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Australian Government
Australian Taxation Office

Company tax return instructions 2009

To help you complete the company tax return for 1 July 2008 – 30 June 2009

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

OUR COMMITMENT TO YOU

We are committed to providing you with guidance you can rely on, so we make every effort to ensure that our publications are correct.

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

If you make an honest mistake in trying to follow our guidance in this publication and you owe us money as a result, we will not charge you a penalty. However, we will ask you to pay the money, and we may also charge you interest.

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

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

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

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ABOUT THESE INSTRUCTIONS

The *Company tax return instructions 2009* will help you complete the *Company tax return 2009* (NAT 0656).

The instructions include:

- information about the schedules that companies might need to complete and attach to their tax returns
- details of record-keeping requirements
- instructions about how to complete each label on the company tax return.

Text with a green background applies to consolidated and multiple entry consolidated (MEC) groups.

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

This publication is **not** a guide to income tax law. Ask for help from the Australian Taxation Office (Tax Office) or a recognised tax adviser if you feel that this publication does not fully cover your circumstances.

PUBLICATIONS AND SERVICES

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

INTRODUCTION

These instructions will help you complete the *Company tax return 2009* (NAT 0656), the tax return for all companies including head companies of consolidated and MEC groups.

These instructions contain a number of abbreviations for names and technical terms. Each term is spelt out the first time it is used. A list of abbreviations is on page 104.

WHAT'S NEW?

Natural disasters

We have in place special arrangements for people affected by the recent natural disasters such as the Queensland and northern New South Wales floods, and the Victorian bushfires.

If your tax records were lost or destroyed, we can help you to reconstruct them, and make reasonable estimates where necessary.

We have set up a dedicated emergency support infoline to assist you – phone **1300 304 975** and one of our officers will discuss your situation and the best way we can help.

Other ways we can help are:
- we can fast track refunds
- we can give you extra time to pay debts – without interest charges
- we can give you more time to meet activity statement, income tax and other lodgment obligations – without penalties.
- we can help you if you are experiencing serious hardship.

Taxation of Financial Arrangements

The *Tax Laws Amendment (Taxation of Financial Arrangements) Act 2009* will change the way certain financial arrangements held by some companies are treated for income tax purposes. It introduces a new Division 230 into the *Income Tax Assessment Act 1997* (ITAA 1997) and broadly sets out the:
- method – accruals, realisation, fair value, retranslation, hedging, and financial reports – for calculating gains and losses on financial arrangements
- time at which the gains and losses will be brought to account for income tax purposes.

> **NOTE**
> This will not affect a company's taxable income for 2009 or how a company's 2009 income tax return is completed. However, depending on a company's circumstances, it may want to make certain elections which need to be made by the due date for lodgment of the 2009 income tax return.

Which companies are affected?

Division 230 will apply to:
- authorised deposit-taking institutions, securitisation vehicles and financial sector entities with an aggregated annual turnover of $20 million or more
- managed investment schemes or entities substantially similar to a managed investment scheme under foreign law if the value of their assets is $100 million or more
- other companies with an aggregated annual turnover of $100 million or more, assets of $300 million or more, or financial assets of $100 million or more.

All companies will be subject to Division 230 in respect of any qualifying securities that they hold that end more than 12 months after they start to have them. This applies regardless of the company's annual turnover and assets.

A company whose financial arrangements, other than qualifying securities, are not subject to Division 230 can elect to have Division 230 apply to those financial arrangements. Once made, this election is irrevocable.

Date of effect

Division 230 applies to financial arrangements that a company starts to have in income years starting on or after 1 July 2010. However, a company can elect to have Division 230 apply to financial arrangements it starts to have in income years starting on or after 1 July 2009.

Existing financial arrangements election

A company can also elect to have Division 230 apply to financial arrangements that it started to have prior to the first income year in which Division 230 applies to it, and that it holds at the start of that year.

> **NOTE**
> This election to bring in existing financial arrangements must be notified to the Commissioner on or before the lodgment due date of the:
> - company's 2009 income tax return (if the first year to which Division 230 applies is the 2010 income year),
> - company's 2010 income tax return (if the first year to which Division 230 applies is the 2011 income year).
>
> There may be modifications to the above dates for taxpayers with substituted accounting periods and an 'early' balance date.

Making elections

For further information on how to make these elections and how to notify the Commissioner see our website **www.ato.gov.au/tofa**

Small business and general business tax break

The *Tax Laws Amendment (Small Business and General Business Tax Break) Act 2009* has introduced an investment tax break for Australian businesses. Broadly, the tax break provides an additional tax deduction of 50% for small business entities, 30% or 10% for all other business entities, of the cost of eligible new tangible assets that are to be used in a business and for which a deduction is available under the core provisions of Division 40 of the *Income Tax Assessment Act 1997* (ITAA 1997). In order to claim the tax break, certain conditions must be satisfied, for example, the eligible asset must be acquired and first used, or installed ready for use, within a specified timeframe.

Foreign income tax offset rules

New rules relating to foreign income and losses apply to income years, statutory accounting periods and notional accounting periods starting on or after 1 July 2008. The new rules:

- remove the quarantining of foreign tax credits and introduce new foreign income tax offset rules
- remove the quarantining of foreign losses
- provide transitional rules for the treatment of pre-existing excess foreign tax credits and foreign losses
- enable the Commissioner of Taxation (the Commissioner) to provide relief from economic double taxation arising from transfer pricing adjustments by adjusting a taxpayer's taxable income or tax loss, and
- allow certain taxpayers to calculate their attributable income from a foreign investment fund (FIF) using the controlled foreign company (CFC) rules.

Capital gains tax – modification of the scrip-for-scrip rollover provisions for corporate restructures

Tax Laws Amendment (2008 Measures No. 6) Bill 2008 was introduced into Parliament on 3 December 2008. This Bill modifies the scrip-for-scrip capital gains tax (CGT) rollover provisions to ensure that, for corporate restructures, the acquiring entity's cost base of shares in the target entity reflects the tax costs of the target entity's net assets. The cost base will also be used in determining the value of the target entity's assets in consolidation if the target entity subsequently joins the acquiring entity's consolidated or MEC group.

These changes are proposed to have effect from 7.30pm (AEST) on 13 May 2008. At the time of publication the changes had not become law.

Carbon sink forests

The new carbon sink forest rules are designed to encourage establishment of carbon sink forests to reduce greenhouse gas emissions.

This law allows the following deductions for the costs incurred in establishing trees in a carbon sink forest:

- For such trees established in the 2007–08, 2008–09, 2009–10, 2010–11 or 2011–12 income year, you can claim an immediate deduction for the costs of establishing the trees.
- For such trees established in the 2012–13 or a later income year, you can claim a maximum capital write-off rate of 7% of the costs of establishing the trees (conditions apply).

Foreign residents receiving distributions from Australian managed investment trusts

New tax and withholding arrangements relating to Australian managed investment trust distributions to foreign residents apply for income years starting on or after 1 July 2008. For more information, see our fact sheet *New withholding arrangements for managed fund distributions to foreign residents* at **www.ato.gov.au**

Enhancements to consolidation regime

In May 2008, the Government decided to proceed with various modifications to the income tax consolidation regime announced by the previous government, but not enacted. These changes will clarify the operation of the consolidation regime and improve interactions with other parts of the law. Further details are in media release No. 053 dated 13 May 2008 by the Treasurer and Assistant Treasurer and Minister for Competition Policy and Consumer Affairs.

At the time of publication these changes had not become law.

Family trust elections and interposed entity elections

The proposed changes announced in the 2008 Budget to reverse two of the family trust amendments made in *Tax Laws Amendment (2007 Measures No. 4) Act 2007* are no longer proceeding.

Interim changes to the eligible investment business rules for managed funds

The *Tax Laws Amendment (2008 Measures No. 5) Act 2008* made changes to Division 6C of the *Income Tax Assesment Act 1936* (ITAA 1936) to streamline and modernise the eligible investment business rules for managed funds. Division 6C applies to tax certain public unit trusts, like companies (and their unit holders like shareholders), if the trust is a public trading trust. A public unit trust is a public trading trust for a year if at any time during that income year it operates, or controls operations of an entity that carries on, an activity that is not solely eligible investment business.

The changes:
- clarify the scope and meaning of 'investing in land' for the purpose of deriving rent
- introduce a 25% safe harbour allowance for non-rental, non-trading income from investments in land
- expand the range of financial instruments that a managed fund may invest or trade in
- provide a 2% safe harbour allowance at the whole of trust level for non-trading income.

These changes apply from 1 July 2008.

National rental affordability scheme

The National rental affordability scheme (NRAS) is designed to encourage large-scale investment in affordable housing. The scheme offers incentives to providers of new dwellings on the condition that they are rented to low and moderate-income households at 20% below market rates. A refundable tax offset is available where the housing secretary from the Department of Families, Housing, Community Services and Indigenous Affairs has issued a certificate under the scheme.

CGT – further amendments to the small business concessions

In the 2009 Federal Budget, the Government announced a transitional rule that will extend the time for taxpayers to choose to access the small business concessions, where that choice arises from changes to the concessions announced in the 2008 Federal Budget and the 2008–09 Mid-Year Economic and Fiscal Outlook. This extension of time will apply to CGT events that happen before the day on which the amending legislation receives royal assent.

The concessions for assets acquired on the death of an individual will be extended to cover assets that have passed to a testamentary trust, where the individual would have been able to access the concessions at the time of their death. This extension will apply to CGT events that happened in the 2006–07 and later income years.

The provisions which treat as dividends certain distributions to entities connected with a private company will be excluded from applying to the small business CGT retirement exemption. This exclusion will apply from the royal assent of the amending legislation.

This measure was introduced into Parliament together with the changes to the concessions that were announced on 19 March 2009.

Tax exemption for clean-up and restoration grants

The clean-up and restoration grants paid to small business and primary producers affected by the Victorian bushfires will be exempt from tax, as announced in the 2009 Federal Budget.

SCHEDULES

- Complete only **one** copy of the appropriate schedule.
- Attach all completed schedules to the *Company tax return 2009* unless specified otherwise.
- If you lodge your tax return without all the required schedules, we may not consider it to have been lodged in the approved form. Unless you lodge all schedules by the due date, you may be charged a penalty for failure to lodge on time.

CONSOLIDATED SUBSIDIARY MEMBERS

Companies that were subsidiary members of consolidated or MEC groups during only part of the income year and that are lodging a company tax return for any periods they were not a subsidiary member of any group (non-membership periods) must complete all relevant schedules covering the periods of non-membership if required by the following instructions.

CONSOLIDATED GROUPS LOSSES SCHEDULE

A head company of a consolidated group or MEC group must complete a *Consolidated groups losses schedule 2009* (NAT 7888) and lodge it with the *Company tax return 2009* if the head company satisfies one or more of the following tests:
- Tax losses and net capital losses carried forward to the 2009–10 income year total more than $100,000.
- Tax losses and net capital losses transferred from joining entities total more than $100,000.
- It can only utilise a tax loss or net capital loss in the income year or a later income year if the same business test has been satisfied.
- Having passed the continuity of ownership test, it used tax losses and net capital losses totaling more than $100,000.
- Foreign source losses carried forward to the 2008–09 income year total more than $100,000.
- The deduction for its share of earlier year CFC losses is more than $100,000.
- Its share of current year CFC losses is more than $100,000.
- Its share of CFC losses carried forward to the 2009–10 income year total more than $100,000.
- The company is a life insurance company and has a total of complying superannuation/FHSA class tax losses and complying superannuation/FHSA net capital losses carried forward to the 2009–10 income year greater than $100,000.

Transfer totals of tax losses carried forward and net capital losses carried forward in Part A of the *Consolidated groups losses schedule 2009* to **U** and **V** item **13 Losses information** on the *Company tax return 2009*.

For more information, see *Consolidated groups losses schedule instructions 2009* (NAT 7891).

If a head company needs to complete a consolidated groups losses schedule, it might also need to complete a *Capital gains tax (CGT) schedule 2009* (NAT 3423). For more information, see *Guide to capital gains tax 2009* (NAT 4151).

DIVIDEND AND INTEREST SCHEDULE

Every company* must lodge a *Dividend and interest schedule 2009* (NAT 8030) showing:

- the names, addresses, dates of birth, gender and tax file numbers (TFNs) or Australian business numbers (ABNs) (where quoted) of all shareholders (including employee shareholders in a consolidated or MEC group) to whom dividends (or deemed dividends) have been paid during the income year ended 30 June 2009, including the amount of dividend paid to each shareholder and any franking credits for that amount. Furthermore, there are separate labels for unfranked dividends that are and are not declared to be conduit foreign income.*

Do not include:

- dividends paid under a demerger unless the head entity of the demerger group elected under subsection 44(2) of the ITAA 1936 to treat those dividends as assessable income, or
- dividends paid by one member to another within a consolidated or MEC group.

- the names, addresses, dates of birth, gender and TFNs or ABNs (where quoted) of all investors, other than those investors in the business of providing business or consumer finance, to whom interest of $1 or more was paid or credited during the income year ended 30 June 2009, and the amount of interest paid or credited to each person.

Include interest paid or credited by a subsidiary member of a consolidated or MEC group to an investor outside the group.

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

NOTE

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

* **Annual investment income report**
If subregulation 56(1) of the Income Tax Regulations 1936 (ITR 1936) requires a company to lodge an annual investment income report containing the above details, the company does not need to lodge a dividend and interest schedule.

Lodging the schedule

You can lodge the schedule with the company tax return or under separate cover. However, you must lodge it by the due date for lodgment of the company tax return for companies whose income year ends on 30 June 2009. Companies with an approved substituted accounting period must lodge their schedule by 31 October 2009 or the due date for lodgment of their company tax return, whichever is later.

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

Australian Taxation Office
PO Box 2090
CHERMSIDE QLD 4032

CAPITAL ALLOWANCES SCHEDULE

Small business entities that choose to use the simplified depreciation rules do not need to complete a schedule. Otherwise, if your company has an amount greater than $15,000 at:

- **Expenses, X Depreciation expenses** item **6** (unless your company was previously in the former simplified tax system (STS), and the amount at **X** relates entirely to former STS depreciating assets), or
- **F Deduction for decline in value of depreciating assets** item **7**

complete a *Capital allowances schedule 2009* (NAT 3424) and attach it to the *Company tax return 2009*.

You must also complete a *Capital allowances schedule 2009* and attach it to the *Company tax return 2009* if your company has:

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

For more information, see *Capital allowances schedule instructions 2009* (NAT 4089).

Worksheets 1 and 2 in the *Guide to depreciating assets 2009* (NAT 1996) will help you complete the *Capital allowances schedule 2009*. **G**, **H**, **I**, **J** and **K** in worksheet 1 and **L**, **M**, **N**, **O**, **P** and **Q** in worksheet 2 correspond to labels in the *Capital allowances schedule 2009*.

CAPITAL GAINS TAX (CGT) SCHEDULE

Companies that have one or more CGT events during the income year must complete a *Capital gains tax (CGT) schedule 2009* and attach it to the *Company tax return 2009* if:

- a CGT event occurs in relation to a forestry managed investment scheme (FMIS) interest that is held other than as an initial participant
- total current year capital gains are greater than $10,000, or
- total current year capital losses are greater than $10,000.

> NOTE
> The head company of a consolidated or MEC group must complete a *Capital gains tax (CGT) schedule 2009* if the total current year capital gains or the total current year capital losses that it makes – as head company of the consolidated or MEC group and for any part of the income year that it was not a member of a consolidated or MEC group – are greater than $10,000.

The publication *Guide to capital gains tax 2009* will help you complete the CGT schedule. It also includes:

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

LOSSES SCHEDULE

Complete and attach a *Losses schedule 2009* if your company does not need to submit a *Consolidated groups losses schedule 2009* and satisfies one or more of the following tests:

- It has tax losses and net capital losses carried forward to the 2009–10 income year greater than $100,000.
- It can only utilise a tax loss or net capital loss in the income year or a later income year if the same business test has been satisfied.
- Having passed the continuity of ownership test, it utilised tax losses and net capital losses totaling more than $100,000.
- It has an unrealised net loss as defined in the provisions of Subdivision 165-CC of the ITAA 1997.
- It is a life insurance entity and has either a complying superannuation/FHSA class tax loss or a complying superannuation/FHSA net capital loss carried forward to the 2009–10 income year greater than $100,000.
- Its foreign source losses carried forward to the 2008–09 income year are greater than $100,000.
- It has a share in earlier year CFC losses and the deduction for that share is greater than $100,000.
- It has a share in current year CFC losses greater than $100,000.
- It has a share in CFC losses carried forward to later income years greater than $100,000.

If the company is required to complete a *Losses schedule 2009*, transfer the totals of the amounts at Part A of the losses schedule to **U** and **V** item **13** on the *Company tax return 2009*. For more information, see *Losses schedule instructions 2009* (NAT 4088).

If a company needs to complete a losses schedule under the above criteria, it may also need to complete a CGT schedule. For more information, see *Guide to capital gains tax 2009*.

NON-INDIVIDUAL PAYG PAYMENT SUMMARY SCHEDULE

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

- payments for a supply where no ABN is quoted
- payments arising from investments where no TFN or ABN is quoted
- certain payments to foreign residents described in the *Taxation Administration Regulations 1976* (Regulations 44A – 44D have foreign resident withholding provisions).

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

Complete a *Non-individual PAYG payment summary schedule 2009* (NAT 3422) if your company has an amount at:

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

Income subject to foreign resident withholding that has been included in a distribution received by the company from a partnership or trust is declared at **Income, D Gross distribution from partnerships** item **6** or **Income, E Gross distribution from trusts** item **6**. However, a *Non-individual PAYG payment summary schedule 2009* is not required for these distributions because they do not have an associated payment summary.

Completing the *Non-individual PAYG payment summary schedule 2009*

Print the company's TFN and name in the appropriate boxes at the top of the schedule.

From each *PAYG payment summary – withholding where ABN not quoted* (NAT 3283) and PAYG withholding from foreign residents – payment summary, record on the *Non-individual PAYG payment summary schedule 2009*:

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

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

Do **not** attach copies of any payment summary to the company tax return – keep them with the company's copy of the tax return. Keep a copy of the *Non-individual PAYG payment summary schedule 2009* with the company's tax records.

PERSONAL SERVICES INCOME SCHEDULE

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

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

If the company is receiving an individual's PSI, complete item **14 Personal services income** on the company tax return. Also complete a *Personal services income schedule 2009* (NAT 3421) and attach it to the tax return.

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

RESEARCH AND DEVELOPMENT TAX CONCESSION SCHEDULE

All companies claiming a deduction or tax offset for the R&D tax concession must complete the *Research and development tax concession schedule 2009* (NAT 6708) and attach it to the company tax return.

The schedule accompanies the *Research and development tax concession schedule instructions 2009*. This publication, as well as an Excel® version of the schedule, is available at **www.ato.gov.au/randd** The Excel® spreadsheet is automated to self-calculate and provide guidance for correct completion of the schedule. This completed schedule will be accepted for lodgment with an original tax return or an amendment request.

How to lodge the R&D schedule

Lodge the *Research and development tax concession schedule 2009* with the appropriate company tax return.

If you have requested an amendment

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

Australian Taxation Office
GPO Box 5056
SYDNEY NSW 2001

THIN CAPITALISATION SCHEDULE

If your company is subject to the thin capitalisation rules, you must complete and send a *Thin capitalisation schedule 2009* (NAT 6458) either through the electronic lodgment service (ELS) or by completing the paper schedule and posting it to:

Australian Taxation Office
PO Box 1365
ALBURY NSW 2640

For more information, see **appendix 3**.

The *Thin capitalisation guide* is available on our website. It contains more detailed information and includes an outline of the essential steps involved in completing the schedule.

GENERAL INFORMATION

CONSOLIDATION – TAXING WHOLLY OWNED GROUPS AS SINGLE ENTITIES

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

For more detailed information about the consolidation measures, see the *Consolidation reference manual* (NAT 6835) and other relevant publications available on the consolidation home page on our website.

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

> NOTE
>
> Printing **X** at **Z1** at item **3** on the return does not constitute advising the Commissioner of your intention to form a consolidated or MEC group. Consolidated groups need to complete and lodge a *Notification of formation of an income tax consolidated group* form (NAT 6781–11.2002). The eligible tier-1 companies of a MEC group should complete and lodge a *Notification of formation of a multiple entry consolidated (MEC) group* form (NAT 7024–6.2002).
>
> If the company is a subsidiary member of a consolidated or MEC group and is lodging a tax return because it had a non-membership period(s) during the income year, print **X** in the box at **Z2** **Consolidated subsidiary member** item **3**.

If you completed **Z2**:

- Do **not** complete the part year details at the top of page 1 of the tax return unless the company has an approved substituted accounting period. Even though the company will include only the income and deductions properly attributable to all of the periods of non-membership during the year, the tax return is still regarded as being for the whole of the income year, that is, from 1 July to 30 June or equivalent substituted accounting period, and is lodged at the usual time.
- Do **not** complete the **Final tax return** box on page 1 of the tax return if membership of the consolidated or MEC group is the only basis on which the company will not be required to lodge future returns.

Some key elements of the consolidation regime

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

- The choice to consolidate is optional but irrevocable.
- If a head company of a consolidated group chooses to consolidate on a specified date then, from that time, both the head company and all of its eligible wholly owned subsidiaries will be part of the consolidated group for income tax purposes.
- The head company of a consolidated group must notify the Tax Office of its decision to consolidate using the appropriate approved form by the earliest of either:
  - the end of the day on which it gives the Commissioner its income tax return for the year which contains its chosen date of consolidation; or
  - the end of the day on which it is required to lodge that income tax return. The period for making a choice to consolidate cannot be changed. If you cannot lodge your notification of choice with the Commissioner by this time you should contact the Tax Office to discuss extending the due date of your income tax return.

If the head company is not required to lodge an income tax return for the year that contains the chosen date of consolidation, the notification of choice must be given to the Commissioner on or before the date that a return would need to be lodged for that year if such a return were required. For MEC groups, see C10-1-110 of the *Consolidation reference manual*.

- If the notification of choice is not given to the Commissioner on or before the relevant time, the group cannot be treated as consolidated for that income year.
- If a foreign company, either directly or through its wholly owned foreign entities, has multiple entry points into Australia, special MEC group rules will apply where a MEC group is formed. See the *Consolidation reference manual* for more information on MEC groups.
- A MEC group will have a provisional head company (PHC) during the course of the income year. The PHC at the end of the income year will be the head company for that particular income year.
- On consolidation, the head company of a consolidated or MEC group and all of its eligible wholly owned subsidiary members are treated as a single entity for their income tax purposes – that is, each subsidiary member is treated as a part of the head company.
- The tax costs of assets of an entity joining a consolidated or MEC group (other than eligible tier-1 companies) which become assets of the head company under the single entity rule are reset in accordance with special tax cost setting rules.
- The consolidated or MEC group operates as a single entity for income tax purposes, with the head company lodging a single income tax return and then paying a single set of PAYG instalments for the group.

- A consequence of choosing to consolidate is that transactions that occur solely between members of the consolidated or MEC group will not result in income or deductions to the group's head company.
- If an entity becomes a subsidiary member of a consolidated or MEC group part-way through its income year or it has a period in the year that it is not a subsidiary member for any other reason (non-membership periods), it will also need to lodge a tax return for that income year. However, the tax return will be based only on amounts properly attributable to all of the periods that the company was not a subsidiary member of a consolidated or MEC group during the income year.
- The losses, franking credits, pre-commencement excess foreign income tax, conduit foreign income and attribution account surpluses of each subsidiary member can generally be brought into, and used by, the head company of a consolidated or MEC group.
- Carry-forward losses, franking balances, pre-commencement excess foreign income tax and conduit foreign income transferred to the head company of the group remain with the head company when an entity leaves the group. Special rules apply regarding treatment of carry-forward losses transferred into the consolidated or MEC group.
- The consolidation regime does not affect a subsidiary member's obligations in relation to other taxes such as goods and services tax (GST), fringe benefits tax (FBT) and pay as you go (PAYG) withholding.
- Certain corporate unit trusts and public trading trusts may form a consolidated group and be treated like the head company of the group.
- Where a consolidated or MEC group includes one or more subsidiary members that are life insurance companies, special consolidation rules apply to take into account the particular taxation treatment of life insurance companies. Further details are in the *Consolidation reference manual*, available on our website.

The head company of a consolidated or MEC group (or PHC or eligible tier-1 companies, where relevant) must (among other things):

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

2009 consolidated and MEC groups – head company tax returns

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

We therefore expect that all tax return label disclosures will reflect correct, or materially correct, consolidated amounts at each label. Such amounts do not take account of transactions that occur between members of the consolidated or MEC group and give effect to the single entity principle. Correct or materially correct consolidated amounts at each label will retain the structural integrity of the disclosures to enable consistent monitoring and analysis of taxpayer data.

In addition, the concept of materiality applies to the tax return labels affected by consolidation. However, the amounts at **T** **Taxable income or loss** item **7** and those labels in the **Calculation statement** on page 6 of the tax return must be correct, not just materially correct.

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

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

It should be noted that we provided a concession (allowing aggregated data) for items **6**, **7** and **8** of the head company's 2005 consolidated company tax return. However, for later years, such as for the 2009 company tax return, correct or materially correct consolidated data for an Australian-resident group will be the only acceptable basis for making tax return disclosures label-by-label. Groups should have record-keeping, accounting and tax systems in place to ensure that materially correct consolidated data is available for the 2009 company tax return and for future years' tax returns.

2009 schedules

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

SIMPLIFIED IMPUTATION SYSTEM

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

- A company that is paid a franked or unfranked distribution must include:
  - the amount of the distribution at **Income**, **H Total dividends** item **6**
  - any attached franking credits at **J Franking credits** item **7** (if the shares are not held at risk as required under the holding period and related payments rules, or if there is other manipulation of the imputation system, the franking credit is not included in assessable income at **J** and there is no entitlement to a franking tax offset).
- The amount of franking credits included in assessable income is allowed as a tax offset and claimed at **C Rebates/tax offsets** in the **Calculation statement**.
- Where the company has a franking deficit tax (FDT) liability, it can claim an FDT offset against its income tax liability. Some special rules apply to life insurance companies to ensure that an FDT liability can only be offset against that part of the company's income tax liability that is attributable to shareholders. The amount of FDT liability that can be claimed as a tax offset is reduced in certain circumstances. See **Franking deficit tax offset** on page 77 and *Franking account tax return and instructions 2009* (NAT 1382) for more information on how to calculate this amount. There are also special rules that apply to late balancing entities that elect to determine their FDT on a 30 June basis. For more information, see the fact sheets *Simplified imputation: franking deficit tax offset and Simplified imputation: FDT offset for late balancers*, which are available on our website.

Other features of the simplified imputation system include:

- The franking account operates on a tax-paid basis and is also a rolling-balance account.
- The period for determining a corporate tax entity's FDT liability is aligned with its income year. However, certain late balancing entities can elect to have their liability determined on 30 June.
- The franking period relates to the operation of the benchmark rule.
- Corporate tax entities can choose the extent to which they frank frankable distributions made within a franking period. This choice is subject to the benchmark rule, except for certain listed public companies.
- The benchmark rule, while limiting streaming opportunities, provides some flexibility in allocating franking credits to frankable distributions. To comply with this rule, a corporate tax entity must ensure that all frankable distributions made within a franking period are franked to the same extent – the benchmark franking percentage. The benchmark franking percentage is equal to the franking percentage established for the first frankable distribution made in that franking period.
- A breach of the benchmark rule will not invalidate the allocation made to the distribution. However, a penalty will be imposed on the corporate tax entity. The penalty is either:
  - an over-franking tax (OFT) if the franking percentage for the distribution exceeds the benchmark franking percentage, or
  - a franking debit to the franking account if the franking percentage for the distribution is less than the benchmark franking percentage.
- The penalty is calculated by reference to the difference between the franking credits actually allocated and the benchmark franking percentage.
- Payment of OFT does not give rise to a franking credit in the franking account. If an entity is liable to pay OFT it must complete a *Franking account tax return 2009*.
- Under the disclosure rule, corporate tax entities must notify the Commissioner in the approved form if they have significantly varied their benchmark franking percentage between franking periods. This information is disclosed on the *Franking account tax return 2009*.

Franking account tax return

Corporate tax entities may be entitled to claim an FDT offset. In certain circumstances the FDT offset reduction rule reduces the amount of FDT that can be offset against future income tax liabilities. See **Franking deficit tax offset** on page 77 for more information.

As a result of these rules, the *Franking account tax return 2009* requires you to complete **C Offsetable portion of current year FDT**.

Complete a franking account tax return for all Australian corporate tax entities (including head companies of consolidated or MEC groups, corporate limited partnerships, corporate unit trusts and public trading trusts) and New Zealand franking companies that have:

- a liability to pay FDT
- a liability to pay OFT, or
- an obligation to disclose information to the Commissioner in relation to their benchmark franking percentage.

Lodge the franking account tax return separately from your company tax return. If you lodge your franking account tax return at the time your company tax return is due, your franking account tax return may be late and an interest charge may apply to any outstanding tax amounts. Your franking account tax return is generally due one month after the end of your income year.

For more information on completing this tax return, see the *Franking account tax return and instructions 2009*.

COOPERATIVES – OPTION TO FRANK DIVIDENDS

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

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

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

THE DEBT AND EQUITY RULES

The debt and equity measures broadly operate to characterise certain interests as either debt or equity. These measures generally apply from 1 July 2001. For some tax law purposes interests are treated in the same way as shares even though they are not shares in legal form. These interests are called 'non-share equity interests'. They include some income securities, some stapled securities and certain related party 'at call' loans. *Debt and equity tests: guide to the debt and equity tests* (NAT 4643), available on our website, provides an overview of the debt and equity rules and explains what a non-share equity interest is.

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

For the purposes of the imputation system, non-share equity interests are generally treated in the same way as shares that are not debt interests. Non-share dividends on these types of interests may be franked or unfranked. Write any amount of non-share dividend, whether franked or unfranked, and any amount of franking credit attached to the non-share dividend at the appropriate place on the tax return as if it were for a share.

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

CLUBS, SOCIETIES AND ASSOCIATIONS

Taxable clubs, associations, societies and organisations are generally treated as companies. Such companies can be either non-profit or other taxable companies depending on the company's constituent documents and purposes. Non-profit companies are subject to special tax rules, which are explained in *Income tax guide for non-profit organisations* (NAT 7967), available on our website. Non-profit companies that are resident and have taxable income of $416 or less do not have to lodge an income tax return, unless specifically requested.

CORPORATE UNIT TRUSTS AND PUBLIC TRADING TRUSTS

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

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

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

FOREIGN EXCHANGE GAINS AND LOSSES

Under the foreign exchange (forex) measures, foreign exchange gains and losses are generally brought to account as assessable income or allowable deductions, when realised. The measures cover both foreign currency denominated arrangements and, broadly, arrangements to be cash-settled in Australian currency with reference to a currency exchange rate. Foreign exchange gains and losses of a private or domestic nature, or in relation to exempt income or non-assessable non-exempt income, are generally not brought to account under the forex measures.

If a foreign exchange gain or loss is brought to account under the forex measures and under another provision of the tax law, it is assessable or deductible only under the forex measures.

In general, these gains and losses will not be assessable or deductible under the forex measures if they arise from certain acquisitions or disposals of capital assets, or acquisitions of depreciating assets, and the time between the acquisition or disposal and payment is no more than 12 months. Instead, any foreign exchange gain or loss is usually matched with or integrated into the tax treatment of the underlying asset.

The general translation rule requires all tax-relevant amounts to be expressed in Australian currency regardless of whether there is an actual conversion of that foreign currency into Australian dollars.

For most companies the forex measures and general translation rule have applied from 1 July 2003. However, companies with certain early substituted accounting periods have been subject to these provisions from the first day of their 2004–05 income year.

The tax consequences of gains or losses on existing foreign currency assets, rights and obligations that were acquired or assumed before the commencement date are to be determined under the law as it was before these measures came into effect, unless:

- the company has made a transitional election that brings these under the forex measures, or
- there is an extension of an existing loan (for example, an extension by a new contract or a variation to an existing contract) that brings the arrangement within these measures.

More information about these measures and on how to calculate your forex realisation gains and losses is available on our website (search for 'forex').

GENERAL VALUE SHIFTING REGIME

The general value shifting regime (GVSR) applies from 1 July 2002.

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

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

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

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

For more information, visit our website or phone the Tax Reform Infoline on **13 24 78**.

TRANS-TASMAN IMPUTATION

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

For more information on the Trans-Tasman imputation measure, visit **www.ato.gov.au/large** then 'International tax' – 'List all content available' and click on 'Trans-Tasman rules', or phone the Tax Reform Infoline on **13 24 78**.

INTERNATIONAL TAXATION – THE TAXATION TREATMENT OF CERTAIN FOREIGN HYBRID ENTITIES

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

Under Division 830 of the ITAA 1997, foreign hybrids (as defined in section 830-5 of the ITAA 1997) are treated as partnerships and not as companies for Australian income tax purposes. Investors in these entities are treated for Australian tax purposes as having partnership interests. There are special rules in addition to those that normally apply to partnerships.

For more information about foreign hybrids, visit our website.

INFORMATION MATCHING

The Tax Office uses information-matching technology to verify the correctness of tax returns, so ensure that all information is fully and correctly declared on the company tax return.

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

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

In particular, we will check the following in the 2009 tax returns:

- distributions from partnerships and trusts, including unit trusts – see pages 23–6
- income and credits for withholding if an ABN has not been quoted against information provided to us by payers – see pages 5 and 6
- total salary and wages paid against the PAYG withholding system – see page 61
- the amount of prior year losses claimed, which will be reconciled with the amounts of losses carried forward on tax returns of earlier years – see pages 47–52
- dividend and interest income – see page 28.

SMALL BUSINESS ENTITIES

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

- CGT 15-year asset exemption
- CGT 50% active asset reduction
- CGT retirement exemption
- CGT rollover provisions
- simplified depreciation rules (see pages 33–6)
- deduction of certain prepaid business expenses immediately (see page 38)
- simplified trading stock rules (see pages 53–4)
- accounting for GST on a cash basis
- annual apportionment of GST input tax credits
- payment of GST by quarterly instalments
- FBT car parking exemption
- PAYG instalments based on GDP-adjusted notional tax.

Some of these concessions have specific eligibility conditions that must also be satisfied.

From the 2009–10 income year, you can access the GDP adjusted payment option to report and pay quarterly PAYG instalments if you operate a company that is a small business entity.

For the 2008–09 income year there was a transitional rule for companies. If you operated a company in that income year, you could access the GDP adjusted payment option if:

- your base assessment instalment income was $2 million or less, or
- you were also eligible to pay your PAYG instalments annually.

Certain small business entities may also be eligible to claim the 25% entrepreneurs tax offset (ETO) (see pages 64–7).

> For more information about small business entity concessions, see our publication *Guide to concessions for small business entities*, visit our website at **www.ato.gov.au/SBconcessions** or phone the Business Infoline (see the inside back cover).

Eligibility

The company will be a small business entity if it is carrying on a business and has an aggregated turnover of less than $2 million.

Broadly, aggregated turnover is the company's annual turnover plus the annual turnovers of any entities that are connected to or affiliated with it.

> For more information on eligibility, see *Am I eligible for the small business entity concessions?*, available only on our website.

Eligibility must be reviewed each year.

Calculating turnover

Turnover includes all ordinary income that the company earned in the ordinary course of business for the income year. Some examples of amounts included and not included in ordinary income are in **table 1**.

TABLE 1: Ordinary income

Include these amounts	Do not include these amounts
■ revenue from sales of trading stock ■ fees for services provided ■ interest from business bank accounts ■ amounts received to replace something that would have had the character of business income, for example, a payment for loss of earnings.	■ GST the company has charged on a transaction ■ amounts borrowed for the business ■ proceeds from the sale of business capital assets ■ insurance proceeds for the loss or destruction of a business asset.

There are special rules for calculating the annual turnover if the company has retail fuel sales or business dealings with associates that are not at market value.

> For more information about calculating turnover, visit our website or phone the Business Infoline.

Aggregation rules

Special rules called the aggregation rules will determine who the company is connected to or affiliated with.

These rules prevent larger businesses from structuring or restructuring their affairs to take advantage of the small business entity concessions.

An entity that is connected with the company or that is its affiliate is referred to as a relevant entity.

When calculating the company's aggregated turnover, do **not** include:

- income from dealings between the company and a relevant entity
- income from dealings between any of the company's relevant entities
- income from a relevant entity when it was not the company's relevant entity.

> For more information on the aggregation rules, see our publication *Guide to concessions for small business entities*.

> If the company is not connected or affiliated with any other entities and its business turnover is less than $2 million, then the company is a small business entity.

Business operated for only part of the year

If the company, or a relevant entity, carries on a business for only part of the income year, annual turnover must be worked out using a reasonable estimate of what the turnover would have been if the company, or relevant entity, had carried on a business for the whole of the income year.

Satisfying the aggregated turnover threshold

There are three ways to satisfy the $2 million aggregated turnover requirement, but most businesses will only need to consider the first method.

Previous year turnover

If the company's aggregated turnover for the previous income year was less than $2 million, it will be a small business entity for the current year.

This is regardless of its estimated or actual aggregated turnover for the current year.

Estimate of current year turnover

If the company's estimated aggregated turnover for the current income year is less than $2 million, it will be a small business entity for the current year.

If you are estimating the company's turnover you need to assess whether it is more likely than not to have less than $2 million aggregated turnover as at the first day of the income year or, if it started a business part way through the year, as at the time the business started. You should estimate the company's turnover based on the conditions you are aware of at the beginning of the income year or, if the business was started part way through the year, at the time the business started. Companies that began carrying on a business in the current year need to make a reasonable estimate of what their turnover would have been had the business been carried on for the entire year.

