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BUSINESS AND PROFESSIONAL ITEMS

2000–01

TAXPACK REFERRED PUBLICATION

INSTRUCTIONS AND SCHEDULE

AUSTRALIAN TAXATION OFFICE

www.ato.gov.au

Contents

* new for 2001

About this publication

This publication is available free of charge from the Australian Taxation Office (ATO) which prohibits any party from selling it.

Please get help from the ATO—the Personal Tax Infoline telephone number is **13 2861**—or a tax adviser if you feel this publication does not fully cover your circumstances.

We regularly revise our publications to take account of changes to the law. As part of our commitment to produce accurate publications, taxpayers will not be penalised if it is demonstrated that a tax claim was based on wrong information contained in our publications.

For your information

If you need to complete item **13**, **14** or **15** of your tax return (supplementary section), you must fill in the *2001 business and professional items schedule* at the back of this publication. These instructions will help you to fill in the schedule. If the business or professional items that apply to you are not filled in, your tax return will be sent back to you.

The ATO publishes its rulings and other material to help taxpayers comply with their taxation obligations. We refer to a number of these publications here and it may help you to read some of them.

You can get copies of the ATO's rulings and publications by ringing 1300 720 092 for the cost of a local call* or by visiting the ATO or its Internet site at www.ato.gov.au

* Please note that calls from mobile phones are charged at mobile call rates.

How many hours did it take you to prepare and complete this schedule?

The ATO is committed to reducing the costs involved in complying with your taxation obligations. Your response to this item will help us monitor these costs as closely as possible.

Write the number of hours taken to prepare and complete this schedule at **S** in the *Taxpayer's signature* block on your schedule.

When completing this item consider the time, rounded up to the nearest hour, that you spent:
- reading the instructions
- collecting the necessary information to complete this schedule
- making any necessary calculations
- completing the schedule
- putting the tax affairs of your business in order so the information can be handed to your tax agent.

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

You need to know

Records you need to keep

You must keep records of most transactions, in English, for 5 years after you prepared or obtained them or 5 years after you completed the transactions or acts to which they relate, whichever is the later. *Taxation Ruling TR 96/7—Income tax: record keeping—section 262A—general principles* clarifies the record-keeping obligations of small businesses, particularly for cash transactions. In addition, *Taxation Ruling TR 97/21—Income tax: record keeping—electronic records* provides further information on electronic records. To find out how to get these rulings, see page 2.

The Australian Taxation Office (ATO) is helping small business operators meet their record-keeping obligations by reviewing their record-keeping practices. These reviews start with a telephone call or a brief visit to the business premises. The process is explained, you can ask questions and an interview is arranged for a later date.

Some of the more significant record-keeping problems identified by the ATO are failure to:

- record cash income and expenditure
- account for personal drawings
- record goods for your own use
- keep adequate stock records
- keep adequate records to substantiate motor vehicle claims.

For additional information, please refer to the publication *How to keep your business records* (NAT 3029—10.2000). To find out how to get this publication, see page 2, or to get a copy of the electronic record keeping package *E-record* CD-ROM, ring **13 2478**.

Hobby or business?

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

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

- has actually commenced
- has a significant commercial purpose or character
- results in a profit
- is carried out in a manner that is characteristic of the industry
- is repeated, regular or continuous
- cannot be more accurately described as a hobby.

For additional information, please read 'Are you carrying on a business' in the publication *Complete tax guide for small business* (NAT 1908—10.2000). Primary producers should also refer to *Taxation Ruling TR 97/11—Income tax: am I carrying on a business of primary production?*. To find out how to get these publications, see page 2.

Government industry payments

If they are assessable income, include payments received from all government sources at item **P8** on your *2001 business and professional items schedule*. Examples are: bounties, diesel fuel rebate, drought relief, employee subsidies, export incentive grants and Medicare payments to medical practices.

What's new

Depreciation

The situation at the time of publishing this publication is that for all taxpayers other than small business taxpayers, the immediate deduction for plant costing $300 or less has been repealed and replaced with an option to depreciate plant through a low-value pool. However, the Exposure Draft of the New Business Tax System (Capital Allowances) Bill 2000 contains a proposal to reinstate the immediate write-off for some plant costing $300 or less for certain taxpayers who use the plant predominantly to produce assessable income that is not derived from carrying on a business in the 2001 income year.

For more information about the low-value pool and other depreciation matters, refer to the *Guide to depreciation 2001* (NAT 1996—6.2001). To find out how to get this publication, see page 2.

Diesel Fuel Rebate Scheme

The Diesel Fuel Rebate Scheme has been extended to provide the full rebate to rail transport and marine transport as well as applying to all existing qualifying uses, including agriculture, fishing, forestry and mining.

Other like fuels are covered by the revised Diesel Fuel Rebate Scheme.

Grant for on-road uses of diesel and alternative fuels

In addition to the rebate for off-road activities, the Government has provided a grant in relation to certain on-road uses of diesel and alternative fuels from 1 July 2000 until 30 June 2002. Generally, the grant is available for on-road use of diesel and alternative fuels in vehicles with a gross vehicle mass of 4.5 tonnes or more, and registered for use on public roads.

To be eligible you must use the fuel in carrying on a business or other enterprise and you must be registered for the grant.

If you receive a diesel fuel rebate and/or a diesel and alternative fuels grant this year, you must include the amount in your assessable income.

For more information on the changes to diesel fuel rebate, contact the diesel fuel infoline on **1300 657 162** or visit our Internet site at **www.ato.gov.au**

Deferred non-commercial business losses

Status of business

From this year, where you have multiple business activities, the number of business activities should be shown at item **P3** in the *2001 Business and professional items schedule*. (Previously only an **X** was required in the box if you had multiple businesses.)

Non-commercial business losses

From 1 July 2000 new laws apply restricting the ability of individual taxpayers to offset losses made from non-commercial business activities against their other income. These new laws are in Division 35 of the *Income Tax Assessment Act 1997* (ITAA 1997).

Exceptions

Division 35 of ITAA 1997 will not apply to a loss made by an individual taxpayer from a business activity that is either:

- a primary production business or
- a professional arts business

if the taxpayer's assessable income (excluding any net capital gain) from sources not related to that activity is less than $40 000 for the income year.

The 4 tests

Division 35 of ITAA 1997 will also not apply if the loss is from a business activity that satisfies at least one of the following 4 tests:

- there is assessable income of at least $20 000 from the business activity
- the particular business activity has produced a profit for tax purposes in 3 out of the past 5 years (including the current year)
- the value of real property assets (excluding any private dwelling) used on a continuing basis in carrying on the business activity is at least $500 000 or
- the value of certain other assets (except cars, motor cycles and similar vehicles) used on a continuing basis in carrying on the business activity is at least $100 000.

Commissioner's discretion

In limited circumstances the Commissioner can exercise a discretion to allow the loss to be offset against other income, even though none of the 4 tests are satisfied, where either:

- the business activity has been affected by special circumstances outside the control of the operators of the activity, such as natural disasters, where the activity would have satisfied one of the tests if it were not for the special circumstances or
- the business activity is in the start-up phase and, for this reason, none of the 4 tests have yet been satisfied. This is measured against independent industry standards for commercial viability.

You must apply in writing for this discretion to be exercised. For more details, call the business tax reform information line on **1300 137 619**.

If you make a loss from a business activity, details of that loss must be shown at item **P9** on your *2001 business and professional items schedule*. If you are unable to offset your loss against other income in the year that it arose you must show the amount of the loss at item **15** on your tax return. The loss is deferred to the next income year in which the business activity, or one of a similar kind, is carried on. It can be offset against a profit from this activity, or one of a similar kind, in that future year, but any overall loss from the activity may be subject to Division 35 of ITAA 1997 again in that year. See example below.

Example

After completing item **P8** in the business and professional items schedule a sole trader shows a $42 000 profit from a primary production business activity at **B** and a $1500 loss from a non-primary production business activity at **C** question **14** on the tax return. Details of the loss activity must be shown at item **P9** on the business and professional items schedule.

P9 **Business loss activity details** *(2001 business and professional items schedule)*

Note: If you incurred a net loss from more than 3 business activities this year show the 3 activities with the highest losses. If you are completing this item because you have deferred non-commercial business losses, you must have completed item **15** on your tax return.

ACTIVITY 1

Description of activity **D** HOME TUTORING

F Partnership ☐ Sole trader S Type of loss **G** 8

Loss $ **H** 1,500.00 ATO use only **E**

The $1500 must be deferred because **Type of loss** code 8 applies to this loss (see list of codes in item **P9**). This means an exception does not apply, the activity has not satisfied one of the 4 tests in Division 35 of ITAA 1997 and written advice has not been obtained from the ATO that the Commissioner will exercise his discretion to allow the loss to be claimed. The loss must be shown at question **15** on the tax return, to ensure the loss is not taken into account in the calculation of the taxpayer's taxable income for the current year.

15 **Deferred non-commercial business losses** *(2001 tax return for individuals)*

Deferred losses from partnership activities **F** .00

Deferred losses from sole trader activities **G** 1,500.00

If you have deferred losses complete item **P9** in the *2001 business and professional items schedule.*

Total deferred losses **H** 1,500.00

The $42 000 profit from the primary production business activity will be included in the calculation of the taxpayer's taxable income. The $1500 loss from the non-primary production business activity will be deferred to a future year. By showing the amount of the loss to be deferred at **H** at question **15** on the tax return, the taxpayer is reversing the effect of including that loss in the calculation of taxable income for the current year at question **14** on the tax return.

Hire purchase and limited recourse finance arrangements

The government intends to rectify the capital allowance provisions in relation to property acquired under hire purchase or limited recourse finance arrangements. Proposed amendments to legislation were introduced into Parliament in 1998 and have been reintroduced in Taxation Laws Amendment Bill (No. 5) 1999.

The broad impact of the proposed amendments is as follows:

- New Division 240 of ITAA 1997 would treat hire purchase and instalment sales like a sale of the property by the financier (or hire purchase company) to the hire or instalment purchaser. The sale would be treated as being financed by a loan from the financier to the hire or instalment purchaser at a sale price of either their agreed cost or value or the property's arm's length value. This would apply to hire purchase and instalment purchase transactions entered into after 27 February 1998.
  Owners of property who transfer title to the property merely by way of security under a chattel mortgage or other charge over the property would continue to be treated as owners for the purposes of capital allowances. This applies specifically to transfers under arrangements made after 27 February 1998.
- Proposed Division 243 of ITAA 1997 would ensure that deductions for capital allowances, such as depreciation, would be recovered so far as they exceed total actual capital expenditure that is financed or refinanced wholly or partly by limited recourse debt (including hire purchase).

  Division 243 would apply where:
  - the limited recourse debt is terminated but has not been paid in full by the debtor and
  - because the debt has not been paid in full, the capital allowance deductions allowed for the expenditure exceed the deductions that would be allowable if the unpaid amount of the debt was not counted as capital expenditure of the taxpayer. Special rules apply in working out whether the debt has been fully paid.

Proposed Division 243 would apply to limited recourse arrangements which terminate after 27 February 1998.

Indirect taxes and income tax

An entity that is registered for goods and services tax (GST) purposes will derive income and incur expenditure which includes GST. However, for income tax purposes, the GST component of that income and expenditure (that is, GST and input tax credit amounts) will need to be excluded from transaction amounts.

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

- for income tax purposes, GST will be excluded from assessable income, exempt income and amounts received or receivable that are taken into account in calculating income and deductions
- deductible losses and outgoings will be reduced by the amount of input tax credit entitlement
- in certain circumstances (for example there is a change in how much you use an asset for business purposes) an adjustment for GST purposes will result in an amount being included in assessable income (if the adjustment is a GST decreasing adjustment) or will be deductible (if the adjustment is a GST increasing adjustment)
- GST components will also be excluded in other specific rules including capital gains tax (cost base, reduced cost base, capital proceeds) and termination values, and
- special credits (such as the sales tax special credit) available under indirect tax transition legislation are assessable income.

Where you are a member of a GST group or participant in a GST joint venture, you are treated as if you were personally liable for your share of GST, and personally entitled to your share of input tax credits, of the group or joint venture.

If you are not registered or required to be registered for GST purposes or not entitled to claim input tax credits, your income and deductions will not need to be adjusted for GST. You can claim the GST inclusive amount incurred on outgoings.

