at label **V** only the calculated interest amount of 50 cents or more for early payment. Do not show actual payments.

Interest may be payable where an actual payment is made on account of certain amounts more than 14 days before the due date of payment. Amounts which may attract early payment interest are payments of:

- income tax and
- interest payable under section 102AAM.

Amounts which are not directly paid, but are reduced by the crediting or applying of an amount do not attract early payment interest. These amounts include:

- credit for instalments payable under the PAYG instalment regime
- credit for amounts withheld from withholding payments under the PAYG withholding regime
- an overpayment of other income tax liabilities
- a Running Balance Account (RBA) surplus, and
- any other credit entitlement arising under a taxation law.

Early payment interest is also not payable on:

- any component of the payment that exceeds the amount due
- an amount for any period during which that amount also attracts interest on overpayment.

Early payments interest is calculated from the date the early payment is made to the date the amount becomes due and payable. However, where an amount paid early on account of a tax liability is refunded before the due and payable date of the liability, interest does not accrue for the period after the date the amount is refunded.

Date of payment is:

- the date shown on the receipt for payment to the Tax Office
- the date payment is posted to the Tax Office plus three days
- the date shown on the taxpayer's bank statement where payment is made through direct debit – that is, electronic funds transfer (EFT).

Table 15

Interest rates for early payment calculation:

Quarter	Interest rate (pa)
Jul–Sep 2003	4.78%
Oct–Dec 2003	4.82%
Jan–Mar 2004	5.31%
Apr–Jun 2004	5.57%

If the early payment extends over two or more interest periods, calculate the interest for the number of days in each period.

Interest is calculated as follows:

$$\text{Interest} = \frac{\text{Number of days}}{365^*} \times \text{amount of payment} \times \frac{\text{interest rate for period}}{100}$$

*366 for a leap year

Keep a record of the amount of early payments interest claimed. This interest is assessable as income in the income year it is paid or credited against another liability.

Credit for tax withheld where ABN not quoted

Show at label **W** the total tax withheld from payments subject to withholding where an ABN was not quoted.

This amount equals the sum of the amounts shown in the tax withheld boxes on the *Non-individual PAYG payment summary schedule 2004*. For instructions on completing the schedule, see page 4 in these instructions.

Do not include any share of amounts withheld from a partnership or trust distribution where an ABN was not quoted. This is shown at label **Z** – **Other refundable credits**.

Where an amount of tax withheld is reported at label **W** the corresponding gross payment must be declared at item 6, Income, label **A** – **Gross payments where ABN not quoted**.

Tax withheld from interest/investments

Show at label **Y** any amounts withheld from investment income by an investment body because the company did not provide a TFN or ABN.

Record keeping

Keep the following details of credits for amounts withheld from investments:

- all documentation issued by the investment body detailing payments of income and any amounts withheld from those payments
- details of any amounts withheld from an income payment made to the company and subsequently refunded by the investment body.

Keep the following details of refund receipts:

- amount of refund received
- date of refund
- investment reference number – for example, the bank account number of the investment relating to refund.

R&D tax offset

Show at label **U** the amount shown at label **U** – **R&D tax offset amount** in Part E, item 3 of the *Research and development tax concession schedule 2004.*

Please note:

- Label **U** is 30% of the amount shown at item 7, label **Y** – **Election to take R&D tax offset**.
- Companies claiming the R&D tax offset must have registered their R&D activities with AusIndustry prior to making the claim.

Other refundable credits

Show at label **Z**:

- the company's share of credit from a partnership or trust for tax withheld where an ABN was not quoted.
- the refundable amount of franking tax offsets – including venture capital franking tax offsets – for life insurance companies to the extent they relate to distributions paid on shares and other membership interests held on behalf of policy-holders,
- franking credits for endorsed income tax exempt charities and deductible gift recipients entitled to claim a refund of excess franking credits. These entities may complete the *Application for refund of franking credits – endorsed income tax exempt charities and deductible gift recipients* rather than the company tax return to obtain a refund.
- any refundable amount of the film tax offset under Division 376 of ITAA 1997. For more information refer to *Australian film industries incentives 2003–04*.

Do not include at label **Z** those credits included in the Calculation statement at label **D** – **Foreign tax credits**. Also, do not include at label **Z** any amounts that relate to PAYG instalments. These should be included at label **T** – **PAYG instalments raised**.

If the company is in receipt of franked distributions from a New Zealand franking company, refer to instructions in the publication *Trans-Tasman imputation: How to claim Australian franking credits attached to New Zealand dividends*.

Total of labels T, V, W, Y, U and Z

Show at label **R** the total of the amounts at labels **T**, **V**, **W**, **Y**, **U** and **Z**.

Total amount of tax payable (+) or refundable (–)

Show at label **S** the balance of tax payable (+) or refundable (–). This amount is calculated as the sum of the amounts shown in the Calculation statement at **Tax payable** (+), label **H** (+) and label **R** (–).

The amount at label **S** does not take into account any interim or voluntary payments the company has made against its income tax liability for the year of this return. If the company has made such payments, take these into account in calculating the company's final payment but do not show the amounts on this tax return.

Send the company's payment to the address on the pre-identified payment advice. If the company has not received one see appendix 12 on page 88.

Do NOT send the company's payment with the *Company tax return 2004*.

For lodgment addresses see appendix 11 on page 87.

Tax agent's declaration

Where the tax agent is a partnership or a company, this declaration must be signed in the name of the partnership or company by a person who is registered as a nominee of that partnership or company. Print that person's name at this item also.

Declaration

Public officer

The public officer is responsible for doing all things required by the company under section 252 of ITAA 1936 or the Regulations. In case of default the public officer shall be liable to the same penalties. For example, the public officer is responsible for lodging the company tax return. If the tax return is lodged late the public officer may be liable for a late lodgment penalty.

Include in the declaration a signature, date, name, title and telephone number for the public officer.

Hours taken to prepare and complete this tax return

The Tax Office is committed to reducing the costs involved in complying with your taxation obligations. By completing label **J** you will help us to monitor these costs as closely as possible. Your response to this question is voluntary.

When completing this question consider the time, rounded up to the nearest hour, that your business spent:

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

The answer should relate to the time both you and your tax agent spent in preparing and completing your tax return. This includes the time spent by any other person whose assistance was obtained in doing this, such as an employee.

> **NOTE TO TAX AGENTS**
>
> If you are preparing this tax return on behalf of your client, please consult with your client to obtain a reliable estimate.

Worksheet 1 Other reconciliation items

This worksheet caters for those items that reconcile item 6, Operating profit or loss, label **T** – **Total profit or loss** with item 7, label **T** – **Taxable income or loss** other than those items specifically included in item 7. This statement is not an exhaustive list. All references to accounts below are taken to mean the company's profit and loss account.

Additions to item 6, Operating profit or loss, label **T** – **Total profit or loss** not covered by item 7, label **A** – **Net capital gain**, label **U** – **Non-deductible exempt income expenditure**, label **J** – **Franking credits**, label **C** – **Australian franking credits from a New Zealand company** and label **D** – **R&D accounting expenditure claimed under R&D tax concession** are specified under label **B** – **Other assessable income** and label **W** – **Non-deductible expenses** below. Show the total for income-related add-back items at item 7, label **B** – **Other assessable income** and the total for expense-related add-back items at item 7, label **W** – **Non-deductible expenses**.

Subtractions from item 6, Operating profit or loss, label **T** – **Total profit or loss** not covered by item 7, label **C** – **Section 46FA deduction** to label **V** – **Exempt income**, label **R** – **Tax losses deducted** and label **S** – **Tax losses transferred in** are specified under label **Q** – **Other income not included in assessable income** and label **X** – **Other deductible expenses** below. Show the total for income-related subtraction items at label **Q** and the total for expense related subtraction items at label **X**.

In some cases a reconciliation adjustment at item 7 adds back or subtracts the whole of an amount shown at item 6 and a separate label at item 7 shows the amount for income tax purposes. For example, depreciation as per the accounts is shown at item 6 and added back in full at item 7, label **W** – **Non-deductible expenses**. The deduction for the decline in value of depreciating assets is listed at item 7, label **F** – **Deduction for decline in value of depreciating assets**.

Label B – Other assessable income

(assessable income not shown in accounts)

Adjustments to income derived	
– increase in interest	$...........
– increase in dividends	$...........
– increase in partnership distribution	$...........
– increase in trust distribution	$...........
– year-end sales cut-off adjustment	$...........
Assessable balancing adjustment amounts on depreciating assets – refer to appendix 7 on page 77 See **Note 4** on page 69 for R&D assets which are excluded	$...........
Attributed foreign income not included in accounts	$...........
Bad debts recovered not included in accounts	$...........
Benefits or prizes from investment-related lotteries not included in accounts	$...........
Foreign exchange taxable gains – refer to appendix 8	$...........
Grants received not included in accounts	$...........
Gross taxable foreign sourced income	$...........
Other income not included in accounts	$...........
Total	**$**...........

Label W – Non-deductible expenses

Amortisation as per accounts (including goodwill)	$...........
Borrowing costs	$...........
Capital items written off as repairs	$...........
Depreciation expenses – item 6, Expenses, label **X** See **note 6** on page 69 See **note 4** on page 69 for R&D assets which are excluded	$...........
Expenses to the extent to which they are not deductible	
– entertainment	$...........
– legal expenses/consultants' fees	$...........
– subscriptions and donations	$...........
– bad debts	$...........
– part of prepaid expenses not deductible this year – see note 1(a) on page 69	$...........
– spouse travel	$...........
Expenses incurred in deriving non-assessable non-exempt income	$...........
Certain expenses relating to PSI that are not deductible – see note 5 on page 69.	$...........
Extraordinary loss per accounts	$...........
Finance lease interest	$...........
Foreign exchange accounting losses	$...........
Foreign tax paid or deemed paid	$...........
Debt deductions denied by thin capitalisation – see appendix 3 on page 75	$...........
Loss on sale of depreciating assets included in accounts – refer to appendix 7 on page 77	$...........
Loss on sale of other assets included in accounts	$...........
Luxury car lease payments – refer to appendix 7 on page 77	$...........
Net adjustment to expenses claimed – decrease in consumable stores – see note 2 on page 69	$...........
Net increase in provisions	$...........
Net increase in trading stock valuation for tax purposes	$...........
Non-share dividends	$...........
Offshore banking unit losses – 20/30 of eligible deductions	$...........
Other capital items included in accounts	$...........
Penalties and fines	$...........
Superannuation charged in accounts	$...........
Trust losses deducted from accounting income	$...........
Other	$...........
Total	**$**...........