> This method cannot be used if the company's aggregated turnover in each of the previous two income years was $2 million or more.

For the purpose of working out the company's aggregated turnover for a previous year, the rules about aggregated turnover apply as if they had been in force for the 2006–07 income years.

Actual current year turnover

If the company's actual aggregated turnover is less than $2 million at the end of the income year, it will be a small business entity for that year.

This method is only needed if the first two tests cannot be met.

> If the company is a small business entity by means of this third method only, it cannot use the GST and PAYG concessions for that income year as those particular concessions must have been chosen earlier in the income year.

Former simplified tax system taxpayers

There are transitional rules for former simplified tax system (STS) taxpayers that deal with:

- continued use of the STS accounting method (see page 22)
- treatment of depreciating assets previously allocated to STS pools (see pages 33–4).

A special rule applies if the company is winding up a business this year that it previously carried on and it was an STS taxpayer in the income year it ceased business. For more information, see *Guide to concessions for small business entities*.

STRATA TITLE BODIES CORPORATE

Strata title bodies corporate are treated as public companies under the tax law and must lodge a company tax return for any year in which non-mutual income is earned. For more information on this type of income, see *Strata title body corporate instructions and tax return 2009* (NAT 4125).

The strata title body corporate will need to complete a company tax return if it:

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

The company cannot complete its tax return using the *Strata title body corporate tax return*.

RECORD KEEPING REQUIREMENTS

Record keeping and retention

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

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

> ! You must keep these records for your financial arrangements covered by Division 230 of the ITAA 1997 even if you are not carrying on a business in relation to those arrangements.

Generally, a company must keep all relevant records for five years after those records were prepared or obtained, or five years after the completion of the transactions or acts to which those records relate, whichever is the later, although this period may be extended in certain circumstances. Keep records in writing and in English, however you can keep them in an electronic form or on microfiche as long as the records are in a form that we can access and understand to ascertain your taxation liability (see *Taxation Rulings TR 96/7 – Income tax: record keeping – section 262A – general principles and TR 2005/9 – Income tax: record keeping – electronic records*).

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

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

Prepare and keep the following documents:

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

If an audit is conducted, we may request, and a company is expected to make readily available:

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

The company will be liable to pay penalties and interest, in addition to the shortfall amount, if it does not declare the correct amount of taxable income and/or tax payable. Penalties also apply if the company does not keep records, or keeps inadequate records, about business transactions or the items disclosed on the tax return. For guidelines on record-keeping obligations and remission of penalty for failure to keep or retain records, see *Law Administration Practice Statement PS LA 2005/2 – Penalty for failure to keep or retain records*.

Generally, the head company of a consolidated or MEC group must keep records that, among other things, document:

- the process of forming the group
- entries and exits of subsidiary members into and out of the group
- events which result in an entity being no longer eligible to be a head company
- consolidation eliminations or adjustments to derive the income tax outcome for the head company of the group.

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

More information on the record-keeping and retention requirements of a consolidated or MEC group can be found in the *Consolidation reference manual available* on our website.

e-Record

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

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

It consists of easy-to-use electronic worksheets that produce daily and weekly information, as well as monthly, quarterly and annual summaries, with the added benefit of automatic calculations and consolidations to help businesses complete their activity statements.

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

Choice of superannuation fund record keeping

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

Capital gains tax record keeping

For more information on record keeping for CGT, see *Guide to capital gains tax 2009*. See also *Taxation Ruling TR 2002/10 – Income tax: capital gains tax: asset register* for more detailed information about keeping a CGT asset register.

Tax losses record keeping

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

For more information on record keeping where losses are incurred, see *Taxation Determination TD 2007/2 – Income tax: should a taxpayer who has incurred a tax loss or made a net capital loss for an income year retain records relevant to the ascertainment of that loss only for the record retention period prescribed under income tax law?*.

Record keeping for overseas transactions and interests

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

The involvement can be direct or indirect – for example, through persons, trusts, companies or other entities. The interest can be vested or contingent, and includes a case where the company has direct or indirect control of:

- any income from sources outside Australia not disclosed elsewhere on the tax return, or
- any property – including money – situated outside Australia. If this is the case, keep a record of:
  - the location and nature of the property
  - the name and address of any partnership, trust, business, company or other entity in which the company has an interest
  - the nature of the interest.

If an overseas interest was created by exercising any power of appointment, or if the company had an ability to control or achieve control of overseas income or property, keep a record of:

- the location and nature of the property
- the name and address of any partnership, trust, business, company or other entity in which the company has an interest.

TAX RETURN

First company tax return

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

If the company has applied for a TFN but has not received notification of its TFN at the time of lodging its tax return, include a copy of the application with its tax return. If that is not possible, complete a new application and lodge this with the *Company tax return 2009*.

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

Lodging the tax return, schedules, etc

Companies that derived assessable income in the 2008–09 income year must lodge a tax return for the 2008–09 income year. Companies that are carrying forward losses that exceed $1,000 to the 2009–10 income year must also lodge a tax return for the 2008–09 income year even if no assessable income has been derived in that income year. Non-profit companies that are resident and have taxable income of $416 or less do not have to lodge an income tax return, unless specifically requested. Keep records so that the information reported on the tax return can be verified at a later date, if required – see **Record-keeping requirements** on page 13.

The address for lodging the company tax return is on page 103.

The following are the **only** schedules that are sent with the *Company tax return 2009*:

- *Capital gains tax (CGT) schedule 2009*
- *Capital allowances schedule 2009*
- *Consolidated groups losses schedule 2009*
- *Dividend and interest schedule 2009*
- *Interposed entity election or revocation 2009* (NAT 2788)
- *Losses schedule 2009*
- *Non-individual PAYG payment summary schedule 2009*
- *Personal services income schedule 2009*
- *Research and development tax concession schedule 2009*
- *Schedule 25A 2009* (NAT 1125)
- any elections required by *Taxation Ruling IT 2624 – Income tax: company self assessment; elections and other notifications; additional (penalty) tax; false or misleading statement*.

The *Thin capitalisation schedule 2009* can be lodged through the ELS, or the company may choose to complete the paper schedule and post it to:

Australian Taxation Office
PO Box 1365
ALBURY NSW 2640

Do not send other schedules or documents with the *Company tax return 2009*. Keep these with the company's tax records.

The date for lodgment of the company tax return (including any relevant schedules) is notified in a legislative instrument on the Federal Register of Legislative Instruments, available at **www.frli.gov.au**

If you lodge your return without all the required schedules we may not consider it to have been lodged in the approved form. Unless all schedules are lodged by the due date, you may be charged a penalty for failing to lodge on time.

Do not attach the company's payment to the company tax return. The company can make payments by one of five methods. These are listed on page 103.

AMENDMENT UNDER SELF-ASSESSMENT

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

PRIVATE RULING BY THE COMMISSIONER OF TAXATION

A private ruling is a written expression of opinion by the Commissioner about the way in which tax laws and other specified laws administered by the Commissioner would apply to, or be administered in relation to, an entity in relation to a specified scheme.

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

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

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

The Commissioner may request additional information to make a ruling. The Commissioner will then consider the request and either issue or, in certain limited circumstances, refuse to issue a private ruling.

Publication

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

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

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

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

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

Review rights

Taxpayers can object to adverse private rulings or a failure to make a private ruling in much the same way that they can object to assessments. They can also seek a review of adverse objection decisions on a private ruling by the Administrative Appeals Tribunal or a court. An explanation of review rights and how to exercise them is issued with the private ruling. An objection to a ruling can be lodged within the later of:

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

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

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

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

When rulings are binding

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

PAYMENT ARRANGEMENTS

Paying your tax debt

Income tax debts must be paid by the due date. For payment options, see page 103.

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

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

For more information on the interest charge, phone the Business Infoline.

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

To avoid action being taken to recover the debt, phone us on **13 11 42**. You are expected to organise your affairs to ensure that you pay your debts on time. Nevertheless, we may allow you to pay your debts under a mutually agreed payment plan if you face genuine difficulty and have the capacity to eventually pay the debt. The interest charge will continue to accrue on any outstanding amounts of tax during any payment arrangement.

Approval for a payment arrangement is not given automatically. The company may need to provide details of its financial position, including a statement of its assets and liabilities and details of its income and expenditure. We will also want to know what steps the company has taken to obtain funds to pay its tax debt and the steps it is taking to meet future tax debts on time.

PENALTIES AND INTEREST CHARGES

The law imposes penalties on companies for:

- failing to lodge a tax return on time and in the approved form (which includes all applicable schedules)
- having a tax shortfall or over-claiming a credit that is caused by:
  - making a false or misleading statement
  - taking a position that is not reasonably arguable
- refusing to provide a tax return from which the Commissioner can determine a liability
- failing to keep and produce proper records
- preventing access to premises and documents
- failing to retain or produce declarations.

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

- not paid tax, penalty or certain other amounts by the due date for payment
- varied their PAYG instalment rate to less than 85% of the instalment rate that would have covered the company's actual liability for the year, or
- used an estimate of their benchmark tax that is less than 85% of their actual benchmark tax for the year.

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

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

REPORT ON ASPECTS OF INCOME TAX SELF-ASSESSMENT

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

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

Shortfall interest charge

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

The shortfall interest charge replaces the general interest charge during the shortfall period. It is calculated at a rate 4% lower than the general interest charge.

The Commissioner may remit all or a part of the shortfall interest charge when it is fair and reasonable to do so. For more information, visit our website.

Penalties

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

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

The Commissioner must explain, in writing, the reasons for a penalty and, if remission of a penalty has been considered but not fully granted, the reasons for the decision.

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

More information is available on our website or by phoning the Business Infoline.

COMPLETING THE COMPANY TAX RETURN

PAGE 1 OF THE TAX RETURN

IS A PAYMENT DUE?

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

IS A REFUND DUE?

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

TAX FILE NUMBER (TFN)

Write the TFN of the company in the boxes provided.

The head company of a consolidated or MEC group continues to use its existing TFN.

If the company has not previously been allocated a TFN, see **First company tax return** on page 15.

NAME OF COMPANY

When recording the name of the company entity:

- print the company name exactly as it appears on the company certificate of incorporation
- for subsequent tax returns, ensure that the company name is consistent from year to year unless the name changes.

If the company name is legally changed, notify us in writing of the change at the time the change is made. Print on the tax return the current company name as registered with the Australian Securities and Investments Commission.

In the case of the head company of a consolidated or MEC group, use only the head company's name.

AUSTRALIAN BUSINESS NUMBER (ABN)

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

Write the ABN of the company in the boxes provided if the company is registered on the Australian Business Register (ABR). In the case of a consolidated or MEC group, write the ABN of the head company.

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

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

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

You can find details of agencies that regularly receive information from the ABR at **www.abr.gov.au** You can also phone us on **13 28 66** between 8.00am and 6.00pm Monday to Friday and ask for a list of the agencies to be sent to you.

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

In addition to the publicly available information, these agencies can also access the:

- name of the company's associates, such as directors or public officer
- company's address for service of notices
- company's principal place of business
- company's email address
- Australian and New Zealand Standard Industrial Classification (ANZSIC) code for the business conducted by the company.

Follow the instructions on the *Company tax return 2009* for the following items:

- previous name of the company
- current postal address
- postal address on previous tax return.

> **NOTE**
> C/– is the only acceptable format when 'care of' is part of an address. Any deviation from this format will delay the processing of the tax return.

BUSINESS ADDRESS OF MAIN BUSINESS

Print the street address of the main business. It is the place where most of the business decisions are made.

For a consolidated or MEC group, print the business address of the head company.

FINAL TAX RETURN

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

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

PAGE 2 OF THE TAX RETURN

1 ULTIMATE AND IMMEDIATE HOLDING COMPANY NAME AND ABN OR COUNTRY CODE

Ultimate holding company name and ABN or country code

Print the name of the ultimate holding company in the group. This is the company that has ownership and controlling interest over the whole group of companies of which the company lodging the *Company tax return 2009* and the immediate holding company form part.

For a consolidated or MEC group, print the name of the ultimate holding company of the head company.

If the ultimate holding company is registered on the ABR, write the ABN of the ultimate holding company.

If it is resident in another country, give the code for that country – see **appendix 8** on page 101.

Immediate holding company name and ABN

If the company has no immediate holding company, do not complete this item. Otherwise print the name of the immediate holding company. This is the company that has the largest share of the controlling interest in the operations of the company lodging the company tax return, and that is immediately above that company in the company group. If it is registered on the ABR, write the ABN of the immediate holding company.

For a consolidated or MEC group, print the name of the immediate holding company (if any) of the head company.

2 DESCRIPTION OF MAIN BUSINESS ACTIVITY

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

For a consolidated or MEC group, print the business activity from which the group derived the most gross income.

Industry code

Write at **B** the appropriate industry code for the company's main business. The code can be obtained by using the publication *Business industry codes 2009* (NAT 1827), available on our website.

Code the business activity as accurately as possible. The industry code is made up of five digits. For example, if the industry is 'dairy cattle farming', the code on the tax return is written as '01600'.

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

An incorrect code may result in clients not receiving a necessary service or material from the Tax Office, or could lead to incorrect targeting of audits. The industry code provided is also used to publish industry benchmarks in *Taxation statistics*, available on our website.

Our industry codes are a modified version of the ANZSIC, produced jointly by the Australian Bureau of Statistics and Statistics New Zealand.

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

Percentage of foreign shareholding

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

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

- whose address in the share register is shown as being outside Australia
- that has directed that their dividends be paid at a place outside Australia
- that is a company not incorporated in Australia
- that is a company that does not have an Australian company number (ACN).

3 STATUS OF COMPANY

C1, C2 and C3

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

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

D1 to D11

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

A friendly society that carries on life insurance business must describe its status as **D10 Public**; otherwise its status is **D3 Non-profit**. For more information on friendly societies that carry on life insurance business, see **16 Life insurance companies and friendly societies only** on pages 69–70.

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

D7 Corporate unit trust applies only to trusts that are corporate unit trusts as defined in section 102J of the ITAA 1936. **D8 Public trading trust** applies only to trusts that are public trading trusts as defined in section 102R of the ITAA 1936.

Marking the incorrect box may result in clients not receiving a necessary service or material from the Tax Office, or could lead to incorrect targeting of audits.

E1 to E3

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

Z1 and Z2

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

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

If neither applies, leave the boxes blank.

4 INTERPOSED ENTITY ELECTION STATUS

This item must be completed if any of the following apply:

- The company has previously made one or more interposed entity elections specifying a day in the income years from 1994–95 to 2007–08 in accordance with section 272-85 of Schedule 2F to the ITAA 1936 and, if applicable, item 23 or 23A of Schedule 1 to the *Taxation Laws Amendment (Trust Loss and Other Deductions) Act 1998*.
- The company is making one or more interposed entity elections specifying a day in the 2004–05 or later income years in accordance with section 272-85 of Schedule 2F to the ITAA 1936.
- The company is revoking, from a time in the 2008–09 income year, one or more previously made interposed entity elections in accordance with section 272-85 of Schedule 2F to the ITAA 1936.

Do not attach election forms for an interposed entity election made specifying an income year before the 2004–05 income year to the *Company tax return 2009*. Under section 272-85 of Schedule 2F to the ITAA 1936 a company cannot make an interposed entity election specifying a year earlier than 2004–05 in the *Company tax return 2009*.

NOTE

Amendments to Schedule 2F to the ITAA 1936 as enacted on 24 September 2007 in the *Tax Laws Amendment (2007 Measures No. 4) Act 2007* may affect the information that you complete at this item. The amendments apply to income years starting on or after 1 July 2007.

- Changes to section 272-85 of Schedule 2F to the ITAA 1936 now allow an interposed entity election to be revoked in limited circumstances.
- The company cannot revoke an interposed entity election unless the revocation is in respect of an income year that occurs during the period:
  - starting at the later of
  - the beginning of the income year specified in the election, or
  - the beginning of the income year in which the entity became a member of the family group, and
  - finishing at the end of the fourth income year after the income year referred to in the above two dot points, or
  - starting on 1 July 2007 and finishing on 30 June 2009.
- The revocation must be made with the entity's return of income for the income year from which the revocation is to be effective.

For more details on these amendments see the fact sheet *Family trusts – details of the amendments to increase flexibility for family trusts*, available only on our website.

Instructions on how to complete the *Interposed entity election or revocation 2009* are on the form itself.

If you are not using ELS, and an *Interposed entity election or revocation 2009* is being lodged with your *Company tax return 2009*, send your tax return and the *Interposed entity election or revocation 2009* to:

Australian Taxation Office
PO Box 9845
IN YOUR CAPITAL CITY

If the company has previously made one or more elections specifying a day in an income year before the 2008–09 income year, write the earliest income year specified in the box at **L** unless the company is making one or more elections specifying a day in the 2004–05 or later income year.

If the company has previously made one or more elections specifying a day in an income year before the 2004–05 income year and took advantage of the one-off opportunity in *Law Administration Practice Statement PS LA 2004/1 (GA) – Lodgment opportunity for family trust and interposed entity elections* to specify an earlier year, write the earliest income year specified in the box at **L** unless the company is making one or more elections specifying a day in the 2004–05 or later income year.

If the company is making one or more interposed entity elections specifying a day in the 2004–05 or later income year, write the latest income year specified in the box at **L** and complete an *Interposed entity election or revocation 2009* for each election specifying a day in the 2004–05 or later income year.

Revocation

An interposed entity election can only be revoked by a company that satisfies all of the relevant conditions in subsection 272-85 of Schedule 2F to the ITAA 1936.

Print the code **R** in the box at this item if the interposed entity election made by the company is being revoked from a time in the 2008–09 income year. An *Interposed entity election or revocation 2009* must be completed and lodged with the *Company tax return 2009*.

EXAMPLE 1

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

Write **1995** in the box at **L**. The company does not need to complete an *Interposed entity election or revocation 2009*.

EXAMPLE 2

A company has previously made an interposed entity election specifying a day in the 1996–97 income year and is making another interposed entity election specifying a day in the 2008–09 income year with its *Company tax return 2009*.

Write **2009** in the box at **L**. The company provides details of the interposed entity election it is making, specifying a day in the 2008–09 income year, in the *Interposed entity election or revocation 2009*. The completed form can be attached to the *Company tax return 2009*.

EXAMPLE 3

A company has previously made interposed entity elections specifying a day in the 1997–98 and 2005–06 income years respectively.

Write **1998** in the box at **L**. The company writes the earlier year as it is not making an interposed entity election specifying a day in the 2004–05 or later income year with its *Company tax return 2009*. The company does not need to complete an *Interposed entity election or revocation 2009*.

EXAMPLE 4

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

Write **2006** in the box at **L**. The company provides details of its interposed entity election in the *Interposed entity election or revocation 2009*. The completed form can be attached to the *Company tax return 2009*.

EXAMPLE 5

A company has not previously made an interposed entity election. The company wants to make an interposed entity election specifying a day in the 2008–09 income year.

Write **2009** in the box at **L**. The company provides details of its interposed entity election in the *Interposed entity election or revocation 2009*. The completed form can be attached to the *Company tax return 2009*.

EXAMPLE 6

A company has previously made an interposed entity election specifying a day in the 2002–03 income year and meets the conditions to revoke this interposed entity election effective for the 2008–09 income year. It has not made any other interposed entity elections.

Write **2003** in the box at **L** and print **R** in the box at this item. The company must complete the *Interposed entity election or revocation 2009* and lodge this with its *Company tax return 2009*.

Family trust distribution tax

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

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

A consequence of a company making an interposed entity election is that under section 271-30 of Schedule 2F to the ITAA 1936 the company pays a special tax, called family trust distribution tax (FTDT), at 46.5% on any conferral of present entitlement to, or distribution of, the company's income or capital to persons who are not members of the family group of the specified individual within the meaning of section 272-90 of Schedule 2F to the ITAA 1936. For this purpose, a company's distribution of income or capital has the meaning given in sections 272-50 and 272-60 of Schedule 2F to the ITAA 1936.

Note:
Effective for income years commencing on or after 1 July 2007, the definition of 'family group' was amended to include a former spouse, a former widow or widower, and a former step child.

References to these terms are as follows:

- **former spouse** is a person who was a spouse of either the primary individual or a member of the primary individual's family before a breakdown in the marriage
- **former widow or widower** is a person who was a widow or widower of either the primary individual or a member of the primary individual's family, and who has a new spouse who is not a member of the primary individual's family
- **former step child** is a person who was a step child of either the primary individual or a member of the primary individual's family, before a breakdown in the marriage of the primary individual or the member of the primary individual's family.

Post the *Family trust distribution tax payment advice*, available on our website, with your FTDT payment to the appropriate address on page 103. Make cheques or money orders payable to the Deputy Commissioner of Taxation and print 'Not negotiable' across the cheque. Tender all cheques in Australian currency. Do not send cash by post.

PAGE 3 OF THE TAX RETURN

6 CALCULATION OF TOTAL PROFIT OR LOSS

The **Income** and **Expenses** amounts to be written at item **6 Calculation of total profit or loss** are accounting system amounts and correspond to the amounts in the company's financial statements for the income year, except for the depreciation expenses of small business entities using the simplified depreciation rules, which are to be written as tax values at **X Depreciation expenses** item **6** (see **Small business entities** on page 11).

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

Adjustments to the accounting amounts for tax purposes are made at item **7** to determine taxable income or loss. In some cases, it is necessary to make a reconciliation adjustment at item **7** to add back or subtract the whole of an amount shown at item **6** and to include the amount for income tax purposes at a specific label at item **7**. For example, where a capital profit for accounting purposes is included at item **6**, it should be included in full at **Q Other income not included in assessable income** item **7**. The company's net capital gain for tax purposes should be written at **A Net capital gain** item **7**.

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

If the company is eligible and is continuing to use the STS accounting method, see **Former STS taxpayers** below. Otherwise see **All companies** on the next page.

FORMER STS TAXPAYERS

Continued use of the STS accounting method

Although the STS has now ceased, a transitional provision still allows for limited continued use of the STS accounting method.

A company may continue using the STS accounting method if it:

- was an STS taxpayer from the start of the first income year which began before 1 July 2005 until the end of the 2006–07 income year
- was using the STS accounting method for the 2005–06 and 2006–07 income years, and
- is a small business entity from the 2007–08 income year.

If the company meets these three requirements, it can continue using the STS accounting method until it chooses not to, or is no longer a small business entity.

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

In addition, if another provision of the tax law apportions or alters the assessability or deductibility of a particular type of ordinary income or general deduction, the timing rule in that provision overrides the STS accounting method (for example, double wool clips or prepayment of a business expense for a period greater than 12 months). Because of these specific provisions you may need to make adjustments at item **7**.

Amounts the company includes at item **6** should be based on the STS accounting method if that method is reflected in the company's accounts. If the company is continuing to use the STS accounting method and its accounts do not reflect the STS accounting method rules, you may need to make additional adjustments at item **7**.

If the company has stopped using the STS accounting method, business income and expenses that have not been accounted for (because they have not been received or paid) are accounted for in this income year. You may need to make additional reconciliation adjustments at item **7**.

For more information about the STS accounting method, visit our website or phone the Business Infoline.

ALL COMPANIES

INCOME

Gross payments subject to foreign resident withholding

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

- for promoting or organising casino gaming junket activities
- for entertainment or sports activities. The requirement to withhold from payments made to support staff involved in entertainment activities has been removed where the staff are normally resident in countries that have an international tax agreement with Australia, or
- under contract for the construction, installation and upgrading of buildings, plant and fixtures, and for associated activities.

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

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

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

If an amount is written at **B**, complete and attach a *Non-individual PAYG payment summary schedule 2009*. For instructions on completing this schedule, see **Non-individual PAYG payment summary schedule** on page 5.

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

Gross payments where ABN not quoted

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

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

- complete a *Non-individual PAYG payment summary schedule 2009*. For instructions on completing this schedule, see **Non-individual PAYG payment summary schedule** on page 6.
- ensure that you write the corresponding amount of tax withheld at **W** **Credit for tax withheld where ABN not quoted** in the **Calculation statement.**

Other sales of goods and services

Write at **C** the gross sales of trading stock including wool, produce and livestock – including the assessable value, for income tax purposes, of forced disposal, manufactured goods, goods taken ex-stock, livestock killed for rations or exchanged for other goods or services, and gross earnings from services.

Do not include at **C**:

- any payments where tax has been withheld for failure to quote an ABN. Include these amounts at **A** **Gross payments where ABN not quoted**
- any amounts subject to foreign resident withholding. Include these amounts at **B** **Gross payments subject to foreign resident withholding**
- sales of shares and land that are not held as trading stock for income tax purposes.

Gross distribution from partnerships

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

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

Do not include at **D**:

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

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

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

Also include the company's share of franking credits included in the gross distribution from the partnership at **C Rebates/tax offsets** in the **Calculation statement**.

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

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

> NOTE
> If the company received a distribution from a partnership that is a small business entity for the income year, it may be entitled to the ETO. For more information, see **11 Entrepreneurs tax offset** on pages 64–7.

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

If the company's share of partnership income includes an amount received indirectly from a closely held trust on which trustee beneficiary non-disclosure tax (TBNT) has been paid, you do not need to include the amount in the company's assessable income.

Any losses or outgoings incurred in deriving an amount that is excluded from assessable income because FTDT or TBNT has been paid are not deductible. The company cannot claim a tax offset for any franking credits attributable to the whole or a part of a dividend that is excluded from assessable income under these provisions.

Record keeping

Keep a record of the following:

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

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

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

Gross distribution from trusts

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

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

Do not include at **E**:

- distributions from a public trading trust or corporate unit trust. Include these amounts at **H Total dividends** item **6**
- capital gains received from a trust. Include these at **A Net capital gain** item **7**. For information on how to include a capital gain received from a trust at **A** – for example, how to gross-up a capital gain from a trust – see *Guide to capital gains tax 2009*
- any amount referable to Australian franking credits received indirectly from a New Zealand company through a trust. Include these amounts at **C Australian franking credits from a New Zealand company** item **7**.

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

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

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

> NOTE
> Special rules apply if an entity is a beneficiary or object of a trust and joins a consolidated or MEC group part way through an income year. For more information, see the *Consolidation reference manual*, available on our website.

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

If the company's share of trust income includes an amount received indirectly from a closely held trust on which TBNT has been paid, you do not need to include the amount in the company's assessable income.

Any losses or outgoings incurred in deriving an amount that is excluded from assessable income because FTDT or TBNT has been paid are not deductible. The company cannot claim a tax offset for any franking credits attributable to the whole or a part of a dividend that is excluded from assessable income under these provisions.

> NOTE
> If the company received a distribution from a trust that is a small business entity for the income year, it may be entitled to the ETO. For more information see **11 Entrepreneurs tax offset** on pages 64–7.

In the CODE box, print the code from **table 2** that best describes the type of trust for the amount of income written at **E**. If this amount is from more than one type of trust, print the code that represents the trust for the greatest amount of income. Descriptions of the types of trusts listed in **table 2** are in **table 3**.

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

TABLE 2: Trust codes

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

TABLE 3: Descriptions of trusts

Fixed trust

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

Hybrid trust

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

Discretionary trust

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

Fixed unit trust

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

Public unit trust

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

Public unit trust – listed

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

Public unit trust – unlisted

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

Record keeping

Keep a record of the following:

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

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

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

Forestry managed investment scheme income

DEFINITIONS

A company is an **initial participant** in an FMIS if:

- it obtained its forestry interest in the FMIS from the forestry manager of the scheme, and
- its payment to obtain the forestry interest in an FMIS results in the establishment of trees.

A company is a **subsequent participant** if it is not an initial participant.

The **forestry manager** of an FMIS is the entity that manages, arranges or promotes the FMIS.

A **forestry interest** in an FMIS is a right to benefits produced by the FMIS (whether the right is actual, prospective or contingent, and whether it is enforceable or not).

The amount of the company's **total forestry scheme deductions** is the total of all the amounts that it can deduct or has deducted for each income year that it held its forestry interest. See **Forestry managed investment scheme deduction** on page 43 for more information on amounts that you can deduct.

The amount of the company's **incidental forestry scheme receipts** is the total of all the amounts that it received from the FMIS in each income year that it held its forestry interest, other than amounts received because of a CGT event, that is, a sale or a harvest.

Write at **X** the total income from the following activities for each FMIS in which the company holds a forestry interest.

For an initial participant in an FMIS

Thinning receipts

If the company received thinning proceeds from its forestry interest, include the actual amount received at **X**.

Sale and harvest receipts – forestry interest no longer held

If the company ceased holding its forestry interest as a result of a CGT event (because it sold its interest or it received harvest proceeds), include the market value of the forestry interest at the time of the CGT event at **X**.

Sale and harvest receipts – forestry interest still held

If a CGT event happened and the company still held its forestry interest (because it sold part of its interest or there was a partial harvest), include at **X** the amount by which the market value of the forestry interest was reduced as a result of the CGT event.

For a subsequent participant in an FMIS

Thinning receipts

If the company received thinning proceeds from its forestry interest, include the actual amount received at **X**.

Sale and harvest receipts – forestry interest no longer held

If the company ceased holding its forestry interest as a result of a CGT event (because it sold its interest or it received harvest proceeds), include at **X** the lesser of the following two amounts:

- the market value of the forestry interest at the time of the CGT event, or
- the amount (if any) by which the total forestry scheme deductions exceeded the incidental forestry scheme receipts.

Sale and harvest receipts – forestry interest still held

If a CGT event happened and the company still held its forestry interest (because it sold part of its interest or there was a partial harvest), work out the following two amounts:

- the market value of the forestry interest at the time of the CGT event, and
- the amount (if any) by which the total forestry scheme deductions exceeded the incidental forestry scheme receipts.

Use the lesser of the two amounts above in the following formula:

$$\text{amount worked out above} \times \frac{\text{the decrease (if any) in the market value of the forestry interest (as a result of the CGT event)}}{\text{the market value of the forestry interest just before the CGT event}}$$

Include at **X** the amount calculated using the formula.

To complete this item

Add up all the amounts you worked out for the company's FMIS income and write the total at **X**.

See **examples 7 and 8** for how to calculate the amount you show at **X**.

For more information on the CGT treatment of a company's forestry interest, see *Guide to capital gains tax 2009*.

EXAMPLE 7

Cedar Pty Ltd is a subsequent participant in an FMIS. It sold its forestry interest at the market value of $20,000. The sale of the forestry interest is a CGT event. The original cost base was $14,000.

In the time that the company held the forestry interest, it claimed $4,000 in deductions (its total forestry scheme deductions) for lease fees, annual management fees and the cost of felling that it paid to the forestry manager. In the same period, it received $1,500 from thinning proceeds (its incidental forestry scheme receipts).

Cedar Pty Ltd will need to include **$2,500** (that is, $4,000 – $1,500) at **X**, because this amount is less than the market value of its forestry interest at the time of the CGT event.

EXAMPLE 8

Oakey Pty Ltd is a subsequent participant in an FMIS. It received harvest proceeds over two income years. It received the first harvest payment of $5,000 in the 2008–09 income year.

The market value of its forestry interest is $20,000 just before it received its payment for the first harvest (which is a CGT event). After it received this first harvest payment, the market value of its forestry interest was reduced to $15,000. Its original cost base was $14,000.

In the time that it has held its interest, Oakey Pty Ltd claimed $4,000 in deductions (its total forestry scheme deductions) for lease fees, annual management fees and the cost of felling that it paid to the forestry manager. In the same period, it received $1,500 from thinning proceeds (its incidental forestry scheme receipts).

Step 1 The market value of the forestry interest (at the time of the CGT event) is $20,000.

The amount by which the total forestry scheme deductions exceed the incidental forestry scheme receipts is $2,500 (that is, $4,000 – $1,500).

The amount to use in step 2 is $2,500.

Step 2 Using the formula in the previous column:

$$\$2{,}500 \times \frac{\$5{,}000}{\$20{,}000} = \$625$$

Step 3 The company will need to include **$625** at **X**.

Step 4 In the 2009–10 income year, the company received $15,000 in payment for the final harvest (which is a CGT event). It has not paid any other fees in the 2009–10 income year.

Oakey Pty Ltd will need to include the remainder from step 2 of **$1,875** (that is, $2,500 – $625) at **X** in its 2010 tax return.

Gross interest

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

Record keeping

Keep a record of the following:
- name and address of the borrower
- amount received or credited.

Gross rent and other leasing and hiring income

Write at **G** the company's total income from leasing and hiring activities. The amount at this label cannot be a loss.

Total dividends

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

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

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

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

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

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

To the extent that FTDT has been paid on a dividend paid or credited to the company by another company that has made an interposed entity election, that amount is excluded from the assessable income of the company under section 271-105 of Schedule 2F to the ITAA 1936.

Any losses or outgoings incurred in deriving an amount that is excluded from assessable income under section 271-105 of Schedule 2F to the ITAA 1936 are not deductible. The company cannot claim a tax offset for any franking credit attributable to the whole or a portion of a dividend that is excluded from assessable income under section 271-105 of Schedule 2F to the ITAA 1936.

Record keeping

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

Fringe benefit employee contributions

Write at **I** all payments that the company has received from recipients of fringe benefits.

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

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

Assessable government industry payments

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

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

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

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

Unrealised gains on revaluation of assets to fair value

Write at **J** the amount (if any) of any unrealised gains made on the revaluation of assets and liabilities to fair value that may arise as a result of the adoption of Australian equivalents to the international financial reporting standards.

Note:

- Adjustments for tax purposes are made at item **7**.
- An unrealised gain that is not assessable income is included at **Q** **Other income not included in assessable income** item **7**.
- Any net capital gain for taxation purposes is written at **A** **Net capital gain** item **7**.
- Any net capital loss is included with any unapplied capital losses carried forward to later income years and is written at **V** **Net capital losses carried forward to later income years** item **13**.

Other gross income

Write at **R** other gross income, including royalties, insurance recoveries, bad debt recoveries, life insurance premiums, subsidies and assessable non-government assistance from all sources and profit on sale of depreciating assets (including assets used in research and development activities subject to the R&D tax concession).

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

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

Record keeping

Keep a record of the following:

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

Total income

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

EXPENSES

- Write all expense amounts from the company's financial statements at **B** to **S** – see relevant item names and labels.
- Write at **B** **Foreign resident withholding expenses** all expenses that directly relate to income subject to foreign resident withholding. Do not include these amounts at other **Expenses** labels.
- Input tax credit entitlements that arise in relation to outgoings are excluded from expenses – see **6 Calculation of total profit and loss** on page 22.
- Write non-deductible expenses incurred in deriving any exempt income at the appropriate expense labels. Add back these non-deductible expenses at **U** **Non-deductible exempt income expenditure** item **7**.
- Other expenses, to the extent that they are not deductible in the 2008–09 income year, which have been included at **A** to **S** item **6**, are added back at **W** **Non-deductible expenses** item **7**. This includes non-deductible expenses incurred in deriving any non-assessable non-exempt income.
- Record prepaid expenses that appear in the company's financial statements at the relevant expense label. Where the amounts of those expenses differ from the amounts which are deductible for income tax purposes in the 2008–09 income year, make adjustments at **W** or **X** item **7**.
- For a company to claim a deduction for gifts and donations made to an organisation, the organisation must be a deductible gift recipient (DGR). DGRs are endorsed by the Tax Office or specifically named in the income tax law (including prescribed private funds). All receipts issued for gifts by a DGR must include the name of the fund, authority or institution to which the gift has been made and the DGR's ABN, and must state that the receipt is for a gift. To check whether an organisation is a DGR, visit the website **www.abn.business.gov.au** or phone **1300 130 248**.
- The company may elect to spread a deduction for a gift over five income years or less where the gift is money, property gifted to the Cultural Gifts Program, certain heritage property or property valued by the Tax Office at more than $5,000.
- Contributions of $2 or more to registered political parties are deductible, up to a maximum amount of $1,500. New legislation also allows a further deduction of up to $1,500 for gifts to an independent member of (or candidate for) an Australian parliament (state or federal) or legislative assembly. The new rules apply to contributions or gifts made from 22 June 2006.

Foreign resident withholding expenses

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

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

Cost of sales

Small business entities

Small business entities only need to account for changes in the value of their trading stock in limited circumstances. These are explained on page 54. If the company does not need to account for the change in value of closing stock, its closing stock value will equal its opening stock value. If the company needs to account for the change in value of closing stock, or chooses to do so, see **Closing stock** on pages 54–5 for information about how to calculate the closing stock value. For more information on calculating cost of sales, read below.

All companies

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

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

For more information on the circumstances in which packaging items held by a manufacturer, wholesaler or retailer are 'trading stock' as defined in section 70-10 of the ITAA 1997, see *Taxation Ruling TR 98/7 – Income tax: whether packaging items (ie, containers, labels, etc) held by a manufacturer, wholesaler or retailer are trading stock*.

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

Contractor, sub-contractor and commission expenses

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

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

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

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

Record keeping

Keep a record of the following:

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

Superannuation expenses

Write at **D** the superannuation expenses incurred for the income year.

Employers are entitled to a deduction for contributions made to a complying superannuation, provident, benefit or retirement fund, or retirement savings account (RSA), if the contribution is to provide superannuation benefits for employees or to provide benefits to an employee's dependants on the employee's death. Superannuation benefits mean payments for superannuation member benefits or superannuation death benefits.

A deduction is allowable in the income year in which the contributions are made.

There is no limit on the amount of contributions that can be claimed as a deduction by an employer contributing to a complying superannuation fund or RSA for employees under the age of 75 years. However, the employee may be subject to excess concessional contributions tax at the rate of 31.5% on excess concessional contributions if their concessional contributions in a financial year exceed the concessional contributions cap of $50,000. A transitional arrangement allows a higher cap of $100,000 on concessional contributions for the 2007–08 to 2011–12 financial years for individuals aged 50 years or over on the last day of the financial year.

