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Australian Government

Australian Taxation Office

Company tax return instructions 2007

To help you complete the company tax return for 1 July 2006 – 30 June 2007

For more information visit **www.ato.gov.au**

OUR COMMITMENT TO YOU

We are committed to providing you with advice and information you can rely on.

We make every effort to ensure that our advice and information is correct. If you follow advice in this publication and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we must still apply the law correctly. If that means you owe us money, we must ask you to pay it. However, we will not charge you a penalty or interest if you acted reasonably and in good faith.

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If correcting the mistake means we owe you money, we will pay it to you. We will also pay you any interest you are entitled to.

If you feel this publication does not fully cover your circumstances, please seek help from the Tax Office or a professional adviser.

The information in this publication is current at May 2007. We regularly revise our publications to take account of any changes to the law, so make sure that you have the latest information. If you are unsure, you can check for a more recent version on our website at **www.ato.gov.au** or contact us.

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ABOUT THESE INSTRUCTIONS

The *Company tax return instructions 2007* will help you complete the *Company tax return 2007* (NAT 0656).

The instructions include:

- information about the schedules companies might need to complete and attach to their tax returns
- details of record keeping requirements, and
- instructions about how to complete each label on the company tax return.
- Text with a green background applies to consolidated groups

When we refer to 'you' or 'your business' in these instructions, we are referring either to you as a business entity – the company – that conducts a business, or to you as the tax agent or public officer responsible for completing the tax return.

This publication is **not** a guide to income tax law. Please get help from the Tax Office or a recognised tax adviser if you feel this publication does not fully cover your circumstances.

PUBLICATIONS AND SERVICES

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

INTRODUCTION

These instructions will help you complete the *Company tax return 2007* (NAT 0656), including a return for a head company of a consolidated group.

These instructions contain a number of abbreviations for names or technical terms. Each term abbreviated is spelt out the first time it is used and there is also a list of abbreviations on page 97.

WHAT'S NEW

Changes to capital gains tax (CGT) for foreign residents

The *Tax Laws Amendment (2006 Measures No.4) Act 2006* has changed the CGT rules that apply to foreign residents by:

- narrowing the range of CGT assets to Australian real property (including mining rights) directly held by a foreign resident, and to any CGT asset (other than Australian real property) used by the foreign resident in carrying on a business through a permanent establishment (PE) in Australia; and
- strengthening the application of CGT to foreign residents by applying CGT to indirect Australian real property interests (that is, non-portfolio interests in interposed entities, including foreign interposed entities, where more than 50% of the value of the interposed entities' assets is attributable to Australian real property, whether directly, or indirectly through one or more other interposed entities).

This measure also amends provisions that apply to taxpayers who cease to be, or become, Australian residents for tax purposes, ensuring that the policy intent of those provisions is maintained.

Date of effect

The new rules in Division 855 and Subdivision 960-GP of the *Income Tax Assessment Act 1997* (ITAA 1997) apply to CGT events that happen on or after 12 December 2006. In addition, the cost base of indirect Australian real property interests that are interests that were not previously taxable for foreign residents, and were acquired on or after 20 September 1985, is reset to the market value of such interests on 10 May 2005.

Further reading

For further information, see the *Guide to capital gains tax 2007* (NAT 4151).

Consolidation

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

Consolidation legislative change and proposed changes

The *Tax Laws Amendment (2006 Measures No. 4) Act 2006* amended the consolidation provisions in the *Income Tax (Transitional Provisions) Act 1997*. The tax cost setting integrity measure that causes certain CGT roll-overs to be ignored for tax cost setting purposes has been modified to improve the interaction between the demerger rules and the consolidation rules. This amendment applies from 1 July 2002.

This change was one of a number of amendments to the consolidation regime announced by the Government in Press Release No. 098 by the Minister for Revenue and Assistant Treasurer dated 1 December 2005. At the time of printing, a number of the other proposed changes had not become law.

The Government has announced a further change to the consolidation regime to allow ongoing consolidated groups and multiple entry consolidated (MEC) groups to restructure with minimal tax consequences after 26 October 2006 (see Press Release No. 076 by the Minister for Revenue and Assistant Treasurer dated 27 October 2006).

Imputation – Changes to franking deficit tax (FDT) offset rules

The *Tax Laws Amendment (2006 Measures No. 2) Act 2006* modified the simplified imputation system to remove some unintended consequences of the FDT offset reduction rule.

The first of these modifications ensures that only certain franking debits that arise in a corporate tax entity's franking account will be taken into account when determining whether the FDT offset reduction applies and the amount to which the reduction will be applied.

The second modification grants the Commissioner a discretion to allow the FDT offset in full where an FDT liability arose due to events which were outside the entity's control.

International tax

The *Tax Laws Amendment (2006 Measures No. 4) Act 2006* also makes amendments which ensure that franking credits are available to an Australian company which receives a franked distribution from a New Zealand franking company which has elected into the Australian imputation system and the distribution is non-assessable non-exempt income of the Australian company under section 23AJ, 23AI or 23AK of the *Income Tax Assessment Act 1936* (ITAA 1936). These amendments apply to distributions made on or after 1 April 2003.

New interposed entity election status boxes

This year there have been changes made to the way you record the election status of any interposed entity elections lodged. In prior years you were asked to provide an alpha code which you selected from tables provided in this Guide. This year you are required to provide a four digit numeric income year, for example, 1995. Examples of how to select the correct income year have been provided on page 18.

2006 Budget announcement concerning family trust elections and interposed entity elections

In the 2006 Budget, the Government announced that it will make changes to the family trust election and interposed entity election rules to increase flexibility for family trusts. The measure will have effect from the income year in which the enabling legislation receives royal assent (see Treasurer's Press Release No. 39, 9 May 2006).

At the time this publication was prepared the amending legislation for these measures had not been introduced into Parliament. Once the legislation has received royal assent further information will be available on our website or by phoning the Business Infoline (see the inside back cover).

Non-commercial loans and private companies

The Government announced amendments to the integrity rules which apply to distribution by private companies (Division 7A of the ITAA1936) (see Minister for Revenue and Assistant Treasurer Press Release No 089, 6 December 2006).

These rules prevent private companies from making tax-free distributions of profits to shareholders (or their associates). Unless they come within specified exclusions, advances, loans and other credits to shareholders (or their associates) are treated as assessable dividends to the extent that there are realised or unrealised profits in the company. When an amount is treated as a dividend under Division 7A the private company's franking account is debited and the dividend is taxable in the hands of the shareholder or associate, without access to a franking credit to offset the tax paid by the company.

The Government will reduce the double-penalty nature of Division 7A by removing the automatic debiting of the company's franking account when an amount is treated as a dividend.

The Commissioner of Taxation will have the discretion to not treat an amount as a dividend where a taxpayer has attempted to comply with Division 7A but made an honest mistake.

A range of other technical amendments will also be made to the rules to provide more flexibility for taxpayers.

Changes to the fringe benefits tax (FBT) laws will simplify their interaction with Division 7A.

Section 108 of the ITAA 1936 (the precursor to Division 7A) will also be repealed as it is a duplicate provision that is no longer necessary.

The changes are expected to generally have effect from 1 July 2006. However, the discretion will apply from 1 July 2002 and the FBT amendments from 1 April 2007.

At the time of printing, these changes had not become law.

Our website at **www.ato.gov.au** will be updated once the new law is enacted.

Political donation deductions

The *Electoral and Referendum Amendment (Electoral Integrity and Other Measures) Act 2006* introduced a deduction for contributions or gifts valued at over $2 to registered political parties and to independent members of (or candidates for) an Australian parliament or legislative assembly. The company can claim up to $1500 (in total) for contributions or gifts to political parties and up to $1500 (in total) for contributions or gifts to independents. The new rules apply to contributions or gifts made on or after 22 June 2006.

Australian property trusts – restructuring with an interposed head trust

In the 2007 Budget the Government announced that it would pass new legislation to be effective from the 2006–07 income year that will allow certain stapled entities, such as Australian listed property trusts, to restructure with an interposed head trust without taxation consequences. The proposed measures will provide CGT roll-over relief for investors in a stapled group where a unit trust has been interposed between the investors in the stapled group and the stapled entities, and will ensure that these restructures do not result in the head trust being taxed as if it was a company.

Amendments to the company loss recoupment rules

In the 2007 Budget the Government announced it will pass legislation to remove the $100 million income cap on the same business test, with effect from 1 July 2005. The proposed legislation will also ensure that companies do not fail the continuity of ownership test because they have multiple classes of shares on issue, and ensure that the entry history rule in the consolidation regime is disregarded in applying the same business test, with effect from 1 July 2002.

Consolidation – further improvements

In the 2007 Budget the Government announced it will pass legislation to improve and clarify the operation of the income tax law for consolidated groups, including changes to the cost setting rules, the capital gains tax provisions and the uniform capital allowance rules, with effect from 1 July 2002.

SCHEDULES

- Complete only **one** copy of the appropriate schedule.
- Attach all completed schedules to the *Company tax return 2007* unless specified otherwise.
- If you lodge your tax return without all the required schedules we may not consider it to have been lodged in the approved form. Unless you lodge all schedules by the due date, you may be charged a failure to lodge on time penalty.

CONSOLIDATED GROUPS LOSSES SCHEDULE

A head company of a consolidated group or MEC group must complete a *Consolidated groups losses schedule 2007* and lodge it with the *Company tax return 2007* if the head company satisfies one or more of the following tests:

- tax losses and net capital losses carried forward to the 2007–08 income year total greater than $100,000.
- tax losses and net capital losses transferred from joining entities total greater than $100,000.
- tax losses and net capital losses utilised total greater than $100,000.
- foreign source losses carried forward to the 2007–08 income year total greater than $100,000.
- foreign source losses transferred from joining entities total greater than $100,000.
- foreign source losses utilised total greater than $100,000.
- deduction for earlier year controlled foreign company (CFC) losses greater than $100,000.
- CFC losses carried forward to the 2007–08 income year total greater than $100,000.
- the company is a life insurance company and has a total of complying superannuation class tax losses and virtual pooled superannuation trust (PST) net capital losses carried forward to the 2007–08 income year greater than $100,000.

Transfer totals of tax losses carried forward and net capital losses carried forward in Part A of the *Consolidated groups losses schedule 2007* to **U** and **V** item **11 Losses information** on the company tax return.

For more information, see the *Consolidated groups losses schedule instructions 2007* (NAT 7891–6.2007).

If a head company needs to complete a consolidated groups losses schedule, it might also need to complete a *Capital gains tax (CGT) schedule 2007*. For more information, see the *Guide to capital gains tax 2007* (NAT 4151–6.2007).

DIVIDEND AND INTEREST SCHEDULE

Every company must lodge a *Dividend and interest schedule 2007* showing the following details:

- 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 (or deemed dividends) have been paid during the income year ended 30 June 2007, including the amount of dividend paid to each shareholder and any franking credits referable to that amount. Furthermore, there are separate labels for unfranked dividends which are and are not declared to be conduit foreign income. 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 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 must lodge a company tax return for any periods when it is not a subsidiary member of any consolidated group (non-membership periods) during the year of income, that company must also lodge a schedule showing the above details.

- 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 income year ended 30 June 2007, 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.

Do **not** include interest paid by one member to another within a consolidated group.

NOTE
If a subsidiary member of a consolidated group must lodge a company tax return for any non-membership periods during the year of income, that company must also lodge a schedule showing the above details.

Companies that are investment bodies are not required to lodge a *Dividend and interest schedule 2007* if they are investment bodies for the purposes of regulation 56 of the Income Tax Regulations 1936 and are required to lodge an annual investment income report under that regulation.

Companies are required to lodge a *Dividend and interest schedule 2007* if they are investment bodies that are not required to lodge an annual investment income report under regulation 56 because of subregulation 56(5A).

Lodging the schedule

You can lodge the schedule with the company tax return or under separate cover. However, you must lodge it by the due date for lodgment of the company tax return for companies whose income year ends on 30 June 2007. Companies with an approved substituted accounting period must lodge their schedule by 31 October 2007 or the due date for lodgment of their company tax return, whichever is later.

If you are lodging your schedule separately to your company return, send it to:

Australian Taxation Office
PO Box 2090
CHERMSIDE QLD 4032

CONSOLIDATED SUBSIDIARY MEMBERS

Companies that were subsidiary members of consolidated groups during only part of the income year and that are lodging a company tax return for any non-membership periods must complete all relevant schedules covering the periods of non-membership if required by the instructions following.

CAPITAL ALLOWANCES SCHEDULE

If your company has an amount greater than $15,000 at **Expenses, X Depreciation expenses** item **6**, or **F Deduction for decline in value of depreciating assets** item **7**, complete a *Capital allowances schedule 2007* and attach it to the *Company tax return 2007* unless your company is:

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

You must complete a *Capital allowances schedule 2007* and attach it to the *Company tax return 2007* if your company has:

- an amount greater than $1,000 at **H Deduction for project pool** item **7**, 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**
- included an amount of more than $75,000 at **Z Intangible depreciating assets first deducted** item **8**, or **A Other depreciating assets first deducted** item **8**.

For more information, see the *Capital allowances schedule instructions 2007* (NAT 4089–6.2007).

Worksheets 1 and 2 in the *Guide to depreciating assets 2007* (NAT 1996–6.2007) will help you complete the *Capital allowances schedule 2007*. **G**, **H**, **I**, **J** and **K** in worksheet 1 and **L**, **M**, **N**, **O**, **P** and **Q** in worksheet 2 correspond to labels in the *Capital allowances schedule 2007*.

CAPITAL GAINS TAX (CGT) SCHEDULE

Companies that have one or more CGT events during the income year must complete a *Capital gains tax (CGT) schedule 2007* and attach it to the *Company tax return 2007* 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.

NOTE
The head company of a consolidated group must complete a *Capital gains tax (CGT) schedule 2007* if the total current year capital gains or the total current year capital losses that it makes – as head company of the consolidated group and for any part of the income year that it was not a member of a consolidated group – are greater than $10,000.

The *Guide to capital gains tax 2007* will help you 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, and
- the CGT schedule.

LOSSES SCHEDULE

Complete and attach a losses schedule if your company does not need to submit a *Consolidated groups losses schedule 2007* and if it satisfies one or more of the following tests:

- it has a total of tax losses and net capital losses carried forward to the 2007–08 income year greater than $100,000.
- it has claimed a deduction for tax losses or applied a net capital loss greater than $100,000 in the 2006–07 income year.
- it has an unrealised net loss as defined in the provisions of Subdivision 165-CC of the ITAA 1997.
- it is a life insurance entity and has either a complying superannuation class tax loss or a virtual PST net capital loss carried forward to the 2007–08 income year.
- 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 CFC losses, has 'current year' CFC losses or has CFC losses carried forward to later income years.

If the company is required to complete a *Losses schedule 2007*, transfer the totals of the amounts at Part A of the losses schedule to **U** and **V** item **11** on the *Company tax return 2007*. For more information, see the *Losses schedule instructions 2007* (NAT 4088–6.2007).

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, see the *Guide to capital gains tax 2007*.

NON-INDIVIDUAL PAYG PAYMENT SUMMARY SCHEDULE

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

- payments for a supply where no ABN is quoted
- payments arising from investments where no TFN or ABN is quoted
- certain payments to foreign residents described in the regulations.

If the company has had an amount withheld from payments covered by PAYG withholding, the payer should have given the company a payment summary. A payer may issue a receipt, remittance advice or similar document in place of the approved form. If the company did not receive or has lost its copy of the payment summary, contact the payer responsible and request a signed photocopy of the payer's copy.

You must include details on a *Non-individual PAYG payment summary schedule 2007* for each Non-individual PAYG payment for – withholding where ABN not quoted, and PAYG withholding from foreign residents.

Complete a *Non-individual PAYG payment summary schedule 2007* if your company has an amount at:

- **A Gross payments where ABN not quoted** item **6**
- **B Gross payments subject to foreign resident withholding** item **6** (except where the amount is from partnership or trust distributions)
- **Calculation statement**, **W Credit for tax withheld where ABN not quoted**
- **Calculation statement**, **I Credit for tax withheld – foreign resident withholding**.

Income subject to foreign resident withholding that has been included in a distribution received by the company from a partnership or trust is declared at **D Gross distribution from partnerships** item **6** or **E Gross distribution from trusts** item **6**. However, a *Non-individual PAYG payment summary schedule 2007* is not required for these distributions because they do not have an associated payment summary.

Completing the Non-individual PAYG payment summary schedule

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

From each *PAYG payment summary – withholding where ABN not quoted* and PAYG withholding from foreign residents – payment summary, record on the *Non-individual PAYG payment summary schedule*:

- the appropriate letter for your type of withholding – **F** for foreign resident withholding, or **N** for withholding where ABN not quoted
- payer's ABN (or withholding payer number)
- total tax withheld
- gross payment, and
- payer's name.

When you have copied details of all the payment summaries to the schedule, attach the schedule to the company tax return.

Do not attach copies of any payment summary to the company tax return – keep them with the company's copy of the tax return. Keep a copy of the *Non-individual PAYG payment summary schedule 2007* with the company's tax records.

PERSONAL SERVICES INCOME (PSI) SCHEDULE

Special rules for the income tax treatment of PSI earned by contractors and consultants 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 **12 Personal services income** on the company tax return. Also complete a *Personal services income schedule 2007* (PSI schedule) and attach it to the tax return.

For more information on the PSI rules, see the instructions that accompany the PSI schedule.

RESEARCH AND DEVELOPMENT (R&D) TAX CONCESSION SCHEDULE

All companies claiming a deduction or tax offset for the R&D tax concession must complete the *Research and development tax concession schedule 2007* and attach it to the company tax return.

The schedule forms part of the *Research and development tax concession schedule instructions 2007* (NAT 6709–6.2007). This publication, as well as an Excel® version of the schedule and instructions, are available at **www.ato.gov.au/randd** The Excel® spreadsheet 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 an amendment request.

How to lodge the R&D schedule

Lodge the *Research and development tax concession schedule 2007* with the appropriate company tax return.

If you have requested an amendment

If your company has made a request for an amendment that includes changes to its R&D claim, you must complete an R&D schedule showing the amended figures. Send this schedule, with a letter requesting the amendment to:

Australian Taxation Office
GPO Box 5056
SYDNEY NSW 2001

This requirement applies only to the income year ended 30 June 2002 and subsequent income years.

THIN CAPITALISATION SCHEDULE

If your company is subject to the thin capitalisation rules, you must complete and send a *Thin capitalisation schedule 2007* either through 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, see appendix 3 on page 85.

The *Guide to thin capitalisation* is available on our website. It 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 from 1 July 2002 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. 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 on our website.

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

If the company is a subsidiary member of a consolidated group and is lodging a tax return because it had a non-membership period(s) during the income year, print **X** in the box at **Z2** **Consolidated subsidiary member** item **3**.

If you have completed **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.
- 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.

Some key elements of the consolidation regime

To consolidate, a group must consist of an Australian resident head company and at least one other Australian resident 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 on a specified date then, from that time, both the head company and all of 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.

- If the choice to consolidate is not given to the Commissioner on or before the time when the head company lodged its income tax return for an income year, the group cannot be treated as consolidated for that income year.
- On consolidation, the head company and all of its eligible wholly owned subsidiary members are treated as a single entity for their income tax purposes – that is, each subsidiary member is treated as a part of the head company.
- 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 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 for the consolidated group.
- A consequence of choosing to consolidate is that transactions that occur solely between members of the consolidated group will not result in income or deductions to the group's head company.
- If an entity becomes a subsidiary member of a consolidated 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 used 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 GST, fringe benefits tax (FBT) and PAYG withholding.
- Certain corporate unit trusts and public trading trusts may form a consolidated group and be treated like the head company of the group.
- 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 are in the *Consolidation reference manual*, available on our website.
- If a foreign company, either directly or through its wholly owned foreign entities, has multiple entry points into Australia, special MEC group rules will apply to the wholly owned resident entities. See the *Consolidation reference manual* for more information on MEC groups.

The head company of a consolidated group must (among other things):

- notify us of its decision to consolidate
- pay the group's PAYG instalments when it is issued with a consolidated instalment rate after the lodgment by the head company of its 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.

2007 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 us. 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 will reflect correct, or materially correct, consolidated amounts at each label. Such amounts do not take account 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 to the tax return labels affected by consolidation but not to **T** **Taxable income or loss** item **7** or those labels in the **Calculation statement** on page 6 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.

It should be noted that we provided a concession (allowing aggregated data) for items **6**, **7** and **8** of the head company's 2005 consolidated company tax return. However, for later years such as for the 2007 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 should have record keeping, accounting and tax systems in place to ensure that materially correct consolidated data is available for the 2007 company tax return and for future year's tax returns.

2007 schedules

Given that consolidation is about taxing wholly owned groups as single entities, a head company of a consolidated group must complete only one of each required schedule. Each required schedule will contain the information for the consolidated group.

SIMPLIFIED IMPUTATION SYSTEM

Broadly the simplified imputation system has the following effects on the company tax return:

- The gross-up and credit approach replaces the intercorporate dividend rebate for companies in receipt of franked distributions. Under this approach a company that is paid a franked distribution must include:
  - the franked amount of the distribution at **Income**, **H** **Total dividends** item **6**, and
  - the attached franking credits at **J** **Franking credits** item **7** (if the shares are not held at risk as required under the holding period and related payments rules, or if there is other manipulation of the imputation system, the franking credit is not included in assessable income at **J** and there is no entitlement to a franking tax offset).
- The amount of franking credits included in assessable income is allowed as a tax offset and claimed in the **Calculation statement** at **C** **Rebates/tax offsets**.
- Where the company has a FDT liability, it can claim an FDT offset against its 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. The amount of FDT liability that can be claimed as a tax offset is reduced in certain circumstances. See **Franking deficit tax offset** on page 70 and the *Franking account tax return and instructions 2007* (NAT 1382–6.2007) 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, see the fact sheets *Simplified Imputation: Franking deficit tax offset* and *Simplified imputation: FDT offset for late balancers* which are available on our website.

Other features of the simplified imputation system include the following:

- The franking account operates on a tax-paid basis and is also a rolling-balance account.
- Corporate tax entities can align the period for determination of their FDT liability with their income year.
- The franking period relates to the operation of the benchmark rule.
- Corporate tax entities can choose the extent to which they frank frankable distributions made within a franking period. This choice is subject to the benchmark rule, except for certain listed public companies.
- The benchmark rule, while 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 (OFT), 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 OFT does not give rise to a franking credit in the franking account. If an entity is liable to pay OFT it must complete a *Franking account tax return 2007*.
- Under the disclosure rule, corporate tax entities must notify the Commissioner in the approved form if they have significantly varied their benchmark franking percentage between franking periods. This information is disclosed on the *Franking account tax return 2007*.

Intercorporate dividend rebate

From 1 July 2004, there is no entitlement to an intercorporate dividend rebate. These rules have been replaced by the gross up and credit approach introduced by the simplified imputation system and the rules applicable to consolidated groups.

Franking account tax return

Corporate tax entities may be entitled to claim an FDT offset. In certain circumstances the FDT offset reduction rule reduces the amount of FDT that can be offset against future income tax liabilities. See **Franking deficit tax offset** on page 70 for more information.

As a result of these rules, the *Franking account tax return 2007* requires you to complete **C** **Offsettable portion of current year franking deficit tax**.

Complete a franking account tax return 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 FDT
- a liability to pay OFT, and/or
- an obligation to disclose information to the Commissioner in relation to their benchmark franking percentage.

Lodge the franking account tax return separately from your company tax return. If you lodge your franking account tax return at the time your company tax return is due, your franking account tax return may be late and an 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, see the *Franking account tax return and instructions 2007*.

> **NOTE**
> Under the simplified imputation system, there is no deficit deferral tax. Instead, there is a mechanism for recalculation of the FDT liability.

COOPERATIVES – OPTION TO FRANK DIVIDENDS

Cooperative companies may frank distributions made to members from assessable income.

Cooperative companies that do not choose to frank distributions made to members are entitled to claim a deduction to the extent that a distribution of assessable income is not franked.

> **NOTE**
> For a range of more detailed information about simplified imputation, consolidation and the cooperatives measures, please visit our website or phone the Tax Reform Infoline on **13 24 78**.

LIFE INSURANCE COMPANIES

The current imputation provisions generally replicate the former imputation provisions relating to life insurance companies except for the following main differences:

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

There were also changes made to the FDT offset rules for life insurance companies. These amendments ensure that an FDT 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 applied). A method is prescribed for working out the relevant amount that is attributable to shareholders.

THE DEBT AND EQUITY RULES

The debt equity measures broadly operate to characterise certain interests as either debt or equity. These measures generally apply from 1 July 2001. For some tax law purposes interests are treated in the same way as shares even though they are not shares in legal form. These interests are called 'non-share equity interests'. They include some income securities, some stapled securities and certain related party at-call loans. *Debt and equity tests: guide to the debt and equity tests*, available on our website, provides an overview of the debt equity rules and explains what is a non-share equity interest.

For an explanation of when and how the debt equity measures apply to 'at call' loans made to a company, the *Debt and equity tests: guide to 'at call' loans* is available on our website.

For the purposes of the imputation system, generally non-share equity interests are treated in the same way as shares. Non-share dividends on these types of interests may be franked or unfranked. Show any amount of non-share dividend, whether franked or unfranked, and any amount of franking credit attached to the non-share dividend, at the appropriate place on the tax return as if it were for a share.

You cannot claim a deduction for a non-share dividend.

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* (NAT 7967), available on our website. Non-profit companies that are resident and have taxable income of $416 or less do not have 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 the ITAA 1936 applies to these trusts.

> Subdivision 713-C of the ITAA 1997 enables a corporate unit trust or public trading trust to form a consolidated group and be treated like the head company of the group.

FOREIGN EXCHANGE GAINS AND LOSSES

Under the foreign exchange (forex) measures, foreign exchange gains and losses are generally brought to account as assessable income or allowable deductions, when realised. The measures cover both foreign currency denominated arrangements, and broadly, arrangements to be cash settled in Australian currency with reference to a currency exchange rate. Foreign exchange 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 foreign exchange 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 general translation rule 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 and general translation rule have applied from 1 July 2003. However, companies with certain early substituted accounting periods have been subject to these provisions from the first day of 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 the forex measures, or
- there is an extension of an existing loan (for example, an extension by a 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 (search for 'forex').

GENERAL VALUE SHIFTING REGIME

The general value shifting regime (GVSR) replaces the value shifting rules in Divisions 138, 139 and 140 of the 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 minimis* 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 our website 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. From 1 April 2003 this allows a New Zealand company to maintain an Australian franking account, and to attach Australian franking credits to frankable distributions it pays from one month after the company makes an election. 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').

For more information on the Trans-Tasman imputation measure, visit the businesses section of our website and click on 'Trans-Tasman imputation', or phone the Tax Reform Infoline on **13 24 78**.

INTERNATIONAL TAXATION – THE TAXATION TREATMENT OF CERTAIN FOREIGN HYBRID ENTITIES

Broadly, foreign hybrids are certain foreign limited partnerships and foreign hybrid companies such as limited liability companies in the USA and other similar entities that are taxed on a partnership basis in their country of formation – that is, the overseas jurisdiction taxes the members on their share of the entity's income. The entity itself is not taxed.