If you were not required to be registered for GST purposes, but voluntarily registered for GST and later applied to have your registration cancelled, the GST component of your income and deductions will not need to be excluded from transaction amounts from the date of effect of your cancellation.

Pay As You Go (PAYG)

PAYG is an integrated system for reporting and paying:

- instalments of your expected tax liability on business and investment income—PAYG instalments, and
- amounts withheld from payments to employees and others—PAYG withholding.

If you are required to pay PAYG instalments the ATO will notify you by providing you with an instalment rate. This rate is calculated from the information you provided in your most recent income tax return. Any instalments you pay via your activity statement during the year will be credited against your tax payable.

PAYG withholding introduced several new withholding events including:

- business-to-business transactions where the payee does not quote an ABN
- payments under a labour hire arrangement or specified by regulations and
- payments made under a PAYG voluntary agreement.

If you received income under any of these arrangements you should take care when completing the business and professional items schedule, particularly items **P1** and **P8**.

PAYG withholding also introduced a number of new terms. Two of these, payer and payee, are broader than, but include the terms employer and employee. Payers are those people or businesses who make payments and withhold amounts from those payments. Payees are those people or businesses who receive payments from payers.

Under PAYG withholding a payer who withholds an amount of tax from a payment is required to issue a payment summary to the payee. Details from some of these payment summaries will need to be transferred to the *Individual PAYG payment summary schedule 2001* (NAT 3647—3.2001).

Personal services income

New rules for the income tax treatment of certain personal services income commenced on 1 July 2000.

Personal services income is income that is mainly a reward for an individual's personal efforts or skills. Generally, the new rules apply to personal services income either paid to a company, partnership, or trust (personal services entity) or paid directly to an individual.

The rules are designed to improve the integrity of the tax system by:

- limiting and clarifying the deductions that can be claimed against personal services income at both the individual and personal services entity level and
- ensuring that, after allowing certain deductions to the entity, any remaining personal services income is attributed to and included in the assessable income of the individual who provided the personal services.

The measure:

- does not apply where an individual or a personal services entity conducts a personal services business and
- does not affect the legal status of the personal services entity or deem an individual to be an employee for the purposes of any Australian law or instrument.

Transitional arrangements apply for the 2000–01 and 2001–02 income years to payees under the former prescribed payments system (PPS). The measure will not apply for these income years where a valid PPS payee declaration was in force on 13 April 2000.

If you are in receipt of personal services income in your own right, as a result of a contract or arrangement entered into by you, you must complete item **P1** of the business and professional items schedule and transfer the amount at label **M** of your schedule to **A** item **13** on your tax return.

For further information on the measures, ring the ATO alienation information line on **1300 137 619**. You can also refer to the *Personal services income: self-assessment guide* (NAT 3416—8.2000) and *Personal services income: instructions for completing the application for personal services business determination* (NAT 3363—8.2000). To find out how to get these publications, see page 2.

Small business taxpayers

A simplified tax system for small business is proposed to commence on 1 July 2001. The proposed legislation was introduced into Parliament in The New Tax System (Simplified Tax System) Bill 2000. The three key elements of the Simplified Tax System are:

- cash accounting rather than accruals
- a simplified depreciation system
- a simplified treatment of trading stock.

For more information on the proposed Simplified Tax System, ring the business tax reform information line on **1300 137 619**.

For the 2000–01 income year, interim measures for small business taxpayers continue to apply.

These interim measures mean that small business taxpayers who meet certain eligibility requirements, retain the following until 1 July 2001:

- accelerated depreciation for plant and equipment used in their business activities, when certain conditions are met. For more information, refer to the publication *Guide to depreciation*. To find out how to get this publication, see page 2.
- immediate deduction for plant costing $300 or less
- balancing adjustment offsetting
- continued access to the '13 month rule' for prepayments other than prepayments in relation to tax shelter arrangements.

You are **a small business taxpayer** for these interim measures if you carry on a business during the income year and either:

- your average turnover for the year is less than $1 million or
- you choose to recalculate your average turnover for an income year before the 2001–02 income year, based on your group turnover for that year and a reasonable estimate for the following 2 years, and it is less than $1 million.

Your average turnover for an income year is the average of your group turnovers for that year and the preceding 2 years, if any. However, you can only average your turnovers for the years in which you carried on a business. For example, if you have carried on a business for the current and previous year only, you would average only the sum of group turnovers for those 2 years. You are taken to be carrying on a business in an income year if you are winding up a business you formerly carried on and you were a small business taxpayer at the time that you stopped carrying on the business.

Your group turnover for an income year means the sum of the values of all supplies of goods and services that you and your controlling or controlled entities made during the year to third parties in the ordinary course of carrying on a business, exclusive of GST payable on supplies.

Special sales tax credit for GST

Section 17–30 of ITAA 1997 requires your assessable income to include any special credits you were entitled to for the year under *A New Tax System (Goods and Services Tax Transition) Act 1999*. These credits may have been given to you to cover—for example, the sales tax included in the cost of stock-on-hand on 1 July 2001. The amount of your credit entitlement(s) should be included at **Other business income** labels **I** and **J** item **P8** on your business and professional items schedule.

Superannuation deductions

Under the Taxation Laws Amendment (Superannuation Contributions) Bill 2000, it is intended that a deduction will not be allowable for employer contributions to non-complying superannuation funds. This change, when enacted, is to apply to contributions made after 4.00 p.m. [by legal time in the Australian Capital Territory (ACT)] on 30 June 2000.

In addition, the section 82AAA of the *Income Tax Assessment Act 1936* (ITAA 1936) definition of 'eligible employee' is to be amended to remove doubt as to the legality of the employee benefit schemes known as 'controlling interest' superannuation schemes. The amendment will ensure that 'a taxpayer' and an 'eligible employee' cannot be the same person—that is, a person cannot obtain a deduction under section 82AAA of ITAA 1936 for superannuation contributions made for themselves.

13 month rule for prepaid expenses

Prepaid expenditure is expenditure you made in this income year for things that will be done (in whole or part) in a future income year. The rules that allow immediate deductibility of prepaid expenditure in respect of things to be done within 13 months have been changed. For many businesses, the deduction for this expenditure must be apportioned over the period the prepayment covers. Transitional rules to reduce the immediate impact of this measure apply other than to prepaid expenses apportionable under a tax shelter arrangement.

New labels **A**, **B** and **C** have been added to item **P10** of the business and professional items schedule to assist you to comply with your obligations under the revised law.

See *Deductions for prepaid expenses—individuals* (NAT 4170—5.2001) for a detailed explanation of the new prepaid expenses measure. To find out how to get this publication, see page 2, or ring the Personal Tax Infoline on **13 2861** for further information.

Tax shelter prepayments

Special rules apply to most prepaid expenses incurred by **all** taxpayers under certain managed investments ('tax shelter' arrangements) after 1.00 p.m. (by legal time in the ACT) on 11 November 1999. Deductions for most prepaid expenses relating to tax shelter arrangements have to be apportioned over the period the benefits are provided (eligible service period).

See *Deductions for prepaid expenses—individuals* for a detailed explanation of the new prepaid expenses measure. To find out how to get this publication, see page 2, or ring the Personal Tax Infoline on **13 2861** for further information.

WHAT YOU NEED TO KNOW

When you have completed your *2001 business and professional items schedule*, you will need to transfer

- your **Net PSI** (personal services income) amount (if any) from item **P1** to item **13** on your tax return
- your **NET INCOME OR LOSS FROM BUSINESS** amounts to item **14** on your tax return

P1 Personal services income (PSI)

WHAT YOU NEED TO KNOW

Your personal services income is your income that is mainly a reward for your personal efforts or skills. Whether this is so depends on the facts in each case.

Examples of personal services income are:

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

Personal services income does not include income which is mainly for the:

- sale or supply of goods or granting a right to use property or
- use of an asset.

If you have earned personal services income, but not as an employee, there may be limitations on the deductions that relate to the gaining or producing of that income that you can claim. This depends on whether:

- you are excluded from the measure for the 2000–01 and 2001–02 years because you had a payee declaration under the prescribed payments system (PPS) that was in force on 13 April 2000 and received by the Commissioner of Taxation on or before that date.
- a personal services business determination, that your personal services income was from a personal services business, made by the Commissioner of Taxation was in force for the income year or
- you have satisfied one of the 3 personal services business tests given on page 10.

PART A

Did you receive personal services income?

NO ☐ ▶ Go to item **P2**.

YES ☐ ▼ Read on.

You do not have to complete item **P1** if your personal services income is gained as an employee. Nor do you complete item **P1** if your PSI was derived through a company, partnership or trust. Item **P1** concerns sole traders only.

If you earned PSI as a sole trader you need to answer one or more of the questions in part A to determine whether your deductions in relation to your PSI are affected by the PSI measure. The questions concern the conditions stated in the previous column under WHAT YOU NEED TO KNOW.

Whether your PSI was covered by a valid PPS payee declaration

A PPS payee declaration in force and received at the specified date is only considered valid if the payer has acted in accordance with the declaration.

Have you made a valid PPS payee declaration that was in force and received by the Commissioner as at 13 April 2000?

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

YES ☐ ▶ Print **X** in the **YES** box at **B** item **P1** on your schedule. Go to item **P2**.

Whether a personal services business determination was obtained from the Commissioner for the whole of the period you earned the PSI

This can only occur where you received 80 per cent or more of your PSI from one source.

Did you receive 80 per cent or more of your personal services income from one source and hold a personal services business determination from the Commissioner?

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

YES ☐ ▶ Print **X** in the **YES** box at **C** item **P1** on your schedule. Go to item **P2**.

Whether personal services business tests apply

If less than 80 per cent of your personal services income was from each source then you need to self-assess whether your personal services income is from your conducting a personal services business.

Did you receive less than 80 per cent of your personal services income from each source?

NO ☐ ▶ Go to part B.

YES ☐ ▼ Read on.

During the year of income you must have satisfied one of the 3 personal services business tests if your personal services income is to be excluded from the PSI measure.

The tests are:

- the unrelated clients test
- the employment test
- the business premises test.

Did you satisfy the unrelated clients test?

To satisfy the unrelated clients test you must gain income from providing services to 2 or more clients who are unrelated to you or to each other. Separate government departments are deemed not to be related for the purposes of this test. Your services must be provided as a direct result of your making offers or invitations to the public or a section of the public to provide your services. This could be, for example, by advertising, word of mouth referrals or by public tender. Simply registering with a labour hire firm or placement agency is not sufficient for this purpose.

Print **X** in the box at **D1** item **P1** on your schedule if you satisfy this test, and read on.

Did you satisfy the employment test?

To satisfy the employment test you must engage one or more persons who together perform at least 20 per cent by market value of your principal work. You must work out the market value of the work that they actually do for you in applying the 20 per cent threshold. The work that you engage others to do must be part of the work that you are contracted to do for your clients.

For the purposes of this test you can take into account individuals performing the principal work whether they be associates or not, and companies, partnerships or trusts performing the same functions but only if they are not your associates.

As a general rule, your principal work is the work which is essential in generating your personal services income. Ancillary activities such as banking or bookkeeping would not be part of the principal work.

You will also satisfy the employment test if you have one or more apprentices for at least half the year. This means someone in a genuine apprenticeship. Research and other assistants do not qualify. You can have one or more apprentices working for you at different non-consecutive periods.

Print **X** in the box at **E1** item **P1** on your schedule if you satisfy this test, and read on.

Did you satisfy the business premises test?

You will satisfy the business premises test if at all times during the income year you have maintained and used business premises:

- at which you mainly conducted the activities producing your personal services income
- which you use exclusively
- which are physically separate from any premises used by you or an associate for private purposes (premises includes the land on which any buildings used for business purposes are located)
- which are physically separate from any premises used by the entity or an associate to which you are providing personal services.

You do not have to maintain and use the same business premises for the whole year; that is, you can change business premises but you must use business premises that satisfy the above requirements at all times during the year.

Print **X** in the box at **F1** item **P1** on your schedule if you satisfy this test.

If you satisfied one or more of the personal services business tests, go to item **P2**. Otherwise read on.

PART B

Important!

You must complete part B of item **P1** if you received personal services income and:
- are not excluded from the measure for the 2000–01 and 2001–02 years as you did not have a valid PPS declaration as at 13 April 2000
- have not obtained a personal services business determination with respect to the activities that generated your personal services income or
- did not meet at least one of the 3 personal services business tests.