If an employee has reached the age of 75 years, there is a restriction on the deduction that can be claimed for an employer contribution to a complying superannuation fund or RSA. For contributions made after the 28th day of the month following the employee's 75th birthday, the deduction claimable is limited to the amount of the contribution required under an industry award, determination or notional agreement preserving state awards.

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

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

In addition, contributions made to a non-complying fund do not count towards superannuation guarantee obligations. The superannuation guarantee charge is payable on the superannuation guarantee shortfall. As such, it is neither a superannuation contribution nor tax deductible.

Contributions made by employers to be offset against a superannuation guarantee charge liability are not deductible.

Contributions paid by an employer for employees to a non-complying superannuation fund may be fringe benefits and, as such, may be subject to tax under the *Fringe Benefits Tax Assessment Act 1986*.

Consolidated or MEC groups

The head company includes at **D** the employee superannuation expenses of all the members of the group.

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

Bad debts

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

Note:

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

A deduction can also be claimed for:

- partial debt write-offs where only part of a debt is bad and is written off
- losses incurred in debt/equity swaps for debt extinguished after 26 February 1992 if the provisions of sections 63E to 63F of the ITAA 1936 are satisfied. Under these provisions, a deduction may be allowable for the difference between the amount of the debt extinguished and the greater of the market value of the equity or the value at which the equity is recorded in the creditor's books at the time of issue. Generally, the market value of the equity is the price quoted on the stock exchange or, if the equity is not listed, the net asset backing of the equity.

A deduction for a bad debt or loss on a debt/equity swap is only allowable if the company claiming the deduction satisfies:

- a continuity of ownership test (or we consider it unreasonable to have to satisfy the test) – see Subdivision 165-C of the ITAA 1997
- the same business test (if the continuity of ownership test is not satisfied or it is not practicable to show that it is). For the operation of the same business test, see Subdivision 165-E of the ITAA 1997 and *Taxation Ruling TR 1999/9 – Income tax: the operation of sections 165-13 and 165-210, paragraph 165-35(b), section 165-126 and section 165-132*.

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

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

The continuity of ownership tests applicable to bad debts are subject to:

- the anti-avoidance provisions in Subdivision 165-D of the ITAA 1997 relating to arrangements designed to affect the beneficial ownership of shares or enjoyment of rights attaching to shares
- the anti-avoidance provisions in Subdivision 175-C of the ITAA 1997 relating to schemes designed to obtain tax benefits from unused bad debt deductions.

Note: for widely held companies and eligible Division 166 companies, the continuity of ownership test in Subdivision 165-C may be modified by Subdivision 166-C of the ITAA 1997, which provides a simplified method for determining the company's ultimate majority ownership.

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

Record keeping

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

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

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

Lease expenses within Australia

Write at **F** the expenditure incurred through both finance and operating leases on leasing assets – including motor vehicles and depreciating assets such as plant. However, do not include the expenditure at **F** if it is incurred under a hire purchase agreement. Such expenses are referred to in **appendix 6**.

Do **not** include the cost of leasing real estate or the capital expenditure incurred to terminate a lease or licence. However, section 25-110 of the ITAA 1997 provides a five-year straight-line write-off for certain capital expenditure incurred to terminate an operating lease or licence if the expenditure is incurred in the course of carrying on a business or in connection with ceasing to carry on a business. Include the allowable deduction at **X Other deductible expenses** item **7**. See **worksheet 2** on pages 83–6 and **note 7** on page 86 of these instructions, and the details under **Change 3** in the fact sheet *Blackhole expenditure: business related expenses*, available on our website.

Lease expenses overseas

Write at **I** the lease expenses incurred through both finance and operating leases on leasing depreciating assets – including motor vehicles. However, do not include the expenditure at **I** if it is incurred under a hire purchase agreement. Such expenses are referred to in **appendix 6**.

Exclude the cost of leasing real estate, capital expenditure incurred to terminate a lease or licence, and expenditure on items other than depreciating assets leased from non-residents. For more information on capital expenditure incurred to terminate an operating lease or licence, see **Lease expenses within Australia** above.

Record keeping

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

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

In certain cases, an amount of tax – withholding tax – is withheld from amounts paid or payable under equipment leases to non-residents and overseas branches of residents, and must be remitted to the Tax Office. If you have withheld amounts from payments to non-residents, you may need to lodge a *PAYG withholding from interest, dividend and royalty payments paid to non-residents – annual report* by 31 October 2009. For more information, phone the Business Infoline.

Rent expenses

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

Interest expenses within Australia

Write at **V** the interest expenses incurred on money borrowed from Australian sources.

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

For information on thin capitalisation, see **appendix 3**.

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

Interest expenses overseas

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

An amount of tax – withholding tax – is generally withheld from interest paid or payable to non-residents and to overseas branches of residents, and must be remitted to the Tax Office. If you have withheld amounts from payments to non-residents you may need to lodge a *PAYG withholding from interest, dividend and royalty payments paid to non-residents – annual report* (NAT 7187) by 31 October 2009. For more information, phone the Business Infoline.

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

For information on thin capitalisation, see **appendix 3**.

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

Record keeping

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

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

Royalty expenses within Australia

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

Record keeping

Keep a record of the following:

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

Royalty expenses overseas

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

An amount of tax – withholding tax – is generally withheld from royalties paid or payable to non-residents and overseas branches of residents, and must be remitted to the Tax Office. If you have withheld amounts from payments to non-residents, you may need to lodge a *PAYG withholding from interest, dividend and royalty payments paid to non-residents – annual report* by 31 October 2009. For more information, phone the Business Infoline.

Record keeping

Keep a record of the following:

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

Depreciation expenses

If the company is an eligible small business entity and has chosen to use the simplified depreciation rules, see **Small business entities** in the next column. Otherwise see **All other companies** below.

All other companies

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

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

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

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

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

> NOTE
>
> Depreciation expenses for assets used in foreign-owned R&D activities are not subject to the R&D tax concession and should not be included in item **7** at **D** **Accounting expenditure in item 6 subject to R&D tax concession,** **L** **Australian owned R&D tax concession – not including label M**, or **J** **Foreign owned R&D tax concession – not including label K**.

If the company has included an amount greater than $15,000 at **X**, complete and attach a *Capital allowances schedule 2009* unless the company is a small business entity using the simplified depreciation rules. For more information, see *Capital allowances schedule instructions 2009*.

Our *Practice Statement PS LA 2003/8 – Taxation treatment of expenditure on low-cost items for taxpayers carrying on a business* provides guidance on two straightforward methods that taxpayers carrying on a business can use to help them determine whether expenditure incurred in acquiring certain low-cost assets is to be treated as revenue or capital expenditure.

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

Small business entities

If the company is an eligible small business entity and has chosen to use the simplified depreciation rules, write at **X** **Depreciation expenses** the total depreciation deductions being claimed under the simplified depreciation rules and the uniform capital allowances (UCA) rules. The company does **not** need to complete a capital allowances schedule.

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

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

Some depreciating assets are excluded from these simplified depreciation rules but a deduction may be available under the UCA or the R&D depreciating asset regime.

An eligible company choosing to use these simplified depreciation rules must use both the immediate write-off and the pooling method where applicable. It cannot choose to use one and not the other.

For more information about the small business entity depreciation rules, visit our website or phone the Business Infoline.

> **FORMER STS TAXPAYERS**
>
> Assets that were previously in an STS pool (a general STS pool or a long-life STS pool) continue to be subject to the pooling rules. To ensure continuity in the treatment of depreciating assets, an asset allocated to a general STS pool or long-life STS pool is treated as being allocated to a general small business pool or long life small business pool, respectively.
>
> The closing pool balance (with any required adjustments) of an STS pool is carried forward to become the opening pool balance of a small business pool.

Calculating depreciation deductions for small business entities

Only use steps 1 to 5 following to calculate the depreciation deductions if the company is an eligible small business entity and has chosen to use the simplified depreciation rules.

If the company's profit and loss statement provides the amounts to complete **worksheet 1** on page 36, write these amounts in the worksheet. Otherwise, use steps 1 to 5 to calculate its depreciation deductions.

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

Step 1 Low-cost assets

For each depreciating asset:

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

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

asset's adjustable value x its taxable purpose proportion

The adjustable value of an asset is its cost less its decline in value since it was first used, or installed ready for use, for any purpose, whether business or private. The adjustable value of an asset, at the time it was first used, or installed ready for use, for a taxable purpose, will be its cost unless the asset was previously used, or installed ready for use, by the company solely for non-taxable purposes. For example, for a tool set bought on 1 December at a cost of $800 (excluding input tax credit entitlements) and used for producing assessable income from that date at an estimated 70% of the time, the immediate deduction would be $800 × 70% = $560.

Add up these results and write the total at (a) in **worksheet 1** on page 36.

Do **not** include in this calculation amounts for depreciating assets that the company started to hold before starting to use the simplified depreciation rules and that cost less than $1,000. These assets are allocated to a small business pool (see step 2).

Step 2 Small business pool deductions

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

For companies previously using the simplified depreciation rules, the opening pool balance of each small business pool is the closing pool balance for the previous income year, adjusted to reflect any changed business use of a pooled asset.

For companies which have not previously used the simplified depreciation rules, the opening pool balance is the sum of the taxable purpose proportions of the adjustable values of those depreciating assets that are used, or held for use, just before the start of the 2008–09 income year, and that are not excluded from the simplified depreciation rules.

Allocate each depreciating asset that the company holds at the start of the income year to the appropriate pool according to the asset's effective life. Only include the taxable purpose proportion of the adjustable value of each depreciating asset.

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

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

Calculate the opening pool balance for each small business pool by adding the value of all depreciating assets allocated to the relevant pool.

Calculate the deduction for each small business pool and complete as follows:

General small business pool deduction:

Opening pool balance $ x 30%

Write the result at (b) in **worksheet 1**.

Long life small business pool deduction:

Opening pool balance $ x 5%

Write the result at (c) in **worksheet 1**.

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

Step 3 Depreciating assets first used for a taxable purpose during the income year and cost addition amounts for assets already allocated to a pool

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

- depreciating assets that the company first used or installed ready for use for a taxable purpose during the year
- cost addition amounts during the year for assets already allocated to a pool. Cost addition amounts include the costs of capital improvements to assets and costs reasonably attributable to disposing of, or permanently ceasing to use, an asset (this may include advertising and commission costs or the cost of demolishing the asset).

The company calculates the deduction for the income year as follows:

- the taxable purpose proportion of the adjustable value of each depreciating asset first used for a taxable purpose this year multiplied by 15% for general pool assets or 2.5% for long-life pool assets, plus
- the taxable purpose proportion of the cost addition amounts multiplied by 15% for general pool assets or 2.5% for long-life pool assets.

Write the total deduction for general small business pool assets at (d) in **worksheet 1**.

Write the total deduction for long life small business pool assets at (e) in **worksheet 1**.

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

Step 4 Other depreciating assets

Calculate the deduction for the decline in value of all the other depreciating assets of the company that are not included in steps 1 to 3. See *Guide to depreciating assets 2009* for information on how to calculate the decline in value of these assets.

Write the company's total deduction at (f) in **worksheet 1**.

Do not include at (f) in **worksheet 1** depreciating assets that qualify for a deduction under Subdivision 40-F or 40-G of the ITAA 1997 as water facilities or landcare operations in the company's primary production business and for which the company has chosen to claim a deduction under these subdivisions and not under the small business entity depreciation rules. Include these deductions at **N Landcare operations and deduction for decline in value of water facility** item **7**.

Step 5 Disposal of depreciating assets

Step 5a Low-cost assets

If the company has disposed of a low-cost asset for which it has claimed an immediate deduction in step 1 this year or in a previous year, it must include the taxable purpose proportion of the termination value at **B Other assessable income** item **7**. Termination value includes money received from the sale of an asset or insurance money received as the result of the loss or destruction of an asset. For example, for a low-cost asset used only 50% for an income-producing purpose that was sold for $200 (excluding GST), only $100 will be assessable and included as a reconciliation adjustment.

Step 5b Assets allocated to small business pools

If the company disposes of depreciating assets that have been allocated to either the general or long-life pool, the taxable purpose proportion of the termination value is deducted from the closing pool balance. For example, for a pooled depreciating asset used only 50% for an income-producing purpose which was sold for $3,000 (excluding GST), only $1,500 will be deducted from the closing pool balance.

If the balance of a pool (after taking into account any additions and disposals but before calculating the deductions in steps 2 and 3) is below $1,000 but greater than zero, the company can claim an immediate deduction for this amount.

Write this deduction against the appropriate pool at (b) or (c) in **worksheet 1**.

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

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

Step 5c Other depreciating assets

See *Guide to depreciating assets 2009* for information on how to calculate any balancing adjustment amounts on the disposal of other depreciating assets.

Include assessable balancing adjustment amounts at **B Other assessable income** item **7**. Include deductible balancing adjustment amounts at **X Other deductible expenses** item **7**. See **worksheet 2** on pages 83–6.

WORKSHEET 1: Depreciation deductions (small business entities only)

	Total ($)	
Low-cost assets		(a)
General pool		(b)
Long life pool		(c)
General pool (1/2 rate)		(d)
Long life pool (1/2 rate)		(e)
Other assets		(f)
Depreciation expenses: add (a) to (f)		(g)
Transfer the amount at (g) to **X Depreciation expenses** item **6**		
Transfer the amount at (a) to **A Deduction for low-cost assets (less than $1,000)** item **10**		
Transfer the total of the amounts at (b) and (d) to **B Deduction for general pool assets (less than 25 years)** item **10**		
Transfer the total of the amounts at (c) and (e) to **C Deduction for long life pool assets (25 years or more)** item **10**.		

Closing pool balance

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

- the opening pool balance (see step 2), plus
- the taxable purpose proportion of the adjustable value of assets that were first used, or installed ready for use, for a taxable purpose during the year (see step 3), plus
- the taxable purpose proportion of any cost addition amounts for assets in the pool during the year (see step 3), less
- the taxable purpose proportion of the termination value of any pooled assets disposed of during the year (see step 5b), less
- the small business pool deduction (see step 2), less
- the deduction for assets first used by the taxpayer during the year (see step 3), less
- the deduction for any cost addition amounts for pooled assets during the year (see step 3).

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

The closing pool balance for this year becomes the opening pool balance for the 2009–10 income year, except where an adjustment is made to reflect the changed business use of a pooled asset.

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

> **FIVE-YEAR RESTRICTION**
>
> If the company is a small business entity and has chosen to use these simplified depreciation rules but in a later year chooses to stop using this concession, the company **cannot** again choose to use the simplified depreciation rules until at least five years after the income year in which it chose to stop using the rules.

Motor vehicle expenses

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

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

Repairs and maintenance

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

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

Provided it is not expenditure of a capital nature, the company may deduct the cost of repairs to property, plant, machinery or equipment used for producing assessable income or in carrying on a business for that purpose. Deductions for expenditure on repairs to property must be reduced to reflect the extent to which the property is not used for an income-producing purpose – for example, where the property is also used for private purposes, or in the production of exempt income.

If items are newly acquired, including by way of a legacy or gift, the cost of remedying defects in existence at the time of acquisition is generally of a capital nature. Expenditure incurred in making alterations, additions or improvements is of a capital nature and is not deductible when incurred. However, it may be subject to depreciation under the UCA or another capital allowance regime. For more information on deductions for repairs, see *Taxation Ruling TR 97/23 – Income tax: deductions for repairs*.

Unrealised losses on revaluation of assets to fair value

Write at **G** the amount (if any) of any unrealised loss made on the revaluation of assets and liabilities to fair value that may arise as a result of the adoption of Australian equivalents to the international financial reporting standards.

Note:

- Adjustments for tax purposes are made at item **7**.
- An unrealised loss that is not deductible is added back at **W** **Non-deductible expenses** item **7**.
- Any net capital gain for taxation purposes is included at **A** **Net capital gain** item **7**.
- Any net capital loss is included with any unapplied capital losses carried forward to later income years and is written at **V** **Net capital losses carried forward to later income years** item **12**.

All other expenses

Write at **S** the total of all other expenses including losses on the disposal of depreciating assets (including assets used in research and development activities subject to the R&D tax concession).

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

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

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

Total expenses

Write at **Q** the total of all expense items written at **B** to **S** item **6**.

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

TOTAL PROFIT OR LOSS

Write the company's total profit or loss at **T**. Total profit or loss is the amount written at **Income**, **S** **Total income** less the amount written at **Expenses**, **Q** **Total expenses**. If this amount is a loss, print **L** in the box at the right of the amount at **T**.

7 RECONCILIATION TO TAXABLE INCOME OR LOSS

The items under this heading are the adjustments for tax purposes to reconcile the amount at **T** **Total profit or loss** item **6** with **T** **Taxable income or loss** item **7**. **Worksheet 2** on pages 83–6 will assist with the calculations.

FORMER STS TAXPAYERS

If the company is eligible and is continuing to use the STS accounting method (see pages 22–3), you may need to make additional adjustments.

Make adjustments at item **7** if:

- the company is using the STS accounting method and the amounts the company has written at the **Income** and **Expenses** sections of item **6 Calculation of total profit and loss** are not based on the STS accounting method, or
- the company is changing from using the STS accounting method.

These adjustments are explained in more detail below. **Worksheet 2** on pages 83–6 will help with the calculations.

Trade debtors and creditors as at 30 June 2009

If the company is eligible and has chosen to continue using the STS accounting method, and has included at any labels at **Income** item **6** amounts of ordinary income that have been derived but not received in the 2008–09 income year, the amounts not received are not assessable this year – for example, trade debtors as at 30 June 2009.

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

If the company is eligible and has chosen to continue using the STS accounting method and has included at any labels at **Expenses** item **6** amounts of general deductions, repairs or tax-related expenses that have been incurred but not paid in the 2008–09 income year, the amounts not paid are not deductible this year – for example, trade creditors as at 30 June 2009.

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

Adjustments when changing from the STS accounting method

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

If the company has not included at any labels at **Income** item **6** amounts of ordinary income that were derived but not received while using the STS accounting method, these amounts are assessable this year – for example, trade debtors as at 30 June 2008.

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

If the company has not included at any labels at **Expenses** item **6** amounts of general deductions, repairs or tax-related expenses that were incurred but not paid while using the STS accounting method, these amounts are deductible this year – for example, trade creditors as at 30 June 2008.

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

Worksheet 2 on pages 83–6 will help with the calculations.

OTHER RECONCILIATION ADJUSTMENTS

Disposal of depreciating assets

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

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

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

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

Include at **W Non-deductible expenses** item **7** any loss on sale of depreciating assets included at **Expenses**, **S All other expenses** item **6**. See **worksheet 2** on pages 83–6.

Prepaid expenses

Generally, prepaid expenses are deductible over the eligible service period or 10 years if that is less.

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

Small business entities are entitled to an immediate deduction for prepaid expenses if the expenditure is incurred for a period of service not exceeding 12 months and the eligible service period ends on or before the last day of the next year of income (the 12 month rule). If the 12 month rule does not apply, apportion the deduction for the expenditure over the eligible service period or 10 years, whichever is less. The immediate deduction under the 12 month rule does not apply to expenditure incurred under a tax shelter agreement.

Note: If you are an early balancer and on a date that was both before 1 July 2008 and falls within your 2008–09 income year you incurred expenditure under a forestry management agreement, you should contact the Tax Office on **13 28 66** for further assistance.

For more information, see *Deductions for prepaid expenses* 2009 (NAT 4170). If the labels at **Expenses** item **6** include prepaid expenses that differ from the amounts allowable as deductions in the 2008–09 income year, include the reconciliation adjustment at **W Non-deductible expenses** item **7** or **X Other deductible expenses** item **7** as required. See **worksheet 2** on pages 83–6.

ALL COMPANIES

Did you have a CGT event during the year?

If the company had a CGT event during the income year, or received a distribution of a capital gain from a trust, print **Y** for yes at **G** item **7**. Otherwise print **N** for no.

If the answer to this question is yes, answer the question below.

Did this CGT event relate to a forestry managed investment scheme interest that you held other than as an initial participant?

If yes, print **Y** for yes at **Z** item **7**. Otherwise print **N** for no.

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

An Australian resident company makes a capital gain or capital loss if a CGT event happens to any of its worldwide CGT assets. Foreign residents are only subject to CGT if a CGT event happens to assets that have the necessary connection with Australia if the CGT event happens before 12 December 2006 or that are taxable Australian property if the CGT event happens on or after that date. For more information, see *Guide to capital gains tax 2009*.

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

For more information about CGT events, see *Guide to capital gains tax 2009*.

The guide to CGT includes:

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

The worksheets help in calculating a company's net capital gain or capital loss for the income year and completing the CGT tax return labels. Completion of the worksheets is not mandatory. Do not attach them to the company tax return – keep them with the company's tax records.

However, if the company has:

- a CGT event in relation to an FMIS interest that is held other than as an initial participant
- total current year capital gains are greater than $10,000, or
- total current year capital losses are greater than $10,000

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

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

ADD-BACK ITEMS

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

Net capital gain

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

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

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

- the small business 50% active asset reduction
- the small business retirement exemption
- the small business rollover relief.

A company is not eligible for the CGT discount.

Include any net capital loss with any unapplied net capital losses carried forward to later income years and record it at **V** **Net capital losses carried forward to later income years** item **13**.

For more information about CGT, see *Guide to capital gains tax 2009*. For information regarding the small business concessions, see the publication *Capital gains tax (CGT) concessions for small business – overview*, available only on our website.

> **NOTE**
> The company may need to complete a *Losses schedule 2009*. For more information, see *Losses schedule instructions 2009*.

Non-deductible exempt income expenditure

Write at **U** any expenditure incurred in deriving exempt income written at **V** **Exempt income** item **7**. Do not include expenditure incurred in deriving exempt income from RSAs and expenditure allowed by section 25–90 of the ITAA 1997.

Franking credits

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

Do **not** include franking credits attached to:

- a distribution the company receives indirectly, through one or more partnerships or trusts (include these at **D** **Gross distribution from partnerships** item **6** or **E** **Gross distribution from trusts** item **6**)
- a distribution that is exempt income or non-assessable non-exempt income
- franked distributions received from a New Zealand franking company (include these at **C** **Australian franking credits from a New Zealand company**)
- a distribution where the shares are not held at risk as required under the holding period and related payments rules, or there is other manipulation of the imputation system. There is no entitlement to a franking tax offset in these circumstances.

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

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

EXAMPLE 9

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

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

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

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

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

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

Australian franking credits from a New Zealand company

Write at **C** amounts of Australian franking credits from a New Zealand company that are included in assessable income because of a franked distribution paid to the company by a New Zealand company or because of its receipt indirectly through a partnership or trust. To work out whether the distribution is included in assessable income, see *Foreign income return form guide* (NAT 1840), available on our website.

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

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

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

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

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

Other assessable income

Write at **B** the total of the amounts that form part of assessable income if you have not included them as income at item **6** or at item **7** at **A** **Net capital gain**, **J** **Franking credits** or **C** **Australian franking credits from a New Zealand company** – for example, attributed foreign income of a CFC, and timing adjustments such as that which reconciles interest receivable to assessable interest income. For more examples of specific items, see the list of items in **worksheet 2** on pages 83–6.

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

- The excess of the company's foreign source income and attributed foreign income for taxation purposes over income from such sources shown in the accounts. Gross up foreign source income by the amount of foreign tax paid. Include any add-back or subtraction adjustment to expenses claimed against such income separately at **W** **Non-deductible expenses** item **7** or at **X** **Other deductible expenses** item **7**.
- Assessable foreign exchange gains to the extent that they have not been included at item **6** or at any other label of item **7**. See **Foreign exchange gains and losses** on page 10 for more information.
- Assessable balancing adjustment amounts for non-R&D assets (assessable balancing adjustment amounts for assets used in research and development activities subject to the R&D tax concession are taken into account at **L** **Australian owned R&D tax concession – not including label** **M** item **7**. See page 44.)

> NOTE
> Assessable balancing adjustment amounts for assets used in foreign-owned R&D activities are not subject to the R&D tax concession and should **not** be included in item **7** at **D** **Accounting expenditure** in item **6** **subject to R&D tax concession**, **L** **Australian owned R&D tax concession – not including label** **M**, or **J** **Foreign owned R&D tax concession – not including label** **K**.

If the company ceases to hold a depreciating asset, or permanently ceases using it (or ceases having it installed ready for use) for any purpose and expects (or has decided) never to use it again, a balancing adjustment event occurs. For assets subject to the small business entity depreciation rules, see **step 5 Disposal of depreciating assets** on page 35. For assets not subject to the small business entity depreciation rules, calculate a balancing adjustment amount to include in the company's assessable income or to claim as a deduction.

If the asset was used for both taxable and non-taxable purposes, reduce the balancing adjustment amount by the amount attributable to the non-taxable use. A capital gain or capital loss amount may arise attributable to that non-taxable use. For more information, see *Guide to depreciating assets 2009*.

- The company's share of a deduction in respect of a 'listed investment company (LIC) capital gain' amount if it receives a distribution from a partnership or trust that claimed a deduction in respect of a LIC capital gain amount – see section 115-280 of the ITAA 1997. There is an exception for life insurance companies. For more information, see **16 Life insurance companies and friendly societies only** on pages 69–70.
- Excessive deductions for capital allowances that are to be included in assessable income under the limited recourse debt rules contained in Division 243 of the ITAA 1997. This will occur where:

- expenditure on property has been financed or re-financed wholly or partly by limited recourse debt
- the limited recourse debt is terminated after 27 February 1998 but has not been paid in full by the debtor, and
- because the debt has not been paid in full, the capital allowance deductions allowed for the expenditure exceed the deductions that would be allowable if the unpaid amount of the debt was not counted as capital expenditure of the debtor. Special rules apply in working out whether the debt has been fully paid. 'Limited recourse debt' is a debt where the rights of the creditor as against the debtor in the event of default in payment of the debt or of interest, are limited wholly or predominantly to the property that has been financed by the debt or is security for the debt, or rights in relation to such property. A debt is also limited recourse debt if, notwithstanding that there may be no specific conditions to that effect, it is reasonable to conclude that the creditor's rights as against the debtor are capable of being so limited. Limited recourse debt includes a notional loan under a hire purchase or instalment sale agreement of goods to which Division 240 of the ITAA 1997 applies. Refer to section 243-20. The rules in section 243-75 apply where Division 243 of the ITAA 1997 and Division 245 of Schedule 2C to the ITAA 1936 (commercial debt forgiveness – see **appendix 1**) both apply to the same debt.

■ Amounts assessable under Division 45 of the ITAA 1997. Broadly, if a taxpayer holds plant which has been used principally for leasing and some part of the lease period occurred on or after 22 February 1999, Division 45 and related amendments may apply from that date to include an amount in the assessable income of the taxpayer upon disposal of such plant, or an interest in the plant, or an interest in, or rights under, a lease of the plant. See section 45-5 of the ITAA 1997.

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

A subsidiary member of a wholly owned company group is treated under Division 45 as if it had disposed of and immediately reacquired plant that it holds where:
- more than 50% direct or indirect beneficial ownership in the shares of the subsidiary are acquired on or after 22 February 1999 by an entity or entities, none of which is a member of the wholly owned group
- the plant has been used principally for leasing and some part of the lease period occurred on or after 22 February 1999
- at that acquisition time, the plant's written down value is less than the plant's market value
- the main business of each acquiring entity is not the same as the main business of the wholly owned group immediately before the relevant acquisition – see section 45-15 of the ITAA 1997.

Similar tax consequences arise if the subsidiary is a partner in a leasing partnership – see section 45-20 of the ITAA 1997.

Each company in the wholly owned group may become jointly and severally liable for any outstanding amount of tax payable by the subsidiary (because of section 45-15 or 45-20) at the end of six months from the time such tax becomes due and payable by the subsidiary – see section 45-25 of the ITAA 1997.

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

Non-deductible expenses

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

The amount written at **W** excludes:

■ any amount included at **U** **Non-deductible exempt income expenditure** item **7**

■ any amount included at **D** **Accounting expenditure** in item **6 subject to R&D tax concession** item **7**.

Generally, **W** includes the amounts that are an expense for accounting purposes but are not deductible for income tax purposes, including timing variations. Examples are:

■ debt deductions disallowed under the thin capitalisation rules

■ unrealised losses on revaluation of assets and liabilities to fair value under international financial reporting standards

■ any expenses (including interest or amounts in the nature of interest) incurred in deriving non-assessable non-exempt income such as foreign income that is non-assessable non-exempt income under section 23AH of the ITAA 1936

■ a non-share dividend, to the extent that it is an expense for accounting purposes and therefore taken into account in determining total profit and loss, but which is not deductible for income tax purposes.

For more examples of specific items, see **worksheet 2** on pages 83–6.

If a forex loss for accounting purposes, included in item **6**, exceeds the deductible forex loss, include the difference at **W**. See **Foreign exchange gains and losses** on page 10 for more information.

If foreign source income expenses for accounting purposes exceed allowable deductions for income tax purposes, include the excess at **W**.

If Australian and foreign source capital losses for accounting purposes are included at **Expenses**, **G** **Unrealised losses on revaluation of assets to fair value** or **S** **All other expenses** item **6**, also include them at **W**. For Australian taxation purposes, include any net capital loss with any unapplied capital losses carried forward to later income years and write it at **V** **Net capital losses carried forward to later income years** item **13**.

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

Write at **D** the expense amounts included at the expenditure labels at item **6 Calculation of total profit or loss**, which relate to amounts that are subject to the R&D tax concession provisions (Australian owned R&D tax concession and foreign-owned R&D tax concession). Generally, these amounts include expense amounts for accounting purposes, related to research and development activities for which different amounts will be claimed for income tax purposes. Also include at **D** losses on disposal of assets used in R&D activities which are subject to the R&D tax concession that were shown at **S All other expenses** item **6** and any book depreciation expenses for assets used in R&D activities which are subject to the R&D tax concession that were included at **X Depreciation expenses** item **6** (any amounts not subject to the R&D tax concession must be included at **W Non-deductible expenses** item **7**).

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

The amount written at **D** on the company tax return must be the same as the amount written at **D Preliminary calculation – Add-back of research and development (R&D) accounting expenditure** on the *Research and development tax concession schedule 2009*.

> **NOTE**
> Depreciation expenses and balancing losses for assets used in foreign-owned R&D activities are not subject to the R&D tax concession and should **not** be included in item **7** at **D Accounting expenditure in item 6 subject to R&D tax concession**, **L Australian owned R&D tax concession – not including label M**, or **J Foreign owned R&D tax concession – not including label K**.

Subtotal

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

SUBTRACTION ITEMS

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

Section 46FA deduction for flow-on dividends

Write at **C** any amounts claimed as a deduction during the 2008–09 income year that are deductible under section 46FA of the ITAA 1936.

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

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

Deduction for decline in value of depreciating assets

If the company is not a small business entity using the simplified depreciation rules, write the deduction for decline in value of most depreciating assets for taxation purposes at **F**.

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

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

Include the deduction for decline in value of R&D depreciating assets that are subject to the R&D tax concession at **L Australian owned R&D tax concession – not including label M** item **7**. If a deduction for decline in value is included at **L Australian owned R&D tax concession – not including label M**, add back at **D Accounting expenditure in item 6 subject to R&D tax concession** item **7** any related depreciation expenses included at **X Depreciation expenses** item **6**.

> **NOTE**
> Depreciation expenses for assets used in foreign-owned R&D activities are not subject to the R&D tax concession and should not be included in item **7** at **D Accounting expenditure in item 6 subject to R&D tax concession**, **L Australian owned R&D tax concession – not including label M**, or **J Foreign owned R&D tax concession – not including label K**.

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

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

If the company is a small business entity using the simplified depreciation rules, include deductions for depreciating assets at **X Depreciation expenses** item **6**.

If the company is not using the simplified depreciation rules, and is continuing to claim a deduction for any prior pool, this deduction should be included at **X Depreciation expenses** item **6**.

If the company has included an amount greater than $15,000 at **F**, complete and attach a *Capital allowances schedule 2009* unless the company is a small business entity using the simplified depreciation rules.

For more information, see *Capital allowances schedule instructions 2009*.

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

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

Small business and general business tax break

Write at **G** the total amount of the company's deductions for the small business and general business tax break.

For more information on the investment allowance, see **appendix 6**.

Forestry managed investment scheme deduction

DEFINITIONS

The company is an **initial participant** in an FMIS if:

- it obtained its forestry interest in the FMIS from the forestry manager of the scheme, and
- its payment to obtain the forestry interest in an FMIS results in the establishment of trees.

The company is a **subsequent participant** if it is not an initial participant.

The **forestry manager** of an FMIS is the entity that manages, arranges or promotes the FMIS.

A **forestry interest** in an FMIS is a right to benefits produced by the FMIS (whether the right is actual, prospective or contingent, and whether it is enforceable or not).

The company may be able to claim a deduction at this item for payments made to an FMIS if:

- the company currently holds a forestry interest in an FMIS, or held a forestry interest in an FMIS during the income year, and
- the company paid an amount to a forestry manager of an FMIS under a formal agreement.

The company can only claim a deduction at this item if the forestry manager has advised you that the FMIS satisfies the 70% direct forestry expenditure rule in Division 394 of the ITAA 1997.

If the company is an initial participant, it cannot claim a deduction if it disposed of the forestry interest in an FMIS within four years after the end of the income year in which a payment was first made.

If the company is a subsequent participant, it cannot claim a deduction for the amount paid for acquiring the interest. The company can only claim a deduction for ongoing payments.

Initial participants can claim at this item **initial and ongoing payments** made under an FMIS that were made as an initial participant of the FMIS.

Subsequent participants can claim at this item **ongoing payments** made under an FMIS that were made as a subsequent participant of the FMIS.

Excluded payments

The company cannot claim a deduction at this item for any of the following payments:

- payments for borrowing money
- interest and payments in the nature of interest (such as a premium on repayment or redemption of a security, or a discount of a bill or bond)
- payments of stamp duty
- payments of GST
- payments that relate to transportation and handling of felled trees after the earliest of the:
  - sale of the trees
  - arrival of the trees at the mill door
  - arrival of the trees at the port
  - arrival of the trees at the place of processing (other than where processing happens in-field)
- payments that relate to processing
- payments that relate to stockpiling (other than in-field stockpiling).

Write at **U** the total amount of deductible payments made to an FMIS.

Non-deductible expenditure and the deductible payments made to an FMIS must also be included at **W** **Non-deductible expenses** item **7** to the extent that they have been included as an expense at item **6**.

Immediate deduction for capital expenditure

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

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

For more information about these deductions, see *Guide to depreciating assets 2009*.

Deduction for project pool

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

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

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

For more information about project pools, see **appendix 6**.

> NOTE
> If the company has included an amount greater than $1,000 at **H**, complete and attach a *Capital allowances schedule 2009* unless it is a small business entity using the simplified depreciation rules. For more information, see *Capital allowances schedule instructions 2009*.

Capital works deductions

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

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

Section 40-880 deduction

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

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

For information about section 40-880 deductions, see **appendix 6**.

Australian owned R&D tax concession – not including label M

Companies claiming an R&D tax concession amount must complete the *Research and development tax concession schedule 2009*. For more information, see **Research and development tax concession schedule** on page 6 and the *Research and development tax concession schedule instructions 2009*.

Write at **L** the amount of the R&D concession claim calculated at **L Total claim (including concession)** item **17** in part A of the *Research and development tax concession schedule 2009*. The amount shown at **L** item **7** on the company tax return must be the same as the amount shown at **L** on the research and development tax concession schedule. If this amount is negative, print **L** in the box at the right of **L** item **7** on the company tax return. A negative amount may arise from assessable profits on disposal or assessable balancing adjustment amounts occurring in relation to R&D depreciating assets.

Do **not** include at **L Australian owned R&D tax concession – not including label M** expenditure on foreign-owned R&D activities. Expenditure on foreign-owned R&D activities that is subject to the R&D tax concession should be included at **J Foreign owned R&D tax concession – not including label K**.

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

Foreign owned R&D tax concession – not including label K

Companies claiming an R&D tax concession amount must complete the *Research and development tax concession schedule 2009*. For more information, see **Research and development tax concession schedule** on page 6 and the *Research and development tax concession schedule instructions 2009*.

Write at **J Foreign owned R&D tax concession – not including label K** the amount of the R&D concession claim calculated at **J Total claim (including concession)** item **17** in part A of the *Research and development tax concession schedule 2009*. The amount shown at **J** item **7** on the company tax return must be the same as the amount shown at **J** on the research and development tax concession schedule.

Do **not** include at **J Foreign owned R&D tax concession – not including label K** expenditure on Australian owned R&D activities. Expenditure on Australian owned R&D activities that is subject to the R&D tax concession should be included at **L Australian owned R&D tax concession – not including label M**.

If you are completing this item you will need to consider other taxation implications in regard to your related party international dealings. For more information, see *Schedule 25A instructions 2009* (NAT 2639) and the rulings referred to in that publication.

Australian owned R&D – extra incremental 50% deduction

Write at **M** the amount of the Australian owned R&D extra 50% deduction shown at **M Australian owned R&D – extra incremental 50% deduction** item **3** in part D of the *Research and development tax concession schedule 2009*. The amount shown at **M** item **7** on the company tax return must be the same as the amount shown at **M** on the research and development tax concession schedule.

In the box at the right of **M** item **7** on the company tax return print code **G** if the company is a grouped taxpayer in accordance with the grouping rules in section 73L of the ITAA 1936 and another taxpayer in the same group is also claiming the Australian owned R&D – extra incremental 50% deduction.

Foreign owned R&D – extra incremental 75% deduction

Write at **K** the amount of the foreign-owned R&D extra incremental 75% deduction shown at **K Foreign owned R&D – extra incremental 75% deduction** item **2** in part E of the *Research and development tax concession schedule 2009*. The amount shown at **K** item **7** on the company tax return must be the same as the amount shown at **K** on the research and development tax concession schedule.

