GENERAL	TAXPAYERS WITH PREPAID EXPENSES	GUIDE	NAT 4170–6.2005
SEGMENT	AUDIENCE	FORMAT	PRODUCT ID

Australian Government
Australian Taxation Office

Deductions for prepaid expenses 2005

To help you complete your tax return for 1 July 2004–30 June 2005

Covers both non-business and business prepaid expense deductions for all types of taxpayers

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

OUR COMMITMENT TO YOU

The information in this publication is current at May 2005.

In the taxpayers' charter we commit to giving you information and advice you can rely on.

If you try to follow the information contained in our written general advice and publications, and in doing so you make an honest mistake, you won't be subject to a penalty. However, as well as the underpaid tax, we may ask you to pay an interest charge.

We make every effort to ensure that this information and advice is accurate. If you follow our advice, which subsequently turns out to be incorrect, or our advice is misleading and you make a mistake as a result, you won't be subject to a penalty or an interest charge although you'll be required to pay any underpaid tax.

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

YOUR RIGHTS

It is important that you are aware of your rights and obligations when dealing with the Tax Office.

When we make a decision about your tax affairs, we will tell you about your rights and obligations in relation to that decision. We will also give you contact details in case you have any queries or need more information.

There is information under 'Your rights' on the Tax Office website at **www.ato.gov.au** To get a printed copy of the *Taxpayers' charter – what you need to know* (NAT 2548), phone our distribution service on **1300 720 092**.

HOW SELF-ASSESSMENT AFFECTS YOU

Self-assessment means the Tax Office uses the information you give on your tax return to work out your refund or tax debt. You are required by law to make sure you have shown all your assessable income and claimed only the deductions and tax offsets to which you are entitled. The Tax Office does not take any responsibility for checking the accuracy of the details you provide in your tax return. However, at a later date the Tax Office may examine the details contained in your tax return more thoroughly by reviewing specific parts, or by conducting an audit on your tax affairs.

What are your responsibilities?

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

What if you lodge an incorrect tax return?

Our audit programs are designed to continually check for missing, inaccurate or incomplete information. If you become aware that your tax return is incorrect, you must contact us straight away.

Initiatives to complement self-assessment

There are a number of initiatives administered by the Tax Office which complement self-assessment. Examples include:

- if you take reasonable care with your tax affairs, you will not receive a penalty for honest mistakes – but please note that an interest charge on omitted income or over-claimed deductions and tax offsets could still be payable
- the process for applying for private rulings
- your entitlement to interest on early payment or over-payment of a tax debt
- the process for applying for an amendment if you find you have left something out of your tax return.

Do you need to ask for a private ruling?

If you are concerned about the way a tax law applies to your personal tax affairs, you can ask for a private ruling by completing an *Application for a private ruling for individuals* (NAT 4106–3.2001). You should lodge your tax return by the due date, even if you are waiting for the reply to your application. You may need to request an amendment to your tax return once you have received the private ruling.

We publish all private rulings on our website. What we publish will not contain anything that could identify you. For more information on private rulings, including application forms, visit the Tax Office website at **www.ato.gov.au**

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ABOUT THIS GUIDE

Deductions for prepaid expenses 2005 explains how to work out deductions for expenses you incur for things to be done in a later income year.

WHO SHOULD USE THIS GUIDE?

Individuals and businesses can use this guide to work out their deductions for prepaid expenses, which are then claimed at the appropriate item on the tax return.

PUBLICATIONS AND SERVICES

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

GENERAL INFORMATION ABOUT PREPAID EXPENSES

01

WHAT IS A PREPAID EXPENSE?

A prepaid expense is expenditure you incur for things to be done (in whole or in part) in a **later** income year.

If you incur expenditure for something to be done in full within the **same** income year, it is not a prepaid expense and the prepayment rules do not apply.

EXAMPLE: Expenditure that is not a prepaid expense

Jasmin is a solicitor. On 1 July 2004, she paid $1,500 for an annual subscription for the monthly provision of a professional journal. The subscription covers the period 1 July 2004 to 30 June 2005. Because the thing to be done under the agreement – the provision of the professional publication – will be completed wholly within the expenditure year, the prepayment rules will not apply.

WHAT ARE THE PREPAYMENT RULES?