Personal services income is divided into:
- income received under a voluntary agreement
- income from which tax has been withheld because you did not quote your Australian Business Number (ABN)
- income received under a labour hire arrangement or from a specified payment
- other personal services income.

WHAT YOU MAY NEED

If you received any of the payment summaries listed below in relation to personal services income you will need to complete the *Individual PAYG payment summary schedule 2001* before completing item **P1**:
- *Payment summary—voluntary agreement*
- *Payment summary—labour hire and other specified payments*
- *Payment summary—withholding where ABN not quoted.*

A payer may issue a receipt, remittance advice or similar document in place of the ATO's *Payment summary—withholding where ABN not quoted.*

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

How to complete the *Individual PAYG payment summary schedule 2001*

Step 1

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

Step 2

Nature of income—*Print* **X** in the **Personal services income** box.

Note: Where you have both personal services income (item **P1**) and business income (item **P8**) you will need to complete 2 separate individual PAYG payment summary schedules.

Step 3

For each payment summary *transfer* the following information onto the schedule:
- look at your payment summary carefully to determine its type and complete the **Type** box, using the following key:
  V = voluntary agreement
  S = labour hire or other specified payments
  N = withholding where ABN not quoted
- the payer's ABN or Withholding Payer Number (WPN) and the payer's name in the appropriate boxes
- the total tax withheld at the **Tax withheld** box
- the gross payments in the **Gross payment** box.

Step 4

Check that you have recorded details from all relevant payment summaries on your *Individual PAYG payment summary schedule 2001* and attached the schedule to page 3 of your tax return.

Do not attach the payment summaries to your tax return. You are required to keep them for a period of 5 years.

Payers are required to report to the ATO details of payments where amounts of tax have been withheld. This information will be cross-checked with your tax return to ensure that you have declared the correct amount of income and the correct amount of tax withheld.

Label G—Did you receive any income under a voluntary agreement?

NO ☐ ▶ Go to label **H**.
YES ☐ ▼ Read on.

PSI—voluntary agreement item **P1** is the total payments you received under a voluntary agreement. It includes amounts of tax withheld. You will be able to calculate this amount from your completed *Individual PAYG payment summary schedule 2001*.

Do not include any amounts of goods and services tax (GST).

Add up all amounts from the payment summary schedule at **Gross payment** boxes, with a corresponding **V** in the **Type** box. *Write* this amount at **G** item **P1**. Do not show cents.

Remember, if you complete this label you must also complete **G** item **13** on your tax return.

Label H—Did you have any amounts of tax withheld from your personal services income for failure to quote an ABN?

NO ☐ Go to label **I**.

YES ☐ Read on.

PSI—where Australian Business Number not quoted item **P1** is the total payments you received for your personal services income, from which an amount has been withheld because you did not quote your ABN. It includes amounts of tax withheld. You will be able to calculate this amount from your completed *Individual PAYG payment summary schedule 2001*.

Add up all amounts from the payment summary schedule at **Gross payment** boxes, with a corresponding **N** in the **Type** box. *Write* this amount at **H** item **P1**. Do not show cents.

Remember, if you complete this label you must also complete **H** item **13** on your tax return.

Label I—Did you receive any personal services income under a labour hire arrangement or from a specified payment?

NO ☐ Go to label **J**.

YES ☐ Read on.

PSI—labour hire or other specified payments item **P1** is the total of payments you received from labour hire or other specified payments. It includes amounts of tax withheld. You will be able to calculate this amount from your completed *Individual PAYG payment summary schedule 2001*.

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

Add up all the amounts from the payment summary schedule at the **Gross payment** boxes with a corresponding **S** in the **Type** box. *Write* this amount at **I** item **P1**. Do not show cents.

Remember, if you complete this label you must also complete **J** item **13** on your tax return.

Label J—Did you receive any other personal services income?

NO ☐ Go to **Personal services income deductions**.

YES ☐ Read on.

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

Personal services income deductions

Limited deductions against personal services income
You cannot deduct an amount that relates to gaining or producing your personal services income if you could not deduct that amount if the income was payable to you as an employee.

What you may be able to deduct
There are some exceptions to this general rule and you can deduct amounts for the following where they relate to gaining your personal services income:

- gaining work—for example, advertising expenses, tendering and quoting for work expenses
- insuring against the loss of your income or income earning capacity—for example, sickness, accident and disability insurance
- insuring against liability arising from your acts or omissions in the course of earning income—for example, public liability and professional indemnity insurance
- engaging an entity that is not your associate—associate includes your spouse or de facto spouse and certain other relatives, partners, trustees and companies
- engaging an associate to perform work that forms part of your principal work—your principal work does not include ancillary activities such as banking receipts
- contributing to a fund to obtain superannuation benefits for yourself or for your dependants in the event of your death
- complying with your obligations under a worker's compensation law
- meeting obligations or exercising rights under the GST law.

You cannot deduct

You cannot deduct an amount of rent, mortgage interest, rates or land tax for your residence or your associate's residence to the extent that it relates to gaining your personal services income. However, you can deduct running expenses such as heating and lighting for using a room in your house as a home office or study.

Payments to associates

You cannot deduct an amount paid to an associate to perform work for you unless the work performed by the associate forms part of the principal work from which you receive your personal services income.

You cannot deduct superannuation contributions for an associate unless the associate is performing work which forms part of the principal work from which you receive your personal services income. However, the contributions are limited to the amount you would have to contribute for the benefit of the associate to avoid an individual guarantee shortfall for that associate, as defined by section 19 of the *Superannuation Guarantee (Administration) Act 1992*. For the 2000–01 income year the level of contributions required in order to avoid an individual superannuation guarantee shortfall is 8 per cent of the amount of salary or wages allowed as a deduction under the new rules.

Label K—Do you have deductions for payments to associates for principal work?

NO ☐ ▼ Go to label **L**.

YES ☐ ▼ Read on.

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

Label L—In earning your personal services income did you have any other deductible expenses?

NO ☐ ▼ Go to label **M**.

YES ☐ ▼ Read on.

Add up the total amount of all other expenses that you can deduct from your personal services income. *Write* the amount at **L** item **P1**.

Label M—Working out your net personal services income

Step 1

Add up the amounts shown at **G**, **H**, **I** and **J** item **P1**.

Step 2

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

Step 3

Subtract the amount calculated at step 2 from the amount calculated at step 1. *Write* this amount at **M** item **P1**.

Step 4

Transfer the amount at **M** item **P1** to **A** item **13** on your tax return. If the amount is a loss, you must also complete items **P3** and **P9** on your schedule.

Did you have any other business income?

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

YES ☐ ▼ Go to **P2**.

Check that you have . . .

- ✓ provided the correct information on your schedules
- ✓ completed items **P3** and **P9** on your schedule if you have a loss at **M** item **P1**. You do not need to complete any remaining items on your schedule.
- ✓ signed and dated your *2001 business and professional items schedule* and attached it to page 3 of your tax return
- ✓ completed and attached the *Individual PAYG payment summary schedule 2001* to page 3 of your tax return, if you received personal services income that was subject to withholding
- ✓ transferred your net personal services income amount from **M** item **P1** to **A** item **13** on your tax return.

P2 Description of your main business activity

Describe, as accurately as possible, the business activity from which you derived the most gross income—for example, beef cattle breeder, vegetable grower, clothing manufacturer, confectionery wholesaler or electrical goods retailer. Do not use general descriptions such as farmer, manufacturer or wholesaler.

Write the description of your main business activity at item **P2** on your schedule.

P3 Number of business activities

Print at B the number of separate and distinct business activities you operated as a sole trader and in partnership during 2000–01. If you operated only one business activity, *print* **1** at B. The number of business activities at B should not be less than the number of business activities for which you show your business loss activity details at item **P9**.

P4 What is the status of your business?

If you ceased your main business during 2000–01, *print* **X** at C1 item **P4** on your schedule.

If you commenced a new business during 2000–01, *print* **X** at C2 item **P4** on your schedule.

Where more than one option applies, select the first applicable option. If none of them applies, leave the boxes blank.

P5 What is the name of your main business and your Australian Business Number (ABN)?

Write the business name of your main business and your ABN at item **P5** on your schedule. The business name does not have to be a registered name.

The business name of the main business activity should be consistent from year to year, except in the year of a name change or when it is no longer the main business. If the business name is legally changed, advise the ATO in writing at the time the change is made. The current business name should be shown on your tax return.

P6 What is the address of your main business?

Write the street address of the place where most of your business decisions are made at item **P6** on your schedule.

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

P7 Did you sell any goods or services using the Internet?

Print **X** in the **YES** box at Q item **P7** on your schedule if, in deriving income, one or more of the following applies:

- You used the Internet to receive orders for goods and/or services. For example, you received orders by email or a web page form (rather than by conventional post, telephone or facsimile).
- You used the Internet to receive payment for goods and/or services. For example, you received:
  - credit card or charge card details by email or web page form (rather than by conventional post, telephone or facsimile)
  - digital cash.
- You used the Internet to deliver goods and/or services. For example, you:
  - used email, the World Wide Web or FTP (file transfer protocol) to deliver digitised music, news articles or software (rather than using conventional post to deliver software or floppy disk)
  - used email to give financial advice and received a commission in connection with this advice
  - advertised on the Internet, goods or services of other businesses for a fee
  - hosted Internet sites or provided access to the Internet.

If none of the above applies—for example, if you only used the Internet to:

- advertise your goods and services
- give support to your customers
- buy your stock

print **X** in the **NO** box at Q item **P7** on your schedule.

P8 Business income and expenses

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

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

Except for the values of opening and closing stock—which are to be shown at tax values as explained on pages 19–20 of this publication—the amounts to be included in the **INCOME** and **EXPENSES** sections of item **P8** are amounts derived from your accounting system or financial statements. They should form part of your profit and loss statement, and the basis for calculating your net profit or loss. Any adjustments to these amounts for tax purposes should be dealt with in the **RECONCILIATION ITEMS** section of item **P8**.

If you are registered for GST, income and expense amounts should exclude GST.

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

- gross interest—show the amount of income at item **10** on your tax return
- dividends and imputation credits—show the amounts at item **11** on your tax return
- distributions from partnerships and trusts—show these at item **12** on your tax return
- gross rental or similar income, such as adjustment or hire fees—show the amount at item **20** on your tax return
- net capital gains—show the amount at item **17** on your tax return
- personal services income shown at **P1**
- farm management withdrawals—show the amount at item **16** on your tax return
- attributed foreign income—show the amount at item **18** on your tax return
- foreign source income—show the amount at item **19** on your tax return.

If you received personal services income as a sole trader, you must complete item **P1** of the *2001 business and professional items schedule*. Personal services income is income that is mainly a reward for an individual's personal efforts or skills. Where you have net personal services income at **M** item **P1**, do not include the personal services income or claim deductions relating to that income at item **P8**.

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

NO ☐ ▶ Go to part B on page 16.

YES ☐ ▼ Read on.

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

If you received any of these payment summaries:

- *Payment summary—withholding where ABN not quoted*
- *Payment summary—voluntary agreement*
- *Payment summary—labour hire and other specified payments*

you will need to complete the *Individual PAYG payment summary schedule 2001* before completing item **P8**.

A payer may issue a receipt, remittance or similar document in place of the ATO's *Payment summary—withholding where ABN not quoted*.

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

How to complete the *Individual PAYG payment summary schedule 2001*

Step 1

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

Step 2

Nature of income—*Print* **X** in the **Business income** box.

Note: Where you have both business income (item **P8**) and personal services income (item **P1**) you will need to complete 2 separate individual PAYG payment summary schedules.

Step 3

For each payment summary *transfer* the following information onto the schedule:

- look at your payment summary carefully to determine its type and complete the **Type** box, using the following key:
  V = voluntary agreement
  S = labour hire or other specified payments
  N = withholding where ABN not quoted
- the payer's ABN or WPN and the payer's name in the appropriate boxes

- the total tax withheld at the **Tax withheld** box
- the gross payments in the **Gross payment** box.

Step 4

Check that you have recorded details from all relevant payment summaries on your *Individual PAYG payment summary schedule 2001* and attached the schedule to page 3 of your tax return.