Under Division 830 of the ITAA 1997, foreign hybrids are treated as partnerships and not as companies for Australian income tax purposes. Investors in these entities are treated for Australian tax purposes as having partnership interests. There are special rules in addition to those that normally apply to partnerships.

For more information about foreign hybrids, visit our website.

INTERPOSED ENTITY ELECTIONS

Changes were made in 2005 to the rules relating to the making of interposed entity elections. Generally, the changes allow entities to make interposed entity elections at any time in relation to an earlier income year provided certain conditions are met. The key points are:

- The ability to elect an earlier income year is only available to entities that, from the beginning of the specified income year until 30 June of the income year immediately preceding the year in which the election is made,
  (i) pass the family control test; and
  (ii) have conferred the present entitlement or made any actual distributions of income or capital during that period only to the individual specified in the election or members of that individual's family group.
- The changes apply only to interposed entity elections specifying the 2004–05 or later income years.
- The changes do not apply to interposed entity elections specifying the 2003–04 or earlier income years.
- Subject to the above conditions, interposed entity elections can still be made in the entity's return of income or at any time during the year.

For further information, phone the Business Infoline on **13 28 66** or the Tax Agents Infoline on **13 72 86**.

INFORMATION MATCHING

We are 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.

If 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 us.

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 2007 tax returns:

- distributions from partnerships and trusts, including unit trusts – see page 23
- income and credits for withholding if an ABN has not been quoted against information provided to us by payers – see pages 22 and 74
- total salary and wages will be cross checked against the PAYG withholding system – see page 5
- the amount of prior year losses claimed will be reconciled with the amounts of losses carried forward on tax returns of earlier years – see page 62
- dividend and interest income – see page 3.

STRATA TITLE BODIES CORPORATE

Strata title bodies corporate are treated as public companies under the tax law and must lodge a company tax return for any year in which non-mutual income is earned. For more information on this type of income, see the instructions in the *Strata title body corporate tax return 2007*.

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,

it will need to complete a company tax return. The company cannot complete its tax return using the Strata title body corporate tax return.

RECORD KEEPING REQUIREMENTS

Record keeping and retention

If you carry on a business, you must keep records that record and explain all transactions and other acts you engage in that are relevant for any taxation purpose. Subsection 262A(2) of the 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. Keep records in writing and in English; however, you can keep them in an electronic form or on microfiche as long as the records are in a form that we can access and understand to ascertain your taxation liability (see Taxation Rulings TR 96/7 and TR 2005/9).

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

For some items on the tax return, these instructions refer to specific record keeping requirements. In general, the records specified 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 on the tax return but is not an exhaustive list of the records that a company maintains.

Prepare and keep the following documents:

- 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 on the tax return, and
- 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 will be liable to pay penalties and interest, in addition to the shortfall amount if it does not declare the correct amount of taxable income and/or tax payable.

Penalties also apply if the company does not keep records, or keeps inadequate records, about business transactions or the items disclosed on the tax return. For guidelines on record keeping obligations and remission of penalty for failure to keep or retain records, see PS LA 2005/2.

Generally, the head company of a consolidated group must keep records that, among 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 *Consolidation reference manual* available on our website.

e-Record

e-Record is an electronic record keeping package we have developed to help small/micro businesses and non-profit organisations keep good business records and meet their taxation reporting obligations.

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 businesses already using a commercially available accounting software package.

It 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.

Download the latest version of *e-Record* from **www.ato.gov.au/erecord** or obtain a copy of the CD-ROM by phoning **13 72 26**.

Choice of superannuation fund record keeping

You must keep records to show you have met your choice of superannuation fund employer obligations. For further information about the records you need to keep, visit our website **www.superchoice.gov.au** or phone our Super Choice information line (see inside back cover).

Capital gains tax (CGT) record keeping

For more information on record keeping for capital gains tax, see the *Guide to capital gains tax 2007*. See also Taxation Ruling TR 2002/10 for more detailed information about keeping a CGT asset register.

Tax losses record keeping

If a company incurs tax losses, it may need to keep records longer than five years from the date when the losses were incurred. Generally, tax losses incurred 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 four 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 – 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 on the tax return, or
- any property – including money – situated outside Australia. If 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

Apply for a TFN before lodging the company's first tax return to ensure that payments are credited to the correct account. You can apply for a TFN by completing an *Application for ABN registration for companies, partnerships, trusts and other organisations* (NAT 2939) (you can apply for both a TFN and an ABN on this application) or electronically at **www.abr.gov.au** We cannot allocate a TFN until we receive the 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, include a copy of the application with its tax return. If that is not possible, complete a new application and lodge this with the *Company tax return 2007*.

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 2006–07 income year must lodge a tax return for the 2006–07 income year. Companies that are carrying forward losses that exceed $1,000 to the 2007–08 income year must also lodge a tax return for the 2006–07 income year even if no assessable income has been derived in the 2006–07 income year. Keep records so the information reported on 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 page 95.

The following are the **only** schedules that are sent with the *Company tax return 2007*:

- *Capital gains tax (CGT) schedule 2007*
- *Capital allowances schedule 2007*
- *Consolidated groups losses schedule 2007*
- *Dividend and interest schedule 2007*
- *Interposed entity election 2007*
- *Losses schedule 2007*
- *Non-individual PAYG payment summary schedule 2007*
- *Personal services income schedule 2007*
- *Research and development tax concession schedule 2007*
- *Schedule 25A 2007*, and
- any elections required by Taxation Ruling IT 2624.

The *Thin capitalisation schedule 2007* can be lodged 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

Do **not** send other schedules or documents with the *Company tax return 2007*. Keep these with the company's tax records.

The date for lodgment of the company tax return (including any relevant schedules) is notified in a legislative instrument on the *Federal Register of Legislative Instruments*, available at **www.frli.gov.au** If you lodge your return without all the required schedules we may not consider it to have been lodged in the approved form. Unless all schedules are lodged by the due date, you may be charged a failure to lodge on time penalty.

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 on page 96.

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 (the Commissioner) about the way in which tax laws and other specified laws administered by the Commissioner would apply to, or be administered in relation to, an entity in relation to a specified scheme.

An application for a private ruling must be made in the approved form and in accordance with Divisions 357 and 359 of Schedule 1 to the *Taxation Administration Act 1953* (TAA).

The required information and documentation that accompany a private ruling request must be sufficient for the Commissioner to make a private ruling and include:

- the entity to whom the ruling is to apply
- the facts describing the relevant scheme or circumstance
- relevant supporting documents such as transaction documents
- issues and questions raised that relate to the relevant provision to which the ruling relates, and
- your arguments and references 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.

Publication

To further improve the administration of the private rulings system, the Tax Office now publishes all notices of private rulings for public record. These publications are on our website.

Private rulings are published in an edited form to safeguard taxpayer privacy.

Private ruling applicants are invited to provide a statement detailing any information they believe should be removed from the published version of their private ruling.

If the information the applicant wants removed is more than simply names and addresses, reasons why publication of this information will breach the applicant's privacy should be provided.

Before publication, applicants can comment on the edited version of their private ruling.

Review rights

Taxpayers can object to adverse private rulings or a failure to make a private ruling in much the same way that they can object to assessments. They can also 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 last income year covered by the ruling.

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

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

Private rulings dealing with the ITAA 1936 continue to apply to the ITAA 1997, to the extent that the old law to which the ruling applies expresses the same ideas as the new law in the ITAA 1997.

When rulings are binding

A private ruling is binding on the Commissioner where it applies to an entity and the entity has relied on the ruling by acting (or omitting to act) in accordance with the private ruling. An entity can stop relying on a private ruling at any time (unless prevented by a time limit imposed by a taxation law) by acting (or omitting to act) in a way that is not in accordance with the private ruling; and can subsequently resume relying on the private ruling by acting accordingly. The Commissioner cannot withdraw a private ruling. However, where the scheme to which a private ruling relates has not begun to be carried out and, where the private ruling relates to an income year or other accounting period, that period has not begun, the Commissioner can make a revised private ruling.

PAYMENT ARRANGEMENTS

Paying your tax debt

Income tax debts must be paid by the due date. For payment options, see page 96.

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

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

For more information on the interest charge, 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**. You are expected to organise your affairs to ensure that you pay your debts on time. Nevertheless, we may allow you to pay your debts under a mutually agreed payment plan if you face genuine difficulty and have the capacity to eventually pay the debt. The interest charge 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 its assets and liabilities and details of its income and expenditure. We 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 AND INTEREST CHARGES

The law imposes penalties on companies for:

- failing to lodge a tax return on time and in the approved form (which includes all applicable schedules)
- having a tax shortfall or over-claiming a credit that is caused by:
  - making a false or misleading statement
  - taking a position that is not reasonably arguable
- 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
- failing to retain or produce declarations.

Companies are liable for the general interest charge where they have:

- tax, penalty or certain other amounts which remain unpaid after the due date for payment
- varied their PAYG instalment rate to less than 85% of the instalment rate which would have covered the company's actual liability for the year, or
- used an estimate of their benchmark tax which is less than 85% of their actual benchmark tax for the year.

A company is liable for shortfall interest charge where:

- the company's income tax assessment is amended increasing their liability. Generally, the shortfall interest charge accrues on the shortfall amount from the due date of the original assessment until the day before the assessment is amended.

REPORT ON ASPECTS OF INCOME TAX SELF-ASSESSMENT

On 29 June 2005, *Tax Laws Amendment (Improvements to Self Assessment) Act (No. 1) 2005* and *Shortfall Interest Charge (Imposition) Act 2005* became law. This legislation is intended to provide greater protection and certainty for companies in relation to interest charges and penalties. In particular, they:

- introduce a separate interest charge that has a lower rate than the general interest charge for shortfalls of income tax
- improve the transparency of the Tax Office's administrative processes of imposing penalties on taxpayers who understate a tax liability, and
- abolish the separate penalty for failing to follow a Tax Office private ruling.

Shortfall interest charge

For the 2000–01 to 2003–04 income years, where a company's income tax assessment is amended to increase liability, the increase is treated as a late payment. The amended assessment or shortfall is due on the due date for the original (understated) assessment and general interest charge applies from that date. The new legislation applies to the 2004–05 income year and later years, and provides that where an assessment is amended because of a tax shortfall the due date for payment of the amended assessment is 21 days after the Commissioner gives the notice increasing the liability. Generally the company is liable to pay the shortfall interest charge from the due date of the original assessment to the day before the issue date of the amended notice of assessment calculated on the increase in tax payable. The company will be notified of the amount of the shortfall interest charge and it will be due 21 days after the notice is given. The general interest charge will apply to any unpaid amount of the amended assessment and the shortfall interest charge once the due date has passed.

The shortfall interest charge replaces the liability to pay the general interest charge during the shortfall period. It is calculated at a lower interest rate than the general interest charge.

The Commissioner may remit all or a part of the shortfall interest charge when it is fair and reasonable to do so.

For further information on remission of the shortfall interest charge, please refer to the Tax Office's website at **www.ato.gov.au**

Penalties

In addition to interest charges, penalties may be applied to any tax shortfall.

For the 2004–05 and later income years the penalty for a tax shortfall for failing to follow a private ruling has been abolished. However, if a private ruling is obtained but not followed penalties may still apply for any tax shortfall which arises where, for example, reasonable care has not been exercised or where there is no reasonably arguable position.

The Commissioner must now provide an explanation in writing of why an entity is liable for a penalty and, where remission of a penalty has been considered but not fully granted, reasons why the penalty has not been remitted.

The new law also makes clear that when considering whether a penalty should be imposed, the Tax Office will consider a taxpayer's position to be 'reasonably arguable' if it would be concluded in the circumstances that what is argued is about *as likely* to be correct as incorrect, or is *more likely* to be correct than incorrect.

Further information is available on our website or by phoning the Business Infoline on **13 28 66**.

COMPLETING THE COMPANY TAX RETURN

PAGE 1 OF THE TAX RETURN

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 12.

NAME OF COMPANY

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, notify us in writing 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.

NOTE
It is important to use the correct ABN to avoid delays in processing the tax return.

We are authorised by the *A New Tax System (Australian Business Number) Act 1999* to collect certain information relating to your company. We may use business details supplied on your tax return to update your trading name, industry classification, status of business, wind up date, public officer, e-mail address and main business address on the Australian Business Register (ABR). We may also use postal address details from your tax return in the event that we cannot contact you through your ABR postal address.

Where authorised by law, selected information on the ABR may be made publicly available and some may be passed to a wide range of government agencies, including Commonwealth, state and local government agencies.

You can find details of agencies regularly receiving information from the ABR at **www.abr.gov.au**
You can also phone us on **13 28 66** between 8:00am and 6:00pm Monday to Friday and have a list of the agencies sent to you.

These agencies may use ABR information for purposes authorised by their legislation or for carrying out other functions of their agency. Examples of possible uses include registration, reporting, compliance, validation and updating of databases.

In addition to the publicly available information, these agencies can also access the:
- name of the company's associates such as directors or public officer
- company's address for service of notices
- company's principal place of business
- company's email address, and
- Australian and New Zealand Standard Industrial Classification (ANZSIC) code for the business conducted by the company.

Follow the instructions on the *Company tax return 2007* for the following items:
- previous name of the company
- current postal address
- postal address on previous tax return.

> **!** NOTE
> C/– is the only acceptable format when 'care of' is part of an address. Any deviation from this format will delay the processing of the 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, show the business address of the head company.

FINAL TAX RETURN

If 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.

PAGE 2 OF THE TAX RETURN

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 2007* and the immediate holding company form 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 8 on page 93.

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 partnership or trust derived the most gross income – for example, beef cattle breeding, vegetable growing, clothing manufacturing, confectionery wholesaling, domestic appliance retailing, investing in shares and stocks, investing in residential property. Do not use general descriptions such as farming, manufacturing, wholesaling, investing or company.

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

Industry code

Show at **B** the appropriate industry code for the company's main business. The code can be obtained by using the *Business industry codes 2007* (NAT 1827) available on our website.

Code the business activity as accurately as possible using the codes from the *Business industry codes 2007*. The industry code is made up of five digits. For example, if the industry is 'dairy cattle farming', the code on the tax return is shown as '01600'.

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. The industry code provided is also used to publish industry benchmarks in the *Taxation Statistics* publication, available on our website.

The industry coding regime used by the Tax Office is a modified version of the Australian and New Zealand Standard Industrial Classification (ANZSIC), produced jointly by the Australian Bureau of Statistics (ABS) and Statistics New Zealand.

NOTE
It is important to use the correct industry code to avoid delays in processing the tax return.

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 **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

C1, **C2** and **C3**

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

Complete **C3** if the company is a non-resident company carrying on a business in Australia through a PE.

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 **D10** **Public**; otherwise its status is **D3** **Non-profit**. For further information on friendly societies that carry on life insurance business, see the information on item **14 Life insurance companies and friendly societies only** on page 63.

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

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.

Z1 and **Z2**

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

- Select **Z1** **Consolidated head company** if the company was a head company of a consolidated group at any time during the income year.
- Select **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 any of the following apply:

- The company has previously made one or more interposed entity elections specifying a day in the income years from 1994–95 to 2005–06 in accordance with section 272-85 of Schedule 2F to the 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 2004–05 or later income years in accordance with section 272-85 of Schedule 2F to the ITAA 1936.

NOTE
Under section 272-85 of Schedule 2F to the ITAA 1936, a company cannot make an interposed entity election specifying a year earlier than 2004–05 on the *Company tax return 2007*.

Write in the box at **L** the income year specified which corresponds to the interposed entity election status of the company. Write the income year that has been specified in the interposed entity election made by the company (if only one interposed entity election has been 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 has been made) or the latest income year specified if an interposed entity election is being made specifying a day in the 2004–05 or later income year.

If the company has previously made one or more elections specifying a day in an income year before the 2006-07 income year, write the earliest income year in the box at **L** unless the company is making one or more elections specifying a day in the 2004–05 or later income years with its *Company tax return 2007*.

If the company has previously made one or more elections specifying a day in an income year before the 2004–05 income year and took advantage of the one-off opportunity in *Law Administration Practice Statement PS*

LA 2004/1 (GA) – Lodgment opportunity for family trust and interposed entity elections to specify an earlier year, write the earliest income year specified in the box at **L** unless the company is making one or more new elections specifying a day in the 2004–05 or later income years.

If the company is making one or more interposed entity elections specifying a day in the 2004–05 or later income year, write the latest income year specified in the box at **L** and complete an *Interposed entity election 2007* for each election specifying a day in the 2004–05 or later income year.

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

If you wish to lodge an interposed entity election and you do not use the electronic lodgment service (ELS) to lodge the company tax return, send the company return with the completed and signed interposed entity election form(s) to:

Australian Taxation Office
GPO Box 9845
IN YOUR CAPITAL CITY

EXAMPLE 1

A company has previously made an interposed entity election specifying a day in the 1994–95 income year and is not making another interposed entity election.

Write 1995 in the box at **L**. The company is not required to attach an interposed entity election 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 and is making another interposed entity election specifying a day in the 2005–06 income year with its *Company tax return 2007*.

Write 2006 in the box at **L**. The company provides details of the interposed entity election it is making specifying a day in the 2005–06 income year in the *Interposed entity election 2007* form. The completed interposed entity election can be attached to the company tax return.

EXAMPLE 3

A company has not previously made an interposed entity election. The company wants to make an interposed entity election specifying a day in the 2005–06 income year in accordance with section 272-85 of Schedule 2F to the ITAA 1936.

Write 2006 in the box at **L**. The company provides details of the interposed entity election it is making in the *Interposed entity election 2007* form. The completed interposed entity election can be attached to the company tax return.

EXAMPLE 4

A company has not previously made an interposed entity election. The company wants to make an interposed entity election specifying a day in the 2006–07 income year.

Write 2007 in the box at **L**. The company provides details of the interposed entity election it is making in the *Interposed entity election 2007* form. The completed interposed entity election can be attached to the company tax return.

EXAMPLE 5

A company has previously made an interposed entity election which specified a day in the 2002–03 income year. The company took advantage of the one-off opportunity in Practice Statement PS LA 2004/1 (GA) by lodging a declaration requesting that the election apply from the 1997–98 income year.

Write 1998 in the box at **L**. The company is not required to attach an interposed entity election to the company tax return.

Family trust distribution tax (FTDT)

A company may make an interposed entity election under section 272-85 of Schedule 2F to the 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 the ITAA 1936.

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 – see subsection 272-90(5) of Schedule 2F to the ITAA 1936.

A consequence of a company making an interposed entity election is that under section 271-30 of Schedule 2F to the ITAA 1936 the company pays a special tax, called family trust distribution tax (FTDT), at 46.5% 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 the 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 the ITAA 1936.

Pay FTDT by mail, using a *Family trust distribution tax payment advice* which is available on our website.

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 on page 97.

5 SIMPLIFIED TAX SYSTEM (STS) ELECTIONS

The STS is an alternative method of determining taxable income for eligible taxpayers.

Participation in the STS is optional.

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, complete **G**, **H** or **R**, and **I**.

If the company is exiting from the STS, complete **S** or **T** – see **Exiting from the STS** on the next page.

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 (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.

> **NOTE**
>
> **Small business concessions**
>
> Proposed changes for the 2007–08 income year will make it easier to access a range of small business concessions, including the concessions contained in the current simplified tax system. The proposed changes include increasing the annual turnover threshold to $2 million and removing the $3 million depreciating asset test from the eligibility requirements. These proposed changes will operate for the 2007–08 and later income years.

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 – Income tax: Simplified tax system: eligibility – grouping rules (*STS affiliate, control of non-fixed trusts)* or phone the Business Infoline on **13 28 66**.

Eligibility tests

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 average turnover, see *Taxation Ruling TR 2002/11 – Income tax: simplified tax system eligibility – STS average turnover*.

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 1

Income year	STS group turnover
2002–03	$
2003–04	$
2004–05	$
2005–06	$
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 (ignoring any of those years for which the company does not expect to be carrying on a business at any time in that year). 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 (ignoring any of those years for which the company does not expect to be carrying on a business at any time in that year).

If the company (or a grouped entity) has been in business for only part of the current year, use a reasonable estimate of what the turnover for this 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
2006–07	$
2007–08	$
2008–09	$
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

Did 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 2007?

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 2007, 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. Leave **G**, **H**, **R** and **I** blank.

Entering the STS

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

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

Print **Y** for yes at **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 **I**.

Continuing in the STS

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

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

Print **Y** for yes at **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 **I**.

Exiting from the STS

If the company does satisfy all three eligibility tests but wants to exit from the STS, complete **S**.

Print **Y** for yes at **S**. Leave all other labels blank.

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

Print **Y** for yes at **T**. Leave all other labels blank.

PAGE 3 OF THE TAX RETURN

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, except for the depreciation expenses of STS taxpayers which are to be shown as tax values at **X** item **6** (see **STS taxpayers** on page 31).

Gross income for accounting purposes may include exempt income, other non-assessable income and foreign sourced income. Total 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. In some cases, it is necessary to make a reconciliation adjustment at item **7** to add back or subtract the whole of an amount shown at item **6** and to include the amount for income tax purposes at a specific label at item **7**. For example, where a capital profit for accounting purposes is shown at item 6, it should be included in full at **Q Other income not included in assessable income** item **7**. The company's net capital gain for tax purposes should be shown at **A Net capital gain** item **7**.

If GST is payable in relation to income, exclude the GST 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 see **All companies (including STS)** on the next page.

STS taxpayers

When the STS began on 1 July 2001 an STS taxpayer was only required to account for most business income when it was received, and most business expenses when they were paid. This is referred to as the STS accounting method.

From the first income year starting on or after 1 July 2005, an STS taxpayer is no longer required to use the STS accounting method. STS businesses are now able to calculate their taxable income using the most appropriate method for their circumstances. However, a company that was an STS taxpayer in an income year that started prior to 1 July 2005 can, while it continues to be an STS taxpayer (from the first income year that starts on or after 1 July 2005), choose to continue using the STS accounting method.

If the company chooses not to continue using the STS accounting method, it will be able to calculate its taxable income using either:

- the accruals (earnings) method, that is ordinary income is recognised when it is derived and general deductions are recognised when they are incurred, or
- the cash (receipts) method, that is ordinary income is recognised when it is received and general deductions are recognised when they are paid, or alternatively, when incurred,

whichever is the most appropriate method for its circumstances.

Where the company chooses not to continue using the STS accounting method, business income and expenses that have not been accounted for (because they have not been received or paid) will be accounted for in the year it changes to the accruals or cash method.

The STS 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 required to be registered for GST, income amounts should exclude GST payable.

An STS taxpayer that is continuing to use the STS accounting method 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 using the STS accounting method – for example, double wool clips or prepayment of a business expense for a period greater than 12 months. Because of these specific provisions, you may need to make adjustments at item **7**. For more information about the STS accounting method, visit our website or phone the Business Infoline on **13 28 66**.

Accordingly, the amounts the company includes at item **6 Calculation of total profit and loss** should be based on the STS accounting method if applicable. If the company is continuing to use the STS accounting method and its profit and loss statement does not reflect the STS accounting rules, additional adjustments may need to be made at item **7**.

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 30 and **Closing stock** on page 49.

ALL COMPANIES (INCLUDING STS)

INCOME

Gross payments subject to foreign resident withholding

Foreign resident withholding applies to payments made to foreign residents where the payment is:

- for promoting or organising casino gaming junket activities
- for entertainment or sports activities, or
- under contract for the construction, installation and upgrading of buildings, plant and fixtures and for associated activities.

This withholding is not a final tax. A credit can be claimed in the **Calculation statement** at **I** **Credit for tax withheld – foreign resident withholding**.

Show at **B** gross payments made to the company that were subject to foreign resident withholding. Gross payments include amounts of tax withheld.

Do **not** include at this label amounts subject to foreign resident withholding that were distributed to the company from a partnership and/or trust. Show these at **D** **Gross distribution from partnerships** or **E** **Gross distribution from trusts**.

If an amount is shown at **B**, complete and attach a *Non-individual PAYG payment summary schedule 2007*. For instructions on completing the schedule, see **Schedules** on page 3.

Any income included at **B** that is not taxable in Australia should also be shown at **V** **Exempt income** item **7**.

Gross payments where ABN not quoted

Show at **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.

If you show an amount at **A**:

- complete a *Non-individual PAYG payment summary schedule 2007*. For instructions on completing the schedule, see **Schedules** on page 3.
- ensure that you show the corresponding amount of tax withheld at **W** **Credit for tax withheld where ABN not quoted** in the **Calculation statement** on page 6 of the company tax return.

Other sales of goods and services

Show at **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, livestock killed for rations or exchanged for other goods or services, and gross earnings from services.

Do **not** include at **C**:

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

Gross distribution from partnerships

Show at **D** the gross distribution from all partnerships, including any share of franking credits attributable to dividends paid by an Australian franking company.

Include any amounts subject to foreign resident withholding that were distributed to the company from a partnership. Also include the company's share of credit from foreign resident withholding. A credit can be claimed for the company's share of credit from foreign resident withholding in the **Calculation statement** at **I** **Credit for tax withheld – foreign resident withholding**.

Do **not** include at **D**:

- distributions from a corporate limited partnership (unless that distribution is attributable to profits made before it became a corporate limited partnership). Include these amounts at **H** **Total dividends** item **6**.
- any amount referable to Australian franking credits received indirectly from a New Zealand company through a partnership. Include these amounts at **C** **Australian franking credits from a New Zealand company** item **7**.

Show any adjustment for taxation purposes at **B** **Other assessable income** item **7** or **X** **Other deductible expenses** item **7**.

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

Also, show the company's share of franking credits included in the gross distribution from the partnership in the **Calculation statement** at **C** **Rebates/tax offsets**. However, if the relevant interest is not held at risk as required under the holding period and related payments rules, or there is some other manipulation of the imputation system, or if the gross distribution from the partnership is exempt income or non-assessable non-exempt income (other than because of certain provisions mentioned in section 207-110 of the ITAA 1997), the company is not entitled to a franking tax offset. Do **not** show the amount of franking credit attached to these distributions at **C** **Rebates/tax offsets**. Instead, the company is entitled to a deduction under section 207-150 or section 207-95 of the ITAA 1997 equal to its share of the franking credit, and this is shown at **X** **Other deductible expenses** item **7**.

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

> **NOTE**
> If the company received a distribution from a partnership that is an STS taxpayer for the income year, it may be entitled to the entrepreneurs tax offset (ETO). For more information see item **10 Entrepreneurs tax offset**.

To the extent that family trust distribution tax (FTDT) 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 the 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 the 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 the ITAA 1936 are not deductible. The company cannot claim a tax offset 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 on the company tax return.

Show expenses incurred by the company as a partner at **S** **All other expenses** item **6**.

Add back non-deductible expenses at **W** **Non-deductible expenses** item **7**.

Gross distribution from trusts

Show at **E** the total amount of gross distributions received from trusts, including any share of franking credits attributable to dividends paid by an Australian franking company as advised by the trustee.

Include any amounts subject to foreign resident withholding that were distributed to the company from a trust. Also include the company's share of credit from foreign resident withholding. A credit can be claimed for the company's share of credit from foreign resident withholding in the **Calculation statement** at **I** **Credit for tax withheld – foreign resident withholding**.

