Business and professional items 2001–02

Australian Taxation Office
Canberra

ISBN 0 642 30850 0

Contents

Business and professional items

* new for 2002

About this publication

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

Please get help from the ATO—the small business infoline telephone number is **13 2866**—or a tax adviser if you feel this publication does not fully cover your circumstances.

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

For your information

If you need to complete item **13**, **14** or **15** of your tax return (supplementary section), you must fill in the *2002 business and professional items schedule* at the back of this publication. These instructions will help you to fill in the schedule. If the business or professional items that apply to you are not filled in, your tax return will be sent back to you.

If your tax return and completed schedule are lodged late, you may be liable for a penalty. For information on penalty for failure to lodge on time, see page 9 in *TaxPack 2002* (NAT 0976—6.2002).

If you are a partner, you may need to complete items **P3** and **P9** of the *2002 business and professional items schedule*. This will be where you have a net loss from a business activity carried on in partnership with others [refer to the instructions for item **12** of your tax return (supplementary section)]. Do not include your partnership details at any other item on your schedule.

If you received any of these payment summaries:

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

you will also need to complete the *Individual PAYG payment summary schedule 2002* at the back of this publication. These instructions will help you fill in the schedule.

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

You can get copies of the ATO's rulings and publications by:

- ringing **1300 720 092** for the cost of a local call*
- visiting the ATO
- visiting the ATO website site at <**www.ato.gov.au**>.

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

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

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

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

When completing this item consider the time, rounded up to the nearest hour, that you spent:

- reading the instructions
- collecting the necessary information to complete this schedule
- making any necessary calculations
- completing the schedule
- putting the tax affairs of your business in order so the information can be handed to your tax agent.

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

You need to know

Records you need to keep

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

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

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

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

For additional information, please refer to the publication *How to keep your business records* (NAT 3029K—10.2000). To find out how to get this publication, see page v, or to get a copy of the electronic record-keeping package *E-record* CD-ROM, ring **1300 139 051**.

Hobby or business?

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

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

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

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

Government industry payments

If they are assessable income, include payments received from all government sources at item **P8** on your *2002 business and professional items schedule*. Examples are: bounties, diesel fuel rebate, drought relief, employee subsidies, export incentive grants, diesel and alternative fuel grants, fuel sales grant and Medicare payments to medical practices.

What's new

Diesel Fuel Rebate Scheme (off-road scheme) and Diesel and Alternative Fuels Grants Scheme (on-road scheme)

- The off-road Diesel Fuel Rebate Scheme and the on-road Diesel and Alternative Fuels Grant Scheme have been extended to 30 June 2003. Previously, they were set to end on 30 June 2002. The Government intends to replace them with an Energy Grants (Credits) Scheme to commence on 1 July 2003 or earlier.
- From 1 October 2001, emergency vehicles over 4.5 tonnes are eligible for the on-road scheme for all fuel used in operating the vehicle and its auxiliary equipment in Australia—either on-road or off-road. Previously only on-road use could be claimed.
- The statutory formulas for working out eligible use of fuel will be replaced by regulations prescribing different methods for working out fuel use. These methods may vary depending on the kind of claim being made or the circumstances under which the fuel was used, or both.
- A claim under the on-road scheme may now be made for any period that is not covered by another claim and that ends before 1 July 2003. Previously, specific grant periods had to be chosen.

If you receive a diesel fuel rebate and/or a diesel and alternative fuels grant this year, you must include the amount in your assessable income. For more information on the changes to off-road and on-road schemes, contact the diesel fuel infoline on **1300 657 162** or visit the ATO website at <**www.ato.gov.au**>.

Deferred non-commercial business losses from the prior year

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

If you had to defer a non-commercial business loss in the 2001 income year you may be able to claim the loss as a deduction this year if you operated the same or a similar business activity.

New labels for non-commercial business losses in the *2002 business and professional items schedule*

Item P8

There are new labels at item **P8** to show any deferred non-commercial business losses from the prior year that can be claimed as deductions this year in relation to calculating any net profit or loss from the business activity.

Item P9

There are new labels at item **P9** to show:

- deferred non-commercial business losses from the prior year for each activity
- net loss for the current year for each activity (after taking into account any deferred non-commercial business losses from the prior year that can be claimed as a deduction this year).

Refer to the instructions at items **P8** and **P9** for more details.

Hire purchase and limited recourse finance arrangements

Changes have been made to the capital allowances for property acquired under hire purchase or limited recourse finance arrangements. The new rules are contained in Divisions 240 and 243 of ITAA 1997.

Under these rules:

- Hire purchase and instalment sale arrangements are treated as a sale of property combined with a loan to finance the purchase price.
- An adjustment to assessable income may be required where limited recourse finance arrangements terminate with the debt not having been paid in full. This will occur where the capital allowance deductions that have been obtained are excessive having regard to the amount of the debt that was repaid.

For more information, see the *Guide to depreciating assets* (NAT 1996—6.2002). To find out how to get this publication, see page v.

Penalty for underestimating a varied goods and services tax (GST) instalment

An entity paying GST by instalments is entitled to an income tax deduction for an amount it incurs as a penalty for underestimating a varied GST instalment. The deduction should be claimed at item **D11 Cost of managing tax affairs** on your *2002 tax return for individuals* (NAT 2541—6.2002) and should not be shown on the *2002 business and professional items schedule*. For more information, see page 62 of *TaxPack 2002*.

Personal services income

Rules for the tax treatment of personal services income earned by contractors and consultants started on 1 July 2000. The original rules were subsequently amended by *Taxation Laws Amendment Act (No. 6) 2001*. The main features of the amendments:

- allow all taxpayers earning personal services income (even those earning 80 per cent or more from one source) to self-assess against the results test for conducting a personal services business
- allow certain agents (who satisfy specific criteria) to be treated as having received their personal services income directly from the customers of their principal where they provide services directly to those customers
- allow all taxpayers earning personal services income (even those earning less than 80 per cent from each source) to be able to apply to the Commissioner of Taxation for a personal services business determination (based on the available grounds for a determination).

The above changes, apply to the 2000–01 income year and later years.

For more information, see the *Personal services business: self assessment guide and checklist* (NAT 3416—11.2001), *Taxation Ruling TR 2001/7—Income tax: the meaning of personal services income* and *Taxation Ruling TR 2001/8—Income tax: what is a personal services business*, or ring the ATO on **1300 137 619**. To find out how to get these publications, see page v.

Uniform capital allowance system

From 1 July 2001, the uniform capital allowance (UCA) rules apply to most depreciating assets, including those acquired before that date. The UCA provisions in Division 40 of ITAA 1997 consolidate a range of former capital allowance provisions, including those relating to plant and equipment. The UCA system does this by providing a set of general rules that applies across a variety of depreciating assets and certain other capital expenditure. It maintains some concessional tax treatments such as those applying to primary production depreciating assets. It also introduces new deductions for some business related capital expenditure and for certain project costs that did not previously attract a deduction.

You now calculate deductions for the decline in value of your depreciating assets using these new rules. This means that if you were deducting amounts under one of the former capital allowance provisions that has now been consolidated, you can calculate the decline in value under the UCA system.

Eligible taxpayers who elect to enter the Simplified Tax System (STS) will generally calculate deductions for their depreciating assets under the special STS rules. However, the provisions of the UCA system relating to deductions for certain capital expenditure such as project amounts and business related costs apply to STS taxpayers. For more information on the STS, see below.

For more information about the UCA system, refer to the *Guide to depreciating assets*. To find out how to get this publication, see page v.

Simplified Tax System

The STS commenced on 1 July 2001 and applies to assessments for income years starting on or after that date. The STS is an alternative method of determining taxable income for eligible small businesses with straightforward financial affairs. The STS provisions can be found in Division 328 of ITAA 1997.

The STS has 3 main elements:

- STS cash accounting
- simplified trading stock rules
- simplified depreciation (capital allowance) rules.

In addition, STS entities can claim a full deduction for certain prepaid business expenses. This is discussed further on page ix.

Participation in the STS is optional.

If a taxpayer chooses to participate in the STS, the taxpayer must use all 3 elements, where they apply. The STS accounting and the simplified depreciation (capital allowance) rules apply to non-business income and deductions as well as business income and deductions.

Eligibility

A taxpayer is eligible to be an STS taxpayer for an income year if:

- they carry on a business
- they have an STS average turnover of less than $1 million. The STS average turnover includes the turnover of any entities the taxpayer is 'grouped with'
- they, together with any entities they are 'grouped with', have depreciating assets with a total adjustable value of less than $3 million at the end of the year (includes depreciating assets for which a deduction has been allowed or is allowable under the STS or the UCA provisions).

Grouping rules

Special rules called the STS grouping rules will determine who the taxpayer is 'grouped with'. These rules prevent larger businesses from structuring or restructuring their affairs to take advantage of the STS. For more information, ring the tax reform infoline on **13 2478** or see *Taxation Ruling TR 2002/6—Income tax: Simplified Tax System: eligibility—grouping rules (STS affiliate, control of non-fixed trusts)*. To find out how to get this publication, see page v.