Label Q – Other income not included in assessable income

(income shown in the accounts which is not assessable)

Adjustment to income derived	
– decrease in interest	$...........
– decrease in dividends	$...........
– decrease in trust distribution	$...........
– year-end sales cut-off adjustment	$...........
Extraordinary profits per accounts	$...........
Foreign exchange accounting profits	$...........
Foreign source income in the accounts which is not assessable	$...........
Grants receivable	$...........
PSI included in the assessable income of an individual (attributed amount)	$...........
Profit on sale of depreciating assets included in accounts – refer to appendix 7 on page 77	$...........
Profit on sale of other assets included in accounts (including assets used for R&D)	$...........
Other	$...........
Total	**$**...........

Label X – Other deductible expenses

(deductible amounts not shown as expenses in the accounts)

Allowable superannuation fund payments	$...........
Deductible balancing adjustment amounts on depreciating assets – refer to appendix 7 on page 77 See **note 4** on page 69 for R&D assets which are excluded	$...........
Film industry incentive balance – see note 3	$...........
Foreign exchange taxable losses – refer to appendix 8	$...........
General interest charge	$...........
Hire purchase agreements – interest component – refer to appendix 7 on page 77	$...........
Luxury car leases – accrual amount – refer to appendix 7 on page 77	$...........
Mains electricity connection to land used in carrying on a business – refer to appendix 7 on page 77	$...........
Net adjustment to expenses claimed – increase in consumable stores – see note 2	$...........
Net decrease in provisions	$...........
Net decrease in trading stock valuation for tax purposes	$...........
Part of prepaid expenses deductible this year, but not included at any other label – see note 1(b)	$...........
Tax deductible borrowing costs	$...........
Telephone line connection to land used for primary production – refer to appendix 7 on page 77	$...........
Other	$...........
Total	**$**...........

Note 1(a)

Insert the difference between the total amount of prepaid expenses incurred in the 2003–04 income year and the amount you are entitled to claim as a deduction in this year. Refer to the publication *Deductions for prepaid expenses* for a detailed explanation of how to calculate your deduction for the 2003–04 income year.

Note 1(b)

Insert the amount of prepaid expenditure that you were not entitled to deduct in previous years, which you are now entitled to deduct in the 2003–04 income year. Refer to the publication *Deductions for prepaid expenses* for a detailed explanation of how your deduction for later years is calculated.

Note 2

Insert the difference between the value of consumable stores on hand at the end of the previous income year and the value of consumable stores on hand at the end of the current income year. The balance of these items determines whether they are add-backs or subtractions.

Note 3

Film industry incentive balance. The amount shown is the excess, if any, of:

- the amount of any concession available under Division 10BA of ITAA 1936 for capital expenditure incurred in acquiring an interest in the initial copyright of a new Australian film, over
- expenses for capital expenditure incurred in acquiring an interest in the initial copyright of a new Australian film, which have already been shown at item 6, Expenses, label **Q** – **Total expenses**.

Note 4

Some of the labels on the worksheet do not include any amounts for R&D assets. While profits on disposal of all assets (R&D and non-R&D) are subtracted at item 7, label **Q** - **Other income not included in assessable income**, amounts at other labels at item 7 are split between R&D and non-R&D amounts. For example, book depreciation and losses for R&D assets are not shown at item 7, label **W—Non-deductible expenses**, but at item 7, label **D—R&D accounting expenditure claimed under R&D tax concession**. The amounts shown at item 7, label **B—Other assessable income** do not include any amounts for assessable balancing adjustment amounts for R&D assets. Additionally, the amounts shown at item 7, label **X—Other deductible expenses** do not include any deductible balancing adjustment amounts for R&D assets. These balancing adjustment amounts are taken into account in the Part A, item 17 in the *Research and development tax concession schedule 2004* and also in the amount at item 7, label **L** – **R&D concession claim (100%, 125% not 50% increment)**. For more information refer to the publication *Research and development tax concession schedule 2004 instructions*.

Note 5

If the company receives an individual's PSI other than in the course of conducting a personal services business, and does not promptly pay it to the individual as salary or wages:

- the net amount of PSI is attributed to the individual and is not assessable to the company, and
- certain related expense are not deductible.

Expenses specifically denied include rent, mortgage interest, rates and land tax for the residence of individuals (or their associates – for example, spouse) whose efforts or skills mainly generate the PSI for the company, the costs of a second private use car and payments of salary or wages and superannuation for associates to the extent such payments relate to non-principal work.

The company is not entitled to a deduction for any net PSI loss that is attributed to the individual. Refer to the *Personal services income schedule 2004 instructions* for more information.

Note 6

Only include depreciation expenses at item 7 label **W** if the company is **not** an STS taxpayer. However, do not include any STS pool deductions shown at item 6, Expenses, label **X**.

APPENDIXES

Appendix 1 Commercial debt forgiveness

If a commercial debt owed by a company is forgiven during the income year, the net amount of debts forgiven must be applied to reduce the company's deductible revenue losses, net capital losses, certain undeducted revenue or capital expenditure and the cost base of CGT assets, in that order. In certain cases where the company is one of a group of related companies, the amount forgiven may be apportioned among the group companies.

A debt is a commercial debt if any part of the interest payable on the debt is or would be an allowable deduction, or would be a deduction if not for some specific exception provision. Where interest is not payable, the debt is still a commercial debt if interest, if charged, would have been deductible.

A debt is forgiven if the company's obligation to pay the debt is released or waived or otherwise extinguished.

A debt is also forgiven if it is assigned by a creditor to an associate of the debtor or in certain other circumstances, or if the right to recover it ceases.

Calculation of net forgiven amount

Calculate the net forgiven amount as follows:

1 Determine the notional value of the debt. In the general case, this is the lesser of:
   - the value of the debt at the time of forgiveness (assuming the company was solvent at the time the debt was incurred and the company's creditworthiness has not changed from the time the debt was incurred), and
   - the value of the debt at the time the debt was forgiven plus any amounts allowable as deductions on termination of the debt – this would occur because of a decrease in value of the debt due to market movements. Special rules apply in calculating the notional value of non-recourse debt and in respect of debt parking circumstances – refer to Division 243 and sections 245-60 and 245-61 of Schedule 2C to ITAA 1936.

2 Calculate the gross forgiven amount of the debt by deducting from the notional value of the debt any amount of consideration in respect of the forgiveness. This consideration normally is the sum of the amounts of money the company is required to pay in respect of the forgiveness or, if property is required to be given, the market value of the property. Special rules apply in determining the consideration given in respect of the forgiveness where a debt is forgiven in exchange for shares, where there are debt parking circumstances, or where money or property is applied for the benefit or at the direction of the creditor – refer to sections 245-65 and 245-70 of Schedule 2C to ITAA 1936.

3 Reduce the gross forgiven amount by any amount:
   - which has been, is or will be, included in the company's assessable income as a result of the forgiveness of the debt
   - by which a deduction otherwise allowable to the company has been or will be reduced as a result of the forgiven debt except for a reduction under Division 727 (indirect value shifting) of the ITAA 1997, or
   - by which the cost base to the company of any CGT asset has been or will be reduced, as a result of the forgiveness of the debt except for a reduction under Division 139 of ITAA 1997.

4 For intra-group debt only – where the company and the creditor company are under common ownership throughout the term of the debt – the companies may enter into an agreement whereby the creditor company agrees to forgo its entitlement to a capital loss for forgiving the debt or to a deduction for a bad debt in the year of forgiveness. If such an agreement is made, the creditor's capital loss or the deduction otherwise allowable to the creditor is reduced to the extent of the amount agreed on – up to the amount left after 3 above. For the company, the amount remaining after 3 above is reduced by the same amount.

5 The balance remaining is the net forgiven amount of that debt. Then add the net forgiven amount to the net forgiven amounts of other debts forgiven during the income year to arrive at the total net forgiven amount in respect of the income year.

Application of total net forgiven amount

Apply this total net forgiven amount to reduce the amount the company has in the following categories, in the order listed:

- deductible revenue losses
- deductible net capital losses
- deductible expenditure, and
- cost bases of certain CGT assets.

Within the relevant categories, the company may choose the relevant loss, item of expenditure or asset against which the total net forgiven amount is applied, provided it is applied to the maximum extent possible within that category. Once the total net forgiven amount is applied against all the amounts in a category, any excess is applied, in the above order, against the next category. If there is an excess remaining after applying the amount to the maximum extent possible against all categories, this excess is disregarded. However, see **Related companies** on page 72 for special rules applying in the case of groups of related companies.

Deductible revenue losses

These are:

- tax losses
- foreign losses of pre-1990 income years, and
- foreign losses of post-1989 income years,

which were incurred by the company in an earlier income year and are undeducted at the beginning of the forgiveness year.

Deductible net capital losses

These are unrecouped net capital losses incurred in income years before the forgiveness year.

Deductible expenditure

Deductible expenditure is limited to expenditure incurred before the forgiveness year which remains undeducted but which, on conditions prevailing at the beginning of the forgiveness year, would be deductible in that year or future years.

The deductible expenditures are:

- cost of plant or articles used – or installed ready for use – to produce assessable income
- expenditure deductible under the UCA
- expenditure on pooled Subdivision 46-D software
- expenditure incurred in borrowing money to produce assessable income
- expenditure on a telephone line on land on which a business of primary production is carried out
- expenditure in connecting or upgrading mains electricity facilities on land used or intended for use in producing assessable income
- expenditure on scientific research
- expenditure on R&D activities
- expenditure in connection with clearing and preparing land for primary production
- expenditure on establishing a grapevine
- expenditure on plant or structural improvements for conserving or conveying water
- expenditure on certain kinds of plant and equipment for use in very large development projects
- expenditure on study to evaluate the environmental impact of an income-producing project
- advance revenue expenditure
- expenditure incurred in relation to mining or quarrying operations
- expenditure incurred on exploration or prospecting for minerals or quarry materials
- expenditure incurred in transporting minerals or quarry materials
- expenditure on forestry roads to an area of timber operations
- expenditure on timber buildings used for a timber milling business, if the buildings are in a forest or adjacent to a timber milling or timber felling area
- expenditure on acquiring a unit of industrial property to produce assessable income
- expenditure on acquiring an item of intellectual property to produce assessable income
- expenditure on Australian films
- expenditure on assessable income-producing buildings and other capital works
- expenditure incurred in establishing horticultural plants
- expenditure incurred in obtaining a spectrum licence to produce assessable income.