In the box at the right of **K** item **7** on the company tax return print code **G** if the company is a grouped taxpayer in accordance with the grouping rules in section 73L of the ITAA 1936 and another taxpayer in the same group is also claiming the foreign-owned R&D – extra incremental 75% deduction.

Landcare operations and deduction for decline in value of water facility

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

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

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

For information about deductions for landcare operations and water facilities, see **appendix 6**.

Deduction for environmental protection expenses

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

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

For information about deductions for expenditure on environmental protection activities, see **appendix 6**.

Offshore banking unit adjustment

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

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

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

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

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

Calculation of the offshore banking unit adjustment

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

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

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

EXAMPLE 10

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

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

Complete item **6** as follows:

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

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

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

The taxed portion is, therefore, $33 and is the only part of the net profit from OB activities included at **T Taxable income or loss** item **7**.

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

Total profit or loss amount shown at **T** item **6**	$500
Less:	
Offshore banking unit adjustment at **P**	$67
Taxable income or loss at **T**	$433
The tax payable at 30% on a taxable income of $433 is $130, which is the same as the total of the tax payable on:	
Taxable non-OBU activity income of $400 at 30%	$120
Plus:	
Taxable OBU activity income of $100 at 10%	$10
Tax payable	$130

OBU LOSSES

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

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

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

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

EXAMPLE 11

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

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

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

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

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

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

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

Exempt income

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

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

Do not include at **V** income exempt under an RSA. Write exempt income from RSAs at **S** **Exempt income from RSAs** item **17**.

Other income not included in assessable income

Write at **Q** income-related adjustments that have to be subtracted from **T** **Total profit or loss** item **6** to reconcile with **T** **Taxable income or loss** item **7**. Do not include again amounts included at **C** **Section 46FA deductions for flow-on dividends** to **V** **Exempt income** item **7** here.

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

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

Include the following items at **Q**:

- any excess of gross foreign source income, shown in the income labels at item **6**, over the amount that represents assessable income. In calculating the excess, include dividends and other amounts that are not assessable because of sections 23AH, 23AI, 23AJ, 23AK and 99B(2A) of the ITAA 1936. Note that you must attach a *Schedule 25A 2009* (NAT 1125) if the company received dividends or other amounts covered by any of these provisions
- any part of an unfranked distribution that is not assessable due to section 802-15 or 802-20 of the ITAA 1997 (these provisions are relevant to conduit foreign income)
- other amounts of non-assessable non-exempt income (do not include demerger dividends or other amounts not shown at item **6**)
- profits on disposal of assets used in research and development activities which are subject to the R&D tax concession included at **R** **Other gross income** item **6**
- Australian and foreign source capital gains for accounting purposes that have been included at **J** **Unrealised gains on revaluation of assets to fair value** item **6** or **R** **Other gross income** item **6**. For Australian taxation purposes, include any net capital gain at **A** **Net capital gain** item **7**
- any excess of a forex gain for accounting purposes, included at item **6**, over the assessable forex gain. See **Foreign exchange gains and losses** on page 10 for more information on the forex measures.

For more examples of specific items, see **worksheet 2** on pages 83–6.

Other deductible expenses

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

For examples of specific items to be included, see **worksheet 2** on pages 83–6.

If the company is a life insurance company, include at **X** the deduction it is entitled to if it receives a dividend from a LIC, which includes a LIC capital gain amount. For more information, see **16 Life insurance companies and friendly societies only** on pages 69–70. Other companies are not entitled to this deduction.

Show at **X** any capital expenditure you incurred under Subdivision 40-J of the ITAA 1997 for the establishment of trees in a carbon sink forest. Only costs incurred in establishing trees for the purpose of carbon sequestration are deductible.

Include at **X** deductible forex losses to the extent that they have not been included in item **6** or in any other label at item **7**. See **Foreign exchange gains and losses** on page 10 for more information on the forex measures.

Tax losses deducted

> **NOTE**
> The company may need to complete a *Losses schedule 2009*. For more information, see **Losses schedule** on page 5 or *Losses schedule instructions 2009*.

Include at **R** those tax losses of prior income years that are deducted in respect of the 2008–09 income year under section 36-17 of the ITAA 1997. This includes any deductions for foreign losses converted to tax losses under Subdivision 770-A of the *Income Tax (Transitional Provisions) Act 1997*.

> **NOTE**
>
> Foreign losses are no longer quarantined from domestic assessable income (or from assessable foreign income of a different class). Resident taxpayers are also no longer required to make an election to deduct domestic tax losses against assessable foreign income. Therefore, for the purposes of loss utilisation, no distinction is made in respect of the source of the assessable income, whether foreign or domestic. A taxpayer combines both foreign and domestic deductions. Where the combined deductions exceed assessable income and net exempt income from all sources, the excess is a tax loss and can potentially be deducted from assessable income of a future income year.
>
> These changes apply from the entity's first income year starting on or after 1 July 2008 (the commencement year). For entities with early balancing substituted accounting periods these changes do not apply until their 2010 income year.
>
> Prior year overall foreign losses carried forward from one of the 10 income years ending before the commencement year are subject to transitional rules. Subject to certain modifications, overall foreign losses in respect of the four former classes of assessable foreign income for each earlier income year are grouped together and converted into a tax loss. The converted loss is known as the foreign loss component of a tax loss. Utilisation of the foreign loss component of a tax loss is restricted for the first four years (the commencement year and the three subsequent income years). After this transitional period, any remaining undeducted tax loss will be subject to the ordinary loss utilisation rules.
>
> See Subdivisions 770-A – Transitional foreign losses (common rules) and 770-B – Transitional foreign losses (special rules for consolidated groups) of the *Income Tax (Transitional Provisions) Act 1997*
>
> For more information about the treatment of foreign losses carried forward from earlier income years, see the *Losses schedule instructions 2009, Foreign income return form guide and Guide to foreign income tax offset rules*.

Subject to various rules, prior year tax losses are deducted in respect of a later income year(s) in the order in which they were incurred, to the extent that they have not already been deducted.

If no net exempt income

If the company has no net exempt income and has an excess of assessable income over total deductions (other than tax losses), the company may, subject to certain limitations, deduct from this excess assessable income as much of its tax loss as it chooses – see subsection 36-17(2) of the ITAA 1997. There is a limit to how much a company can choose to deduct – see subsection 36-17(5) of the ITAA 1997 outlined below.

If net exempt income

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

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

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

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

Limit to how much the company can choose

A company is required to determine whether it has excess franking offsets before making a choice in relation to how much of its prior year tax loss it wants to deduct in 2008–09. This is because subsection 36-17(5) of the ITAA 1997 prevents a company deducting an amount of a prior year tax loss if either:

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

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

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

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

EXAMPLE 12

For the 2008–09 income year, Company A has:

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

The $30 franking credit generates a franking tax offset of $30. The $30 franking tax offset is not subject to the refundable tax offset rules in Division 67 of the ITAA 1997.

Company A would not have excess franking offsets for the year if the tax loss was disregarded. This is because the tax offset of $30 is less than $60, which is the amount of income tax that Company A would have to pay on the $200 taxable income if it did not have the tax loss and the franking tax offset. Consequently, Company A may choose to deduct some of its tax loss subject to the limitation that Company A cannot choose to deduct an amount of its loss that would result in its having an amount of excess franking offsets for the year.

If Company A were to consider deducting the full tax loss of $150, it would generate excess franking offsets of $15, calculated as follows:

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

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

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

To calculate the excess franking offsets, see **Excess franking offsets** on pages 58–9.

In the above example, in completing its income tax return, Company A would record $100 at **R Tax losses deducted** item **7** and would record $50 at **U Tax losses carried forward to later income years** item **13**.

Continuity of ownership

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

- the company maintains continuity of ownership as prescribed under section 165-12 of the ITAA 1997 (the continuity of ownership test), or
- if the company fails to meet a condition of subsection 165-12(2), (3) or (4), or it is not practicable to show that it meets the conditions in those subsections, it satisfies the same business test (see below).

The following conditions apply to the continuity of ownership test:

- If tax losses are claimed in an income year ending after 21 September 1999, continuity of ownership must be maintained from the start of the loss year to the end of the income year (ownership test period).
- There must be individuals who maintained rights to more than 50% of the voting power in the company, and rights to more than 50% of the dividends and capital distributions of the company at all times during the ownership test period. If interposed entities hold interests in the company, individuals are treated as holding such voting power or rights indirectly. See sections 165-150 to 165-160 of the ITAA 1997.
- If tax losses are claimed in an income year ending after 21 September 1999, the company must meet the 'same share and interest' rule, except where the 'saving' rule applies. See section 165-165 and subsection 165-12(7) of the ITAA 1997.
- For widely held companies and eligible Division 166 companies, the continuity of ownership test in Division 165 may be modified by Division 166, which provides a simplified method for determining the company's ultimate majority ownership.

The continuity of ownership test is also subject to anti-avoidance provisions in Subdivision 165-D of the ITAA 1997, relating to arrangements designed to affect the beneficial ownership of shares or rights attaching to shares.

Same business test

If a company is unable to satisfy the continuity of ownership test, it must carry on the same business at all times during the income year as it carried on immediately before the test time. The test time is the latest time that the company can show that it has satisfied the continuity of ownership test, where such a time can be determined.

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

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

The same business test is not satisfied if the company derives assessable income from:

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

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

Control

Additionally, a company may be prevented from deducting a tax loss where there has been a change in control as prescribed by subsection 165-15(1) of the ITAA 1997. However, this will only occur where the company also fails to satisfy the conditions relating to the carrying on of the same business in subsections 165-15(2) and (3).

Anti-avoidance provisions in Subdivisions 175-A and 175-B of the ITAA 1997 also prevent a company obtaining tax advantages from certain schemes relating to unused tax losses or deductions.

> NOTE
> - Keep a record of tax losses and account for any adjustments, including those made by the Tax Office. Keep these records until the amendment period for the assessment in which the tax losses of the company were fully recouped has lapsed (up to four years from the date of that assessment).
> - A prior year tax loss may be reduced by the commercial debt forgiveness provisions – see **appendix 1**.
> - Do not include the film component of any tax loss (film loss) at **R**. For a film loss to be deductible, see Divisions 36 and 375 of the ITAA 1997. Film losses are only deducted from net exempt film income or net assessable film income for taxation purposes and are shown at either **W** **Non-deductible expenses** item **7** or **X** **Other deductible expenses** item **7**.
> - Do not include pooled development fund (PDF) tax losses at **R** unless the PDF tax losses are deductible under Division 195 of the ITAA 1997.
> - Capital losses may only be applied in accordance with Division 102 of the ITAA 1997.

Tax losses deducted – consolidated and MEC groups

> NOTE
> The head company may need to complete a *Consolidated groups losses schedule 2009*. For more information, see **Consolidated groups losses Schedule** on page 3 or see the *Consolidated groups losses schedule instructions 2009*.

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

A head company may be entitled to deduct tax losses broadly comprising tax losses:

- made by it for prior income years – 'group tax losses'
- that were originally made by an entity before it became a member of the consolidated or MEC group and that were transferred to the head company of that group – 'transferred tax losses'

> NOTE
> Group tax losses include tax losses with foreign loss components that have been generated by the consolidated or MEC group. Transferred tax losses include tax losses with foreign loss components that have been made outside the group and transferred into the group from an entity that joined the group.

Before using a 'group tax loss' or a 'transferred tax loss' a head company must satisfy the continuity of ownership test and control tests. If it does not, then it must satisfy the same business test. For more information on the conditions applying to the continuity of ownership test, see *Consolidated groups losses schedule instructions 2009*. For more information on the same business test, see sections 165-13 and 165-210 of the ITAA 1997 and Taxation Rulings TR 1999/9 and *TR 2007/2 – Income tax:* application of the same business test to consolidated and MEC groups – *principally, the interaction between section 165-210 and section 701-1 of the ITAA 1997 (As at 20 June 2007)*.

For consolidated groups, the operation of the continuity of ownership test for transferred tax losses is modified by Subdivision 707-B of the ITAA 1997. Firstly, the loss year is modified so that it starts from when the loss was transferred to the head company. However, subsection 707-140(2) of the ITAA 1997 provides that the head company is not prevented from using the loss for the income year in which the transfer occurs. Secondly, in determining whether a head company can use a loss transferred to it from a company as a result of passing the continuity of ownership and control tests, changes in ownership of a loss company before it joined the consolidated group are recognised. See section 707-210 of the ITAA 1997. For MEC groups, see Subdivision 719-F of the ITAA 1997 and the *Consolidation reference manual*.

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

Concessional tax losses are used after group tax losses and are effectively used before other transferred tax losses. See subsections 707-350(2) and (4) of the *Income Tax (Transitional Provisions) Act 1997*.

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

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

Available fraction

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

> **NOTE**
>
> A foreign loss component is not subject to the available fraction method of utilisation while it is subject to the deduction limit in section 770-30 of the *Income Tax (Transitional Provisions) Act 1997*. This means that the available fraction does not apply to the foreign loss component of a tax loss in the first four years after commencement (including the commencement year). Instead, the deduction limit in section 770-30 applies.
>
> Also, the head company applies the available fraction for each bundle to income or gains that have been reduced by deductions for all foreign loss components (both group and transferred). See section 770-105 of the *Income Tax (Transitional Provisions) Act 1997*.

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

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

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

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

See section 707-325 of the ITAA 1997.

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

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

This integrity rule applies to events that occur in the four years before the loss entity joins the group. See subsections 707-325(2) and (4) of the ITAA 1997.

> **NOTE**
>
> For more information, see *Taxation Ruling TR 2004/9 – Income tax: consolidation: what is meant by 'injection of capital' in section 707-325 of the ITAA 1997?*

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

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

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

> **NOTE**
>
> The Commissioner of Taxation has a statutory obligation to ensure compliance with the market valuation requirements of the consolidation regime and to form a view as to whether valuations undertaken are accurate. The publication *Consolidation and market valuation* (NAT 7803) will help you meet your tax obligations.

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

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

NOTE

MEC groups also need to have regard to the rules in Subdivision 719-F of the ITAA 1997 (see sections 719-300 to 719-325).

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

1 Work out the amount of each category of the group's income or gains as specified in column 2 of the table in subsection 707-310(3) of the ITAA 1997. This is the group's total income or gains for each category less relevant deductions, including deductions for group losses, concessional losses, and the foreign loss components of transferred tax losses. Do not include deductions for other transferred losses, whose use is limited by their available fraction.

2 Multiply each category amount by the bundle's available fraction. The result is taken to be the head company's only income or gains for that category.

3 On the basis of the step 2 assumption, work out a notional taxable income for each loss bundle.

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

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

Tax losses transferred in

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

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

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

Note:

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

Tax losses transferred in – consolidated and MEC groups

Do not show tax losses transferred from subsidiary companies under Subdivision 707-A of the ITAA 1997. These losses should be shown in part A of the *Consolidated groups losses schedule 2009* at item **1** or item **2**.

Subtraction items subtotal

Write the sum of the amounts from **C** to **S** at **Subtraction items subtotal**.

If the result is negative, due to the influence of **L** **Australian owned R&D tax concession – not including label M**, print **L** in the box at the right.

R&D tax offset, if chosen

The R&D tax offset is subject to the refundable tax offset rules. The offset directly reduces tax payable by a company. If the amount of the offset exceeds the amount of tax that the company would otherwise have to pay, then the excess is refundable. The R&D tax offset is only available for eligible expenditure on Australian owned R&D activities.

Write at **Y** the amount of the R&D deduction subject to the R&D tax offset shown at **Y** in part F, item **2** of the *Research and development tax concession schedule 2009*. The amount shown at **Y** on the company tax return must be the same as the amount shown at **Y** item **2** in part F of the research and development tax concession schedule.

NOTE

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

Taxable income or loss

Write at **T** all assessable income less deductions that equals the amount at **T Total profit or loss** item **6** plus or minus the reconciliation adjustments at item **7** plus the amount shown at **Y R&D tax offset, if chosen** item **7**.

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

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

If the company has excess franking offsets that can be converted under section 36-55 of the ITAA 1997 into a tax loss to be carried forward (see **Excess franking offsets** on pages 58–9), do not include at **T** the amount of that tax loss. However, that amount should be taken into account in calculating the company's tax loss at **U Tax losses carried forward to later income years** item **13** (see page 67). This means that a company may have a taxable income at **T** and a tax loss carried forward at item **13**. Alternatively, if the company's total deductions exceed total assessable income and net exempt income, it would show an amount at **T** that, disregarding section 36-55, would have been its tax loss for the income year.

PAGE 4 OF THE TAX RETURN

8 FINANCIAL AND OTHER INFORMATION

Functional currency translation rate

Complete **N** item **8** if the company keeps its accounts solely or predominantly in a foreign currency (its applicable functional currency) and has elected to use that functional currency for its tax accounts which it then translates to Australian dollars (A$) to complete its tax return.

Do not complete **N** if the company has elected to use a non-A$ functional currency only to calculate income attributable to the activities of an overseas PE, CFC, OBU or transferor trust. For more information, see *Foreign income return form guide*, available on our website.

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

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

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

Functional currency chosen

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

Print at **O** the currency code from International Standard ISO 4217 that corresponds to the functional currency chosen by the company. For more information, see *Foreign exchange (forex): guide to functional currency rules* on our website.

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

Opening stock

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

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

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

For consolidated and MEC groups, see the *Consolidation reference manual* for more information on trading stock held by entities that join the group.

Purchases and other costs

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

> ! FORMER STS TAXPAYERS
>
> If the company is eligible and continuing to use the STS accounting method, only write at **S** the costs that the company has paid. (See **Former STS taxpayers** on page 22.)

For information on GST and input tax credits, see **6 Calculation of total profit or loss** on page 22.

Closing stock

If the company is an eligible small business entity, see **Small business entities** below. Otherwise see **All other companies** in the next column.

Small business entities

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

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

is more than $5,000.

For more information relating to 'reasonable estimate', phone the Business Infoline.

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

If the difference between the value of the opening stock and a reasonable estimate of its closing stock is more than $5,000, the company must account for changes in the value of its trading stock. Go to step 2 if the difference is more than $5,000 or the company wishes to account for changes in the value. Otherwise go to step 1.

Step 1

If the difference referred to above is $5,000 or less and the company chooses not to account for this difference, the closing stock value written at **B** is the same value that the company wrote for opening stock at **A** item **8**. Do **not** put the company's reasonable estimate at **B**.

Print in the CODE box at **B** the code from **table 4** that matches the code the company used to value closing stock in the previous year.

If this is the company's first year in business, the value of its closing stock will be zero. Print code **C** in the CODE box.

TABLE 4: Valuation method codes

Code	Valuation method
C	Cost
M	Market selling value
R	Replacement value

Step 2

If the difference referred to above is more than $5,000 or the company chooses to account for the difference in trading stock, the closing stock values must be brought to account under section 70-35 of the ITAA 1997. See the following instructions for **All other companies** for calculating the value of trading stock.

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

All other companies

Write at **B** the total value of all trading stock on hand at the end of the income year or accounting period for which the company tax return is being prepared. The amount at **B** is the value calculated for income tax purposes under section 70-45 of the ITAA 1997.

If the company is registered or required to be registered for GST, the value of closing stock should not include an amount equal to the input tax credit that the company has claimed or is entitled to claim. Input tax credits do not arise for some items of trading stock, such as shares.

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

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

Print in the CODE box the code from **table 4** indicating the method used to value closing stock for income tax purposes. If more than one method is used, use the code applicable to the method representing the highest value.

Different methods of valuation may be used to value the same item of trading stock in different income years, and similar items may be valued using different methods in the same income year.

However, the opening value of an item in a particular income year must equal the closing value for that item in the previous income year. The company cannot reduce the value of stock on hand by creating reserves to offset future diminution of the value of stock, or any other factors. Keep records showing how each item was valued.

If incorrect trading stock information has been included on a tax return, advise us by submitting a full statement of the facts, accompanied by a reconciliation of the value of stock as returned for each income year with the values permissible under the law.

Companies engaged in manufacturing include the value of partly manufactured goods as part of their stock and materials on hand at the end of the income year.

For more information on the circumstances in which packaging items held by a manufacturer, wholesaler or retailer are 'trading stock' as defined in section 70-10 of the ITAA 1997, see *Taxation Ruling TR 98/7 – Income tax: whether packaging items (ie, containers, labels, etc) held by a manufacturer, wholesaler or retailer are trading stock* and *Taxation Ruling TR 98/8 – Income tax: whether materials and spare parts held by a taxpayer supplying services are trading stock*.

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

Trading stock election

A company may elect to value an item of trading stock below the lowest value of cost, market selling value or replacement value because of obsolescence or any other special circumstances. The value that is elected must be reasonable.

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

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

NOTE

Include amounts taken from the company's financial statements at **C** to **H**, **R** **Shareholders' funds** and **N** **Loans to shareholders and their associates** as these amounts relate to accounting values. See item names and labels on pages 55–59.

Trade debtors

Write at **C** the total amounts owing to the company at year end for goods and services provided during the income year – that is, the gross amount of current trade debtors from the company's accounts. Also include this amount at **D** **All current assets** item **8**.

If the company was a subsidiary member of a consolidated or MEC group at the end of the income year and is completing a tax return because of any non-membership periods, write at **C** the relevant amount as at the end of the latest non-membership period.

All current assets

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

If the company was a subsidiary member of a consolidated or MEC group at the end of the income year and is completing a tax return because of any non-membership periods, write at **D** the relevant amount as at the end of the latest non-membership period.

Total assets

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

For a consolidated or MEC group include all the assets of the group as disclosed in the financial accounts and not the amounts that are calculated by way of the allocable cost amount.

If the company was a subsidiary member of a consolidated or MEC group at the end of the income year and is completing a tax return because of any non-membership periods, write at **E** the relevant amount as at the end of the latest non-membership period.

Trade creditors

Write at **F** the total amounts owed by the company at year end for goods and services received during the income year, that is, current trade creditors. Also include this amount at **G** **All current liabilities** item **8**.

If the company was a subsidiary member of a consolidated or MEC group at the end of the income year and is completing a tax return because of any non-membership periods, write at **F** the relevant amount as at the end of the latest non-membership period.

All current liabilities

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

If the company was a subsidiary member of a consolidated or MEC group at the end of the income year and is completing a tax return because of any non-membership periods, write at **G** the relevant amount as at the end of the latest non-membership period.

Total liabilities

Write at **H** all liabilities of the company, including other creditors and deferred liabilities such as loans secured by mortgage and long-term loans. Also include the amount shown at **G** **All current liabilities** item **8**.

If the company was a subsidiary member of a consolidated or MEC group at the end of the income year and is completing a tax return because of any non-membership periods, write at **H** the relevant amount as at the end of the latest non-membership period.

Total debt

Write at **J** the average total debt of the company for the income year. Calculate the average total debt by adding the opening and closing balances of the total debt of the company for the income year, and dividing this sum by two.

The total debt of a company includes all financial instruments and arrangements that were used by the company to provide funds for their operations and investments. The instruments and arrangements that are shown at **J** include all loans, securities and instruments that give rise to deductible finance expenses, which include any of the following:

- interest, a payment in the nature of interest, or a payment in substitution for interest
- payments made for assignment(s) of the right to interest
- a discount on a security in relation to a finance arrangement
- an amount that is taken under a tax law to be an amount of interest in respect of a lease, a hire purchase arrangement or any other financial instrument specified by that law
- any application or processing fee in respect of a finance arrangement
- any finance expense in respect of a repurchase agreement or securities lending arrangement
- any other form of yield associated with a finance arrangement
- any such amount that, instead of being paid to a party to the arrangement, is dealt with in any way on behalf of that party.

Accordingly, there is no requirement that amounts included at **J** satisfy the definition of 'debt interest' for the purposes of Division 974 of the ITAA 1997 (the debt and equity rules). *Debt and equity tests: guide to the debt and equity tests*, available on our website, provides an overview of the debt and equity rules.

If the company was a subsidiary member of a consolidated or MEC group at the end of the income year and is completing a tax return because of any non-membership periods, write at **J** the relevant amount calculated as at the end of the latest non-membership period.

Commercial debt forgiveness

Write at **K** the net amount of commercial debts owed by the company that were forgiven during the income year – see Division 245 of Schedule 2C to the ITAA 1936. Broadly, a debt is a commercial debt if any part of the interest payable on the debt is or would be an allowable deduction. A debt is forgiven if the company's obligation to pay the debt is released or waived or otherwise extinguished.

The net amount of commercial debts forgiven must be applied to reduce the company's deductible revenue losses, net capital losses, certain undeducted revenue or capital expenditure and the cost base of certain CGT assets, in that order.

For more information, see **appendix 1**.

Shareholders' funds

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

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

If the company was a subsidiary member of a consolidated or MEC group at the end of the income year and is completing a tax return because of any non-membership periods, write at **R** the relevant amount as at the end of the latest non-membership period.

NOTE

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

Franked dividends paid

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

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

Record keeping

Keep a record of the following:
- dividends or non-share dividends paid
- recipient(s)
- dates paid
- amounts paid.

Unfranked dividends paid

Write at **K** the amount of unfranked dividends paid or credited during the income year, including amounts deemed to be dividends by various sections of the ITAA 1936 and the ITAA 1997. Include unfranked non-share dividends, unfranked deemed dividends under Division 7A of Part III of the ITAA 1936, and the unfranked deemed dividend component of any off-market share buy-back under section 159GZZZP of the ITAA 1936.

Do not include:
- dividends paid by one member to another within a consolidated or MEC group
- a dividend paid under a demerger unless the head entity of the demerger group has elected under subsection 44(2) of the ITAA 1936 that it be treated as an assessable dividend.

Under Division 7A of Part III of the ITAA 1936, payments, loans and debts forgiven – unless they come within specified exclusions – by a private company to a shareholder or associates of a shareholder are treated as assessable dividends to the extent of the private company's distributable surplus as defined in Division 7A.

A payment made in the 2008–09 income year by a private company to a shareholder (or associate of a shareholder) can be converted into a loan before the end of the private company's lodgment day that is defined to be the earlier of the due date for lodgment or the date of lodgment of the company's income tax return for the year in which the loan is made.

Loans, and payments converted to loans in the 2008–09 income year, made by a private company to a shareholder (or associate of a shareholder) that are not repaid, may be put on a commercial footing before the private company's lodgment day. This will prevent the loan from being treated as a deemed dividend.

For more information on Division 7A visit our website.

Record keeping

Keep a record of the following:
- dividends or non-share dividends paid
- recipient(s)
- dates paid
- amounts paid.

Franking account balance

Write at **M** the balance of the franking account at the end of the 2008–09 income year, unless it is a deficit balance.

If there is a deficit balance in the franking account at the end of the income year, the company must lodge a *Franking account tax return 2009* and pay FDT by the last day of the month following the end of the income year. If the company is a late balancing company that has elected to have its FDT liability determined on 30 June 2009, it must lodge its franking account tax return on or before 31 July 2009.

If the company is a PDF and its venture capital sub-account is in deficit at the end of the PDF's income year or immediately before it ceases to be a PDF, the company is liable to pay venture capital deficit tax. If the PDF has a liability to venture capital deficit tax, a *Venture capital deficit tax return 2009* (NAT 3309) must be lodged.

Note:
- Shareholder loans and other advances made by private companies that are deemed dividends are not frankable unless a section in the ITAA 1936 or ITAA 1997 provides that the dividend can be franked. For example, where the Commissioner exercises a limited power to permit the deemed dividend to be franked, or where the deemed dividend is paid in connection with a relationship breakdown.
- Deemed dividends may also arise when a shareholder (or associate of such shareholder) of a private company that has (or will have by a certain time) an unpaid present entitlement from a trust estate receives a payment or loan or has a debt forgiven in their favour by the trustee of the trust estate. However, this will not result in a debit to the franking account of the private company with the unpaid present entitlement.
- A company needs to determine whether its franking account needs adjustment, because these measures may affect imputation benefits available to shareholders, deny franking credits or give rise to additional franking debits.

For more detailed information on the simplified imputation system, visit our website.

If the company was a subsidiary member of a consolidated or MEC group at the end of the income year and is completing a tax return because of any non-membership periods, write at **M** its franking account balance as at the end of the latest non-membership period if it is a surplus balance. If there is a deficit balance at the end of any non-membership period, the company must lodge a franking account tax return and pay the FDT.

Balance of conduit foreign income

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

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

Leave this label blank if the only conduit foreign income that the company receives is through distributions from other Australian companies and the company does not make any distributions of conduit foreign income.

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

If the company was a subsidiary member of a consolidated or MEC group at the end of the income year and is completing a tax return because of any non-membership periods, write at **F** its balance of conduit foreign income at the end of the latest non-membership period.

For more information on conduit foreign income, visit our website.

Conduit foreign income distributed during the income year

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

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

Excess franking offsets

Write at **H** any excess franking offset calculated as follows:

Step 1 Calculate the amount of franking tax offsets that the company is entitled to. Franking tax offsets are available under Division 207 of the ITAA 1997 as a result of receiving a franked distribution, and Subdivision 210-H of the ITAA 1997 as a result of receiving a franked distribution franked with a venture capital credit. The amount of franking tax offset that a company is entitled to is equal to the share of franking credits included in distributions received from partnerships and trusts, the amount of franking credits included at **J Franking credits** item **7**, and the amount of franking credits included at **C Australian franking credits from a New Zealand company** item **7**.

Do **not** include any franking tax offsets that are subject to the refundable tax offset rules under Division 67 of the ITAA 1997. For example, franking tax offsets of a life insurance company are generally subject to the refundable tax offset rules to the extent that they relate to distributions paid on shares and other membership interests held on behalf of policy holders. Do not include these amounts. Generally, the franking tax offsets of other companies are not subject to the refundable tax offset rules.

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

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

Step 3 Calculate the amount of excess franking offsets. If the amount of franking tax offsets from step 1 exceeds the amount of hypothetical tax calculated at step 2, the excess is the amount of excess franking offset which should be written at **H Excess franking offsets**.

Excess franking offsets can affect the choice a company can make in relation to how much of any prior year tax loss it can deduct this year. For more information, see **Tax losses deducted** on page 47.

If the company has excess franking offsets, it may convert the excess franking offsets into an amount of tax loss to carry forward to later income years. For more information, see **Tax losses carried forward to later income years** on page 67.

EXAMPLE 13

For the 2007–08 income year Veck Company Ltd has the following:

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

The $120 franking tax offset is not subject to the refundable tax offset rules in Division 67 of the ITAA 1997. Veck Company Ltd has no net exempt income for the year and it does not have a tax loss for the year.

Veck Company Ltd would work out its excess franking offsets as follows:

Step 1 Calculate the amount of franking tax offsets it is entitled to. In this instance, Veck Company Ltd's franking tax offsets are not subject to the refundable tax offset rules, therefore it is entitled to franking tax offsets of $120. However, for the purposes of calculating the amount of excess franking offset, these offsets are ignored in step 2 below.

Step 2 Calculate the amount of income tax payable, ignoring franking tax offsets:

Taxable income	$300	($280 + $120 – $100)
Gross tax	$90	
Rebates/tax offsets	nil	Veck Company Ltd is required to disregard the franking tax offset.
Tax payable	$90	

Step 3 The excess franking offsets amount is equal to $30. That is, the amount left over after deducting the amount at step 2 from the amount at step 1.

Veck Company Ltd would record $30 at **H Excess franking offsets** item **8**.

Veck Company Ltd would now convert this amount of excess franking offsets into a tax loss by dividing the excess franking offsets amount ($30) by the corporate tax rate (30%) which results in a tax loss amount of $100. Veck Company Ltd would record the amount of this tax loss at **U Tax losses carried forward to later income years** item **13**.

Balance of unfranked non-portfolio dividend account at year end

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

Print in the CODE box **L** at:
Y – if any of the balance includes an amount that has also been counted towards the company's conduit foreign income for that income year
N – in any other circumstance.

For more information on conduit foreign income, visit our website.

Loans to shareholders and their associates

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

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

Print the relevant code from **table 5** in the CODE box at **N**.

TABLE 5: Loan codes

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

Under Division 7A of Part III of the ITAA 1936, loans by a private company to a shareholder or associates of a shareholder – unless they come within specified exclusions – are treated as assessable dividends to the extent of the distributable surplus including realised and unrealised profit. Advances or loans to shareholders or associates may represent a distribution of profits and may be assessed to the recipient as unfranked dividends.

A loan made in the 2008–09 income year by a private company to a shareholder (or associate of a shareholder) may be repaid or put on a commercial footing, before the earlier of the due date for lodgment or the date of lodgment of the private company's income tax return for the year in which the loan is made, in order to prevent the loan from being treated as a dividend.

For loans made in an earlier income year that have not been fully repaid by the end of the 2008–09 income year, a deemed dividend may arise if the minimum yearly repayment calculated under subsection 109E(5) of the ITAA 1936 has not been made to the company by the end of the 2008–09 income year.

Intangible depreciating assets first deducted

If the company is using the small business entity simplified depreciation rules, do not include an amount at this label.

Write at **Z** the cost of all intangible depreciating assets for which the company is claiming a deduction for decline in value for the first time.

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

- certain items of intellectual property (patents, registered designs, copyrights and licences of these)
- computer software (or a right to use computer software) that the company acquires, develops or has someone else develop for its use for the purposes for which it is designed (in-house software)
- mining, quarrying or prospecting rights and information
- spectrum licences
- datacasting transmitter licences
- certain indefeasible rights to use telecommunications cable systems (IRUs)
- certain telecommunications site access rights.

A depreciating asset that the company holds starts to decline in value from the time the company uses it (or installs it ready for use) for any purpose. However, the company can only claim a deduction for the decline in value to the extent it uses the asset for a taxable purpose, such as for producing assessable income.

If the company has allocated any intangible depreciating assets with a cost of less than $1,000 to a low-value pool for the income year, also include the cost of those assets at **Z**. Do not reduce the cost for estimated non-taxable use.

Expenditure on in-house software which has been allocated to a software development pool is not included at **Z**.

For more information on decline in value, cost, low-value pools, in-house software and software development pools, see *Guide to depreciating assets 2009*.

> NOTE
> If the company has included an amount of more than $75,000 at **Z**, complete a *Capital allowances schedule 2009* and attach it to the company tax return. For more information, see *Capital allowances schedule instructions 2009*.

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

For a company that was a subsidiary member of a consolidated or MEC group for part of the income year and is completing a tax return because of any non-membership periods, write at **Z** the cost of intangible depreciating assets first deducted during the non-membership periods. However, do not include the cost of depreciating assets where the head company of the consolidated or MEC group deducted its decline in value during any period that the subsidiary was a member of the group, and that period was before the non-membership period in which the subsidiary first deducted the decline in value.

Other depreciating assets first deducted

If the company is using the small business entity simplified depreciation rules, do not include an amount at this label.

A depreciating asset that the company holds starts to decline in value from the time the company uses it (or installs it ready for use) for any purpose. However, the company can only claim a deduction for the decline in value to the extent it uses the asset for a taxable purpose, such as for producing assessable income.

Write at **A** the cost of all depreciating assets (other than intangible depreciating assets) for which the company is claiming a deduction for the decline in value for the first time.

If the company has allocated any assets (other than intangible depreciating assets) with a cost of less than $1,000 to a low-value pool for the income year, also include the cost of those assets at **A**. Do not reduce the cost for estimated non-taxable use.

For information on decline in value, cost and low-value pools, see *Guide to depreciating assets 2009*.

> NOTE
> If the company has included an amount of more than $75,000 at **A**, complete a *Capital allowances schedule 2009* and attach it to the company tax return. For more information, see *Capital allowances schedule instructions 2009*.

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

For a company that was a subsidiary member of a consolidated or MEC group for part of the income year and is completing a tax return because of any non-membership periods, write at **A** the cost of depreciating assets first deducted during the non-membership periods. However, do not include the cost of depreciating assets where the head company of the consolidated or MEC group deducted its decline in value during any period the subsidiary was a member of the group, and that period was before the non-membership period in which the subsidiary first deducted the decline in value.

Termination value of intangible depreciating assets

If the company is using the small business entity simplified depreciation rules, do not include an amount at this label.

For information on intangible depreciating assets, see **Intangible depreciating assets first deducted** on the previous page.

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

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

A balancing adjustment event occurs if the company stops holding or using a depreciating asset or decides not to use it in the future – for example, assets were sold, lost or destroyed.

Generally, the termination value is the amount the company received or is deemed to have received in relation to the balancing adjustment event. It also includes the market value of any non-cash benefits, such as goods and services, that the company receives for the asset.

For more information on balancing adjustment events, termination value, in-house software and software development pools, see *Guide to depreciating assets 2009*.

Termination value of other depreciating assets

If the company is using the small business entity simplified depreciation rules, do not include an amount at this label.

Write at **E** the termination value of each balancing adjustment event occurring for depreciating assets – including assets allocated to a low-value pool.

Do **not** include at **E** any termination value in relation to:

- assets allocated in a prior year to a general small business pool or long-life small business pool
- intangible depreciating assets
- buildings or structures for which a deduction is available under the capital works provisions
- assets used in research and development activities that are subject to the R&D tax concession
- assets falling within the provisions relating to investments in Australian films.

A balancing adjustment event occurs if the company stops holding or using a depreciating asset or decides not to use it in the future – for example, assets were sold, lost or destroyed.

Generally, the termination value is the amount the company received or is deemed to have received in relation to the balancing adjustment event. It also includes the market value of any non-cash benefits, such as goods and services, that the company received for the asset.

For more information on balancing adjustment events and termination value, see *Guide to depreciating assets 2009*.

Total salary and wage expenses

Write at **D** the total salary, wage and other labour costs incurred, including directors' remuneration, as per payment summaries.