STS average turnover

A taxpayer can calculate their STS average turnover for a year either by working out the average of their STS group turnovers:

- for any 3 of the previous 4 income years (look back method) or
- for the current year and the following 2 years (look forward method).

A taxpayer can only use the look forward method where they start to carry on a business in the current income year, or where their STS average turnover under the look back method is $1 million or more.

To work out STS average turnover, a taxpayer needs to know their STS group turnover.

STS group turnover

A taxpayer's STS group turnover for a year is:

- the value of the supplies made in the ordinary course of their business during the year plus
- the value of the supplies made in the ordinary course of business during the year by any other business grouped with them under the STS grouping rules.

It does not include the value of supplies made between the taxpayer and entities they are grouped with.

Value of business supplies includes amounts such as:

- receipts for goods or services
- professional fees

- commissions
- interest received on amounts deposited in business banking accounts.

Value of business supplies does not include:

- GST component
- rental income where rental activities do not form part of the business
- proceeds from the sale of a capital asset used in the business.

NOTE An election to enter the STS is made at item **S1** of the *2002 business and professional items schedule* if you are eligible and choose to do so.

For more information, ring the tax reform infoline on **13 2478** or visit the ATO website at <**www.taxreform.ato.gov.au**>.

Prepaid expenses

A prepaid expense is expenditure that you made in this income year for things that will be done (in whole or in part) in a future income year. The *New Business Tax System (Simplified Tax System) Act 2001* introduced a new 12-month rule for:

- STS taxpayers (see page viii)
- individual taxpayers incurring deductible non-business expenditure.

The new 12-month rule applies to assessments for the first year of income starting after 30 June 2001. The 12-month rule allows an immediate deduction for prepaid expenses where:

- the payment is incurred for a period of service not exceeding 12 months AND
- the period of service ends in the next income year.

Transitional arrangements apply to:

- ‘small business taxpayers’ (as defined by sections 960-335 and 960-350 of ITAA 1997) who do not become STS taxpayers
- non-individual taxpayers incurring deductible non-business expenditure

who are not able to access the new 12-month rule. The transitional provisions apply where the prepayment is for something to be done wholly within 13 months of the expenditure being incurred and the service period extends into a future income year. The transitional treatment isolates the part of the payment that relates to future years and allows a specified percentage to be immediately deductible instead of being apportioned over the service period.

Prepaid expenditure incurred under certain managed investments (‘tax shelter’ arrangements) is not eligible for the new 12-month rule or transitional treatment.

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

See *Deductions for prepaid expenses* (NAT 4170—6.2002) for a detailed explanation of the new 12-month rule, the transitional arrangements and the tax shelter rules. To find out how to get this publication, see page v.

Prepayments under plantation forestry managed agreements

Recent changes to the rules about prepayments provide a concession to investors who make certain prepayments under plantation forestry managed agreements. A prepayment occurs where you make a payment during this income year for something that will be provided to you in a future income year. If you make a prepayment in relation to a plantation forestry managed agreement these new changes may apply to you. For a more detailed explanation of these prepayment rules, see *Deductions for prepaid expenses*. To find out how to get this publication, see page v.

Superannuation deductions

Taxation Laws Amendment (Superannuation Contributions) Act 2000 amended *Income Tax Assessment Act 1936* (ITAA 1936) to repeal section 82AAE and inserted new section 26-75 into ITAA 1997. The effect of this amendment is to deny a deduction for employer contributions to non-complying superannuation funds. This change applies to contributions made after 4.00 p.m. [by legal time in the Australian Capital Territory (ACT)] on 30 June 2000.

In addition, section 82AAA of ITAA 1936 definition of ‘eligible employee’ was amended to remove doubt as to the legality of the employee benefit schemes known as ‘controlling interest’ superannuation schemes. The amendment ensures that ‘a taxpayer’ and an ‘eligible employee’ cannot be the same person; that is, a taxpayer cannot obtain a deduction under section 82AAC of ITAA 1936 for superannuation contributions made for themselves.

Thin capitalisation

From the first income year commencing on or after 1 July 2001 the thin capitalisation provisions will apply to individuals. These provisions apply to entities (including individuals) to reduce certain deductions (called ‘debt deductions’) for costs incurred in obtaining and servicing debt finance where the debt applicable to Australian operations exceeds the limits set out in Division 820 of ITAA 1997. These rules ensure that taxpayers subject to thin capitalisation do not allocate an inappropriate amount of debt finance to their Australian operations.

Do the thin capitalisation rules apply to you?

The thin capitalisation rules will apply to you if:

(a) you are an Australian resident and you or any of your associate entities is an Australian controller of a foreign entity or carry on business overseas at or through a permanent establishment, **or**

(b) you are a foreign resident and you carry on business in Australia at or through a permanent establishment or otherwise have Australian income-producing assets.

However, the thin capitalisation rules will not apply to you if:

- your debt deductions (combined with the debt deductions of your associate entities) do not exceed $250 000 in the income year or
- you are an Australian resident and the combined value of your and your associates' Australian assets is not less than 90 per cent of the value of your and your associates' total assets.

The rules measuring control take into account direct and indirect interests that you hold, and the direct and indirect interests that your associate entities hold. This means that you can be an Australian controller of a foreign entity even if you hold a direct interest of less than 50 per cent in the foreign entity.

What if the thin capitalisation rules apply to you?

If the thin capitalisation rules apply to you, you must complete the *Thin capitalisation schedule 2002* (NAT 6458—6.2002) which is attached to the *Guide to thin capitalisation* (NAT 4461—6.2002). The amount of any debt deductions you can claim may be reduced by these rules. For more information, see the publication *Guide to thin capitalisation*. To find out how to get this publication, see page v.

Business and professional items

What you need to know

When you have completed your *2002 business and professional items schedule*, you will need to transfer

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

S1

Simplified tax system (STS) election

STOP Only complete this item if you are eligible to enter the STS and you are electing to do so.

If you want to enter the STS and you are eligible to do so, you are required to complete **G**, **H** and **I** at item **S1**. If you are not eligible or do not want to enter the STS, go to item **P1 Personal services income (PSI)**. Otherwise read on.

Are you eligible to enter the STS?

For the year of income you must have satisfied all 3 eligibility tests listed below.

Test 1: Were you carrying on a business during the year?

If you carried on a business at any time during the year you satisfy this test. Go to test 2.

Test 2: Is your STS average turnover less than $1 million?

You work out your STS average turnover for an income year either by looking back to actual turnover in previous years, or looking forward to estimated future turnover. Before you can work out your STS average turnover you need to know your STS group turnover.

Your STS group turnover is the value of business supplies you make in the ordinary course of your business and the value of business supplies any businesses you are grouped with make in the ordinary course of their business. It does not include any business supplies made between you and businesses you are grouped with. See page viii in **What's new** for more information.

Look back method

Under the look back method, you calculate your STS average turnover using the average of your STS group turnovers of any 3 years out of the previous 4 years. If you have been in business for less than 3 years, you will need to calculate your STS average turnover for the number of years you have been in business (excluding the current year).

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

Use the following table to assist you with your calculation.

Income year	STS group turnover
1997–98	$
1998–99	$
1999–2000	$
2000–01	$
Cross out the largest turnover amount if you have been in business for each of the 4 income years	
Total of the 3* years	$
	Divide by 3*
STS average turnover	$

*or the number of years you have been in business if less than 3 years

If your STS average turnover is less than $1 million you satisfy this test. Go to test 3. Otherwise read on.

Look forward method

Under the look forward method you calculate your STS average turnover using a reasonable estimate of STS group turnovers for the current year and the following 2 years. Alternatively, you can use your actual STS group turnover for the current year and a reasonable estimate of your STS group turnover for each of the following 2 income years.

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

Use the following table to assist you with your calculation.

Income year	STS group turnover
2001–02	$
2002–03	$
2003–04	$
Total	$
	Divide by 3*
STS average turnover	$

*or the number of years you expect to be in business if less than 3 years

If your STS average turnover is less than $1 million you satisfy this test. Go to test 3.

Test 3: Do you and any businesses you are grouped with have depreciating assets with a total adjustable value of less than $3 million at 30 June 2002?

This test only includes depreciating assets for which a deduction has been allowed or is allowable under the STS or uniform capital allowance (UCA) rules.

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

If the total adjustable values of your depreciating assets and those of entities you are grouped with for the income year ended 30 June 2002 is less than $3 million at this time, you satisfy this test.

Did you satisfy all 3 eligibility tests?

NO You are not eligible to enter the STS. Go to item **P1**.

YES Read on.

If you are not eligible or do not want to enter the STS, go to item **P1**.

If you want to enter the STS and you are eligible to do so, you are required to complete G, H and I at item **S1**.

Print **X** in the **YES** boxes at G and H item **S1**.

Print **X** in the **YES** box at I item **S1** if you are grouped with another entity for any year relevant to your calculation of STS average turnover, otherwise print **X** in the **NO** box at I item **S1**.

P1

Personal services income (PSI)

What you need to know

What is PSI?