There are two principal methods of reducing deductible expenditures:

- Where the deduction is calculated as a percentage of a base amount – for example, deductions for decline in value of depreciating assets calculated under the prime cost method – the reduction is made to the base amount. The effect is that deductions allowable in the forgiveness year and later years are reduced. Also, the total amount of deductions allowable is limited to the reduced base amount. The amount of the reduction is treated as if it had been a deduction when calculating any required balancing adjustment amount.
- Where the deduction in respect of a particular deductible expenditure is a percentage, fraction or portion of an amount worked out after taking into account any deductions in respect of the deductible expenditure previously allowed to the company – for example, deductions for decline in value calculated under the diminishing value method – the forgiven amount is taken to have been allowed as a deduction before the forgiveness income year.

Where, as a result of the recoupment of a particular deductible expenditure, a provision of ITAA 1936 or ITAA 1997 applies to disallow any deductions previously allowed to the company in respect of the expenditure, the total net forgiven amount previously applied in the reduction of the recouped deductible expenditure is treated as assessable income in the year of recoupment.

Cost bases of certain CGT assets

Cost bases of certain CGT assets owned by the company at the beginning of the forgiveness year – referred to as reducible assets – are the final category of amounts that may be reduced by the company's total net forgiven amount. Essentially, these are assets where a capital gain or capital loss might arise on a CGT event, such as a disposal, happening to them.

Assets not treated as reducible assets include those for which a capital gain or capital loss will not arise or is unlikely to arise on a CGT event happening to them – for example, CGT assets acquired before 20 September 1985, trading stock or a personal use asset within the meaning of section 108-20 of ITAA 1997. Also excluded are CGT assets whose cost is deductible, such as depreciating assets.

The company may choose the reducible assets whose cost bases are to be reduced and the extent of that reduction. However, the cost base of reducible assets that constitute investments in associates of the company must be reduced last. When a company chooses to apply an amount in reduction of the relevant cost bases of a particular reducible asset, then at any time after the beginning of the forgiveness income year each of the relevant cost bases – that is, the cost base or reduced cost base – is taken to be reduced accordingly.

Ordinarily, the reduction of a CGT asset's relevant cost base cannot exceed the amount that would have been the reduced cost base of the asset, calculated as if the asset was disposed of at market value on the first day of the forgiveness income year. However, a special rule applies – refer to subsection 245-190(3) of Schedule 2C to ITAA 1936 – if an event occurred after the first day of the forgiveness year that would cause the reduced cost base of the asset to be reduced.

The reduction of the relevant cost base of a CGT asset affects the calculation of the amount of the capital gain or capital loss on a CGT event happening to the nominated reducible asset because the relevant cost base that is taken into account in determining the capital gain or capital loss must reflect that reduction.

Related companies

Special rules apply if, at the time a debt of a company is forgiven, the company is one of a group of related companies and any of the non-debtor companies has deductible revenue losses. In this case, the net forgiven amount is apportioned to each of those companies in the group which has deductible revenue losses. The relevant proportion is the proportion of each company's deductible revenue losses to the total revenue losses of the group. For the purpose of working out that company's total net forgiven amount for the income year, each of the companies in the group is treated as having a net forgiven amount equal to the relevant proportion of the apportioned net forgiven amount.

Special rules also apply if none of the companies in the group has deductible revenue losses but any of the non-debtor companies in the group have deductible net capital losses. As above, the net forgiven amount is to be apportioned to each company in the group that has deductible net capital losses. An equivalent formula to that described in relation to deductible revenue losses is then applied, to apportion the net forgiven amount of a group company among group companies with deductible net capital losses. For the purpose of working out that company's total net forgiven amount for the income year, each of the companies in the group is treated as having a net forgiven amount equal to the relevant proportion of the apportioned net forgiven amount.

If none of the non-debtor companies within the group has deductible revenue losses or net capital losses, the net forgiven amount of the debtor company is not apportionable and the debtor company is treated as a single company.

A debtor company is part of a group of related companies when it and any other company are under common ownership at the end of the previous income year and on the day on which the debtor company's debt is forgiven. In certain circumstances, however, a company that was not under common ownership with the debtor company at the specified times is nevertheless included in the relevant group of related companies. Where the company had been under common ownership with the debtor company at any time within the two income years that immediately preceded the forgiveness income year, or the period in the year of forgiveness up to the time of forgiveness, the other company is taken to be included in the group of related companies if:

- a taxpayer that was the controller of the other company immediately before and after the two companies ceased to be under common ownership, was also a controller of that company and the debtor company at the time the debt was forgiven, or
- immediately before and after the two companies ceased to be under common ownership and at the time the debt was forgiven, either the debtor company was a controller of the other company or the other company was a controller of the debtor company.

Appendix 2 Capital works deductions

Division 43 of ITAA 1997 provides for a system of deducting capital expenditure incurred in the construction of capital works used to produce assessable income.

Capital works

Construction costs in respect of the following capital works may be deducted:

- buildings or extensions, alterations or improvements to a building
- structural improvements or extensions, alterations or improvements to structural improvements
- environmental protection earthworks – see appendix 7 on page 77.

Deductions for construction costs and structural improvements must be based on actual costs incurred. If it is not possible to genuinely determine the actual costs, provide an estimate by a quantity surveyor or other independent qualified person. The costs incurred by the company for the provision of this estimate are deductible as a tax-related expense, not as an expense in gaining or producing assessable income.

Who can claim?

The company can claim a deduction under Division 43 for an income year only if:

- the company owns, leases or holds part of a construction expenditure area of capital works ('your area')
- the company incurred the expense, and
- the company uses the building to produce income.

The area the company owns, leases or holds is called 'your area'.

In calculating the company's deductions you must identify your area for each construction expenditure area of the capital works. Your area may comprise the whole of the construction area or part of it.

Lessee of a building

A lessee can claim a deduction in respect of an area leased or held under a quasi-ownership right.

To claim a deduction:

- the lessee must have incurred the construction expenditure or been an assignee of the lessee who incurred the expenditure
- the lessee must have continuously leased or held the building itself, or the building must have been held in that way by previous lessees, holders or assignees since completion of construction, and
- the lessee must have used the building to produce assessable income.

If there is a lapse in the lease the entitlement to the deduction reverts to the building owner.

Requirement for deductibility

The company can deduct an amount for capital works in an income year if:

- the capital works have a 'construction expenditure area'
- there is a 'pool of construction expenditure' for that area, and
- the company uses the area in the income year to produce assessable income or carry on R&D activities in the way set out in section 43-140 of ITAA 1997.

No deduction until construction is complete

The company cannot claim a deduction for any period before the completion of construction of the capital works even though the company used them, or part of them, before completion. Additionally, the deduction cannot exceed the undeducted construction expenditure for your area.

Capital works are taken to have commenced when the first step in the construction phase starts – for example, the pouring of foundations or sinking of pylons for a building.

Establishing the deduction base

Expenditure in respect of the construction of capital works is deductible if there is a construction expenditure area for the capital works. Whether there is a construction expenditure area for the capital works and how it is identified depends on the following factors:

- the type of expenditure incurred
- the time the capital works commenced
- the area of the capital works to be owned, leased or held by the entity that incurred the expenditure, and
- for capital works begun before 1 July 1997, the area of the capital works that was used in a particular manner – refer to section 43-90 of ITAA 1997.

Construction expenditure

Expenses incurred on construction include:

- preliminary expenses such as an architect's fees, engineering fees, foundation excavation expenses and costs of building permits
- costs of structural features that are an integral part of the income-producing building or income-producing structural improvements – for example, lift wells and atriums, and
- some portion of indirect costs.

In relation to an owner/builder entitled to a deduction under Division 43 of ITAA 1997, the value of the owner/builder's contributions to the works – that is, labour or expertise and any notional profit element – do not form part of construction expenditure.

Refer to Taxation Ruling TR 97/25 and Addendum.

Construction expenditure does not include expenditure on:

- acquiring land
- demolishing existing structures
- clearing, levelling, filling, draining or otherwise preparing the construction site before carrying out excavation work
- landscaping
- plant
- property or expenditure for which a deduction is allowable or would be allowable if the property were for use for the purpose of producing assessable income under another specified provision of ITAA 1936 or ITAA 1997.

Construction expenditure area

The construction of the capital works must be complete before the construction expenditure area is determined. A separate construction expenditure area is created each time an entity undertakes the construction of capital works.

For construction expenditure incurred before 1 July 1997, the capital works must have been constructed for a specified use at the time of completion, depending on the time when the capital works commenced. The first specified use construction time was 22 August 1979 – refer to Table 43-90 and subsection 43-75(2) of ITAA 1997.

Pool of construction expenditure

The pool of construction expenditure is the portion of the construction expenditure incurred by an entity on capital works, which is attributable to the construction expenditure area.

Deductible use

The company can only obtain a deduction under this Division if it uses your area in a way described in Table 43-140 or 43-145 of Subdivision 43-D of ITAA 1997.

Special rules about uses

Your area is taken to be used for a particular purpose or manner if:

- it is maintained ready for that use, is not used for another purpose and its use has not been abandoned, or
- its use has temporarily ceased because of construction, repairs, or for seasonal or climatic conditions.

Your area is not accepted as being used to produce assessable income if:

- it is used for exhibition or display in connection with the sale of all or part of any building – other than a hotel or apartment building – and where construction began after 17 July 1985 but before 1 July 1997. If construction commenced after 30 June 1997, buildings that are used for display are eligible
- it is used
  - wholly or mainly for residential accommodation, or
  - for exhibition or display in connection with the sale of all or part of any building, or the lease of all or part of the building for use wholly or mainly for or in association with residential accommodation and the building construction began after 19 July 1982 and before 18 July 1985
- the company uses it for residential accommodation and it is not a hotel or apartment building – for exceptions to this rule refer to section 43-170(2) of ITAA 1997.

Your area is taken to be used as residential accommodation if it is:

- part of an individual's home – other than a hotel or apartment building
- used as a hotel, motel or guest house but does not satisfy the definition of a hotel building
- owned by a private company and used, or reserved for use, as residential accommodation for a director or member of the company, or a spouse, parent or child of such a director or member.