Do not attach the payment summaries to your tax return. You are required to keep them for a period of 5 years.

Payers are required to report to the ATO details of payments where amounts of tax have been withheld. This information will be cross-checked with your tax return to ensure that you have declared the correct amount of income and the correct amount of tax withheld.

INCOME

Part A—Did your business have any amounts of tax withheld for failure to quote an ABN?

NO ☐ Go to part B.

YES ☐ Read on.

WHAT YOU NEED TO KNOW

Gross payments where Australian Business Number not quoted item **P8** is the total of payments you received from which your payers have withheld an amount because you did not quote your ABN. Gross payments include the amounts of tax withheld. You will be able to calculate this amount from your completed *Individual PAYG payment summary schedule 2001*.

Step 1

Add up all amounts on your completed payment summary schedule at **Gross payment** boxes, with an **N** in the **Type** box, derived from primary production activities. *Write* this amount at C item **P8**. Do not show cents.

Step 2

Add up all amounts on your completed payment summary schedule at **Gross payment** boxes, with an **N** in the **Type** box, derived from non-primary production activities. *Write* this amount at D item **P8**. Do not show cents.

Step 3

Add up the amounts you have written at C and D item **P8** and *write* this amount in the adjacent *Total* box item **P8**.

Remember, if you complete these labels you must complete W item **14** on your tax return.

Part B—Did you receive any income that was subject to a PAYG voluntary agreement to withhold?

NO ☐ Go to part C.

YES ☐ Read on.

WHAT YOU NEED TO KNOW

Gross payments—voluntary agreement item **P8** is the total payments you received that were subject to a voluntary agreement to withhold tax and includes amounts of tax withheld. You will be able to calculate this amount from your completed payment summary schedule.

Step 1

Add up all amounts on your completed payment summary schedule at **Gross payment** boxes, with a **V** in the **Type** box, derived from primary production activities. *Write* this amount at E item **P8**. Do not show cents.

Step 2

Add up all amounts on your completed payment summary schedule at **Gross payment** boxes, with a **V** in the **Type** box, derived from non-primary production activities. *Write* this amount at F item **P8**. Do not show cents.

Step 3

Add up the amounts you have written at E and F item **P8** and *write* this amount in the adjacent *Total* box item **P8**.

Remember, if you complete these labels you must complete D item **14** on your tax return.

Part C—Did you receive:

- income under a labour hire arrangement or
- a specified payment, including payment for tutorial services provided for the Aboriginal Tutorial Assistance Scheme of the Department of Education, Training and Youth Affairs, and payment for translation and interpretation services for the Translating and Interpreting Service of the Department of Immigration and Multicultural Affairs?

NO ☐ Go to part D.

YES ☐ Read on.

WHAT YOU NEED TO KNOW

Gross payments—labour hire or other specified payments item **P8** is the total of payments you received from labour hire or other specified payments and includes amounts of tax withheld. You will be able to calculate this amount from your completed payment summary schedule.

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

Step 1
Add up all amounts from the payment summary schedule at the **Gross payment** boxes with an **S** in the **Type** box. *Write* this amount at O item **P8**. Do not show cents.

Step 2
Transfer the amount at O to the *Total* box item **P8** on your schedule.

Remember, if you complete these labels you must complete F item **14** on your tax return.

Part D—Did your business have assessable government industry payments?

NO ☐ ▶ Go to part E.
YES ☐ ▼ Read on.

WHAT YOU NEED TO KNOW

Generally, government grants, rebates, bounties and subsidies are assessable income in the hands of the recipient if they are received in or in relation to the carrying on of a business. This generally includes payments of a capital nature. However, payments relating to the commencement or cessation of a business may not be assessable.

Examples of assessable government industry payments include:

- bounties
- diesel fuel rebate—see *Taxation Determination TD 97/25—Income tax: when should a Diesel Fuel Rebate paid under the Australian Government Diesel Fuel Rebate Scheme be included in the assessable income of a recipient?*. To find out how to get this publication, see page 2.
- drought relief
- employee subsidies
- export incentive grants
- Medicare payments to medical practices.

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

Step 2
If your assessable primary production government industry payments include a diesel fuel rebate, *print* **D** in the **TYPE** box ☐ at the right of the amount at G.

Step 3
Write your total non-primary production government industry payments received by each business at H item **P8** on your schedule. Do not show cents.

Step 4
If your assessable non-primary production government industry payments include a diesel fuel rebate, *print* **D** in the **TYPE** box ☐ at the right of the amount at H.

Step 5
Add up your primary production and non-primary production government industry payments and *write* the total amount in the *Total* box item **P8** on your schedule.

Part E—Did your business receive any other income?

NO ☐ ▶ Go to part F.
YES ☐ ▼ Read on.

WHAT YOU NEED TO KNOW

Other business income includes:

- gross sales of trading stock
- goods taken for own use from stock
- gross earnings from services
- taxi driver earnings (income you earned as a non-employee taxi driver)
- bad debts recovered
- profit on sale of depreciable assets
- royalties
- insurance recoveries
- subsidies
- employee contributions for fringe benefits
- non-assessable government assistance from all sources
- a special credit for wholesale sales tax.

It excludes amounts shown at **C**, **D**, **E**, **F**, **N**, **O**, **G** and **H** on your schedule.

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

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

Step 3
Write your total amount of other non-primary production business income or loss at **J** item **P8** on your schedule. Do not show cents.

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

Step 5
Add up your other primary production and non-primary production income or loss and *write* the total amount in the *Total* box item **P8** on your schedule.

Step 6
If you made a loss, *print* **L** in the box ☐ at the right of the *Total* box.

Part F—Working out your total business income

Step 1
Add up the primary production amounts shown at **C**, **E**, **N**, **G** and **I** item **P8** on your schedule. *Write* the total at **TOTAL BUSINESS INCOME**, *Primary production* column.

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

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

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

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

EXPENSES

Do not include the following expense items on your schedule:

- interest and dividend income expenses—claim deductible expenses at item **D6** on your tax return
- farm management deposits—take them into account as required at item **16** on your tax return
- rental expenses—claim deductible expenses at item **20** on your tax return
- expenses and losses relating to foreign source income—take them into account as required at item **19** on your tax return.

If you are a primary producer you will need a primary production worksheet to help you work out some of the following. This worksheet is included in the publication *Information for primary producers* (NAT 1712—6.2001). To find out how to get this publication, see page 2. Complete this worksheet before proceeding.

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

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

Note: If you made a prepayment for things to be done within 13 months of the payment, your deduction may be affected by the rules relating to prepayments made by businesses (other than small business taxpayers) or by the prepayment rules relating to tax shelters. For more information, see **P10** on page 36 and the publication *Deductions for prepaid expenses—individuals*.

You must keep your business expenses records for 5 years after you prepared or obtained them or 5 years after you completed the transactions or acts to which they relate, whichever is the later.

Part A—What is the value of your opening stock?

WHAT YOU NEED TO KNOW

This is the total value of all trading stock on hand at the start of the year. The opening value of an item of stock must equal its closing value in the previous year.

Include motor vehicle floor plan stock and work in progress of manufactured goods. Exclude any amounts representing opening stock of a business which commenced operations during the year. Include the purchase costs of these items in the relevant **Purchases and other costs** box.

If you are a primary producer, you must add the value of your opening stock from your livestock account at label **P2** on your primary production worksheet to the value of your opening stock from your produce account at label **P7** on your primary production worksheet.

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

Step 2
Write the total value of your primary production opening stock in **Opening stock**, *Primary production* column, item **P8** on your schedule. Do not show cents.

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

Step 4
Write the total value of your non-primary production opening stock in **Opening stock**, *Non-primary production* column, item **P8** on your schedule. Do not show cents.

Step 5
Add up your primary production and non-primary production opening stock and *write* the total value at **K** item **P8** on your schedule.

Part B—What is the value of your purchases and other costs?

This represents the direct cost of materials used for manufacture, sale or exchange in deriving the gross proceeds or earnings of the business. It includes inwards freight. It may also include some costs for labour and services provided under contract if these are recorded in the cost of sales account in your business books of account. If so, do not also include this amount as **Contractor, sub-contractor and commission expenses**.

Step 1
Work out the value of your primary production purchases and other costs. If you have more than one business, *add up* all your primary production purchases and costs.

Step 2
Write the total value of your primary production purchases and other costs in **Purchases and other costs**, *Primary production* column, item **P8** on your schedule. Do not show cents.

Step 3
Work out the value of your non-primary production purchases and other costs. If you have more than one business, *add up* all your non-primary production purchases and other costs.

Step 4
Write the total value of your non-primary production purchases and other costs in **Purchases and other costs**, *Non-primary production* column, item **P8** on your schedule. Do not show cents.

Step 5
Add up your primary production and non-primary production purchases and other costs and *write* the total value at **L** item **P8** on your schedule.

Part C—What is the value of your closing stock?

WHAT YOU NEED TO KNOW

This is the total value of all trading stock on hand at the end of the year. The amount that is shown at **Closing stock** is the total of the value of each item of trading stock calculated for tax purposes under section 70–45 of ITAA 1997.

Trading stock is anything you have on hand which you produced, manufactured, acquired or purchased for the purpose of sale, manufacture or exchange. For example, trading stock includes livestock but not working animals—except those used by a primary producer—crops and timber when harvested and wool after it is removed from the sheep.

Manufacturers must include as trading stock partly manufactured goods and materials on hand. However, closing stock excludes any amount that represented closing stock of a business that ceased operations during the year. This amount is included in **Other business income** at **I** or

J item **P8** on your schedule. For more details about what constitutes trading stock, ring the ATO.

You can choose one of the following 3 methods to value your trading stock:

- cost
- market selling value
- replacement price.

You may elect to value an item of trading stock below the lowest value calculated by any of these methods because of obsolescence or other special circumstances. The value you elect must be reasonable.

Where you elect to value an item of trading stock below cost, market selling value and replacement price, you must complete item **P17** on your schedule.

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

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

If you are a primary producer, you must add the value of your closing stock from your livestock account at label **P1** on your primary production worksheet to the value of your closing stock from your produce account at label **P6** on your primary production worksheet.

As the tax value of stock on hand is to be shown at label **P6** on your primary production worksheet, you cannot reduce its value by accounting entries. Keep records showing how each item was valued.

Step 1

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

Step 2

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

Step 3

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

Step 4

Write the total value of your non-primary production closing stock in **Closing stock**, *Non-primary production* column, item **P8** on your schedule. Do not show cents.

Step 5

Add up your primary production and non-primary production closing stock and *write* the total value at M item **P8** on your schedule.

Step 6

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

C cost
M market selling value
R replacement price.

Step 7

Print the letter in the *TYPE* box at the right of the amount at M item **P8** on your schedule.

Part D—Working out your cost of sales

WHAT YOU NEED TO KNOW

Goods taken for your own use should not be accounted for as stock on hand at 30 June 2001. Include the cost of goods taken for your own use at the **Other business income** labels I and J item **P8** on your schedule.

Step 1

Use the following table to work out your cost of sales.

Cost of sales

		Primary production	*Non-primary production*
Stock at 1 July 2000	(a)	$	$
Purchases at cost	(b)	$	$
Freight inwards	(c)	$	$
Other—for example, labour and services	(d)	$	$
Add (a), (b), (c) and (d).	(e)	$	$
Stock at 30 June 2001	(f)	$	$
Take (f) away from (e). **This is your cost of sales.**		$	$

For further information on stock on hand at 1 July 2000, *read* **Part A—What is the value of your opening stock?** For information on stock on hand at 30 June 2001, *read* **Part C—What is the value of your closing stock?**

Step 2

Write your total primary production cost of sales in **Cost of sales**, *Primary production* column, item **P8** on your schedule. Do not show cents.

Step 3

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

Step 4

Write your total non-primary production cost of sales in **Cost of sales**, *Non-primary production* column, item **P8** on your schedule. Do not show cents.

Step 5

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

Step 6

Add up your primary production and non-primary production cost of sales and *write* the total amount in **Cost of sales**, *Total* column, item **P8** on your schedule.

Step 7

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

Part E—Did your business have any contractor, sub-contractor or commission expenses?

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

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

NO ☐ ▶ Go to part F.

YES ☐ ▶ Read on.