Do **not** include at **E**:
- distributions from a public trading trust or corporate unit trust. Include these amounts at **H** **Total dividends** item **6**.
- capital gains received from a trust. Include these at **A** **Net capital gain** item **7**. For information on how to include a capital gain received from a trust at **A** – for example, how to gross-up a capital gain from a trust – see the *Guide to capital gains tax 2007*
- any amount referable to Australian franking credits received indirectly from a New Zealand company through a trust. Include these amounts at **C** **Australian franking credits from a New Zealand company** item **7**.

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

Also show the company's share of the franking credits included in the gross distribution from the trust in the **Calculation statement** at **C** **Rebates/tax offsets**. However, if the relevant interest is not held at risk as required under the holding period and related payments rules, or there is some other manipulation of the imputation system, or if the gross distribution from the trust is exempt income or non-assessable non-exempt income (other than because of certain provisions mentioned in section 207-110 of the ITAA 1997), the company is not entitled to a franking tax offset. Do **not** show the amount of franking credit attached to these distributions at **C** **Rebates/tax offsets**. Instead, the company is entitled to a deduction under section 207-150 or section 207-95 of the ITAA 1997, and this is shown at **X** **Other deductible expenses** item **7**.

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

> **NOTE**
> Special rules apply if 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 *Consolidation reference manual*, available on our website.

To the extent that FTDT 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 the 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 the 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 the ITAA 1936 are not deductible. The company cannot claim a tax offset for any franking credit attributable to the whole or a portion of a dividend that is excluded from assessable income under the provisions.

> **!** NOTE
> If the company received a distribution from a trust that is an STS taxpayer for the income year, it may be entitled to the entrepreneurs tax offset (ETO). For more information see item **10 Entrepreneurs tax offset**.

In the CODE box, print the code from table 3 that best describes the type of trust for the amount of income shown at **E**. If this amount is from more than one type of trust, print the code that represents the trust for the greatest amount of income. Descriptions of the types of trusts listed in table 3 are at table 4.

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

TABLE 3

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 4 DESCRIPTIONS OF TRUSTS

Fixed trust

A trust in which persons have fixed entitlements – as defined in section 272-5 of Schedule 2F to the 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 the 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 the 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.

Show expenses incurred by the company as a beneficiary at **S All other expenses** item **6**.

Add back non-deductible expenses at **W Non-deductible expenses** item **7**.

Gross interest

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

Total dividends

Show at **H** total dividends including all dividends and non-share dividends franked and unfranked, foreign source dividends (including New Zealand dividends and supplementary dividends), bonus shares, deemed dividends, liquidator's and other company distributions. The amount at this label cannot be a loss.

Do **not** include at **H**:
- a dividend received under a demerger unless the head entity of the demerger group has elected under subsection 44(2) of the ITAA 1936 that it be treated as an assessable dividend
- any franking credits that were attached to dividends received from an Australian franking company. Include these amounts at **J** **Franking credits** item **7**
- any Australian franking credits from a New Zealand franking company at item **6** – include them at **C** **Australian franking credits from a New Zealand company** item **7**.

> **NOTE**
> All transactions that occur between members of the consolidated group, including distributions between group members, are not recognised for income tax purposes. Do **not** include at **H** distributions between members of the same consolidated group.

Distributions from a film licensed investment company (FLIC) may be affected by section 375-872 of the ITAA 1997. This provision treats certain distributions of concessional capital (capital that was invested in a FLIC during its licence period) as franked dividends.

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 FTDT 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 the 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 the ITAA 1936 are not deductible. The company cannot claim a tax offset for any franking credit attributable to the whole or a portion of a dividend which is excluded from assessable income under section 271-105 of Schedule 2F to the ITAA 1936.

Record keeping

Keep a record of the following for dividends and non-share dividends:
- name of the payer
- date received or credited
- franked amount
- unfranked amount
- franking credit allocated
- franking percentage
- gross amount
- type of distribution – for example, foreign source dividend, bonus shares, phasing-out dividend, liquidator's distribution.

Fringe benefit employee contributions

Show at **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 if employees make payments for fringe benefits they have received.

> **NOTE**
> 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 credits, 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 income but may give rise to a capital gain.

Show at **Q** all assessable government industry payments, including:
- bounties
- cleaner fuel grants
- drought relief
- employee subsidies
- export incentive grants
- fuel grant under the energy grants credits scheme
- fuel tax credits
- industry assistance grants including grants relating to R&D
- producers rebate (wine equalisation tax), and
- product stewardship (oil) benefit.

If this amount includes fuel tax credits or a fuel grant under the energy grants credits scheme, a cleaner fuel grant, a fuel sales grant or a product stewardship (oil) benefit, print **D** in the CODE box.

> **NOTE**
>
> For more information on fuel schemes, phone **13 28 66**.
>
> For further information, see *Taxation Ruling TR 2006/3 – Income Tax: government payments to industry to assist entities (including individuals) to continue, commence or cease business*.

Unrealised gains on revaluation of assets to fair value

Show at **J** the amount (if any) of any unrealised gains made on the revaluation of assets and liabilities to fair value that may arise as a result of the adoption of Australian Equivalents to the International Financial Reporting Standards.

Please note:

- Adjustments for tax purposes are made at item **7**.
- An unrealised gain that is not assessable income is recorded at **Q Other income not included in assessable income** item **7**.
- Any net capital gain for taxation purposes is shown at **A Net capital gain** item **7**.
- Any net capital loss is included with any unapplied capital losses carried forward to later income years and is shown at **V Net capital losses carried forward to later income years** item **11**.

Other gross income

Show at **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).

Also show at **R** any extraordinary revenue – that is, revenue or gains from events outside the ordinary operations of the company and not of a recurring nature, including work in progress amounts assessable under section 15-50 of the ITAA 1997. An extraordinary gain that is not assessable income is recorded at **Q Other income not included in assessable income** item **7**.

This label excludes amounts included at **Income**, **B** to **J** item **6**.

Record keeping

Keep a record of the following:

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

Total income

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

EXPENSES

- Show all expense amounts from the company's financial statements at **B** to **S** – see relevant item names and labels.
- Show at **B Foreign resident withholding expenses** all expenses that directly relate to income subject to foreign resident withholding. Do not show these amounts at other **Expenses** 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 21.
- Show non-deductible expenses incurred in deriving any exempt income at the appropriate expense labels. Add back these non-deductible expenses at **U Non-deductible exempt income expenditure** item **7**.
- Other expenses, to the extent that they are not deductible in the 2006–07 income year, which have been included at **A** to **S** item **6**, are added back at **W Non-deductible expenses** item **7**. This includes non-deductible expenses incurred in deriving any non-assessable non-exempt income.
- If the company operates on a cash basis, claim any allowable deduction for prepaid expenses under the relevant expense label.
- For a company to claim a deduction for gifts and donations made to an organisation, the organisation must be a deductible gift recipient (DGR). DGRs are endorsed by the Tax Office or specifically named in the income tax law (including prescribed private funds). 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 an organisation is a DGR, visit the website **www.abn.business.gov.au** or phone **1300 130 248**.
- The company may elect to spread a deduction for a gift over five income years or less where the gift is money, property gifted to the Cultural Gifts Program, certain heritage property, or property valued by the Tax Office at more than $5,000.
- Contributions over $2 to registered political parties are deductible, up to a maximum amount of $1,500. New legislation also allows a further deduction of up to $1,500 for gifts to an independent member of (or candidate for) an Australian parliament (state or federal) or legislative assembly. The new rules apply from 22 June 2006.

Foreign resident withholding expenses

Show at **B** all expenses directly relating to gaining income subject to foreign resident withholding (shown at **Income**, **B Gross payments subject to foreign resident withholding** or **D Gross distribution from partnerships** or **E Gross distribution from trusts**, item **6**).

Any expenses shown at **B** that directly relate to gaining income which is not taxable in Australia, should also be shown at **U Non-deductible exempt income expenditure** item **7**.

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 49. 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, see the information on **B** **Closing stock** item **8** on page 49 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 **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 **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 the ITAA 1997, see *Taxation Ruling TR 98/7 – Income tax: whether packaging items (ie, containers, labels, etc) held by a manufacturer, wholesaler or retailer are trading stock*.

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

Contractor, sub-contractor and commission expenses

Show at **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 **C**:

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

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 **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), if the contribution is made 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.

When 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 2006–07 income year these age based limits are as follows:

TABLE 5

Age in years	Deduction limit
under 35	$15,260
35 to 49	$42,385
50 and over*	$105,113

* 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.

Any adjustments for taxation purposes are included at **W** **Non-deductible expenses** item **7**.

No deduction is allowable if the fund is a non-complying fund, unless the employer had reasonable grounds for believing that the fund was a 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 allowable as a deduction.

A contribution that is made late and for which the company elects, under the superannuation guarantee late payment offset measure, to offset against its liability to pay superannuation guarantee charge is not allowable as a deduction.

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*.

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

Bad debts

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

Please note:

- Show recovery of bad debts at Income, **R** **Other gross income** item **6**.
- 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 lending money by a company carrying on that business – see subsection 25-35(1) of the ITAA 1997.
- Do not include accounting provisions for doubtful debts at **E**. Show these at **Expenses**, **S** **All other expenses** item **6** and add them back at **W** **Non-deductible expenses** item **7**.
- 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, see *Taxation Ruling TR 92/18– Income tax: bad debts*.

A deduction can also be claimed for:

- partial debt write-offs where only part of a debt is bad and is written off
- losses incurred in debt/equity swaps for debt extinguished after 26 February 1992 if the provisions of sections 63E to 63F of the ITAA 1936 are satisfied. Under these provisions, a deduction may be 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, if the equity is not listed, the net asset backing of the equity.

If 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/equity swap is only allowable if the company claiming the deduction satisfies:

- a continuity of ownership test (or we consider it unreasonable to have to satisfy the test) – see Subdivision 165-C of the ITAA 1997, or
- the same business test (if the continuity of ownership test is not satisfied or it is not practicable to show that it is). For the operation of the same business test – see Subdivision 165-E of the ITAA 1997 and *Taxation Ruling 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*.

Where a debt was incurred in a prior income year to the income year that it is written off as bad, the company must satisfy the continuity of ownership test at all times from the date on which the debt was incurred through to the end of the income year in which it writes off the debt.

Where a debt was both incurred and written off as bad in the same income year, the company must satisfy the continuity of ownership test at all times during that income year. A company cannot deduct a debt that is both incurred and written off as bad on the last day of the income year.

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

- subsection 165-120(2)
- Subdivision 165-D – 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 the ITAA 1997 prevent prior year losses arising as a result of manipulating the bad debt provisions.

Note that for widely held companies and eligible Division 166 companies, the continuity of ownership test in Subdivision 165-C is modified by the new Subdivision 166-C, which was introduced in the *Tax Laws Amendment (Loss Recoupment Rules and Other Measures) Act 2005*. New Subdivision 166-C replaces the former Subdivision 166-C that applied to listed public companies and their 100% subsidiaries.

Deductions for bad debts may also be reduced by the commercial debt forgiveness provisions – see appendix 1 on page 79.

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.

Special rules apply to determine if the head company of a consolidated group or a multiple entry consolidated (MEC) group can deduct a bad debt that for a period has been owed to a member of a consolidated group or MEC group and for another period has been owed to an entity that was not a member of that group (see Subdivisions 709-D and 719-I of the ITAA 1997).

Lease expenses within Australia

Show at **F** the expenditure incurred through both finance and operating leases on leasing assets – including motor vehicles and depreciating assets such as plant. Do **not** include the cost of leasing real estate or capital expenditure incurred to terminate a lease or licence. However, the introduction of section 25-110 of the ITAA 1997 provides a five-year straight-line write-off for certain capital expenditure incurred to terminate a lease or licence if the expenditure is incurred in the course of carrying on a business, or in connection with ceasing to carry on a business. Show the allowable deduction at **X** **Other deductible expenses** item **7**. See worksheet 1 on pages 76–78 and note 7 on page 79 of these instructions, and the details under Change 3 in the fact sheet *Blackhole expenditure: business related expenses*, available on our website.

Expenses incurred under a hire purchase agreement are not lease expenses. Such expenses are referred to in appendix 6 on page 87.

Lease expenses overseas

Show at **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, capital expenditure incurred to terminate a lease or licence and expenditure on items other than depreciating assets leased from non-residents. For further information on capital expenditure incurred to terminate a lease or licence, see the information on item **6 Lease expenses within Australia**, above.

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 which 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 asset.

Rent expenses

Show at **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 **V** the interest expenses 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 **W** **Non-deductible expenses** item **7**.

For information on thin capitalisation, see appendix 3 on page 85.

Distributions from a non-share equity interest are not deductible. *Debt and equity tests: guide to the debt and equity tests* (NAT 4643), available on our website, provides an overview of the debt/equity rules and explains what a non-share equity interest is.

Interest expenses overseas

Show at **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, and must be remitted to the Tax Office. If you have withheld amounts from payments to non-residents you may need to lodge a *PAYG withholding from interest, dividend and royalty payments paid to non-residents – annual report* (NAT 7187) by 31 October 2007. For more information, phone the Business Infoline on **13 28 66.**

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 **W** **Non-deductible expenses** item **7**.

For information on thin capitalisation, see appendix 3 on page 85.

Distributions from a non-share equity interest are not deductible. The *Debt and equity tests: guide to the debt and equity tests*, available on our website, provides an overview of the debt/equity rules and explains what a non-share equity interest is.

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 **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 amounts withheld where applicable and the date on which it was remitted to the Tax Office.

Royalty expenses overseas

Show at **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. If you have withheld amounts from payments to non-residents you may need to lodge a *PAYG withholding from interest, dividend and royalty payments paid to non-residents – annual report* by 31 October 2007. For more information, phone the Business Infoline 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**, see **STS taxpayers** on the next page. Otherwise see **Non-STS taxpayers** following.

Non-STS taxpayers

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

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

If an amount is shown at **X**, make reconciliation adjustments at item 7 even if the depreciation expense is the same amount as the deduction for decline in value.

For reconciliation purposes, split the amount shown at **X** into R&D and non-R&D amounts when adding back at item **7**. Include non-R&D amounts at **W Non-deductible expenses** item **7** when adding back. Include R&D amounts at **D Accounting expenditure in item 6 subject to R&D tax concession** item **7** when adding back.

Show the deduction for decline in value of most depreciating assets at **F Deduction for decline in value of depreciating assets** item **7**. If a depreciating asset is subject to the R&D tax concession, show the deduction for its decline in value at **L R&D tax concession – not including label M** item **7**.

> **NOTE**
>
> If the company has included an amount greater than $15,000 at **X**, complete and attach a *Capital allowances schedule 2007* unless it is exiting from the STS at item **5** or has previously exited from the STS, and the amount at **X** relates entirely to STS depreciating assets.
>
> For more information, see the *Capital allowances schedule instructions 2007*.

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

TABLE 6

Code	Type of depreciation expense
S	The amount at **X** relates entirely to STS depreciating assets. Do not complete a *Capital allowances schedule 2007*.
M	The amount at **X** relates to both STS depreciating assets and to uniform capital allowances (UCA) items. You will need to complete and attach a *Capital allowances schedule 2007* if the total amount at **X** exceeds $15,000.
In all other cases leave the CODE box blank.	

> **NOTE**
>
> Our *Practice Statement PS LA 2003/8 – Income tax: taxation treatment of expenditure on low-cost items for taxpayers carrying on a business* provides guidance on two straightforward methods that taxpayers carrying on a business can use 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 **X Depreciation expenses** the total depreciation deductions being claimed under the STS capital allowances (depreciation) 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, see *The simplified tax system – a guide for tax agents and small businesses* (NAT 6459), visit our website or phone the Business Infoline on **13 28 66**.

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 7 on page 33, 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 whether business or private. 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 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 7 on page 33.

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, 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 2005–06 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, add only $5,000 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.

Calculate the opening pool balance for each STS pool 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 7.

Long life STS pool deduction:

Opening pool balance $ x 5%

Insert the result at (c) in table 7.

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 cost addition amounts for 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
- cost addition amounts during the year for assets already allocated to an STS pool. Cost addition amounts include the costs of capital improvements to assets and costs reasonably attributable to disposing of, or permanently ceasing to use an asset (this may include advertising and commission costs or the cost of demolishing the asset).

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 addition amounts 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 7.

Insert the total deduction for long life STS pool assets at (e) in table 7.

> **!** 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, calculate the company's deduction for these assets using step 5(b).

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. See the *Guide to depreciating assets 2007* 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 at (f) in table 7 depreciating assets which qualify for a deduction under Subdivision 40-F or 40-G of the ITAA 1997 as water facilities or landcare operations in 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 **N Landcare operations and deduction for decline in value of water facility** item **7**.

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 **B Other assessable income** item **7**. 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

If 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, but greater than zero the company can claim an immediate deduction for this amount.

Write this deduction against the appropriate pool at (b) or (c) in table 7.

If the closing pool balance is less than zero, include the amount below zero in the company's assessable income at **B Other assessable income** item **7**. For more information about closing pool balances see **Closing pool balance** in the next column.

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

(c) Other depreciating assets

See the *Guide to depreciating assets 2007* for information on how to calculate any balancing adjustment amounts on the disposal of other depreciating assets.

Include assessable balancing adjustment amounts at **B Other assessable income** item **7**. Include deductible balancing adjustment amounts at **X Other deductible expenses** item **7**. See worksheet 1 on pages 76–78.

TABLE 7 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 **X** **Depreciation expenses** item **6**	
Transfer the amount at (a) to **A** **Deduction for low-cost assets** item **9**	
Transfer the total of the amounts at (b) and (d) to **B** **Deduction for general pool assets** item **9**	
Transfer the total of the amounts at (c) and (e) to **C** **Deduction for long life pool assets** item **9**.	

Closing pool balance

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

- 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 any cost addition amounts for 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 any cost addition amounts for 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 2007–08 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 **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:

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

Repairs and maintenance

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

If the company has any item of a capital nature at **Z**, add it back at **W** **Non-deductible expenses** item **7**.

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.

If 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 – Income tax: deductions for repairs*.

Unrealised losses on revaluation of assets to fair value

Show at **G** the amount (if any) of any unrealised loss made on the revaluation of assets and liabilities to fair value that may arise as a result of the adoption of Australian Equivalents to the International Financial Reporting Standards.

Please note:

- Adjustments for tax purposes are made at item **7**.
- An unrealised loss that is not deductible is added back at **W** **Non-deductible expenses** item **7**.
- Any net capital gain for taxation purposes is shown at **A** **Net capital gain** item **7**.
- Any net capital loss is included with any unapplied capital losses carried forward to later income years and is shown at **V** **Net capital losses carried forward to later income years** item **11**.

All other expenses

Show at **S** the total of all other expenses including losses on the disposal of depreciating assets (including assets used for R&D purposes).

Also show at **S** any extraordinary expenses – that is expenses or losses from events outside the ordinary operations of the company and not of a recurring nature. An extraordinary loss that is not deductible is added back at **W** **Non-deductible expenses** item **7**.

This label excludes amounts included at **Expenses** **B** to **G** item **6**.

Calculation of some deductions may be affected by the commercial debt forgiveness provisions – see appendix 1 on page 79.

Total expenses

Show at **Q** the total of all expense items shown at **B** to **S** item **6**.

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

Total profit or loss

Show at **T** the total profit or loss of the company. Total profit or loss is the amount shown at **Income** **S** **Total income** less the amount shown at **Expenses** **Q** **Total expenses**. If this amount is a loss, print **L** in the box at the right of the amount at **T**.

7 RECONCILIATION TO TAXABLE INCOME OR LOSS

The items under this heading are the adjustments for tax purposes to reconcile the amount at **Total profit or loss** **T** item **6** with **T** **Taxable income or loss** item **7**. Worksheet 1 on pages 76–78 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**, you may need to make additional adjustments.

Make adjustments at item **7** if:

- the company is continuing in the STS this year, has chosen to continue using the STS accounting method and 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 is continuing in the STS this year and is changing from using the STS accounting method, or
- the company has disposed of depreciating assets during the year.

These adjustments are explained in more detail below. Worksheet 1 on pages 76–78 will assist with the calculations.

Trade debtors and creditors as at 30 June 2007

If the company is continuing in the STS this year, has chosen to continue using the STS accounting method and has included at any **Income** labels at item **6** amounts of ordinary income that have been derived but not received in the 2006–07 income year, the amounts not received are not assessable under the STS rules this year – for example, trade debtors as at 30 June 2007.

Include these amounts at **Q** **Other income not included in assessable income** item **7**.

If the company is continuing in the STS this year, has chosen to continue using the STS accounting method and has included at any **Expenses** labels at item **6** amounts of general deductions, repairs or tax-related expenses that have been incurred but not paid in the 2006–07 income year, the amounts not paid are not deductible under the STS rules this year – for example, trade creditors as at 30 June 2007.

Include these amounts at **W** **Non-deductible expenses** item **7**.

Adjustments when changing from the STS accounting method

You may need to make adjustments if the company is continuing in the STS, has discontinued using the STS accounting method and changed to an accruals accounting method this year.

If the company has not included at any **Income** labels at item **6** amounts of ordinary income that were derived but not received while using the STS accounting method, these amounts are assessable this year – for example, trade debtors as at 30 June 2006.

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

If the company has not included at any **Expenses** labels at item **6** amounts of general deductions, repairs or tax related expenses that were incurred but not paid while using the STS accounting method, these amounts are deductible this year – for example, trade creditors as at 30 June 2006.

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

Disposal of depreciating assets

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

- 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.

Include at **X** **Other deductible expenses** item **7** any deductible balancing adjustment amounts on the disposal of depreciating assets not deducted under the STS depreciation rules.

Include at **Q** **Other income not included in assessable income** item **7** any profit on sale of depreciating assets included at **Income**, **R** **Other gross income** item **6**.

Include at **W** **Non-deductible expenses** item **7** any loss on sale of depreciating assets included at **S** **All other expenses** item **6**. See worksheet 1 on pages 76–78.

Prepaid expenses

STS taxpayers are entitled to an immediate deduction for prepaid expenses if 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, apportion the deduction for the expenditure 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, see *Deductions for prepaid expenses* (NAT 4170–6.2007). If expense labels include prepaid expenses that differ from the amounts allowable as deductions in the 2006–07 income year, include the reconciliation adjustment at **W** **Non-deductible expenses** item **7** or **X** **Other deductible expenses** item **7** as required. See worksheet 1 on pages 76–78.

Non-STS taxpayers

Did you exit from the STS this year?

If the company has exited from the STS this year, has changed to an accruals accounting method and has not included at any **Income** labels at item **6** amounts of ordinary income that were derived but not received while using the STS accounting method, these amounts are assessable this year – for example, trade debtors as at 30 June 2006.

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

If the company has exited from the STS this year, has changed to an accruals accounting method and has not included at any **Expenses** labels at item **6** amounts of general deductions, repairs or tax-related expenses that were incurred but not paid while using the STS accounting method, these amounts are deductible this year – for example, trade creditors as at 30 June 2006.

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

Worksheet 1 on pages 76–78 will assist with the calculations.

ALL COMPANIES (INCLUDING STS)

Did you have a CGT event or receive a capital gain from a trust 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 **G** item **7**. 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. Foreign residents are only subject to CGT if a CGT event happens to assets which have the necessary connection with Australia if the CGT event happens before 12 December 2006 or that are taxable Australian property if the CGT event happens on or after that date. For further information, see the *Guide to capital gains tax 2007*.

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, see the *Guide to capital gains tax 2007*.

The 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. Do not attach them to the company tax return – keep them 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

complete a CGT schedule and attach it to the company tax return.

Transfers of assets between members of the same consolidated group are not recognised for the members' income tax purposes.

ADD-BACK ITEMS

Add the following items to **T** **Total profit or loss**, item **6 Calculation of total profit or loss**.

Net capital gain

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

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

The company's net capital gain is the total of the capital gains it made for the income year (gains 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 rollover relief.

A company is not eligible for the CGT discount.

Include any net capital loss with any unapplied net capital losses carried forward to later income years and record it at **V** **Net capital losses carried forward to later income years** item **11**.

For more information about capital gains tax, see the *Guide to capital gains tax 2007*. For information regarding the small business concessions, see the *Guide to capital gains tax concessions for small business* (NAT 8384).

> **NOTE**
> The company may need to complete a *Losses schedule 2007*. For more information, see the *Losses schedule instructions 2007*.

Non-deductible exempt income expenditure

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

Franking credits

Show at **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
- franked distributions received from a New Zealand franking company (include these at **C** **Australian franking credits from a New Zealand company**), or
- a distribution 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. There is no entitlement to a franking tax offset.

Under the simplified imputation system a company must 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.

EXAMPLE 6

Bee Jay's Honey Pty Ltd received the following three payments for the income year:

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

Bee Jay's Honey will complete **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 **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 **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 **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 **J** is allowable as a tax offset and should be claimed in the **Calculation statement** at **C** **Rebates/tax offsets**. If the company is a life insurance company or organisation entitled to claim a refund of excess franking credits, claim the refundable amount in the **Calculation statement** at **Z** **Other refundable credits**, not **C**.

Australian franking credits from a New Zealand company

Show at **C** amounts of Australian franking credits from a New Zealand company that are included in assessable income because of a franked distribution paid to the company by a New Zealand company or because of its receipt indirectly through a partnership or trust. To work out whether the distribution is included in assessable income, see the *Foreign income return form guide*, available on our website.

To calculate the amount to show at **C**, the Australian franking credits received directly or indirectly from a New Zealand company must be reduced by the amount of a supplementary dividend or the company's share of a supplementary dividend if:

- the supplementary dividend is paid in connection with the franked distribution, and
- the company is entitled to a foreign tax credit because of the inclusion of the distribution in assessable income.

If the shares or interests are not held at risk as required under the holding period and related payments rules, or there is other manipulation of the imputation system, do not include the Australian franking credit in assessable income at **C** and there is no entitlement to a franking tax offset.

For most companies the amount of Australian franking credits included at **C** is allowable as a tax offset and should be claimed in the **Calculation statement** at **C** **Rebates/tax offsets**. If the company is a life insurance company or organisation entitled to claim a refund of excess franking credits, claim the refundable amount in the **Calculation statement** at **Z** **Other refundable credits**.

> **NOTE**
> A dividend from a New Zealand franking company may also carry New Zealand imputation credits. An Australian resident cannot claim any New Zealand imputation credits.

Other assessable income

Show at **B** amounts which form part of assessable income if you have not included them as income at item **6** or at item **7** at **A** **Net capital gain**, **J** **Franking credits** or **C** **Australian franking credits from a New Zealand company** – for example, attributed foreign income of a CFC, and timing adjustments such as that which reconciles interest receivable to assessable interest income. For more examples of specific items, see the list of items in worksheet 1 on pages 76–78.

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

- assessable balancing adjustment amounts for non-R&D assets. (Assessable balancing adjustment amounts for assets used in R&D activities are taken into account at **L** **R&D tax concession – not including label M** item **7**. See page 40.)