Special rules for hotels and apartments are contained in section 43-180 of ITAA 1997.

Calculation and rate of deduction

The company's entitlement to a deduction begins on the date the building is first used to produce assessable income. The first and last years of use may be apportioned. The entitlement to a deduction runs for either 25 or 40 years (the limitation period) depending on the rate of deduction applicable.

The legislation contains two calculation provisions:

- section 43-210 of ITAA 1997 deals with the deduction for capital works which began after 26 February 1992
- section 43-215 of ITAA 1997 deals with deductions for capital works which began before 27 February 1992.

Capital works begun before 27 February 1992 and used as described in Table 43-140

The deduction is calculated separately for each part that meets the description of your area.

The company's construction expenditure is multiplied by the applicable rate – either 4% if the capital works were begun after 21 August 1984 and before 16 September 1987 or 2.5% in any other case – and by the number of days in the income year in which the company owned, leased or held your area and used it in a relevant way. That amount is divided by the number of days in the year.

The company apportions the amount if your area is used only partly to produce assessable income.

The amount the company claims cannot exceed the undeducted construction expenditure.

Capital works begun after 26 February 1992

The deduction is calculated separately for each part of capital works that meets the description of your area.

There is a basic entitlement to a rate of 2.5% for parts used as described in Table 43-140 – Current year use. The rate increases to 4% for parts used as described in Table 43-145 – use in the 4% manner.

Undeducted construction expenditure

The undeducted construction expenditure for your area is the part of the company's construction expenditure it has left to write off. It is used to work out:

- the number of years in which the company can deduct amounts for the company's construction expenditure, and
- the amount that the company can deduct under section 43-40 of ITAA 1997 if your area or a part of it is destroyed.

Balancing deduction on destruction

If a building is destroyed or damaged during an income year, the remaining amount of undeducted construction expenditure that has not yet been deducted, less any compensation received, is allowed as a deduction. Where the destruction or demolition is voluntary, the entitlement to a deduction is unaffected.

The deduction is allowable in the income year in which the destruction occurs.

The deduction is reduced where the capital works are used in an income year only partly for the purpose of producing assessable income or for R&D.

For guidelines issued by the Commissioner on these measures refer to Taxation Ruling TR 97/25 and Addendum.

Appendix 3 Thin capitalisation

The thin capitalisation provisions apply to reduce certain expenditure (debt deductions) incurred in obtaining and servicing debt where the debt used to finance the Australian operations of a company exceeds the limits set out in Division 820 of ITAA 1997. These rules ensure that entities fund their Australian operations with an appropriate amount of equity.

Do the thin capitalisation rules apply?

The thin capitalisation rules will apply to a company if:

- the company is an Australian resident company and either:
  - the company, or any of its associate entities, is an Australian controller of a foreign entity (explained below) or carries on business overseas at or through a permanent establishment, or
  - the company is foreign controlled, either directly or indirectly (see below), or
- the company is a foreign resident and carries on business in Australia at or through a permanent establishment or otherwise has assets that produce assessable income.

Exclusions

The thin capitalisation rules will NOT apply if:

- the company's debt deductions (combined with the debt deductions of its associate entities) do not exceed $250,000 in the income year, or
- in the case of an Australian company which is not foreign controlled, the combined value of the company's Australian assets and the Australian assets of its associates comprise **at least** 90% of the value of the total assets of the company and those associates.

Control

The rules measuring control take into account both direct and indirect interests that the company holds in the other entity (or vice-versa) and the direct and indirect interests that associate entities of the company hold in the other entity. This means that an Australian company can be an Australian controller of a foreign entity even if it holds a direct interest of less than 50% in the foreign entity. Similarly, an Australian company can be foreign controlled even if its direct holding company is an Australian resident.

For more information refer to the publication *Guide to thin capitalisation* which is available on **www.ato.gov.au**

What if the thin capitalisation rules apply?

If the thin capitalisation rules apply, or further information is required, refer to the publication *Guide to thin capitalisation which is available* on **www.ato.gov.au**

If the thin capitalisation rules apply, the company should print **Y** for yes at item 21 – Thin capitalisation. In addition, the company must complete the *Thin capitalisation schedule 2004* available through the electronic lodgement service (ELS), or complete the paper schedule and post it to:

Australian Taxation Office
PO Box 1365
ALBURY NSW 2640

What if the thin capitalisation rules are breached?

If the thin capitalisation rules are breached, some of the company's debt deductions may be denied. The amount denied is shown at item 7, label **W** – **Non-deductible expenses**.

Appendix 4 Taxation treatment of pooled development funds and investors

How pooled development funds are taxed

A pooled development fund (PDF) is a company that is registered as a PDF and provides development capital to small and medium companies.

If a PDF is registered as a PDF part way through an income year it is taxed as a PDF for the period from the date of its registration to the end of the income year as if that period were an income year. The taxable income therefore in the pre-PDF period is taxed at 30%.

If a company ceases to be a PDF part way through an income year, it is taxed as an ordinary company for the whole year – that is, taxable income is taxed at 30%.

Assessable income received by a PDF from its investments in small and medium enterprises (SME), less any deductions allowable to the PDF, whether they relate to the SME income or not, is taxed at 15%. If the available deductions exceed the SME assessable income, any excess deductions are taken into account in determining the unregulated investment component of taxable income.

Income received from interest-bearing investments such as loans to, deposits with and debentures of banks and deposits with the money market – defined as unregulated investment income – is taxed at 25%.

The unregulated investment income component is the difference between the taxable income of the PDF and the SME income component.

Imputation

PDFs derive franking credits in the same way as other companies, mainly from the payment of company tax and from the receipt of franked dividends.

PDFs pay franked dividends in the same manner as other companies and the gross-up amount is calculated on the basis of the general company tax rate of 30% rather than the PDF rates of tax.

The PDF obtains venture capital credits from the payment of CGT on eligible venture capital investments – that is, SME investments made in accordance with the *Pooled Developments Funds Act 1992*. These credits are only available to complying superannuation funds, pooled superannuation trusts and like entities and are specifically available only to those entities to ensure equivalence with certain non-resident pension funds.

If a PDF over-distributes venture capital credits during the franking year it incurs a liability to venture capital deficit tax – equivalent to franking deficit tax.

Tax offset for franking credits

Dividends received by a PDF are treated as SME income and taxed at the SME rate of 15%. A PDF that is in receipt of a franked distribution is required to include the franked distribution **together with** the franking credits allocated to the distribution in their assessable income (unless the shares are not held at risk as required under the holding period and related payments rules, or there is other manipulation of the imputation system). The PDF will be entitled to obtain a tax offset equal to the amount of franking credits included in their assessable income. This tax offset can be used to reduce the PDF's own income tax liabilities.

The process outlined above is commonly referred to as the 'gross-up and credit' approach and, for an entity that is taxed like a company, it replaces the ICDR for franked dividends.

Losses

Deductions for PDF losses are allowable only in income years in which the company is a PDF.

PDF losses cannot be transferred to other companies in the same group.

Non-PDF losses incurred before the company became a PDF that are not recouped while the company is a PDF, continue to be deductible after the company ceases to be a PDF.

Capital losses incurred while the company is a PDF are not deductible from capital gains accruing to the company after it ceases to be a PDF.

How PDF shareholders are taxed

Unfranked PDF dividends, which include the unfranked part of a franked dividend, are exempt from tax.

Franked dividends that are venture capital franked and produce a venture capital tax offset for the recipient shareholder are also exempt.

The remaining franked part of the dividend is exempt unless the shareholder elects to be taxed on it. The election is made by including the dividend in assessable income. A shareholder who uses the franking credits attached to the franked PDF dividends must make an election to be taxed on all the franked PDF dividends derived during the income year.

Also, franked PDF dividends received give rise to a franking credit.

The costs associated with borrowing to purchase PDF shares are not deductible to the extent the dividends are exempt from tax.

Non-resident PDF shareholders are exempt from withholding tax on PDF dividends.

PDF shares are not trading stock of a share trader.

Capital gains or capital losses from the disposal of PDF shares are not assessable or deductible.

Appendix 5 Infrastructure borrowings

The previous infrastructure borrowings tax concession which was introduced in 1992 to facilitate private sector investment in certain publicly accessible infrastructure projects, was closed to new projects with effect from 14 February 1997. The provisions relating to the concession are contained in Division 16L of ITAA 1936 and Chapter 3 of the *Development Allowance Authority Act 1992*.

The tax concession is, broadly, by way of an exemption of the lender's interest on borrowings – or, as an option, a tax rebate of 30% of the interest – and non-deduction for the borrower's interest. In addition, any profit or loss on the disposal of an infrastructure borrowings instrument is non-assessable or non-deductible.

The replacement land transport infrastructure offset contained in Division 396 of ITAA 1997 is a more restricted concession. The concession is in the form of a tax offset on the taxable interest of a resident lender to an approved infrastructure project. The offset is calculated by applying the general company tax rate to the lender's assessable interest, but may be subject to an upper limit set by the Minister for Transport and Regional Services.

Where the lender's interest is subject to a tax offset, the project borrower is denied a deduction in respect of a comparable amount of interest.

Appendix 6 Heritage conservation tax offset

Companies and trustees of corporate unit trusts and public trading trusts are entitled to this tax offset if the Minister for the Environment and Heritage (formerly the Minister for Communications and Arts) has issued to them a final certificate specifying an amount of eligible heritage conservation works expenditure.

The offset equals 20% of the specified amount and is allowable in the income year the final certificate is applied for.

Appendix 7 Uniform capital allowances

The following concepts relevant to the uniform capital allowance system are referred to in this appendix:

- balancing adjustment amounts
- deduction for decline in value of depreciating assets
- deduction for environmental protection activities
- deduction for project pool
- electricity connections and telephone lines
- hire purchase agreements
- landcare operations and decline in value of water facility
- loss on the sale of a depreciating asset
- luxury car leases
- profit on the sale of a depreciating asset
- section 40-880 deduction.

For more information on any of these topics, refer to the publication *Guide to depreciating assets*.

> **NOTE: STS TAXPAYERS**
>
> Taxpayers that elect to enter the STS calculate deductions for most of their depreciating assets under the specific STS depreciation rules – see page 28 in these instructions.