This is income that is mainly a reward for an individual's personal efforts or skills.

Examples of PSI are:

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

PSI does not include income that is mainly:

- for supplying or selling goods (for example, from retailing, wholesaling or manufacturing)
- generated by a significant income-producing asset (such as 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, an accountant working for a large accounting firm).

If you have earned PSI but not as an employee, you may not be able to claim certain deductions in relation to that income—for example, rent, mortgage interest, rates or land tax for your home, or payments to your spouse (or other associate) for support work such as secretarial duties. This depends on whether:

- you are excluded from the measure for the 2000–01 and 2001–02 years because you had a valid prescribed payments system (PPS) payee declaration in force and received by the Commissioner as at 13 April 2000
- you have a personal services business determination from the Commissioner stating that your PSI was from a personal services business for the whole of the period you earned PSI or
- you satisfy one of the 4 tests in part A below.

NOTE If you earned PSI as a sole trader, you need to read on and answer one or more of the questions in part A below to determine whether your deductions in relation to your PSI are affected by these rules.

These rules do not affect your legal, contractual or workplace arrangements—you won't be treated as an employee as a result of the PSI measures.

PART A *Whether you earned PSI as a sole trader*

You do not have to complete item **P1** if your PSI is gained as an employee. **Item P1 concerns sole traders only**. You also do not have to complete item **P1** if your PSI was received through a company, partnership or trust.

Did you earn PSI as a sole trader?

NO Go to item **P2**.

YES Read on.

Whether your PSI was covered by a valid PPS payee declaration

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

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

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

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

Whether you satisfy the results test

If you earn PSI, you will meet the results test in the income year if, in respect of at least 75 per cent of this income, you can answer **YES** to ALL the following questions in relation to your work:

- Under your contract or arrangement, is the PSI paid to achieve a specified result or outcome?
- Do you have to provide the tools or equipment necessary (if any) to do your work?

  (If no tools or equipment are required, answer **YES**).
- Are you liable for rectifying defects in your work?

Did you satisfy the results test?

NO Print **X** in the **NO** box at P item **P1** on your schedule. Read on.

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

Whether you received a personal services business determination that was in force for the whole of the period you earned the PSI

This is a notice from the Commissioner stating that you are conducting a personal services business. If you have a personal services business determination from the Commissioner, PSI rules do not apply to your PSI and deductions.

Have you received a personal services business determination from the Commissioner that was in force for the whole of the period you earned PSI?

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

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

Whether you received 80 per cent or more of your PSI from one client

If you don't meet the results test and 80 per cent or more of your PSI in the income year comes from one client, you cannot self-assess whether you meet the other personal services business tests. The PSI rules apply to you unless you get a determination from the ATO.

If you don't meet the results test, you can only self-assess against the other tests if less than 80 per cent of your PSI comes from each client.

NOTE PSI obtained by putting your name with a labour hire firm, placement agency or similar organisation should only be considered as income from one client.

Special rules apply to commission agents—for more information, ring the ATO on **1300 137 619**.

Did you receive 80 per cent or more of your PSI from one client?

NO Print **X** in the **NO** box at Q item **P1** on your schedule. Read on.

YES Print **X** in the **YES** box at Q item **P1** on your schedule. Go to part B.

Whether you satisfy the unrelated clients test

You will meet the unrelated clients test in the income year if you can answer **YES** to the following question:

- Did you receive PSI from 2 or more clients who are not associated with each other or with you?

NOTE The personal services work must also be provided as a direct result of making offers to the public (for example, by advertising or word of mouth). Do not count clients obtained by putting your name with a labour hire firm, placement agency or similar organisation.

Special rules apply to commission agents—for more information, ring the ATO on **1300 137 619**.

Did you satisfy the unrelated clients test?

NO Read on.

YES Print **X** in the box at D1 item **P1** on your schedule. Read on.

Whether you satisfy the employment test

You will meet the employment test in the income year if you can answer **YES** to either of the following questions:

- Did you have employees or did you engage sub-contractors or entities who performed at least 20 per cent (by market value) of the principal work?

NOTE Principal work is the main work that generates the PSI and does not usually include support work such as secretarial duties. You can count a spouse or family member who does principal work but not companies, partnerships or trusts associated with you.

- Did you have apprentices for at least half the income year?

Did you satisfy the employment test?

NO Read on.

YES Print **X** in the box at E1 item **P1** on your schedule. Read on.

Whether you satisfy the business premises test

You will meet the business premises test if you can answer **YES** to ALL of the following questions:

For the whole period during which you earned PSI were your business premises:

- owned or leased by you
- mainly used by you for work earning your PSI (for example, more than 50 per cent of the time)

- used exclusively by you
- physically separate from your private residence or the private residence of any of your associates
- physically separate from the business address of your clients or their associates?

Did you satisfy the business premises test?

NO Read on.

YES Print **X** in the box at F1 item **P1** on your schedule. Read on.

Important

If you printed **X** at D1, E1 or F1, go to item **P2**. Otherwise read on.

PART B *Important!*

You must complete part B of item **P1** if you received PSI and you did not:

- have a valid PPS payee declaration as at 13 April 2000
- receive a personal services business determination in respect to your PSI
- satisfy the results test or
- satisfy at least one of the other 3 personal services business tests if less than 80 per cent of your PSI comes from each client.

PSI is divided into:

- income that was subject to a PAYG voluntary agreement to withhold
- income from which tax has been withheld because you did not quote your Australian Business Number (ABN)
- income received under a labour hire arrangement or from a specified payment
- other PSI.

NOTE *STS taxpayers*

If you are eligible to enter the STS and you have elected to do so at item **S1**, you must complete the labels at item **P1** using the STS rules. (This applies to amounts of income and deductions shown at these labels.) For information about these rules, read the section **STS taxpayers** at item **P8** on pages 8 and 17.

What you may need

If you received any of the payment summaries listed below in relation to PSI you will need to complete the *Individual PAYG payment summary schedule 2002* before completing item **P1**:

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

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

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

How to complete the Individual PAYG payment summary schedule 2002

Step 1 Write your tax file number (TFN) and name in the appropriate boxes at the top of the schedule.

Step 2 **Nature of income**—Print **X** in the **Personal services income** box.

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

Step 3 For each payment summary, transfer the following information to the schedule:

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

Step 4 Check that you have recorded details from all relevant payment summaries on your *Individual PAYG payment summary schedule 2002* and attached the schedule to page 3 of your tax return.

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

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

Label M—Did you receive any income that was subject to a PAYG voluntary agreement?

NO Go to label N.

YES Read on.

PSI—voluntary agreement

Label M is the total payment you received that was subject to a PAYG voluntary agreement. It includes amounts of tax withheld. You will be able to calculate this amount from your completed *Individual PAYG payment summary schedule 2002*.

Add up all amounts from the *Individual PAYG payment summary schedule 2002* at **Gross payment** boxes, with a corresponding **V** in the **Type** box. Do not include any amounts of GST. Write this amount at **M** item **P1**. Do not show cents.

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

Label N—Did you have any amounts of tax withheld from your PSI for failure to quote an ABN?

NO Go to label **O**.

YES Read on.

PSI—where Australian Business Number not quoted

Label **N** is the total payments you received for your PSI, from which an amount has been withheld because you did not quote your ABN. It includes amounts of tax withheld. You will be able to calculate this amount from your completed *Individual PAYG payment summary schedule 2002*.

Add up all amounts from the *Individual PAYG payment summary schedule 2002* at **Gross payment** boxes, with a corresponding **N** in the **Type** box. Write this amount at **N** item **P1**. Do not show cents.

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

Label O—Did you receive any PSI under a labour hire arrangement or from a specified payment?

NO Go to label **J**.

YES Read on.

PSI—labour hire or other specified payments

Label **O** is the total of payments you received from labour hire or other specified payments. It includes amounts of tax withheld. You will be able to calculate this amount from your completed *Individual PAYG payment summary schedule 2002*.

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

Add up all the amounts from the *Individual PAYG payment summary schedule 2002* at the **Gross payment** boxes with a corresponding **S** in the **Type** box. Write this amount at **O** item **P1**. Do not show cents.

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

Label J—Did you receive any other PSI?

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

YES Read on.

Work out the total amount of other PSI and write this amount at **J** item **P1**. Do not include any amounts of GST.

Personal services income deductions

Limited deductions against PSI

The PSI rules affect the deductions you can claim against your PSI. They do not affect your legal, contractual or workplace arrangements—you won't be treated as an employee as a result of the changes to the tax law.

The information below is a guide only. You may need further information to determine whether a specific deduction is available to you in your circumstances.