  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 19. For assets not subject to the STS rules, calculate a balancing adjustment amount to include in the company's assessable income or to claim as a deduction. If the asset was used for both taxable and non-taxable purposes, reduce the balancing adjustment amount 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, see the *Guide to depreciating assets 2007*.
- the company's share of a deduction in respect of a 'LIC capital gain amount' if it receives a distribution from a partnership or trust which claimed a deduction in respect of a LIC capital gain amount – see section 115-280 of the ITAA 1997. There is an exception for life insurance companies. For more information, see the information on item **14 Life insurance companies and friendly societies only** on page 63.
- 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 – see section 6AB of the ITAA 1936. Gross up foreign sourced income by the amount of foreign tax paid – see section 6AC of the ITAA 1936. Show any add-back or subtraction adjustment to expenses claimed against such income separately at **W** **Non-deductible expenses** item **7** or at **X** **Other deductible expenses** item **7**.
- 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 **Foreign exchange (forex) gains and losses** on page 9 for more information.
- excessive deductions for capital allowances that are to be included in assessable income under the limited recourse debt rules contained in Division 243 of the ITAA 1997. This will occur where:
  - expenditure on property has been financed or re-financed wholly or partly by limited recourse debt,
  - the limited recourse debt is terminated after 27 February 1998 but has not been paid in full by the debtor, and
  - because the debt has not been paid in full, the capital allowance deductions allowed for the expenditure exceed the deductions that would be allowable if the unpaid amount of the debt was not counted as capital expenditure of the debtor. Special rules apply in working out whether the debt has been fully paid.

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 creditor's rights as against the debtor are capable of being so limited. Limited recourse debt includes a notional loan under a hire purchase or instalment sale agreement of goods to which Division 240 of the ITAA 1997 applies. See section 243-20. The rules in section 243-75 apply where Division 243 of the

ITAA 1997 and schedule 2C of the ITAA 1936 (commercial debt forgiveness – see appendix 1) both apply to the same debt.

- amounts assessable under Division 45 of the ITAA 1997. Broadly, if 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 – see sections 45-5 and 45-10 of the 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 written down 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 – see section 45-15 of the ITAA 1997. Similar tax consequences arise if the subsidiary is a partner in a leasing partnership – see section 45-20 of the 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 or 45-20) at the end of six months from the time such tax becomes due and payable by the subsidiary – see section 45-25 of the ITAA 1997.

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

Non-deductible expenses

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

The amount shown at **W** excludes:

- any amount shown at item **7**, **U** **Non-deductible exempt income expenditure**, and
- any amount shown at item **7**, **D** **Accounting expenditure in item 6 subject to R&D tax concession**

Generally, **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
- unrealised losses on revaluation of assets and liabilities to fair value under International Financial Reporting Standards
- 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 the ITAA 1936
- a non-share dividend, to the extent that it is an expense for accounting purposes and therefore taken into account in determining total profit and loss, but which is not deductible for income tax purposes.

For more examples of specific items, see worksheet 1 on pages 76–78.

If a foreign exchange loss for accounting purposes, included in item **6**, exceeds the deductible forex loss, show the difference at **W**. See **Foreign exchange (forex) gains and losses** on page 9 for more information.

If foreign sourced income expenses for accounting purposes exceed allowable deductions for income tax purposes, show the excess at **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 at **W**. An exception would be debt deductions attributable to an overseas PE, which are still subject to the foreign loss quarantining provisions. For more information, see the *Guide to thin capitalisation*, available on our website

If Australian and foreign sourced capital losses for accounting purposes are included at **Expenses**, **G** **Unrealised losses on revaluation of assets to fair value** or **S** **All other expenses** item **6**, show them also at **W**. For Australian taxation purposes, include any net capital loss with any unapplied capital losses carried forward to later income years and show it at **V** **Net capital losses carried forward to later income years** item **11**.

Accounting expenditure in item 6 subject to R&D tax concession

Show at **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. Also include at **D** losses on disposal of assets used in R&D activities that were shown at **S** **All other expenses** item **6** (any non-R&D amount must be shown at **W** **Non-deductible expenses** item **7**).

If no expense amounts relating to R&D deductions have been included at item **6** (for example, amounts are capitalised) print zero (**0**) at **D**.

The amount shown at **D** on the company tax return must be the same as the amount shown at **D** **Write-back**

of R&D accounting expenditure under the heading **Preliminary calculation** on the *Research and development tax concession schedule 2007*.

Subtotal

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

SUBTRACTION ITEMS

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

Section 46FA deduction for flow-on dividends

Show at **C** any amounts claimed as a deduction during the 2006–07 income year that are deductible under section 46FA of the ITAA 1936.

This deduction is allowable in certain cases where a non-portfolio dividend that is not fully-franked is on-paid by a resident company to its non-resident parent.

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

Deduction for decline in value of depreciating assets

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

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

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

Include the deduction for decline in value of R&D depreciating assets which is subject to the R&D tax concession at **L** **R&D tax concession – not including label M** item **7**.

Show the decline in value of water facilities at **N** **Landcare operations and deduction for decline in value of water facility** item **7**.

For information about how to work out deductions for decline in value, see appendix 6 on page 87.

If the company is an STS taxpayer, show deductions for depreciating assets at **X** **Depreciation expenses** item **6**.

If the company is exiting the STS or has previously exited the STS, and is continuing to claim a deduction for any prior STS pool, this should be done at **X** **Depreciation expenses** item **6**.

> **NOTE**
>
> If the company has included an amount greater than $15,000 at **F**, complete and attach a *Capital allowances schedule 2007* unless it is:
> - eligible to enter or continue in the STS and has chosen to do so at item **5**, or
> - exiting, or has previously exited the STS, and the amount at **X** item **6** relates entirely to STS depreciating assets and is indicated by a code '**S**'.
>
> For more information, see the *Capital allowances schedule instructions 2007*.

> **NOTE**
>
> Our Practice Statement PS LA 2003/8 provides guidance on two straightforward methods taxpayers carrying on a business can use 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 **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 *Guide to depreciating assets 2007*.

Deduction for project pool

Show at **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. Include this deduction at **H**.

Show the expenditure allocated to the project pool for the income year at **W** **Non-deductible expenses** item **7** to the extent that it has been included as an expense at item **6**.

For more information about project pools, see appendix 6 on page 87.

> **NOTE**
> If the company has included an amount greater than $1,000 at **H**, complete and attach a *Capital allowances schedule 2007* unless it 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 instructions 2007*.

Capital works deductions

Show at **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 82. Commercial debt forgiveness provisions may affect the calculation of some deductions – see appendix 1 on page 79.

Section 40-880 deduction

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

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

For information about section 40-880 deductions, see appendix 6 on page 87.

R&D tax concession – not including label M

To complete and claim at:

- **D** **Accounting expenditure in item 6 subject to R&D tax concession** item **7**
- **L** **R&D tax concession – not including label M** item **7**
- **M** **Incremental R&D (additional 50%) deduction** item **7**
- **Y** **R&D tax offset, if chosen**, item **7**

companies must 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. If 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 must complete the *Research and development tax concession schedule 2007*. For further information, see **Schedules** on page 3 and the *Research and development tax concession schedule instructions 2007*.

Show at **L** **R&D tax concession – not including label M** the amount of the R&D concession claim calculated at **L** **Total claim (including concession)** in part A, item **17** of the *Research and development tax concession schedule 2007*. The amount shown at **L** item **7** on the company tax return must be the same as the amount shown at **L** on the Research and development tax concession schedule. If this amount is negative, print code **L** in the box at the right of **L** item **7**. A negative amount may arise from assessable profits on disposal or assessable balancing adjustment amounts occurring in relation to R&D depreciating assets.

> **NOTE**
> The syndicated R&D label has been removed from the company tax return. Do not claim interest incurred as a syndicate member after the cessation of the R&D syndicate program at **L** item **7** or **M** **Incremental R&D (additional 50%) deduction** item **7**.

Incremental R&D (additional 50%) deduction

Include at **M** the amount of the R&D additional 50% deduction shown at **M** **R&D incremental concession** in part D, item **2** of the *Research and development tax concession schedule 2007*. The amount shown at **M** item **7** on the company tax return must be the same as the amount shown at **M** on the research and development tax concession schedule.

In the box at the right of **M** print code **G** if the company is a grouped taxpayer in accordance with the grouping rules in section 73L of the 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 **N** the company's total deductions for landcare operations expenses and for water facilities.

Do not include the deduction for the decline in value of water facilities at **F** **Deduction for decline in value of depreciating assets** item **7**.

The expenditure on landcare operations and water facilities must be shown at **W** **Non-deductible expenses** item **7** 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 6 on page 87.

Deduction for environmental protection expenses

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

The deductible expenditure on environmental protection activities must also be shown at **W** **Non-deductible expenses** item **7** 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 6 on page 87.

Offshore banking unit adjustment

Only use **P** if the company has been declared to be an offshore banking unit (OBU) by the Treasurer under subsection 128AE(2) of the ITAA 1936. Otherwise disregard **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, show gross income from OB activities at **R** **Other gross income** item **6**.

Show total expenses from OB activities at **S** **All other expenses** item **6**.

You do not need 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.

To get the effective 10% tax rate on OB activity income, section 121EG of the ITAA 1936 reduces the assessable income and allowable deductions from OB activities so that an OBU's taxable income includes only the 'eligible fraction', currently 10/30, of its net income from OB activities.

Calculation of the offshore banking unit adjustment

P ensures that the net income from OB activities is taxed at an effective tax rate of 10%. Show at **P** the difference between the OBU's net income from OB activities and the eligible fraction:

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

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

EXAMPLE 7

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 an effective 10% tax rate on its net profit of $100 from OB activities. This is achieved by recording at **P** the untaxed proportion of the net profit from OB activities which, in this example, is calculated as follows:

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 **T** **Taxable income or loss** item **7**.

Item **7** in this example contains the following entries:

Total profit or loss amount shown at **T**	$500
Less:	
Offshore banking unit adjustment at **P**	$67
Taxable income or loss at **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 **P** to record a loss from OBU activities.

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

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

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

EXAMPLE 8

An OBU has income and expenses from various 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
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 **S**	$1,500
	Total expenses **Q**	$1,200
	Total profit/loss **T**	$300
Add:		
Item **7**	Non-deductible expenses **W**	$67
	Taxable income or loss **T**	$367

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

Exempt income

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

Do not show at **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 the ITAA 1936. Show these amounts at **Q Other income not included in assessable income** item **7**.

Do not show at **V** income exempt under an RSA. Show exempt income from RSAs at item **16**, **S Exempt Income from RSAs**.

Other income not included in assessable income

Show at **Q** income related adjustments that have to be subtracted from **T Total profit or loss** item **6** to reconcile with **T Taxable income or loss** item **7**. Do not show again amounts included at **C** to **V** item **7** here.

Generally the amounts that are included at **Q** are income for accounting purposes but not assessable for income tax purposes.

Show exempt income separately at **V Exempt income** item **7**.

Include the following items at **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 the ITAA 1936. Note that you must attach a *Schedule 25A 2007* if the company received dividends or other amounts covered by any of these provisions.
- Any part of an unfranked distribution that is not assessable due to sections 802-15 or 802-20 of the ITAA 1997 (these provisions are relevant to conduit foreign income).
- 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 **J Unrealised gains on revaluation of assets to fair value**, item **6** or **R Other gross income** item **6**. For Australian taxation purposes, include any net capital gain at **A Net capital gain** item **7**.
- Any excess of a foreign exchange gain for accounting purposes, included at item **6**, over the assessable forex gain. See **Foreign exchange (forex) gains and losses** on page 9 for more information on the forex measures.

For more examples of specific items, see worksheet 1 on pages 76–78.

Other deductible expenses

Show at **X** expense related adjustments that are subtracted from **T Total profit or loss** item **6** to reconcile with **T Taxable income or loss** item **7**. Do not show items included under **C** to **P** item **7** again here. Generally, **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 **C** to **P** item **7**.

For examples of specific items to be included, see worksheet 1 on pages 76–78.

If the company is a life insurance company, include at **X** the deduction it is entitled to if it receives a dividend from a listed investment company (LIC) which includes a LIC capital gain amount. For more information, see item **14 Life insurance companies and friendly societies only**. Other companies are not entitled to this deduction.

Also show at **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 **Foreign exchange (forex) gains and losses** on page 9 for more information on the forex measures.

Tax losses deducted

> **NOTE**
> The company may need to complete a *Losses schedule 2007*. For more information, see **Schedules** on page 3 or see the *Losses schedule instructions 2007*.

Show at **R** only those tax losses of prior income years that are deducted in respect of the 2006–07 income year under section 36-17 of the ITAA 1997. Subject to various rules, prior year tax losses are deducted in respect of a later income year(s) in the order in which they were incurred – to the extent that they have not already been deducted.

If no net exempt income

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 its tax loss as the company chooses – see subsection 36-17(2) of the ITAA 1997. There is a limit to how much a company can choose to deduct – see subsection 36-17(5) of the ITAA 1997 outlined below.

If net exempt income

If the company has net exempt income and an excess of assessable income over total deductions (other than tax losses) the company must first 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 – see subsection 36-17(3) of the ITAA 1997. In making the choice to deduct a tax loss from the excess assessable income, a company must apply the rules in subsection 36-17(5) of the ITAA 1997 outlined below.

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

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

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

Limit to how much the company can choose

A company is required to determine whether it has excess franking offsets before making a choice in relation to how much of its prior year tax loss it wants to deduct in 2006–07. This is because subsection 36-17(5) of the ITAA 1997 prevents a company deducting an amount of a prior year tax loss if either:

- the company has excess franking offsets prior to deducting any tax loss, or
- the choice to deduct that particular amount of tax loss would give rise to excess franking offsets.

A company has excess franking offsets if the amount of franking tax offsets that the company is entitled to (ignoring any franking tax offsets that are subject to the refundable tax offset rules) exceeds the amount of income tax that the company would have to pay on its taxable income taking into account all tax offsets (including foreign tax credits), with the exception of the following tax offsets:

- any franking tax offsets, and
- any tax offsets subject to the tax offset carry forward rules or the refundable tax offset rules, and
- any tax offset arising from an FDT liability.

For most companies, franking tax offsets are not subject to the refundable tax offset rules in Division 67 of the 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.

EXAMPLE 9

For the 2006–07 income year, Company A has:

- a tax loss of $150 from a previous income year,
- 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 the ITAA 1997. Company A would not have excess franking offsets 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 excess franking offsets 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 offsets	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 offsets – that is:

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

To calculate the excess franking offsets, see **Excess franking offsets** on page 53.

In the above example, in completing its income tax return, Company A would record $100 at **R** **Tax losses deducted** item **7** and would record $50 at **U** **Tax losses carried forward to later income years** item **11**.

Continuity of ownership

A company cannot deduct a tax loss of an earlier year unless:

- the company maintains the same owners as prescribed under section 165-12 of the 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, it satisfies the same business test (see below).

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

The following conditions apply to the continuity of ownership test:

- If 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. See sections 165-150 to 165-160 of the ITAA 1997.
- If 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. See section 165-165 and subsection 165-12(7) of the ITAA 1997.
- A modified version of the above rules applies to widely held companies and eligible Division 166 companies. See Subdivision 166-A of the ITAA 1997, which was introduced as part of the *Tax Laws Amendment (Loss Recoupment Rules and Other Measures) Act 2005* and replaces the former Subdivision 166-A that applied to listed public companies and their 100% subsidiaries.

Same business test

If a company is unable to satisfy the continuity of ownership test, it must carry on the same business at all times during the income year as it carried on immediately before the test time. However, the same business test is not satisfied if the company derives assessable income from:

- a business of a kind that it did not carry on before the test time, or
- a transaction of a kind it did not enter into in the course of its business operations before the test time.

Where practicable, the test time is the latest time that the company can show that it has satisfied the continuity of ownership test.

If the company is unable to determine precisely when it has failed the continuity of ownership test, the test time for the same business test is:

- if the company was in existence throughout the loss year – the start of the loss year, or
- if the company came into being during the loss year – the end of the loss year.

Note that where a company's total income for a recoupment year is more than $100 million, the company cannot satisfy the same business test for that year. This income ceiling first applies in relation to tax losses incurred in income years commencing on or after 1 July 2005.

For more information on the same business test, see sections 165-13 and 165-210 of the ITAA 1997 and TR 1999/9.

The Government has announced the $100 million income cap on the same business test will be removed with effect from 1 July 2005. See **What's New** for more information.

Control

Additionally, a company also cannot deduct a tax loss of an earlier year where there has been a change in control as prescribed in subsection 165-15(1) of the ITAA 1997 (the control test). However, if the company fails the control test, 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 the ITAA 1997 may apply.

NOTE

- Keep a record of tax losses and account for any adjustments including those made by the Tax Office. Keep these records for five years after the end of the year in which the tax losses of the company were fully recouped.
- A prior year tax loss may be reduced by the commercial debt forgiveness provisions – see appendix 1 on page 79.
- Non-primary production losses for the 1988–89 and earlier income years are not deductible. See subsection 80(2) of the ITAA 1936.
- Do not include losses incurred in deriving foreign income at **R**. For rules which quarantine classes of deductions and losses of previous years incurred in producing foreign source income, see sections 79D and 160AFD of the ITAA 1936. Allowable foreign losses are taken into account in the calculation of assessable foreign income for taxation purposes. Make any adjustment to reconcile deductions claimed against foreign income at the appropriate labels at item **7** – see the information on **W Non-deductible expenses**.
- Do not include the film component of any tax loss (film loss) at **R**. For a film loss to be deductible, see Divisions 36 and 375 of the 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 **W Non-deductible expenses** item **7** or **X Other deductible expenses** item **7**.
- Do not include pooled development fund (PDF) tax losses at **R**. For deductibility of PDF tax losses, see Division 195 of the ITAA 1997.
- Capital losses may only be applied in accordance with Division 102 of the ITAA 1997.

Tax losses deducted – consolidated groups

NOTE

The head company may need to complete a *Consolidated groups losses schedule 2007*. For more information, see **Schedules** on page 3 or see the *Consolidated groups losses schedule instructions 2007*.

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

A head company may be entitled to deduct a tax loss(es) broadly comprising:

- A tax loss(es) made by it for a prior income year(s) – 'group tax loss(es)', and/or
- A tax loss(es) originally made by an entity before it became a member of the consolidated group and which has been transferred to the head company of that consolidated group – 'transferred tax loss(es)'.

Before utilising a 'group tax loss' or a 'transferred tax loss', a head company must satisfy the continuity of ownership test and control tests. If it does not, then it must satisfy the same business test. For more information on the conditions applying to the continuity of ownership test, see the *Consolidated groups losses schedule instructions 2007*. For more information on the same business test, see sections 165-13 and 165-210 of the ITAA 1997 and Taxation Ruling TR 1999/9. Note that companies whose total income for a recoupment year is more than $100 million cannot satisfy the same business test for that year. This income ceiling first applies in relation to tax losses incurred in income years commencing on or after 1 July 2005.

The Government has announced the $100 million income cap on the same business test will be removed with effect from 1 July 2005. See **What's New** for more information.

Transferred tax losses

The operation of the continuity of ownership test is modified by Subdivision 707-B of the ITAA 1997. Firstly, the loss year is modified so that it starts from when the loss was transferred to the head company. (However, subsection 707-140(2) of the ITAA 1997 provides that the head company is not prevented from utilising the loss for the income year in which the transfer occurs). Secondly, in determining whether a head company can utilise 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 before it joined the consolidated group are recognised. See section 707-210 of the ITAA 1997.

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

Concessional tax losses are used after group tax losses and are effectively used before other transferred tax losses. See 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 the sort of loss, such as a tax loss or net capital loss. See section 707-315 of the ITAA 1997.

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

Available fraction

Work out an available fraction 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.

If 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.

See section 707-325 of the 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 integrity 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. See subsections 707-325(2) and (4) of the ITAA 1997 and section 707-329 of the *Income Tax (Transitional Provisions) Act 1997*.

NOTE

For more information, see *Taxation Ruling TR 2004/9 – Income tax: consolidation: what is meant by 'injection of capital' in section 707-325 of the Income Tax Assessment 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.

See subsection 707-320(1) of the 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 has 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. The publication *Consolidation and market valuation* (NAT 7803) will help you meet your tax obligations.

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. See subsection 707-320(2) of the 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. See section 707-335 of the 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 the 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 each loss bundle.

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. See section 707-340 of the ITAA 1997.

Increasing the available fraction – value donor concession – (not applicable to consolidated groups that came into existence on or after 1 July 2004)

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 can also 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 the ITAA 1997 (assuming those Subdivisions had not been amended to provide only for transfers involving an Australian branch of a foreign bank) 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.

See 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. See subsections 707-325(3) and (4) 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 the ITAA 1997 (assuming those Subdivisions had not been amended to provide only for transfers involving an Australian branch of a foreign bank) 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.

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

If 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. See subsection 707-327(6) of the *Income Tax (Transitional Provisions) Act 1997*.

The head company must make a choice to donate losses 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 or the end of 31 December 2005, whichever is later.

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

Concessional losses – (not applicable to consolidated groups that came into existence on or after 1 July 2004)

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
- was transferred from the real loss-maker to the head company of the group when the group first consolidates before 1 July 2004 (the initial transfer time)
- was transferred because the continuity of ownership and control tests were passed, and
- has not been previously transferred to a group.

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

Concessional losses may be utilised by the head company over a minimum of three years (with unrestricted use from the third year onwards), subject to the general loss recoupment tests as modified. See subsection 707-350(3) of the *Income Tax (Transitional Provisions) Act 1997*. This utilisation replaces the limit which would otherwise apply under the available fraction method.

There is no limit on the utilisation of a concessional tax loss in 2006–07 income year, this being the third or later income year ending after the initial transfer time.

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

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

A group company may transfer the whole or a part of a tax loss to another company where:

- both companies are members of the same wholly-owned group, and
- one of the companies is:
  - an Australian branch of a foreign bank, or
  - an Australian PE of a foreign financial entity if the tax loss is for an income year commencing on or after 26 June 2005, and
- the other company is:
  - the head company of a consolidated group or MEC group, or
  - not a member of a consolidatable group, and
- further conditions in Subdivision 170-A of the ITAA 1997 are satisfied.

NOTE:

- The tax loss transferred to the income company is deductible to the income company in accordance with the provisions of section 36-17 of the 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 the ITAA 1936 – see section 170-70 of the 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 the ITAA 1997 when consolidation occurs part-way through the head company's income year. Therefore, **S** is not applicable in this circumstance.

Do **not** show tax losses transferred from subsidiary companies under Subdivision 707-A of the ITAA 1997. These losses should be shown in part A of the *Consolidated groups losses schedule 2007* at item **1** or item **2**.

Subtraction items subtotal

Show the sum of the amounts at **C**, **F**, **E**, **H**, **I**, **Z**, **L**, **M**, **N**, **O**, **P**, **V**, **Q**, **X**, **R** and **S** in the subtraction items subtotal.

If there is a negative amount at **L** **R&D tax concession – not including label M** which exceeds the total of the subtraction items at **C** to **Z** and **M** to **S**, print **L** in the box at the right of the amount at subtraction items subtotal.

R&D tax offset, if chosen

Show at **Y** the amount of the R&D deduction subject to the R&D tax offset shown at **Y** **R&D claim subject to the R&D tax offset** in part E, item **2** of the *Research and development tax concession schedule 2007*. The amount shown at **Y** on the company tax return must be the same as the amount shown at **Y** in part E, item **2** of the research and development tax concession schedule.

NOTE

Inclusion of an amount at **Y** has the effect that the company will be taken to have made the choice under subsection 73I(1) of the 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 **T** all assessable income less deductions which equals the amount at **T** **Total profit or loss** item **6** plus or minus the reconciliation adjustments at item **7** plus the amount shown at **Y** **R&D tax offset, if chosen** item **7**.

If the company has a taxable income of $1 or more, transfer the amount at **T** to **A** **Taxable or net income** in the **Calculation statement** on page 6 of the tax return.

The company's tax loss at **T** is the excess of its total deductions (except tax losses for earlier income years) over its total assessable income and net exempt income – see section 36-10 of the ITAA 1997. Print **L** in the box at the right of the amount. The company's net exempt income is calculated under section 36-20 of the ITAA 1997 and is not necessarily equal to the amount shown at **V** **Exempt income** item **7**. Show at **B** **Other assessable income** item **7**, the amount of net exempt income taken into account in calculating the company's tax loss. If the company has a tax loss at **T**, print zero (**0**) at **A** **Taxable or net income** in the **Calculation statement**.

If the company has excess franking offsets that can be converted under section 36-55 of the ITAA 1997 into a tax loss to be carried forward (see **Excess franking offsets** on page 53), do not include at **T** the amount of that tax loss. However, that amount should be taken into account in calculating the company's tax loss at **U** **Tax losses carried forward to later income years** item **11** (refer to page 62). This means that a company may have a taxable income at **T** and a tax loss carried forward at item **11**. Alternatively, if the company's total deductions exceed total assessable income and net exempt income, it would show an amount at **T** that, disregarding section 36-55, would have been its tax loss for the income year.

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8 FINANCIAL AND OTHER INFORMATION

Functional currency translation rate

Complete **N** item **8** 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 **N** if the company has elected to use a non-Australian dollar functional currency only to calculate income attributable to the activities of an overseas PE, CFC, OBU or transferor trust. For more information, see the *Foreign income return form guide*, available on our website.

If the company is using a functional currency, see the instructions in the *Foreign exchange (forex): guide to functional currency rules*, available on our website

Show at **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 (A$) – that is, the number of non-A$ currency units that equal one A$, rounded to four significant figures.

If **N** is completed, also complete **O** **Functional currency chosen**.

Functional currency chosen

Complete **O** if **N** **Functional currency translation rate** has been completed.

Show at **O** the currency code from International Standard ISO 4217 which corresponds to the functional currency chosen by the company. For more information, see the *Guide to functional currency rules*, available on our website.

> **NOTE**
> Show amounts calculated for tax purposes at **A** to **B**, **J** **Total debt** and **K** **Commercial debt forgiveness**.

Opening stock

Show at **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 **A** is the value for income tax purposes under section 70-40 or for STS taxpayers subsection 328-295(1) of the 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.

Do **not** include any amount that represents opening stock of a business that commenced operations during the income year. Show this amount at **S** **Purchases and other costs** item **8**.

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

Purchases and other costs

Show at **S** the cost of direct materials used for manufacture, sale or exchange in deriving the gross proceeds or earnings of the business. This amount includes freight inwards.

If the company is continuing in the STS this year and has chosen to continue using the STS accounting method, only show at **S** costs which the company has paid. (See STS taxpayers below).

For information on GST and input tax credits, see the information on item **6 Calculation of total profit or loss** on page 21.

Closing stock

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 see **Non-STS taxpayers** on the next page.

STS taxpayers

The company must account for changes in the value of its trading stock only if the difference between:

- the value of the company's stock on hand at the start of the income year as shown at **A** **Opening stock**, and
- a reasonable estimate of the value of the company's stock on hand at the end of the income year

is more than $5,000. For more information relating to 'reasonable estimate', phone the Business Infoline on **13 28 66**.

If the difference is not more than $5,000, the company can still choose to conduct a stocktake and account for changes in the value of trading stock if it wishes.

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 if the difference is more than $5,000 or the company wishes to account for changes in the value. 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 B is the same value the company put for opening stock at **A** item **8**. Do **not** put the company's reasonable estimate at **B**.

Print in the CODE box at **B** the code from table 8 that matches the code the company used to value closing stock in the previous year.

TABLE 8

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 the ITAA 1997. See the following instructions for non-STS taxpayers for calculating the value of trading stock.