Generally, a prepaid expense is deductible over the eligible service period, or 10 years if that is less, rather than being immediately deductible. However, a prepaid expense may be immediately deductible if:

- it is excluded expenditure
- the 12-month rule applies, or
- it relates to a pre-Review of Business Taxation (RBT) obligation.

The prepayment rules **only** apply to expenditure deductible under the **general deduction provisions** or under the **research and development provisions** (see page 4).

Special rules apply to prepayments under tax shelter arrangements (see chapter 2) and for certain prepaid expenditure under plantation forestry managed agreements (see chapter 3).

WHAT IS THE ELIGIBLE SERVICE PERIOD?

The eligible service period is the period during which the thing is to be done under the agreement in return for the expenditure.

The eligible service period begins on the day the thing under the agreement begins to be done or on the day the expenditure is incurred, whichever is later. The eligible service period continues until the end of the last day the thing under the agreement ceases to be done or 10 years, whichever is earlier.

EXAMPLE: Eligible service period

Mike runs a delicatessen from leased premises. On 1 December 2004, Mike made a lease payment to cover the period 1 December 2004 to 30 November 2005. The eligible service period for this expenditure therefore started on 1 December 2004 and will end on 30 November 2005, a period of 365 days.

Mike's income year ends on 30 June of each year. As the thing to be done under the agreement (the provision of premises by the lessor) is not wholly done within the expenditure year, the prepayment rules will apply.

WHAT IS EXCLUDED EXPENDITURE?

Certain types of expenditure are excluded from the prepayment rules. These are:

- amounts of less than $1,000
- amounts required to be paid by a Commonwealth, state or territory law or by a court order
- payments of salary or wages (under a contract of service)
- amounts that are capital, private or domestic in nature, and
- certain amounts incurred by a general insurance company in connection with the issue of policies or the payment of reinsurance premiums.

EXAMPLE: Amount required to be paid under a state law

John operates a cartage business and paid $1,200 on 31 December 2004 to register his truck for 12 months from 1 January 2005 to 31 December 2005. The truck is used exclusively for business purposes. Although the registration fee is over $1,000 and it covers a period spreading across more than one income year, it is excluded expenditure. This is because it is required to be paid under a state or territory law. The prepayment rules do not apply to this type of expenditure and the fee is deductible in the year it is paid.

WHAT IS THE 12-MONTH RULE?

If you are a simplified tax system (STS) taxpayer, or an individual incurring deductible non-business expenditure, you can claim an immediate deduction under the 12-month rule for prepaid expenditure if the payment is incurred for an eligible service period not exceeding 12 months and the eligible service period ends in the next income year. For more information on STS taxpayers, see chapter 5, and on deductible non-business expenditure incurred by individuals, see chapter 4.

Prepaid expenditure incurred under certain managed investments (tax shelter arrangements) is not eligible for the 12-month rule. For information about tax shelter arrangements, see chapter 2.

Certain prepaid expenditure incurred under an investment in a plantation forestry managed agreement is eligible for the 12-month rule. For more information, see chapter 3.

If the 12-month rule does not apply, your deduction for prepaid expenditure is apportioned over the eligible service period or 10 years, whichever is less.

WHAT IS A PRE-RBT OBLIGATION?

A pre-RBT obligation is any contractual obligation that:

- exists under an agreement at or before 11.45am (by legal time in the ACT) on 21 September 1999 – the date of the Government's release of the Review of Business Taxation (RBT)
- requires you to make a prepayment in return for something to be done under the agreement, and
- cannot be avoided by your own actions.

The rules for deducting prepaid expenses incurred under a pre-RBT obligation are the same as those for taxpayers who are in the simplified tax system (STS) – see chapter 5.

GENERAL DEDUCTION PROVISIONS AND THE RESEARCH AND DEVELOPMENT PROVISIONS

The prepayment rules **only** apply to expenditure which would otherwise qualify for immediate deduction under the **general deduction provisions** of section 8-1 of the *Income Tax Assessment Act 1997* (ITAA 1997) or, for eligible companies, under the **research and development provisions** in sections 73B, 73BA, 73BH or 73Y of the *Income Tax Assessment Act 1936* (ITAA 1936).

The general deduction provisions generally allow you to deduct from your assessable income any loss or outgoing incurred in gaining or producing your assessable income, or incurred in carrying on a business.