What you may be able to deduct

Subject to specific exceptions, the general rule is that you may deduct an amount that is incurred in gaining or producing your PSI if you could deduct that amount if the income was payable to you as an employee. Under the exceptions to this general rule, you may be able to deduct amounts for the following:

- premiums for worker's compensation, public liability and professional indemnity insurance
- bank and other account-keeping fees and charges
- tax-related expenses, such as the cost of preparing and lodging tax returns or Business Activity Statements (BAS)
- registration or licensing fees
- expenses for advertising, tendering and quoting for work
- deduction for decline in value of depreciating assets
- running expenses for your home office such as heating and lighting for using a room in your house as a home office (not including rent, mortgage interest, rates or land taxes)
- salary and wages for an arm's length employee (not an associate)
- contributions to a superannuation fund on behalf of an arm's length employee (not an associate)
- reasonable amounts paid to an associate for principal work
- contributions up to the superannuation guarantee amount for an associate doing solely principal work.

You cannot deduct

You cannot deduct an amount for the following where it relates to gaining your PSI:

- rent, mortgage interest, rates or land tax for your residence
- amounts paid to an associate for non-principal work
- contributions to a superannuation fund for an associate doing solely non-principal work.

NOTE If you are registered or required to register for GST, your deductions should not include the amount that relates to input tax credit entitlements.

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

NO Go to label L.

YES Read on.

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

Label L—Do you have other allowable deductions against your PSI?

NO Go to label A.

YES Read on.

Add up the total amount of all other expenses that you can deduct from your PSI. Write the amount at L item **P1**. Do not include amounts already recorded at K.

Label A—Working out your net PSI

Step 1 Add up the amounts shown at M, N, O and J item **P1**.

Step 2 Add up the amounts shown at K and L item **P1**.

Step 3 Subtract the amount calculated at step 2 from the amount calculated at step 1. Write this amount at A item **P1**.

Step 4 Transfer the amount at A item **P1** to A item **13** on your tax return.

If the amount is a loss, you must:

- print **L** in the **Loss** box at the right of A item **P1**
- print **L** in the **Loss** box at the right of A item **13** on your tax return
- complete items **P3** and **P9** on your *2002 business and professional items schedule*. For information on how to complete item **P9**, see page 31.

Did you have any other business income?

NO Go to **Check that you have...**

YES Go to item **P2**.

Check that you have...

- provided the correct information on your schedules
- completed items **P3** and **P9** on your schedule if you have a loss at A item **P1**. You do not need to complete any remaining items on your schedule.
- signed and dated your *2002 business and professional items schedule* and attached it to page 3 of your tax return
- completed and attached the *Individual PAYG payment summary schedule 2002* to page 3 of your tax return, if you received PSI that was subject to withholding
- transferred your net PSI amount from A item **P1** to A item **13** on your tax return. If this amount is a loss, print **L** in the **Loss** box at the right of A.

P2

Description of your main business activity

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

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

P3

Number of business activities

Print at B the number of separate and distinct business activities you operated as a sole trader and in partnership during 2001–02. If you operated only one business activity, print **1** at B. The number of business activities at B should not be less than the number of business activities for which you show your business loss activity details at item **P9**.

P4

What is the status of your business?

If you ceased your main business during 2001–02, print **X** at C1 item **P4** on your schedule.

If you commenced a new business during 2001–02, print **X** at C2 item **P4** on your schedule.

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

P5

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

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

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

P6

What is the address of your main business?

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

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

P7

Did you sell any goods or services using the Internet?

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

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

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

- advertise your goods and services
- give support to your customers
- buy your stock
- do your banking on-line

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

P8

Business income and expenses

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

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

NOTE Except for:

- the values of opening and closing stock—which are to be shown at tax values as explained on pages 11–13
- depreciation expense for STS taxpayers only—which is to be shown at tax values as explained on pages 17–18

the amounts to be included in the **INCOME** and **EXPENSES** sections item **P8** are amounts derived from your accounting system or financial statements. They should form part of your profit and loss statement, and the basis for calculating your net profit or loss. Any adjustments to these amounts for tax purposes should be dealt with in the **RECONCILIATION ITEMS** section item **P8**. However, if you are an STS taxpayer also read the note on **STS taxpayers** on the next page for information on how to complete item **P8**.

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

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

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

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

- gross interest—show the amount of income at item **10** on your tax return
- dividends and imputation credits—show the amounts at item **11** on your tax return

- distributions from partnerships and trusts—show these at item **12** on your tax return
- gross rental or similar income, such as agistment or hire fees—show the amount at item **20** on your tax return
- net capital gains—show the amount at item **17** on your tax return
- PSI shown at **P1**
- farm management withdrawals—show the amount at item **16** on your tax return
- attributed foreign income—show the amount at item **18** on your tax return
- foreign source income—show the amount at item **19** on your tax return.

If you received PSI as a sole trader, you must complete item **P1** of the *2002 business and professional items schedule*. PSI is income that is mainly a reward for an individual's personal efforts or skills. Where you have net PSI at **A** item **P1**, do not include the PSI or claim deductions relating to that income at item **P8**.

STOP If you are eligible to enter the STS and you have elected to do so at item **S1**, read on. Otherwise go to **Did you have amounts withheld from your business income other than PSI included at item P1?** in the next column.

NOTE *STS taxpayers*

STS taxpayers must use the STS accounting method.

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

If you are registered or required to be registered for GST, income amounts should exclude GST payable.

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

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

If you are registered or required to be registered for GST, expense amounts should exclude input tax credit entitlements.

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

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

For more information about the STS accounting method, ring the tax reform infoline on **13 2478** or visit the ATO website at <**www.taxreform.ato.gov.au**>.

The amounts you include at item **P8** should be based on the STS accounting method. If your accounting system or financial statements do not reflect the STS accounting rules, you may need to make additional adjustments at the **RECONCILIATION ITEMS** section.

For more information about these adjustments, see page 25. In addition to the STS accounting method there are also specific STS rules for depreciation as explained on pages 17–18, and for trading stock as explained on page 12.

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

NO Go to part D on page 10.

YES Read on.

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

If you received any of these payment summaries:

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

you will need to complete the *Individual PAYG payment summary schedule 2002* before completing item **P8**.

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

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

How to complete the Individual PAYG payment summary schedule 2002

Step 1 Write your TFN and name in the appropriate boxes at the top of the schedule.

Step 2 **Nature of income**—Print **X** in the **Business income** box.

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

Step 3 For each payment summary, transfer the following information to the schedule:

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

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

Step 4 Check that you have recorded details from all relevant payment summaries on your *Individual PAYG payment summary schedule 2002* and attached the schedule to page 3 of your tax return.

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

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

INCOME

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

NO Go to part B.

YES Read on.

What you need to know

Gross payments where Australian Business Number not quoted item **P8** is the total of payments you received from which your payers have withheld an amount because you did not quote your ABN. Gross payments include the amounts of tax withheld. You will be able to calculate this amount from your completed *Individual PAYG payment summary schedule 2002*.

Step 1 Add up all amounts on your completed payment summary schedule at **Gross payment** boxes, with an **N** in the **Type** box, derived from primary production activities. Write this amount at **C** item **P8**. Do not show cents.

Step 2 Add up all amounts on your completed payment summary schedule at **Gross payment** boxes, with an **N** in the **Type** box, derived from non-primary production activities. Write this amount at **D** item **P8**. Do not show cents.

Step 3 Add up the amounts you have written at **C** and **D** item **P8** and write this amount in the adjacent *Totals* box item **P8**.

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

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

NO Go to part C.

YES Read on.

What you need to know

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

Step 1 Add up all amounts on your completed payment summary schedule at **Gross payment** boxes, with a **V** in the **Type** box, derived from primary production activities. Write this amount at **E** item **P8**. Do not show cents.

Step 2 Add up all amounts on your completed payment summary schedule at **Gross payment** boxes, with a **V** in the **Type** box, derived from non-primary production activities. Write this amount at **F** item **P8**. Do not show cents.

Step 3 Add up the amounts you have written at **E** and **F** item **P8** and write this amount in the adjacent *Totals* box item **P8**.

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

PART C *Did you receive:*

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

NO Go to part D.

YES Read on.

What you need to know

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

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

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

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

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

PART D Did your business have assessable government industry payments?

NO Go to part E.

YES Read on.

What you need to know

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

Examples of assessable government industry payments include:

- bounties
- diesel fuel rebate
- diesel and alternative fuels grants
- drought relief
- employee subsidies
- export incentive grants
- fuel sales grants
- Medicare payments to medical practices.

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

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

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

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

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

PART E Did you receive any other business income?

NO Go to part F.

YES Read on.

What you need to know

Other business income includes:

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

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

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

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

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

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

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

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

PART F Working out your total business income

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

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

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

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

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

EXPENSES

Do not include the following expense items on your schedule:

- interest and dividend income expenses—claim deductible expenses at item **D8** on your tax return
- farm management deposits—take them into account as required at item **16** on your tax return
- rental expenses—claim deductible expenses at item **20** on your tax return
- expenses and losses relating to foreign source income—take them into account as required at item **19** or in the case of certain debt deductions, claim them at item **D15** on your tax return.
- Low-value pool deduction where the pool contains assets used for work-related, self-education or rental purposes—read question **D7** in *TaxPack 2002*.

If you are a primary producer you will need a primary production worksheet to help you work out some of the following. This worksheet is included in the publication *Information for primary producers* (NAT 1712—6.2002). To find out how to get this publication, see page v. Complete this worksheet before proceeding.