Include in closing stock value at **B** the value of all stock on hand, regardless of whether the company has paid for the stock.

Non-STS taxpayers

Show at **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 **B** is the value calculated for income tax purposes under section 70-45 of the ITAA 1997.

If the company is registered, or required to be 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.

Do **not** include any amount that represents closing stock of a business that ceased operations during the income year. Show this amount at Income, **R** **Other gross income** item **6**.

Print in the CODE box the code from table 9 indicating the method used to value closing stock for income tax purposes. If more than one method is used, use the code applicable to the method representing the highest value.

TABLE 9

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 on a tax return, advise us 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 the ITAA 1997, see *Taxation Ruling TR 98/7 – Income tax: whether packaging items (ie, containers, labels, etc) held by a manufacturer, wholesaler or retailer are trading stock* and *Taxation Ruling TR 98/8 – Income tax: whether materials and spare parts held by a taxpayer supplying services are trading stock.*

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 any non-membership periods, show at **B** the value for trading stock on hand as at the end of the latest non-membership period. The amount at **B** is generally a tax neutral value. This may not be the case if the company was a continuing majority-owned entity when it became a member of the group. For more information, see the *Consolidation reference manual*, available on our website.

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 that is elected must be reasonable.

For guidelines on trading stock valuations where obsolescence or other special circumstances exist, see *Taxation Ruling TR 93/23 – Income tax: valuation of trading stock subject to obsolescence or other special circumstances.*

If an election is made, print **Y** for yes in the box at this item. Otherwise leave blank.

NOTE

Show amounts taken from the company's financial statements at **C** to **H**, **R** **Shareholders funds** and **N** **Loans to shareholders and their associates** as these amounts relate to accounting values. See item names and labels on pages 51–54.

Trade debtors

Show at **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 **D** **All current assets** item **8**.

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 any non-membership periods, show at **C** the relevant amount as at the end of the latest non-membership period.

All current assets

Show at **D** all current assets of the company, including cash on hand, short-term bills receivable, inventories and trade debtors as shown at **C** **Trade debtors** item **8**.

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 any non-membership periods, show at **D** the relevant amount as at the end of the latest non-membership period.

Total assets

Show at **E** all assets of the company, including fixed, tangible and intangible assets and all current assets as shown at **D** **All current assets** item **8**.

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 any non-membership periods, show at **E** the relevant amount as at the end of the latest non-membership period.

Trade creditors

Show at **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 **G** **All current liabilities** item **8**.

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 any non-membership periods, show at **F** the relevant amount as at the end of the latest non-membership period.

All current liabilities

Show at **G** the total obligations payable by the company within the coming year. Also include the amount shown at **F** **Trade creditors** item **8**.

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 any non-membership periods, show at **G** the relevant amount as at the end of the latest non-membership period.

Total liabilities

Show at **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 **G** **All current liabilities** item **8**.

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 any non-membership periods, show at **H** the relevant amount as at the end of the latest non-membership period.

Total debt

Show at **J** the average total debt of the company for the income year. Calculate the average total debt by adding the opening and closing balances of the total debt of the company for the income year, and divide 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 **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 tax law to be an amount of interest in respect of a lease, a hire purchase arrangement or any other financial instrument specified by that 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 **J** satisfy the definition of 'debt interest' for the purposes of Division 974 of the ITAA 1997 (the debt/equity rules). *Debt and equity tests: guide to the debt and equity tests*, available on our website, provides an overview of the debt/equity rules.

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 any non-membership periods, show at **J** the relevant amount calculated as at the end of the latest non-membership period.

Commercial debt forgiveness

Show at **K** the net amount of commercial debts owed by the company that were forgiven during the income year – see Division 245 of Schedule 2C to the 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.

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 certain CGT assets, in that order.

For more information, see appendix 1 on page 79.

Shareholders' funds

Show at **R** the net shareholders' funds as per the accounting records. The amount shown at **E** **Total assets** item **8** less the amount shown at **H** **Total liabilities** item **8**, equals the amount shown at **R**.

If this amount is negative, print **L** in the box at the right of the 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 any non-membership periods, show at **R** the relevant amount as at the end of the latest non-membership period.

> **NOTE**
>
> Show at **J** to **L** and **Z** to **I** amounts calculated for tax purposes. See item names and labels below.

Franked dividends paid

Show at **J** the amount of fully franked dividends paid or credited during the income year, including fully franked non-share dividends and the franked deemed dividend component of any off-market share buyback under section 159GZZZP of the ITAA 1936. If a partly franked dividend has been paid during the income year, show the franked portion at **J** and the unfranked portion at **K** **Unfranked dividends paid** item **8**.

Do **not** include dividends paid by one member to another within a consolidated group.

Record keeping

Keep a record of the following:

- dividends or non-share dividends paid
- recipient(s)
- dates paid
- amounts paid.

Unfranked dividends paid

Show at **K** the amounts deemed to be dividends by various sections of the ITAA 1936 and the ITAA 1997. Include unfranked non-share dividends and the unfranked deemed dividend component of any off-market share buy-back under section 159GZZZP of the ITAA 1936.

Do **not** include dividends paid by one member to another within a consolidated group.

Under Division 7A of Part III of the ITAA 1936, payments and loans – unless they come within specified exclusions – by a private company to a shareholder or associates of a shareholder 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 of such shareholders which are forgiven by a private company are treated as dividends.

A loan made in the 2006–07 income year by a private company to a shareholder (or associate of a shareholder) may be repaid or put on a commercial footing before the earlier of the due date for lodgment or the date of lodgment of the private company's income tax return for the year in which the loan is made, in order to avoid the loan being treated as a deemed dividend.

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

See also **Non-commercial losses and private companies** in **What's New** of this publication.

Record keeping

Keep a record of the following:

- dividends or non-share dividends paid
- recipient(s)
- dates paid
- amounts paid.

Franking account balance

Show at **M** the balance of the franking account at the end of the 2006–07 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, the company must lodge a *Franking account tax return 2007* and pay FDT by the last day of the month following the end of the income year. If the company is a late balancing company that has elected to have its FDT liability determined on 30 June 2007, it must lodge its franking account tax return on or before 31 July 2007.

If the company is a PDF and its venture capital sub-account is in deficit at the end of the PDF's income year or immediately before it ceases to be a PDF, 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 2007* must be lodged.

NOTE:

- Shareholder loans and other advances made by private companies that are deemed dividends are not frankable, but the company must debit its franking account as if the deemed dividend had been franked.
- Deemed dividends may also arise when a shareholder (or associate of such shareholder) of a private company that has (or will have by a certain time) an unpaid present entitlement from a trust estate, receives a payment or loan or has a debt forgiven in their favour by the trustee

of the trust estate. However, this will not result in a debit to the franking account of the private company with the unpaid present entitlement.

- A company determines whether its franking account needs adjustment, because the measures may affect imputation benefits available to shareholders, deny franking credits or give rise to additional franking debits.

For a range of more detailed information about the simplified imputation system, see the imputation products on our website.

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 any non-membership periods, show at **M** its franking account balance as at the end of the latest 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 FDT.

Balance of conduit foreign income

Show at **F** the balance of conduit foreign income at the end of the income year.

Conduit foreign income is defined in Subdivision 802-A of the ITAA 1997 and includes certain foreign amounts received which are not taxable in Australia. Examples include income that is not assessable because of sections 23AJ and 23AH of the ITAA 1936 and capital gains disregarded under section 768-505 of the ITAA 1997.

If the only conduit foreign income a company receives is through distributions from other Australian companies and the company does not make any distributions of conduit foreign income, then it can leave this label blank.

If the balance of conduit foreign income is negative, print **L** in the box at the right of the amount at **F**.

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 any non-membership periods, show at **F** its balance of conduit foreign income at the end of the latest non-membership period.

For more information on conduit foreign income see the material available on our website.

Conduit foreign income distributed during the income year

Show at **G** the total amount of conduit foreign income the company distributed during the income year.

If the company is completing a tax return because of any non-membership periods, show at **G** the total amount of conduit foreign income the company distributed during all the non-membership periods in the income year.

Excess franking offsets

Show at **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 the ITAA 1997 as a result of receiving a franked distribution and Subdivision 210-H of the 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, the amount of franking credits included at **J** **Franking credits** item **7** and the amount of franking credits included at **C** **Australian franking credits from a New Zealand company** item **7**.

Do **not** include any franking tax offsets that are subject to the refundable tax offset rules under Division 67 of the ITAA 1997. 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. Do not include these amounts. Generally, the franking tax offsets of other companies are not subject to the refundable tax offset rules.

Step 2: Calculate the amount of income tax that would be payable taking into account all tax offsets (including foreign tax credits), with the exception of the following tax offsets:

- any franking tax offsets
- any tax offsets subject to the tax offset carry forward rules or the refundable tax offset rules
- any tax offset arising from an FDT liability.

Step 3: Calculate the amount of excess franking offsets. 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 **H** **Excess franking offsets**.

Excess franking offsets can affect the choice a company can make in relation to how much of any prior year tax loss it can deduct this year. For more information, see **Tax losses deducted** on page 43.

If the company has excess franking offsets, it may convert the excess franking offsets into an amount of tax loss to carry forward to later income years. For more information, see **Tax losses carried forward to later income years** on page 62.

EXAMPLE 10

For the 2006–07 income year ABC Company Ltd has the following:

Total dividends	**H** item **6**	$280 Franked distribution
Franking credits	**J** item **7**	$120
Other deductible expenses	**X** item **7**	$100

The $120 franking tax offset is not subject to the refundable tax offset rules in Division 67 of the 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 offsets 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 $120. However, for the purposes of calculating the amount of 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	$300	($280 + $120 – $100)
Gross tax	$90	
Rebates/tax offsets	nil	ABC Company Ltd is required to disregard the franking tax offset
Tax payable	$90	

Step 3: Excess franking offsets is equal to $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 **H Excess franking offsets** item **8**.

ABC Company Ltd would now convert this amount of excess franking offsets into a tax loss by dividing the excess franking offsets 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 **U Tax losses carried forward to later income years** item **11**.

Balance of unfranked non-portfolio dividend account at year end

If a claim is made under section 46FA of the ITAA 1936, the claiming entity is required to maintain an unfranked non-portfolio dividend account under section 46FB of the ITAA 1936. Show at **L** the balance of this account as at the last day of the income year.

Print in the CODE box to the right of **L**:

Y – if any of the balance includes an amount that has also been counted towards the company's conduit foreign income for that income year.

N – in any other circumstance.

For more information on conduit foreign income see the material available on our website.

Loans to shareholders and their associates

Complete **N** only if:
- the company is a private company
- the company has a loan to a shareholder or an associate of a shareholder which has a debit balance at the end of the income year, and
- the recipient of the loan was a natural person, partnership or trust.

Show at **N** the sum of all such loans that have a debit balance at the end of the income year. Show the sum in whole figures only.

Print in the CODE box at the right of the amount at **N** the code below indicating whether:

TABLE 10

A	All loans were made on or after 4 December 1997.
B	All loans were made before 4 December 1997.
M	Some loans were made before 4 December 1997 and some loans were made on or after 4 December 1997.

See also **Non-commercial losses and private companies** in **What's New** of this publication.

Under Division 7A of Part III of the ITAA 1936, loans by a private company to a shareholder and associates of a shareholder – 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.

A loan made in the 2006–07 income year by a private company to a shareholder (or associate of a shareholder) may be repaid or put on a commercial footing, before the earlier of the due date for lodgment or the date of lodgment of the private company's income tax return for the year in which the loan is made, in order to avoid the loan being treated as a deemed dividend.

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 **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 telecommunications cable systems (IRUs)
- certain telecommunications site access rights.

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, also include the cost of those assets at **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 **Z**.

For more information on decline in value, cost, low-value pools, in-house software and software development pools, see the *Guide to depreciating assets 2007*.

> **NOTE**
>
> If the company has included an amount of more than $75,000 at **Z**, complete a *Capital allowances schedule 2007* and attach it to the company tax return. For more information, see the *Capital allowances schedule instructions 2007*.

The head company must also include the cost of depreciating assets that a subsidiary member would have included at **Z** if it had not joined the consolidated group. However, the head company must not include the cost of depreciating assets at **Z** if the subsidiary member deducted their decline in value before becoming a member of the consolidated group.

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 any non-membership periods, show at **Z** the cost of intangible depreciating assets first deducted during the non-membership periods. However, do not include the cost of depreciating assets where the head company deducted their decline in value during any period that the subsidiary was a member of the 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 **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, also include the cost of those assets at **A**. Do not reduce the cost for estimated non-taxable use.

For information on decline in value, cost and low-value pools, see the *Guide to depreciating assets 2007*.

> **NOTE**
>
> If the company has included an amount of more than $75,000 at **A**, complete a *Capital allowances schedule 2007* and attach it to the company tax return. For more information, see the *Capital allowances schedule instructions 2007*.

The head company must also include the cost of depreciating assets that a subsidiary member would have included at **A** if it had not joined the consolidated group. However, the head company must not include the cost of depreciating assets at **A** if the subsidiary member deducted their decline in value before becoming a member of the consolidated group.

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 any non-membership periods, show at **A** the cost of depreciating assets first deducted during the non-membership periods. However, do not include the cost of depreciating assets where the head company deducted their decline in value during any period the subsidiary was a member of the 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, see **Intangible depreciating assets first deducted** on the previous page.

Show at **P** the termination value of each balancing adjustment event occurring for intangible depreciating assets to which the uniform capital allowances rules in Division 40 of the ITAA 1997 apply – including assets allocated to a low-value pool.

Do **not** show at **P** any termination value in relation to in-house software for which the company has allocated expenditure to a software development pool.

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 have received 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, see the *Guide to depreciating assets 2007*.

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 **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 **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 R&D 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 have received 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, see the *Guide to depreciating assets 2007*.

Total salary and wage expenses

Show at **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 **A Cost of sales** item **6** – 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 **Q Payments to associated persons** item **8**.

However, do **not** include 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 **D** the code from table 11 that matches the description of the expense component where salary and wage expenses have been wholly or predominantly reported at item **6**.

TABLE 11

Salary and wage expenses included in:	Code
Cost of sales	C
All other expenses	A
Cost of sales and **All other expenses**	B
Other than **Cost of sales** and/or **All other expenses**	O

Payments to associated persons

Show at **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 **D Total salary and wage expenses** item **8**.

Record keeping

Excessive remuneration paid to an associated person may not be deductible and could be treated as an unfranked dividend (see section 109 of the 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 **R** assessable income derived by the company from foreign sources grossed up by the amount of the foreign tax, but net of expenses. This amount includes:

- foreign source capital gains – after offsetting any unapplied capital losses
- assessable dividends paid by a New Zealand company
- income attributable to a dividend from a New Zealand company received from a partnership or trust.

Do **not** show at **R**:

- attributed foreign income (such as attributed income from a CFC or foreign investment fund [FIF])
- any amount of Australian franking credits attached to franked distributions received from a New Zealand company. Show these amounts at **C** **Australian franking credits from a New Zealand company** item **7**.

Do **not** show negative amounts at **R**. Foreign source tax losses may be used to offset against foreign source income only. Any excess of foreign source tax losses over foreign source income may be carried forward to be used to offset against future foreign source income of the same class – see the *Foreign income return form guide*, available on our website.

Foreign source capital gains are made by an Australian resident company if a CGT event happens to any of its worldwide CGT assets.

Include any capital gain made from CGT assets in the company's net capital gain for the income year and show it at **A** **Net capital gain** item **7**. For more information about capital gains tax, see the *Guide to capital gains tax 2007*.

Do **not** apply debt deductions other than those attributable to an overseas PE of the taxpayer against foreign source income for the purpose of calculating net foreign income or identifying a foreign loss.

> **NOTE**
>
> Complete a *Losses schedule 2007* 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, see the *Losses schedule instructions 2007*.

Tax spared foreign tax credits

Show at **S** the amount of foreign tax credit relating to foreign tax forgone under an investment incentive scheme provided by a foreign government if that tax forgone is deemed to have been paid for the purposes of Australia's foreign tax credit system.

ATTRIBUTED FOREIGN INCOME

Listed country

Show at **B** the amount of attributed foreign income from controlled foreign entities in listed countries. Listed countries (formerly known as broad-exemption listed countries) are listed in Part 1 of Schedule 10 to the Income Tax Regulations 1936.

Do not include amounts attributed from transferor trusts – see **Transferor trust** below.

Section 404 country

Show at **C** the amount of attributed foreign income from controlled foreign entities in section 404 countries. Section 404 countries are listed in Part 2 of Schedule 10 to the Income Tax Regulations 1936.

Do not include amounts attributed from transferor trusts – see **Transferor trust** below.

Unlisted country

Show at **U** the amount of attributed foreign income from controlled foreign entities in unlisted countries (excluding section 404 countries). Unlisted countries are countries that are not listed countries in Part 1 of Schedule 10 to the Income Tax Regulations 1936.

Do not include amounts attributed from section 404 countries or transferor trusts – see **Transferor trust** below.

Transferor trust

Show at **V** the amount of attributed foreign income from transferor trusts.

Foreign investment fund income

Show at **W** the amount of attributed foreign income from foreign investment funds (FIFs). The term 'foreign investment fund' has the meaning set out in Part XI of the ITAA 1936.

Foreign life policy

Show at **X** the amount of attributed foreign income from foreign life policies. The term 'foreign life assurance policy' has the meaning set out in Part XI of the ITAA 1936.

> **NOTE**
>
> For more information on the calculation of the amounts shown at **B**, **C**, **U** and **V** item **8**, see the *Foreign income return form guide* on our website. For more information on the calculation of the amounts shown at **W** and **X**, see the *Foreign investment funds guide* on our website.

Section 128F/128FA exempt interest paid

Show at **O** the total amount of interest paid to non-residents that is exempt from interest withholding tax under section 128F or section 128FA of the ITAA 1936.

Interest to financial institution exempt from withholding under a double tax agreement (DTA)

Show at **I** the total amount of interest paid to United States (US) and United Kingdom (UK) financial institutions that was exempt from withholding tax because of Article 11(3)(b) of Australia's DTAs with those countries.

DTA country

Complete **Y** if you have shown an amount at **I Interest to financial institution exempt from withholding under a DTA**.

Print at **Y** the three letter country code **USA** if the exempt interest payments were to US financial institutions or **GBR** if to UK financial institutions. Print the code for the country where the most exempt interest was paid if payments were made to financial institutions in both countries.

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 **X Depreciation expenses** item **6**:

Low-cost assets – show at **A** the total amount the company claimed at item **6** relating to low-cost assets.

General pool assets – show at **B** the total amount the company claimed at item **6** relating to the general STS pool.

Long life pool assets – show at **C** the total amount the company claimed at item **6** relating to the long life STS pool.

> **NOTE**
> Do **not** show at **A**, **B** or **C** the balance of any STS pool or the cost of assets transferred to a pool.

10 ENTREPRENEURS TAX OFFSET

Only complete this item if:

- the company is eligible to enter or continue in the STS for this income year and has chosen to do so at item **5 Simplified tax system (STS) elections**; or
- the company received a distribution from a partnership and/or a trust that has elected to enter or continue in the STS for this income year.

From 1 July 2005, certain small businesses that are in the STS are eligible to receive the entrepreneurs tax offset (ETO). The ETO is available under subdivision 61-J of the ITAA 1997.

Aimed at providing extra incentives and encouragement to small business growth, the ETO is a non-refundable tax offset which can be up to 25% of a small business's income tax liability in respect of their eligible STS business income. The ETO cannot be transferred to other entities or carried forward to later income years.

The tax offset is available to:

- an individual or a company that is an STS taxpayer
- the partners of an STS partnership
- the trustee or beneficiaries of an STS trust, depending on who is liable for tax on the trust income.

The amount of the tax offset varies depending on the taxpayer's STS group turnover. If the STS group turnover is $50,000 or less, the taxpayer can claim a tax offset equal to 25% of their income tax liability attributable to their eligible STS business income. The tax offset begins to phase out when the STS group turnover of the small business passes $50,000 and is reduced to zero when the STS group turnover reaches $75,000.

A taxpayer may be eligible for more than one ETO for an income year. For example, if a company has elected into the STS and is also a partner in a partnership that has elected into the STS, it may be entitled to a tax offset in respect of its net business income and a tax offset in respect of its share of the net STS income of the partnership. However, if the company and the partnership are grouped entities under the STS grouping rules, the amount of STS group turnover has to be taken into account in determining eligibility for the ETO.

If the company has **more than one source** of net STS income, the details of each source and each ETO amount should be shown separately at this item.

> **NOTE**
> You may need to provide an attachment to the return. See – **If the company's income tax return is not lodged electronically** on page 62.

STS group turnover

Show at **D** the company's STS group turnover. If the company is not grouped with any other entities under the STS grouping rules, this is equal to the company's STS annual turnover. If the company is grouped with other entities under the STS grouping rules, the turnover of all the entities in the group is relevant in working out the company's STS group turnover.

If the company is claiming a tax offset in respect of a share of net STS income received from a partnership or trust, show at **D** the STS group turnover of the partnership or trust. You may need to obtain the partnership's and/or trust's STS group turnover and your share of the net STS income from the preparer of the partnership's and/or trust's tax return.

> STOP
> If the STS group turnover in relation to an amount of net STS income is greater than or equal to $75,000, do not complete item **10** as the company is not entitled to an ETO in respect of that net STS income amount.

The STS group turnover is the sum of:

- the value of business supplies you make in the ordinary course of your businesses, and
- the value of business supplies any entities you are grouped with make in the ordinary course of their business.

The STS group turnover includes the value of business supplies of any entities you are grouped with even if you did not earn or receive any income from those entities. It does not include any business supplies made between you and any businesses you are grouped with.

> NOTE
> **Business carried on for only part of the year**
> For the purposes of the ETO, if the business has been carried on for only part of the year, there is no need to use a reasonable estimate of what the STS annual turnover or STS group turnover would have been if the business had been carried on for the whole year. This is in contrast to what is required when calculating STS average turnover or STS group turnover for the purposes of determining eligibility for STS.

The value of business supplies means the value of supplies made in the ordinary course of carrying on a business. For supplies that do not attract GST, the value is simply the price. For supplies that do attract GST, the value is the price less the GST component.

STS group turnover includes amounts such as: payments for goods or services supplied, professional fees, commissions, interest received on amounts deposited in business banking accounts, and holding or security deposits forfeited by customers.

STS group turnover excludes amounts such as: rental income where rental activities do not form an ordinary part of the business, amounts resulting from realisation of an investment (such as the proceeds from the sale of a capital asset used in the business), payments received under an insurance recovery, and the principal component of a loan repayment.

Your STS annual turnover is the value of the business supplies you made during the year. Unlike your STS group turnover, it does not include the value of business supplies made by any entities that you are grouped with.

> For more information on the value of business supplies, phone the Business Infoline on **13 28 66** or see Taxation Ruling TR 2002/11.

> For more information on the STS grouping rules, phone the Business Infoline on **13 28 66** or see Taxation Ruling TR 2002/6.

Net STS income

Step 1: Show at **E** the company's net STS income or its share of net STS income from a partnership or trust. The net STS income is the entity's STS annual turnover less the allowable deductions attributable to that turnover. There must be an amount of net STS income included in the company's assessable income before an entitlement to the tax offset arises.

An entity's STS annual turnover for a year is the total of the value of business supplies the entity made in the year. The deductions attributable to the STS turnover are the allowable deductions that the entity can claim against its assessable income which specifically relate to that turnover.

Note:
When determining the allowable deductions attributable to an entity's STS annual turnover for the purposes of working out the net STS income:

1 Do not include:
   – tax losses from prior years
   – gifts or donations, or
   – costs of managing your tax affairs.

2 Use a reasonable basis to apportion any STS pool deduction if the STS pool includes assets which are used partly for business and partly for other income producing activities.

> STOP
> Do not complete item **10** if there is no amount of net STS income or the allowable deductions exceed the STS annual turnover.

Step 2: Print in the CODE box at **E** the code from table 12 which describes the source of net STS income.

TABLE 12

Code	Type
P	share of net STS income from a partnership
T	share of net STS income from a trust
C	net STS income earned by the company

Entrepreneurs tax offset

Show at **F** the amount of ETO in respect of each source of net STS income calculated as follows:

Step 1: Work out the company's taxable income for the year

Step 2: Work out 25% of the basic income tax liability* on that taxable income

Step 3: Work out the STS percentage of the taxable income using the following formula:

$$\frac{\text{the company's net STS income** for the year X 100}}{\text{the company's taxable income for the year}}$$

If the percentage that results is more than 100%, the STS percentage is 100%.

Step 4: If the STS group turnover is $50,000 or less, the tax offset is the Step 2 amount multiplied by the STS percentage

Step 5: If the STS group turnover is more than $50,000, work out the STS phase-out fraction using this formula:

$$\frac{\text{\$75,000 – the STS group turnover for the year}}{\text{\$25,000}}$$

The tax offset in these circumstances is:

Step 2 amount X STS percentage X STS phase-out fraction

The sum of the amounts shown at **F** is the company's total ETO and should be claimed at **C** **Rebates/tax offsets** in the **Calculation statement** on page 6 of the tax return.

* Basic income tax liability – to work this out, multiply the company's taxable income by the applicable tax rate and take into account any special provisions that affect the calculation of the liability, but do not take into account any tax offsets.

** If you are working out a tax offset in respect of the company's share of net STS income received from a partnership or trust, use the company's share of net STS income from the partnership or trust in Step 3. In Steps 4 and 5, use the STS group turnover of the partnership or trust.

EXAMPLE 11:

Elpin Pty Ltd is an STS taxpayer and a partner in XYZ partnership for the year ended 30 June 2007. XYZ partnership is also in the STS.

Elpin Pty Ltd has net STS income for the year of $40,000 from its business activities and taxable income for the year of $80,000 which includes a distribution of net STS income from XYZ partnership of $10,000.

Elpin Pty Ltd and XYZ partnership are grouped under the STS grouping rules. As a result, the STS group turnover of each entity is relevant in determining Elpin's eligibility for any tax offset.

The STS group turnover of each entity is $60,000. Therefore Elpin Pty Ltd is entitled to a tax offset in respect of its net STS income earned from its business activities and its share of net STS income received from XYZ partnership.

Tax offset in respect of business income:

The Step 1 amount	=	$80,000 (ie taxable income)
The Step 2 amount	=	25% of Elpin's basic income tax liability of $24,000*
	=	$6,000
The Step 3 amount	=	$40,000 / $80,000 X 100
	=	50% (ie the STS percentage)

The Step 4 amount is not relevant because the STS group turnover is greater than $50,000

The step 5 amount $= \dfrac{\$75,000 - \$60,000}{\$25,000}$

$= 0.60$ (or 60%)

Elpin Pty Ltd is entitled to a tax offset of $1,800 ($6,000 X 50% X 60%) in respect of its business income.

Tax offset in respect of Elpin's share of net STS income from XYZ partnership:

The Step 1 amount	=	$80,000 (ie taxable income)
The Step 2 amount	=	25% of Elpin's basic income tax liability of $24,000*
	=	$6,000
The Step 3 amount	=	$10,000 / $80,000 X 100
	=	12.5% (ie the STS percentage)

The Step 4 amount is not relevant because the STS group turnover is greater than $50,000

The step 5 amount $= \dfrac{\$75,000 - \$60,000}{\$25,000}$

$= 0.60$ (or 60%)

Elpin Pty Ltd is entitled to a tax offset of $450 ($6,000 X 12.5% X 60%) in respect of its share of the partnership's net STS income.