These expenses include any salary and wage component of **A** **Cost of sales** item **6** – that is, allowances, bonuses, casual labour, retainers and commissions paid to people who received a retainer, and workers compensation paid through the payroll.

Also included are direct and indirect labour costs, directors' fees, holiday pay, locums, long service leave, lump sum payments, other employee benefits, overtime, payments under an incentive or profit sharing scheme, retiring allowances and sick pay. Any salary and wage paid by a private company to a current or former shareholder or director of the company, or to an associate of such a person, is included here and at **Q** **Payments to associated persons** item **8**.

However, do **not** include agency fees, contract payments, sub-contract payments, service fees, superannuation, reimbursements or allowances for travel, management fees, consultant fees, and wages or salaries reimbursed under a government program.

Print in the CODE box at **D** the code from **table 6** that matches the description of the expense component where salary and wage expenses have been wholly or predominantly reported at item **6**.

TABLE 6: Salary and wage expenses codes

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

Payments to associated persons

Write at **Q** the amounts, including salaries, wages, commissions, superannuation contributions, allowances and payments in consequence of retirement or termination of employment, paid by a private company to associated persons. An associated person is a current or former shareholder or director of the company, or an associate of such a person.

Also include the amounts of salaries and wages paid to associated persons at **D** **Total salary and wage expenses** item **8**.

Record keeping

Excessive remuneration paid to an associated person may not be deductible and could be treated as an unfranked dividend (see section 109 of the ITAA 1936). Records to establish the reasonableness of remuneration include:

- age – if under 18
- hours worked
- nature of duties performed
- other amounts paid – for example, retiring gratuities, bonuses and commissions
- total remuneration.

Net foreign income

Write at **R** assessable income derived by the company from foreign sources grossed up by the amount of the foreign tax, but net of expenses. This amount includes:

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

Do **not** write at **R**:

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

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

From the first income year starting on or after 1 July 2008, foreign losses are no longer quarantined from domestic assessable income (or from assessable foreign income of a different class). Existing foreign losses will be subject to transitional rules. See Subdivisions 770-A – Transitional foreign losses (common rules) and 770-B – Transitional foreign losses (special rules for consolidated groups) of the *Income Tax (Transitional Provisions) Act 1997*.

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

Include any capital gain made from CGT assets in the company's net capital gain for the income year and include it at **A** **Net capital gain** item **7**. For more information about CGT, see *Guide to capital gains tax 2009*.

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

> **NOTE**
>
> Complete a *Losses schedule 2009* if the company has:
>
> - foreign source losses carried forward to 2008–09 income year greater than $100,000
> - claimed a deduction for prior year CFC losses greater than $100,000
> - current year CFC losses greater than $100,000
> - CFC losses carried forward to later income years greater than $100,000.
>
> For more information, see *Losses schedule instructions 2009*.

Tax spared foreign income tax offsets

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

ATTRIBUTED FOREIGN INCOME

Listed country

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

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

Section 404 country

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

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

Unlisted country

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

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

Transferor trust

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

Foreign investment fund income

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

Foreign life policy

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

> NOTE
>
> For more information on the calculation of the amounts shown at **B**, **C**, **U** and **V** item **8**, see *Foreign income return form guide* on our website. For more information on the calculation of the amounts shown at **W** and **X**, see *Foreign investment funds guide* (NAT 2130) on our website.

Section 128F/128FA exempt interest paid

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

Interest to financial institution exempt from withholding under a Double Tax Agreement

Write at **I** the total amount of interest paid to United States, United Kingdom, Norwegian, Finnish and Japanese financial institutions that is exempt from withholding tax because of Article 11(3)(b) of a Double Tax Agreement (DTA) with these countries.

DTA country

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

Print at **Y** the applicable three-letter country code:

- **USA** if the exempt interest payments were to United States financial institutions
- **GBR** if the exempt interest payments were to United Kingdom financial institutions
- **NOR** if the exempt interest payments were to Norwegian financial institutions
- **FIN** if the exempt interest payments were to Finnish financial institutions
- **JPN** if the exempt interest payments were to Japanese financial institutions.

Print the code for the country where the most exempt interest was paid if payments were made to financial institutions in more than one of these countries.

9 FORESTRY MANAGED INVESTMENT SCHEMES – RULING LABEL

Only complete this item if:

- the company is eligible to claim a deduction at **U Forestry managed investment scheme deduction** item **7** for contributions made to an FMIS during the income year, and
- the company is covered by a product ruling, or has been issued a private ruling, in relation to its interest in an FMIS.

To complete this item, if the company's interests in an FMIS are covered by a product ruling, then:

- print **PR** at **G Code**
- write the year of the product ruling at **H Year**
- write the product ruling number at **I Number** (do not include the year of the product ruling or the slash (/) at **I**).

Alternatively, if the company's interests in an FMIS are covered by a private ruling, to complete this item:

- print **AN** at **G Code**
- leave **H Year** blank
- write the authorisation number that was printed on the front page of your notice of private ruling at **I Number**.

10 SMALL BUSINESS ENTITY DEPRECIATING ASSETS

Only complete this item if the company is a small business entity using the simplified depreciation rules.

To complete this item use the amounts the company calculated for small business entity depreciation deductions at **X Depreciation expenses** item **6**:

Deduction for low-cost assets (less than $1,000)

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

Deduction for general pool assets (less than 25 years)

Write at **B** the total amount the company claimed at item **6** relating to the general small business pool.

Deduction for long-life pool assets (25 years or more)

Write at **C** the total amount the company claimed at item **6** relating to the long-life small business pool.

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

11 ENTREPRENEURS TAX OFFSET

Only complete this item if:

- the company is an eligible small business entity, or
- the company was assessable on income of a partnership and/or a trust that was an eligible small business entity for this income year.

Certain small business entities are eligible to receive the ETO. The ETO is available under Subdivision 61-J of the ITAA 1997.

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

The tax offset is available to:

- an individual or a company that is a small business entity
- a partner in a partnership that is a small business entity
- a trustee or beneficiary of a trust that is a small business entity, depending on who is liable for tax on the trust income.

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

A taxpayer may be eligible for more than one ETO for an income year. For example, if a company is an eligible small business entity and it is also a partner in a partnership that is an eligible small business entity, the company may be entitled to a tax offset in respect of its net business income and a tax offset in respect of its share of the net business income of the partnership. However, in this instance, the company's entitlement to the ETO may be affected by the rules concerning the calculation of aggregated turnover (see the next column).

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

> **NOTE**
> You may need to provide an attachment to the return. See **If the company's income tax return is not lodged electronically** on page 67.

Small business entity aggregated turnover

Write at **D** the company's (small business entity) aggregated turnover. This is the company's annual business turnover plus the annual business turnovers of its *affiliates* and any entities it is *connected with*. There are aggregation rules which determine who is an affiliate and when an entity is connected with you for the purpose of calculating your aggregated turnover. Certain amounts, such as income from dealings between the company and any entities that it is connected with or that are its affiliates, are excluded from aggregated turnover.

In the earlier example, if the partnership is connected with the company, it is the company's turnover combined with the partnership's turnover that is relevant in determining the company's eligibility for the ETO in relation to its small business income. Correspondingly, it is the turnover of the partnership combined with the company's turnover that is relevant in determining the company's eligibility for the ETO in relation to its share of the partnership's net small business income.

If the company is not affiliated or connected with any other entities under the aggregation rules, the company's aggregated turnover will be equal to its annual business turnover.

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

> **STOP**
> If the aggregated turnover in relation to an amount of net small business income is greater than or equal to $75,000, do not complete item **11** as the company is not entitled to an ETO in respect of that net small business income amount.

Small business entity turnover

This is the amount of total ordinary income earned in the income year in the ordinary course of carrying on a business.

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

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

In most cases, the company's small business entity turnover amount will be the same as its aggregated turnover. However, if any of the following circumstances apply you will need to make the following adjustments to calculate the small business entity turnover:

- If you have included another entity's turnover in the company's aggregated turnover amount, you will need to:
  - exclude that entity's turnover, and
  - add back any income the company derived from its affiliates or connected entities.
- If the company operated a business for part of the year, you include only the company's actual turnover amount. You do not need to use the estimate of its full year turnover.
- If the company had retail fuel sales, you must add back those sales.

> For more information on the entrepreneurs tax offset, visit our website or phone the Business Infoline.

Net small business entity income

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

The deductions attributable to the small business entity turnover are the allowable deductions that the entity can claim against its assessable income which specifically relate to that turnover.

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

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

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

> STOP
> Do not complete item **11** if there is no amount of net small business income or the allowable deductions exceed the small business entity turnover.

Step 2 Print in the CODE box at **E** the code from **table 7** that describes the source of net small business income.

TABLE 7: Small business income source codes

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

Entrepreneurs tax offset

Write at **F** the amount of ETO in respect of each source of net small business income calculated as follows:

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

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

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

$$\frac{\text{the company's net small business income** for the year} \times 100}{\text{the company's taxable income for the year}}$$

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

Step 4 If the aggregated turnover is $50,000 or less, the tax offset is the step 2 amount multiplied by the small business percentage.

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

$$\frac{\$75{,}000 - \text{the aggregated turnover for the year}}{\$25{,}000}$$

The tax offset in these circumstances is:

$$\text{step 2 amount} \times \text{small business percentage} \times \text{small business phase-out fraction}$$

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

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

** If you are working out a tax offset in respect of the company's share of net small business income received from a partnership or trust, use the company's share of net small business income from the partnership or trust in step 3. In steps 4 and 5, use the aggregated turnover of the partnership or trust.

EXAMPLE 14

Elpin Pty Ltd is a small business entity and a partner in XYZ partnership for the year ended 30 June 2009. XYZ partnership is also a small business entity.

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

Elpin Pty Ltd is not connected with XYZ partnership under the aggregation rules.

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

Tax offset in respect of business income:

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

The step 4 amount is not relevant because the aggregated turnover is greater than $50,000.

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

$= 0.60$ (or 60%)

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

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

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

The step 4 amount is not relevant because the aggregated turnover is greater than $50,000.

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

$= 0.60$ (or 60%)

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

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

The preparer of Elpin's income tax return would complete item **11** as shown below.

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

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

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

The labels at item **11** are repeatable fields in an electronic environment to cater for companies that are entitled to more than one ETO. If the company's return is not lodged electronically and it is entitled to more than one tax offset, attach a statement to the company's tax return giving details in the same format as item **11** for the second and subsequent sources of net small business income.

The entrepreneurs tax offset and PAYG

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

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

12 NATIONAL RENTAL AFFORDABILITY SCHEME TAX OFFSET

Write at **J** the company's entitlement to a tax offset under the National Rental Affordability Scheme (NRAS). Show cents.

The NRAS is designed to encourage large-scale investment in affordable housing. The NRAS offers incentives to providers of new dwellings on the condition that they are rented to low and moderate income households at 20% below market rates.

The refundable tax offset is only available where the Housing Secretary of the Department of Families, Housing, Community Services and Indigenous Affairs has issued a certificate under the NRAS. In order to claim the tax offset in the 2008–09 income year, the NRAS certificate must relate to the NRAS year comprising the period 1 July 2008 to 30 April 2009.

For more information, see *National Rental Affordability Scheme – refundable tax offset and other taxation issues* at **www.ato.gov.au**

Note:
The NRAS tax offset is subject to the refundable tax offset rules and can be claimed at **C** **Rebates/tax offsets** in the **Calculation statement**. However, if the company has an excess of tax offsets subject to the refundable tax offset rules, the excess should be included at **Z** **Other refundable credits** in the **Calculation statement**.

13 LOSSES INFORMATION

Any company that is a subsidiary member of a consolidated or MEC group at the end of the 2008–09 income year is not required to complete **U** and **V**. Other companies, including the head company of a consolidated or MEC group at the end of the 2008–09 income year, may need to complete **U** and **V**.

Tax losses carried forward to later income years

Write at **U** the unapplied – that is, undeducted or not transferred – amount of tax losses, including foreign losses converted to tax losses, incurred by the company and carried forward to the 2009–10 income year under section 36-17 of the ITAA 1997.

Net exempt income (if any) must be taken into account in calculating the amount of tax losses carried forward to the 2009–10 income year – see sections 36-10 and 36-17 of the ITAA 1997.

Tax losses carried forward may be affected by the commercial debt forgiveness provisions – see **appendix 1** on page 87.

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

- subject to certain limitations, able to choose the amount of prior year tax losses it wishes to deduct in a later year of income from the excess (if any) of its assessable income over total deductions (other than tax losses). Providing choice means that companies can choose not to deduct prior year losses in order to pay sufficient tax to be able to frank their distributions
- able, in certain circumstances, to convert excess franking offsets into a tax loss for the income year and carry forward the tax loss for consideration as a deduction in a later income year.

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

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

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

Step 3 Add the result of steps 1 and 2.

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

The result (if a positive amount) is the company's tax loss for the income year. Include this amount at **U** with any unapplied tax losses from prior income years.

If a company is required to complete a *Losses schedule 2009*, the amount of the tax losses shown at **U** **Total** at item **1 Tax losses carried forward to later income years** in part A of that schedule must be the same as the amount shown at **U** on the company tax return.

Do not include any net capital losses to be carried forward to later income years at **U** – write these separately at **V** **Net capital losses carried forward to later income years** item **13** and in the CGT schedule, if a CGT schedule is required.

> If a head company of a consolidated or MEC group is required to complete a *Consolidated groups losses schedule 2009*, the amount of the tax losses shown at **U** **Total** at item **5 Tax losses carried forward to later income years** in part A of that schedule must also be the same as the amount shown at **U** on the company tax return.
>
> If the company is a subsidiary member of a consolidated or MEC group at the end of the income year, **U** is not applicable.

Net capital losses carried forward to later income years

Write at **V** the total of any unapplied net capital losses from collectables and unapplied net capital losses from all other CGT assets and events. This information is calculated or transferred from:

- **V** in part **I** of the CGT summary worksheet, or
- **H** and **I** in part **I** of the CGT schedule, if a CGT schedule is required.

For more information, see *Guide to capital gains tax 2009*.

If the company is required to complete a *Losses schedule 2009*, the amount of the tax losses shown at **V** **Total** at item **2 Net capital losses carried forward to later income years** in part A of that schedule must also be the same as the amount shown at **V** on the company tax return.

> If a head company of a consolidated or MEC group is required to complete a *Consolidated groups losses schedule 2009*, the amount of the net capital losses shown at **V** **Total** at item **10 Net capital losses carried forward to later income years** in part A of that schedule must also be the same as the amount shown at **V** on the company tax return.
>
> If the company is a subsidiary member of a consolidated or MEC group at the end of the income year, **V** is not applicable.

PAGE 5 OF THE TAX RETURN

14 PERSONAL SERVICES INCOME

Does your income include an individual's personal services income?

Print **Y** for yes at **N** if the company's income includes an individual's PSI. Otherwise print **N** for no at **N**.

If you printed **Y** at **N**, complete and attach a PSI schedule to the company tax return.

PSI is income that is mainly a reward for an individual's personal efforts or skills (or would mainly be such a reward if it was derived by the individual).

A company may derive income which includes the PSI of one or more individuals.

Examples of PSI include:
- income for the services of a professional practitioner in a sole practice
- income derived under a contract which is wholly or principally for the labour or services of an individual
- income for the exercise of professional skills by a professional sportsperson or entertainer
- income for the exercise of personal expertise by a consultant.

PSI does not include income that is mainly:
- for supplying or selling goods – for example, from retailing, wholesaling or manufacturing
- generated by an income-producing asset – for example, from operating a bulldozer
- for granting a right to use property – for example, the copyright to a computer program, or
- generated by a business structure – for example, a large accounting firm.

There are special rules for the income tax treatment of PSI earned by contractors and consultants.

If the company receives an individual's PSI other than in the course of conducting a personal services business, and does not promptly pay it to the individual as salary or wages:
- the net amount of PSI is attributed to the individual and is not assessable to the company
- certain related expenses are not deductible under the special rules.

For more information, see *Personal services income schedule instructions 2009* (NAT 3421).

Include adjustments relating to non-deductible expenses at **W Non-deductible expenses** item **7** and adjustments relating to attributed PSI at **Q Other income not included in assessable income** item **7**.

See **worksheet 2** on pages 83–6 and **note 5** on page 86.

15 LICENSED CLUBS ONLY

Percentage of non-member income

Write at **A** the percentage, in whole figures, of total income attributable to non-members – that is, visitors.

16 LIFE INSURANCE COMPANIES AND FRIENDLY SOCIETIES ONLY

A life insurance company is defined for tax purposes as a company registered under the *Life Insurance Act 1995* and includes:
- life insurance companies
- life reinsurance companies
- friendly societies carrying on life insurance business.

If a friendly society does not conduct life insurance business, write zero (**0**) at **B** to **F** item **16**.

Life insurance companies separate their taxable income into two classes – the ordinary class and the complying superannuation/FHSA class – and multiply the taxable income of each class by the appropriate tax rate to determine their gross tax. Where a life insurance company is an RSA provider and there is no-TFN contributions income the tax rate is determined in accordance with section 29 of the *Income Tax Rates Act 1986.*

The taxable incomes of the complying superannuation/FHSA class and the ordinary class are worked out separately.

Tax losses of one class can only be applied to reduce future income of the same class.

The tax rates to assist with the calculation of the gross tax amount for life insurance companies are listed in **appendix 7**.

Life insurance companies, including friendly societies carrying on life insurance business, are entitled to a franking tax offset for franked dividends, although mutual life insurance companies are not entitled to maintain a franking account.

If franking tax offsets exceed the tax that would be payable after all other tax offsets are taken into account, life insurance companies may be entitled to a refund of the excess to the extent that it relates to distributions paid on shares and other membership interests held on behalf of policy holders. Claim the amount of the excess franking tax offset that is refundable at **Z Other refundable credits** in the **Calculation statement**.

If a life insurance company receives a dividend from a listed investment company (LIC) which includes an LIC capital gain amount, the life insurance company is entitled to a deduction of 33⅓% of its share of the LIC capital gain amount if the shares in the listed investment company are complying superannuation/FHSA assets. The deduction should be included at **X Other deductible expenses** item **7**.

If a life insurance company's assessable income includes a distribution from a partnership or trust that claimed a deduction in respect of a LIC capital gain amount, the company must add back an amount as income in accordance with subsection 115-280(5) of the ITAA 1997. Include the amount added back at **B** **Other assessable income** item **7**.

Note:
The special rules in the income tax law that apply to life insurance companies will apply to the head company of a consolidated or MEC group if that group has one or more members that are life insurance companies.

Complying superannuation/FHSA class

Write at **B** the amount of taxable income of the complying superannuation/FHSA class.

NOTE

If the company is a life insurance company that is not a member of a consolidated group and has complying superannuation/FHSA class tax losses carried forward to later income years or complying superannuation/FHSA net capital losses carried forward to later income years, complete a *Losses schedule 2009*. For more information, see *Losses schedule instructions 2009*.

The head company of a consolidated or MEC group that has one or more subsidiary members that are life insurance companies at any time during the income year is also taken to be a life insurance company for the purposes of applying the income tax law.

If the head company has tax losses of the complying superannuation/FHSA class or net capital losses from complying superannuation/FHSA assets carried forward to later income years, it may need to complete a *Consolidated groups losses schedule 2009*. For more information, see *Consolidated groups losses schedule instructions 2009*.

Net capital gain – complying superannuation/FHSA class

Write at **C** the amount of the net capital gain that accrued from the investment of complying superannuation/FHSA assets.

Net capital gain – ordinary class

Write at **D** the amount of the net capital gain that is included in the ordinary class of taxable income.

Assessable contributions

Write at **E** assessable contributions of complying superannuation funds that were transferred to the life insurance company under section 295-260 of the ITAA 1997 and are included in its assessable income under subparagraph 320-15(1)(i).

Fees and charges

Write at **F** the amount of all fees and charges included in assessable income. This includes premium-based fees, establishment fees, time-based account fees, asset fees, switching fees, surrender penalties, buy–sell margins, exit fees and interest on overdue premiums. For more information on fees and charges, see *Taxation Ruling TR 2003/14 – Income tax: Life insurance companies: the actuarial determination of fees and charges*.

17 FIRST HOME SAVER ACCOUNT (FHSA) PROVIDERS ONLY

FHSA providers only (other than life insurance companies) are to complete **L** to **N**.

Amounts credited to FHSAs

Show at **L** the total earnings or other return credited to FHSAs for the year.

Fees and charges applied to FHSAs

Show at **M** the total amount of fees and charges paid from FHSAs.

Do not include the 15% tax liability as a fee or charge.

Net amounts credited to FHSAs

At **N**, show **L** MINUS **M**. This is the FHSA component of taxable income where the FHSA provider is an ADI.

NOTE

1 For information on the applicable tax rate for FHSA providers, see **appendix 7**.
2 If you are completing the company tax return for the trustee of an FHSA trust, ensure that you print **X** in box **D11 FHSA Trust** item **3**.

18 POOLED DEVELOPMENT FUNDS

Small and medium sized enterprises income

Write at **G** the small and medium sized enterprises (SME) income component.

A PDF's SME income component is its SME assessable income less deductions allowable to the PDF for the income year, whether those deductions relate to the SME assessable income or not. (Allowable deductions to a PDF are offset first against SME assessable income before being applied against unregulated investment income.)

SME assessable income is the sum of:
- non-CGT assessable income derived from an SME investment or derived from the disposal of an SME investment at a time when the company was a PDF, and
- the overall capital gain allocated to the SME assessable income class.

The overall capital gain allocated to the SME assessable income class is the amount of any ordinary capital gain that would otherwise arise from a CGT event at a time the company was a PDF in relation to an SME investment less:

- any ordinary capital loss for that class, and
- any overall capital loss from another class of assessable income, and then
- any prior year net capital losses.

Capital gains in one class of assessable income are first reduced by capital losses in that class and then by capital losses in another class. Prior year capital losses are applied first against capital gains in the SME assessable income class.

Full-year PDF

For a company that is a PDF for the full income year, the SME income component is SME assessable income less deductions allowable to the PDF for the income year.

Part-year PDF

A company that becomes a PDF part way through the income year and is still a PDF at the end of the income year is taxed as a PDF from the day it became registered as a PDF to the end of the income year as if that period were an income year (‘the PDF period’). The PDF component is the taxable income for the PDF period. (A company’s ‘PDF component’ is its ‘adjusted taxable income’.)

The SME income component of a part-year PDF is the company’s SME assessable income less any deductions allowable to the company for the income year that relate to the PDF period.

Unregulated investment income

Write at **H** item **18** the unregulated investment component

Full-year PDFs

The unregulated investment component of a company that is a PDF for the full income year is worked out by deducting the company’s SME income component from its taxable income for the year. The amount (if any) remaining is the company’s unregulated investment component.

Part-year PDFs

The unregulated investment component of a part-year PDF is worked out by deducting the company’s SME income component for the year of income from its adjusted taxable income.

19 RETIREMENT SAVINGS ACCOUNTS (RSAs) PROVIDERS ONLY

RSA providers only are to complete **R** to **V**.

RSA providers other than life insurance companies work out the RSA component of their income and apply the applicable rate to that component. For information on the tax rate, see **appendix 7**.

Gross income of RSAs

Write at **R** the gross income of the RSA provider that is not a life insurance company, or the total amount credited to the RSAs provided by a life insurance company.

This includes assessable contributions received by the RSA provider.

Assessable contributions of RSAs

Write at **W** all assessable contributions received by the RSA provider.

Total deductions from RSAs

Write at **T** the total deductions claimed against all income relating to gross income of RSAs.

Exempt income from RSAs

Write at **S** the amounts (other than contributions) credited to RSAs paying current pensions and annuities.

Net taxable income from RSAs

Write at **V** the RSA component of the taxable income of the RSA provider that is not a life insurance company, or the amount to be included in the complying superannuation/FHSA class of the taxable income of a life insurance company that is referable to RSAs provided by the company.

20 LANDCARE AND WATER FACILITY TAX OFFSET

The company cannot choose a tax offset for expenditure incurred after the 2000–01 income year on landcare operations or water facilities. A company may have a landcare or water facility tax offset carried forward to this income year if its income tax liabilities and net exempt income for earlier years did not absorb all of the tax offset available to it from a previous year.

Landcare and water facility tax offset brought forward from prior years

Write at **K** the total of any landcare and water facility tax offsets carried forward and available for offset in this income year.

A company must first apply a carried forward tax offset to reduce any unused net exempt income to nil for this year or for any earlier income year in which the company had a taxable income after the year in which the tax offset arose. Net exempt income is reduced by $1 for each 30 cents of the tax offset.

The company cannot apply a tax offset it has carried forward if Subdivision 165-A of the ITAA 1997 would prevent the company from deducting a tax loss for the current year.

21 INTERNET TRADING

Print **Y** for yes at **Q** **Did you sell any goods or services using the internet?** item **21** if, in deriving income, the company used the internet to:

- receive orders for goods and/or services. For example, the company received orders by email or a web page form rather than by conventional post, telephone or facsimile
- receive payment for goods and/or services. For example, the company received:
  - credit card or charge card details by email or web page form rather than by conventional post, telephone or facsimile
  - digital cash
- deliver goods and/or services. For example, the company:
  - used email, the internet or file transfer protocol to deliver digitised music, news articles or software rather than conventional post to deliver software on a disk
  - used email, in conjunction with a website, to give advice and received a payment in connection with this advice
  - advertised goods or services of other businesses for a fee on the internet
  - hosted websites
  - provided access to the internet.

Print **N** for no at **Q** if the company used the internet only to:

- advertise the company's goods or services
- give support to the company's customers
- buy the company's stock
- do the company's banking online.

ITEMS 22 TO 27 – OVERSEAS TRANSACTIONS OR INTERESTS/THIN CAPITALISATION/ FOREIGN SOURCE INCOME

These items must be answered even if you do not have any overseas transactions or interests.

Agents for non-residents

If a tax return that includes income or deductions from only the activities listed in **table 8** is lodged in accordance with the following sections of the ITAA 1936 and does not include income or deductions from any other source, print **N** for no at **X** item **22**, **Y** item **23** and **Z** item **24**. Do not complete a *Schedule 25A 2009*.

TABLE 8: ACTIVITIES CARRIED OUT BY AGENTS FOR NON-RESIDENTS

Industry type	Industry code	Section number
Overseas shipping	99020	129
Agents for non-resident insurer	99050	144
Agents for non-resident reinsurers	99050	148
Control of non-resident's money	99070	255

Dividends as the only international transactions

If dividends were paid to or received from a related overseas entity and those dividends were the only transactions with related overseas entities, print **N** for no at **X** item **22** and **Y** item **23** in respect of overseas transactions and do not complete section A of *Schedule 25A 2009*. Answer items **24**, **25**, **26** and **27** as required.

Schedule 25A and the thin capitalisation schedule

If you need to lodge a *Schedule 25A 2009* or *Thin capitalisation schedule 2009*, see the instructions to these schedules for more information.

22 INTERNATIONAL RELATED PARTY DEALINGS/TRANSFER PRICING

Did you have any transactions or dealings with international related parties (irrespective of whether they were on revenue or capital account)?

Print **Y** for yes or **N** for no at **X** item **22**.

International related parties are persons, including PEs, who are parties to international dealings that can be subject to Division 13 of the ITAA 1936 and/or the business profits article, or associated enterprises article, of a relevant DTA. The term includes:

- any overseas entity or person who participates directly or indirectly in the company's management, control or capital
- any overseas entity or person in respect of which the company participates directly or indirectly in the management, control or capital
- any overseas entity or person in respect of which persons who participate directly or indirectly in its management, control or capital are the same persons who participate directly or indirectly in the company's management, control or capital
- a PE and its head office
- two PEs of the same person.

Participates includes a right of participation, the exercise of which is contingent on an agreed event occurring.
Person has the same meaning as in subsection 6(1) of the ITAA 1936 and section 995-1 of the ITAA 1997.

The type of 'dealings or transactions' that will require the entity to print **Y** for yes at this question are dealings by the entity with related parties as above, such as an overseas holding company, overseas subsidiary, an overseas PE of the entity, or a non-resident trust in which the entity has an interest. These dealings or transactions may be the provision or receipt of services, or transactions in which money or property has been sent out of Australia, or received in Australia from an overseas source during the income year. The dealings may also include transfer of tangible or intangible property, provision or receipt of services, or the provision or receipt of loans or financial services.

If money or property is not actually sent out of Australia or received in Australia but accounting entries are made that have the effect of money or property being transferred, this is also taken to be an international transaction.

23

Was the aggregate amount of the transactions or dealings with international related parties (including the value of property transferred or the balance outstanding on any loans) greater than $1 million?

Print **Y** for yes or **N** for no at **Y** item **23**.

The aggregate amount of the dealings is the total amount of all dealings, whether on revenue or capital account, and includes the balance of any loans or borrowings outstanding with international related parties.

If the answer is yes, complete section A of *Schedule 25A 2009*, together with any other relevant part of the schedule. Attach the completed schedule to the company tax return.

24 OVERSEAS INTERESTS

Did you have an overseas branch or a direct or indirect interest in a foreign trust, foreign company, controlled foreign entity, transferor trust, foreign investment fund or foreign life policy?

Print **Y** for yes or **N** for no at **Z** item **24**.

You must answer yes if the company received a dividend or other amount that is treated as non-assessable non-exempt income under section 23AH, 23AI, 23AJ, 23AK or 99B(2A) of the ITAA 1936.

If the answer is yes, complete section B and any other relevant part of *Schedule 25A 2009*. Attach the schedule to the company tax return, and lodge it with the tax return.

The 'interests' in item **24** that will require the entity to complete the schedule are those where:

- the entity has an interest in a controlled foreign company or trust
- the entity has an interest in an FIF or foreign life assurance policy
- the entity has transferred property, at any time, including money or services, to a non-resident trust, or is able to influence the decisions relating to a non-resident trust, or
- the entity held a direct voting percentage of 10% or more in a foreign company and under Subdivision 768-G of the ITAA 1997 it reduced a capital gain or loss it made from a CGT event happening to a share in the foreign company.

An interest in a CFC or trust may be either direct or indirect, and has the same meaning as set out in Division 3 of Part X of the ITAA 1936.

An interest in a FIF or foreign life assurance policy has the same meaning as set out in section 483 of the ITAA 1936.

A company has an interest in a transferor trust if the company has ever made, or caused to be made, a transfer of property or services to a non-resident trust. 'Transfer', 'property' and 'services' are defined in section 102AAB of the ITAA 1936. Sections 102AAJ and 102AAK of the ITAA 1936 provide guidance in relation to whether there has been a transfer or deemed transfer of property or services to a non-resident trust.

25 THIN CAPITALISATION

Did the thin capitalisation provisions apply as outlined in the instructions and the *Guide to thin capitalisation*?

Print **Y** for yes or **N** for no at **O** item **25**. If the answer is yes, complete a *Thin capitalisation schedule 2009*. This schedule is now available through the ELS, or complete the paper schedule and post it to:

Australian Taxation Office
PO Box 1365
ALBURY NSW 2640

For information on whether the thin capitalisation provisions apply, see **appendix 3** and *Guide to thin capitalisation*, available on our website.

26 FOREIGN SOURCE INCOME

Was the amount of foreign income tax paid greater than $100,000, OR was the amount of assessable foreign income greater than $500,000?

Print **Y** for yes or **N** for no at **P** item **26**.

Assessable foreign income is all income sourced from overseas, and includes interest, dividends, attributable foreign income and foreign source capital gains.

27 TRANSACTIONS WITH SPECIFIED COUNTRIES

Did you directly or indirectly send to, or receive from, one of the countries specified in the instructions, any funds or property, OR

Do you have the ability or expectation, to control, whether directly or indirectly, the disposition of any funds, property, assets or investments located in, or located elsewhere but controlled or managed from one of those countries?

Print **Y** for yes or **N** for no at **I** item **27**.

The specified countries are in **table 9**.

TABLE 9: SPECIFIED COUNTRIES

Andorra	Cook Islands	Liechtenstein	San Marino
Anguilla	Cyprus	Marshall Islands	Seychelles
Antigua and Barbuda	Dominica	Mauritius	St Kitts and Nevis
Aruba	Gibraltar	Monaco	St Lucia
Bahamas	Grenada	Montserrat	St Vincent and the Grenadines
Bahrain	Guernsey	Nauru	Turks and Caicos Islands
Belize	Isle of Man	Netherlands Antilles	US Virgin Islands
Bermuda	Jersey	Niue	Vanuatu
British Virgin Islands	Labuan	Panama	
Cayman Islands	Liberia	Samoa	

PAGE 6 OF THE TAX RETURN

CALCULATION STATEMENT

This statement works out the tax liability (if any) where there is a taxable or net income. It also takes into account amounts that reduce the tax liability. The final outcome is the net amount the company must pay or we will refund.

We use the information you provide at certain labels of the **Calculation statement** to calculate the Commissioner's instalment rate and the Commissioner's instalment amount for taxpayers under the PAYG instalment system for the next income year. Complete all labels as accurately as possible to ensure that the rate and instalment amounts we calculate result in a reliable estimate of your tax payable for the 2009–10 income year.

To work through the **Calculation statement** on the tax return, begin with the right-hand column. Two of the labels in the right-hand column (**G** **Total of** **D** and **E**, and **R** **Total of** **T**, **V**, **I**, **W**, **Y**, **U** and **Z**) require certain labels in the left-hand column to be completed so that the total (or the reduced total where required) can be inserted at the appropriate label.

NOTE

Labels **A**, **B** and **S** must be completed.

Calculation statement

Foreign income tax offsets	D	.
Franking deficit tax offset	E	.
PAYG instalments raised	T	.
Credit for interest on early payments – amount of interest	V	.
Credit for tax withheld – foreign resident withholding	I	.00
Credit for tax withheld where ABN not quoted	W	.00
Tax withheld from interest/investments	Y	.
R&D tax offset	U	.
Other refundable credits	Z	.

	Taxable or net income	A	.00
	Gross tax	B	.
Less:	Rebates/tax offsets	C	.
	Tax assessed		.
Less:	Total of D and E	G	.
	Tax payable		.
Add:	Section 102AAM interest	H	.
Less:	Total of T, V, I, W, Y, U and Z	R	.
	Total amount of tax payable (+) or refundable (–)	S	. F

Taxable or net income

If the company is a resident company, taxable income equals assessable income derived from all sources less allowable deductions incurred in gaining that income.

If the company is a non-resident company, taxable income equals assessable income derived from sources within Australia, plus income that is included on some basis other than having an Australian source, less allowable deductions incurred in gaining that income.

Taxable income takes into account any concessions or adjustments allowable for income tax purposes.

Write at **A** the amount of taxable income of $1 or more. This is the amount written at **T** **Taxable income or loss** item **7**.

Print zero (**0**) at **A** if the company has no taxable income or has a loss amount written at **T** **Taxable income or loss** item **7** with **L** in the box at the right of the amount.

Public trading trusts and corporate unit trusts show net income at **A**.

Gross tax

Write at **B** the amount of tax payable before the allowance of any rebates/tax offsets, credits or FDT offsets. The tax rates applicable to companies are listed in **appendix 7**.

If you are an RSA provider, write at **B** the total of your gross tax and any further tax on no-TFN quoted contributions. Write on a schedule of additional information the amount of further tax on no-TFN quoted contributions that you included at **B**. Attach the schedule to your tax return. For more information on the further tax on no-TFN quoted contributions, visit **www.ato.gov.au** and search for 'No tax file number (TFN) contributions'. You can find an example of how to calculate the extra tax in the *Fund income tax return instructions 2009*.

Rebates/tax offsets

Write at **C** the total of actual rebates/tax offsets available – in dollars and cents – and not the amounts giving rise to those tax offsets.

Tax offsets to be shown at **C** include:

- entrepreneurs tax offset
- allowable franking tax offsets for the income year. The amount claimed here should include the share of franking credit included in gross distributions from partnerships and gross distributions from trusts, the amount recorded at **J** **Franking credits** item **7** and the amount recorded at **C** **Australian franking credits from a New Zealand company** item **7**. If the shares or relevant interest are not held at risk as required under the holding period and related payments rules, or there is other manipulation of the imputation system, there is no entitlement to a franking tax offset
- tax offsets for bonuses and certain other amounts received under short-term life insurance policies taken out after 27 August 1982
- tax offsets for interest on certain government and semi-government securities
- tax offsets to approved resident lenders for infrastructure borrowings – see **appendix 5** on page 94
- no-TFN tax offset claimed by RSA providers. Write on a schedule of additional information the amount of no-TFN tax offset that you included at **C**. Attach the schedule to your tax return. For more information on the no-TFN tax offset, visit **www.ato.gov.au** and search for 'No tax file number (TFN) contributions'. You can find an example of how to calculate the tax offset in the *Fund income tax return instructions 2009*.

Do **not** show at **C**:

- any foreign income tax offset – write this tax offset at **D** **Foreign income tax offsets**
- any FDT offset – write this amount at **E** **Franking deficit tax offset**
- any R&D tax offset – write this amount at **U** **R&D tax offset**.

The rebates/tax offsets shown at **C** will not be refunded nor can they be carried forward – they are only offset against gross tax. If the total of rebates/tax offsets is more than the amount at **B** **Gross tax**, reduce the amount at **C** so that it equals the amount at **B**. The aggregate amount at **C** cannot exceed **B** **Gross tax**.

The following tax offsets are subject to refundable tax offset rules:

- R&D tax offset
- film tax offsets under Division 376 of the ITAA 1997
- franking tax offsets claimed by life insurance companies to the extent that they relate to distributions paid on shares and other membership interests held on behalf of policy holders
- franking credits claimed by endorsed income tax exempt charities and deductible gift recipients that are entitled to a refund of excess franking credits. These entities may complete the *Application for refund of franking credits – Endorsed income tax exempt charities and deductible gift recipients* (NAT 4131) rather than the company tax return to obtain a refund
- no-TFN tax offset claimed by RSA providers
- NRAS tax offset
- the tax offset available under subsection 713-545(5) of the ITAA 1997 where a life insurance company's subsidiary joins a consolidated or MEC group.