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

NOTE Except for:

- the values of opening and closing stock—which are to be shown at tax values as explained in the next column and on pages 12–13
- depreciation expense for STS taxpayers only—which is to be shown at tax values as explained on pages 17–18

the amounts to be included in the **INCOME** and **EXPENSES** sections item **P8** are amounts derived from your accounting system or financial statements. Any adjustments to these amounts for tax purposes should be dealt with in the **RECONCILIATION ITEMS** section item **P8**.

If you are registered or required to be registered for GST, exclude from the deductions any input tax credit entitlements that arise in relation to outgoings. If you pay GST by instalments and incurred a penalty for underestimating a varied GST instalment, you can claim a deduction for the penalty at item **D11** on your tax return. Do not show the penalty on your *2002 business and professional items schedule*. For more information, see page 62 of *TaxPack 2002*.

NOTE If you made a prepayment of $1000 or more for something to be done (in whole or in part) in a future income year, the timing of your deduction may be affected by the rules relating to prepayments. If the new 12-month rule or the transitional provisions do not apply, your deduction for prepaid expenditure is apportioned over the service period or 10 years, whichever is less. For more information, see page ix and the publication *Deductions for prepaid expenses*. Where expense labels at item **P8** include prepaid expenses which differ from the amounts allowable as deductions in the 2001–02 income year, make an expense reconciliation adjustment at **H** item **P8**.

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

PART A *What is the value of your opening stock?*

What you need to know

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PART C What is the value of your closing stock?

What you need to know

STOP If you are eligible to enter the STS and you have elected to do so at item **S1**, read on. Otherwise go to the section **Other businesses**.

STS taxpayers

You only need to account for changes in the value of your trading stock if there is a difference of more than $5000 in the value of all your stock on hand at the start of the income year and a reasonable estimate of the value of all your stock on hand at the end of the income year. For more information on a reasonable estimate of the value of stock, ring the tax reform infoline on **13 2478** or visit the ATO website at <**www.taxreform.ato.gov.au**>.

You can still choose to conduct a stocktake and account for changes in the value of trading stock, if you wish.

Is the difference between the value of your opening stock and a reasonable estimate of your closing stock more than $5000?

YES You must account for changes in the value of your trading stock. Go to step 2.

NO If you choose not to account for changes in the value of your trading stock, go to step 1. Otherwise, go to step 2.

Step 1 If the difference referred to above is $5000 or less and you choose not to account for this difference, the closing stock values you put in both the primary production and non-primary production columns are the same as the values you put at **Opening stock**, item **P8** on your schedule. **Do not put your reasonable estimate**.

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

Write in the *TYPE* box at the right of **M** the code letter that matches the method you used to value closing stock in the previous year:

C cost
M market selling value
R replacement price.

If this is your first year in business the value of your closing stock will be zero. Write **C** in the *TYPE* box.

Go to part D on the next page.

Step 2 If the difference referred to above is more than $5000 or you choose to account for the difference in trading stock, the closing stock values must be brought to account under section 70-35 of ITAA 1997. Read the section on **Other businesses** for instructions on how to calculate the value of closing stock.

NOTE You must include in your closing stock value at **M** item **P8** the value of all stock on hand, regardless of whether you have paid for the stock.

Other businesses

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

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

Manufacturers must include as trading stock partly manufactured goods and materials on hand. However, closing stock excludes any amount that represented closing stock of a business that ceased operations during the year. This amount is included in **Other business income** at **I** or **J** in the **INCOME** section item **P8** on your schedule. For more details about what constitutes trading stock, ring the ATO.

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

- cost
- market selling value
- replacement price.

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

Where you elect to value an item of trading stock below cost, market selling value and replacement price, you must complete item **P19** on your schedule.

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

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

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

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

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

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

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

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

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

Step 6 From the list below, find the letter that matches the method you used to value closing stock. If more than one method was used, select the letter that applies to the largest value:

C cost
M market selling value
R replacement price.

Step 7 Print the letter in the *TYPE* box at the right of the amount at **M** item **P8** on your schedule.

PART D *Working out your cost of sales*

What you need to know

Goods taken for your own use should not be accounted for as stock on hand at 30 June 2002. Include the cost of goods taken for your own use at **I** and **J** **Other business income** in the **INCOME** section item **P8** on your schedule.

Step 1 Use the following table to work out your cost of sales.

Cost of sales

		Primary production	Non-primary production
Stock at 1 July 2001	(a)	$	$
Purchases at cost	(b)	$	$
Freight inwards	(c)	$	$
Other—for example, labour and services	(d)	$	$
Add (a), (b), (c) and (d).	(e)	$	$
Stock at 30 June 2002	(f)	$	$
Take (f) away from (e). **This is your cost of sales.**		$	$

For further information on stock on hand at 1 July 2001, read **Part A—What is the value of your opening stock?**. For information on stock on hand at 30 June 2002, read **Part C—What is the value of your closing stock?**.

Step 2 Write your total primary production cost of sales at **Cost of sales**, *Primary production column*, item **P8** on your schedule. Do not show cents.

Step 3 If the cost of sales in the *Primary production* column—after taking (f) away from (e)—is a negative amount, print **L** in the box at the right of this amount.

Step 4 Write your total non-primary production cost of sales at **Cost of sales**, *Non-primary production* column, item **P8** on your schedule. Do not show cents.

Step 5 If the cost of sales in the *Non-primary production* column—after taking (f) away from (e)—is a negative amount, print **L** in the box at the right of this amount.

Step 6 Add up your primary production and non-primary production cost of sales and write the total amount at **Cost of sales**, *Totals* column, item **P8** on your schedule.

Step 7 If your total cost of sales is a negative amount, print **L** in the box at the right of this amount.

PART E *Did you have any contractor, sub-contractor or commission expenses in your business?*

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

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

NO Go to part F.

YES Read on.

What you need to know

Do not include the following at this item:

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

Step 1 Write your total primary production contractor, sub-contractor and commission expenses at **Contractor, sub-contractor and commission expenses**, *Primary production* column, item **P8** on your schedule. Do not show cents.

Step 2 Write your total non-primary production contractor, sub-contractor and commission expenses at **Contractor, sub-contractor and commission expenses**, *Non-primary production* column, item **P8** on your schedule. Do not show cents.

Step 3 Add up your primary production and non-primary production contractor, sub-contractor and commission expenses and write the total amount at **F** item **P8** on your schedule.

PART F *Did you make any superannuation contributions on behalf of eligible employees or their dependants as a business expense?*

NO Go to part G.

YES Read on.

What you need to know

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

Contributions made to a non-complying fund:

- are not allowable as a deduction
- do not count towards superannuation guarantee obligations. Under the superannuation guarantee an employer needs to provide a minimum level of superannuation for eligible employees or pay a tax called the superannuation guarantee charge to the Commissioner. The superannuation guarantee charge is not a superannuation contribution and is not tax deductible.

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

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

For the 2001–02 income year the age based limits are as follows:

Employee's deduction limit

Age in years	Deduction limit
under 35	$11 912
35 to 49	$33 087
50 and over	$82 054

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

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

Step 1 Write your total primary production superannuation contributions at **Superannuation expenses**, *Primary production* column, item **P8** on your schedule. Do not show cents.

Step 2 Write your total non-primary production superannuation contributions at **Superannuation expenses**, *Non-primary production* column, item **P8** on your schedule. Do not show cents.

Step 3 Add up your primary production and non-primary production superannuation contributions and write the total amount at **G** item **P8** on your schedule.

PART G Did you write off any bad debts in your business?

NO Go to part H.

YES Read on.

What you need to know

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

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

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

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

You can claim a deduction for:

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

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

Records you need to keep

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

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

Step 1 Write your total amount of primary production bad debts at **Bad debts**, *Primary production column*, item **P8** on your schedule. Do not show cents.

Step 2 Write your total amount of non-primary production bad debts at **Bad debts**, *Non-primary production* column, item **P8** on your schedule. Do not show cents.

Step 3 Add up the amounts of your primary production and non-primary production bad debts and write the total amount at **I** item **P8** on your schedule.

PART H Did you have lease expenses in your business?

NO Go to part I.

YES Read on.

What you need to know

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

In some circumstances, lease expenses may be debt deductions for the purposes of the new thin capitalisation rules. For information on thin capitalisation, see page ix.

NOTE If you include an amount of lease expense which is not allowable as a deduction, such as amounts disallowed under the thin capitalisation rules, you will need to add back the amount at **H** **Expense reconciliation adjustments** in the **RECONCILIATION ITEMS** section on your schedule.

Expenses incurred under a hire purchase agreement are not lease expenses. Such expenses are dealt with on page 28 in **RECONCILIATION ITEMS, Part F—Working out your reconciliation adjustments**.

Special rules apply to leased cars if the cost of the car exceeds the car limit that applies for the financial year in which the lease commences. The car limit for 2001–02 is $55 134. If you lease a car that is subject to the special rules, the reconciliation between the lease expense and the tax treatment is carried out at **H** **Expense reconciliation adjustments** item **P8** on your schedule. For more information, see **Luxury car leasing** on page 27.