You cannot claim a deduction under these provisions for expenditure of a capital, private or domestic nature, or expenditure incurred in gaining exempt income.

If the expenditure is deductible under a specific deduction provision of the tax law **other than** those for research and development (that is, other than sections 73B, 73BA, 73BH or 73Y of the ITAA 1936), the prepayment rules do not apply.

NOTE

Unless specifically stated otherwise, the terms 'expense' and 'expenditure' used throughout this guide refer to expenditure that is only allowable as a deduction under the general deduction provisions of section 8-1 of the ITAA 1997 or, for eligible companies, under the research and development provisions in sections 73B, 73BA, 73BH or 73Y of the ITAA 1936.

TRANSITIONAL RULES – RESIDUAL APPLICATION

Transitional rules apply to certain prepayments that are not immediately deductible under the prepayment rules.

The concessional treatment available under the transitional rules applied to expenditure incurred during the four income years beginning with the income year that included 21 September 1999 (usually the 1999–2000 income year), as long as the eligible service period ended not more than 13 months after the expenditure was incurred.

The transitional rules automatically expired in the first income year starting after the year of income that included 21 September 2002 (usually the 2003–04 income year).

If you were entitled to deduct 20% of the capped later year amount of a prepayment in 2002–03 under the transitional rules, the balance (80%) of that amount was deductible in 2003–04.

If part of the prepaid expenditure was not deductible as a current year amount in 2002–03 or as a proportion of the later year amount in 2002–03 and 2003–04, you can claim that residual (the excess of the later year amount over the upper limit eligible for concessional treatment) as a deduction proportionately over the eligible service period.

INVESTMENTS IN TAX SHELTER ARRANGEMENTS 02

WHAT IS A TAX SHELTER ARRANGEMENT?

You have a tax shelter arrangement in the income year in which you incur prepaid expenditure if:

- your allowable deductions attributable to the arrangement for the expenditure year exceed your assessable income from the arrangement for that year
- you do not have day-to-day control over the operation of the arrangement, and
- at least one of the following is met:
  - more than one taxpayer participates as an investor in the arrangement, or
  - the manager, arranger or promoter of the arrangement, or an associate, carries out similar activities for other taxpayers.

WHAT EXPENDITURE IS EXCLUDED FROM THE TAX SHELTER RULES?

The following prepaid expenditure is excluded from the application of the tax shelter rules:

- Premiums for building insurance, contents insurance or rent protection insurance.
- Interest on money borrowed to acquire:
  - Real property or an interest in real property.
  - Shares listed on an approved stock exchange.
  - Units in a widely held unit trust which has at least 300 beneficiaries provided the arrangement is conducted at arm's length and that you have or can reasonably expect to obtain rent, dividends or trust income. Additionally, you must not have obtained and will not obtain any other kind of assessable income (except a capital gain or insurance receipt) from the arrangement.

Also specifically excluded from the application of the tax shelter rules are:

- certain expenditure that is an allowable deduction under the infrastructure borrowing rules
- expenditure incurred under a contract (requiring prepayment for something to be done under the agreement) entered into before 1.00pm (by legal time in the ACT) on 11 November 1999 that you cannot avoid by your own actions
- expenditure under an agreement covered by a favourable Tax Office product ruling, where the ruling was made (or an application received and acknowledged by the Commissioner) before 1.00pm (by legal time in the ACT) on 11 November 1999, and
- any prepaid expenditure which is excluded expenditure – that is, an amount below $1,000, an amount required to be incurred by a law or a court order, an amount of salary or wages, or certain amounts incurred by a general insurance company in connection with the issue of policies or the payment of reinsurance premiums.

NOTE

If you incur prepaid expenditure that is not subject to the tax shelter rules because of one of the above exceptions, you must determine your deduction according to the other rules explained in this guide.

SUMMARY OF RULES

- Certain prepaid expenditure incurred under a plantation forestry managed agreement is subject to a 12-month rule. For more information, see chapter 3.
- If you invest in a tax shelter arrangement, you need to be aware that the tax shelter rules for prepayments may apply to limit your immediate deductions.
- If you prepay expenditure under a tax shelter agreement for a thing that will not be wholly done within the expenditure year and it is not covered by one of the exclusions listed above, you cannot deduct all of the expenditure in the income year in which it was incurred. The deduction must be apportioned over the eligible service period or 10 years, whichever is less.
- An agreement for a tax shelter arrangement is one that covers any activities that relate to the arrangement, including those that give rise to deductions or assessable income. For example, if you invest in a tax shelter arrangement and prepay interest on a loan from a third party to pay management fees for the tax shelter, the prepaid interest on the loan would also be subject to the tax shelter rules.