WHAT YOU NEED TO KNOW

Do not include the following at this item:

- expenses for external labour which have been included in the business cost of sales account
- expenses for accounting or legal services. Include these at **All other expenses**.

Step 1

Write your total primary production contractor, sub-contractor and commission expenses in **Contractor, sub-contractor and commission expenses**, *Primary production* column, item **P8** on your schedule. Do not show cents.

Step 2

Write your total non-primary production contractor, sub-contractor and commission expenses in **Contractor, sub-contractor and commission expenses**, *Non-primary production* column, item **P8** on your schedule. Do not show cents.

Step 3

Add up your primary production and non-primary production contractor, sub-contractor and commission expenses and *write* the total amount at **F** item **P8** on your schedule.

Part F—Did your business make any superannuation contributions on behalf of eligible employees or their dependants?

NO ☐ ▶ Go to part G.

YES ☐ ▼ Read on.

WHAT YOU NEED TO KNOW

Show superannuation expenses for the year of income. Employers are entitled to a deduction for contributions made to a complying superannuation, provident, benefit or retirement fund or retirement savings account (RSA), where the contribution is to provide superannuation benefits for eligible employees or to provide benefits to the employee's dependants on the employee's death. Superannuation benefits mean individual personal benefits, pensions or retiring allowances. A deduction is allowable in which the contributions are made.

Under Taxation Laws Amendment (Superannuation Contributions) Bill 2000, it is intended that a deduction will not be allowable for employer contributions to non-complying superannuation funds. This change, when enacted, is to apply to contributions made after 4.00 p.m. (by legal time in the ACT) on 30 June 2000.

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

Contributions paid by an employer for eligible employees to a non-complying superannuation fund are fringe benefits—other than where the contributions are made for an exempt visitor—and may be subject to tax under the *Fringe Benefits Tax Assessment Act 1986*.

An employer contributing to a resident complying superannuation fund in respect of eligible employees may claim a deduction based on the age of each relevant employee.

For the year ended 30 June 2001 these limits are as follows:

Employee's deduction limit

Age in years	*Deduction limit*
under 35	$11 388
35 to 49	$31 631
50 and over	$78 445

The employee's age limit is determined at the end of the last day in the year of income when the employer or associate of the employer made a contribution for the benefit of the employee.

Employer contributions paid to the Superannuation Holding Accounts Reserve are allowable deductions up to a limit of $1200 per employee.

Step 1

Write your total primary production superannuation contributions in **Superannuation expenses**, *Primary production* column, item **P8** on your schedule. Do not show cents.

Step 2

Write your total non-primary production superannuation contributions in **Superannuation expenses**, *Non-primary production* column, item **P8** on your schedule. Do not show cents.

Step 3

Add up your primary production and non-primary production superannuation contributions and *write* the total amount at **G** item **P8** on your schedule.

Part G—Did your business write off any bad debts?

NO ☐ ▶ Go to part H.

YES ☐ ▼ Read on.

WHAT YOU NEED TO KNOW

Include income from the recovery of bad debts at **I** **Other business income**, *Primary production* column or at **J** **Other business income**, *Non-primary production* column, item **P8** on your schedule. Do not show cents.

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

Do not include accounting provisions for doubtful debts at this label. They can be shown under **EXPENSES** at **All other expenses** then added back at **H** **Expense reconciliation adjustments**.

Before you can claim a bad debt, it must be bad and not merely doubtful. The question of whether a debt is a bad debt will depend upon the facts in each case and, where applicable, the action taken for recovery. For more information refer to *Taxation Ruling TR 92/18—Income tax: bad debts*. To find out how to get this publication, see page 2.

You can claim a deduction for:
- partial debt write-offs—where only part of a debt is bad and is written off, you may claim a deduction for the amount written off
- losses incurred in debt-for-equity swaps for debt written off after 26 February 1992. You are allowed a deduction for the difference between the amount of the debt and the greater of the market value of the equity or the value at which the equity is recorded in your books at the time of issue. The market value of the equity will be the price quoted on the stock exchange or, where the equity is not listed, the net asset backing of the equity.

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

Records you need to keep

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

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

Step 1

Write your total amount of primary production bad debts in **Bad debts**, *Primary production* column, item **P8** on your schedule. Do not show cents.

Step 2

Write your total amount of non-primary production bad debts in **Bad debts**, *Non-primary production* column, item **P8** on your schedule. Do not show cents.

Step 3

Add up the amounts of your primary production and non-primary production bad debts and *write* the total amount at **I** item **P8** on your schedule.

Part H—Did your business have lease expenses?

NO ☐ Go to part I.

YES ☐ Read on.

WHAT YOU NEED TO KNOW

This is expenditure incurred through both financial and operating leases on leasing motor vehicles, plant and equipment. Do not include the cost of leasing real estate.

Luxury car leasing

Luxury car finance leasing arrangements, excluding those for trading stock and genuine short-term hire arrangements, entered into after 7.30 p.m. (by legal time in the ACT) on 20 August 1996, are treated as sale and loan transactions.

A leased car, either new or second hand, is a luxury car when its cost exceeds the luxury car depreciation limit that applies for the financial year in which a new or renegotiated lease commences. The luxury car depreciation limit for 2000–01 is $55 134.

Under these rules, the lessee is treated as the owner of the luxury car and is therefore entitled to claim a depreciation deduction limited to the luxury car depreciation limit. The actual lease payments made by the lessee for luxury cars will no longer be allowable deductions although they will be taken into account to calculate any deductible amounts. These deductions are calculated under the rules by dividing the lease payments into their underlying capital component and their finance charge component (accrual amount). As a result, a lessee will be entitled to a deduction for:

- the accrual amount reduced to reflect non-business use and
- depreciation based on the luxury car depreciation limit applicable in the year of income reduced to reflect non-business use.

As a result of the application of these rules the effect of the depreciation limit on the after-tax cost of a leased luxury car to its end user will be comparable to the effect of the limit on the after-tax cost of buying or otherwise financing the car.

You should be aware that the rules set out different outcomes for the lessee if a lease expires, is terminated at the end of the lease or is terminated before the end of the lease. In each of these circumstances, outcomes are different where:

- a lease term is extended or a lease is renewed
- the lessee buys the car or
- the lessee ceases to have a right to use the car.

The following examples demonstrate 2 of the different outcomes.

Example 1

Should the luxury car revert to the lessor because the term is not extended, the lease is not renewed and no amount is paid to the lessor, the rules treat the return of the car as a disposal by way of a sale by the lessee. In this case, the depreciation balancing charge provisions may need to be considered to determine any assessable or deductible amount for the lessee.

Example 2

Should a lessee acquire the car and an amount be paid by or on behalf of the lessee to acquire the car, a deduction is not allowable to the lessee and the lessee will continue to be the owner of the car until it is disposed of. However subdivision 20–B of the ITAA 1997 may bring into assessable income at the time of disposal certain profits made on disposal of the previously leased car.

Records you need to keep

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

Step 1
Write your total primary production lease expenses in **Lease expenses**, *Primary production* column, item **P8** on your schedule. Do not show cents.

Step 2
Write your total non-primary production lease expenses in **Lease expenses**, *Non-primary production* column, item **P8** on your schedule. Do not show cents.

Step 3
Add up your primary production and non-primary production lease expenses and *write* the total amount at **J** item **P8** on your schedule.

Part I—Did your business have rent expenses?

NO ☐ Go to part J.
YES ☐ Read on.

WHAT YOU NEED TO KNOW

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

Step 1
Write your total primary production rent expenses in **Rent expenses**, *Primary production* column, item **P8** on your schedule. Do not show cents.

Step 2
Write your total non-primary production rent expenses in **Rent expenses**, *Non-primary production* column, item **P8** on your schedule. Do not show cents.

Step 3
Add up your primary production and non-primary production rent expenses and *write* the total amount at **K** item **P8** on your schedule.

Part J—Did your business incur interest expenses on money borrowed within Australia?

NO ☐ Go to part K.
YES ☐ Read on.

WHAT YOU NEED TO KNOW

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

Do not include interest expenses incurred in deriving rental income. Claim these expenses at item **20** on your tax return.

Step 1
Write your total primary production interest expenses within Australia in **Interest expenses within Australia**, *Primary production* column, item **P8** on your schedule. Do not show cents.

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

Step 3
Add up your primary production and non-primary production interest expenses within Australia and *write* the total amount at **Q** item **P8** on your schedule.

Part K—Did your business have overseas interest expenses?

NO ☐ Go to part L.
YES ☐ Read on.

WHAT YOU NEED TO KNOW

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

Do not include interest expenses incurred in deriving rental income. Claim these expenses at item **20** on your tax return.

If you paid or credited any interest, or amounts in the nature of interest, to a non-resident of Australia, you will need to provide additional information. *Print* SCHEDULE OF ADDITIONAL INFORMATION—ITEM 14 on the top of a separate piece of paper. In general terms, an amount of non-resident withholding tax is required to be withheld from interest paid or payable to non-residents, and also interest derived by a resident through an overseas branch. These amounts must be sent to the ATO. Show the total amounts paid or credited to each non-resident and the amount of tax withheld. If no tax was withheld, please state the reason for this. Include your name, address and tax file number. *Print* **X** in the **YES** box at *Taxpayer's declaration* question **2a** on your tax return. *Sign and attach* your schedule to page 3 of your tax return.

For more information on the tax treatment of interest and dividends paid to non-residents, ring the Personal Tax Infoline on **13 2861**.

Step 1
Write your total primary production overseas interest expenses in **Interest expenses overseas**, *Primary production* column, item **P8** on your schedule. Do not show cents.

Step 2
Write your total non-primary production overseas interest expenses in **Interest expenses overseas**, *Non-primary production* column, item **P8** on your schedule. Do not show cents.

Step 3
Add up your primary production and non-primary production overseas interest expenses and *write* the total amount at **R** item **P8** on your schedule.

Part L—Did your business have depreciation expenses?

NO ☐ Go to part M.
YES ☐ Read on.

WHAT YOU NEED TO KNOW

You show at this item the depreciation claimed in your books of account. This amount should not include profit on the sale of depreciable assets as negative depreciation or loss on the sale of fixed assets. Profit on the sale of depreciable assets should be included in **Other business income** at **I** for primary production assets and **J** for non-primary production assets in the **INCOME** section. Loss on the sale of depreciable assets should be included in **All other expenses** at **P** in the **EXPENSES** section.

Tax depreciation may differ from accounts or book depreciation. The reconciliation between accounts and tax depreciation is included at either **Income reconciliation adjustments** at **X** or **Expense reconciliation adjustments** at **H**. See **Part D—Working out your reconciliation adjustments** on page 31 for information on tax depreciation.

Step 1
Write your total primary production depreciation expenses in **Depreciation expenses**, *Primary production* column, item **P8** on your schedule. Do not show cents.

Step 2
Write your total non-primary production depreciation expenses in **Depreciation expenses**, *Non-primary production* column, item **P8** on your schedule. Do not show cents.

Step 3
Add up your primary production and non-primary production depreciation expenses and *write* the total amount at **M** item **P8** on your schedule.

Note: If you have included an amount of more than $1000 at **M**, and you are not a small business taxpayer, you will need to complete and attach a *Depreciation schedule 2001* (NAT 3424—5.2001). To find out how to get this schedule and the *Depreciation schedule 2001 instructions* (NAT 4089—4.2001), see page 2.

For the definition of a small business taxpayer, see page 7.

Part M—Did your business have motor vehicle expenses?

NO ☐ Go to part N.
YES ☐ Read on.

WHAT YOU NEED TO KNOW

Questions **D1** and **D2** of *TaxPack 2001* (NAT 0976—6.2001) tell you more about the expenses you can claim.

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

Step 1
Write your total primary production motor vehicle expenses in **Motor vehicle expenses**, *Primary production* column, item **P8** on your schedule. Do not show cents.

Step 2
Write your total non-primary production motor vehicle expenses in **Motor vehicle expenses**, *Non-primary production* column, item **P8** on your schedule. Do not show cents.

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

Step 4
If you are claiming motor vehicle expenses for a car under one of the 4 methods described at question **D1** in *TaxPack 2001*, *find* the code letter that identifies the method you used to work out your expenses and *print* it in the *TYPE* box ☐ at the right of the amount at **N** item **P8** on your schedule.