Records you need to keep

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

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

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

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

PART I *Did you have rent as a business expense?*

NO Go to part J.

YES Read on.

What you need to know

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

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

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

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

PART J *Did you incur interest as a business expense on money borrowed within Australia?*

NO Go to part K.

YES Read on.

What you need to know

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

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

NOTE If you include an amount of interest expense which is not allowable as a deduction, such as amounts denied by the thin capitalisation rules, you will need to add back the amount at **H** **Expense reconciliation adjustments** in the **RECONCILIATION ITEMS** section on your schedule. For more information on thin capitalisation, see page ix in **What's new**.

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

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

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

PART K *Did you have overseas interest as a business expense?*

NO Go to part L.

YES Read on.

What you need to know

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

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

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

For more information on the tax treatment of interest and dividends paid to non-residents, ring the small business infoline on **13 2866**.

NOTE If you include an amount of interest expense which is not allowable as a deduction, such as amounts denied by the thin capitalisation rules, you will need to add back the amount at **H Expense reconciliation adjustments** in the **RECONCILIATION ITEMS** section. For more information on thin capitalisation, see page ix in **What's new**.

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

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

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

PART L Did you have depreciation as a business expense?

NO Go to part M.

YES Read on.

STOP If you are eligible to enter the STS and you have elected to do so at item **S1**, read on. Otherwise go to the section on **Other businesses** on page 19.

STS taxpayers

You show at **M Depreciation expenses** item **P8** the total depreciation deductions being claimed under the STS depreciation (capital allowance) rules and for the business use of other assets under the uniform capital allowance (UCA) rules. This includes your deduction under the STS depreciation rules for depreciating assets used for work related or self-education purposes. You do not need to complete a *Capital allowances schedule 2002* (NAT 3424—6.2002).

STS taxpayers can claim an immediate deduction for depreciating assets costing less than $1000 (excluding input tax credit entitlements) and pool most of their other depreciating assets. There are 2 STS pools:

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

Some depreciating assets are excluded from the STS rules but a deduction may be available under the UCA rules. For more information about the STS depreciation rules, ring the tax reform infoline on **13 2478** or visit the ATO website at <**www.taxreform.ato.gov.au**>.

Calculating depreciation deductions

Only use steps 1 to 5 to calculate your depreciation deductions if you are eligible to enter the STS and you have elected to do so at item **S1**.

If your accounting system or financial statements provide you with the amounts to complete the table—**Depreciation deductions** on page 19, write these amounts in the table. Otherwise, use steps 1 to 5 below to calculate your depreciation deductions.

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

DEFINITIONS **Depreciating asset** is an asset with a limited effective life which declines in value over that life.

Decline in value (previously 'depreciation') is the value that an asset loses over its effective life.

Adjustable value of a depreciating asset is its cost less its decline in value since you first used it or installed it ready for use for any purpose, including a private purpose.

Taxable purpose includes for the purpose of producing assessable income.

Taxable purpose proportion is the extent to which you use the asset for a taxable purpose, such as for the purpose of producing assessable income.

Termination value includes money received from the sale of an asset or insurance money received as the result of the loss or destruction of an asset.

Assessable balancing adjustment amount arises where the termination value of the depreciating asset is more than the adjustable value.

Deductible balancing adjustment amount arises where the termination value of the depreciating asset is less than the adjustable value.

Step 1 **Low-cost assets**

For each depreciating asset you acquired this income year and used or held ready for use this year for the purpose of producing assessable income

- whose cost at the end of this year is less than $1000 (excluding input tax credit entitlements) and
- which qualifies for a deduction under the STS depreciation (capital allowance) 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:

$$\text{asset's adjustable value} \times \text{taxable purpose proportion.}$$

The adjustable value of an asset is its cost less its decline in value since you first used it (or installed it ready for use) for any purpose, including a private purpose. The adjustable value of an asset, at the time you first used it (or held it ready for use) for a taxable purpose, will be its cost unless you previously used or held the asset solely for private purposes. For example, a tool set bought on 1 December 2001 at a cost of $800 (excluding input tax credit entitlements) and used for producing assessable income from that date at an estimated 70 per cent of the time, the immediate deduction would be $800 × 70% = $560.

Add up these results and write the total at **(a)** in the table on the next page.

Do not include in this calculation amounts for depreciating assets you acquired prior to entering the STS and that cost less than $1000 (excluding input tax credit entitlements). These assets are allocated to the general STS pool (see step 2).

Step 2 STS pool deductions

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

For the first year you enter the STS, allocate each depreciating asset you hold 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 per cent for an income-producing purpose, only $5000 will be added to the pool. The opening pool balance for each STS pool is calculated by adding the value of all depreciating assets allocated to the relevant pool.

Calculate your deduction for each STS pool as follows:

General STS pool deduction:
Opening pool balance ($) × 30%

Long-life STS pool deduction:
Opening pool balance ($) × 5%

Where necessary make a reasonable apportionment for each STS pool deduction between primary production and non-primary production activities.

Write the result of your general STS pool deduction at **(b)** in the table on the next page.

Write the result of your long-life STS pool deduction at **(c)** in the table on the next page.

NOTE You can choose not to allocate an asset to your long-life STS pool if it was first used or installed ready for use for a taxable purpose before 1 July 2001. If either pool balance (after taking into account additions and disposals but before calculating the deductions in steps 2 and 3) is below $1000, you calculate the deduction for the pool using step 5(b).

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

You calculate your deduction at half the relevant pool rate for:

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

Calculate your deduction as follows:

- the taxable purpose proportion of the adjustable value of each depreciating asset first used for a taxable purpose this year × 15 per cent (general STS pool assets) or 2.5 per cent (long-life pool assets) **plus**
- the taxable purpose proportion of the cost of the improvement × 15 per cent (general STS pool assets) or 2.5 per cent (long-life pool assets).

Write the total deduction for general STS pool assets at **(d)** and the total deduction for long-life STS pool assets at **(e)** in the table on the next page.

NOTE If either pool balance (after taking into account additions and disposals but before calculating the deductions in steps 2 and 3) is below $1000, calculate your deduction for these assets using step 5(b).

Step 4 Other depreciating assets

Calculate your deduction for the decline in value of all your other depreciating assets that are not included in steps 1 to 3. See *Guide to depreciating assets* for information on how to calculate the decline in value of these assets. Write your total deduction at **(f)** in the table on the next page.

Do not include at **(f)** in the table depreciating assets which qualify for a deduction under Subdivision 40-F or 40-G as water facilities or landcare operations in your primary production business and for which you have chosen to claim a deduction under those Subdivisions and not the STS rules. Show these deductions at **W Landcare operations and business deduction for decline in value of water facility** item **P8**.

Step 5 Disposal of depreciating assets

(a) *Low-cost assets*

If you have disposed of a low-cost asset, for which you have claimed an immediate deduction in step 1 you include the taxable purpose proportion of the termination value at the **RECONCILIATION ITEMS** section item **P8**. For example, for a low-cost asset used only 50 per cent for an income-producing purpose which was sold for $200 (excluding GST), only $100 will be assessable and included as a reconciliation adjustment. 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.

(b) *Assets allocated to STS pools*
Where you dispose of depreciating assets that have been allocated to either the general or long-life STS pools, the taxable purpose proportion of the termination value is deducted from the closing pool balance. For example, for a pooled depreciating asset used only 50 per cent for an income-producing purpose which was sold for $3000 (excluding GST), only $1500 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 $1000, you can claim an immediate deduction for this amount. Write this deduction against the appropriate pool at **(b)** or **(c)** in the table below.

If the closing pool balance is less than zero, the amount below zero is included in your assessable income at the **RECONCILIATION ITEMS** section item **P8**. For more information about closing pool balances, see below.

(c) *Other depreciating assets*
See the *Guide to depreciating assets* for information on how to calculate any balancing adjustment amounts on the disposal of other depreciating assets. Balancing adjustment amounts are included at the **RECONCILIATION ITEMS** section item **P8**. Refer to **What are reconciliation adjustments?** on page 26.

Depreciation deductions (STS taxpayers only)

	Primary production ($)	Non-primary production ($)		Total ($)
Low-cost assets			(a)	
General pool			(b)	
Long-life pool			(c)	
General pool (½ rate)			(d)	
Long-life pool (½ rate)			(e)	
Other assets			(f)	
Depreciation expenses [add (a) to (f)]			(g)	

Transfer the amount at **(g)** in the above table to **M** **Depreciation expenses** item **P8** on your schedule.

Transfer the amount at **(a)** in the above table to **A** item **P10 STS depreciating assets** on your schedule.

Transfer the total of the amounts at **(b)** and **(d)** to **B** item **P10 STS depreciating assets** on your schedule

Transfer the total of the amounts at **(c)** and **(e)** to **C** item **P10 STS depreciating assets** on your schedule.

Closing pool balance

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

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

If your closing pool balance is less than zero, see step 5(b).