* 30% company tax rate multiplied by $80,000

The preparer of Elpin's income tax return would complete item **10** as shown below.

STS group turnover	Net STS income	CODE	Entrepreneurs tax offset
D 60,000 .00	**E** 40,000 .00	C	**F** 1,800 .00
D 60,000 .00	**E** 10,000 .00	P	**F** 450 .00

Elpin would include $2,250 (the total of its ETO) at **C** **Rebates/tax offsets** in the **Calculation statement** on its tax return.

If the company's income tax return is not lodged electronically

The labels at item **10** are repeatable fields in an electronic environment to cater for companies that are entitled to more than one ETO. If the company's return is not lodged electronically and it is entitled to more than one tax offset, attach a statement to the company's tax return giving details in the same format as item **10** for the second and subsequent sources of net STS income.

The entrepreneurs tax offset and PAYG

The ETO is not taken into consideration when determining the rate of PAYG instalments.

If an entity anticipates that it will be entitled to the tax offset on assessment, the entity may vary its instalments during the year. However, the entity may be liable to the general interest charge where a variation results in an underestimation of the instalments of more than 15%.

11 LOSSES INFORMATION

Any company which is a subsidiary member of a consolidated group at the end of the 2006–07 income year is not required to complete **U** and **V**. Other companies, including the head company of a consolidated group at the end of the 2006–07 income year, may need to complete **U** and **V**.

Tax losses carried forward to later income years

Show at **U** the unapplied – that is, undeducted or not transferred – amount of tax losses incurred by the company and carried forward to the 2007–08 income year under section 36-17 of the ITAA 1997.

Net exempt income (if any) must be taken into account in calculating the amount of tax losses carried forward to the 2007–08 income year – see sections 36-10 and 36-17 of the ITAA 1997.

Tax losses carried forward may be affected by the commercial debt forgiveness provisions – see appendix 1 on page 79.

Under sections 36-17 and 36-55 of the ITAA 1997 a company is:

- subject to certain limitations, able to choose the amount of prior year tax 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 in certain circumstances to convert excess franking offsets into a tax loss for the income year and carry forward the tax loss for consideration as a deduction in a later income year. This rule applies to the income year in which 1 July 2002 falls and later income years.

If the company has excess franking offsets at **H** **Excess franking offsets** item **8**, calculate the company's tax loss for the income year under the method statement in subsection 36-55(2) of the ITAA 1997 as follows:

Step 1 Work out the amount (if any) that would have been the company's tax loss for the year under section 36-10, 165-70, 175-35 or 701-30 of the ITAA 1997, disregarding any net exempt income.

Step 2 Divide the amount of excess franking offsets by the corporate tax rate.

Step 3 Add the result of steps 1 and 2.

Step 4 Take away the company's net exempt income (if any).

The result (if a positive amount) is taken to be the tax loss for the income year. Show this amount at **U** together with any unapplied prior year(s) tax loss(es).

If a company is required to complete a *Losses schedule 2007*, the amount of the tax losses shown at **U** **Tax losses carried forward to later income years** in part A of that schedule must be the same as the amount shown at **U** on the company tax return.

Do not include any net capital losses to be carried forward to later income years at **U** – show these separately at **V** **Net capital losses carried forward to later income years** item **10** and in the CGT schedule, if a CGT schedule is required.

If a head company is required to complete a *Consolidated groups losses schedule 2007*, the amount of the tax losses shown at **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 **U** on the company tax return.

If the company is a subsidiary member of a consolidated group at the end of the income year, **U** is not applicable.

Net capital losses carried forward to later income years

Show at **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:

- **V** in part **I** of the CGT summary worksheet, or
- **H** and **I** in part **I** of the CGT schedule, if a CGT schedule is required.

For more information, see the *Guide to capital gains tax 2007*.

If the company is required to complete the *Losses schedule 2007*, the amount of the tax losses shown at **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 **V** on the company tax return.

If a head company is required to complete a *Consolidated groups losses schedule 2007*, the amount of the net capital losses shown at **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 **V** on the company tax return.

If the company is a subsidiary member of a consolidated group at the end of the income year, **V** is not applicable.

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12 PERSONAL SERVICES INCOME

Does your income include an individual's personal services income?

Print **Y** for yes at **N** item **12** if the company's income includes an individual's personal services income (PSI). Otherwise print **N** for no at **N**.

If you printed **Y** at **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 of PSI 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.

There are special rules for the income tax treatment of 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, see the *Personal services income schedule instructions 2007* (NAT 3421–6.2007).

Include adjustments relating to non-deductible expenses and attributed PSI at:

- **W Non-deductible expenses** item **7**
- **Q Other income not included in assessable income** item **7**

respectively.

See worksheet 1 on pages 76–77 and note 5 on page 78.

13 LICENSED CLUBS ONLY

Percentage of non-member income

Show at **A** item **13** the percentage, in whole figures, of total income attributable to non-members – that is, visitors.

14 LIFE INSURANCE COMPANIES AND FRIENDLY SOCIETIES ONLY

A life insurance company is defined for tax purposes in section 995-1 of the 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, write zero (**0**) at **B** to **F** item **14**.

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 taxable incomes of the complying superannuation class and the ordinary class are worked out separately.

Tax losses of one class can only be applied to reduce future income of the same class.

The tax rates to assist with the calculation of the gross tax amount for life insurance companies are listed at appendix 7 on page 92.

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.

If 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. Claim the amount of the excess franking tax offset that is refundable at **Z Other refundable credits** in the **Calculation statement**.

If a life insurance company receives a dividend from a listed investment company which includes a 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 **X Other deductible expenses** item **7**.

If the complying superannuation class of a life insurance company includes a distribution from a partnership or trust that claimed a deduction in respect of a LIC capital gain amount, the life insurance company must add back as income one-third of its share of the deduction claimed by the partnership or trust. Show the amount of income added back at **B** **Other assessable income** item **7**.

If the ordinary class of a life insurance company includes a distribution from a partnership or trust that claimed a deduction in respect of a LIC capital gain amount, the life insurance company must add back as income its share of the deduction claimed by the partnership or trust. Show the amount of income added back at **B** **Other assessable income** item **7**.

Note:
The special rules in the income tax law that apply to tax life insurance companies will apply to the head company of a consolidated group if that consolidated group has one or more members that are life insurance companies.

Complying superannuation class

Show at **B** the amount of taxable income of the complying superannuation class.

NOTE
If the company is a life insurance company that is not a member of a consolidated group and has complying superannuation class tax losses carried forward to later income years or virtual PST net capital losses carried forward to later income years, complete a *Losses schedule 2007*. For more information, see the *Losses schedule instructions 2007*.

The head company of a consolidated group that has one or more subsidiary members that are life insurance companies at any time during the income year is also taken to be a life insurance company for the purposes of applying the income tax law.

If the head company has tax losses of the complying superannuation class or net capital losses from virtual PST assets carried forward to later income years, it will need to complete a *Consolidated groups losses schedule 2007*. For more information, see the *Consolidated groups losses schedule instructions 2007*.

Net capital gain – complying superannuation class

Show at **C** the amount of the net capital gain that accrued from the investment of virtual PST assets.

Net capital gain – ordinary class

Show at **D** the amount of the net capital gain that is included in the ordinary class of taxable income.

Gross taxable contributions

Show at **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 the ITAA 1936.

Fees and charges

Show at **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. For further information on fees and charges, see *Taxation Ruling TR 2003/14 – Income Tax: Life insurance companies: the actuarial determination of fees and charges*.

15 POOLED DEVELOPMENT FUNDS (PDFs)

Small and medium sized enterprises (SME) income

Show at **G** item **15** the SME income component.

A PDF's SME income component is its SME assessable income less deductions allowable to the PDF for the year of income, whether those deductions relate to the SME assessable income or not. (Allowable deductions to a PDF are offset first against SME assessable income before being applied against unregulated investment income.)

SME assessable income is the sum of:
- non-CGT assessable income derived from an SME investment or derived from the disposal of an SME investment at a time when the company was a PDF, and
- the overall capital gain allocated to the SME assessable income class.

The overall capital gain allocated to the SME assessable income class is the amount of any ordinary capital gain that would otherwise arise from a CGT event at a time the company was a PDF in relation to an SME investment less:
- any ordinary capital loss for that class and
- any overall capital loss from another class of assessable income, and then
- any prior year net capital losses.

Capital gains in one class of assessable income are first reduced by capital losses in that class and then by capital losses in another class. Prior year capital losses are applied first against capital gains in the SME assessable income class.

Full-year PDF

For a company that is a PDF for the full income year, the SME income component is SME assessable income less deductions allowable to the PDF for the year of income.

Part-year PDF

A company which becomes a PDF part way through the income year and is still a PDF at the end of the income year, is taxed as a PDF from the day it became registered as a PDF to the end of the income year as if that period were an income year ('the PDF period'). The PDF component is the taxable income for the PDF period. (A company's 'PDF component' is its 'adjusted taxable income').

The SME income component of a part-year PDF is the company's SME assessable income less any deductions allowable to the company for the income year that relate to the PDF period.

Unregulated investment income

Show at **H** item **15** the unregulated investment component

Full-year PDFs

The unregulated investment component of a company that is a PDF for the full income year is worked out by deducting the company's SME income component from its taxable income for the year. The amount (if any) remaining is the company's unregulated investment component.

Part-year PDFs

The unregulated investment component of part-year PDF is worked out by deducting the company's SME income component for the year of income from its adjusted taxable income.

16 RETIREMENT SAVINGS ACCOUNT (RSA) PROVIDERS ONLY

RSA providers only are to complete **R** to **V**.

RSA providers other than life insurance companies separate the RSA component of their income and multiply the net taxable income from RSA at the appropriate rate. For information on the tax rate, see appendix 7 on page 92.

Gross income of RSAs

Show at **R** the gross income of the RSA provider that is not a life insurance company, or the total amount credited to the RSAs provided by a life insurance company.

This includes gross taxable contributions received by the RSA provider.

Gross taxable contributions of RSAs

Show at **W** all taxable contributions received by the RSA provider.

Total deductions from RSAs

Show at **T** the total deductions claimed against all income relating to gross income of RSAs.

Exempt income from RSAs

Show at **S** the amounts – other than contributions – credited to RSAs paying current pensions and annuities.

Net taxable income from RSAs

Show at **V** the RSA component of the taxable income of the RSA provider that is not a life insurance company, or the amount to be included in the complying superannuation class of the taxable income of a life insurance company that is referable to RSAs provided by the company.

17 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 liabilities and net exempt income for earlier years did not absorb all of the tax offset available to it from a previous year.

Landcare and water facility tax offset brought forward from prior years

Show at **K** the total of any landcare and water facility tax offsets carried forward and available for offset in this income year.

A company must first apply a carried forward tax offset to reduce any unused net exempt income to nil for this year or for any earlier income year in which the company had a taxable income after the year in which the tax offset arose. Net 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 the ITAA 1997 would prevent the company from deducting a tax loss for the current year.

18 INTERNET TRADING

Print **Y** for yes at **Q** item **18** 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 disk
  - 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 **Q** if the company used the internet only 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 19 TO 24 – 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

If a tax return that includes income or deductions from only the following activities is lodged in accordance with the following sections of the ITAA 1936 and does not include income or deductions from any other source, print **N** for no at **X** item **19**, **Y** item **20** and **Z** item **21**. Do not complete a *Schedule 25A 2007*.

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

If 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 **X** item **19** and **Y** item **20** in respect of overseas transactions and do not complete section A of *Schedule 25A 2007*. Answer items **21**, **22**, **23** and **24** as required.

Schedule 25A and the thin capitalisation schedule

If you need to lodge a *Schedule 25A 2007* or *Thin capitalisation schedule 2007*, see the instructions to these schedules for more information.

19 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 **X** item **19**.

'International related parties' are persons, including PEs, who are parties to international dealings that can be subject to Division 13 of the ITAA 1936 and/or the business profits article, or associated enterprises article, of a relevant DTA. 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 PE and its head office
- two PEs 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 the ITAA 1936 and section 995-1 of the 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 PE of the entity, or a non-resident 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.

If 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.

20 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 **Y** item **20**.

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 2007*, together with any other relevant part of the schedule. Attach the completed schedule to the company tax return.

21 OVERSEAS INTERESTS

Did you have an overseas branch or a direct or indirect interest in a foreign trust, foreign company, controlled foreign entity, transferor trust, foreign investment fund or foreign life policy?

Print **Y** for yes or **N** for no at **Z** item **21**.

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 the ITAA 1936.

If the answer is yes, complete section B and any other relevant part of *Schedule 25A 2007*. Attach the schedule to the company tax return, and lodge it with the tax return.

The ‘interests’ in item **21** 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 an FIF or foreign life assurance policy,
- 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, or
- the entity held a direct voting percentage of 10% or more in a foreign company and under Subdivision 768-G of the ITAA 1997 it reduced a capital gain or loss it made from a CGT event happening to a share in the foreign company.

An interest in a CFC or trust may be either direct or indirect, and has the same meaning as set out in Division 3 Part X of the ITAA 1936.

An interest in an FIF or foreign life assurance policy has the same meaning as set out in section 483 of the 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 the ITAA 1936. Sections 102AAJ and 102AAK of the 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.

22 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 **O** item **22**. If the answer is yes, complete a *Thin capitalisation schedule 2007*. This schedule is now available through the ELS, or 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, see appendix 3 on page 85 and the *Guide to thin capitalisation*, available on our website.

23 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 **P** item **23**.

Assessable foreign income is all income sourced from overseas, and includes interest, dividends, attributable foreign income, and foreign sourced capital gains.

24 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 **I** item **24**.

The specified countries are in table 14:

TABLE 14 SPECIFIED COUNTRIES

Andorra	Cook Islands	Liechtenstein	Samoa
Anguilla	Cyprus	Malta	San Marino
Antigua & Barbuda	Dominica	Marshall Islands	Seychelles
Aruba	Gibraltar	Mauritius	St Kitts and Nevis
Bahamas	Grenada	Monaco	St Lucia
Bahrain	Guernsey	Montserrat	St Vincent and the Grenadines
Belize	Isle of Man	Nauru	Turks and Caicos Islands
Bermuda	Jersey	Netherlands Antilles	US Virgin Islands
British Virgin Islands	Labuan	Niue	Vanuatu
Cayman Islands	Liberia	Panama	

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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 the company must pay or we will refund.

We use the information you provide at certain labels of the **Calculation statement** to calculate the Commissioner's instalment rate and the Commissioner's instalment amount 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 we calculate result in a reliable estimate of your tax payable for the 2007–08 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 (**G Total of D** and **E**, and **R Total** of **T**, **V**, **I**, **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.

> **NOTE**
> Labels **A**, **B**, and **S** must be completed.

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 – foreign resident withholding	I	.00
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 D and E**	G	:	
	Tax payable		:	
Add:	Section 102AAM interest	H	:	
Less:	**Total of T, V, I, 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 company, taxable income equals assessable income derived from all sources less allowable deductions incurred in gaining that income.

If the company is a non-resident company, 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 **A** the amount of taxable income of $1 or more. This is the amount shown at **T Taxable income or loss** item **7**.

Print zero (**0**) at **A** if the company has no taxable income or has a loss amount shown at **T Taxable income or loss** item **7** with **L** in the box at the right of the amount.

Public trading trusts and corporate unit trusts show net income at **A**.

Gross tax

Show at **B** the amount of tax payable before the allowance of any rebates/tax offsets, credits or FDT offsets.

The tax rates applicable to companies are listed at appendix 7 on page 92.

Rebates/tax offsets

Show at **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 **C** include:

- ETO
- 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, the amount recorded at **J Franking credits** item **7** and the amount recorded at **C Australian franking credits from a New Zealand company** item **7**. If 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

- 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 to approved resident lenders for infrastructure borrowings – see appendix 5 on page 87

Do **not** show at **C**:
- amounts of the intercorporate dividend rebate as this is no longer available
- any foreign tax credit – show this tax offset at **D Foreign tax credits**
- any FDT offset – show this amount at **E Franking deficit tax offset**
- any R&D tax offset – show this amount at **U R&D tax offset**.

The rebates/tax offsets shown at **C** will not be refunded nor can they be carried forward – they are only offset against gross tax. If the total of rebates/tax offsets is more than the amount at **B Gross tax**, reduce the amount at **C** so that it equals the amount at **B**. The aggregate amount at **C** cannot exceed **B Gross tax**.

The following tax offsets are subject to refundable tax offset rules:
- R&D tax offset
- film tax offset under Division 376 of the 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 **U R&D tax offset** and the excess of other refundable tax offsets at **Z Other refundable credits** and not at **C**.

Record keeping

Keep a record of the following:

for each type of tax offset:
- the amount claimed for each type

for franking tax offsets:
- 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 the 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.

Tax assessed

B Gross tax less **C Rebates/tax offsets** equals the amount at **Tax assessed**. This cannot be a negative amount – see **Rebates/tax offsets** on the previous page.

Foreign tax credits

Show at **D** allowable foreign tax credits.

The company may be able to claim a foreign tax credit for foreign tax it has paid on foreign income, as well as certain types of income or profits or gains, only if the conditions in section 160AF of the ITAA 1936 are satisfied. The certain types of income or profits or gains are those that are derived from a source covered by an international tax sharing treaty to the extent that income is taxable in Australia.

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 that income, profit or gain

where it includes that income, profit or gain in 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 income, profit or gain.

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 the ITAA 1936.

Note specifically the following key points:
- Subsection 160AF(7) of the ITAA 1936 requires the quarantining of foreign income into its four categories – passive income, offshore banking income, section 27CAA of the ITAA 1936 income and other income. You must calculate foreign tax credits separately for each

class of foreign income. You can only apply an allowable foreign tax credit arising from a particular class of foreign income against that class of foreign income.

- You cannot claim a foreign tax credit for amounts of foreign income included under section 459A of the ITAA 1936.
- You cannot claim a foreign tax credit in certain circumstances where there has been a refund of foreign tax or benefit in respect of the payment of foreign tax – see subsection 6AB(5A) of the ITAA 1936.
- You can only carry forward allowable excess foreign tax credits for a period of five years, you can apply them against the same class of foreign income and you must use them in the order in which they arise – see section 160AFE of the ITAA 1936.
- Show allowable foreign tax credits for foreign tax foregone on foreign income by foreign countries under tax sparing arrangements at **D** – see subsection 6AB(5), and sections 6AC and 160AFF of the ITAA 1936.
- You may be able to claim foreign tax credits for overseas tax paid on certain shipping income – see Division 18B of Part III of the 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 *Consolidation reference manual* for additional information

The company can self-determine foreign tax credits under section 160AIA of the ITAA 1936. For more machinery provisions, see Division 19 of Part III of the ITAA 1936. For more information on how to calculate the company's allowable foreign tax credits, see the *Foreign income return form guide* or *How to claim a foreign tax credit* (NAT 2338) available on our website.

Franking deficit tax (FDT) offset

Show this amount at **E**.

Under the simplified imputation system, entities which have incurred an FDT liability may be allowed 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 is on our website.

A corporate tax entity will be entitled to apply an FDT offset to reduce its income tax liability for an income year if it satisfies the residency requirement and at least one of the following conditions:

- 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.

The FDT offset rules contain provisions that reduce the amount of FDT liability that an entity can use to offset against its income tax liability in certain circumstances. These provisions replace the franking additional tax penalty rules which operated under the former imputation system.

> **!** NOTE
>
> *Tax Laws Amendment (2006 Measures No. 2) Act 2006* modified the FDT offset rules to remove some unintended consequences. For further information on the application of these amendments please refer to the fact sheet *Simplified Imputation: Franking deficit tax offset* available on our website.

The FDT offset reduction will only apply for an income year in respect of franking debits in an entity's franking account arising under items 1, 3, 5 or 6 of the table in section 205-30 of the ITAA 1997, and if one of these items applies then any franking debit under item 2 of that table (relating to income tax refunds) will also be relevant. These debits usually arise as a result of having franked a distribution.

The amount of the FDT offset is reduced where the amount of the FDT liability that is attributable to those item 1, 2, 3, 5 or 6 franking debits is greater than 10% of the total amount of credits that arose in the franking account for the year. The amount of the reduction is equal to 30% of that part of the FDT liability attributable to those franking debits. For further information on the debits to the franking account that affect the amount of offset and how to calculate this amount, refer to the *Franking account tax return 2007* instructions.

There is an exception to the reduction rule for private companies with no previous income tax liability where certain conditions are met. The Commissioner also has discretion to allow the full FDT liability as an offset where the FDT liability arose due to events outside the entity's control.

To determine the amount of the FDT offset to which the company is entitled for the income year if it satisfies the residency requirement, use the following method statement:

> **!** NOTE
>
> These steps are modified in certain circumstances. See **Exclusions from the offset reduction rule** on page 73; and **Late balancing entities – special rules** on page 73 (for late balancing entities under section 205-70 of the *Income Tax (Transitional Provisions) Act 1997)*.

Step 1: Work out the amount of FDT liability that the entity has incurred in the income year.

Step 2: Did any franking debits arise in the entity's franking account under items 1, 3, 5 or 6 of section 205-30 of the ITAA 1997 for that income year?

If **yes**, go to step 3

If **no**, the FDT offset reduction does not apply. The amount of FDT liability from step 1 is the amount of the FDT offset that the entity is entitled to for the current income year. Go to step 5.

Step 3: Work out the amount of FDT liability attributable to franking debits under items 1, 2, 3, 5 and 6 for that income year.

To do this add together the opening credit balance (if any) of the franking account and any franking credits that arose in the account for the income year. Take away from this amount the total of the franking debits under items 1, 2, 3, 5 and 6.

If there is an excess of franking credits over franking debits (or they are equal), the FDT offset reduction does not apply and the amount of FDT liability from step 1 is the amount of the FDT offset that the entity is entitled to for the current income year. Go to step 5.

If there is an excess of franking debits over franking credits, this is the amount of FDT liability attributable to items 1, 2, 3, 5 and 6. Go to step 4.

Step 4: If the excess of franking debits over franking credits worked out at step 3 is less than or equal to 10% of the total franking credits that arose in the franking account for the same year, the FDT offset reduction does not apply and the amount of FDT liability from step 1 is the amount of the FDT offset that the entity is entitled to for the current year. Go to step 5.

If that excess is greater than 10% of the total franking credits that arose in the franking account for that income year, the FDT offset reduction applies as follows:

- Work out 30% of that excess. This is the reduction amount. Reduce the amount of FDT liability for that income year from step 1 by the reduction amount. This is the amount of the FDT offset that the entity is entitled to for the current year. Go to step 5.

Step 5: For each previous income year for which the entity did not meet the residency requirement, repeat steps 1–4 for that income year to work out the amount of that previous year's FDT liability that is eligible to be claimed as an offset and that has not previously been claimed as an offset.

Add up the amounts covered by this step 5 for all the previous income years in which the entity did not meet the residency requirements. Go to step 6.

Step 6: For each previous income year for which the entity did meet the residency requirement and was entitled to an FDT offset, work out the amount of any excess FDT offset. This is the amount of FDT offset that exceeded the entity's hypothetical income tax liability for that previous year (worked out as if the entity did not have an FDT offset but did have all its other tax offsets). Go to step 7.

Step 7: Add up any FDT offset amounts from steps 2, 3 or 4 (these relate to an FDT liability incurred in the 2006–07 income year) and any offsettable portions of previous year FDT amounts from steps 5 and 6. This is the total amount of FDT offset the entity is entitled to for the current income year.

Reduction in FDT that can be offset

Steps 2 to 4 in the above method statement show that the amount of the FDT offset that you can claim may be reduced in some situations. This reduced amount should equal the amount you completed at **C Offsettable portion of current year FDT** in the *Franking account tax return and instructions 2007*.

See also **Exclusions from the offset reduction rule** on page 73.

EXAMPLE 12

In the 2006–07 income year Stripe Co Ltd franked a distribution with franking credits of $13,000 (item 1 of section 205-30 of the ITAA 1997: debit to the franking account). The company's franking account showed that franking credits of $10,000 arose during the year. Stripe Co Ltd's franking account has a $3,000 deficit at the end of the income year, resulting in the company incurring an FDT liability of this amount. As the franking deficit from the item 1 debit is greater than 10% of the total franking credits that arose during the year, the offset is reduced by 30% of that portion of the deficit. Stripe Co Ltd will therefore only be able to offset $2,100 of its FDT liability of $3,000 against its current or future income tax liabilities. The remaining $900 will not be offsettable at any time.

Priority of the tax offset

The amount of the entitlement to the FDT offset is not necessarily the same as the actual amount that can be claimed this income year in the **Calculation statement** at **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 applied. 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 13

Square Co Pty Ltd has calculated that it is entitled to an FDT offset of $3,000 for its 2006–07 income year.

Square Co Pty Ltd's final tax liability for 2006–07 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	17,000	
TAXABLE INCOME		10,857	
Tax on taxable income (30%)		3,257	
Less franking tax offset		857	2,400
Less FDT offset entitlement			3,000
Excess FDT offset			600
TAX PAYABLE			0

While Square Co Pty Ltd is entitled to an amount of $3,000 FDT offset, it will only show $2,400 as the amount that can be claimed in the **Calculation statement** at **E Franking deficit tax offset**. This means that $600 of the FDT offset has exceeded the income tax liability in the 2006–07 income year. Therefore, when calculating the FDT offset for the 2007–08 income year, $600 will be included at step 6 and may be able to be offset in calculating any income tax liability (after all other tax offsets) for the 2007–08 income year.

EXAMPLE 14

For the 2006–07 income year Circle Co has:

- an FDT 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 Circle Co's income tax liability to nil. Circle Co will be entitled to the remaining $60,000 of 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 **E**, complete **B Gross tax**, **C Rebates/tax offsets**, **D Foreign tax credits**, **U R&D tax offse**t and **Z Other refundable credits** if applicable.

To calculate the amount to include at **E Franking deficit tax offset** use the following steps:

- Add up any amounts you have at **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 shown at **B Gross tax**, the company is not eligible to claim an amount of FDT offset at **E**. This amount will be carried forward to the next income year in which the company satisfies the residency requirement.
- If these offsets total less than the amount shown at **B Gross tax**, the company is entitled to an FDT offset at **E** equal to the lesser of:
  – its FDT offset entitlement, and
  – the difference between the gross tax and those offset amounts.

EXAMPLE 15

Triangle Co has the following amounts entered in its *Company tax return 2007*:

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 an FDT offset of $150 for 2006–07.		

As **C** and **U** ($1,300) are greater than the amount of gross tax at **B** ($1,000), the total amount of tax payable or refundable will be determined by applying the **R&D tax offset** at **U** of $500 against **Tax assessed** of $200. This will result in an amount refundable of $300 that is shown at **S Total amount of tax refundable.** Triangle Co cannot claim any of the $150 FDT offset at **E** in the 2006–07 income year. Triangle Co will carry forward this amount to the next income year and include it in working out the amount to include at **E Franking deficit tax offset** in the **Calculation statement** in its *Company tax return 2008*.