The company may have a refundable amount to the extent that the total of these tax offsets exceeds the tax that would otherwise be payable by the company after all its other tax offsets (other than franking deficit tax offset at **E**) are taken into account. Write the R&D tax offset at **U** **R&D tax offset** and the excess of other refundable tax offsets at **Z** **Other refundable credits** and not at **C**.

Record keeping

Keep a record of the following:

for each type of tax offset:

- the amount claimed for each type

for franking tax offsets:

- the distribution statement, which contains the:
  - name of the payer
  - date the dividend was received or credited
  - franked amount of the dividend
  - unfranked amount of the dividend
  - franking credit allocated to the dividend
  - amount of franking credit tax offsets allowable for each franked dividend received
  - franking percentage of the dividend
- and other records to substantiate:
  - deductions relating to dividends
  - the type of distribution – for example, foreign source dividend, bonus shares, phasing-out dividend, liquidator's distribution
  - the dates on which shares, in respect of which dividends were received and tax offsets claimed, were acquired and disposed of

for short-term life insurance policies:

- a copy of the policy
- the amount of the bonus included in assessable income under section 26AH of the ITAA 1936

for interest on certain government and semi-government securities:

- a copy of the security documentation
- the amount of gross interest received or credited
- deductions solely referable to the gross interest.

Tax assessed

B Gross tax less **C Rebates/tax offsets** equals the amount at **Tax assessed**. This cannot be a negative amount – see **Rebates/tax offsets** on the previous page.

Foreign income tax offsets

Write at **D** allowable foreign income tax offsets.

The company may be able to claim a foreign income tax offset where it has paid foreign income tax on an amount included in its assessable income.

The company's foreign income tax offset cannot exceed the lesser of:

- the foreign income tax paid, or
- its foreign income tax offset limit (the greater of $1,000 and the amount calculated under section 770-75(1)(b) of the ITAA 1997).

The company is taken to have paid foreign income tax on an amount included in its assessable income where the foreign income tax has effectively been paid by someone else on its behalf under an arrangement with it or under the law relating to that tax. For example, foreign income tax paid by deduction or withholding, or by a trust (or partnership) in which the company is a beneficiary (or partner).

When determining whether a foreign income tax offset is allowable, the company must refer to and adhere to the provisions of Division 770 of the ITAA 1997.

Note specifically the following key points:

- You cannot claim a foreign income tax offset for amounts of attributed income included under section 459A of the ITAA 1936.
- You cannot claim a foreign income tax offset in certain circumstances where there has been a refund of foreign income tax or a receipt of any other benefit as a direct result of the payment of the foreign income tax.
- Subject to certain transitional provisions, you cannot carry-forward an amount of excess foreign income tax for use in a later income year.
- Transitional rules determine the amount of pre-commencement excess foreign income tax that can be used. Pre-commencement excess foreign income tax consists of certain excess foreign tax credits from the five years prior to commencement of the new rules.
- Foreign income tax includes foreign tax forgone on income by foreign countries under tax sparing arrangements where the tax sparing amounts are subject to Australia's tax treaty with the relevant country.
- The foreign income tax paid on the offshore banking income of an OBU is taken to be one-third (the current offshore banking eligible fraction) of the amount of foreign income tax actually paid (see subsection 121EG(3A) of the ITAA 1936). This rule does not apply where the OBU has had excessive use of non-OB money (see section 121EH of the ITAA 1936).

- The foreign income tax offset rules described above also apply to the head company of a consolidated or MEC group. Where a subsidiary member paid foreign income tax on an amount included in the head company's assessable income, the head company is treated as having paid the foreign income tax and is eligible to claim a foreign income tax offset. Special transitional rules provide for the transfer of a joining entity's pre-commencement excess foreign income tax to the head company and conditions for utilising these amounts. See the *Consolidation reference manual* for additional information.

For more information on how to calculate the company's allowable foreign income tax offsets, see *Foreign income return form guide* or *Guide to foreign income tax offset rules* (NAT 72923), available on our website.

Franking deficit tax offset

Write this amount at **E**.

Under the simplified imputation system, entities that have incurred an FDT liability may be allowed to offset the whole or part of this amount against an income tax liability. Some special rules apply to life insurance companies to ensure that an FDT liability can only be offset against that part of the company's income tax liability that is attributable to shareholders. More information on calculating FDT offset for life insurance companies is on our website.

A corporate tax entity is entitled to apply an FDT offset to reduce its income tax liability for an income year if it satisfies the residency requirement and at least one of the following conditions:

- it incurred a liability to pay FDT in that year
- it carried forward an amount of FDT offset from a previous year, and not all the FDT offset could be applied against a previous income tax liability
- it incurred a liability to pay FDT in a previous year when it did not meet the residency requirement, and that liability has not been included in calculating an FDT offset.

Generally, an entity satisfies the residency requirement for an income year if it is an Australian resident for more than one half of the year, or it is a resident at all times during the year when it exists.

The FDT offset rules contain provisions that reduce the amount of FDT liability that an entity can use to offset against its income tax liability in certain circumstances. These provisions replace the franking additional tax penalty rules which operated under the former imputation system.

The FDT offset reduction will only apply for an income year in respect of franking debits in an entity's franking account arising under items 1, 3, 5 or 6 of the table in section 205-30 of the ITAA 1997, and if one of these items applies then any franking debit under item 2 of that table (relating to income tax refunds) will also be relevant. These debits usually arise as a result of having franked a distribution.

The amount of the FDT offset is reduced where the amount of the FDT liability that is attributable to those item 1, 2, 3, 5 or 6 franking debits is greater than 10% of the total amount of credits that arose in the franking account for the year. The amount of the reduction is equal to 30% of that part of the FDT liability attributable to those franking debits. For more information on the debits to the franking account that affect the amount of offset and how to calculate this amount, refer to *Franking account tax return and instructions 2009*.

There is an exception to the reduction rule for private companies with no previous income tax liability where certain conditions are met. The Commissioner also has discretion to allow the full FDT liability as an offset where the FDT liability arose due to events outside the entity's control.

To determine the amount of the FDT offset to which the company is entitled for the income year, use the following method:

> **NOTE**
> These steps are modified in certain circumstances. See **Exclusions from the offset reduction rule** on page 79; and **Late balancing entities – special rules** on page 79 (for late balancing entities under section 205-70 of the *Income Tax (Transitional Provisions) Act 1997*).

Step 1 Work out the amount of FDT liability that the entity has incurred in the income year.

Step 2 Did any franking debits arise in the entity's franking account under items 1, 3, 5 or 6 of section 205-30 of the ITAA 1997 for that income year?

If **yes**, go to step 3.

If **no**, the FDT offset reduction does not apply. The amount of FDT liability from step 1 is the amount of the FDT offset that the entity is entitled to for the current income year. Go to step 5.

Step 3 Work out the amount of FDT liability attributable to franking debits under items 1, 2, 3, 5 and 6 for that income year.

To do this add together the opening credit balance (if any) of the franking account and any franking credits that arose in the account for the income year. Take away from this amount the total of the franking debits under items 1, 2, 3, 5 and 6.

If there is an excess of franking credits over franking debits (or they are equal), the FDT offset reduction does not apply and the amount of FDT liability from step 1 is the amount of the FDT offset that the entity is entitled to for the current income year. Go to step 5.

If there is an excess of franking debits over franking credits, this is the amount of FDT liability attributable to items 1, 2, 3, 5 and 6. Go to step 4.

Step 4 If the excess of franking debits over franking credits worked out at step 3 is less than or equal to 10% of the total franking credits that arose in the franking account for the same year, the FDT offset reduction does not apply and the amount of FDT liability from step 1 is the amount of the FDT offset that the entity is entitled to for the current year. Go to step 5.

If that excess is greater than 10% of the total franking credits that arose in the franking account for that income year, the FDT offset reduction applies as follows:

- Work out 30% of that excess. This is the reduction amount. Reduce the amount of FDT liability for that income year from step 1 by the reduction amount. This is the amount of the FDT offset that the entity is entitled to for the current year. Go to step 5.

Step 5 For each previous income year for which the entity did not meet the residency requirement, repeat steps 1–4 for that income year to work out the amount of that previous year's FDT liability that is eligible to be claimed as an offset and that has not previously been claimed as an offset.

Add up the amounts covered by this step 5 for all the previous income years in which the entity did not meet the residency requirements. Go to step 6.

Step 6 For each previous income year for which the entity did meet the residency requirement and was entitled to an FDT offset, work out the amount of any excess FDT offset. This is the amount of FDT offset that exceeded the entity's hypothetical income tax liability for that previous year (worked out as if the entity did not have an FDT offset but did have all its other tax offsets). Go to step 7.

Step 7 Add up any FDT offset amounts from steps 2, 3 or 4 (these relate to an FDT liability incurred in the 2008–09 income year) and any offsettable portions of previous year FDT amounts from steps 5 and 6. This is the total amount of FDT offset the entity is entitled to for the current income year.

Reduction in FDT that can be offset

Steps 2 to 4 in the above method statement show that the amount of the FDT offset that you can claim may be reduced in some situations. This reduced amount should equal the amount you completed at **C Offsetable portion of current year FDT** in section B of the *Franking account tax return and instructions 2009*.

See also **Exclusions from the offset reduction rule** on page 79.

EXAMPLE 15

In the 2008–09 income year Stripe Co. Ltd franked a distribution with franking credits of $13,000 (item 1 of section 205-30 of the ITAA 1997: debit to the franking account). The company's franking account showed that franking credits of $10,000 arose during the year. Stripe Co. Ltd's franking account has a $3,000 deficit at the end of the income year, resulting in the company incurring an FDT liability of this amount. As the franking deficit from the item 1 debit is greater than 10% of the total franking credits that arose during the year, the offset is reduced by 30% of that portion of the deficit. Stripe Co. Ltd will therefore only be able to offset $2,100 of its FDT liability of $3,000 against its current or future income tax liabilities. The remaining $900 will not be offsettable at any time.

Priority of the tax offset

The amount of the entitlement to the FDT offset is not necessarily the same as the actual amount that can be claimed this income year at **E Franking deficit tax offset** in the **Calculation statement.** The amount that can be claimed this year is limited to the amount that would be the income tax liability after all other tax offsets (including foreign income tax offsets and refundable tax offsets) have been applied. Any excess is carried forward and taken into account in calculating the amount of FDT offset for the next income year for which the entity satisfies the residency requirement.

EXAMPLE 16

Square Co. Pty Ltd has calculated that it is entitled to an FDT offset of $3,000 for its 2008–09 income year.

Square Co. Pty Ltd's final tax liability for 2008–09 is calculated as follows:

	$	$	$
Sales income	25,000		
Dividends received	2,000		
Franking credits received	857		
ASSESSABLE INCOME		27,857	
Less			
Deductions	12,000		
Carry forward loss	5,000	17,000	
TAXABLE INCOME		10,857	
Tax on taxable income (30%)		3,257	
Less franking tax offset		857	2,400
Less FDT offset entitlement			3,000
Excess FDT offset			600
TAX PAYABLE			0

While Square Co. Pty Ltd is entitled to an amount of $3,000 FDT offset, it will only show $2,400 as the amount that can be claimed at **E Franking deficit tax offset** in the **Calculation statement**. This means that $600 of the FDT offset has exceeded the income tax liability in the 2008–09 income year. Therefore, when calculating the FDT offset for the 2009–10 income year, $600 will be included at step 6 and may be able to be offset in calculating any income tax liability (after all other tax offsets) for the 2009–10 income year.

EXAMPLE 17

For the 2008–09 income year Circle Co. has:
- an FDT liability of $60,000 (the company's FDT liability at the end of the income year) and an unapplied FDT offset from a previous year of $20,000
- before its tax offsets are applied, gross tax for the income year of $100,000
- an entitlement to a foreign income tax offset of $80,000.

The foreign income tax offset must be applied before the FDT offset is applied. As a result, that offset and $20,000 of the FDT offset combine to reduce Circle Co.'s income tax liability to nil. Circle Co. will be entitled to the remaining $60,000 of the FDT offset for the next income year for which the company satisfies the residency requirement.

> **NOTE**
> If you have refundable tax offsets, before you can calculate the amount to include at **E**, complete **B Gross tax**, **C Rebates/tax offsets**, **D Foreign income tax offsets**, **U R&D tax offset** and **Z Other refundable credits** if applicable.

To calculate the amount to include at **E Franking deficit tax offset**, use the following steps:

- Add up any amounts you have at **C Rebates/tax offsets**, **D Foreign income tax offsets**, **U R&D tax offset** and any other refundable tax offsets shown at **Z Other refundable credits**.
- If the total of these offsets is greater than the amount shown at **B Gross tax**, the company is not eligible to claim an amount of FDT offset at **E**. This amount will be carried forward to the next income year in which the company satisfies the residency requirement.
- If these offsets total less than the amount shown at **B Gross tax**, the company is entitled to an FDT offset at **E** equal to the lesser of:
  - its FDT offset entitlement, and
  - the difference between the gross tax and those offset amounts.

EXAMPLE 18

Triangle Co. has the following amounts entered in its *Company tax return 2009*:

Gross tax	**B**	$1,000
Rebates/tax offsets	**C**	$800
Tax assessed		$200
R&D tax offset	**U**	$500
The company has calculated an entitlement to an FDT offset of $150 for 2008–09.		

As **C** and **U** ($1,300) are greater than the amount of gross tax at **B** ($1,000), the total amount of tax payable or refundable will be determined by applying the **R&D tax offset** at **U** of $500 against **Tax assessed** of $200. This will result in an amount refundable of $300 that is shown at **S Total amount of tax refundable**. Triangle Co. cannot claim any of the $150 FDT offset at **E** in the 2008–09 income year. Triangle Co. will carry forward this amount to the next income year and include it in working out the amount to include at **E Franking deficit tax offset** in the **Calculation statement** in its *Company tax return 2010*.

Exclusions from the offset reduction rule

Private companies with no previous income tax liability

For the 2004–05 and later income years, the FDT offset reduction rule will not apply if all the following conditions are met:

a the entity is a private company for the relevant year
b the company has not had an income tax liability for any income year before the relevant year
c if the company did not have the tax offset (but had all its other tax offsets) it would have had an income tax liability for the relevant year, and
d the amount of the liability referred to in paragraph (c) is at least 90% of the amount of the deficit in the company's franking account at the end of the relevant year.

Commissioner's discretion where deficit was outside the entity's control

The Commissioner has a discretion to allow the full tax offset where an FDT liability arose due to circumstances that were outside the entity's control.

For more information on the application of these exclusions see the fact sheet *Simplified imputation: Franking deficit tax offset* on our website. Entitlement to the full offset resulting from one of the exclusions mentioned above should have been noted by inserting the code **F**, **P** or **C** in the **Code** box in section A on the *Franking account tax return 2009.* If you did not do this you will need to request an amendment to that return in order to receive the full offset.

Late balancing entities – special rules

There are special rules that apply to calculate the amount of an FDT offset for late balancing entities where the late balancing entity has made an election to have its FDT liability determined on 30 June instead of at the end of its income year.

These rules ensure the 30% reduction works appropriately for these entities, including where the entity ceases to be a franking entity (or joins a consolidated or MEC group) between 30 June and the end of its income year. For more information on these special rules for late balancing entities, see the fact sheet *Simplified imputation – FDT offset for late balancers*, on our website.

> **NOTE**
> The amount completed at **E Franking deficit tax offset** in this return will not necessarily be the same as the amount shown at **C Offsetable portion of current year FDT** in section B of the *Franking account tax return 2009*. See *Franking account tax return and instructions 2009* for information on how to complete **C Offsetable portion of current year FDT**.

Total of D and E

The amount calculated at G is not refundable – it can only reduce **Tax assessed**.

Add the amounts shown at D and E.

If the total of D and E is less than or equal to the amount at **Tax assessed**, write the total at G.

If the total of D and E is more than the amount at **Tax assessed**, reduce the total so that the amount shown at G equals the amount at **Tax assessed**.

Tax payable

Take away the amount at G from the amount at **Tax assessed**. The amount shown at G must be less than or equal to the amount at **Tax assessed**. Tax payable cannot be a negative amount.

Section 102AAM interest

Write at H any section 102AAM interest relating to a distribution received from a non-resident trust. Section 102AAM of the ITAA 1936 imposes an interest charge on certain distributions from non-resident trusts. See chapter 2, *Foreign income return form guide*, available on our website.

PAYG instalments raised

Write at T the total of the company's PAYG instalments for the income year of the tax return, whether or not the instalments have actually been paid.

Include in T the total instalment amount either:

- the amount(s) pre-printed at **T7** on the company's quarterly activity statements or at **T5** on its annual instalment activity statement (if it used the instalment amount(s) worked out by the Tax Office which it did not vary) **or**
- the amount(s) the company reported at **5A** on its activity statement(s), reduced by any credit(s) it claimed at **5B** (if it did not use the instalment amount(s) worked out by the Tax Office).

To ensure the company receives the correct amount of credit for its PAYG instalments, make sure all of its activity statements are lodged before its income tax return is lodged. Lodge any outstanding activity statements even if the company has paid the instalments or had nothing to pay.

The company is entitled to a credit for its PAYG instalments even if it has not actually paid a particular instalment. However, the company will be liable for the general interest charge on any outstanding instalment for the period from the due date for the instalment until the date it is fully paid.

This label is only to be used for the quarterly or annual instalments raised during the financial year. The amount recorded at the label must not include 'wash up' or residual payments.

After the head company of a consolidated group or MEC group lodges its first income tax return, the Tax Office calculates a consolidated instalment rate for the group based on the head company's income tax return. Once the head company of the consolidated group or MEC group obtains this consolidated instalment rate, the group is considered to be a mature group for PAYG instalment purposes ('mature group'). The head company of a mature group will be the only entity in the group that will be liable to pay PAYG instalments for the group's income year.

The head company of a mature group is entitled to claim a credit in its income tax return for the PAYG instalments it was liable to pay for the income year.

If the consolidated group or MEC group is a mature group for the entire income year, write at T the total amount of instalments payable by the head company of the consolidated group or MEC group for the income year.

Note: During the 'formation period', each member of the consolidated group or MEC group must continue to calculate their instalment income as if they were not members of the consolidated group or MEC group and each will continue to be individually liable for their PAYG instalments. In this instance, special rules apply in determining the amount of PAYG instalment credit that the head company of a consolidated group or MEC group is entitled to claim in its income tax return. For more information refer to the Consolidation Reference Manual, Treatment of PAYG instalments at **www.ato.gov.au/content/downloads/C0801000.pdf**

When an entity (a 'joining entity') joins a mature group, the single entity rule ensures that the joining entity's PAYG instalment obligations will generally cease from the date of joining. For more information refer to the Consolidation Reference Manual, Treatment of PAYG instalments at **www.ato.gov.au/content/downloads/C0801000.pdf**

A joining entity may be required to lodge an income tax return for any non-membership periods during the income year in which it joins a mature group. In the joining entity's income tax return for its non-membership periods, write at T the total of instalments payable by it. This sum is the total of the amounts included at label 5A of all activity statements for the joining entity's non-membership periods.

Credit for interest on early payments – amount of interest

Write at **V** only the calculated interest amount of 50 cents or more for early payment. Do not show actual payments.

The company may be entitled to interest if it makes an actual payment on account of certain amounts more than 14 days before the due date of payment. Amounts which may attract early payment interest include payments of:

- income tax
- shortfall interest charge
- interest payable under section 102AAM.

Amounts which are not directly paid but are reduced by the crediting or applying of an amount do not attract early payment interest. These amounts include:

- credit for instalments payable under the PAYG instalment regime
- credit for amounts withheld from withholding payments under the PAYG withholding regime
- an overpayment of other income tax liabilities
- a running balance account (RBA) surplus
- any other credit entitlement arising under a taxation law.

Early payment interest is also not payable on:

- any component of the payment that exceeds the amount due
- an amount for any period during which that amount also attracts interest on overpayment.

Calculate early payments interest from the date the early payment is made to the date the amount becomes due and payable. However, if an amount paid early on account of a tax liability is refunded before the due and payable date of the liability, interest does not accrue for the period after the date the amount is refunded.

Date of payment is the date:

- shown on the receipt for payment to the Tax Office
- payment is posted to the Tax Office plus three days
- shown on the taxpayer's bank statement if payment is made through direct debit – that is, electronic funds transfer (EFT).

TABLE 10: Interest rates for calculation of early payment

Quarter	Interest rate (pa)
Jul–Sep 2008	7.75%
Oct–Dec 2008	7.31%
Jan–Mar 2009	4.76%
Apr–Jun 2009	3.16%

If the early payment extends over two or more interest periods, calculate the interest for the number of days in each period.

Calculate interest as follows:

$$\text{Interest} = \frac{\text{number of days}}{365^*} \times \text{amount of payment} \times \text{interest rate for period}$$

*366 for a leap year

Keep a record of the amount of early payments interest claimed. This interest is assessable income in the income year it is paid or credited against another liability.

Credit for tax withheld – foreign resident withholding

Write at **I** the total tax withheld from payments made to the company that were subject to foreign resident withholding. This includes any share of credits received by the company from a partnership or trust.

If an amount of tax withheld is shown at **I**, ensure that you include the corresponding gross payment at **Income**, **B Gross payments subject to foreign resident withholding** item **6** or the corresponding gross distribution from a partnership or trust at **Income**, **D** or **E** item **6**.

Credit for tax withheld where ABN not quoted

Write at **W** the total tax withheld from payments made to the company that were subject to withholding where an ABN was not quoted.

This amount equals the sum of the amounts shown in the relevant 'tax withheld' boxes on the *Non-individual PAYG payment summary schedule 2009*. For instructions on completing the schedule, see page 5.

Do **not** include any share of tax withheld from a partnership or trust distribution where an ABN was not quoted. This is shown at **Z Other refundable credits**.

If an amount of tax withheld is reported at **W**, declare the corresponding gross payment at **Income**, **A Gross payments where ABN not quoted** item **6**.

Tax withheld from interest/investments

Write at **Y** any amounts withheld from investment income by an investment body because the company did not provide a TFN or ABN and that have not been refunded already to the company.

Record keeping

Keep the following details of credits for amounts withheld from investments:

- all documentation issued by the investment body detailing payments of income and any amounts withheld from those payments
- details of any amounts withheld from an income payment made to the company and subsequently refunded by the investment body.

Keep the following details of refund receipts:

- amount of refund
- date of refund
- investment reference number – for example, the bank account number of the investment relating to the refund.

R&D tax offset

Write at **U** the amount shown at **U** item **3** in part F of the *Research and development tax concession schedule 2009*. The R&D tax offset is only available for eligible expenditure on Australian owned R&D activities.

Note: **U** is 30% of the amount shown at **Y** **R&D tax offset, if chosen** item **7**.

Other refundable credits

Write at **Z**:

- the company's share of credit from a partnership or trust for tax withheld where an ABN was not quoted
- the company's share of credit for tax paid by a trustee on net income
- for life insurance companies – the refundable amount of franking tax offsets (including venture capital franking tax offsets and franking tax offsets arising from Australian franking credits attached to a dividend received from a New Zealand company) to the extent they relate to franked distributions paid on equity interests held on behalf of policy holders
- franking credits for endorsed income tax exempt entities and deductible gift recipients entitled to claim a refund of excess franking credits. These entities may complete the *Application for refund of franking credits – Endorsed income tax exempt entities and deductible gift recipients* rather than the company tax return to obtain a refund
- any refundable amounts of the film tax offsets under Division 376 of the ITAA 1997.
- any refundable amount of the NRAS tax offset
- for RSA providers – any refundable amount of no-TFN tax offset. Write on a schedule of additional information the refundable amount of no-TFN tax offset that you included at **Z**. Attach the schedule to your tax return
- for RSA providers – interest on no-TFN tax offset. Write on a schedule of additional information the amount of interest on no-TFN tax offset that you included at **Z**. Attach the schedule to your tax return.

For more information on interest on no-TFN tax offset, visit **ato.gov.au** and search for 'No tax file number (TFN) contributions'. An online calculator is also available to assist you with the calculation of the interest. You can find an example of how to calculate the interest in the *Fund income tax return instructions 2009*.

Do not include at **Z** those credits included at **D** **Foreign income tax offsets** in the **Calculation statement**. Also, do not include at **Z** any amounts that relate to PAYG instalments. Include these at **T** **PAYG instalments raised**.

Total of T, V, I, W, Y, U and Z

Write at **R** the total of the amounts **T**, **V**, **I**, **W**, **Y**, **U** and **Z**.

Total amount of tax payable (+) or refundable (–)

Write at **S** the balance of tax payable (+) or refundable (–). This amount is calculated as the sum of the amounts shown at **Tax payable** (+), **H** (+) and **R** (–) in the **Calculation statement**.

The amount at **S** does not take into account any interim or voluntary payments the company has made against its income tax liability for the year of this return. If the company has made such payments, take these into account in calculating the company's final payment but do not show the amounts on this tax return.

Send the company's payment to the address on the pre-identified payment slip. If the company has not received one, see **Payment** on page 103.

Do not send the company's payment with the *Company tax return 2009*.

For the lodgment address, see page 103.

TAX AGENT'S DECLARATION

If the tax agent is a partnership or a company, this declaration must be signed in the name of the partnership or company by a person who is registered as a nominee of that partnership or company. Print that person's name at this item also.

DECLARATION

Public officer

The public officer is responsible for doing all things required by the company under section 252 of the ITAA 1936 or the ITR 1936. In case of default the public officer is liable to the same penalties. For example, the public officer is responsible for lodging the company tax return. If the tax return is lodged late the public officer may be liable for a failure to lodge on time penalty.

Include in the declaration a signature, date, name, title and telephone number for the public officer.

Hours taken to prepare and complete this tax return

We are committed to reducing the costs involved in complying with your taxation obligations. By completing **J** you will help us to monitor these costs as closely as possible. Your response to this question is voluntary.

When completing this question consider the time, rounded up to the nearest hour that your business spent:

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

The answer should relate to the time both you and your tax agent spent in preparing and completing your tax return. This includes the time spent by any other person whose assistance was obtained in doing this, such as an employee.

> **NOTE**
> If you are preparing this tax return on behalf of your client, consult with your client to obtain a reliable estimate.

WORKSHEET 2

OTHER RECONCILIATION ITEMS

This worksheet caters for those items that reconcile **T** **Total profit or loss** item **6** with **T** T**axable income or loss** item **7** other than those items specifically included in item **7**. This statement is not an exhaustive list. All references to accounts below are taken to mean the company's profit and loss account.

Additions to **T** **Total profit or loss** item **6** not covered by:

- **A** **Net capital gain**
- **U** **Non-deductible exempt income expenditure**
- **J** **Franking credits**
- **C** **Australian franking credits from a New Zealand company**
- **D** **Accounting expenditure in item 6 subject to R&D tax concession**

in item **7** are specified under **B** **Other assessable income** in the next column and **W** **Non-deductible expenses** on the next page. Write the total for income-related add-back items at **B** **Other assessable income** item **7** and the total for expense-related add-back items at **W** **Non-deductible expenses** item **7**.

Subtractions from **T** **Total profit or loss** item **6** not covered by:

- **C** **Section 46FA deduction to** **V** **Exempt income**
- **R** **Tax losses deducted**
- **S** **Tax losses transferred in**

in item **7** are specified under **Q** **Other income not included in assessable income** on the next page and **X** **Other deductible expenses** on page 85. Write the total for income-related subtraction items at **Q** and the total for expense-related subtraction items at **X**.

In some cases, a reconciliation adjustment at item **7** adds back or subtracts the whole of an amount shown at item **6** and a separate label at item **7** shows the amount for income tax purposes. For example, for companies not using the small business entity depreciation rules, depreciation as per the accounts is shown at item **6** and added back in full at **W** **Non-deductible expenses** item **7**. The deduction for the decline in value of depreciating assets is listed at **F** **Deduction for decline in value of depreciating assets** item **7**.

B OTHER ASSESSABLE INCOME

(assessable income not shown in accounts)

Adjustments to income derived:	
increase in interest	$
increase in dividends	$
increase in partnership distribution	$
increase in trust distribution	$
year-end sales cut-off adjustment	$
Assessable balancing adjustment amounts on depreciating assets – see **appendix 6** (see **note 4** on pages 85–6 for R&D assets that are excluded)	$
Attributed foreign income not included in accounts	$
Bad debts recovered not included in accounts	$
Benefits or prizes from investment-related lotteries not included in accounts	$
Foreign exchange taxable gains – see page 10	$
Grants received not included in accounts	$
Gross taxable foreign source income	$
Other assessable income not included in accounts (former STS taxpayers should see page 22)	$
Total	**$**

W NON-DEDUCTIBLE EXPENSES

Amortisation as per accounts (including goodwill)	$
Borrowing costs	$
Capital items written off as repairs	$
Depreciation expenses – X item 6 – see **note 6** on page 86 and **note 4** on the next page	$
Expenses to the extent to which they are not deductible:	
entertainment	$
legal expenses and consultants' fees	$
subscriptions and donations	$
bad debts	$
part of prepaid expenses not deductible this year – see **note 1(a)** on the next page	$
spouse travel	$
Expenses incurred in deriving non-assessable non-exempt income	$
Certain expenses relating to PSI that are not deductible – see **note 5** on page 86	$
Extraordinary loss per accounts	$
Finance lease interest	$
Foreign exchange accounting losses	$
Foreign tax paid or deemed paid	$
Debt deductions denied by thin capitalisation – see **appendix 3** on page 92	$
Loss on sale of depreciating assets included in accounts – see page 98 (exclude R&D assets – see **note 4** on the next page)	$
Loss on sale of other assets included in accounts	$
Luxury car lease payments – see page 99.	$
Net adjustment to expenses claimed – decrease in consumable stores – see **note 2** on the next page	$
Net increase in provisions	$
Net increase in trading stock valuation for tax purposes	$
Non-share dividends	$
Offshore banking unit losses – 20/30 of eligible deductions	$
Other capital items included in accounts	$
Penalties and fines	$
Superannuation charged in accounts	$
Trust losses deducted from accounting income	$
Unrealised losses on revaluation of assets to fair value	$
Total	**$**

Q OTHER INCOME NOT INCLUDED IN ASSESSABLE INCOME

(income shown in the accounts that is not assessable)

Adjustments to income derived:	
decrease in interest	$
decrease in dividends	$
decrease in trust distribution	$
year-end sales cut-off adjustment	$
extraordinary profits per accounts	
foreign exchange accounting profits	
Foreign source income in the accounts that is not assessable income	$
Grants receivable	$
PSI included in the assessable income of an individual (attributed amount)	$
Profit on sale of depreciating assets included in accounts – see page 99	$
Profit on sale of other assets included in accounts (including assets used for R&D)	$
Unrealised gains on revaluation of assets to fair value	$
Other income amounts in the accounts that are not assessable income	S
Total	**$**

X OTHER DEDUCTIBLE EXPENSES

(deductible amounts not shown as expenses in the accounts)

Allowable superannuation fund payments	$
Capital expenditure for the establishment of trees in carbon sink forests	$
Deductible balancing adjustment amounts on depreciating assets – see **appendix 6** on page 94 (see **note 4** in the next column for R&D assets that are excluded)	$
Deduction for certain capital expenditure incurred to terminate a lease or licence – see **note 7** on the next page	$
Film industry incentive balance – see **note 3** in the next column	$
Foreign exchange taxable losses – see page 10.	$
Interest charge	$
Hire purchase agreements – interest component – see page 97.	$
Luxury car leases – accrual amount – see page 99.	$
Mains electricity connection to land used in carrying on a business – see page 97.	$
Net adjustment to expenses claimed – increase in consumable stores – see **note 2** in the next column	$
Net decrease in provisions	$
Net decrease in trading stock valuation for tax purposes	$
Part of prepaid expenses deductible this year, but not included at any other label – see **note 1(b)** in the next column	$
Tax deductible borrowing costs	$
Telephone line connection to land used for primary production – see page 97	$
Other deductible items	$
Total	**$**

Note 1(a)

Insert the difference between the total amount of prepaid expenses incurred in the 2008–09 income year and the amount the company is entitled to claim as a deduction in this year. See *Deductions for prepaid expenses 2009* for a detailed explanation of how to calculate the company's deduction for the 2008–09 income year.

Note 1(b)

Insert the amount of prepaid expenditure that the company was not entitled to deduct in previous years, and which it is now entitled to deduct in the 2008–09 income year. See *Deductions for prepaid expenses 2009* for a detailed explanation of how the deduction for later years is calculated.

Note 2

Insert the difference between the value of consumable stores on hand at the end of the previous income year and the value of consumable stores on hand at the end of the current income year. The balance of these items determines whether they are add-backs or subtractions.

Note 3

Film industry incentive balance. The amount shown is the excess (if any) of:

- the amount of any concession available under Division 10BA of the ITAA 1936 for capital expenditure incurred in acquiring an interest in the initial copyright of a new Australian film, over
- expenses for capital expenditure incurred in acquiring an interest in the initial copyright of a new Australian film, which have already been included at **Q Total expenses** item **6**.

Note 4

B, **W** and **X** on **worksheet 2** do not include any amounts for R&D assets subject to the R&D tax concession, whereas profits on disposal of all assets are shown at **Q**.

Generally, labels at item **7** require a split between amounts subject to the R&D tax concession and other amounts. For example, book depreciation shown at **X Depreciation expenses** item **6** includes amounts in relation to assets used in research and development activities.

However, amounts subject to the R&D tax concession are added back at **D Accounting expenditure** in item **6 subject to R&D tax concession** item **7** and not at **W Non-deductible expenses** item **7**, and the deduction for decline in value is shown at **L Australian owned R&D tax concession – not including label M** item **7** and not at **F Deduction for decline in value of depreciating assets** item **7**.

Similarly, disposal losses included at **S All other expenses** item **6** includes losses in relation to assets used in R&D activities, but amounts subject to the R&D tax concession are added back at **D Accounting expenditure in item 6 subject to R&D tax concession** item **7** and the deduction for disposal losses is shown at **L Australian owned R&D tax concession – not including label M** item **7** and not at **X Other deductible expenses** item **7**.

Additionally, disposal profits included at **R Other gross income** item **6** that are subject to the R&D tax concession are included at **L Australian owned R&D tax concession – not including label M** item **7** and not at **B Other assessable income** item **7**, but balancing profits for all assets are subtracted at **Q Other income not included in assessable income** item **7**.

These decline in value and balancing adjustment amounts subject to the R&D tax concession are taken into account at item **17** in part A of the *Research and development tax concession schedule 2009* and also in the amount at **L Australian owned R&D tax concession – not including label M** item **7**. For more information, see *Research and development tax concession schedule instructions 2009*.

> NOTE
>
> Depreciation and balancing adjustment amounts for assets used in foreign-owned R&D activities are not subject to the R&D tax concession and should not be included in item **7** at **D Accounting expenditure in item 6 subject to R&D tax concession, L Australian owned R&D tax concession – not including label M,** or **J Foreign owned R&D tax concession – not including label K**.

Note 5

If the company receives an individual's PSI other than in the course of conducting a personal services business, and does not promptly pay it to the individual as salary or wages:

- the net amount of PSI is attributed to the individual and is not assessable to the company
- certain related expenses are not deductible.

Expenses specifically denied include rent, mortgage interest, rates and land tax for the residence of individuals (or their associates – for example, spouse) whose efforts or skills mainly generate the PSI for the company, the costs of a second private use car and payments of salary or wages and superannuation for associates to the extent such payments relate to non-principal work.

The company is not entitled to a deduction for any net PSI loss that is attributed to the individual. See *Personal services income schedule instructions 2009* for more information.

Note 6

Only include depreciation expenses at **W Non-deductible expenses** item **7** if the company is not using the small business entity depreciation rules. However, do not include any pool deductions shown at **Expenses**, **X Depreciation expenses** item **6**.

Note 7

Section 25-110 of the ITAA 1997 provides a five-year straight-line write-off for certain capital expenditure incurred in terminating an operating lease or licence if the expenditure is incurred in the course of carrying on a business, or in connection with ceasing to carry on a business. See the details under Change 3 in the fact sheet *Blackhole expenditure: business related expenses*, on our website.

If you have included an amount of capital expenditure incurred to terminate a lease or licence at any expense label in item **6**, include the amount at **W Non-deductible expenses** item **7**.

APPENDIXES

APPENDIX 1 COMMERCIAL DEBT FORGIVENESS

If a commercial debt owed by a company is forgiven during the income year, apply the net amount of debts forgiven to reduce the company's deductible revenue losses, net capital losses, certain undeducted revenue or capital expenditure, and the cost base of CGT assets, in that order. In certain cases where the company is one of a group of related companies, the amount forgiven may be apportioned among the group companies.

A debt is a commercial debt if any part of the interest payable on the debt is or would be an allowable deduction, or would be a deduction if not for some specific exception provision. Similarly, where interest is not payable, the debt is still a commercial debt if interest had been charged and would have been so deductible. A commercial debt also includes a non-equity share issued by a company.

A debt is forgiven if the company's obligation to pay the debt is released or waived or otherwise extinguished. A debt is also forgiven if:

- it cannot be legally recovered because of a statute of limitations
- an agreement is entered into under which the obligation to pay some or all of the debt will end without the debtor incurring any obligation (other than an insignificant obligation)
- it is assigned by a creditor to an associate of the debtor or
- in certain other circumstances.