CALCULATING YOUR DEDUCTION FOR A PREPAYMENT MADE UNDER A TAX SHELTER ARRANGEMENT

Use the following formula to work out your deduction for prepaid expenditure that is affected by the tax shelter rules:

$$\text{Expenditure} \times \frac{\text{number of days of eligible service period in the income year}}{\text{total number of days of eligible service period}}$$

EXAMPLE: Investment in a tax shelter arrangement

On 30 April 2005, Marion invested in an olive grove venture. The investment has all the characteristics of a tax shelter arrangement and is not subject to any of the exceptions. Under the terms of the agreement, Marion was required to pay an initial management fee of $10,000 on 1 May 2005 to cover the provision of services over the period 1 May 2005 to 30 April 2006 (a period of 365 days). Marion made this payment on 1 May 2005. Marion is required to apportion her deduction over the 2005 and 2006 income years.

Marion calculates her deductions as follows:

2004–05

$$\$10{,}000 \times \frac{61}{365} \text{ (1 May 2005 to 30 June 2005)} = \$1{,}671$$

2005–06

$$\$10{,}000 \times \frac{304}{365} \text{ (1 July 2005 to 30 April 2006)} = \$8{,}329$$

Over the 2005 and 2006 income years, Marion is entitled to a total deduction of $10,000.

INVESTMENTS IN PLANTATION FORESTRY MANAGED AGREEMENTS 03

WHAT IS A PLANTATION FORESTRY MANAGED AGREEMENT?

You have a plantation forestry managed agreement in the year in which you incur prepaid expenditure if:

- the arrangement entered into is for the planting and tending of trees for felling
- you do not have day-to-day control over the operation of the agreement, and
- at least one of the following is met:
  - more than one taxpayer participates in the agreement, or
  - the manager, arranger or promoter of the agreement, or an associate, carries out similar activities for other taxpayers.

Agreements entered into where trees are planted for the purpose of obtaining harvest from fruit or other produce are not plantation forestry managed agreements.

WHAT PREPAID EXPENSES ARE COVERED BY THESE RULES?

These rules apply if, under an agreement, the following requirements are satisfied:

- the prepaid expenditure is incurred on or after 2 October 2001 and on or before 30 June 2006
- the eligible service period for the expenditure is 12 months or less and the 12-month period ends on or before the last day of the income year following the year in which the expenditure was incurred, and
- the expenditure is for seasonally dependent agronomic activities undertaken during the establishment period.

WHAT ARE SEASONALLY DEPENDENT AGRONOMIC ACTIVITIES?

Seasonally dependent agronomic activities include:

- ripping and mounding a plantation site
- applying fertiliser, herbicides or pesticides in conjunction with the planting
- tending seedlings prior to planting, and
- planting.

They do not include any incidental activities of an administrative nature carried out by the manager.

> **NOTE**
> See also *Taxation Determination TD 2003/12: What activities are 'seasonally dependent agronomic activities' for the purposes of section 82 KZMG of the Income Tax Assessment Act 1936?*

WHAT IS THE ESTABLISHMENT PERIOD?

The establishment period for the planting of trees starts on the day when the first seasonally dependent agronomic activity is done and ends on the later of:

- the day when the last seedling is planted under that planting program, or
- the day when any fertiliser, herbicide or pesticide is applied to seedlings under that planting program.

SUMMARY OF RULES

- If your prepaid expense is incurred for seasonally dependent agronomic activities that occur during the establishment period, it is immediately deductible under the 12-month rule if:
  - the eligible service period for the expenditure is 12 months or less, and
  - the period ends no later than the last day of the income year following the year in which the prepaid expense was incurred.
- If your prepaid expense is not incurred for seasonally dependent agronomic activities that occur during the establishment period, or the 12-month rule is not satisfied, your deduction for the expenditure is determined in accordance with either the tax shelter arrangements (see chapter 2) or the general prepayment rules (see chapter 1).