The closing pool balance for this year becomes the opening pool balance for the 2002–03 income year except where an adjustment is made to reflect the changed business use of a pooled asset.

You will need your opening pool balance to work out the pool deduction next year. Do not write your closing pool balance on your tax return.

Go to **Part M—Did you have motor vehicle expenses in your business?** on the next page.

Other businesses

What you need to know

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

Accounting or book depreciation may differ from the deduction for the decline in value of depreciating assets. The reconciliation between accounting depreciation and the deduction for decline in value is carried out at **H** **Expense reconciliation adjustments** in the **RECONCILIATION ITEMS** section. See the *Guide to depreciating assets* for information on the deduction for decline in value. To find out how to get this publication, see page v.

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

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

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

NOTE If you have included an amount greater than $1000 at **M**, you will need to complete and attach a *Capital allowances schedule 2002* unless you are eligible to enter the STS and have elected to do so at item **S1**. For more information, refer to the publication *Capital allowances schedule instructions* (NAT 4089—6.2002). To find out how to get these instructions and the schedule, see page v.

PART M Did you have motor vehicle expenses in your business?

NO Go to part N.

YES Read on.

What you need to know

Questions **D1** and **D2** of *TaxPack 2002* tell you more about the expenses you can claim.

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

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

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

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

Step 4 If you are claiming motor vehicle expenses for a car under one of the 4 methods described at question **D1** in *TaxPack 2002*, find the code letter that identifies the method you used to work out your expenses and print it in the *TYPE* box at the right of the amount at **N** item **P8** on your schedule.

If you are claiming motor vehicle expenses other than for a car—see question **D2** in *TaxPack 2002*—print the code letter **N** in the *TYPE* box at the right of the amount at **N** item **P8** on your schedule.

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

PART N Did you have repairs and maintenance as a business expense?

NO Go to part O.

YES Read on.

What you need to know

This is expenditure shown in your accounts for repairs and maintenance of premises, plant, machinery, implements, utensils, rolling stock or articles associated with the production of income. Any items of a capital nature included at this part should also be included at **H** **Expense reconciliation adjustments** in the **RECONCILIATION ITEMS** section item **P8** on your schedule. The following information on deductions for repairs will assist you to work out whether you need to make an expense reconciliation adjustment.

Repairs

You may deduct the cost of repairs—not being expenditure of a capital nature—to property, plant, machinery or equipment used solely for producing assessable income, or in carrying on a business for that purpose.

Expenditure on repairs to property used partially for business or income-producing purposes—for example, where the property is also used for private purposes or in the production of exempt income—is deductible only to the extent that is reasonable, taking account of such use.

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

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

Records you need to keep

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

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

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

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

PART O *Did you have any other business expenses?*

NO Go to part P.

YES Read on.

What you need to know

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

Capital and other non-deductible items (including debt deductions denied by thin capitalisation rules) shown at this part should also be included at **H** **Expense reconciliation adjustments** in the **RECONCILIATION ITEMS** section item **P8** on your schedule. See **Part F—Working out your reconciliation adjustments** on page 25 for more information.

For information on thin capitalisation, see page ix in **What's new**.

Home office expenses

If part of your home is specifically set aside as your place of business and is used solely for the purpose of conducting your business affairs and you have no other place from where they are mainly carried on, the following expenses are partly deductible:

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

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

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

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

Step 1 Write your total other primary production expenses at **All other expenses**, *Primary production* column, item **P8** on your schedule. Do not show cents.

Step 2 Write your total other non-primary production expenses at **All other expenses**, *Non-primary production* column, item **P8** on your schedule. Do not show cents.

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

PART P *Working out your total expenses*

Step 1 Add up all the primary production expenses you have written in the *Primary production* column, from **Cost of sales** down to and including **All other expenses**, and write the total at **S** item **P8** on your schedule. Do not show cents.

Step 2 If your total of primary production expenses is a negative amount, print **L** in the box at the right of the amount at **S**.

Step 3 Add up all the non-primary production expenses you have written in the *Non-primary production* column, from **Cost of sales** down to and including **All other expenses**, and write the total at **T** item **P8** on your schedule. Do not show cents.

Step 4 If your total of non-primary production expenses is a negative amount, print **L** in the box at the right of the amount at **T**.

Step 5 Add up your primary production and non-primary production expenses and write the total amount at **TOTAL EXPENSES**, *Totals* column, item **P8** on your schedule.

Step 6 If your total of expenses is a negative amount, print **L** in the box at the right of this amount.

RECONCILIATION ITEMS

PART A *Are you entitled to claim a drought investment allowance?*

NO Go to part B.

YES Read on.

What you need to know

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

Drought mitigation property is:

- a fodder storage facility
- a water storage facility
- a water transport facility
- minimum tillage equipment.

For information on what items fall into any of these categories and in what circumstances, ring the small business infoline on **13 2866**.

You can claim the investment allowance deduction if you incurred the expenditure after 23 March 1995 and before 1 July 2000. If the item of drought mitigation property is built, construction must start between those dates. The item must be new and:

- must cost $3000 or more
- must be used wholly and exclusively in Australia for producing assessable primary production income other than by leasing it, letting it on hire purchase or granting rights to other persons to use it
- must be first used or installed ready for your use before 1 July 2001
- must be retained for at least 12 months and not be leased or the right to use it transferred to another person within this time.

The deduction is limited to $5000 in any year and, in many cases, is additional to any other deduction available in relation to the expenditure.

You can claim the deduction in the year you first used the item or installed it ready for use. If you have an early balancing substituted accounting period, any deduction in relation to new items of qualifying property first used or installed ready for use in that part of your substituted accounting period which occurs before 1 July 2001 is shown at this label.

The allowance will be lost in some circumstances, such as where the property is disposed of, used outside Australia etc.

Any recoupment of the expenditure would be assessable income.

Leasing companies that lease drought mitigation property to primary producers may qualify for drought investment allowance. Among other requirements, the lessee must use the drought mitigation property wholly and exclusively in Australia to produce assessable primary production income in the course of carrying on a business in Australia. The lease term must be for at least 4 years. The lease must have been transacted at arm's length. The leasing company deduction is limited in amount and availability.

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

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

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

PART B *Did you have a business expense for environmental protection activities?*

NO Go to part C.

YES Read on.

What you need to know

Show at this part the amount of allowable expenditure on environmental protection activities (EPA).

You can deduct expenditure to the extent that you incur it for the sole or dominant purpose of carrying on EPA. EPA are activities undertaken to prevent, fight or remedy pollution, or to treat, clean up, remove or store waste from your earning activity. Your earning activity is one you carried on, carry on or propose to carry on for the purpose of:

- producing assessable income (other than a net capital gain)
- exploration or prospecting, or
- mining site rehabilitation.

You may also claim a deduction for cleaning up a site on which a predecessor carried on substantially the same business activity.

The deduction is not available for:

- EPA bonds and security deposits
- expenditure for acquiring land
- expenditure for constructing or altering buildings, structures or structural improvements
- expenditure to the extent that you can deduct an amount for it under another provision.

Accordingly, expenditure which forms part of the cost of a depreciating asset is not deductible as expenditure on EPA if a deduction is available for the decline in value of the asset—see the *Guide to depreciating assets* for information on the deduction for decline in value. To find out how to get this publication, see page v.

Expenditure incurred on or after 19 August 1992 on certain earthworks constructed as a result of carrying out EPA can be written off at the rate of 2.5 per cent per annum under the provisions for capital works expenditure.

Expenditure on EPA that is also an environmental impact assessment of your project is not deductible as expenditure on EPA. Instead, it will be deductible over the life of the project using a pool—see business deduction for project pool on page 23. An example would be a study to determine the quantity and type of pollutants which will be produced from a process used in a proposed business.

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 instead taken to be that market value.

Any recoupment of the expenditure would be assessable income.

Step 1 Write your total primary production EPA expenses at **Deduction for environmental protection expenses**, *Primary production* column, item **P8** on your schedule. Do not show cents.

Step 2 Write your total non-primary production EPA expenses at **Deduction for environmental protection expenses**, *Non-primary production* column, item **P8** on your schedule. Do not show cents.

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

PART C Can you deduct business related costs under section 40-880?

NO Go to part D.

YES Read on.

What you need to know

The uniform capital allowance (UCA) system provides a deduction for some capital expenditure that was not previously deductible—see page viii in **What's new** for more information on the UCA.

Certain business related costs incurred after 30 June 2001 are now deductible under section 40-880 of ITAA 1997 to the extent that the business is or was carried on for a taxable purpose, such as for producing assessable income. The costs must not be deductible under another provision of the tax law or form part of the cost of a depreciating asset or of land. The following types of business related expenditure may now qualify for deduction:

- business establishment costs
- business restructuring costs
- business equity raising costs
- costs of defending your business against a takeover
- costs of the business of unsuccessfully attempting a takeover
- costs of liquidating a company that carried on a business and of which you are a shareholder
- costs of ceasing to carry on the business.

NOTE You deduct 20 per cent of the expenditure in the year you incur it and in each of the following 4 years.

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 instead taken to be that market value.