Balancing adjustment amounts

If the company ceases to hold or to use a depreciating asset, a balancing adjustment event occurs. The company will need to calculate a balancing adjustment amount to include in its assessable income or to claim as a deduction. The assessable balancing adjustment amount is shown at item 7, label **B – Other assessable income** for non-R&D assets. The assessable balancing adjustment amount for assets used in R&D activities is taken into account in the Part A, item 17 calculation in the *Research and development tax concession schedule 2004* – refer to **R&D concession claim (100%, 125% not 50% increment)** on page 37.

The deductible balancing adjustment amount is shown at item 7, label **X – Other deductible expenses**.

If the asset was used for both taxable and non-taxable purposes, the balancing adjustment amount is reduced by the amount attributable to the non-taxable use. A capital gain or capital loss may arise in respect of the amount attributable to that non-taxable use.

Any profit or loss on the sale of a depreciating asset which has been included in the accounts of the company will need to be shown at either item 6, Income, label **R – Other gross income** or item 6, Expenses, label **S – All other expenses** – see **Profit on the sale of a depreciating asset** or **Loss on the sale of a depreciating asset** below in this appendix.

If a balancing adjustment event occurred to a depreciating asset of the company during the income year, an amount may also need to be included at item 8, label **P – Termination value of intangible depreciating assets** or at item 8, label **E – Termination value of other depreciating assets**.

Deduction for decline in value of depreciating assets

The decline in value of a depreciating asset is generally worked out using either the prime cost or diminishing value method. Both methods are based on the effective life of an asset. For most depreciating assets, the company can choose whether to self-assess the effective life or adopt the Commissioner's determination which can be found in Taxation Ruling TR 2000/18.

The company can deduct an amount equal to the decline in value for an income year of a depreciating asset for the period that it holds the asset during that year. However, the deduction is reduced to the extent the company uses the asset or has it installed ready for use other than for a taxable purpose.

The decline in value of a depreciating asset costing $300 or less is its cost (but only to the extent the asset is used for a taxable purpose) where the asset satisfies all of the following requirements:

- It is used predominantly for the purpose of producing assessable income that is not income from carrying on a business.
- It is not part of a set of assets acquired in the same income year that costs more than $300.
- It is not one of any number of substantially identical items acquired in the same income year that together cost more than $300.

Certain assets that cost less than $1,000 or that have an opening adjustable value of less than $1,000 can be allocated to a low-value pool to calculate the decline in value. Assets eligible for the immediate deduction cannot be allocated to a low-value pool.

To work out the deduction for decline in value of most depreciating assets use Worksheets 1 and 2 in the publication *Guide to depreciating assets*.

Deduction for environmental protection expenses

The company can deduct expenditure to the extent that it incurs it for the sole or dominant purpose of carrying on environmental protection activities (EPA). EPA are activities undertaken to prevent, fight or remedy pollution or to treat, clean up, remove or store waste from the company's earning activity. The company's earning activity is one it carried on, carries on or proposes to carry on for the purpose of:

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

The company 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 the company can deduct an amount for it under another provision.

Expenditure which forms part of the cost of a depreciating asset is not expenditure on EPA.

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 of the company 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 life of the project – see **Deduction for project pools** below.

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 taken instead to be that market value.

Any recoupment of the expenditure is assessable income.

Deduction for project pools

Certain capital expenditure incurred after 30 June 2001 which is directly connected with a project carried on or proposed to be carried on for a taxable purpose can be allocated to a project pool and written off over the project life.

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

The capital expenditure, known as a project amount, must be expenditure incurred:

- to create or upgrade community infrastructure for a community associated with the project – this expenditure must be paid (not just incurred) to be a project amount
- for site preparation for depreciating assets (other than in draining swamp or low-lying land or in clearing land for horticultural plants including grapevines)
- for feasibility studies for the project
- for environmental assessments for the project
- to obtain information associated with the project
- in seeking to obtain a right to intellectual property
- for ornamental trees or shrubs.

Project amounts also include mining capital expenditure and transport capital expenditure.

The expenditure must not otherwise be 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.

The deduction for project amounts allocated to a project pool commences when the project starts to operate and is calculated as follows:

$$\frac{\text{Pool value} \quad \times \quad 150\%}{\text{DV project pool life}}$$

The 'DV project pool life' is the project life or, if that life has been recalculated, the most recently recalculated project life. The project life is determined by estimating how long (in years and fractions of years) it will be from when the project starts to operate until it stops operating. Generally, a project starts to operate when the activities that will produce assessable income start. The project life is estimated from the company's perspective but the event used to determine when the project will stop operating must be something outside its control.

The 'pool value' for an income year at a particular time is broadly the sum of the project amounts allocated to the pool up to the end of that year less the sum of the deductions the company has claimed for the project pool in previous years or could have claimed had the project operated wholly for a taxable purpose.

The pool value can be subject to adjustments.

If the company is or becomes entitled to a GST input tax credit for expenditure allocated to a project pool, the pool value is reduced by the amount of the credit. Certain increasing or decreasing adjustments in relation to expenditure allocated to a project pool will also require an adjustment to the pool value.

If during any income year commencing on or after 1 July 2003 the company ceased to have an obligation to pay foreign currency where the obligation was incurred as a project amount allocated to a project pool, a foreign currency gain or loss (referred to as a forex realisation gain or loss) may have arisen under new forex provisions. If the amount was incurred after 30 June 2003 (or earlier, if so elected) and became due for payment within 12 months after it was incurred then (unless elected otherwise – see below) the pool value for the income year in which the amount was incurred is increased by any forex realisation loss and decreased by any forex realisation gain. However, if a forex realisation gain exceeds the pool value, the pool value is reduced to zero and the excess gain is assessable income. If the company elected that this treatment should not apply, any forex realisation gain will be assessable and any forex realisation loss will be deductible.

The deduction for a project pool cannot be more than the amount of the pool value for that income year.

There is no need to apportion the deduction if the project starts to operate during the income year or for project amounts incurred during the year. However, the deduction is reduced to the extent to which the project is operated for other than a taxable purpose during the income year.

If the project is abandoned, sold or otherwise disposed of the company can deduct the sum of the closing pool value of the prior income year (if any) plus any project amounts allocated to the pool during the income year, after allowing for any necessary pool value adjustments. A project is abandoned if it stops operating and will not operate again.

Any amount received for the abandonment, sale or other disposal of a project is assessable.

If an amount of expenditure allocated to a project pool is recouped or if the company derives a capital amount in relation to a project amount or something on which a project amount was expended, the amount must be included in assessable income.

If any receipt arises from a non-arm's length dealing and the amount is less than the market value of what it was for, the amount received is taken to be that market value.

Electricity connections and telephone lines

A deduction can be claimed by the company over 10 years for capital expenditure incurred in connecting:

- mains electricity to land on which a business is carried on or in upgrading an existing connection to that land, or
- a telephone line to land being used to carry on a primary production business.

The deduction is shown at item 7, label **X** – **Other deductible expenses** to the extent the expenditure has not been included as an expense at item 6 – Calculation of total profit or loss.

Any recoupment of the expenditure would be included in assessable income at item 7, label **B** – **Other assessable income**.

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.

In relation to the notional sale, the hirer of a depreciating asset is treated as the holder of the asset and is entitled to claim a deduction for the decline in value. 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 the company has included hire purchase charges at any label in item 6 – Calculation of total profit or loss, the amount should be included at item 7, label **W** – **Non-deductible expenses**.

The deduction for the decline in value of the goods is included at item 7, label **F** – **Deduction for decline in value of depreciating assets**. Include the interest component at item 7, label **X** – **Other deductible expenses**.

Landcare operations and decline in value of water facility

Landcare operations

Landcare operation expenditures cover what were previously known as land degradation measures. The company can claim a deduction in the year it incurred capital expenditure on a landcare operation for land in Australia.

The deduction is available where the land is used wholly for either:

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

and is reduced to the extent it is not.

A landcare operation is one of the following operations:

- eradicating or exterminating animal pests from the land
- eradicating, exterminating or destroying plant growth detrimental to the land
- preventing or combating land degradation other than by the use of fences
- erecting fences to keep out animals from areas affected by land degradation to prevent or limit further damage and assist in reclaiming the areas
- erecting fences to separate different land classes in accordance with an approved land management plan
- constructing a levee or similar improvement
- constructing drainage works – other than the draining of swamps or low-lying areas – to control salinity or assist in drainage control.

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

In each case, apart from the construction of a levee, the operation must be carried out primarily and principally for the purpose stated. This is to ensure that the deduction for landcare operation expenditure and the three-year write-off for facilities to conserve or convey water cannot both be claimed for the same item of expenditure. Where a levee is constructed primarily and principally for water conservation, the cost is an allowable deduction under the water conservation provisions – see **Water facilities** below.

If the company is carrying on a primary production business on the land, it may claim the deduction even if the company is a lessee.

Any recoupment of the expenditure would be assessable income.

Water facilities

A deduction for the decline in value of a water facility is allowable. A water facility is 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.

The deduction can be claimed in equal instalments over three years.

Items in relation to which deductions are available include dams, earth tanks, underground tanks, concrete or metal tanks, tank stands, bores, wells, irrigation channels or similar improvements, pipes, pumps, water towers, windmills and extensions or improvements to any of these items.

If the company is carrying on a business of primary production on the land, it may claim the deduction even when the company does not own the land. Therefore, if the company is a lessee carrying on a business of primary production on the land, the company can still claim the deduction.

The 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.

Loss on the sale of a depreciating asset

Any such loss included in the accounts will differ from the balancing adjustment amount taken into account for taxation purposes.

Where the accounts show a loss on the sale of a depreciating asset under item 6, Expenses, label **S** – **All other expenses**, that amount needs to be included at item 7, label **W** – **Non-deductible expenses**. Also see **Balancing adjustment amounts** on page 77.

Luxury car leases

Luxury car leasing arrangements entered into after 7.30 pm (by legal time in the ACT) on 20 August 1996 (other than genuine short-term hire arrangements) are treated as notional sale and loan transactions.

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 2003–04 is $57,009.

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.

In relation to the notional sale, the lessee is treated as the holder of the luxury car and is entitled to claim a deduction for the decline in value of the car.

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, refer to the publication *Guide to depreciating assets*.

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.

Both deductions are reduced to reflect any use of the car for other than a taxable purpose.

If the company has included the lease expenses at item 6, Expenses, label **F** – **Lease expenses within Australia** or item 6, Expenses, label **I** – **Lease expenses overseas**, the amount should be included at item 7, label **W** – **Non-deductible expenses**.