EXAMPLE: Deduction for expenditure in a plantation forestry managed agreement

Donald made a prepaid investment of $10,000 in a plantation forestry managed agreement on 1 June 2005. The prepaid activities are carried out within 12 months of the expenditure being incurred. An amount of $4,000 is for seasonally dependent agronomic activities that occur within the establishment period. This component of the prepaid expense is deductible in the 2004–05 income year.

The remaining $6,000 continues to be subject to the other prepayment rules. For example, under the rules applicable to tax shelter arrangements, the deduction for that expenditure will need to be apportioned over the eligible service period.

INDIVIDUAL TAXPAYERS INCURRING DEDUCTIBLE NON-BUSINESS EXPENDITURE 04

WHAT IS NON-BUSINESS EXPENDITURE?

Non-business expenditure is any expenditure you incur in gaining assessable income from activities that do not relate to carrying on a business. The most common forms of non-business expenditure are amounts incurred by individual taxpayers in gaining their assessable salary and wage income. Other examples include certain expenditure made for a rental property or shares held purely as a passive investment.

EXAMPLE: Non-business expenditure

Ian is employed as a bank manager and the primary source of his income is the salary received from his employer. Ian also owns a rental property from which he receives assessable income. Ian's rental property activities do not constitute the carrying on of a business. Prepaid expenditure incurred by Ian for the rental property or for work-related expenses will be subject to the prepayment rules that apply to deductible non-business expenditure incurred by an individual.

SUMMARY OF RULES INCLUDING THE 12-MONTH RULE

- Prepaid expenditure that is subject to the tax shelter rules is apportioned over the eligible service period or 10 years, whichever is less. For more information, see chapter 2.
- If you are an individual, your prepaid non-business expenditure is immediately deductible under the 12-month rule if:
  - the eligible service period for the expenditure is 12 months or less, and
  - the period ends no later than the last day of the income year following the year in which the expenditure was incurred.
- If you are an individual, you apportion your deduction for prepaid non-business expenditure over the eligible service period or 10 years, whichever is less, if the eligible service period is more than 12 months or it ends after the last day of the next income year.

CALCULATING YOUR DEDUCTION IF THE 12-MONTH RULE IS SATISFIED

If you incur prepaid non-business expenditure and its eligible service period is 12 months or less, and it ends on or before the last day of the next income year, you are entitled to deduct that expenditure in the income year it was incurred.

EXAMPLE: Deduction for non-business expenditure with an eligible service period of 12 months or less

On 1 June 2005, Jasmin, an employed solicitor, paid $1,500 for a subscription for the provision of a monthly professional journal for the period 1 June 2005 to 31 May 2006. Because the thing to be done under the agreement is wholly provided within a 12-month period ending before the last day of the next income year, Jasmin is entitled to a deduction for the expenditure in 2004–05.

CALCULATING YOUR DEDUCTION IF THE 12-MONTH RULE IS NOT SATISFIED

If you incur non-business expenditure and the eligible service period is more than 12 months or it ends after the last day of the next income year, you must use the following formula to work out your deduction:

$$\text{Expenditure} \times \frac{\text{number of days of eligible service period in the income year}}{\text{total number of days of eligible service period}}$$

EXAMPLE: Deduction for non-business expenditure with an eligible service period of more than 12 months

On 1 January 2005, Martin, a senior clerk employed by a legal firm, paid $1,250 for a subscription for the monthly provision of a professional journal to cover the period 1 January 2005 to 31 January 2006. As the eligible service period is more than 12 months, Martin must apportion his deduction over the 2005 and 2006 income years. Martin's deductions are:

2004–05

$$\$1,250 \times \frac{181}{396} \text{ (1 January 2005 to 30 June 2005)} = \$571$$

2005–06

$$\$1,250 \times \frac{215}{396} \text{ (1 July 2005 to 31 January 2006)} = \$679$$

Over the 2005 and 2006 income years, Martin will get a total deduction of $1,250.

TAXPAYERS IN THE SIMPLIFIED TAX SYSTEM 05

ARE YOU IN THE SIMPLIFIED TAX SYSTEM (STS)?

Participation in the STS is optional. Broadly speaking, you are eligible to enter the STS for an income year if:

- you carry on business in that year
- the STS average turnover of your business and related businesses for that year is less than $1 million, and
- your business and related businesses have depreciating assets with a total adjustable value of less than $3 million at the end of that year.