Exclusions from the offset reduction rule

Private companies with no previous income tax liability

For the 2004–05 and later income years, the FDT offset reduction rule will not apply if:

(a) the entity is a private company for the relevant year, and
(b) the company has not had an income tax liability for any income year before the relevant year, and
(c) if the company did not have the tax offset (but had all its other tax offsets) it would have had an income tax liability for the relevant year, and
(d) the amount of the liability referred to in paragraph (c) is at least 90% of the amount of the deficit in the company's franking account at the end of the relevant year.

Commissioner's discretion where deficit was outside the entity's control

The Commissioner has a discretion to allow the full tax offset where an FDT liability arose due to circumstances which were outside the entity's control.

For more information on the application of these exclusions see the fact sheet *Simplified imputation: Franking deficit tax offset*, available on our website. Entitlement to the full offset resulting from one of the exclusions mentioned above should have been claimed on the *Franking account tax return 2007* by inserting the code **F**, **P** or **C** in the box in Part A. If you did not do this you will need to request an amendment to that return in order to receive the full offset.

Late balancing entities – special rules

There are special rules that apply to calculate the amount of an FDT offset for late balancing entities where:

- the 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, and
- the entity ceases to be a franking entity (or joins a consolidated group) between 30 June and the end of its income year.

These rules ensure the 30% reduction works appropriately for these entities. For more information on these special rules for late balancing entities, see the fact sheet *Simplified imputation – FDT offset for late balancers*, available on our website.

> **NOTE**
>
> The amount completed at **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 2007*. See the *Franking account tax return and instructions 2007* for information on how to complete section B label **C** **Offsettable portion of current year FDT**.

Total of D and E

The amount calculated at **G** is not refundable – it can only reduce **Tax assessed**.

Add the amounts shown at **D** and **E**.

If the total of **D** and **E** is less than or equal to the amount at **Tax assessed**, show the total at **G**.

If the total of **D** and **E** is more than the amount at **Tax assessed**, reduce the total so that the amount shown at **G** equals the amount at **Tax assessed**.

Tax payable

Take away the amount at **G** from the amount at **Tax assessed**. The amount shown at **G** must be less than or equal to the amount at **Tax assessed**. Tax payable cannot be a negative amount.

Section 102AAM interest

Show at **H** any section 102AAM interest relating to a distribution received from a non-resident trust. Section 102AAM of the ITAA 1936 imposes an interest charge on certain distributions from non-resident trusts. See chapter 2 of the *Foreign income return form guide*, available on our website.

PAYG instalments raised

Show at **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 **T** the total instalment amount either:

- the amount(s) pre-printed at **T7** on the company's quarterly activity statements or at **T5** on its annual instalment activity statement (if it used the instalment amount/s worked out by the Tax Office which it did not vary) **or**
- the amount(s) the company reported at **5A** on its activity statement(s), reduced by any credit(s) it claimed at **5B** (if it did not use the instalment amount/s worked out by the Tax Office).

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. Lodge any outstanding activity statements even if the company 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 liable for the general interest charge on 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 quarterly or annual instalments raised during the financial year. The amount recorded at the label must not include 'wash up' or residual payments.

A head company is entitled to claim credit for its own instalments plus any subsidiary member's instalments that are attributable to the period the subsidiary was a member of the consolidated group during the head company's income year.

If a subsidiary was a member of a particular consolidated group for only part of the head company's income year, the head company can claim an amount of instalment credit that can be reasonably attributed to the period the subsidiary member was part of the head company's consolidated group.

Show at **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 attributable to and 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 **V** only the calculated interest amount of 50 cents or more for early payment. Do not show actual payments.

The company may be entitled to interest if it makes an actual payment on account of certain amounts more than 14 days before the due date of payment. Amounts which may attract early payment interest include payments of:

- income tax
- shortfall interest charge
- 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
- 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.

Calculate early payments interest from the date the early payment is made to the date the amount becomes due and payable. However, if 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 if 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 2006	5.87%
Oct–Dec 2006	6.19%
Jan–Mar 2007	6.37%
Apr–Jun 2007	6.37%

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:

$$\text{Interest} = \frac{\text{Number of days}}{365^*} \times \text{amount of payment} \times \text{interest rate for period}$$

*366 for a leap year

Keep a record of the amount of early payments interest claimed. This interest is assessable income in the income year it is paid or credited against another liability.

Credit for tax withheld – foreign resident withholding

Show at **I** the total tax withheld from payments made to the company that were subject to foreign resident withholding. This includes any share of credits received by the company from a partnership or trust.

If an amount of tax withheld is shown at **I**, ensure you show the corresponding gross payment at **Income**, **B** item **6** or the corresponding gross distribution from a partnership or trust at **Income**, **D** or **E**, item **6**.

Credit for tax withheld where ABN not quoted

Show at **W** the total tax withheld from payments made to the company that were subject to withholding where an ABN was not quoted.

This amount equals the sum of the amounts shown in the relevant 'tax withheld' boxes on the *Non-individual PAYG payment summary schedule 2007*. For instructions on completing the schedule, see page 5.

Do **not** include any share of tax withheld from a partnership or trust distribution where an ABN was not quoted. This is shown at **Z** **Other refundable credits**.

If an amount of tax withheld is reported at **W**, declare the corresponding gross payment at **Income**, **A** **Gross payments where ABN not quoted**, item **6**.

Tax withheld from interest/investments

Show at **Y** any amounts withheld from investment income by an investment body because the company did not provide a TFN or ABN and which have not been refunded already to the company.

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
- date of refund
- investment reference number – for example, the bank account number of the investment relating to the refund.

R&D tax offset

Show at **U** the amount shown at **U R&D tax offset amount** in part E, item **3** of the *Research and development tax concession schedule 2007*.

Note:

- **U** is 30% of the amount shown at **Y R&D tax offset, if chosen** item **7**.
- 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 **Z**:

- the company's share of credit from a partnership or trust for tax withheld where an ABN was not quoted
- for life insurance companies – the refundable amount of franking tax offsets (including venture capital franking tax offsets and franking tax offsets arising from Australian franking credits attached to a dividend received from a New Zealand company) to the extent they relate to franked distributions paid on equity 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* 1 July 2006 to 30 June 2007 (NAT 4131) rather than the company tax return to obtain a refund
- any refundable amount of the film tax offset under Division 376 of the ITAA 1997. For more information, see *Australian film industry incentives 2007* (NAT 0954–6.2007).

Do not include at **Z** those credits included in the **Calculation statement** at **D Foreign tax credits**. Also, do not include at **Z** any amounts that relate to PAYG instalments. Include these at **T PAYG instalments raised**.

Total of T, V, I, W, Y, U and Z

Show at **R** the total of the amounts **T**, **V**, **I**, **W**, **Y**, **U** and **Z**.

Total amount of tax payable (+) or refundable (–)

Show at **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** (+), **H** (+) and **R** (–).

The amount at **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 slip. If the company has not received one, see **Payment** on page 96.

Do **not** send the company's payment with the *Company tax return 2007*.

For lodgment addresses, see page 95.

TAX AGENT'S DECLARATION

If 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 the ITAA 1936 or the *Income Tax Regulations 1936*. In case of default the public officer is 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 failure to lodge on time 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

We are committed to reducing the costs involved in complying with your taxation obligations. By completing **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.

> **!** 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 **T** **Total profit or loss** item **6** with **T** **Taxable income or loss** item **7** 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 **T** **Total profit or loss** item **6** not covered by item **7**:

- **A** **Net capital gain**
- **U** **Non-deductible exempt income expenditure**
- **J** **Franking credits**
- **C** **Australian franking credits from a New Zealand company**, and
- **D** **Accounting expenditure in item 6 subject to R&D tax concession**

are specified under **B** **Other assessable income** on this page and **W** **Non-deductible expenses** on the next page. Show the total for income-related add-back items at **B** **Other assessable income** item **7** and the total for expense-related add-back items at **W** **Non-deductible expenses** item **7**.

Subtractions from **T** **Total profit or loss** item **6** not covered by item **7**:

- **C** **Section 46FA deduction** to **V** **Exempt income**
- **R** **Tax losses deducted**, and
- **S** **Tax losses transferred in**

are specified under **Q** **Other income not included in assessable income** and **X** **Other deductible expenses** on the next page. Show the total for income-related subtraction items at **Q** and the total for expense related subtraction items at **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, for non-STS taxpayers, depreciation as per the accounts is shown at item **6** and added back in full at **W** **Non-deductible expenses** item **7**. The deduction for the decline in value of depreciating assets is listed at **F** **Deduction for decline in value of depreciating assets** item **7**.

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 – see appendix 6 (See **Note 4** on page 78 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 – see page 9	$...........
Grants received not included in accounts	$...........
Gross taxable foreign sourced income	$...........
Other assessable income not included in accounts (STS taxpayers should refer to page 21)	$...........
Total	$.................

W Non-deductible expenses

Amortisation as per accounts (including goodwill)	$...........
Borrowing costs	$...........
Capital items written off as repairs	$...........
Depreciation expenses – X item **6** (See **Note 6** and **Note 4** on pages 78–79).	$...........
Expenses to the extent to which they are not deductible	
– entertainment	$...........
– legal expenses and consultants' fees	$...........
– subscriptions and donations	$...........
– bad debts	$...........
– part of prepaid expenses not deductible this year – see **Note 1(a)** on the next page.	$...........
– spouse travel	$...........
Expenses incurred in deriving non-assessable non-exempt income	$...........
Certain expenses relating to PSI that are not deductible – see **Note 5** on the next page.	$...........
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 85.	$...........
Loss on sale of depreciating assets included in accounts – see appendix 6 on page 87. (Exclude R&D assets, see **Note 4** on the next page)	$...........
Loss on sale of other assets included in accounts	$...........
Luxury car lease payments – see appendix 6 on page 87.	$...........
Net adjustment to expenses claimed – decrease in consumable stores – see **Note 2** on the next page.	$...........
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	$...........
Unrealised losses on revaluation of assets to fair value	$...........
Other non-deductible expenses. (STS taxpayers should refer to page 34.)	$...........
Total	$................

Q Other income not included in assessable income

(income shown in the accounts that 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 that is not assessable income	$...........
Grants receivable	$...........
PSI included in the assessable income of an individual (attributed amount)	$...........
Profit on sale of depreciating assets included in accounts – see appendix 6 on page 87	$...........
Profit on sale of other assets included in accounts (including assets used for R&D)	$...........
Unrealised gains on revaluation of assets to fair value	$...........
Other income amounts in the accounts that are not assessable income (STS taxpayers should refer to page 34.)	$...........
Total	$................

X Other deductible expenses (deductible amounts not shown as expenses in the accounts)

Allowable superannuation fund payments	$...........
Deductible balancing adjustment amounts on depreciating assets – see appendix 6 on page 87. (See **Note 4** in the next column for R&D assets which are excluded.)	$...........
Deduction for certain capital expenditure incurred to terminate a lease or licence – see **Note 7** on the next page	$...........
Film industry incentive balance – see **Note 3(a)** in the next column.	$...........
Film licensed investment company deductions – see **Note 3(b)** in the next column.	$...........
Foreign exchange taxable losses – see page 9.	$...........
Interest charge	$...........
Hire purchase agreements – interest component – see appendix 6 on page 87.	$...........
Luxury car leases – accrual amount – see appendix 6 on page 87.	$...........
Mains electricity connection to land used in carrying on a business – see appendix 6 on page 87.	$...........
Net adjustment to expenses claimed – increase in consumable stores (See **Note 2** below.)	$...........
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)** below.	$...........
Tax deductible borrowing costs	$...........
Telephone line connection to land used for primary production – see appendix 6 on page 87.	$...........
Other deductible items (STS taxpayers should refer to page 34.)	$...........
Total	$................

Note 1(a)

Insert the difference between the total amount of prepaid expenses incurred in the 2006–07 income year and the amount the company is entitled to claim as a deduction in this year. See *Deductions for prepaid expenses 2007* for a detailed explanation of how to calculate the company's deduction for the 2006–07 income year.

Note 1(b)

Insert the amount of prepaid expenditure that you were not entitled to deduct in previous years, which the company is now entitled to deduct in the 2006–07 income year. See *Deductions for prepaid expenses 2007* for a detailed explanation of how the 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(a)

Film industry incentive balance. The amount shown is the excess, if any, of:

- the amount of any concession available under Division 10BA of the 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 **Q Total expenses** item **6**.

Note 3(b)

Under Subdivision 375-H of the ITAA 97, eligible taxpayers can claim a deduction for the payment for shares, in the income year in which the shares are fully paid and issued to them, in a company which has been granted a licence to raise concessional capital under the *Film Licensed Investment Company Act 2005*. Deductions are not available for shares issued after 30 June 2007.

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 **Q Other income not included in assessable income** item **7**, 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 **W Non-deductible expenses** item **7**, but at **D Accounting expenditure in item 6 subject to R&D tax concession** item **7**. The amounts shown at **B Other assessable income** item **7** do not include any amounts for assessable balancing adjustment amounts for R&D assets. Additionally, the amounts shown at **X Other deductible expenses** item **7** do not include any deductible balancing adjustment amounts for R&D assets. These balancing adjustment amounts are taken into account in Part A, item **17** in the *Research and development tax concession schedule 2007* and also in the amount at **L R&D tax concession – not including label M** item **7**. For more information, see the *Research and development tax concession schedule instructions 2007*.

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 expenses 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. See the *Personal services income schedule instructions 2007* for more information.

Note 6

Only include depreciation expenses at **W** item **7** if the company is not an STS taxpayer. However, do not include any STS pool deductions shown at **X** item **6**.

Note 7

Section 25-110 of the ITAA 1997 provides a five-year straight-line write-off for certain capital expenditure incurred to terminate a lease or licence if the expenditure is incurred in the course of carrying on a business, or in connection with ceasing to carry on a business. See the details under Change 3 in the fact sheet *Blackhole expenditure: business related expenses*.

If you have included an amount of capital expenditure incurred to terminate a lease or licence at any expense label in item **6**, include the amount at **W Non-deductible expenses** item **7**.

APPENDIXES

APPENDIX 1 COMMERCIAL DEBT FORGIVENESS

If a commercial debt owed by a company is forgiven during the income year, apply the net amount of debts forgiven 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. Similarly, where interest is not payable, the debt is still a commercial debt if interest had been charged and would have been so deductible. A commercial debt also includes a non-equity share issued by a company.

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 that time and the time the debt was incurred), and
   - the value of the debt at the time of forgiveness (assuming solvency as above and no changes in market variables) plus any amounts allowable as deductions as a result of the debt forgiveness and which are attributable to market movements that occurred whilst the debt was held. Special rules apply in calculating the notional value of non-recourse debt and in respect of debt parking circumstances – see Division 243 of the ITAA 1997 and sections 245-60 and 245-61 of Schedule 2C to the ITAA 1936.

2 Calculate the gross forgiven amount of the debt by deducting from the notional value of the debt any amount of consideration provided 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 for the forgiveness if a debt is forgiven in exchange for shares, if there are debt parking circumstances, or if money or property is applied for the benefit or at the direction of the creditor – see sections 245-65 and 245-70 of Schedule 2C to the 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
   - 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 the ITAA 1997 (former provisions dealing with value shifting through debt forgiveness).

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, or to a deduction for a bad debt, from forgiving the debt in that income year. If such an agreement is made, reduce the creditor's capital loss or the deduction otherwise allowable to the creditor, to the extent of the amount agreed on – up to the amount left after 3 above. For the company, reduce the amount remaining after 3 above by the same amount.

5 The balance remaining is the net forgiven amount of that debt. 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
- 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 you have applied the total net forgiven amount against all the amounts in a category, apply any excess, 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, disregard this excess. However, see **Related companies** on the next page 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 the company incurred in an earlier income year and which are undeducted at the beginning of the forgiveness year.

Deductible net capital losses

These are unapplied net capital losses made in income years before the forgiveness year and which could be applied in working out the debtor's net capital gain in the forgiveness year (assuming sufficient capital gains).

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 software (under former Subdivision 46-D of the ITAA 1997)
- 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 on
- 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 grape vine
- 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:

- If 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 – make the reduction 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.
- If the deduction for a particular deductible expenditure is a percentage, fraction or portion of an amount worked out after taking into account any deductions for 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.

If, as a result of the recoupment of a particular deductible expenditure, a provision of the ITAA 1936 or the ITAA 1997 applies to disallow any deductions previously allowed to the company for 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 upon 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 upon a CGT event happening to them – for example, CGT assets acquired before 20 September 1985, goodwill, trading stock or a personal use asset within the meaning of section 108-20 of the 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 from 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 – see subsection 245-190(3) of Schedule 2C to the 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 upon 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, apportion the net forgiven amount to each of the 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. In working out that company's total net forgiven amount for the income year, treat each of the companies in the group as having a net forgiven amount equal to the relevant proportion of the 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, apportion the net forgiven amount to each company in the group that has deductible net capital losses. Then apply an equivalent formula to that described in relation to deductible revenue losses to apportion the net forgiven amount of a group company among group companies with deductible net capital losses. In working out that company's total net forgiven amount for the income year, treat each of the companies in the group as having a net forgiven amount equal to the relevant proportion of the 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 under these special rules and the debtor company must apply the general rules 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 at the time 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. If 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 forgiveness year 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.

Where a commercial debt is owed by a member of a consolidated group to a non group entity, the head company is treated as the debtor for its income tax purposes. If the debt is forgiven, the head company must calculate the net forgiven amount and apply this amount to its deductible revenue losses, deductible capital losses, deductible expenditure and the cost bases of CGT assets.

Intra-group debts

One of the consequences of consolidation is that intra-group loans and intra-group dealings are not recognised for the group's income tax purposes. Where a debt owed by one consolidated group member to another is forgiven there will be no income tax consequences for the head company or the members.

APPENDIX 2 CAPITAL WORKS DEDUCTIONS

Division 43 of the ITAA 1997 provides for a system of deducting capital expenditure incurred in the construction of buildings and other capital works used to produce assessable income.

Capital works

You can deduct construction costs for the following capital works:
- buildings or extensions, alterations or improvements to a building
- structural improvements or extensions, alterations or improvements to structural improvements
- environmental protection earthworks – see appendix 6 on page 87.

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, obtain 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.

Different deduction rates apply (2.5% or 4%) depending on the date construction commenced, the type of capital works and the manner of use.

Who can claim?

The company can claim a deduction under Division 43 for an income year only if it:
- owns, leases or holds part of a construction expenditure area of capital works ('your area')
- incurred the expense or is an assignee of the lessee or holder who incurred the expense, and
- uses 'your area' to produce assessable income or in some cases for carrying on research and development (R&D) activities.

In calculating the company's deductions, 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 or holder of capital works

A lessee or holder can claim a deduction in respect of an area leased or held under a quasi-ownership right. To claim a deduction the lessee or holder must have:
- incurred the construction expenditure or be an assignee of the lessee or holder who incurred the expenditure
- continuously leased or held the capital works area itself, or leased or held the area that had been so held by previous lessees, holders or assignees since completion of construction, and
- used the area to produce assessable income, or in some cases for carrying on research and development activities.

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 research and development activities in the way set out in section 43-140 of the 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 pilings for a building.

Establishing the deduction base

You can deduct expenditure for the construction of capital works 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 – see section 43-90 of the 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 the 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.

See *Taxation Ruling TR 97/25* and *97/25A Addendum–Income tax: property development: deduction for capital expenditure on construction of income producing capital works, including buildings and structural improvements*.

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 the ITAA 1936 or the 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 – see Table 43-90 and subsection 43-75(2) of the 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 the 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 a building – other than a hotel or apartment building – used for exhibition or display in connection with the sale of all or part of any building, 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
- if it is a building – other than a hotel or apartment building – where construction began after 19 July 1982 and before 18 July 1985 and 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 any building for use wholly or mainly for, or in association with, residential accommodation

- to the extent that the company or an associate uses part of it for residential accommodation and it is not a hotel or apartment building – for exceptions to this rule, see subsection 43-170(2) of the 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.

Special rules for hotels and apartments are contained in section 43-180 of the 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 after construction is completed. 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 the ITAA 1997 deals with the deduction for capital works which began after 26 February 1992
- section 43-215 of the 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

Calculate the deduction separately for each part that meets the description of your area.

Multiply the company's construction expenditure 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. Divide that amount by the number of days in the year.

Apportion the amount if your area is used only partly to produce assessable income or for carrying on research and development activities.

The amount the company claims cannot exceed the undeducted construction expenditure.

Capital works begun after 26 February 1992

Calculate the deduction 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 the 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, you can claim a deduction for the remaining amount of undeducted construction expenditure that has not yet been deducted, less any compensation received. If the destruction or demolition is voluntary, the entitlement to a deduction is unaffected.

You can claim the deduction in the income year in which the destruction occurs.

The deduction is reduced if the capital works are used in an income year only partly for the purpose of producing assessable income or for carrying on research and development activities.

For guidelines issued by the Commissioner on these measures, see Taxation Ruling TR 97/25 and Addendum.

APPENDIX 3 THIN CAPITALISATION

The thin capitalisation provisions reduce certain expenditure (debt deductions) incurred in obtaining and servicing debt if the debt used to finance the Australian operations of a company exceeds the limits set out in Division 820 of the 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 PE, or
  - the company is foreign controlled, either directly or indirectly (see below), or
- the company is a foreign resident company and carries on business in Australia at or through a PE 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 company.

For more information, see the *Guide to thin capitalisation*, available on our website.

What if the thin capitalisation rules apply?

If the thin capitalisation rules apply, or further information is required, see the *Guide to thin capitalisation*, available on our website.

If the thin capitalisation rules apply, print **Y** for yes at item **22 Thin capitalisation**. In addition, complete the *Thin capitalisation schedule 2007* available through the electronic lodgment service (ELS), or complete the paper schedule and post it to:

Australian Taxation Office
PO Box 1365
ALBURY NSW 2640

Thin capitalisation transitional provision

Under a transitional provision you can choose to calculate your thin capitalisation position using Australian accounting standards as they existed on 31 December 2004 (section 820-45 of the *Income Tax (Transitional Provisions) Act 1997*).

If you choose to use the transitional provision, you should indicate this choice on the *Thin capitalisation schedule 2007*. For more information visit our website.

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. Show the amount denied at **W Non-deductible expenses** item **7**.

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-sized companies.

If a company is registered as a PDF part way through an income year and is still a PDF at the end of the income year, it is taxed as a PDF for the period from the date of registration to the end of the income year as if that period were an income year. The taxable income in the pre-PDF period is taxed at the rate of 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 the rate of 30%.

The SME income component of the PDF's taxable income is taxed at the rate of 15%. The SME component is the company's SME assessable income less any deductions allowable to the company for the year, whether they relate to SME assessable income or not. If the available deductions exceed the amount of SME assessable income, the excess may be applied against the unregulated investment component of the company's taxable income.

SME assessable income is income derived from, or from the disposal of, an SME investment and includes amounts which would otherwise be capital gains. An SME investment is an investment which is not an unregulated investment.

An unregulated investment is an investment by way of a loan to, deposit with or debenture of a bank, or a deposit with an authorised money market dealer.

The unregulated investment component of the PDF's taxable income is worked out by deducting the company's SME income component from its taxable income for the year. The amount (if any) remaining is the company's unregulated investment component. The unregulated investment component is taxed at the rate of 25%.

Imputation

PDFs receive franking credits in the same way as other companies, mainly from the payment of income tax and from the receipt of franked distributions. The franking credit which arises is the tax paid (at the relevant rate applicable to the taxable income of PDFs, not at the company tax rate).

PDFs make franked distributions in the same manner as other companies.

The PDF obtains venture capital credits from the payment of income tax reasonably attributable to capital gains from venture capital investments – that is, SME investments made in accordance with the *Pooled Developments Funds Act 1992*. If a PDF keeps a record of its venture capital sub-account, it can make distributions franked with venture capital credits.

If a PDF over-distributes venture capital credits during the income year, it incurs a liability to venture capital deficit tax.

Tax offset for franking credits

A PDF that receives a franked distribution must include the distribution and the franking credit attached to the distribution in its assessable income. The PDF is then entitled to a tax offset equal to the amount of franking credits included in its assessable income. This is the gross-up and tax offset rule.

Losses

Deductions for PDF tax losses are allowable only in income years in which the company is a PDF.

PDF tax losses cannot be transferred to other companies in the same group.

Non-PDF tax 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 distributions and the unfranked part of a franked distribution are exempt from tax.

The franked part of a PDF distribution is also exempt from income tax unless the shareholder elects to be taxed on it. The election is made by including the distribution (and franking credit) in assessable income. The election will apply to all franked PDF distributions derived during the income year. A corporate shareholder who receives a franked PDF distribution and who elects to include the distribution in assessable income will receive a franking credit equal to the franking credit attached to the distribution.

Special rules apply to PDF distributions franked with venture capital credits that are paid to complying superannuation funds, pooled superannuation trusts and like entities. Such entities are also entitled to a venture capital tax offset and the relevant part of the distribution is also exempt income.

The costs associated with borrowing to purchase PDF shares are not deductible to the extent the distributions are exempt from tax.

Non-resident PDF shareholders are exempt from withholding tax on PDF dividends.

PDF shares are not trading stock.

Income from selling shares in a company is exempt from income tax if the company is a PDF at the time of sale. Any capital gains or capital losses from the disposal of PDF shares are also disregarded.

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 Part III of the ITAA 1936 and chapter 3 of the *Development Allowance Authority Act 1992*.

The concession provides that the lender's interest and amounts in the nature of interest on the infrastructure borrowings are exempt. Alternatively, the lender may choose to be assessed on those amounts and claim a tax offset of 30%. The borrower's interest and amounts in the nature of interest on the infrastructure borrowings are not deductible. In addition, any profit or loss on the disposal of an infrastructure borrowings instrument is neither assessable nor deductible.

The replacement land transport facilities borrowings tax offset in Division 396 of the 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.

If the lender's interest is subject to a tax offset, the project borrower cannot claim a deduction for a comparable amount of interest.

APPENDIX 6 UNIFORM CAPITAL ALLOWANCES (UCA)

The following concepts relevant to the UCA system are referred to in this appendix:

- balancing adjustment amounts
- deduction for decline in value of depreciating assets
- deduction for environmental protection expenses
- 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, see the *Guide to depreciating assets 2007*.

> **!** 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 58.

Balancing adjustment amounts

If the company ceases to hold or to use a depreciating asset, a balancing adjustment event occurs. Calculate a balancing adjustment amount to include in the company's assessable income or to claim as a deduction. Show the assessable balancing adjustment amount for non-R&D assets at **B** **Other assessable income** item **7**. (Balancing adjustment amounts for assets used in R&D activities are taken into account in the part A, item **17** calculation in the *Research and development tax concession schedule 2007* – see **R&D tax concession – not including label M** on page 40.)

Show the deductible balancing adjustment amount for non-R&D assets at **X** **Other deductible expenses** item **7**.

If the asset was used for both taxable and non-taxable purposes, reduce the balancing adjustment amount 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. This capital gain or capital loss is included in calculating the net capital gain or net capital loss for the income year.

Show any profit or loss on the sale of a depreciating asset which has been included in the accounts of the company at either **R** **Other gross income** item **6** or **S** **All other expenses** item **6** – see **Profit on the sale of a depreciating asset** or **Loss on the sale of a depreciating asset** on page 91.