If you are claiming motor vehicle expenses other than for a car—see question **D2** in *TaxPack 2001*—*print* the code letter **N** in the *TYPE* box ☐ at the right of the amount at **N** item **P8** on your schedule.

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

Part N—Did your business have repairs and maintenance expenses?

NO ☐ ▶ Go to part O.
YES ☐ ▼ Read on.

WHAT YOU NEED TO KNOW

This is expenditure incurred for repairs and maintenance of premises, plant, machinery, implements, utensils, rolling stock or articles associated with the production of income. Any items of a capital nature included at this part should also be included at **H** **Expense reconciliation adjustments**, item **P8** on your schedule.

Repairs
You may deduct the cost of repairs—not being expenditure of a capital nature—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, taking account of such use.

Where items are newly acquired, including by way of a legacy or gift, the cost of repairs to defects in existence at the time of acquisition is generally of a capital nature. Expenditure incurred in making alterations, additions or improvements is of a capital nature and is not deductible.

For further information on deductions for repairs, refer to *Taxation Ruling TR 97/23—Income tax: deductions for repairs*. To find out how to get this publication, see page 2.

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

Step 1
Write your total primary production repairs and maintenance expenses in **Repairs and maintenance**, *Primary production* column, item **P8** on your schedule. Do not show cents.

Step 2
Write your total non-primary production repairs and maintenance expenses in **Repairs and maintenance**, *Non-primary production* column, item **P8** on your schedule. Do not show cents.

Step 3
Add up your primary production and non-primary production repairs and maintenance expenses and *write* the total amount at **O** item **P8** on your schedule.

Part O—Did your business have any other expenses?

NO ☐ ▶ Go to part P.
YES ☐ ▼ Read on.

WHAT YOU NEED TO KNOW

This is the total of all other expenses you incurred in deriving your profit or loss and which you have not already shown elsewhere at item **P8**. Other expenses include wages, accounting and professional fees, advertising and office supplies.

Home office expenses
If part of your home is specifically set aside and used solely for the purpose of conducting your business affairs and you

have no other place from where they are mainly carried on, the following expenses are partly deductible:

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

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

Where part of your home is used as a home office but it does not qualify as a place of business, only part of the additional running expenses you incur may be deductible. For further details, refer to *Taxation Ruling TR 93/30—Income tax: deductions for home office expenses* and *Practice Statement PS 2001/6—Home office expenses: diaries of use and calculation of home office expenses*. To find out how to get these publications, see page 2.

Capital and other non-deductible items included at this part should also be included in **Expense reconciliation adjustments** at H item **P8** on your schedule. See **Part D—Working out your reconciliation adjustments** on page 31 for more information.

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

Step 1

Write your total other primary production expenses in **All other expenses**, *Primary production* column, item **P8** on your schedule. Do not show cents.

Step 2

Write your total other non-primary production expenses in **All other expenses**, *Non-primary production* column, item **P8** on your schedule. Do not show cents.

Step 3

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

Part P—Working out your total expenses

Step 1

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

Step 2

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

Step 3

Add up all the non-primary production expenses you have written in the *Non-primary production* column, from **Cost of sales** down to and including **All other expenses**, and *write* the total at T item **P8** on your schedule. Do not show cents.

Step 4

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

Step 5

Add up your primary production and non-primary production expenses and *write* the total amount at **TOTAL EXPENSES**, *Total* column, item **P8** on your schedule.

Step 6

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

RECONCILIATION ITEMS

Part A—Are you entitled to claim a drought investment allowance?

NO ☐ ▶ Go to part B.

YES ☐ ▼ Read on.

WHAT YOU NEED TO KNOW

The drought investment allowance provides for a deduction of 10 per cent of capital expenditure incurred in buying or building new items of drought mitigation property.

Drought mitigation property is:

- a fodder storage facility—that is, a building or other structure used exclusively to store grain, hay or fodder
- a water storage facility—that is, a dam, earth tank, underground tank or above-ground tank or a base, stand or cover for such a tank or any other structure or improvement that is used on particular land to store water predominantly for livestock. This facility must be

part of an approved water conservation plan. Ring the ATO for details of your State authority or approved farm water resource consultant
- a water transport facility—that is, a bore or well, a pump or windmill, a pipe, a water tower or header tank or any other structure or improvement that is used to transport water as part of an approved water conservation plan. Ring the ATO for details of your water conservation agency or approved farm water resource consultant
- minimum tillage equipment—for example, trash tillage implements, boom sprays and markers, zero and reduced tillage planters, trash seeders, deep ploughs and seed drills—used in planting and cultivation that does not involve tillage of the soil or seriously affect soil structure and that retains a high degree of organic matter or surface cover. There are certain exclusions—examples of equipment that is not minimum tillage equipment are: one-way disc, offset disc and mould board ploughs; tined tillage implements and seeding implements with low capacity for trash clearance; rotary hoes; tined harrows; and rollers that cause significant compaction of soil.

You can claim the investment allowance if you incur the expenditure after 23 March 1995 and before 1 July 2000. If the item of drought mitigation property is built, construction must start between those dates. The item must be new and:
- must cost $3000 or more
- must be used wholly and exclusively in Australia for producing assessable primary production income other than by leasing it, letting it on hire purchase or granting rights to other persons to use it
- must be first used or installed ready for your use before 1 July 2001
- must be retained for at least 12 months and not be leased, nor the right to use it transferred, to another person within this time.

The allowance will be lost where the property is disposed of after 12 months and it was bought or built with the intention of disposing of it.

You can claim 10 per cent of this expenditure as a deduction in the year you first used the item or installed it ready for use. The deduction is restricted to a maximum of $5000 in any given income year. Excess expenditure, or any deduction based on it, does not carry over to other years.

If you receive a recoupment of deductible capital expenditure incurred in buying or building new items of drought mitigation property, it is assessable under Subdivision 20–A of the ITAA 1997. You are treated as receiving as recoupment only 10 per cent of the amount received. If a recoupment amount is assessable under another provision of the income tax law, Subdivision 20–A of ITAA 1997 does not apply.

Leasing companies that lease drought mitigation property to primary producers may qualify for drought investment allowance. Among other requirements, the lessee must use the drought mitigation property wholly and exclusively in Australia to produce assessable primary production income in the course of carrying on a business in Australia. The lease term must be for at least 4 years. You must have entered into the lease with the other person at arm's length. The leasing company deduction is limited to $5000 per item. The leasing company can transfer its deduction for drought mitigation property to a primary producer lessee provided certain criteria are met.

Step 1
Work out 10 per cent of the capital cost of acquiring or constructing qualifying new items of property.

Step 2
Write your total primary production drought investment allowance in **Drought investment allowance**, *Primary production* column, item **P8** on your schedule. Do not show cents.

Step 3
Write your primary production drought investment allowance amount at **U** item **P8** on your schedule.

Part B—Did your business have environmental impact assessment and environmental protection expenditure?

NO ☐ ▶ Go to part C.

YES ☐ ▼ Read on.

WHAT YOU NEED TO KNOW

Show at this part the amount of allowable environmental impact assessment and environmental protection expenditure.

Expenditure on environmental impact assessment
You can deduct the costs incurred in carrying out an activity for the sole or dominant purpose of evaluating the impact

on the environment of a project relating to the production of assessable income—other than net capital gain. The period for write-off shall be the lesser of:

- 10 years or
- the life of the project to which the evaluation relates.

Note:

- The cost of depreciable plant or articles used for environmental impact assessments are not written off under this provision, but are written off under the ordinary depreciation provisions.
- A deduction under this provision is not available where the cost of an environmental impact assessment is allowable under any other provision—for example, mining and quarrying companies can claim an outright deduction for many environmental impact assessments under the exploration or prospecting provisions.
- The deduction cannot be transferred to another taxpayer if the project to which the assessment relates is sold or ceases. The deduction remains with the taxpayer who incurs the expenses.
- Any grant or recoupment that you receive is an assessable recoupment and is to be included in assessable income under Subdivision 20–A of ITAA 1997. Where the expenditure is deductible over a number of years there is a formula contained in section 20–40 of ITAA 1997 to be applied to determine the amount of the assessable recoupment.
- Where the deduction arises from a non-arm's length transaction and the amount of the expenditure is greater or less than the market value of what the expenditure is for, the amount of the expenditure is instead taken to be that market value.

Expenditure on environmental protection activities

You can deduct expenditure to the extent that you incur it for the sole or dominant purpose of carrying on environmental protection activities. Environmental protection activities are activities which are related to the production of assessable income—other than assessable income attributable to capital gains and losses—and which are undertaken to prevent, fight or remedy environmental pollution or to treat, clean up, remove or store waste.

You can claim a deduction if pollution or waste has resulted, or is likely to result, from an income-producing activity, or is on the site or proposed site of that activity. You may also claim a deduction for cleaning up a site on which a predecessor carried on substantially the same business activity.

The deduction is not available for:

- bonds and security deposits
- the cost of depreciable expenditure on plant
- the cost of acquiring land
- the capital cost of constructing or altering buildings, structures or structural improvements
- costs to the extent that you can deduct them under another provision.

Repairs to plant or equipment used in an eligible environmental protection activity will be deductible in the year of income in which the cost is incurred. However, where the replacement amounts to an improvement to the plant or equipment, it will be depreciable at the relevant rate.

Expenditure on an environmental protection activity that is also environmental impact assessment expenditure is not deductible as expenditure on environmental protection activities. Instead, it will be deductible as expenditure on environmental impact assessment. An example would be a study to determine the quantity and type of pollutants which will be produced from a process used in a proposed business that qualifies as an environmental protection activity. Such expenditure also may be environmental impact assessment expenditure. In this case, it will be deductible over 10 years or the life of the project, whichever is the lesser, and will be excluded from deduction as expenditure on environmental protection activities.

A recoupment of the expenditure that you have claimed as a deduction is included in your assessable income for the year in which you receive the recoupment. A recoupment includes any kind of recoupment, reimbursement, refund, insurance, indemnity or recovery, however described, and a grant in respect of the loss or outgoing.

Where the deduction arises from a non-arm's length transaction and the amount of the expenditure is greater or less than the market value of what the expenditure is for, the amount of the expenditure is instead taken to be that market value.

Expenditure incurred on or after 19 August 1992 on an eligible environmental protection earthwork can be written off at the rate of 2.5 per cent per annum under the provisions for capital works expenditure. This deduction is available provided the earthwork can be economically maintained in reasonably good order and condition for an indefinite period and the earthwork is not integral to the construction of capital works.

Step 1

Write your total primary production environmental expenses in **Environmental impact assessment and environmental protection expenses**, *Primary production* column, item **P8** on your schedule. Do not show cents.

Step 2

Write your total non-primary production environmental expenses in **Environmental impact assessment and environmental protection expenses**, *Non-primary production* column, item **P8** on your schedule. Do not show cents.

Step 3

Add up your primary production and non-primary production environmental impact assessment and environmental protection expenses and *write* the total amount at **V** item **P8** on your schedule.

Part C—Did your business have landcare operations and/or water conservation/conveying expenses?

NO ☐ ▶ Go to part D.

YES ☐ ▼ Read on.

WHAT YOU NEED TO KNOW

Landcare operations expenses

Landcare operations cover what were previously known as land degradation measures. You can claim a deduction in the year you incur capital expenditure on landcare measures for land in Australia provided you incur it in any one of the following operations:

- eradicating or exterminating animal or plant pests from the land
- destroying weed or plant growth detrimental to the land
- preventing or combating land degradation other than by the use of fences
- erecting fences to keep out livestock or vermin from areas affected by land degradation to prevent or limit further damage and assist in reclaiming the areas
- erecting fences to separate different land classes in accordance with an approved land management plan
- constructing levee banks or similar improvements
- constructing surface or subsurface drainage works—other than the draining of swamps or low-lying areas—to control salinity or assist in drainage control.

In each case, apart from the construction of levee banks, the operation must be carried out primarily and principally for the purpose stated. This is to ensure that the outright deduction for landcare measures and the 3-year write-off for facilities to conserve or convey water cannot both be claimed for the same item of expenditure. Where levee banks are constructed primarily and principally for water conservation, the cost is an allowable deduction under the water conservation provisions—see **Water conservation and conveyance** below.

If you are carrying on a primary production business on the land, you may claim the deduction even if you are a lessee.