If you are eligible to enter the STS and wish to do so, you should make an election to that effect on your 2005 income tax return.

> For more information, see *Business and professional items instructions 2005* (NAT 2543–6.2005), *Partnership and trust tax returns instructions 2005* (NAT 2297–6.2005) or *Company tax return instructions 2005* (NAT 0669–6.2005) and the publication *The simplified tax system: a guide for tax agents and small businesses* (NAT 6459).

SUMMARY OF RULES INCLUDING THE 12-MONTH RULE

- Prepaid expenditure that is subject to the tax shelter rules is apportioned over the eligible service period or 10 years, whichever is less. For more information, see chapter 2.
- Certain prepaid expenditure incurred under a plantation forestry managed agreement is deductible under the 12-month rule if:
  - the eligible service period for the expenditure is 12 months or less, and
  - the period ends on or before the last day of the income year following the year in which the expenditure was incurred.

  For more information, see chapter 3.
- Prepaid expenditure incurred by an STS taxpayer is immediately deductible under the 12-month rule if:
  - the eligible service period for the expenditure is 12 months or less, and
  - the period ends no later than the last day of the income year following the year in which the payment was made.

  This rule, known as the 12-month rule, applies to both deductible business and deductible non-business expenditure made by an STS taxpayer. It applies to years of income commencing after 30 June 2001.
- If a prepayment does not meet the 12-month rule, you cannot claim an immediate deduction. STS taxpayers must apportion the deduction over the eligible service period or 10 years, whichever is less .

> NOTE
>
> For an STS taxpayer, you must have paid the expenditure before you can claim a deduction.

CALCULATING YOUR DEDUCTION IF THE 12-MONTH RULE IS SATISFIED

EXAMPLE: Prepaid expense that is immediately deductible

The ABC Trust is an STS taxpayer. On 1 June 2005, it made a payment of $24,000 to cover the lease of its business premises for a 12-month period commencing on 1 July 2005 and ending on 30 June 2006.

As the eligible service period for the expenditure does not exceed 12 months and ends on or before the last day of the income year following the year in which the payment was made, the prepayment satisfies the 12-month rule. The ABC Trust can therefore claim an immediate deduction of $24,000 in the 2004–05 income year.

CALCULATING YOUR DEDUCTION IF THE 12-MONTH RULE IS NOT SATISFIED

If you make a prepayment that does not satisfy the 12-month rule, you cannot claim an immediate deduction. As an STS taxpayer, you must apportion the deduction over the eligible service period or 10 years, whichever is less, using the following formula:

$$\text{Expenditure} \times \frac{\text{number of days of eligible service period in the income year}}{\text{total number of days of eligible service period}}$$

EXAMPLE: Prepaid expense where eligible service period is greater than 12 months

Tom Pty Ltd is an STS taxpayer. On 31 May 2005, it paid $15,000 for business advertising to cover the period 1 June 2005 to 30 June 2006 (395 days). Because the eligible service period is longer than 12 months, the prepayment does not satisfy the 12-month rule. Tom Pty Ltd cannot claim an immediate deduction for the prepayment. Instead, the deduction for the expenditure must be apportioned over the eligible service period as follows:

2004–05

$\$15,000 \times \frac{30}{395}$ (1 June 2005 to 30 June 2005) = $1,139

2005–06

$\$15,000 \times \frac{365}{395}$ (1 July 2005 to 30 June 2006) = $13,861

The total deduction allowed proportionately over the 2005 and 2006 income years will be $15,000.

EXAMPLE: Prepaid expense where the eligible service period is 12 months or less but ends after the last day of the next income year

Noel Pty Ltd, an STS taxpayer, was offered a 15% discount on advertising to cover the period 15 July 2005 to 14 July 2006 providing payment was made by 30 June 2005. Noel Pty Ltd accepted these conditions and paid $10,200 for these services on 30 June 2005.

Although the eligible service period is for a period of 12 months or less, the 12-month rule has not been satisfied. This is because the eligible service period does not end before the last day of the income year following the one in which the expenditure was incurred. The deduction for the expenditure must be apportioned over the eligible service period as follows:

2004–05

Nil. No part of the eligible service period occurred in this income year.