Calculation of net forgiven amount

Calculate the net forgiven amount as follows:

1 Determine the notional value of the debt. In the general case, this is the lesser of:
   – the value of the debt at the time of forgiveness (assuming the company was solvent at that time and the time the debt was incurred), and
   – the value of the debt at the time of forgiveness (assuming solvency as above and no changes in market variables) plus any amounts that are allowable as deductions as a result of the debt forgiveness and that are attributable to market movements that occurred while the debt was held. Special rules apply in calculating the notional value of non-recourse debt and in respect of debt parking circumstances – see Division 243 of the ITAA 1997 and sections 245-60 and 245-61 of Schedule 2C to the ITAA 1936.

2 Calculate the gross forgiven amount of the debt by deducting from the notional value of the debt any amount of consideration provided in respect of the forgiveness. This consideration normally is the sum of the amounts of money the company is required to pay in respect of the forgiveness or, if property is required to be given, the market value of the property. Special rules apply in determining the consideration given for the forgiveness if a debt is forgiven in exchange for shares, if there are debt parking circumstances, or if money or property is applied for the benefit or at the direction of the creditor – see sections 245-65 and 245-70 of Schedule 2C to the ITAA 1936.

3 Reduce the gross forgiven amount by any amount:
   – that has been, is or will be included in the company's assessable income as a result of the forgiveness of the debt
   – by which a deduction otherwise allowable to the company has been or will be reduced as a result of the forgiven debt except for a reduction under Division 727 (indirect value shifting) of the ITAA 1997
   – by which the cost base to the company of any CGT asset has been or will be reduced, as a result of the forgiveness of the debt except for a reduction under Division 139 of the ITAA 1997 (former provisions dealing with value shifting through debt forgiveness).

4 For intra-group debt only – where the company and the creditor company are under common ownership throughout the term of the debt – the companies may enter into an agreement whereby the creditor company agrees to forgo its entitlement to a capital loss, or to a deduction for a bad debt, from forgiving the debt in that income year. If such an agreement is made, reduce the creditor's capital loss or the deduction otherwise allowable to the creditor, to the extent of the amount agreed on – up to the amount left after **3** above. For the company, reduce the amount remaining after **3** above by the same amount.

5 The balance remaining is the net forgiven amount of that debt. Add the net forgiven amount to the net forgiven amounts of other debts forgiven during the income year to arrive at the total net forgiven amount in respect of the income year.

Application of total net forgiven amount

Apply this total net forgiven amount to reduce the amount the company has in the following categories, in the order listed:

- deductible revenue losses
- deductible net capital losses
- deductible expenditure
- cost bases of certain CGT assets.

Within the relevant categories, the company may choose the relevant loss, item of expenditure or asset against which the total net forgiven amount is applied, provided it is applied to the maximum extent possible within that category. Once you have applied the total net forgiven amount against all the amounts in a category, apply any excess, in the above order, against the next category. If there is an excess remaining after applying the amount to the maximum extent possible against all categories, disregard this excess. However, see **Related companies** on the next page for special rules applying in the case of groups of related companies.

Deductible revenue losses

These are tax losses (including any deductions for foreign losses converted to tax losses under Subdivision 770-A of the *Income Tax (Transitional Provisions) Act 1997*) from earlier income years that are undeducted at beginning of the forgiveness year.

Deductible net capital losses

These are unapplied net capital losses that were made in income years before the forgiveness year and that could be applied in working out the debtor's net capital gain in the forgiveness year, assuming that the company had sufficient capital gains.

Deductible expenditure

Deductible expenditure is limited to expenditure incurred before the forgiveness year that remains undeducted but that, on conditions prevailing at the beginning of the forgiveness year, would be deductible in that year or future years.

The deductible expenditures are:

- expenditure deductible under the UCA
- expenditure incurred in borrowing money to produce assessable income
- expenditure on research and development activities
- advance revenue expenditure
- expenditure on acquiring a unit of industrial property to produce assessable income
- expenditure on Australian films
- expenditure on assessable income-producing buildings and other capital works.

There are two principal methods of reducing deductible expenditures:

- If the deduction is calculated as a percentage of a base amount – for example, deductions for decline in value of depreciating assets calculated under the prime cost method – make the reduction to the base amount. The effect is that deductions allowable in the forgiveness year and later years are reduced. Also, the total amount of deductions allowable is limited to the reduced base amount. The amount of the reduction is treated as if it had been a deduction when calculating any required balancing adjustment amount.
- If the deduction for a particular deductible expenditure is a percentage, fraction or portion of an amount worked out after taking into account any deductions for the deductible expenditure previously allowed to the company – for example, deductions for decline in value calculated under the diminishing value method – the forgiven amount is taken to have been allowed as a deduction before the forgiveness income year.

If, as a result of the recoupment of a particular deductible expenditure, a provision of the ITAA 1936 or the ITAA 1997 applies to disallow any deductions previously allowed to the company for the expenditure, the total net forgiven amount previously applied in the reduction of the recouped deductible expenditure is treated as assessable income in the year of recoupment.

Cost bases of certain CGT assets

Cost bases of certain CGT assets owned by the company at the beginning of the forgiveness year – referred to as reducible assets – are the final category of amounts that may be reduced by the company's total net forgiven amount. Essentially, these are assets where a capital gain or capital loss might arise when a CGT event, such as a disposal, happens to them.

Assets not treated as reducible assets include those for which a capital gain or capital loss will not arise or is unlikely to arise upon a CGT event happening to them – for example, CGT assets acquired before 20 September 1985, goodwill, trading stock or a personal use asset within the meaning of section 108-20 of the ITAA 1997. Also excluded are CGT assets whose cost is deductible, such as depreciating assets.

The company may choose the reducible assets whose cost bases are to be reduced and the extent of that reduction. However, the cost base of reducible assets that constitute investments in associates of the company must be reduced last. When a company chooses to apply an amount in reduction of the relevant cost bases of a particular reducible asset, then at any time from the beginning of the forgiveness income year each of the relevant cost bases – that is, the cost base or reduced cost base – is taken to be reduced accordingly.

Ordinarily, the reduction of a CGT asset's relevant cost base cannot exceed the amount that would have been the reduced cost base of the asset, calculated as if the asset was disposed of at market value on the first day of the forgiveness income year. However, a special rule applies – see subsection 245-190(3) of Schedule 2C to the ITAA 1936 – if an event occurred after the first day of the forgiveness year that would cause the reduced cost base of the asset to be reduced.

The reduction of the relevant cost base of a CGT asset affects the calculation of the amount of the capital gain or capital loss upon a CGT event happening to the nominated reducible asset because the relevant cost base that is taken into account in determining the capital gain or capital loss must reflect that reduction.

Related companies

Special rules apply if, at the time a debt of a company is forgiven, the company is one of a group of related companies and any of the non-debtor companies has deductible revenue losses. In this case, apportion the net forgiven amount to each of the companies in the group that has deductible revenue losses. The relevant proportion is the proportion of each company's deductible revenue losses to the total revenue losses of the group. In working out that company's total net forgiven amount for the income year, treat each of the companies in the group as having a net forgiven amount equal to the relevant proportion of the net forgiven amount.

Special rules also apply if none of the companies in the group has deductible revenue losses but any of the non-debtor companies in the group have deductible net capital losses. As above, apportion the net forgiven amount to each company in the group that has deductible net capital losses. Then apply an equivalent formula to that described in relation to deductible revenue losses to apportion the net forgiven amount of a group company among group companies with deductible net capital losses. In working out that company's total net forgiven amount for the income year, treat each of the companies in the group as having a net forgiven amount equal to the relevant proportion of the net forgiven amount.

If none of the non-debtor companies within the group has deductible revenue losses or net capital losses, the net forgiven amount of the debtor company is not apportionable under these special rules and the debtor company must apply the general rules as a single company.

A debtor company is part of a group of related companies when it and any other company are under common ownership at the end of the previous income year and at the time the debtor company's debt is forgiven. In certain circumstances, however, a company that was not under common ownership with the debtor company at the specified times is nevertheless included in the relevant group of related companies. If the company had been under common ownership with the debtor company at any time within the two income years that immediately preceded the forgiveness income year, or the period in the forgiveness year up to the time of forgiveness, the other company is taken to be included in the group of related companies if:

- a taxpayer that was the controller of the other company immediately before and after the two companies ceased to be under common ownership was also a controller of that company and the debtor company at the time the debt was forgiven, or
- immediately before and after the two companies ceased to be under common ownership and at the time the debt was forgiven, either the debtor company was a controller of the other company or the other company was a controller of the debtor company.

Where a commercial debt is owed by a member of a consolidated or MEC group to a non-group entity, the head company is treated as the debtor for its income tax purposes. If the debt is forgiven, the head company must calculate the net forgiven amount and apply this amount to its deductible revenue losses, deductible capital losses, deductible expenditure and the cost bases of CGT assets.

Intra-group debts

One of the consequences of consolidation is that intra-group loans and intra-group dealings are not recognised for the group's income tax purposes. Where a debt owed by one consolidated or MEC group member to another is forgiven there will be no income tax consequences for the head company or the members.

APPENDIX 2 CAPITAL WORKS DEDUCTIONS

Division 43 of the ITAA 1997 provides for a system of deducting capital expenditure incurred in the construction of buildings and other capital works used to produce assessable income.

Capital works

You can deduct construction costs for the following capital works:

- buildings or extensions, alterations or improvements to a building
- structural improvements or extensions, alterations or improvements to structural improvements
- environmental protection earthworks – see **appendix 6** on page 94.

Deductions for construction costs and structural improvements must be based on actual costs incurred. If it is not possible to genuinely determine the actual costs, obtain an estimate by a quantity surveyor or other independent qualified person. The costs incurred by the company for the provision of this estimate are deductible as a tax-related expense, not as an expense in gaining or producing assessable income.

Different deduction rates apply (2.5% or 4%) depending on the date on which construction began, the type of capital works and the manner of use.

Who can claim?

The company can claim a deduction under Division 43 for an income year only if it:

- owns, leases or holds part of a construction expenditure area of capital works ('your area')
- incurred the construction expenditure or is an assignee of the lessee or holder who incurred the expense, and
- uses 'your area' to produce assessable income or in some cases for carrying on research and development activities.

In calculating the company's deductions, identify 'your area' for each construction expenditure area of the capital works. Your area may comprise the whole of the construction area or part of it.

Lessee or holder of capital works

A lessee or holder can claim a deduction in respect of an area leased or held under a quasi-ownership right. To claim a deduction the lessee or holder must have:

- incurred the construction expenditure or be an assignee of the lessee or holder who incurred the expenditure
- continuously leased or held the capital works area itself, or leased or held the area that had been so held by previous lessees, holders or assignees since completion of construction, and
- used the area to produce assessable income, or in some cases for carrying on research and development activities.

If there is a lapse in the lease, the entitlement to the deduction reverts to the building owner.

Requirement for deductibility

The company can deduct an amount for capital works in an income year if:

- the capital works have a 'construction expenditure area'
- there is a 'pool of construction expenditure' for that area, and
- the company uses the area in the income year to produce assessable income or for carrying on research and development activities in the way set out in section 43-140 of the ITAA 1997.

No deduction until construction is complete

The company cannot claim a deduction for any period before the completion of construction of the capital works even though the company used them, or part of them, before completion. Additionally, the deduction cannot exceed the undeducted construction expenditure for your area.

Capital works are taken to have begun when the first step in the construction phase starts – for example, pouring foundations or sinking pilings for a building.

Establishing the deduction base

You can deduct expenditure for the construction of capital works if there is a construction expenditure area for the capital works. Whether there is a construction expenditure area for the capital works and how it is identified depends on the following factors:

- the type of expenditure incurred
- the time the capital works commenced
- the area of the capital works to be owned, leased or held by the entity that incurred the expenditure
- for capital works begun before 1 July 1997, the area of the capital works that was used in a particular manner – see section 43-90 of the ITAA 1997.

Construction expenditure

Expenses incurred on construction include:

- preliminary expenses such as an architect's fees, engineering fees, foundation excavation expenses and costs of building permits
- costs of structural features that are an integral part of the income-producing building or income-producing structural improvements – for example, lift wells and atriums
- some portion of indirect costs.

In relation to an owner/builder entitled to a deduction under Division 43 of the ITAA 1997, the value of the owner/builder's contributions to the works – that is, labour or expertise and any notional profit element – do not form part of construction expenditure.

See Taxation Ruling TR 97/25 and 97/25A *Addendum – Income tax: property development: deduction for capital expenditure on construction of income producing capital works, including buildings and structural improvements*.

Construction expenditure does not include expenditure on:

- acquiring land
- demolishing existing structures
- clearing, levelling, filling, draining or otherwise preparing the construction site before carrying out excavation work
- landscaping
- plant
- property or expenditure for which a deduction is allowable, or would be allowable if the property were for use for the purpose of producing assessable income, under another specified provision of the ITAA 1936 or the ITAA 1997.

Construction expenditure area

The construction of the capital works must be complete before the construction expenditure area is determined. A separate construction expenditure area is created each time an entity undertakes the construction of capital works.

For construction expenditure incurred before 1 July 1997, the capital works must have been constructed for a specified use at the time of completion, depending on the time when the capital works commenced. The first specified use construction time was 22 August 1979 – see table 43-90 and subsection 43-75(2) of the ITAA 1997.

Pool of construction expenditure

The pool of construction expenditure is the portion of the construction expenditure incurred by an entity on capital works, which is attributable to the construction expenditure area.

Deductible use

The company can only obtain a deduction under Division 43 if it uses your area in a way described in table 43-140 or 43-145 of Subdivision 43-D of the ITAA 1997.

Special rules about uses

Your area is taken to be used for a particular purpose or manner if:

- it is maintained ready for that use and is not used for another purpose, and its use has not been abandoned, or
- its use has temporarily ceased because of construction or repairs, or for seasonal or climatic conditions.

Your area is **not** accepted as being used to produce assessable income:

- if it is a building – other than a hotel or apartment building – used or for use wholly or mainly for exhibition or display in connection with the sale of all or part of any building, where construction began after 17 July 1985 but before 1 July 1997. If construction began after 30 June 1997, buildings that are used for display are eligible
- if it is a building – other than a hotel or apartment building – where construction began after 19 July 1982 and before 18 July 1985 and it is used wholly or mainly for:
  - or in association with, residential accommodation, and is not a hotel or apartment building, or
  - exhibition or display in connection with the sale of all or part of any building, or the lease of all or any part of any building for use wholly or mainly for, or in association with, residential accommodation and is not a hotel or apartment building or an extension, alteration or improvement to such a building
- to the extent that the company or an associate uses part of it for residential accommodation and it is not a hotel or apartment building – for exceptions to this rule, see subsection 43-170(2) of the ITAA 1997.

Your area is taken to be used wholly or mainly as, or in association with residential accommodation if it is:

- part of an individual's home – other than a hotel or apartment building
- a building (other than a hotel or apartment building) where construction began after 19 July 1982 and before 18 July 1985, and used as a hotel, motel or guest house.

Special rules for hotels and apartments are contained in section 43-180 of the ITAA 1997.

Calculation and rate of deduction

The company's entitlement to a deduction begins on the date the building is first used to produce assessable income after construction is completed. The first and last years of use may be apportioned. The entitlement to a deduction runs for either 25 or 40 years (the limitation period) depending on the rate of deduction applicable.

The legislation contains two calculation provisions:

- section 43-210 of the ITAA 1997 deals with the deduction for capital works that began after 26 February 1992
- section 43-215 of the ITAA 1997 deals with deductions for capital works that began before 27 February 1992.

Capital works begun before 27 February 1992 and used as described in table 43-140

Calculate the deduction separately for each part that meets the description of your area.

Multiply the company's construction expenditure by the applicable rate – either 4% if the capital works were begun after 21 August 1984 and before 16 September 1987 or 2.5% in any other case – and by the number of days in the income year for which the company owned, leased or held your area and used it in a relevant way. Divide that amount by the number of days in the year.

Apportion the amount if your area is used only partly to produce assessable income or for carrying on research and development activities.

The amount the company claims cannot exceed the undeducted construction expenditure.

Capital works begun after 26 February 1992

Calculate the deduction separately for each part of capital works that meets the description of your area.

There is a basic entitlement to a rate of 2.5% for parts used as described in table 43-140 – Current year use. The rate increases to 4% for parts used as described in table 43-145 – Use in the 4% manner.

Undeducted construction expenditure

The undeducted construction expenditure for your area is the part of the company's construction expenditure it has left to write off. It is used to work out:

- the number of years in which the company can deduct amounts for the company's construction expenditure
- the amount that the company can deduct under section 43-40 of the ITAA 1997 if your area or a part of it is destroyed.

Balancing deduction on destruction

If a building is destroyed or damaged during an income year, you can claim a deduction for the remaining amount of undeducted construction expenditure that has not yet been deducted, less any compensation received. If the destruction or demolition is voluntary, the entitlement to a deduction is unaffected.

You can claim the deduction in the income year in which the destruction occurs.

The deduction is reduced if the capital works are used in an income year only partly for the purpose of producing assessable income or for carrying on research and development activities.

For guidelines issued by the Commissioner on these measures, see Taxation Ruling TR 97/25 and Addendum.

APPENDIX 3 THIN CAPITALISATION

The thin capitalisation provisions reduce certain deductions (called debt deductions) incurred in obtaining and servicing debt if the debt used to finance the Australian operations of a company exceeds the limits set out in Division 820 of the ITAA 1997. These rules ensure that entities fund their Australian operations with an appropriate amount of equity.

Do the thin capitalisation rules apply?

The thin capitalisation rules may apply to a company if the company:

- is an Australian resident company and either:
  - the company, or any of its associate entities, is an Australian controller of a foreign entity (explained below) or carries on business overseas at or through a PE, or
  - the company is foreign controlled, either directly or indirectly (see below)
- is a foreign resident company and carries on business in Australia at or through a PE or otherwise has assets that produce assessable income.

Exclusions

The thin capitalisation rules will not apply if:

- the company's debt deductions (combined with the debt deductions of its associate entities) do not exceed $250,000 in the income year
- in the case of an Australian company that is not foreign controlled, the combined value of the company's Australian assets and the Australian assets of its associates comprise at least 90% of the value of the total assets of the company and those associates.

Control

The rules measuring control take into account both direct and indirect interests that the company holds in the other entity (or vice versa), and the direct and indirect interests that associate entities of the company hold in the other entity. This means that an Australian company can be an Australian controller of a foreign entity even if it holds a direct interest of less than 50% in the foreign entity. Similarly, an Australian company can be foreign controlled even if its direct holding company is an Australian resident company.

For more information, see *Guide to thin capitalisation* on our website.

What if the thin capitalisation rules apply?

If the thin capitalisation rules apply, or more information is required, see *Guide to thin capitalisation* on our website.

If the thin capitalisation rules apply, print **Y** for yes at item **23 Thin capitalisation**. In addition, complete the *Thin capitalisation schedule 2009* available through the electronic lodgment service (ELS), or complete the paper schedule and post it to:

Australian Taxation Office
PO Box 1365
ALBURY NSW 2640

Thin capitalisation transitional provision

The thin capitalisation transitional provisions allow you to do calculations for thin capitalisation purposes using Australian Generally Accepted Accounting Principles (AGAAP) as they existed on 31 December 2004.

The transitional provisions will cease, and for income years commencing on or after 1 January 2009 you will be required to do your calculations for thin capitalisation purposes using the International Financial Reporting Standards, with (for non-ADIs) some modifications.

If you choose to use the transitional provision, you should indicate this choice on the *Thin capitalisation schedule 2009*. For more information, visit our website.

What if the thin capitalisation rules are breached?

If the thin capitalisation rules are breached, some of the company's debt deductions may be denied. Include the amount denied at **W Non-deductible expenses** item **7**.

APPENDIX 4 TAXATION TREATMENT OF POOLED DEVELOPMENT FUNDS AND INVESTORS

How pooled development funds (PDFs) are taxed

A PDF is a company that is registered as a PDF and provides development capital to small and medium sized companies. The PDF regime was closed to new applications for registration as a PDF from 21 June 2007.

If a company was registered as a PDF part way through an income year and is still a PDF at the end of the income year, it is taxed as a PDF for the period from the date of registration to the end of the income year as if that period were an income year. The taxable income in the pre-PDF period is taxed at the rate of 30%.

If a company ceases to be a PDF part way through an income year, it is taxed as an ordinary company for the whole year – that is, taxable income is taxed at the rate of 30%.

The SME income component of the PDF's taxable income is taxed at the rate of 15%. The SME component is the company's SME assessable income less any deductions allowable to the company for the year, whether they relate to SME assessable income or not. If the available deductions exceed the amount of SME assessable income, the excess may be applied against the unregulated investment component of the company's taxable income.

SME assessable income is income derived from, or from the disposal of, an SME investment and includes amounts that would otherwise be capital gains. An SME investment is an investment that is not an unregulated investment.

An unregulated investment is an investment by way of a loan to, deposit with or debenture of a bank, or a deposit with an authorised money market dealer.

The unregulated investment component of the PDF's taxable income is worked out by deducting the company's SME income component from its taxable income for the year. The amount (if any) remaining is the company's unregulated investment component. The unregulated investment component is taxed at the rate of 25%.

Imputation

PDFs generate franking credits in the same way as other companies, mainly from the payment of income tax and from the receipt of franked distributions. The franking credit that arises is the tax paid (at the relevant rate applicable to the taxable income of PDFs, not at the company tax rate).

PDFs make franked distributions in the same manner as other companies.

The PDF obtains venture capital credits from the payment of income tax reasonably attributable to capital gains from venture capital investments – that is, SME investments made in accordance with the *Pooled Development Funds Act 1992*. If a PDF keeps a record of its venture capital sub-account, it can make distributions franked with venture capital credits.

If a PDF over-distributes venture capital credits during the income year, it incurs a liability to venture capital deficit tax.

Tax offset for franking credits

A PDF that receives a franked distribution must include the distribution and the franking credit attached to the distribution in its assessable income. The PDF is then entitled to a tax offset equal to the amount of franking credits included in its assessable income. This is the gross-up and tax offset rule.

Losses

Deductions for PDF tax losses are allowable only in an income year in which the company is a PDF throughout that income year.

PDF tax losses cannot be transferred to other companies in the same group.

Non-PDF tax losses incurred before the company became a PDF that are not recouped while the company is a PDF continue to be deductible after the company ceases to be a PDF.

Capital losses incurred while the company is a PDF are not deductible from capital gains accruing to the company after it ceases to be a PDF.

How PDF shareholders are taxed

Unfranked PDF distributions and the unfranked part of a franked distribution are exempt from tax.

The franked part of a PDF distribution is also exempt from income tax unless the shareholder elects to be taxed on it. The election is made by including the distribution (and franking credit) in assessable income. The election will apply to all franked PDF distributions derived during the income year. A corporate shareholder who receives a franked PDF distribution and who elects to include the distribution in assessable income will receive a franking credit equal to the franking credit attached to the distribution.

Special rules apply to PDF distributions franked with venture capital credits that are paid to complying superannuation funds, pooled superannuation trusts and like entities. Such entities are also entitled to a venture capital tax offset and the relevant part of the distribution is also exempt income.

The costs associated with borrowing to purchase PDF shares are not deductible to the extent the distributions are exempt from tax.

Non-resident PDF shareholders are exempt from withholding tax on PDF distributions.

PDF shares are not trading stock.

Income from selling shares in a company that is a PDF at the time of sale is exempt from income tax. Any capital gains or capital losses from the disposal of PDF shares are also disregarded.

APPENDIX 5 INFRASTRUCTURE BORROWINGS

The previous infrastructure borrowings tax concession, which was introduced in 1992 to facilitate private sector investment in certain public infrastructure projects, was closed to new projects with effect from 14 February 1997. The provisions relating to the concession are contained in Division 16L of Part III of the ITAA 1936 and chapter 3 of the *Development Allowance Authority Act 1992*.

The concession provides that the lender's interest and amounts in the nature of interest on the infrastructure borrowings are exempt. Alternatively, the lender may choose to be assessed on those amounts and claim a tax offset of 30%. The borrower's interest and amounts in the nature of interest on the infrastructure borrowings are not deductible. In addition, any profit or loss on the disposal of an infrastructure borrowings instrument is neither assessable nor deductible.

The replacement land transport facilities borrowings tax offset in Division 396 of the ITAA 1997 is a more restricted concession. The concession is in the form of a tax offset on the taxable interest of a resident lender to an approved infrastructure project. The offset is calculated by applying the general company tax rate to the lender's assessable interest, but may be subject to an upper limit set by the Minister for Infrastructure, Transport, Regional Development and Local Government.

If the lender's interest is subject to a tax offset, the project borrower cannot claim a deduction for a comparable amount of interest.

APPENDIX 6 UNIFORM CAPITAL ALLOWANCES

The following concepts relevant to the UCA system are referred to in this appendix:

- balancing adjustment amounts
- deduction for decline in value of depreciating assets
- deduction for environmental protection expenses
- deduction for project pool
- electricity connections and telephone lines
- hire purchase agreements
- landcare operations and decline in value of water facility
- loss on the sale of a depreciating asset
- luxury car leases
- profit on the sale of a depreciating asset
- section 40-880 deduction.

For more information on any of these topics, see *Guide to depreciating assets 2009*.

> **SMALL BUSINESS ENTITIES**
>
> Eligible small business entities that choose to use the simplified depreciation rules calculate deductions for most of their depreciating assets under the specific small business entity depreciation rules – see page 33.

Balancing adjustment amounts

If the company ceases to hold or to use a depreciating asset, a balancing adjustment event occurs. Calculate a balancing adjustment amount to include in the company's assessable income or to claim as a deduction. Include the assessable balancing adjustment amount for non-R&D assets at **B Other assessable income** item **7**. (Balancing adjustment amounts for assets used in research and development activities are taken into account at items **7**, **8**, **10** or **11** in part A **Calculation of R&D deduction** in the *Research and development tax concession schedule 2009* – see **Australian owned R&D tax concession – not including label M** on page 44.)

Include the deductible balancing adjustment amount for non-R&D assets at **X Other deductible expenses** item **7**.

If the asset was used for both taxable and non-taxable purposes, reduce the balancing adjustment amount by the amount attributable to the non-taxable use. A capital gain or capital loss may arise in respect of the amount attributable to that non-taxable use. This capital gain or capital loss is included in calculating the net capital gain or net capital loss for the income year.

Include any profit or loss on the sale of a depreciating asset that has been included in the accounts of the company at either **R Other gross income** item **6** or **S All other expenses** item **6** – see **Profit on the sale of a depreciating asset or Loss on the sale of a depreciating asset** on page 98.

If a balancing adjustment event occurred to a depreciating asset of the company during the income year, you may also need to include an amount at **P Termination value of intangible depreciating assets** item **8** or at **E Termination value of other depreciating assets** item **8**.

Deduction for decline in value of depreciating assets

The decline in value of a depreciating asset is generally worked out using either the prime cost or diminishing value method. Both methods are based on the effective life of an asset. For most depreciating assets, the company can choose whether to self-assess the effective life or adopt the Commissioner's determination that can be found in *Taxation Ruling TR 2008/4 – Income tax: effective life of depreciating assets (applicable from 1 July 2008)*.

The company can deduct an amount equal to the decline in value for an income year of a depreciating asset for the period that it holds the asset during that year. However, the deduction is reduced to the extent the company uses the asset or has it installed ready for use other than for a taxable purpose.

The decline in value of a depreciating asset costing $300 or less is its cost (but only to the extent the asset is used for a taxable purpose) if the asset satisfies all of the following requirements:

- It is used predominantly for the purpose of producing assessable income that is not income from carrying on a business.
- It is not part of a set of assets acquired in the same income year that costs more than $300.
- It is not one of any number of substantially identical items acquired in the same income year that together cost more than $300.

Certain assets that cost less than $1,000 or that have an opening adjustable value of less than $1,000 can be allocated to a low-value pool to calculate the decline in value. Assets eligible for the immediate deduction cannot be allocated to a low-value pool.

To work out the deduction for decline in value of most depreciating assets use worksheets 1 and 2 in the *Guide to depreciating assets 2009*.

Deduction for the small business and general business tax break

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

- **small business entities** (turnover of less than $2 million a year)
  - an additional tax deduction of 50% of the cost of eligible new tangible depreciating assets is available where the business
    - commits to investing in the asset between 13 December 2008 and 31 December 2009 inclusive, and
    - first uses the asset, or installs it ready for use, or (in the case of new investment in an existing asset) brings the asset to its modified or improved state, on or before 31 December 2010
- **other business entities** (turnover of $2 million or more a year)
  - an additional tax deduction of 30% of the cost of eligible new tangible depreciating assets is available where the business
    - commits to investing in the asset between 13 December 2008 and 30 June 2009 inclusive, and
    - first uses the asset, or installs it ready for use, or (in the case of new investment in an existing asset) brings the asset to its modified or improved state, on or before 30 June 2010
  - an additional tax deduction of 10% of the cost of eligible new tangible depreciating assets is available where the business
    - commits to investing in the asset between 13 December 2008 and 30 June 2009 inclusive, and
    - first uses the asset, or installs it ready for use, or (in the case of new investment in an existing asset) brings the asset to its modified or improved state, between 1 July 2010 and 31 December 2010
  - an additional tax deduction of 10% of the cost of eligible new tangible depreciating assets is available where the business
    - commits to investing in the asset between 1 July 2009 and 31 December 2009 inclusive, and
    - first uses the asset, or installs it ready for use, or (in the case of new investment in an existing asset) brings the asset to its modified or improved state, on or before 31 December 2010.

Generally, a business ‘commits’ to investing when:

- it enters into a contract under which the asset is held
- it starts to construct the asset, or
- it starts to hold the asset in some other way.

The tax break applies to new tangible depreciating assets for which a deduction is available under Subdivision 40-B of the ITAA 1997 and certain new investments in existing assets.

Cars will not be disqualified from the tax break merely because you use the 12% method.

Land and trading stock are excluded from the definition of depreciating assets, and will not qualify for the deduction.

The cost of an eligible new tangible asset includes amounts included in the first element of cost (worked out under Subdivision 40-C of the ITAA 1997), and amounts included in the second element of cost under paragraph 40-190(2)(a) of the ITAA 1997. New expenditure on existing assets may also qualify.

It must be reasonable to conclude that the assets will be used principally in Australia for the principal purpose of carrying on a business.

Small businesses will be able to claim the deduction for eligible assets costing $1,000 or more. Small businesses must have a turnover of less than $2 million a year to qualify. For other businesses, a minimum expenditure threshold of $10,000 applies.

In order to meet the relevant threshold, a taxpayer can aggregate their investment in a set of assets, or in a group of assets where the assets in the group are identical or substantially identical.

Where assets are held jointly, a taxpayer can take into account the other business interests in the asset when determining whether the investment threshold test is satisfied. However, the taxpayer will only be able to claim the tax break on their interest in the asset.

Where a taxpayer has met the investment threshold for an asset, they can claim the additional investment in the assets as part of the tax break.

The tax break is on top of the usual capital allowance deduction you are able to claim for the asset.

Provided all of the eligibility criteria are satisfied, the deduction is claimable in the income year in which the asset is first used, or installed ready for use.

For further information, go to our website at **www.ato.gov.au** and enter 'Investment allowance: small business and general business tax break' in the 'Search for' box at the top of the page.

Deduction for environmental protection expenses

The company can deduct expenditure to the extent that it incurs it for the sole or dominant purpose of carrying on environmental protection activities (EPA). EPA are activities undertaken to prevent, fight or remedy pollution or to treat, clean up, remove or store waste from the company's earning activity. The company's earning activity is one it carried on, carries on or proposes to carry on for the purpose of:

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

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

The deduction is not available for:

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

Expenditure that forms part of the cost of a depreciating asset is not expenditure on EPA.

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

Expenditure on an environmental impact assessment of a project of the company is not deductible as expenditure on EPA. If it is capital expenditure directly connected with a project, it could be a project amount for which a deduction would be available over the life of the project – see **Deduction for project pools** below.

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

Any recoupment of the expenditure is assessable income.

Deduction for project pools

Certain capital expenditure incurred after 30 June 2001 that is directly connected with a project carried on or proposed to be carried on for a taxable purpose can be allocated to a project pool and written off over the project life. Each project has a separate project pool.

The project must be of sufficient substance and be sufficiently identified that it can be shown that the capital expenditure said to be a 'project amount' is directly connected with the project.

A project is carried on if it involves a continuity of activity and active participation. Merely holding a passive investment such as a rental property would not be regarded as carrying on a project.

For further guidance, see *Taxation Ruling TR 2005/4 – Income tax: capital allowances – project pools – core issues*.

The capital expenditure, known as a project amount, must be expenditure incurred:

- to create or upgrade community infrastructure for a community associated with the project – this expenditure must be paid (not just incurred) to be regarded as a project amount
- for site preparation for depreciating assets (other than in draining swamp or low-lying land or in clearing land for horticultural plants including grapevines)
- for feasibility studies for the project
- for environmental assessments for the project
- to obtain information associated with the project
- in seeking to obtain a right to intellectual property
- for ornamental trees or shrubs.

Project amounts also include mining capital expenditure and transport capital expenditure.

The expenditure must not otherwise be deductible or form part of the cost of a depreciating asset.

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

The deduction for project amounts allocated to a project pool commences when the project starts to operate.

If your project pool contains only project amounts incurred on or after 10 May 2006 and the project starts to operate on or after that date, your deduction is calculated as follows:

$$\frac{\text{pool value} \times 200\%}{\text{DV project pool life}}$$

In some circumstances, a post 9 May 2006 project may be taken to have started to operate before 10 May 2006. This would occur, for example, if the company abandoned a project and then restarted it on or after 10 May 2006 in an attempt to enable it to claim deductions in accordance with the above formula.

For other project pools, the deduction is calculated using the following formula:

$$\frac{\text{pool value} \times 150\%}{\text{DV project pool life}}$$

The 'DV project pool life' is the project life or, if that life has been recalculated, the most recently recalculated project life. The project life is determined by estimating how long (in years and fractions of years) it will be from when the project starts to operate until it stops operating. Generally, a project starts to operate when the activities that will produce assessable income start. The project life is estimated from the company's perspective, having regard to factors which are outside the company's control. For more information, see Taxation Ruling TR 2005/4.

The 'pool value' for an income year at a particular time is broadly the sum of the project amounts allocated to the pool up to the end of that year less the sum of the deductions the company has claimed for the project pool in previous years or could have claimed had the project operated wholly for a taxable purpose.

The pool value can be subject to adjustments.

If the company is or becomes entitled to a GST input tax credit for expenditure allocated to a project pool, the pool value is reduced by the amount of the credit. Certain increasing or decreasing adjustments in relation to expenditure allocated to a project pool will also require an adjustment to the pool value.

If during any income year commencing after 30 June 2003 the company ceased to have an obligation to pay foreign currency and the obligation was incurred as a project amount allocated to a project pool, a foreign currency gain or loss (referred to as a forex realisation gain or loss) may have arisen under the forex provisions. If the amount was incurred after 30 June 2003 (or earlier, if so elected) and became due for payment within 12 months after it was incurred, then (unless elected otherwise – see below) the pool value for the income year in which the amount was incurred is increased by any forex realisation loss and decreased by any forex realisation gain. However, if a forex realisation gain exceeds the pool value, the pool value is reduced to zero and the excess gain is assessable income. If the company elected that this treatment should not apply, any forex realisation gain will be assessable and any forex realisation loss will be deductible.

The deduction for a project pool cannot be more than the amount of the pool value for that income year.

There is no need to apportion the deduction if the project starts to operate during the income year or for project amounts incurred during the year. However, the deduction is reduced to the extent to which the project is operated for other than a taxable purpose during the income year.

If the project is abandoned, sold or otherwise disposed of, the company can deduct the sum of the closing pool value of the prior income year (if any) plus any project amounts allocated to the pool during the income year, after allowing for any necessary pool value adjustments. A project is abandoned if it stops operating and will not operate again.

Any amount received for the abandonment, sale or other disposal of a project is assessable.

If an amount of expenditure allocated to a project pool is recouped or if the company derives a capital amount in relation to a project amount or something on which a project amount was expended, the amount must be included in assessable income.

If any receipt arises from a non-arm's length dealing and the amount is less than the market value of what it was for, the amount received is taken to be that market value.

Electricity connections and telephone lines

A deduction can be claimed by the company over 10 years for capital expenditure incurred in connecting:

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

Include the deduction at **X Other deductible expenses** item **7**. If you have included the expenditure as an expense at item **6 Calculation of total profit or loss**, also include the expenditure at **W Non-deductible expenses** item **7**.

Include any recoupment of the expenditure in assessable income at **B Other assessable income** item **7** if you have not included it at **R Other gross income** item **6**.

Hire purchase agreements

Hire purchase and instalment sale agreements of goods are treated as a sale of the property by the financier (or hire purchase company) to the hirer (or instalment purchaser).

The sale is treated as being financed by a loan from the financier to the hirer at a sale price of either their agreed cost or value or the property's arm's length value. The periodic hire purchase (or instalment) payments are treated as payments of principal and interest under the notional loan. The hirer can deduct the interest component subject to any reduction required under the thin capitalisation rules.

In relation to the notional sale, the hirer of a depreciating asset is treated as the holder of the asset and is entitled to claim a deduction for the decline in value. The cost of the asset for this purpose is generally taken to be the agreed cost or value, or the arm's length value if the dealing is not at arm's length.

If the company has included hire purchase charges at any label at item **6 Calculation of total profit or loss**, include the amount at **W Non-deductible expenses** item **7**.

Include the deduction for the decline in value of the goods at **F Deduction for decline in value of depreciating assets** item **7**. Include the interest component at **X Other deductible expenses** item **7**.

Landcare operations and decline in value of water facility

Landcare operations

The company can claim a deduction in the year it incurs capital expenditure on a landcare operation for land in Australia.