The deduction for decline in value of the luxury car is included at item 7, label **F** – **Deduction for decline in value of depreciating assets**. Include the accrual amount at item 7, label **X** – **Other deductible expenses**.

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 and any assessable or deductible balancing adjustment amount for the lessee must be determined.

Profit on the sale of a depreciating asset

Any such profit included in the accounts will differ from the balancing adjustment amount taken into account for taxation purposes.

Where the accounts show a profit on the sale of a depreciating asset under item 6, Income, label **R** – **Other gross income**, that amount needs to be included at item 7, label **Q** – **Other income not included in assessable income.** Also see **Balancing adjustment amounts** on page 77.

Section 40-880 deduction

This section provides a deduction for certain business related costs to the extent that the business is or was carried on for a taxable purpose, such as for producing assessable income.

The company may be able to claim a deduction for the following types of business related capital expenditure:

- expenditure to establish its business structure – such as the costs of incorporation
- expenditure to convert its business structure to another structure – such as the costs of transferring the company assets to another entity
- expenditure to raise equity for its business
- costs of defending its business against a takeover
- costs to the business of unsuccessfully attempting a takeover
- costs of liquidating a company that carried on a business and of which the company is a shareholder, and
- costs to stop carrying on its business.

The company deducts 20% of the expenditure in the year it is incurred and in each of the following four years.

The deduction cannot be claimed for capital expenditure which:

- can be deducted under another provision
- forms part of the cost of a depreciating asset or of land
- relates to a lease
- would be taken into account in working out a profit or loss
- would be taken into account when working out the amount of a capital gain or capital loss, or
- is specifically not deductible under the income tax laws – such as a fine.

Appendix 8 Foreign exchange ('forex') gains and losses

Under the 'forex' measures introduced in Division 775 and Subdivisions 960-C and 960-D of the ITAA 1997, foreign exchange gains and losses are generally brought to account as assessable income or allowable deductions on a realisation basis. The measures cover both foreign currency denominated arrangements, and also, broadly, arrangements to be cash-settled in Australian currency with reference to a currency exchange rate. Gains and losses of a private or domestic nature, or in relation to exempt income or non-assessable non-exempt income are generally not brought to account under the forex measures.

If a gain or loss is brought to account under the forex measures and under another provision of the tax law, it is assessable or deductible only under the forex measures.

In general, foreign exchange gains and losses will not be assessable or deductible under these measures if they arise from certain acquisitions or disposals of capital assets, or acquisitions of depreciating assets, and the time between the acquisition or disposal and payment is no more than 12 months. Instead, any foreign exchange gain or loss is usually matched with or integrated into the tax treatment of the underlying asset.

The forex measures provide for a general translation rule which requires all tax relevant amounts to be expressed in Australian currency regardless of whether there is an actual conversion of that foreign currency into Australian dollars.

For most companies the forex measures will apply from 1 July 2003.

However, if the company has an early substituted accounting period and the first day of its 2003–04 income year is earlier than 1 July 2003, the forex measures will not apply to its 2003–04 income year. The date for the application of the forex provisions to these companies is the first day of the their 2004–05 income year.

The tax consequences of gains or losses on existing foreign currency assets, rights and obligations that were acquired or assumed before the commencement date are to be determined under the law as it was before these measures came into effect, unless

- the company has made a transitional election that brings these under these forex measures, or
- there is an extension of an existing loan (for example an extension by new contract or a variation to an existing contract) that brings the arrangement within these measures.

More information about these measures and on how to calculate your foreign exchange realisation gains and losses is available on our website at **www.ato.gov.au**

Capital gains tax (CGT) consequences

There may be CGT consequences if there is a CGT event in relation to CGT assets which are expressed in foreign currency. For example:

- any capital gain or loss that is not attributable to a currency exchange rate effect on a disposal of a CGT asset for an amount of foreign currency might have a CGT consequence; or
- as noted previously, certain foreign currency gains and losses on acquisition or disposal of capital assets might be integrated into the tax treatment of the underlying capital assets.

Appendix 9 Company tax rate

The following rates of tax apply to companies for the 2003–04 income year

Companies generally	**Rate %**
■ including corporate limited partnerships, strata title bodies corporate, trustees of corporate unit trusts and public trading trusts	30
Private companies generally	
■ taxable income	30
Life insurance companies	
■ ordinary class of taxable income	30
■ complying superannuation class of taxable income (including RSA component)	15
Retirement savings accounts providers other than life insurance companies	
■ the RSA component of taxable income	15
■ the standard component of taxable income	rate applicable to institution
Pooled development funds	
For tax rates where a company commences to be, or ceases to be, a PDF during the income year see appendix 4 on page 76.	
■ small and medium sized enterprises component	15
■ unregulated investment income	25
■ other	30
Credit unions	
■ small credit unions – under $50,000	30
■ medium credit unions – $50,000–$149,999	45
■ large credit unions – $150,000 and over	30

Small credit unions are taxed on all their taxable income, but note the treatment of mutual interest.

Interest derived by small credit unions that are also approved credit unions, being interest paid to the credit union by its members (not being companies) in respect of loans made to those members, is exempt from tax.

Credit unions with a notional taxable income of at least $50,000 but less than $150,000 are taxed on their taxable income in excess of $49,999.

Credit unions with a notional taxable income of $150,000 or more are taxed on all of their taxable income.

Notional taxable income of a credit union is its taxable income if section 23G of ITAA 1936 did not apply and Division 9 of Part III of ITAA 1936 had not been enacted.

Non-profit companies

Non-profit companies with a taxable income of between $417 and $915 are taxed on their taxable income in excess of $416.

Non-profit companies with a taxable income above $915 are taxed on all of their taxable income.

Taxable income	Rate %
$0–$416	nil
$417–$915	55
$916 and above	30

For rates of taxation for early balancing and late balancing life insurance companies refer to **www.ato.gov.au**

Appendix 10 Country codes

Please note that Guernsey, Jersey and Isle of Man each have a separate country code

Country	Code
Afghanistan	AFG
Albania	ALB
Algeria	DZA
American Samoa	ASM
Andorra	AND
Angola	AGO
Anguilla	AIA
Antarctica	ATA
Antigua and Barbuda	ATG
Argentina	ARG
Armenia	ARM
Aruba	ABW
Austria	AAT
Azerbaijan	AZE
Bahamas	BHS
Bahrain	BHR
Bangladesh	BGD
Barbados	BRB
Belarus	BLR
Belgium	BEL
Belize	BLZ
Benin	BEN
Bermuda	BMU
Bhutan	BTN
Bolivia	BOL
Bosnia and Herzegowina	BIH
Botswana	BWA
Bouvet Island	BVT
Brazil	BRA
British Indian Ocean Territory	IOT
Brunei Darussalam	BRN
Bulgaria	BGR
Burkina Faso	BFA
Burundi	BDI
Cambodia	KHM
Cameroon	CMR
Canada	CAN
Cape Verde	CPV
Cayman Islands	CYM
Central African Republic	CAF
Chad	TCD
Chile	CHL
China	CHN
Christmas Island	CXR
Cocos (Keeling) Islands	CCK
Colombia	COL
Comoros	COM
Congo	COG

Country	Code
Cook Islands	COK
Costa Rica	CRI
Cote D'Ivoire	CIV
Croatia (Local Name: Hrvatska)	HRV
Cuba	CUB
Cyprus	CYP
Czech Republic	CZE
Denmark	DNK
Djibouti	DJI
Dominica	DMA
Dominican Republic	DOM
East Timor	TMP
Ecuador	ECU
Egypt	EGY
El Salvador	SLV
Equatorial Guinea	GNQ
Eritrea	ERI
Estonia	EST
Ethiopia	ETH
Falkland Islands (Malvinas)	FLK
Faroe Islands	FRO
Fiji	FJI
Finland	FIN
France	FRA
France, Metropolitan	FXX
French Guiana	GUF
French Polynesia	PYF
French Southern Territories	ATF
Gabon	GAB
Gambia	GMB
Georgia	GEO
Germany	DEU
Ghana	GHA
Gibraltar	GIB
Greece	GRC
Greenland	GRL
Grenada	GRD
Guadeloupe	GLP
Guam	GUM
Guatemala	GTM
Guernsey	GGY
Guinea	GIN
Guinea-bissau	GNB
Guyana	GUY
Haiti	HTI
Heard and Mc Donald Islands	HMD
Holy See (Vatican City State)	VAT
Honduras	HND

Country	Code
Hong Kong	HKG
Hungary	HUN
Iceland	ISL
India	IND
Indonesia	IDN
Iran (Islamic Republic Of)	IRN
Iraq	IRQ
Ireland	IRL
Isle of Man, The	IMN
Israel	ISR
Italy	ITA
Jamaica	JAM
Japan	JPN
Jersey	JEY
Jordan	JOR
Kazakhstan	KAZ
Kenya	KEN
Kiribati	KIR
Korea, Democratic People's Republic	PRK
of Korea, Republic of	KOR
Kuwait	KWT
Kyrgyzstan	KGZ
Lao People's Democratic Republic	LAO
Latvia	LVA
Lebanon	LBN
Lesotho	LSO
Liberia	LBR
Libyan Arab Jamahiriya	LBY
Liechtenstein	LIE
Lithuania	LTU
Luxembourg	LUX
Macau	MAC
Macedonia, the Former Yugoslav Republic of	MKD
Madagascar	MDG
Malawi	MWI
Malaysia	MYS
Maldives	MDV
Mali	MLI
Malta	MLT
Marshall Islands	MHL
Martinique	MTQ
Mauritania	MRT
Mauritius	MUS
Mayotte	MYT
Mexico	MEX
Micronesia, Federated States of	FSM
Moldova, Republic of	MDA
Monaco	MCO
Mongolia	MNG
Montserrat	MSR