2005–06

$\$10,200 \times \frac{351}{365}$ (15 July 2005 to 30 June 2006) = $9,809

2006–07

$\$10,200 \times \frac{14}{365}$ (1 July 2006 to 14 July 2006) = $391

The total deduction allowed proportionately over the 2006 and 2007 income years will be $10,200.

NON-STS TAXPAYERS CARRYING ON A BUSINESS INCURRING DEDUCTIBLE BUSINESS EXPENDITURE 06

If you are an STS taxpayer, see chapter 5.

SUMMARY OF RULES

- If you are carrying on a business and are not an STS taxpayer, you must apportion your deduction for prepaid business expenditure over the eligible service period or 10 years, whichever is less.
- Prepaid expenditure that is subject to the tax shelter rules is apportioned over the eligible service period or 10 years, whichever is less. For more information, see chapter 2.
- Certain prepaid expenditure incurred under a plantation forestry managed agreement is deductible under the 12-month rule if:
  - the eligible service period for the expenditure is 12 months or less, and
  - the period ends on or before the last day of the income year following the year in which the expenditure was incurred.

  For more information, see chapter 3.
- If you are not an individual or an STS taxpayer, your deduction for prepaid non-business expenditure is apportioned over the eligible service period or 10 years, whichever is less.

  For more information, see chapter 7.
- If you are an individual, your prepaid non-business expenditure is immediately deductible under the 12-month rule if:
  - the eligible service period for the expenditure is 12 months or less, and
  - the period ends no later than the last day of the income year following the year in which the payment is made.

  For more information, see chapter 4.
- If you are an individual, your deduction for prepaid non-business expenditure is apportioned over the eligible service period or 10 years, whichever is less, if the eligible service period is more than 12 months or it ends after the last day of the next income year. For more information, see chapter 4.

TAXPAYERS, OTHER THAN INDIVIDUALS AND STS TAXPAYERS, INCURRING DEDUCTIBLE NON-BUSINESS EXPENDITURE 07

If you are an individual taxpayer, see chapter 4.

If you are an STS taxpayer, see chapter 5.

Non-business expenditure is any expenditure you incur in gaining assessable income from activities that do not amount to a business. For an entity carrying on a business, there may be occasions when you incur deductible non-business expenditure – for example, if you incur expenditure for a rental property held as a passive investment.

SUMMARY OF RULES

- If you are not an individual or an STS taxpayer, your deduction for prepaid non-business expenditure is apportioned over the eligible service period or 10 years, whichever is less.
- Prepaid non-business expenditure that is subject to the tax shelter rules is apportioned over the eligible service period or 10 years, whichever is less. For more information, see chapter 2.

MORE INFORMATION

INTERNET

- For up-to-date and comprehensive information about deductions and to download publications, rulings and general tax information, visit **www.ato.gov.au**

INFOLINES

We can offer a more personalised service if you provide a tax file number.

- **Personal tax** **13 28 61**
  Individual income tax and general personal tax enquiries, including capital gains tax
- **Business tax** **13 28 66**
  General business tax enquiries including capital gains tax, GST rulings, Australian business number (ABN), pay as you go (PAYG) instalments, business deductions, activity statements (including lodgment and payment), accounts and business registration (including Australian business number and tax file number), dividend and royalty withholding tax
- **Superannuation** **13 10 20**
- **Fax** **13 28 60**
  Get information faxed to you about individual taxes and the repayment of debts under the Higher Education Contribution Scheme (HECS), the Higher Education Loan Programme (HELP) and the Student Financial Supplement Scheme (SFSS). Phone **13 28 60** and follow the instructions to order information to be faxed to you.

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.
- If you have a hearing or speech impairment and have access to appropriate TTY or modem equipment, phone **13 36 77**
  If you do not have access to TTY or modem equipment, phone the
  Speech to Speech Relay Service **1300 555 727**

PUBLICATIONS

Publications referred to in this guide are:

- *Application for a private ruling for individuals* (NAT 4106–3.2001)
- *Business and professional items instructions 2005* (NAT 2543–6.2005)
- *Company tax return instructions 2005* (NAT 0669–6.2005)
- *Partnership and trust tax returns instructions 2005* (NAT 2297–6.2005)
- *The simplified tax system: a guide for tax agents and small businesses* (NAT 6459)
- *Taxation Determination TD 2003/12: What activities are 'seasonally dependent agronomic activities' for the purposes of section 82 KZMG of the Income Tax Assessment Act 1936?*

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