The deduction for landcare operations expenses is reduced when the land is not used wholly for either:

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

If you receive a recoupment of deductible landcare operations expenditure it is assessable under Subdivision 20–A of ITAA 1997. This subdivision does not apply if the recoupment is assessable under another provision of the income tax law. Ring the landcare hotline on **1800 060 425** for further information.

These deductions are not available to a partnership. Landcare operations expenses incurred by a partnership are allocated to each partner and deducted from the partner's income.

Certain other capital expenditure

You can claim a deduction over 10 years for certain other capital expenditure. The deduction is allowable in equal instalments over 10 years if it was incurred in connecting:

- mains electricity to land on which a business is carried on or in upgrading an existing connection to that land
- a telephone line to land being used to carry on a primary production business.

These deductions are not available to a partnership. Costs incurred by a partnership for mains electricity supply or telephone lines are allocated to each partner and deducted from the partner's income.

Water conservation and conveyance

Capital expenditure incurred on water storage and farm reticulation systems is deductible if incurred primarily and principally in carrying on a primary production business on land in Australia. The deduction can be claimed in equal instalments over 3 years. Items include dams, earth tanks, underground tanks, concrete or metal tanks, tank stands, bores, wells, irrigation channels or similar improvements, pipes, pumps, water towers, windmills and extensions or improvements to any of these items. The cost of constructing a power line from an existing mains electricity connection to any plant used for conserving or conveying water is also included.

If you are carrying on a business of primary production on the land, you may claim the deduction even when you do not own the land. Therefore, if you are a lessee carrying on a business of primary production on the land, you can still claim the deduction.

The deduction for facilities to conserve or convey water is reduced where the facility is not used wholly for either:
- carrying on a primary production business on land in Australia or
- producing assessable income.

If you receive a recoupment of deductible water conservation and conveyance expenditure it is assessable under Subdivision 20–A of ITAA 1997. As the expenditure on water facilities is deductible over 3 income years, special rules apply to determine the amount of any recoupment to be included in assessable income. If the recoupment is assessable under another provision of the income tax law, Subdivision 20–A of ITAA 1997 does not apply. Ring the landcare hotline on **1800 060 425** for further information.

These deductions are not available to a partnership. Costs incurred by a partnership for facilities to conserve or convey water are allocated to each partner and deducted from the partner's income.

Step 1

Write the deductible amount of any landcare operations expenses and water conservation/conveying expenses in **Landcare operations and water conservation/conveying expenses**, *Primary production* column, item **P8** on your schedule. Do not show cents.

Step 2

Write the amount of any non-primary production landcare operations expenses in **Landcare operations and water conservation/conveying expenses**, *Non-primary production* column, item **P8** on your schedule. Do not show cents.

Step 3

Add up your primary production and non-primary production landcare operations and water conservation/conveying deductible amounts and *write* the total amount at **W** item **P8** on your schedule.

Part D—Working out your reconciliation adjustments

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

Do not complete any income reconciliation adjustments or expense reconciliation adjustments if all the amounts you have written at **C** **Gross payments where Australian Business Number not quoted** to **W** **Landcare operations and water conservation/conveying expenses**, item **P8** on your schedule, are assessable income or allowable tax deductions for income tax purposes.

If you have included any amounts such as exempt income, capital and other non-deductible expenses at these labels, you must work out your reconciliation adjustments.

If you have not included any of these amounts, go to **Part E—Working out your net income or loss from business** on page 34.

What are reconciliation adjustments?

Income reconciliation adjustments include:
- income add backs—income not shown in the accounts which is assessable income for tax purposes, such as:
  1 assessable balancing adjustment charged on sale of fixed assets
  2 other assessable income not included in the profit and loss statement
- income subtractions—income shown in the accounts which is not assessable income, such as:
  3 profit on sale of fixed assets shown in the accounts
  4 other income shown in the profit and loss statement that is not assessable for income tax purposes—for example, gross exempt income.

Note: You need to subtract the total of items **3** and **4** from the total of items **1** and **2** to work out the net income reconciliation adjustment. The amount calculated is written at **X** item **P8** on your schedule.

The net total of the primary production and non-primary production income reconciliation adjustments must agree with the amount shown at **X** on your schedule.

Where the net total is a negative amount, *print* **L** in the box ☐ at the right of the amount at **X**.

Expense reconciliation adjustments include:

- expense add backs—expenses shown in the accounts which are not tax deductible, such as:
  5 depreciation charged in accounts
  6 loss on sale of fixed assets shown in accounts
  7 other items not allowable as a deduction—for example, capital expenditure, additions to provisions and reserves, income tax expense, expenses relating to exempt income, other non-deductible expenses
- expense subtractions—items not shown as expenses which are deductible for tax purposes, such as:
  8 depreciation deducted for tax purposes
  9 tax loss on disposal of depreciable assets
  10 other deductible items for tax purposes.

Note: You need to subtract the total of items **8**, **9** and **10** from the total of items **5**, **6** and **7** to work out the net expense reconciliation adjustment. The amount calculated is written at **H** item **P8** on your schedule.

The net total of the primary production and non-primary production expense reconciliation adjustments must agree with the amount shown at **H** on your schedule.

Where the net total is a negative amount, *print* **L** in the box ☐ at the right of the amount at **H**.

Depreciation deducted

Depreciation calculated under the income tax law may differ from the accounting or book calculation. Different rules regarding such things as effective life rates, the calculation of balancing adjustments and the treatment of debt forgiveness amounts can produce a discrepancy between the 2 calculations.

Under the income tax law you can deduct an amount for depreciation of a unit of plant in the 2000–01 income year, if you are its owner or quasi-owner and you use it, or have it installed ready for use, for the purpose of producing assessable income.

Some of the features of the current income tax law relating to depreciation are:

- accelerated depreciation has been retained for small business taxpayers who meet certain qualifying conditions. For all other taxpayers the general rule is that depreciation on plant acquired after 21 September 1999 is determined solely by reference to effective life
- taxpayers who qualify as small business taxpayers can continue to claim the immediate deduction for plant costing $300 or less
- for business taxpayers other than small business taxpayers, the immediate deduction for plant costing $300 or less has been repealed and replaced with an option to depreciate plant through a low-value pool
- the option to offset any assessable balancing adjustments against the cost of replacement plant has been removed except for small business taxpayers and certain involuntary disposals
- for the definition of a small business taxpayer, see page 7.
- taxpayers other than small business taxpayers who included an amount of more than $1000 at **M** **Depreciation expenses**, item **P8**, must complete a *Depreciation schedule 2001*.

To assist you in calculating your depreciation claim for taxation purposes you should refer to the publication *Guide to depreciation 2001*. To find out how to get this publication, see page 2.

The **RECONCILIATION STATEMENT** on page 33 contains reference to **Balancing adjustment on disposal of depreciable assets**, **Depreciation deductible for tax purposes** and **Tax loss on disposal of depreciable assets**, all these terms are explained in the *Guide to depreciation 2001*.

Step 1

Fill in the **RECONCILIATION STATEMENT** below.

Step 2

Write your total primary production reconciliation adjustments in **Income reconciliation adjustments** and **Expense reconciliation adjustments**, *Primary production* column, item **P8** on your schedule. Do not show cents.

Step 3

If any total primary production reconciliation adjustment is a negative amount, *print* **L** in the box ☐ at the right of this amount.

Step 4

Write your total non-primary production reconciliation adjustments in **Income reconciliation adjustments** and **Expense reconciliation adjustments**, *Non-primary production* column, item **P8** on your schedule. Do not show cents.

Step 5

If any total non-primary production reconciliation adjustment is a negative amount, *print* **L** in the small box ☐ at the right of this amount.

Step 6

Add up your income reconciliation adjustments and expense reconciliation adjustments and *write* the total amounts at **X** and **H** item **P8** on your schedule.

Step 7

If your total reconciliation adjustment is a negative amount, *print* **L** in the box at the right of the amount at **X** or **H** item **P8** on your schedule.

Do not include in **Subtractions—Other deductible items for tax purposes not included in the PLS** at (o):

- drought investment allowance
- environmental impact assessment and environmental protection expenditure
- landcare operations and water conservation/conveying expenses.

Reconciliation adjustments for these amounts are shown separately at **U**, **V** and **W** item **P8** on your schedule.

RECONCILIATION STATEMENT

Income reconciliation adjustments			Primary production	Non-primary production
Additions	Assessable business income not included in the profit and loss statement (PLS)	(a)	$	$
	Balancing adjustment on disposal of depreciable assets	(b)	$	$
	Subtotal—*add* amounts at (a) and (b)	(c)	$	$
Subtractions	Net exempt income—gross exempt income less expenses relating to that exempt income	(d)	$	$
	Profit on sale of fixed assets included in accounts	(e)	$	$
	Subtotal—*add* amounts at (d) and (e)	(f)	$	$
	Income reconciliation adjustment—*take* (f) away from (c)		$ /	$ /

Expense reconciliation adjustments			Primary production	Non-primary production
Additions	Depreciation charged in accounts	(g)	$	$
	Loss on sale of fixed assets included in accounts	(h)	$	$
	Items not allowable as deductions:		$	$
	– capital expenditure	(i)	$	$
	– additions to provisions and reserves	(j)	$	$
	– other items, including income tax and other non-deductible expenses	(k)	$	$
	Subtotal—*add* all amounts from (g) to (k)	(l)	$	$
Subtractions	Depreciation deductible for tax purposes	(m)	$	$
	Tax loss on disposal of depreciable assets	(n)	$	$
	Other deductible items for tax purposes not included in the PLS	(o)	$	$
	Subtotal—*add* all amounts from (m) to (o)	(p)	$	$
	Expense reconciliation adjustment—*take* (p) away from (l)		$ /	$ /

Part E—Working out your net income or loss from business

Step 1

Work out your net primary production and non-primary production income or loss separately by using the tables below.

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

WORKING OUT YOUR NET INCOME OR LOSS FROM PRIMARY PRODUCTION BUSINESS

Write your primary production total business income shown at **TOTAL BUSINESS INCOME**, *Primary production* column, item **P8**.	(a)	$	/
Write your total primary production business expenses shown at **S** item **P8**.	(b)	$	/
Write the total of any primary production drought investment allowance, environmental impact assessment and environmental protection expenses, landcare operations and water conservation/conveying expenses.	(c)	$	
Add the amount at (b) to the amount at (c).	(d)	$	/
Take the amount at (d) from the amount at (a).	(e)	$	/
If the amount at (d) is more than the amount at (a), the amount at (e) is a loss.			
Write any primary production income reconciliation adjustment (see pages 31–33).	(f)	$	/
Write any primary production expense reconciliation adjustment (see pages 31–33).	(g)	$	/
Add the amounts at (f) and (g) to the amount at (e).		$	/
This is your net income or loss from primary production business.	(h)	$	/

Note: If the amount at (e) is a loss, the examples on the next page will help you to work out your net loss from primary production business.

WORKING OUT YOUR NET INCOME OR LOSS FROM NON-PRIMARY PRODUCTION BUSINESS

Write your primary production total business income shown at **TOTAL BUSINESS INCOME**, *Non-primary production* column, item **P8**.	(i)	$	/
Write your total non-primary production business expenses shown at **T** item **P8**.	(j)	$	/
Write the total of any non-primary production environmental impact assessment and environmental protection expenses and landcare operations expenses.	(k)	$	
Add the amount at (j) to the amount at (k).	(l)	$	/
Take the amount at (l) from the amount at (i).	(m)	$	/
If the amount at (l) is more than the amount at (i), the amount at (m) is a loss.			
Write any non-primary production income reconciliation adjustment (see pages 31–33).	(n)	$	/
Write any non-primary production expense reconciliation adjustment (see pages 31–33).	(o)	$	/
Add the amounts at (n) and (o) to the amount at (m).		$	/
This is your net income or loss from non-primary production business.	(p)	$	/

Note: If the amount at (m) is a loss, the examples on the next page will help you to work out your net loss from non-primary production business.

Examples

If the amount at (e) is a $5000 loss, the amount at (f) is $12 000 income, and the amount at (g) is a $1000 loss, the net income from the primary production business is $6000 (h).

If the amount at (e) is a $5000 loss, the amount at (f) is $2000 income, and the amount at (g) is a $6000 loss, the net loss from the primary production business is $9000 (h).