Country	Code
Morocco	MAR
Mozambique	MOZ
Myanmar	MMR
Namibia	NAM
Nauru	NRU
Nepal	NPL
Netherlands	NLD
Netherlands Antilles	ANT
New Caledonia	NCL
New Zealand	NZL
Nicaragua	NIC
Niger	NER
Nigeria	NGA
Niue	NIU
Norfolk Island	NFK
Northern Mariana Islands	MNP
Norway	NOR
Oman	OMN
Pakistan	PAK
Palau	PLW
Panama	PAN
Papua New Guinea	PNG
Paraguay	PRY
Peru	PER
Philippines	PHL
Pitcairn	PCN
Poland	POL
Portugal	PRT
Puerto Rico	PRI
Qatar	QAT
Reunion	REU
Romania	ROM
Russian Federation	RUS
Rwanda	RWA
Saint Kitts And Nevis	KNA
Saint Lucia	LCA
Saint Vincent and The Grenadines	VCT
Samoa	WSM
San Marino	SMR
Sao Tome and Principe	STP
Saudi Arabia	SAU
Senegal	SEN
Seychelles	SYC
Sierra Leone	SLE
Singapore	SGP
Slovakia (Slovak Republic)	SVK
Slovenia	SVN
Solomon Islands	SLB
Somalia	SOM
South Africa	ZAF

Country	Code
South Georgia and The South Sandwich Islands	SGS
Spain	ESP
Sri Lanka	LKA
St. Helena	SHN
St. Pierre and Miquelon	SPM
Sudan	SDN
Suriname	SUR
Svalbard and Jan Mayen Islands	SJM
Swaziland	SWZ
Sweden	SWE
Switzerland	CHE
Syrian Arab Republic	SYR
Taiwan, Province of China	TWN
Tajikistan	TJK
Tanzania, United Republic of	TZA
Thailand	THA
Togo	TGO
Tokelau	TKL
Tonga	TON
Trinidad and Tobago	TTO
Tunisia	TUN
Turkey	TUR
Turkmenistan	TKM
Turks and Caicos Islands	TCA
Tuvalu	TUV
Uganda	UGA
Ukraine	UKR
United Arab Emirates	ARE
United Kingdom	GBR
United States	USA
United States Minor Outlying Islands	UMI
Uruguay	URY
Uzbekistan	UZB
Vanuatu	VUT
Venezuela	VEN
Viet Nam	VNM
Virgin Islands (British)	VGB
Virgin Islands (US)	VIR
Wallis and Futuna Islands	WLF
Western Sahara	ESH
Yemen	YEM
Yugoslavia	YUG
Zaire	ZAR
Zambia	ZMB
Zimbabwe	ZWE

Appendix 11 Tax Office locations and where to lodge your tax return

Below are the Tax Office postal addresses for lodgment of the company tax return and any other correspondence. If an *Interposed entity election 2004* is attached to the company tax return, send the tax return and the election to the address on page 17.

If you have an enquiry, we can usually assist you faster by phone. The inside back cover lists our telephone infoline services.

Postal address for lodgment

Clients in **NSW**, **ACT** and **QLD**
Send the *Company tax return 2004* to:

Australian Taxation Office
PO Box 2246
CHERMSIDE QLD 4032

Clients in **VIC**, **TAS**, **SA**, **NT** and **WA**
Send the *Company tax return 2004* to:

Australian Taxation Office
GPO Box X2229
PERTH WA 6847

Do NOT post payments to these addresses; for payment addresses see page 88.
If you wish to write to the Tax Office send your correspondence to:

Australian Taxation Office
GPO Box 9990
SYDNEY NSW 2001

Tax Office locations

Victoria

Casselden Place
2 Lonsdale Street
Melbourne

Cheltenham
4A, 4–10 Jamieson Street
Cheltenham

Dandenong
14 Mason Street
Dandenong

Geelong
92–100 Brougham Street
Geelong

Western Australia

Northbridge
45 Francis Street
Northbridge

Northern Territory

Alice Springs
Jock Nelson Centre
16 Hartley Street
Alice Springs

Darwin
Cnr Mitchell & Briggs Streets
Darwin

Tasmania

Hobart
200 Collins Street
Hobart

Australian Capital Territory

Canberra
Ground floor Ethos House
28–36 Ainslie Avenue
Canberra

Queensland

Brisbane
280 Adelaide Street
Brisbane

Townsville
Stanley Place
235 Stanley Street
Townsville

Upper Mt Gravatt
Ground floor, Nexus Building
96 Mount Gravatt-Capalaba Road
Upper Mount Gravatt

South Australia

Adelaide
91 Waymouth Street
Adelaide

New South Wales

Albury
567 Smollett Street
Albury

Chatswood
Shop 43 Lemon Grove
Shopping Centre
441 Victoria Avenue
Chatswood

Hurstville
1st Floor MacMahon Plaza
14–16 Woodville Street
Hurstville

Newcastle
266 King Street
Newcastle

Sydney
100 Market Street
Sydney

Parramatta
Commonwealth Offices
Ground Floor
2–12 Macquarie Street
Parramatta

Wollongong
93–99 Burelli Street
Wollongong

Appendix 12 Payment options

To make a payment electronically the company's electronic funds transfer (EFT) code is found immediately above the bar code on the company's payment advice.

For more information or to request an EFT code phone **1800 815 886**.

The company can make payments by one of five methods:

Direct credit, by arranging to have your payment credited to the Tax Office electronically, via a desktop banking package. Use the following account details:

Bank	**Reserve Bank of Australia**
BSB no.	**093 003**
Account no.	**316 385**
Account name	**ATO EFT Deposits Trust Account**

Record your EFT code in the Direct Entry System (DES) Lodgment Reference Field. Your EFT code is found immediately above the barcode on your payment advice form. For more information or to request an EFT code phone **1800 815 886**.

Direct debit, by authorising us to debit your nominated financial institution account (savings or cheque accounts only) for your payment.

This method can only be used through a tax agent or accountant authorised to use the electronic lodgment service (ELS).

We must receive the completed direct debit request (DDR) at least five working days before the first direct debit is due. Once we process the company's DDR, payment details or recurring tax liabilities must be provided to us by the company's agent or accountant no later than three working days before the due date.

BPAY®, using the phone or internet. Contact your financial institution and follow the prompts.

Your nominated account must be a cheque or savings account. Enter the Tax Office's biller code **75556** and your EFT code as your customer reference number. Your EFT code is found immediately above the barcode on your payment advice form. For more information or to request an EFT code phone **1800 815 886**. A BPAY receipt number will be issued which is your record of payment.

Post, by posting your payment with the payment advice form to the address printed on the advice form. Where a payment advice form is not available, payments can be posted to the appropriate address below. Include your full name, address, telephone number, type of payment and ABN or TFN.

Clients in **NSW**, **ACT** and **QLD** send your payments to:

Australian Taxation Office
Locked Bag 1793
PENRITH NSW 1793

Clients in **VIC**, **TAS**, **SA**, **NT** and **WA** send your payments to:

Australian Taxation Office
Locked Bag 1936
ALBURY NSW 1936

Cheques and money orders are made payable to the Deputy Commissioner of Taxation with 'Not negotiable' printed across the cheque. Tender all cheques in Australian currency. Do not send cash by post. Do not use pins, staples, paper clips or adhesive tape.

In person, at any Australia Post agency, by cash, money order or cheque. A $3,000 cash limit applies. You must present your payment advice form when making a payment. A receipt will be issued.

Australia Post will not accept a photocopy of a payment advice form.

For more information on any payment method:

Phone: **1800 815 886**

Email: **payment@ato.gov.au**

Website: **www.ato.gov.au**

ABBREVIATIONS

AAT	Administrative Appeals Tribunal
ABN	Australian business number
ABS	Australian Bureau of Statistics
ACN	Australian Company Number
ACT	Australian Capital Territory
AUD	Australian dollars
CFC	controlled foreign company
CGT	capital gains tax
Commissioner	Commissioner of Taxation
DDR	direct debit request
DES	direct entry system
DGR	deductible gift recipient
DVS	direct value shifting
EFT	electronic funds transfer
ELS	electronic lodgment service
EPA	environmental protection activities
FBT	fringe benefits tax
FDA	foreign dividend account
FDT	franking deficit tax
FIF	foreign investment fund
FLIC	film licensed investment company
forex	foreign exchange
FTD	family trust distribution tax
FTE	family trust election
FTP	file transfer protocol
Gazette	*Commonwealth of Australia Gazette*
GIC	general interest charge
GST	goods and services tax
GVSR	general value shifting regime
ICDR	intercorporate dividend rebate
IRU	indefeasible rights to use international submarine cable system
ITAA	Income Tax Assessment Act
ITEC	endorsed income tax exempt charity
IVS	indirect value shifting
LIC	listed investment company
MEC	multiple entry consolidated
NANE	non-assessable non-exempt
OB	offshore banking
OBU	offshore banking unit
PAYG	pay as you go
PDF	pooled development fund
PPS	prescribed payments system
PSI	personal services income
PST	pooled superannuation trust
R&D	research and development
RBA	running balance account
RSA	retirement savings account
SAP	substituted accounting period
SHAR	superannuation holding accounts reserve
SME	small and medium enterprises
STS	simplified tax system
TAA 1953	*Taxation Administration Act 1953*
TFN	tax file number
Trust Loss Act	*Taxation Laws Amendment (Trust Loss and Other Deductions) Act 1998*
UBNT	ultimate beneficiary non-disclosure tax
UCA	uniform capital allowance
VCDT	venture capital deficit tax
www	World Wide Web

MORE INFORMATION

Publications

To get any publication referred to in this book:

- visit our website at **www.ato.gov.au**
- phone our Publications Distribution Service on **1300 720 092** for the cost of a local call, or
- visit a Tax office shopfront.