If a balancing adjustment event occurred to a depreciating asset of the company during the income year, you may also need to include an amount at **P** **Termination value of intangible depreciating assets** item **8** or at **E** **Termination value of other depreciating assets** item **8**.

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 Rulings TR 2006/5 – Income tax: effective life of depreciating assets (applicable from 1 July 2006 to 31 December 2006)* and *TR 2006/15 – Income tax: effective life of depreciating assets (applicable from 1 January 2007)*.

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) if 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 *Guide to depreciating assets 2007*.

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 impact 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. Each project has a separate project pool.

The project must be of sufficient substance and be sufficiently identified that it can be shown that the capital expenditure said to be a 'project amount' is directly connected with the project.

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.

For further guidance, see *Taxation Ruling TR 2005/4 – Income tax: capital allowances – project pools – core issues*.

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 regarded as 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.

If your project pool contains only project amounts incurred on or after 10 May 2006 and the project starts to operate on or after that date, your deduction is calculated as follows:

$$\frac{\text{Pool value x 200\%}}{\text{DV project pool life}}$$

Certain projects may be taken to have started to operate before 10 May 2006 – for example, if a project is abandoned and then restarted on or after 10 May 2006 just so deductions can be calculated using the above formula.

For other project pools, the deduction is calculated using the following formula:

$$\frac{\text{Pool value x 150\%}}{\text{DV project pool life}}$$

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 after 30 June 2003 the company ceased to have an obligation to pay foreign currency and 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 the 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.

Show the deduction at **X Other deductible expenses** item **7**. If you have included the expenditure as an expense at item **6 Calculation of total profit or loss**, also include the expenditure at **W Non-deductible expenses** item **7**.

Include any recoupment of the expenditure in assessable income at **B Other assessable income** item **7** if you have not included it at **R Other gross income** item **6**.

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 hirer can deduct the interest component 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**, include the amount at **W Non-deductible expenses** item **7**.

Include the deduction for the decline in value of the goods at **F Deduction for decline in value of depreciating assets** item **7**. Include the interest component at **X Other deductible expenses** item **7**.

Landcare operations and decline in value of water facility

Landcare operations

The company can claim a deduction in the year it incurs capital expenditure on a landcare operation for land in Australia.

Unless the company is a rural land irrigation water provider, the deduction is available to the extent the company uses the land for either:

- a primary production business, or
- in the case of rural land, carrying on a business for a taxable purpose from the use of that land – except a business of mining or quarrying.

The company may claim the deduction even if it is only a lessee of the land.

The deduction is also available to rural land irrigation water providers – that is, to entities whose business is primarily and principally the supply of water (other than by using a motor vehicle) to entities for use in primary production businesses on land in Australia or to businesses (other than mining or quarrying businesses) using rural land in Australia.

If the company is a rural land irrigation water provider, it can claim a deduction for capital expenditure it incurs on a landcare operation for:

- land in Australia that other entities – being entities supplied with water by the company – use at the time for carrying on primary production businesses, or
- rural land in Australia that other entities – being entities supplied with water by the company – use at the time for carrying on businesses for a taxable purpose from the use of that land (except a business of mining or quarrying).

A rural land irrigation water provider's deduction is reduced by a reasonable amount to reflect an entity's use of the land for other than a taxable purpose after the water provider incurred the expenditure.

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 erecting fences
- erecting fences to keep out animals from areas affected by land degradation to prevent or limit further damage and to help reclaim 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
- an alteration, addition, extension, or repair of a capital nature to an asset described in the fourth to seventh dot points, or an extension of an operation described in the first three dot points
- a structural improvement, or an alteration, addition, extension or repair of a capital nature to a structural improvement, that is reasonably incidental to levees or drainage works deductible under a landcare operation.

You cannot claim a deduction 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. If a levee is constructed primarily and principally for water conservation, it would be a water facility and not deductible under the rules for landcare operations. The decline in value would need to be worked out under the water conservation provisions – see **Water facilities** below.

Any recoupment of the expenditure would be assessable income.

Water facilities

You can claim a deduction for the decline in value of a water facility in equal instalments over three years.

A water facility is plant or a structural improvement that is primarily or principally for the purpose of conserving or conveying water, or a structural improvement that is reasonably incidental to conserving or conveying water. It also includes a repair of a capital nature, or an alteration, addition or extension, to that plant or structural improvement. Examples of water facilities include dams, tanks, tank stands, bores, wells, irrigation channels or similar improvements, pipes, pumps, water towers, and windmills.

Unless the company is an irrigation water provider, the expenditure must be incurred by the company primarily and principally for conserving or conveying water for use in its primary production business on land in Australia. The company may claim the deduction even if it is only a lessee of the land.

The deduction is reduced if the facility is not wholly used for either:

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

The deduction for water facilities is also available to irrigation water providers – that is, to entities whose business is primarily and principally the supply (other than by using a motor vehicle) of water to other entities for use in a primary production business on land in Australia.

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

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.

If the accounts show a loss on the sale of a depreciating asset under **S** **All other expenses** item **6**, include that amount at **W** **Non-deductible expenses** item **7** except to the extent it relates to assets used in R&D activities which are shown at **D** **Accounting expenditure in item 6 subject to R&D tax concession**, item **7**. Also see **Balancing adjustment amounts** on page 87.

Luxury car leases

Luxury car leasing arrangements entered into after 7.30pm (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 2006–07 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, see the *Guide to depreciating assets 2007*.

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 **F** **Lease expenses within Australia** item **6** or **I** **Lease expenses overseas** item **6**, include the amount at **W** **Non-deductible expenses** item **7**.

Include the deduction for decline in value of the luxury car at **F** **Deduction for decline in value of depreciating assets** item **7**. Include the accrual amount at **X** **Other deductible expenses** item **7**.

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.

If the accounts show a profit on the sale of a depreciating asset under **R** **Other gross income** item **6**, include that amount at **Q** **Other income not included in assessable income** item **7**. Also see **Balancing adjustment amounts** on page 87.

Section 40-880 deduction

This section provides a five year write-off for certain business-related capital expenditure provided that no other provision either takes the expenditure into account or denies a deduction.

These rules apply to business-related capital expenditure incurred after 30 June 2005. Section 40-880 previously allowed a write-off for seven specific types of business-related capital expenditure. Section 40-880 deductions are no longer limited to the seven specific types of expenditure that were previously deductible.

The company may be able to claim a deduction for capital expenditure it incurs after 30 June 2005:

- in relation to its business
- in relation to a business that used to be carried on – such as capital expenses incurred in order to cease the business
- in relation to a business proposed to be carried on – such as the costs of feasibility studies, market research or setting up the business entity

- as a shareholder, beneficiary or partner to liquidate or deregister a company or to wind up a trust or partnership – the company, trust or partnership must have carried on a business.

If the company incurs expenditure in relation to its existing business or a business that it used to or proposes to carry on, the expenditure is deductible to the extent the business is, was or is proposed to be carried on for a taxable purpose.

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

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

The deduction cannot be claimed by the company for capital expenditure to the extent to which it:

- can be deducted under another provision
- forms part of the cost of a depreciating asset the company holds, held or will hold
- forms part of the cost of land
- relates to a lease or other legal or equitable right
- would be taken into account in working out an assessable profit or deductible loss
- would be taken into account in working out a capital gain or a capital loss
- would be specifically not deductible under the income tax laws if the expenditure was not capital expenditure
- is specifically not deductible under the income tax laws for a reason other than the expenditure is capital expenditure
- is incurred in relation to gaining or producing exempt income or non-assessable non-exempt income
- is excluded from the cost or cost base of an asset because, under special rules in the UCA or CGT regimes respectively, the cost or cost base of the asset was taken to be the market value
- is a return of or on capital (for example, dividends paid by companies) or a return of a non-assessable amount (for example, repayments of loan principal).

The company deducts 20% of the expenditure in the year it is incurred and in each of the following four years.

APPENDIX 7 COMPANY TAX RATE

The following rates of tax apply to companies for the 2006–07 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	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.	
■ SME income component	15
■ unregulated investment component	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 the ITAA 1936 did not apply and Division 9 of Part III of the 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

APPENDIX 8 FOREIGN COUNTRY CODES

Note: Guernsey, Jersey and Isle of Man each have a separate country code

Country	Code
Afghanistan	AFG
Aland Islands	ALA
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	AUT
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 Herzegovina	BIH
Botswana	BWA
Bouvet Island	BVT
Brazil	BRA
British Indian Ocean Territory	IOT
British Virgin Islands	VGB
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, Democratic Republic of (was Zaire)	COD
Congo, People’s Republic of	COG
Cook Islands	COK
Costa Rica	CRI
Côte D’Ivoire (Ivory Coast)	CIV
Croatia (Hrvatska)	HRV
Cuba	CUB
Cyprus	CYP
Czech Republic	CZE
Denmark	DNK
Djibouti	DJI
Dominica	DMA

Country	Code
Dominican Republic	DOM
East Timor (Timor Leste)	TLS
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
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 McDonald Islands	HMD
Holy See (Vatican City State)	VAT
Honduras	HND
Hong Kong	HKG
Hrvatska (Croatia)	HRV
Hungary	HUN
Iceland	ISL
India	IND
Indonesia	IDN
Iran	IRN
Iraq	IRQ
Ireland	IRL
Isle of Man, The	IMN
Israel	ISR
Italy	ITA
Ivory Coast (Côte D'Ivoire)	CIV
Jamaica	JAM
Japan	JPN
Jersey	JEY
Jordan	JOR
Kazakhstan	KAZ
Kenya	KEN
Kiribati	KIR
Korea, Democratic People's Republic of (North Korea)	PRK
Korea, Republic of (South Korea)	KOR
Kuwait	KWT
Kyrgyzstan	KGZ
Laos	LAO
Latvia	LVA
Lebanon	LBN
Lesotho	LSO

Country	Code
Liberia	LBR
Libya	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	MDA
Monaco	MCO
Mongolia	MNG
Montenegro	MNE
Montserrat	MSR
Morocco	MAR
Mozambique	MOZ
Myanmar (was Burma)	MMR
Namibia	NAM
Nauru	NRU
Nepal	NPL
Netherlands, The	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
North Korea	PRK
Norway	NOR
Oman	OMN
Pakistan	PAK
Palau	PLW
Palestinian Territory, Occupied	PSE
Panama	PAN
Papua New Guinea	PNG
Paraguay	PRY
Peru	PER
Philippines	PHL
Pitcairn Island	PCN
Poland	POL
Portugal	PRT
Puerto Rico	PRI
Qatar	QAT
Reunion	REU
Romania	ROU
Russian Federation	RUS
Rwanda	RWA
St Helena	SHN
St Kitts and Nevis	KNA
St Lucia	LCA
St Pierre and Miquelon	SPM

Country	Code
St Vincent and The Grenadines	VCT
Samoa	WSM
San Marino	SMR
Sao Tome and Principe	STP
Saudi Arabia	SAU
Senegal	SEN
Serbia	SRB
Seychelles	SYC
Sierra Leone	SLE
Singapore	SGP
Slovakia (Slovak Republic)	SVK
Slovenia	SVN
Solomon Islands	SLB
Somalia	SOM
South Africa	ZAF
South Georgia and the South Sandwich Islands	SGS
South Korea	KOR
Spain	ESP
Sri Lanka	LKA
Sudan	SDN
Suriname	SUR
Svalbard and Jan Mayen Islands	SJM
Swaziland	SWZ
Sweden	SWE
Switzerland	CHE
Syria	SYR
Taiwan	TWN
Tajikistan	TJK
Tanzania, United Republic of	TZA
Thailand	THA
Timor-Leste (East Timor)	TLS
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
United States Virgin Islands	VIR
Uruguay	URY
Uzbekistan	UZB
Vanuatu	VUT
Vatican City State (Holy See)	VAT
Venezuela	VEN
Vietnam	VNM
Wallis and Futuna Islands	WLF
Western Sahara	ESH
Yemen	YEM
Zambia	ZMB
Zimbabwe	ZWE
Other countries NEC	NEC

NEC means not elsewhere covered

LODGMENT

Below is the Tax Office postal address for lodgment of the company tax return and any other correspondence. If an *Interposed entity election 2007* is attached to the company tax return, send the tax return and the election to the postal address on page 18:

Australian Taxation Office
GPO Box 9845
IN YOUR CAPITAL CITY

The address must appear as shown above.

Do not post payments to this address; for payment information see **Payment options** on page 96.

If you wish to write to the Tax Office send your correspondence to:

Australian Taxation Office
GPO Box 9990
SYDNEY NSW 2001

PAYMENT

Payment options

You can make payments by several different methods. We prefer to receive payments by electronic means. Payments can be made electronically by **BPAY®**, direct debit or direct credit. However, payments can also be posted to us or made at Australia Post outlets.

Payments cannot be made in person at a Tax Office branch or shopfront. We **do not accept** payment by credit card.

BPAY® allows you to transfer funds electronically from your cheque or savings accounts to the Tax Office using your financial institution's phone or internet banking service. You can make most tax payments by using BPAY.

Quote the Tax Office biller code (**75556**) and use your EFT code as the customer reference number. Your EFT code is the string of numbers found immediately above the barcode on your payment slip. This slip is included in the reminder letter we sent you about the due date for income tax payment and lodgment of your tax return.

Your EFT code is also provided on the 'Payment options – details' screen (for business and tax agent portal users) or immediately below the biller code and titled EFT code, on the details screen of your ECI e-BAS (where access is available).

A receipt number is issued at the time the payment is made. Please record it for future reference.

You should check with your financial institution for processing deadlines, to ensure your payments reach us on or before the due date. BPAY payments made out of hours, on a weekend or public holiday will not reach us until the next working day.

If you need assistance locating or identifying the EFT code please phone **1800 815 886** or email **payment@ato.gov.au**

For more information about **BPAY®** payments, contact your financial institution.

® Registered to BPAY Pty Ltd ABN 69 079 137 518

Direct credit

Direct credit allows you to transfer funds electronically from your cheque or savings account using online banking facilities. To make a payment you will need the following information about us:

Bank	**Reserve Bank of Australia**
BSB no.	**093 003**
Account no.	**316 385**
Account name	**ATO direct credit account**

To ensure your payment is recorded correctly to your Tax Office account, you must record your EFT code in the direct entry system lodgment reference or in the description field. Your EFT code is the series of numbers found immediately above the bar code on your payment slip.

You should check with your financial institution for processing deadlines, to ensure your payments reach us on or before the due date. Direct credit payments made out of hours, on a weekend or public holiday will not reach us until the next working day.

For more information about direct credit payments please visit **www.ato.gov.au** or phone **1800 815 886** or email **payment@ato.gov.au**

Direct debit

Direct debit provides you with the option of having your tax liability electronically debited from a nominated financial institution account (excluding credit card accounts).

To establish a direct debit, you will need to complete and send a *Direct debit request* (NAT 2284) form to us. The form gives us permission to debit your nominated financial institution account. Forms can be printed and sent by a tax agent using ELS software, or you can order one yourself by phoning **1800 802 308**. Tax agent and business portal users can also send requests to us via the portal's messaging facility.

Send your completed request to:

	Electronic Funds Transfer Section
	Australian Taxation Office
Mail:	**PO Box 665**
	Moonee Ponds VIC 3039
Fax:	**(03) 9275 4240**

Please note that the *Direct debit request* must be signed by the account holder(s), and it must be received by us at least five working days before the first debit transaction.

For more information about direct debit payments please visit **www.ato.gov.au** or phone **1800 802 308** or email **eft-information@ato.gov.au**

Mail

Post your payment with the payment slip to the address printed on the slip.

If a payment slip is not available, you can post payments to the appropriate address below. Include your full name, address, telephone number, type of payment and ABN or TFN.

For NSW, ACT and QLD clients please send payments to:

Australian Taxation Office
Locked Bag 1793
PENRITH NSW 1793

For WA, SA, NT, TAS and VIC clients please send payments to:

Australian Taxation Office
Locked Bag 1936
ALBURY NSW 1936

Pins, staples, paper clips or adhesive tape should not be used.

Cheques and money orders should be for amounts in Australian dollars and payable to the 'Deputy Commissioner of Taxation'. They should be crossed 'not negotiable' and must not be postdated. Do not send cash through the mail.

To avoid incurring penalties for late payment you should allow sufficient time for your payment to reach us on or before the due date.

For more information about mail payments please phone **1800 815 886** or email **payment@ato.gov.au**

In person – at a post office

If you have a pre-printed payment slip with a barcode, you can pay in person at any Australia Post outlet. Photocopies of payment slips are not accepted. Payments can be made by cash, EFTPOS or cheque. Australia Post applies a $3,000 maximum limit to cash and EFTPOS payments. Cheques should be for amounts in Australian dollars and payable to the 'Deputy Commissioner of Taxation'. They should be crossed 'not negotiable' and must not be postdated. A receipt will be issued for any payment made in person at an outlet.

EFTPOS is available at most outlets. However, payments can only be made using your savings or cheque account. The amount of the payment is also limited to the daily cash withdrawal amount permitted by your financial institution.

For more information on any payment method please phone **1800 815 886** or email **payment@ato.gov.au**

ABBREVIATIONS

A$	Australian dollars
AAT	Administrative Appeals Tribunal
ABN	Australian business number
ABS	Australian Bureau of Statistics
ACN	Australian company number
ACT	Australian Capital Territory
ARBN	Australian registered business number
CFC	controlled foreign company
CGT	capital gains tax
Commissioner	Commissioner of Taxation
COT	continuity of ownership test
DDR	direct debit request
DES	direct entry system
DGR	deductible gift recipient
DTA	double tax agreement
DVS	direct value shifting
EFT	electronic funds transfer
ELS	electronic lodgment service
EPA	environmental protection activities
ETO	entrepreneurs tax offset
FBT	fringe benefits tax
FDA	foreign dividend account
FDT	franking deficit tax
FIF	foreign investment fund
FLIC	film licensed investment company
forex	foreign exchange
FTDT	family trust distribution tax
FTE	family trust election
FTP	file transfer protocol
GST	goods and services tax
GVSR	general value shifting regime
ICDR	intercorporate dividend rebate
IRUs	indefeasible rights to use telecommunications cable systems
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
OFT	over-franking tax
PAYG	pay as you go
PDF	pooled development fund
PE	permanent establishment
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
SBT	same business test
SME	small and medium enterprises
STS	simplified tax system
TAA	*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 allowances
VCDT	venture capital deficit tax
www	world wide web

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*

Taxation Determinations

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 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?*

Taxation Rulings

TR 92/18 – *Income tax: bad debts*

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 97/23 – *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 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*

TR 2003/14 – *Income tax: Life insurance companies: the actuarial determination of fees and charges*

TR 2004/9 – *Income tax: consolidation: what is meant by 'injection of capital' in section 707-325 of the* Income Tax Assessment Act 1997*?*

TR 2005/4 – *Income tax: capital allowances – project pools – core issues*

TR 2005/9 – *Income tax: record keeping – electronic records*

TR 2006/3 – *Income tax: government payments to industry to assist entities (including individuals) to continue, commence or cease business.*

TR 2006/5 – *Income tax: effective life of depreciating assets (applicable from 1 July 2006 to 31 December 2006)*

TR 2006/15 – *Income tax: effective life of depreciating assets (applicable from 1 January 2007)*

Law Administration Practice Statements

PS LA 2003/8 – *Income tax: taxation treatment of expenditure on low-cost items for taxpayers carrying on a business*

PS LA 2004/1 (GA) – *Income tax: lodgment opportunity for family trust and interposed entity elections*

PS LA 2005/2 – *Income tax: penalty for failure to keep or retain records*

PUBLICATIONS

Publications you may need to refer to when completing the company tax return are:

Application for ABN registration for companies, partnerships, trusts and other organisations (NAT 2939)

Application for refund of franking credits – endorsed income tax exempt entities and deductible gift recipients (NAT 4131)

Australian film industry incentives 2007 (NAT 0954–6.2007)

Blackhole expenditure: business related expenses (available at **www.ato.gov.au**)

Business industry codes 2007 (NAT 1827) (available at **www.ato.gov.au**)

Capital allowances schedule instructions 2007 (NAT 4089–6.2007)

Capital allowances: copyright in a film and certain licences relating to copyright in a film (available at **www.ato.gov.au**)

Capital gains tax (CGT) schedule 2007 (NAT 3423–6.2007)

Company tax return form (NAT 0656–6.2007)

Consolidated groups Losses schedule instructions 2007 (NAT 7891–6.2007)

Consolidation and market valuation (NAT 7803)

Consolidation reference manual (NAT 6835) (available at **www.ato.gov.au**)

Debt and equity tests: guide to 'at call' loans (available at **www.ato.gov.au**)

Debt and equity tests: guide to the debt and equity tests (available at **www.ato.gov.au**)

Deductions for prepaid expenses 2007 (NAT 4170–6.2007)

Development Allowance Authority Act 1992

Direct debit request (NAT 2284)

Dividend and interest schedule 2007 (NAT 8030–6.2007)

Family trust distribution tax payment advice (available at **www.ato.gov.au**)

Film Licensed Investment Company Act 2005

Foreign exchange (forex): guide to functional currency rules (available at **www.ato.gov.au**)

Foreign income return form guide 2007 (NAT 1840) (available at **www.ato.gov.au**)

Foreign investment funds guide 2007 (NAT 2130) (available at **www.ato.gov.au**)

Franking account tax return and instructions 2007 (NAT 1382–6.2007)

Fringe Benefits Tax Assessment Act 1986

General value shifting regime: overview of provisions (NAT 8366) (available at **www.ato.gov.au**)

Guide to capital gains tax 2007 (NAT 4151–6.2007)

Guide to capital gains tax concessions for small business (NAT 8384).

Guide to depreciating assets 2007 (NAT 1996–6.2007)

Guide to functional currency rules (available at **www.ato.gov.au**)

Guide to the research and development tax concession (available at **www.ato.gov.au**)

Guide to thin capitalisation (NAT 4461) (available at **www.ato.gov.au**)

How to claim a foreign tax credit 2007 (NAT 2338–6.2007)

Income Tax Assessment Act 1936

Income Tax Assessment Act 1997

Income Tax guide for non-profit organisations (NAT 7967) (available at **www.ato.gov.au**)

Income Tax (Transitional Provisions) Act 1997

Industry, Research and Development Act 1986

Interposed entity election 2007 (NAT 2788–6.2007)

Federal Register of Legislative Instruments (available at **www.frli.gov.au** or **www.ato.gov.au**)

Film Licensed Investment Company Act 2005

Life Insurance Act 1995

Losses schedule instructions 2007 (NAT 4088–6.2007)

Non-individual PAYG payment summary schedule 2007 (NAT 3422–6.2007)

PAYG withholding from interest, dividend and royalty payments paid to non-residents – annual report (NAT 7187)

Personal services income schedule instructions 2007 (NAT 3421–6.2007)

Pooled Development Funds Act 1992

Private ruling application form (non-tax professionals) (NAT 13742)

Private ruling application form (tax professionals) (NAT 13043)

Research and development tax concession schedule instructions 2007 (NAT 6709–6.2007)

Schedule 25A instructions 2007 (NAT 2639–6.2007)

Simplified imputation: Franking deficit tax offset (available at **www.ato.gov.au**)

Simplified imputation: FDT offset for late balancers (available at **www.ato.gov.au**)

Strata title body corporate tax return 2007 (NAT 4125–6.2007)

Tax Laws Amendment (2006 Measures No. 2) Act 2006

Taxation Administration Act 1953

Taxation Statistics (available at **www.ato.gov.au**)

The simplified tax system – a guide for tax agents and small businesses (NAT 6459)

Thin capitalisation schedule and explanatory notes 2007 (NAT 6458-6.2007)

Venture capital deficit tax return 2007 (NAT 3309–6.2007)

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

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TAX OFFICE SHOPFRONTS

- For collection of publications, return forms and schedules.

> **NOTE**
> Staff at our shopfronts are not trained to help with business tax returns – please phone one of our infolines if you have any business-related enquiries.

AUSTRALIAN CAPITAL TERRITORY

Canberra
Ground Floor Ethos House
28–36 Ainslie Avenue

NEW SOUTH WALES

Albury
567 Smollett Street

Chatswood
Shop 43 Lemon Grove Shopping Centre
441 Victoria Avenue

Hurstville
1st Floor MacMahon Plaza
14–16 Woodville Street

Newcastle
266 King Street

Parramatta
Ground Floor Commonwealth Offices
2–12 Macquarie Street

Sydney
2 Lang Street

Wollongong
93–99 Burelli Street

NORTHERN TERRITORY

Alice Springs
Jock Nelson Centre
16 Hartley Street

Darwin
24 Mitchell Street

QUEENSLAND

Brisbane
280 Adelaide Street

Townsville
Stanley Place
235 Stanley Street

Upper Mt Gravatt
Ground Floor Nexus Building
96 Mt Gravatt-Capalaba Road

SOUTH AUSTRALIA

Adelaide
91 Waymouth Street

TASMANIA

Hobart
200 Collins Street

Launceston
54 Cameron Street

VICTORIA

Cheltenham
4A, 4–10 Jamieson Street

Dandenong
14–16 Mason Street

Geelong
92–100 Brougham Street

Melbourne
Level 1, Casselden Place
2 Lonsdale Street

WESTERN AUSTRALIA

Northbridge
45 Francis Street

INFOLINES

- **Business** **13 28 66**

  General business tax enquiries including GST rulings, pay as you go (PAYG) instalments and withholdings (from interest, dividends and royalties), business deductions, activity statements (including lodgment and payment), accounts and business registration (including Australian business number and tax file number)

- **Tax agents** **13 72 86**

  For inquiries from registered tax agents

- **Super Choice** **13 28 64**

  For information about choice of superannuation fund and the role of the employer

- **Tax reform** **13 24 78**

  For information about new measures for business

- **Account management** **13 11 42**

  For information about outstanding lodgment or payment obligations for activity statements, PAYG withholding, income tax or fringe benefits tax

- **Personal** **13 28 61**

  Individual income tax and general personal tax enquiries

- **Superannuation** **13 10 20**

- **Fax** **13 28 60**

  To get information about business, tax reform, superannuation, excise duty, fuel schemes, non-profit organisations or personal tax sent to your fax machine, phone **13 28 60** and follow the instructions.

OTHER SERVICES

- **Translating and Interpreting Service** **13 14 50**

  If you do not speak English well and want to talk to a tax officer, phone the Translating and Interpreting Service for help with your call.

- **Hearing or speech impairment**

  If you are deaf or have a hearing or speech impairment, you can phone the Tax Office through the **National Relay Service**:

  – If you are a TTY or modem user, phone **13 36 77** and ask for the number you want. For 1800 free call numbers, phone **1800 555 677** and ask for the number you want.

  – If you are a voice-only (speak and listen) user, phone **1300 555 727** and ask for the number you want. For 1800 free call numbers, phone **1800 555 727** and ask for the number you want.

FEEDBACK

Reader feedback helps us to improve the information we provide. If you have any feedback about this publication, please write to:

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Publishing Coordination
Marketing and Education
Micro Enterprises and Individuals
Australian Taxation Office
PO Box 900
CIVIC SQUARE ACT 2608

As this is a publications area only, any tax matters will be passed on to a specialist technical area; alternatively you can phone our Business Infoline on **13 28 66** for help.

Company tax return instructions 2007