If the amount at (m) is a $5000 loss, the amount at (n) is a $4000 loss, and the amount at (o) is a $1000 loss, the net loss from the non-primary production business is $10 000 (p).

Step 2

Write the amount of your net income or loss from your primary production business at Y item **P8** on your schedule. Do not show cents. If you made a net loss from primary production business, *print* **L** in the box at the right of this amount.

Step 3

Write the amount of your net income or loss from your non-primary production business at Z item **P8** on your schedule. Do not show cents. If you made a net loss from non-primary production business, *print* **L** in the small box at the right of this amount.

Step 4

Add up your primary production and non-primary production net income or loss from business and *write* the total amount at **NET INCOME OR LOSS FROM BUSINESS**, *Total* column, item **P8** on your schedule.

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

Make sure the amounts you write at Y and Z are the same as the amounts you have written at B and C item **14** on your tax return.

Other business and professional items

ITEMS P9 TO P17

You need to fill in all items relating to your business expenses. If you have more than one business, you must add the figures for all businesses, irrespective of whether they are primary or non-primary production, and write only one figure at each item.

If you are a primary producer, you will need a primary production worksheet to work out some of the following items. This worksheet is in the publication *Information for primary producers*. To find out how to get this publication, see page 2.

P9 Business loss activity details

ACTIVITY 1

Describe the business activity from which you made the largest loss and *print* this at D. If your business activity is the result of an investment in a tax effective arrangement, *print* the product ruling number (if any) and the name of the project at D.

Print either **P** (loss from a business activity carried on in partnership with others) or **S** (loss from a business activity carried on as a sole trader) at F, as appropriate.

From 1 July 2000 new rules relating to deferred non-commercial business losses apply. This means that you can only use a 2000–01 loss from a business activity you conduct either as a sole trader or in partnership in calculating your 2000–01 taxable income where:

- an exception applies or
- one of 4 tests is satisfied or
- if one of the 4 tests is not satisfied, the Commissioner exercises his discretion to allow you to claim the loss

otherwise you must defer your loss and complete item **15** on your tax return to ensure that your loss is not taken into account in calculating your 2000–01 taxable income.

For more details on these new rules, see question **15** in *TaxPack 2001 supplement* (NAT 2677—6.2001).

Type of loss

The code you use at G will determine whether you can claim your loss against other income this year.

Print the most appropriate code at G from the following list.

Print **1** if your assessable income from the business activity for this income year is at least $20 000.

Print **2** if the business activity has produced a profit for tax purposes in 3 out of the past 5 years (including the current year).

Print **3** if the value of real property assets or interests in real property (excluding any private dwelling) used on a continuing basis in carrying on the business activity is at least $500 000.

Print **4** if the value of certain other assets (except cars, motor cycles or similar vehicles) used on a continuing basis in carrying on the business activity is at least $100 000.

Print **5** if the ATO has advised you in writing that the Commissioner will exercise his discretion to allow you to claim a loss in relation to that business activity for this income year.

Print **6** if the loss is from a business activity you operated that is a professional arts business* and your assessable income (excluding any net capital gain) from sources not related to that activity is less than $40 000.

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

Print **7** if the loss is from a business activity you operated that is a primary production business and your assessable income (excluding any net capital gain) from sources not related to that activity is less than $40 000.

Print **8** if the loss is required to be deferred under the new rules.

Print the amount of the loss from the business activity at **H**.

Note: If the loss is required to be deferred, the amount of the loss must form part of the total amount of deferred non-commercial business losses shown at item **15** on your tax return.

ACTIVITIES 2 AND 3

Fill out the same details for the second and third largest losses (if applicable) as you have done for activity 1.

P10 13 month prepaid expenses

WHAT YOU NEED TO KNOW

The rules that allowed immediate deductibility for expenditure incurred in respect of things to be done within 13 months of the expenditure being incurred have changed. For many businesses, the deduction for most prepaid expenditure incurred after 11.45 a.m. (by legal time in the ACT) on 21 September 1999 must be apportioned over the period the prepayment covers. This is consistent with the treatment of prepayments for periods exceeding 13 months.

Transitional rules apply to reduce the initial impact of this measure. (**Note**: these transitional rules do not apply to prepaid expenditure apportionable under tax shelter arrangements.)

The information to be shown at **A**, **B** and **C** relate to prepayments that are affected by the transitional rules. You will need to work out whether the tax shelter rules affect you before you can complete item **P10**.

Prepaid expenses and tax shelter arrangements

The tax shelter rules apply to certain prepayments made after 1.00 p.m. (by legal time in the ACT) on 11 November 1999. A tax shelter arrangement covers all related activities including those that give rise to deductions or assessable income. You will be in a tax shelter arrangement if:

- your allowable deductions attributable to the arrangement for the 2000–01 income year exceed your assessable income attributable to 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.

Exclusions 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 or
- interest on money borrowed to acquire:
  - real property or an interest in real property
  - shares listed on an approved stock exchange or
  - units in a widely held unit 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 1.00 p.m. (by legal time in the ACT) on 11 November 1999 (that you cannot avoid by your own actions)
- expenditure under an arrangement which, before 1.00 p.m. (by legal time in the ACT) on 11 November 1999, had obtained or had applied for and later obtained, a favourable ATO product ruling and
- any prepaid expenditure which is 'excluded expenditure' —that is, an amount below $1000, an amount required to be incurred by a law or a court order, or an amount of salary or wages.

Apportionment of deduction

The deduction for prepaid expenses affected by the tax shelter rules is spread over the period the prepayment covers and is calculated as follows:

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

(The eligible service period is the period during which the thing is to be done under the agreement.)

Ensure that at item **P8** or question **12** in *TaxPack 2001 supplement* you have claimed only the deductible portion of any prepaid expense affected by the tax shelter rules.

Label A—Do the new prepayment provisions apply to you?

Did you make a prepayment of an expense in the 1999–2000 or 2000–01 income years where all of the following applied:

- the prepayment was made after 11.45 a.m. (by legal time in the ACT) on 21 September 1999—and was not made under a contract entered into before that time (that you cannot avoid by your own actions)
- the prepayment was for things to be done within 13 months of the expenditure being incurred and would not be wholly done in the income year in which the amount was incurred (the expenditure year)
- the prepayment was $1000 or more and was not an amount of salary or wages or an amount required to be incurred by a law or a court order
- the prepayment was made in carrying on a business
- the prepayment was not affected by the tax shelter rules and
- you were not a small business taxpayer (for the definition of a small business taxpayer, see page 7).

If the answer is:

NO ☐ ▶ Write **N** at **A**. You do not need to complete **B** and **C**. However your deduction may still be affected by the tax shelter rules.

YES ☐ ▶ Write **Y** at **A**. You must complete **B** and **C**. You need to read the publication *Deductions for prepaid expenses—individuals* before you can complete **B** and **C**. To find out how to get this publication, see page 2.

For further explanation of the new prepayments and tax shelter measures, refer to *Deductions for prepaid expenses—individuals*. To find out how to get this publication, see page 2, or ring the Personal Tax Infoline on **13 2861** for further information.

P11 Did your business have any trade debtors?

NO ☐ ▼ Go to item **P12**.

YES ☐ ▼ Read on.

WHAT YOU NEED TO KNOW

This is the total amount owing to the business at the end of the year for goods and services provided during 2000–01—that is, current trade and other debtors.

Step 1

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

Step 2

Write the total amount owing from trade and other debtors at **E** item **P11** on your schedule. Do not show cents.

P12 Did your business have any trade creditors?

NO ☐ ▶ Go to item **P13**.

YES ☐ ▶ Read on.

WHAT YOU NEED TO KNOW

This is the total amount owed by the business at the end of the year for goods and services provided during 2000–01—that is, current trade and other creditors.

Step 1
Work out the total amount owing to trade and other creditors. If you have more than one business, *add up* all trade and other creditor amounts.

Step 2
Write the total amount owing to trade and other creditors at **F** item **P12** on your schedule. Do not show cents.

P13 Did your business have salary and wage expenses?

NO ☐ ▶ Go to item **P14**.
YES ☐ ▼ Read on.

WHAT YOU NEED TO KNOW

Salaries and wages and other labour costs actually paid or payable to persons employed in your business—excluding those forming part of capital expenditure or paid for private domestic assistance—usually are deductible. However, you cannot be an employee of your business. Payments to you of salaries—in reality an allocation of profits—are not allowable deductions in calculating your income or loss.

Include any salary and wage component of **Cost of sales** such as allowances, bonuses, casual labour, retainers and commissions paid to people who received a retainer, and workers compensation paid through the payroll. Also include direct and indirect labour, holiday pay, locums, long service leave, lump sum payments, other employee benefits, overtime, payments under an incentive or profit sharing scheme, retiring allowances and sick pay. Include any salary or wages paid to related entities both here and at **H** item **P14** on your schedule. Exclude agency fees, contract payments, sub-contract payments, service fees, superannuation, reimbursements or allowances for travel, wages or salaries reimbursed under a government program, management and consultant fees.

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

Step 2
Write this amount at **G** item **P13** on your schedule. Do not show cents.

Step 3
Select from the following list the letter that matches the description of the expense component where the salary and wage expenses have been wholly or predominantly reported.

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

Step 4
Print the letter in the *TYPE* box ☐ at the right of the amount at **G** item **P13** on your schedule.

P14 Did your business make any payments to related entities?

NO ☐ ▶ Go to item **P15**.
YES ☐ ▼ Read on.

WHAT YOU NEED TO KNOW

These are amounts, including salary or wages, commissions, superannuation contributions or allowances paid to related entities. A related entity is defined in section 26–35 of ITAA 1997. Related entities include your relatives or a partnership in which your relative is a partner. Amounts of salaries or wages paid to related entities should also be included at **G** item **P13** on your schedule.

You need to keep the following records:

- full name of related entity
- age, if under 18
- relationship
- nature of duties performed
- hours worked

- total remuneration
- salary or wages claimed as deductions
- other amounts paid—for example, retiring gratuities, bonuses and commissions.

Excessive remuneration paid to a related entity may not be deductible.

Step 1
Add up payments made to related entities from each business.

Step 2
Write the amount at **H** item **P14** on your schedule. Do not show cents.

P15 Did your business purchase any depreciable assets?

NO ☐ Go to item **P16**.
YES ☐ Read on.

WHAT YOU NEED TO KNOW

Include the value, for income tax depreciation purposes, of all depreciable assets brought into use for producing assessable income and first depreciated during the income year. The value to be shown is the cost of the depreciable assets less adjustments made, such as balancing adjustment offsets for involuntary disposals. Exclude purchases of buildings and assets used to produce exempt income.

Step 1
Add up the value of all depreciable assets purchased by each business and first depreciated during the income year.

Step 2
Write the amount at item **P15** on your schedule. Do not show cents.

P16 Did your business dispose of any depreciable assets?

NO ☐ Go to item **P17**.
YES ☐ Read on.

WHAT YOU NEED TO KNOW

Include the value of each depreciable asset sold, lost or destroyed during the income year. The value shown is to be the lesser of the written down value at the date of disposal or the amount received. If these amounts are the same, show that amount.

Exclude sale of buildings and assets used to produce exempt income.

Step 1
Add up the value of all depreciable assets sold, lost or destroyed by each business.

Step 2
Write the amount at item **P16** on your schedule. Do not show cents.

P17 Have you made a trading stock election?

NO ☐ Go to **Check that you have...** below.
YES ☐ Read on.

WHAT YOU NEED TO KNOW

If you have valued trading stock on hand at the end of the year of income at an amount that is less than the lowest amount available using one of the valuation methods at **Part C—What is the value of your closing stock?** on page 19, then the Commissioner must be notified. *Print* **Y** for yes in the box at this item.

Check that you have . . .

- written the correct amount on your schedule for each item that applies to you
- correctly transferred the amount at **M** **Net PSI** item **P1** on your *2001 business and professional items schedule* to **A** at item **13** on your tax return
- correctly transferred the amounts at **Y** and **Z** **NET INCOME OR LOSS FROM BUSINESS** item **P8** on your *2001 business and professional items schedule* to **B** and **C** respectively at item **14** on your tax return

- kept records to prove your claims, where required
- signed and dated your *2001 business and professional items schedule* and attached it to page 3 of your tax return
- completed and attached the *Individual PAYG payment summary schedule 2001* to page 3 of your tax return, if you received business income that was subject to withholding.