Unless the company is a rural land irrigation water provider, the deduction is available to the extent the company uses the land for either:

- a primary production business, or
- in the case of rural land, carrying on a business for a taxable purpose from the use of that land – except a business of mining or quarrying.

The company may claim the deduction even if it is only a lessee of the land.

The deduction is also available to rural land irrigation water providers – that is, to entities whose business is primarily and principally the supply of water (other than by using a motor vehicle) to entities for use in primary production businesses on land in Australia or to businesses (other than mining or quarrying businesses) using rural land in Australia.

If the company is a rural land irrigation water provider, it can claim a deduction for capital expenditure it incurs on a landcare operation for:

- land in Australia that other entities – being entities supplied with water by the company – use at the time for carrying on primary production businesses, or
- rural land in Australia that other entities – being entities supplied with water by the company – use at the time for carrying on businesses for a taxable purpose from the use of that land (except a business of mining or quarrying).

A rural land irrigation water provider's deduction is reduced by a reasonable amount to reflect an entity's use of the land for other than a taxable purpose after the water provider incurred the expenditure.

A landcare operation is one of the following operations:

- eradicating or exterminating animal pests from the land
- eradicating, exterminating or destroying plant growth detrimental to the land
- preventing or combating land degradation other than by erecting fences
- erecting fences to keep out animals from areas affected by land degradation to prevent or limit further damage and to help reclaim the areas
- erecting fences to separate different land classes in accordance with an approved land management plan
- constructing a levee or similar improvement
- constructing drainage works – other than the draining of swamps or low-lying areas – to control salinity or assist in drainage control
- an alteration, addition, extension, or repair of a capital nature to an asset described in the fourth to seventh dot points, or an extension of an operation described in the first three dot points
- a structural improvement, or an alteration, addition, extension or repair of a capital nature to a structural improvement, that is reasonably incidental to levees or drainage works deductible under a landcare operation.

You cannot claim a deduction if the capital expenditure is on plant unless it is on certain fences, dams or other structural improvements.

In each case, apart from the construction of a levee, the operation must be carried out primarily and principally for the purpose stated. This is to ensure that the deduction for landcare operation expenditure and the three-year write-off for facilities to conserve or convey water cannot both be claimed for the same item of expenditure. If a levee is constructed primarily and principally for water conservation, it would be a water facility and not deductible under the rules for landcare operations. The decline in value would need to be worked out under the water conservation provisions – see **Water facilities** below.

Any recoupment of the expenditure would be assessable income.

Water facilities

You can claim a deduction for the decline in value of a water facility in equal instalments over three years.

A water facility is plant or a structural improvement that is primarily or principally for the purpose of conserving or conveying water, or a structural improvement that is reasonably incidental to conserving or conveying water. It also includes a repair of a capital nature, or an alteration, addition or extension, to that plant or structural improvement. Examples of water facilities include dams, tanks, tank stands, bores, wells, irrigation channels or similar improvements, pipes, pumps, water towers, and windmills.

Unless the company is an irrigation water provider, the expenditure must be incurred by the company primarily and principally for conserving or conveying water for use in its primary production business on land in Australia. The company may claim the deduction even if it is only a lessee of the land.

The deduction is reduced if the facility is not wholly used for either:

- carrying on a primary production business on land in Australia, or
- a taxable purpose.

The deduction for water facilities is also available to irrigation water providers – that is, to entities whose business is primarily and principally the supply (other than by using a motor vehicle) of water to other entities for use in a primary production business on land in Australia.

If the company is an irrigation water provider, it must incur the expenditure on the water facility primarily and principally for conserving or conveying water for use in primary production businesses conducted by other entities on land in Australia – being entities supplied with water by the company. The company's deduction is reduced if the water facility is not wholly used for a taxable purpose.

Loss on the sale of a depreciating asset

Any such loss included in the accounts will differ from the balancing adjustment amount taken into account for taxation purposes.

If the accounts show a loss on the sale of a depreciating asset under **S** **All other expenses** item **6**, include that amount at **W** **Non-deductible expenses** item **7** except to the extent it relates to assets used in research and development activities, which are shown at **D** **Accounting expenditure in item 6 subject to R&D tax concession** item **7**. Also see **Balancing adjustment amounts** on page 94.

Luxury car leases

Luxury car leasing arrangements entered into after 7.30pm (by legal time in the ACT) on 20 August 1996 (other than genuine short-term hire arrangements) are treated as notional sale and loan transactions.

A leased car, either new or second hand, is a luxury car if its cost exceeds the car limit that applies for the income year in which the lease commences. The car limit for 2008–09 is $57,180.

The cost or value of the car specified in the lease (or the market value if the parties were not dealing at arm's length in connection with the lease) is taken to be both the cost of the car for the lessee and the amount loaned by the lessor to the lessee to buy the car.

In relation to the notional loan, the actual lease payments are divided into notional principal and finance charge components. That part of the finance charge component for the notional loan applicable for the particular period (the accrual amount) is deductible to the lessee subject to any reduction required under the thin capitalisation rules.

In relation to the notional sale, the lessee is treated as the holder of the luxury car and is entitled to claim a deduction for the decline in value of the car.

For the purpose of calculating the deduction, the cost of the car is limited to the car limit for the income year in which the lease is granted. For more information on deductions for the decline in value of leased luxury cars, see *Guide to depreciating assets 2009*.

In summary, the lessee is entitled to deductions equal to:
- the accrual amount, and
- the decline in value of the luxury car, based on the applicable car limit.

Both deductions are reduced to reflect any use of the car for other than a taxable purpose.

If the company has included the lease expenses at **F Lease expenses within Australia** item **6** or **I Lease expenses overseas** item **6**, include the amount at **W Non-deductible expenses** item **7**.

Include the deduction for decline in value of the luxury car at **F Deduction for decline in value of depreciating assets** item **7**. Include the accrual amount at **X Other deductible expenses** item **7**.

If the lease terminates or is not extended or renewed and the lessee does not actually acquire the car from the lessor, the lessee is treated under the rules as disposing of the car by way of sale to the lessor. This constitutes a balancing adjustment event and any assessable or deductible balancing adjustment amount for the lessee must be determined.

Profit on the sale of a depreciating asset

Any such profit included in the accounts will differ from the balancing adjustment amount taken into account for taxation purposes.

If the accounts show a profit on the sale of a depreciating asset under **R Other gross income** item **6**, include that amount at **Q Other income not included in assessable income** item **7**. Also see **Balancing adjustment amounts** on page 94.

Section 40-880 deduction

Section 40-880 of the ITAA 1997 provides a five-year write-off for certain business-related capital expenditure provided that no other provision either takes the expenditure into account or denies a deduction.

The company may be able to claim a deduction for capital expenditure that it incurs after 30 June 2005:
- in relation to its business
- in relation to a business that had been carried on – such as capital expenses incurred in order to cease the business
- in relation to a business proposed to be carried on – such as the costs of feasibility studies, market research or setting up the business entity
- to liquidate or deregister a company of which the company was a member, wind up a partnership of which the company was a partner, or wind up a trust of which the company was a beneficiary, where the relevant company, partnership or trust previously carried on a business.

If the company incurs expenditure in relation to its existing business or a business that it had carried on or proposes to carry on, the expenditure is deductible to the extent the business is, was, or is proposed to be, carried on for a taxable purpose.

The company cannot deduct expenditure in relation to an existing business that is carried on by another entity. However, it can deduct expenditure that it incurs in relation to a business that had been, or is proposed to be, carried on by another entity. The expenditure is only deductible to the extent that:
- the business was, or is proposed to be, carried on for a taxable purpose, and
- the expenditure is in connection with the business that was, or is proposed to be, carried on and with the company deriving assessable income from the business.

The deduction cannot be claimed by the company for capital expenditure to the extent to which it:
- can be deducted under another provision
- forms part of the cost of a depreciating asset the company holds, held or will hold
- forms part of the cost of land
- relates to a lease or other legal or equitable right
- would be taken into account in working out an assessable profit or deductible loss
- would be taken into account in working out a capital gain or a capital loss
- would be specifically not deductible under the income tax laws if the expenditure was not capital expenditure
- is specifically not deductible under the income tax laws for a reason other than the expenditure is capital expenditure
- is incurred in relation to gaining or producing exempt income or non-assessable non-exempt income

- is excluded from the cost or cost base of an asset because, under special rules in the UCA or CGT regimes respectively, the cost or cost base of the asset was taken to be the market value
- is a return of or on capital (for example, dividends paid by companies) or a return of a non-assessable amount (for example, repayments of loan principal).

The company deducts 20% of the expenditure in the year it is incurred and in each of the following four years.

APPENDIX 7 COMPANY TAX RATE

The following rates of tax apply to companies for the 2008–09 income year.

TABLE 11: Company tax rates

	Rate %
Companies generally	30
■ including corporate limited partnerships, strata title bodies corporate, trustees of corporate unit trusts and public trading trusts	
Life insurance companies	
■ ordinary class of taxable income	30
■ complying superannuation/FHSA class of taxable income	15
– further tax on no-TFN contributions income (where a RSA provider)	31.5
Retirement savings accounts providers other than life insurance companies	
■ the RSA component of taxable income	15
– further tax on no-TFN contributions income	31.5
■ the FHSA component (if any) of taxable income	15
■ the standard component of taxable income	rate applicable to institution
FHSA providers that are ADIs (other than RSA providers)	
■ the FHSA component of taxable income	15
■ the standard component of taxable income	rate applicable to institution
Trustees of FHSA trusts	
■ taxable income	15
PDFs	
For tax rates where a company commences to be, or ceases to be, a PDF during the income year, see **appendix 4**.	
■ SME income component	15
■ unregulated investment component	25
■ other	30
Credit unions	
■ small credit unions – under $50,000	30
■ medium credit unions – $50,000–$149,999	45
■ large credit unions – $150,000 and over	30

Small credit unions are taxed on all their taxable income, but note the treatment of mutual interest.

Interest derived by small credit unions that are also approved credit unions, being interest paid to the credit union by its members (not being companies) in respect of loans made to those members, is exempt from tax.

Credit unions with a notional taxable income of at least $50,000 but less than $150,000 are taxed on their taxable income in excess of $49,999.

Credit unions with a notional taxable income of $150,000 or more are taxed on all of their taxable income.

Notional taxable income of a credit union is its taxable income if section 23G of the ITAA 1936 did not apply and Division 9 of Part III of the ITAA 1936 had not been enacted.

Non-profit companies

Non-profit companies with a taxable income of between $417 and $915 are taxed on their taxable income in excess of $416.

Non-profit companies with a taxable income above $915 are taxed on all of their taxable income.

Taxable income	Rate %
$0–$416	nil
$417–$915	55
$916 and above	30

APPENDIX 8 FOREIGN COUNTRY CODES

Note: Guernsey, Jersey and Isle of Man each have a separate country code

Country	Code
Afghanistan	AFG
Aland Islands	ALA
Albania	ALB
Algeria	DZA
American Samoa	ASM
Andorra	AND
Angola	AGO
Anguilla	AIA
Antarctica	ATA
Antigua and Barbuda	ATG
Argentina	ARG
Armenia	ARM
Aruba	ABW
Austria	AUT
Azerbaijan	AZE
Bahamas	BHS
Bahrain	BHR
Bangladesh	BGD
Barbados	BRB
Belarus	BLR
Belgium	BEL
Belize	BLZ
Benin	BEN
Bermuda	BMU
Bhutan	BTN
Bolivia	BOL
Bosnia and Herzegovina	BIH
Botswana	BWA
Bouvet Island	BVT
Brazil	BRA
British Indian Ocean Territory	IOT
British Virgin Islands	VGB
Brunei Darussalam	BRN
Bulgaria	BGR
Burkina Faso	BFA
Burundi	BDI
Cambodia	KHM
Cameroon	CMR
Canada	CAN
Cape Verde	CPV
Cayman Islands	CYM
Central African Republic	CAF
Chad	TCD
Chile	CHL
China	CHN
Christmas Island	CXR
Cocos (Keeling) Islands	CCK
Colombia	COL
Comoros	COM
Congo, Democratic Republic of (was Zaire)	COD
Congo, People's Republic of	COG
Cook Islands	COK
Costa Rica	CRI
Côte D'Ivoire (Ivory Coast)	CIV
Croatia (Hrvatska)	HRV
Cuba	CUB
Cyprus	CYP
Czech Republic	CZE
Denmark	DNK
Djibouti	DJI

Country	Code
Dominica	DMA
Dominican Republic	DOM
East Timor (Timor-Leste)	TLS
Ecuador	ECU
Egypt	EGY
El Salvador	SLV
Equatorial Guinea	GNQ
Eritrea	ERI
Estonia	EST
Ethiopia	ETH
Falkland Islands (Malvinas)	FLK
Faroe Islands	FRO
Fiji	FJI
Finland	FIN
France	FRA
French Guiana	GUF
French Polynesia	PYF
French Southern Territories	ATF
Gabon	GAB
Gambia	GMB
Georgia	GEO
Germany	DEU
Ghana	GHA
Gibraltar	GIB
Greece	GRC
Greenland	GRL
Grenada	GRD
Guadeloupe	GLP
Guam	GUM
Guatemala	GTM
Guernsey	GGY
Guinea	GIN
Guinea-Bissau	GNB
Guyana	GUY
Haiti	HTI
Heard and McDonald Islands	HMD
Holy See (Vatican City State)	VAT
Honduras	HND
Hong Kong	HKG
Hrvatska (Croatia)	HRV
Hungary	HUN
Iceland	ISL
India	IND
Indonesia	IDN
Iran	IRN
Iraq	IRQ
Ireland	IRL
Isle of Man, The	IMN
Israel	ISR
Italy	ITA
Ivory Coast (Côte D'Ivoire)	CIV
Jamaica	JAM
Japan	JPN
Jersey	JEY
Jordan	JOR
Kazakhstan	KAZ
Kenya	KEN
Kiribati	KIR
Korea, Democratic People's Republic of (North Korea)	PRK
Korea, Republic of (South Korea)	KOR
Kuwait	KWT
Kyrgyzstan	KGZ
Laos	LAO

Country	Code
Latvia	LVA
Lebanon	LBN
Lesotho	LSO
Liberia	LBR
Libya	LBY
Liechtenstein	LIE
Lithuania	LTU
Luxembourg	LUX
Macau	MAC
Macedonia, The Former Yugoslav Republic of	MKD
Madagascar	MDG
Malawi	MWI
Malaysia	MYS
Maldives	MDV
Mali	MLI
Malta	MLT
Marshall Islands	MHL
Martinique	MTQ
Mauritania	MRT
Mauritius	MUS
Mayotte	MYT
Mexico	MEX
Micronesia, Federated States of	FSM
Moldova	MDA
Monaco	MCO
Mongolia	MNG
Montenegro	MNE
Montserrat	MSR
Morocco	MAR
Mozambique	MOZ
Myanmar (Burma)	MMR
Namibia	NAM
Nauru	NRU
Nepal	NPL
Netherlands, The	NLD
Netherlands Antilles	ANT
New Caledonia	NCL
New Zealand	NZL
Nicaragua	NIC
Niger	NER
Nigeria	NGA
Niue	NIU
Norfolk Island	NFK
Northern Mariana Islands	MNP
North Korea	PRK
Norway	NOR
Oman	OMN
Pakistan	PAK
Palau	PLW
Palestinian Territory, Occupied	PSE
Panama	PAN
Papua New Guinea	PNG
Paraguay	PRY
Peru	PER
Philippines	PHL
Pitcairn Island	PCN
Poland	POL
Portugal	PRT
Puerto Rico	PRI
Qatar	QAT
Reunion	REU
Romania	ROU
Russian Federation	RUS

Country	Code
Rwanda	RWA
St Helena	SHN
St Kitts and Nevis	KNA
St Lucia	LCA
St Pierre and Miquelon	SPM
St Vincent and The Grenadines	VCT
Samoa	WSM
San Marino	SMR
Sao Tome and Principe	STP
Saudi Arabia	SAU
Senegal	SEN
Serbia	SRB
Seychelles	SYC
Sierra Leone	SLE
Singapore	SGP
Slovakia (Slovak Republic)	SVK
Slovenia	SVN
Solomon Islands	SLB
Somalia	SOM
South Africa	ZAF
South Georgia and the South Sandwich Islands	SGS
South Korea	KOR
Spain	ESP
Sri Lanka	LKA
Sudan	SDN
Suriname	SUR
Svalbard and Jan Mayen Islands	SJM
Swaziland	SWZ
Sweden	SWE
Switzerland	CHE
Syria	SYR
Taiwan	TWN
Tajikistan	TJK
Tanzania, United Republic of	TZA
Thailand	THA
Timor-Leste (East Timor)	TLS
Togo	TGO
Tokelau	TKL
Tonga	TON
Trinidad and Tobago	TTO
Tunisia	TUN
Turkey	TUR
Turkmenistan	TKM
Turks and Caicos Islands	TCA
Tuvalu	TUV
Uganda	UGA
Ukraine	UKR
United Arab Emirates	ARE
United Kingdom	GBR
United States	USA
United States Minor Outlying Islands	UMI
United States Virgin Islands	VIR
Uruguay	URY
Uzbekistan	UZB
Vanuatu	VUT
Vatican City State (Holy See)	VAT
Venezuela	VEN
Vietnam	VNM
Wallis and Futuna Islands	WLF
Western Sahara	ESH
Yemen	YEM
Zambia	ZMB
Zimbabwe	ZWE

LODGMENT

The postal address for lodgment of the company tax return is below. See page 15 for a list of the schedules that you can lodge with your *Company tax return 2009*.

Australian Taxation Office
GPO Box 9845
IN YOUR CAPITAL CITY

The address must appear as shown above.

Do not post payments to this address. For payment information, see **Payment** in the next column.

If you wish to write to the Tax Office, send your correspondence to:

Australian Taxation Office
GPO Box 9990
SYDNEY NSW 2001

PAYMENT

HOW TO PAY

We offer you a range of convenient payment options, both in Australia and overseas.

Your payment needs to reach us on or before its due date. Please check your financial institution's processing deadlines to avoid making a late payment.

BPAY®

Make a payment directly from your cheque or savings account to us using your financial institution's phone or internet banking service.

Details you need

Biller code: 75556
Reference: Your EFT code

BPAY payments made out of hours, on a weekend or on a public holiday will not reach us until the next working day.

® Registered to BPAY Pty Ltd ABN 69 079 137 518

DIRECT CREDIT

Transfer your payment to us online from your cheque or savings account.

Details you need

Bank: Reserve Bank of Australia
BSB: 093 003
Account number: 316 385
Account name: ATO direct credit account
Reference: Your EFT code

Direct credit payments made out of hours, on a weekend or public holiday will not reach us until the next working day.

DIRECT DEBIT

Have your payment automatically deducted from a cheque or savings account.

Details you need

For a verbal direct debit payment arrangement after the due date phone us on **13 11 42**.

For all other direct debit requests complete the *Direct debit request* (NAT 2284) form and return it to us.

To access the form:

- visit **www.ato.gov.au/howtopay**
- phone **1800 802 308**, 8.00am to 6.00pm, Monday to Friday
- email **eft-information@ato.gov.au**

Please allow at least seven (7) working days for your direct debit to be activated to ensure your payment reaches us on or before its due date.

MAIL

Mail your cheque or money order to us.

Cheques and money orders should be for amounts in Australian dollars and payable to the 'Deputy Commissioner of Taxation'. Cheques should be crossed 'Not Negotiable' and must not be post-dated.

You should also include your payment slip or a note that states your:

- full name
- address and telephone number
- account identifier: tax file number (TFN), Australian business number (ABN), client identification number etc
- payment type: BAS payment, income tax, HELP etc.

Mail your payment and payment slip or note to:

NSW, ACT or QLD residents

Australian Taxation Office
Locked Bag 1793
PENRITH NSW 1793

WA, SA, NT, TAS or VIC residents

Australian Taxation Office
Locked Bag 1936
ALBURY NSW 1936

Do not use pins, staples, paper clips or adhesive tape.

Do not send cash.

> ! Please allow sufficient time for your payment to reach us on or before the due date.

AUSTRALIA POST

If you have a preprinted payment slip with a barcode, you can pay in person at any Australia Post outlet.

A $3,000 limit applies to cash payments. EFTPOS payments are subject to daily withdrawal limits.

Cheques and money orders should be for amounts in Australian dollars and payable to 'Deputy Commissioner of Taxation'. Cheques should be crossed 'Not Negotiable' and must not be post-dated.

What is my electronic funds transfer (EFT) code?

Your EFT code is the reference number. It is printed directly above the barcode on your payment slip.

If you pay using BPAY® or direct credit you will need this number.

If you need more information

- Phone **1800 815 886** 8.00am to 5.00pm, Monday to Friday
- Email **payment@ato.gov.au**

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ABBREVIATIONS

A$	Australian dollars
ABN	Australian business number
ABR	Australian Business Register
ACN	Australian company number
ACT	Australian Capital Territory
ADI	Authorised Deposit-taking Institution
AGAAP	Australian Generally Accepted Accounting Principles
ANZSIC	Australian and New Zealand Standard Industrial Classification
CFC	controlled foreign company
CGT	capital gains tax
Commissioner	Commissioner of Taxation
DGR	deductible gift recipient
DTA	double tax agreement
DVS	direct value shifting
EFT	electronic funds transfer
ELS	electronic lodgment service
EPA	environmental protection activities
ETO	entrepreneurs tax offset
FaHCSIA	Department of Families, Housing, Community Services and Indigenous Affairs
FBT	fringe benefits tax
FDT	franking deficit tax
FIF	foreign investment fund
FHSA	First Home Saver Account
FLIC	film licensed investment company
FMIS	forestry managed investment scheme
forex	foreign exchange
FTDT	family trust distribution tax
GDP	gross domestic product
GST	goods and services tax
GVSR	general value shifting regime
IRUs	indefeasible rights to use telecommunications cable systems
ITAA	Income Tax Assessment Act
IVS	indirect value shifting
LIC	listed investment company
MEC	multiple entry consolidated
NRAS	National rental affordability scheme
OB	offshore banking
OBU	offshore banking unit
OFT	over-franking tax
PAYG	pay as you go
PDF	pooled development fund
PE	permanent establishment
PHC	provisional head company
PSI	personal services income
PST	pooled superannuation trust
R&D	research and development
RBA	running balance account
RSA	retirement savings account
SME	small and medium enterprises
STS	simplified tax system
TBNT	trustee beneficiary non-disclosure tax
TFN	tax file number
UCA	uniform capital allowances

TAXATION DETERMINATIONS, TAXATION RULINGS AND PRACTICE STATEMENTS

TR IT 2624 – *Income tax: company self assessment; elections and other notifications; additional (penalty) tax; false or misleading statement*

Taxation determinations

TD 93/202 – *Income tax: Offshore Banking Units (OBU) – can an OBU use offshore banking (OB) money (ie money that is not non-OB money) for purposes other than OB activities and replace those funds at a later date?*

TD 93/203 – *Income tax: Offshore Banking Units (OBU) – does share capital subscribed by a resident owner to its subsidiary, before that subsidiary becomes registered as an OBU, constitute 'OBU resident-owner money'?*

TD 93/204 – *Income tax: Offshore Banking Units (OBU) – where a non-resident has an Australian branch and an Australian subsidiary, and the subsidiary is registered as an OBU, does any share capital subscribed in the subsidiary by the parent fall within the definition of 'non-OB money'?*

TD 93/205 – *Income tax: Offshore Banking Units (OBU) – does trading in, or entering into commodity derivatives such as commodity futures, forwards, options and swaps constitute offshore banking (OB) activity for the purposes of section 121D?*

TD 93/206 – *Income tax: Offshore Banking Units (OBU) – if an OBU carries on a business of trading in shares or debt instruments, such that the trading is an offshore banking (OB) activity for the purposes of subsection 121D(1), are dividends and interest derived from holding the shares* or debt instruments assessable OB income?

TD 93/207 – *Income tax: Offshore Banking Units (OBU) – if an OBU acts as funds manager for a trust with offshore investors and an Australian trustee, does the funds management role fall within the definition of an investment activity under subsection 121D(6)?*

TD 93/208 – *Income tax: Offshore Banking Units (OBU) – does the definition of advisory activity in subsection 121D(7) encompass the provision of financial knowledge and information to an offshore person?*

TD 93/209 – *Income tax: Offshore Banking Units – does the definition of advisory activity in subsection 121D(7) encompass: advising offshore parties on offshore infrastructure financing; and advising lessors or lessees on leasing transactions, where both lessor and lessee are offshore persons and the leased asset is not located in Australia?*

TD 93/210 – *Income tax: Offshore Banking Units (OBU) – does the definition of advisory activity in section 121D(7) encompass advising an offshore debt investor or offshore borrower in an offshore leveraged lease which has an Australian end-user?*

TD 93/211 – *Income tax: Offshore Banking Units (OBU) – where an OBU provides the services of its employees to a non-resident subsidiary to assist the subsidiary in advising offshore clients on offshore financial matters, can fees charged by the OBU to the subsidiary qualify as assessable OB income?*

TD 93/212 – *Income tax: Offshore Banking Units (OBU) – are salaries and other operating expenses that are paid from non-OB money taken into account for purposes of the 'purity test' in section 121EH where the expenses are incurred in undertaking OB activities?*

TD 93/213 – *Income tax: Offshore Banking Units (OBU) – if an OBU earns fee income for completing an assignment (say advisory activities) on a success only basis, are expenses incurred on unsuccessful deals exclusive offshore banking (OB) deductions or general OB deductions?*

TD 93/214 – *Income tax: Offshore Banking Units (OBU) – must an OBU enter details of expenditure that it intends to claim as allowable offshore banking (OB) deductions or allowable non-OB deductions in its relevant books of account at the time of incurring that expenditure?*

TD 93/215 – *Income tax: Offshore Banking Units (OBU) – where an institution that is registered as an OBU lends money to another institution that is registered as an OBU, how do the counterparties know whether the loan qualifies as an offshore banking (OB) activity?*

TD 93/216 – *Income tax: Offshore Banking Units (OBU) – is an OBU entitled to concessional tax treatment for income derived on a success only basis from offshore banking (OB) advisory activities which were entered into prior to the entity being registered as an OBU?*

TD 93/217 – *Income tax: Offshore Banking Units (OBU) – what is the effect of funding an offshore banking (OB) activity with both OB and non-OB money?*

TD 93/241 – *Income tax: Offshore banking units – if an OBU sells down or disposes of its interest in a loan which originally qualified as an OB activity, does any fee receivable constitute assessable OB income?*

TD 95/1 – *Income tax: Offshore Banking Units (OBU): what is the effect of converting a profit from offshore banking (OB) activities denominated in a foreign currency into Australian currency in an arm's length transaction with a separate Australian counterparty or with another division of the entity of which the OBU forms part?*

TD 95/2 – *Income tax: Offshore Banking Units (OBU): can foreign currency denominated assets and receivables generated from offshore banking (OB) activities be hedged into Australian dollars (AUD) and if so, would the AUD received from the forward sale constitute non-OB money?*

TD 2004/4 – *Income tax: is a dividend paid before 1 July 1987 an unfranked dividend for the purposes of section 705-50 of the* Income Tax Assessment Act 1997?

TD 2007/2 – *Income tax: should a taxpayer who has incurred a tax loss or made a net capital loss for an income year retain records relevant to the ascertainment of that loss only for the record retention period prescribed under income tax law?*

Taxation rulings

TR 92/18 – *Income tax: bad debts*

TR 93/23 – *Income tax: valuation of trading stock subject to obsolescence or other special circumstances*

TR 96/7 – *Income tax: record keeping – section 262A – general principles*

TR 97/23 – *Income tax: deductions for repairs*

TR 97/25 and TR 97/25A – Addendum
– *Income tax: property development: deduction for capital expenditure on construction of income producing capital works, including buildings and structural improvements*

TR 98/7 – *Income tax: whether packaging items (ie, containers, labels, etc) held by a manufacturer, wholesaler or retailer are trading stock*

TR 98/8 – *Income tax: whether materials and spare parts held by a taxpayer supplying services are trading stock*

TR 1999/9 – *Income tax: the operation of sections 165-13 and 165-210, paragraph 165-35(b), section 165-126 and section 165-132*

TR 2002/10 – *Income tax: capital gains tax: asset register*

TR 2003/14 – *Income tax: life insurance companies: the actuarial determination of fees and charges*

TR 2004/9 – *Income tax: consolidation: what is meant by 'injection of capital' in section 707-325 of the ITAA 1997?*

TR 2005/4 – *Income tax: capital allowances – project pools – core issues*

TR 2005/9 – *Income tax: record keeping – electronic records*

TR 2006/3 – *Income tax: government payments to industry to assist entities (including individuals) to continue, commence or cease business*

TR 2008/4 – *Income tax: effective life of depreciating assets (applicable from 1 July 2008)*

TR 2007/2 – *Income tax: application of the same business test to consolidated and MEC groups – principally, the interaction between section 165-210 and section 701-1 of the ITAA 1997 (As at 20 June 2007)*

Law administration practice statements

PS LA 2003/8
– *Taxation treatment of expenditure on low-cost items for taxpayers carrying on a business*

PS LA 2004/1 (GA)
– *Lodgment opportunity for family trust and interposed entity elections*

PS LA 2005/2
– *Penalty for failure to keep or retain records*

PUBLICATIONS

Publications you may need to refer to when completing the company tax return are:

Am I eligible for the small business entity concessions? (available at **www.ato.gov.au**)

A New Tax System (Australian Business Number) Act 1999

Application for ABN registration for companies, partnerships, trusts and other organisations (NAT 2939)

Application for refund of franking credits – endorsed income tax exempt entities and deductible gift recipients (NAT 4131)

Blackhole expenditure: business related expenses (available at **www.ato.gov.au**)

Business industry codes 2009 (NAT 1827) (available at **www.ato.gov.au**)

Capital allowances schedule 2009 (NAT 3424)

Capital allowances schedule instructions 2009 (NAT 4089)

Capital allowances: copyright in a film and certain licences relating to copyright in a film (available at **www.ato.gov.au**)

Capital gains tax (CGT) schedule 2009 (NAT 3423)

Company tax return form (NAT 0656)

Consolidated groups losses schedule 2009 (NAT 7888)

Consolidated groups losses schedule instructions 2009 (NAT 7891) (available at **www.ato.gov.au**)

Consolidation and market valuation (NAT 7803)

Consolidation reference manual (NAT 6835) (available at **www.ato.gov.au**)

Debt and equity tests: guide to 'at call' loans between connected entities (available at **www.ato.gov.au**)

Debt and equity tests: guide to the debt and equity tests (NAT 4643) (available at **www.ato.gov.au**)

Deductions for prepaid expenses 2009 (NAT 4170)

Development Allowance Authority Act 1992

Direct debit request (NAT 2284)

Dividend and interest schedule 2009 (NAT 8030)

Family trusts – details of amendments (available at **www.ato.gov.au**)

Family trust distribution tax payment advice (available at **www.ato.gov.au**)

Federal Register of Legislative Instruments (available at **www.frli.gov.au** or **www.ato.gov.au**)

Film Licensed Investment Company Act 2005

First Home Saver Accounts Act 2008

First home saver accounts – common questions (NAT 72404) (available at **www.ato.gov.au**)

First Home Saver Accounts (Consequential Amendments) Act 2008

First home saver accounts – what you need to know (NAT 72406) (available at **www.ato.gov.au**)

Foreign exchange (forex): guide to functional currency rules (available at **www.ato.gov.au**)

Foreign income return form guide 2008–09 (NAT 1840) (available at **www.ato.gov.au**)

Foreign investment funds guide 2008–09 (NAT 2130) (available at **www.ato.gov.au**)

Franking account tax return and instructions 2009 (NAT 1382)

Fringe Benefits Tax Assessment Act 1986

General value shifting regime: overview of provisions (NAT 8366) (available at **www.ato.gov.au**)

Guide to capital gains tax 2009 (NAT 4151) (available at **www.ato.gov.au**)

Guide to capital gains tax concessions for small business (NAT 8384)

Guide to depreciating assets 2009 (NAT 1996)

Guide to foreign income tax offset rules (NAT 72923)

Guide to functional currency rules (available at **www.ato.gov.au**)

Guide to the R&D tax concession (available at **www.ato.gov.au**)

Guide to thin capitalisation (NAT 4461) (available at **www.ato.gov.au**)

Income Tax Assessment Act 1936

Income Tax Assessment Act 1997

Income Tax (First Home Saver Accounts Misuse Tax) Act 2008

Income tax guide for non-profit organisations (NAT 7967) (available at **www.ato.gov.au**)

Income Tax (Transitional Provisions) Act 1997

Industry, Research and Development Act 1986

Interposed entity election or revocation 2009 (NAT 2788)

Life Insurance Act 1995

Losses schedule instructions 2009 (NAT 4088) (available at **www.ato.gov.au**)

National Rental Affordability Scheme (Consequential Amendments) Act 2008

Non-individual PAYG payment summary schedule 2009 (NAT 3422)

PAYG withholding from interest, dividend and royalty payments paid to non-residents – annual report (NAT 7187)

Personal services income schedule instructions 2009 (NAT 3421)

Pooled Development Funds Act 1992

Private ruling application form (non-tax professionals) (NAT 13742)

Private ruling application form (tax professionals) (NAT 13043)

Research and development tax concession schedule instructions 2009 (NAT 6709) (available at **www.ato.gov.au**)

Schedule 25A instructions 2009 (NAT 2639) (available at **www.ato.gov.au**)

Shortfall Interest Charge (Imposition) Act 2005

Simplified imputation: Franking deficit tax offset (available at **www.ato.gov.au**)

Simplified imputation: FDT offset for late balancers (available at **www.ato.gov.au**)

Strata title body corporate tax return and instructions 2009 (NAT 4125)

Tax Laws Amendment (Improvements to Self Assessment) Act (No. 1) 2005

Tax Laws Amendment (Taxation of Financial Arrangements) Act 2009

Tax Laws Amendment (2007 Measures No. 2) Act 2007

Tax Laws Amendment (2007 Measures No. 3) Act 2007

Tax Laws Amendment (2007 Measures No. 4) Act 2007

Tax Laws Amendment (2007 Measures No. 5) Act 2007

Taxation Administration Act 1953

Tax Laws Amendment (Small Business) Act 2007

Taxation Laws Amendment (Trust Loss and Other Deductions) Act 1998

Taxation statistics (available at **www.ato.gov.au**)

Thin capitalisation schedule and explanatory notes 2009 (NAT 6458)

Venture capital deficit tax return 2009 (NAT 3309)

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

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PUBLICATIONS

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TAX OFFICE SHOPFRONTS

For collection of publications, return forms and schedules.

> **NOTE**
> Staff at our shopfronts are not trained to help with business tax returns – please phone one of our infolines if you have any business-related enquiries.

AUSTRALIAN CAPITAL TERRITORY

Canberra
Ground Floor Ethos House
28–36 Ainslie Avenue

NEW SOUTH WALES

Albury
567 Smollett Street

Chatswood
501 Victoria Avenue

Hurstville
38 Humphreys Lane

Newcastle
266 King Street

Parramatta
Ground Floor Commonwealth Offices
2–12 Macquarie Street

Sydney
2 Lang Street

Wollongong
93–99 Burelli Street

NORTHERN TERRITORY

Alice Springs
Jock Nelson Centre
16 Hartley Street

Darwin
24 Mitchell Street

QUEENSLAND

Brisbane
280 Adelaide Street

Townsville
Stanley Place
235 Stanley Street

Upper Mt Gravatt
Ground Floor Nexus Building
96 Mt Gravatt-Capalaba Road

SOUTH AUSTRALIA

Adelaide
91 Waymouth Street

TASMANIA

Hobart
200 Collins Street

Launceston
Retirement Services Centre
Cnr Boland and Willis Streets

VICTORIA

Cheltenham
4A, 4–10 Jamieson Street

Dandenong
14–16 Mason Street

Geelong
92–100 Brougham Street

Melbourne
Level 1, Casselden Place
2 Lonsdale Street

WESTERN AUSTRALIA

Northbridge
45 Francis Street

INFOLINES

Business **13 28 66**

General business tax enquiries including GST rulings, pay as you go (PAYG) instalments and withholdings (from interest, dividends and royalties), business deductions, activity statements (including lodgment and payment), accounts and business registration (including Australian business number and tax file number)

Tax agents **13 72 86**

For inquiries from registered tax agents

Super Choice **13 28 64**

For information about choice of superannuation fund and the role of the employer

Tax reform **13 24 78**

For information about new measures for business

Account management **13 11 42**

For information about outstanding lodgment or payment obligations for activity statements, PAYG withholding, income tax or fringe benefits tax

Individual **13 28 61**

Individual income tax and general personal tax enquiries

Superannuation **13 10 20**

OTHER SERVICES

Translating and Interpreting Service **13 14 50**

If you do not speak English well and need help from the Tax Office, phone the Translating and Interpreting Service.

Hearing or speech impairment

If you are deaf or have a hearing or speech impairment, you can phone the Tax Office through the **National Relay Service** (NRS).

- If you are a TTY user, phone **13 36 77** and ask for the ATO number you want. If you need an ATO 1800 free call number, phone **1800 555 677** and ask for the ATO number you want.
- If you are a Speak and Listen (speech-to-speech relay) user, phone **1300 555 727** and ask for the ATO number you want. If you need an ATO 1800 free call number, phone **1800 555 727** and ask for the number you want.
- If you are an internet relay user, connect to the NRS (**www.relayservice.com.au**) and ask for the ATO number you want.

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Micro Enterprises and Individuals
Australian Taxation Office
PO Box 900
CIVIC SQUARE ACT 2608

As this is a publications area only, any tax matters will be passed on to a specialist technical area. Alternatively you can phone our Business Infoline on **13 28 66** for help.

Company tax return instructions 2009