Publications you may need to refer to when completing the tax return are:

- *Application for refund of franking credits – endorsed income tax exempt charities and deductible gift recipients* (NAT 4131–6.2004)
- *Australian film industries incentives* (NAT 0954–6.2004)
- *Capital allowances schedule 2004 instructions* (NAT 4089–6.2004)
- *Capital gains tax concessions for small business* (NAT 8384–6.2004)
- *Consolidated groups losses schedule 2004 instructions* (NAT 7891–6.2004)
- *Consolidation and market valuation* (NAT 7803–1.2003)
- *Consolidation reference manual* (NAT 6835–5.2004)
- *Deductions for prepaid expenses* (NAT 4170–6.2004)
- *Foreign income return form guide* (available from **www.ato.gov.au** only)
- *Foreign investment funds guide* (available from **www.ato.gov.au** only)
- *Franking account tax return 2004 instructions* (NAT 1382–6.2004)
- *General value shifting regime in brief* (NAT 8933–06.2003)
- *Guide to capital gains tax* (NAT 4151–6.2004)
- *Guide to depreciating assets* (NAT 1996–6.2004)
- *Guide to the debt and equity tests* (available from **www.ato.gov.au** only)
- *Guide to the general value shifting regime* (NAT 8366) (available from **www.ato.gov.au** only)
- *Guide to the R&D tax concession* (available from **www.ausindustry.gov.au** only)
- Guide to thin capitalisation (NAT 4461) (available from **www.ato.gov.au** only)
- *Income Tax Assessment Act 1936*
- *Income Tax Assessment Act 1997*
- *Income tax guide for non-profit organisations* (available from **www.ato.gov.au** only)
- *Losses schedule 2004 instructions* (NAT 4088–6.2004)
- *Personal services income schedule 2004 instructions* (NAT 3421–6.2004)
- *Research and development tax concession schedule 2004 instructions* (NAT 6709–6.2004)
- *Schedule 25A 2004 instructions* (NAT 2639–6.2004)
- *Strata title body corporate tax return 2004* (NAT 4125–6.2004)
- *Supplementary guide for functional currency taxpayers* (available from **www.ato.gov.au** only)
- *The simplified tax system – a guide for tax agents and small businesses* (NAT 6459–9.2003)
- *Trans–Tasman imputation: How to claim Australian franking credits attached to New Zealand dividends* (NAT 10851–6.2004)

Taxation determinations, taxation rulings and practice statements

IT 2624	Income tax: company self assessment; elections and other notifications; additional (penalty) tax; false or misleading statement
TD 93/202	Income tax: Offshore Banking Units (OBU) – can an OBU use offshore banking (OB) money (ie money that is not non-OB money) for purposes other than OB activities and replace those funds at a later date?
TD 93/203	Income tax: Offshore Banking Units (OBU) – does share capital subscribed by a resident owner to its subsidiary, before that subsidiary becomes registered as an OBU, constitute 'OBU resident-owner money'?
TD 93/204	Income tax: Offshore Banking Units (OBU) – where a non-resident has an Australian branch and an Australian subsidiary, and the subsidiary is registered as an OBU, does any share capital subscribed in the subsidiary by the parent fall within the definition of 'non-OB money'?
TD 93/205	Income tax: Offshore Banking Units (OBU) – does trading in, or entering into commodity derivatives such as commodity futures, forwards, options and swaps constitute offshore banking (OB) activity for the purposes of section 121D?
TD 93/206	Income tax: Offshore Banking Units (OBU) – if an OBU carries on a business of trading in shares or debt instruments, such that the trading is an offshore banking (OB) activity for the purposes of subsection 121D(1), are dividends and interest derived from holding the shares or debt instruments assessable OB income?
TD 93/207	Income tax: Offshore Banking Units (OBU) – if an OBU acts as funds manager for a trust with offshore investors and an Australian trustee, does the funds management role fall within the definition of an investment activity under subsection 121D(6)?
TD 93/208	Income tax: Offshore Banking Units (OBU) – does the definition of advisory activity in subsection 121D(7) encompass the provision of financial knowledge and information to an offshore person?
TD 93/209	Income tax: Offshore Banking Units – does the definition of advisory activity in subsection 121D(7) encompass: advising offshore parties on offshore infrastructure financing; and advising lessors or lessees on leasing transactions, where both lessor and lessee are offshore persons and the leased asset is not located in Australia?
TD 93/210	Income tax: Offshore Banking Units (OBU) – does the definition of advisory activity in section 121D(7) encompass advising an offshore debt investor or offshore borrower in an offshore leveraged lease which has an Australian end-user?
TD 93/211	Income tax: Offshore Banking Units (OBU) – where an OBU provides the services of its employees to a non-resident subsidiary to assist the subsidiary in advising offshore clients on offshore financial matters, can fees charged by the OBU to the subsidiary qualify as assessable OB income?
TD 93/212	Income tax: Offshore Banking Units (OBU) – are salaries and other operating expenses that are paid from non-OB money taken into account for purposes of the 'purity test' in section 121EH where the expenses are incurred in undertaking OB activities?
TD 93/213	Income tax: Offshore Banking Units (OBU) – if an OBU earns fee income for completing an assignment (say advisory activities) on a success only basis, are expenses incurred on unsuccessful deals exclusive offshore banking (OB) deductions or general OB deductions?
TD 93/214	Income tax: Offshore Banking Units (OBU) – must an OBU enter details of expenditure that it intends to claim as allowable offshore banking (OB) deductions or allowable non-OB deductions in its relevant books of account at the time of incurring that expenditure?
TD 93/215	Income tax: Offshore Banking Units (OBU) – where an institution that is registered as an OBU lends money to another institution that is registered as an OBU, how do the counterparties know whether the loan qualifies as an offshore banking (OB) activity?
TD 93/216	Income tax: Offshore Banking Units (OBU) – is an OBU entitled to concessional tax treatment for income derived on a success only basis from offshore banking (OB) advisory activities which were entered into prior to the entity being registered as an OBU?
TD 93/217	Income tax: Offshore Banking Units (OBU) – what is the effect of funding an offshore banking (OB) activity with both OB and non-OB money?
TD 93/241	Income tax: Offshore banking units – if an OBU sells down or disposes of its interest in a loan which originally qualified as an OB activity, does any fee receivable constitute assessable OB income?

TD 95/1 Income tax: Offshore Banking Units (OBU): what is the effect of converting a profit from offshore banking (OB) activities denominated in a foreign currency into Australian currency in an arm's length transaction with a separate Australian counterparty or with another division of the entity of which the OBU forms part?

TD 95/2 Income tax: Offshore Banking Units (OBU): can foreign currency denominated assets and receivables generated from offshore banking (OB) activities be hedged into Australian dollars (AUD) and if so, would the AUD received from the forward sale constitute non-OB money?

TD 2003/10 Income Tax: is expenditure incurred by a head company in obtaining valuations in respect of the formation of a consolidated group or entities joining a consolidated group an allowable deduction under section 25-5 of the ITAA 1997?

TD 2003/11 Income Tax: is expenditure incurred by an entity in obtaining valuations for the purposes of either entering into a consolidated group as a subsidiary member, or working out the future income tax liability of a consolidated group of which it would be a subsidiary member an allowable deduction to that entity under section 25-5 of the ITAA 1997?

TD 2004/4 Income Tax: is a dividend paid before 1 July 1987 an unfranked dividend for the purposes of section 705-50 of the ITAA 1997?

TR 92/18 Income tax: bad debts

TR 93/1 Income tax and fringe benefits tax: private rulings

TR 93/1A – Addendum

Addendum to taxation ruling TR 93/1

TR 93/23 Income tax: valuation of trading stock subject to obsolescence or other special circumstances

TR 96/7 Income tax: record keeping – section 262A - general principles

TR 97/16 and TR 97/16A – Addendum

Income tax: status of taxation rulings following the income tax law rewrite

TR 97/21 Income tax: record keeping – electronic records

TR 97/23 Income tax: deductions for repairs

TR 97/25 and TR 97/25A – Addendum

Income tax: property development: deduction for capital expenditure on construction of income producing capital works, including buildings and structural improvements

TR 98/7 Income tax: whether packaging items (ie, containers, labels, etc) held by a manufacturer, wholesaler or retailer are trading stock

TR 98/8 Income tax: whether materials and spare parts held by a taxpayer supplying services are trading stock

TR 1999/9 Income tax: the operation of sections 165-13 and 165-210, paragraph 165-35(b), section 165-126 and section 165-132

TR 2000/18 and Addenda

Income tax: depreciation effective life

TR 2002/6 Income tax: Simplified Tax System: eligibility – grouping rules (*STS affiliate, control of non fixed trusts)

TR 2002/10 Income tax: capital gains tax: asset register

TR 2002/11 Income tax: Simplified Tax System eligibility – STS average turnover

Practice Statement PS LA 2003/8

Taxation treatment of expenditure on low-cost items for taxpayers carrying on a business

Practice Statement PS LA 2004/1 (GA)

Lodgment opportunity for family trust and interposed entity elections

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INFOLINES FOR FURTHER INFORMATION

Publications, taxation rulings, forms

Tax agent

Order by internet at **www.iorder.com.au/ato**

Order by fax on **1300 361 462**.

If you have a query on the status of your order phone **1300 720 092**.

Non tax agents

Phone the Publications Distribution Service on **1300 720 092** for the cost of a local call. (Calls from mobile phones are charged at mobile phone rates).

Before you phone, check to see if there are other publications you may need—this will save you time and help us. For each publication you order please quote the full title and NAT number. Phone the Publications Distribution Service on **1300 720 092**.

Other enquiries are available through the following services:

Website

The website at **www.ato.gov.au** gives access to Tax Office publications and general information on tax matters, 24 hours, 7 days a week.

A Fax from Tax—13 28 60

If you have access to a fax machine, tax information is available 24 hours, 7 days a week.

When you phone, follow the instructions to obtain a list of available documents.

Business Infoline—13 28 66

For information about business income tax, fringe benefits tax, GST, PAYG and activity statements including lodgment and payment, accounts and business registration (including Australian business number and tax file number).

This service operates from 8.00am to 6.00pm Monday to Friday, except public holidays.

The website at **www.ato.gov.au** gives access to business tax information 24 hours, 7 days a week.

Superannuation Infoline—13 10 20

For assistance with all your superannuation enquiries.

Tax Reform Infoline—13 24 78

For information about new business tax reform (BTR) measures including consolidation, simplified imputation and exposure draft enquiries.

This service operates from 8.00am to 6.00pm Monday to Friday, except public holidays.

The website at **www.ato.gov.au** gives access to business tax reform information 24 hours, 7 days a week.

Account Management Infoline—13 11 42

For information about outstanding lodgment or payment obligations in relation to activity statements, PAYG withholding, income tax, or fringe benefits tax.

This service operates from 8.00am to 6.00pm Monday to Friday, except public holidays.

The website at **www.ato.gov.au** gives access to business tax information 24 hours, 7 days a week.

Personal Tax Infoline—13 28 61

This infoline is for non-business tax questions.

Translating and Interpreting Service—13 14 50

If you do not speak English and need help on tax matters, this service sets up a three-way conversation between you, an interpreter and a tax officer.

Hearing or speech impairment

If you have access to appropriate TTY or computer, phone **13 36 77**. For Speech to Speech relay, phone **1300 555 727**. You will need to quote one of the infolines listed on this page. The relay service will then connect you with a tax officer.