Any recoupment of the expenditure would be assessable income.

Step 1 Write your deduction for primary production business related costs at **Section 40-880 deduction**, *Primary production* column, item **P8** on your schedule. Do not show cents.

Step 2 Write your deduction for non-primary production business related costs at **Section 40-880 deduction**, *Non-primary production* column, item **P8** on your schedule. Do not show cents.

Step 3 Add up your primary production and non-primary production deductions for business related costs and write the total amount at **A** item **P8** on your schedule.

PART D Did you have capital expenditure directly connected with a business project?

NO Go to part E.

YES Read on.

What you need to know

Certain capital expenditure incurred after 30 June 2001 which is directly connected with a project you carry on or propose to carry on for a taxable purpose can be written off over the life of the project using a pool.

Such capital expenditure, known as a project amount, is expenditure incurred on:

- creating or upgrading community infrastructure associated with the project
- site preparation for depreciating assets (other than to drain swamp or low-lying land or to clear land for horticultural plants and grapevines)
- feasibility studies for the project
- environmental assessments for the project
- obtaining information associated with the project
- seeking to obtain a right to intellectual property
- ornamental trees or shrubs.

Project amounts also include mining capital expenditure and expenditure on certain facilities used to transport minerals or quarry materials. For more information on these project amounts, refer to the *Guide to depreciating assets*.

The expenditure must not be otherwise deductible or form part of the cost of a depreciating asset.

The deduction for a project pool commences when the project begins to operate.

The deduction is calculated as follows:

$$\frac{\text{Pool value} \times 150\%}{\text{DV project pool life}}$$

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 it will be from when the project starts to operate until it stops operating.

The 'pool value' at a particular time is broadly the sum of the project amounts allocated to the pool up to that time less the sum of the deductions you have claimed for the project pool in previous years or could have claimed had the project operated wholly for a taxable purpose.

There is no need to pro-rate the deductions where the project starts or permanently stops operating during a year or for project amounts incurred during a year. However, the deduction is reduced for the extent to which the project does not operate for a taxable purpose.

Any recoupment of the expenditure would be assessable income.

If the project is abandoned, sold or otherwise disposed of, you can deduct the project pool value at that time. Any proceeds from abandonment, sale or disposal are assessable.

NOTE To the extent that the deduction is for amounts directly connected to a project you carry on in carrying on a business, show the amount at **L**. To the extent that the deduction is for amounts directly connected to a project you carry on other than in carrying on a business, show the deduction at item **D6** on your tax return.

Step 1 Write your total primary production project pool deduction at **Business deduction for project pool**, *Primary production* column, item **P8** on your schedule. Do not show cents.

Step 2 Write your total non-primary production project pool deduction at **Business deduction for project pool**, *Non-primary production* column, item **P8** on your schedule. Do not show cents.

Step 3 Add up your primary production and non-primary production project pool deductions and write the total amount at **L** item **P8** on your schedule.

NOTE If you have included an amount greater than $1000 at **L**, you will need to complete and attach a *Capital allowances schedule 2002* unless you are eligible to enter the STS and have elected to do so at item **S1**. For more information, refer to the publication *Capital allowances schedule instructions*. To find out how to get these instructions and the schedule, see page v.

PART E Did you have landcare operations and/or water conservation/conveying expenses?

NO Go to part F.

YES Read on.

What you need to know

Landcare operations expenses

Landcare operations expenses cover what were previously known as land degradation measures. You can claim a deduction in the year you incur capital expenditure on a landcare operation for land in Australia.

The deduction is available where the land is used wholly for either:

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

and is reduced to nil to the extent it is not.

A landcare operation is one of the following operations:

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

No deduction is available if the capital expenditure is on plant unless it is on certain fences, dams or other structural improvements.

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

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

Any recoupment of the expenditure would be assessable income. Ring the landcare hotline on **1800 060 425** for further information.

Landcare operations expenses incurred in a partnership are allocated to each partner and deducted from the partner's income.

Water conservation and conveyance facilities

A deduction for the decline in value of a water facility is allowable. A water facility is plant or a structural improvement that is primarily or principally for the purpose of conserving or conveying water. The expenditure must be incurred primarily and principally for conserving or conveying water for use in a primary production business on land in Australia.

The deduction can be claimed in equal instalments over 3 years.

Items which can be deducted include dams, earth tanks, underground tanks, concrete or metal tanks, tank stands, bores, wells, irrigation channels or similar improvements, pipes, pumps, water towers, windmills and extensions or improvements to any of these items.

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

The deduction is reduced where the facility is not wholly used for either:

- carrying on a primary production business on land in Australia or
- a taxable purpose—for example, producing assessable income.

Any recoupment of the expenditure would be assessable income. Ring the landcare hotline on **1800 060 425** for further information.

Costs incurred in a partnership for facilities to conserve or convey water are allocated to each partner and deducted from the partner's income.

NOTE For STS taxpayers the amount to show at **W** should not include any amount relating to a depreciating asset used in your primary production business if you have chosen to claim a deduction for it under the STS depreciation rules.

Step 1 Write your total deductions for primary production landcare operations expenses and for water facilities at **Landcare operations and business deduction for decline in value of water facility**, *Primary production* column, item **P8** on your schedule. Do not show cents.

Step 2 Write your total deduction for non-primary production landcare operations expenses at **Landcare operations and business deduction for decline in value of water facility**, *Non-primary production* column, item **P8** on your schedule. Do not show cents.

Step 3 Add up your primary production and non-primary production deductions for landcare operations and water facilities and write the total amount at **W** item **P8** on your schedule.

PART F *Working out your reconciliation adjustments*

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

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

If you have included any amounts such as exempt income or non-deductible expenses at these labels, or have not included amounts which are assessable income or expenditure that is deductible, you must work out your reconciliation adjustments.

If you have no reconciliation adjustments to make, go to **Part G—Working out your net income or loss from business this year** on page 30.

STOP If you are eligible to enter the STS and you have elected to do so at item **S1**, read on. Otherwise go to **What are reconciliation adjustments?** on the next page.

STS taxpayers

STS taxpayers must use the STS accounting method. This accounting method recognises most business income when **received** and most business expenses only when **paid**. More information about the STS accounting method can be found on page 8.

You will need to make adjustments at this section of item **P8** on your schedule if:

- the amounts you have shown at the **INCOME** and **EXPENSE** sections of item **P8** are not based on the STS accounting method
- your accounting method has not taken into account adjustments necessary when you first enter the STS or
- you have disposed of depreciating assets during the year.

These adjustments are explained in more detail below.

The **Reconciliation statement** on page 29 will assist you with your calculations.

Trade debtors and creditors as at 30 June 2002

If you have included at item **P8** amounts of ordinary income that have been derived but not received in 2001–02, the amounts not received are not assessable under the STS rules this year.

These amounts form part of your **Income reconciliation adjustments** at **X** item **P8**. Include these amounts at **(f)** on the **Reconciliation statement** on page 29.

If you have included at item **P8** amounts for general deductions, repairs and tax-related expenses that have been incurred but not paid in 2001–02, the amounts not paid are not deductible under the STS rules this year.

These amounts form part of your **Expense reconciliation adjustments** at **H** item **P8**. Include these amounts at **(n)** on the **Reconciliation statement** on page 29.

Adjustments when first entering the STS

If you have included at item **P8** amounts of ordinary income received in 2001–02 that have been included in a previous year's assessable income, these amounts are not assessable again under the STS rules (for example, debtors as at 30 June 2001).

These amounts form part of your **Income reconciliation adjustments** at **X** item **P8**. Include these amounts at **(f)** on the **Reconciliation statement** on page 29.

If you have included at item **P8** amounts paid in 2001–02 for general deductions including repairs and tax-related expenses that have been deducted in a previous year, these amounts are not deducted again under the STS rules (for example, creditors as at 30 June 2001).

These amounts form part of your **Expense reconciliation adjustments** at **H** item **P8**. Include these amounts at **(n)** on the **Reconciliation statement** on page 29.

Disposal of depreciating assets

If you disposed of any depreciating assets during the income year, the following amounts (if any) form part of your **Income reconciliation adjustments** at **X** Item **P8**:

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

Include the amounts at **(b)** on the **Reconciliation statement** on page 29.

Any deductible balancing adjustment amounts on the disposal of depreciating assets that you have not allocated to STS pools, form part of your **Expense reconciliation adjustments** at **H** item **P8**. Include these amounts at **(q)** on the **Reconciliation statement** on page 29.

For more information on assessable balancing adjustment amounts and deductible balancing adjustment amounts, see the *Guide to depreciating assets*. To find out how to get this publication, see page v.

DEFINITIONS

Depreciating asset is an asset with a limited effective life which declines in value over that life.

Decline in value (previously 'depreciation') is the value that an asset loses over its effective life.

Adjustable value of a depreciating asset is its cost less its decline in value since you first used it or installed it ready for use for any purpose, including a private purpose.

Taxable purpose includes for the purpose of producing assessable income.

Taxable purpose proportion is the extent to which you use the asset for a taxable purpose, such as for the purpose of producing assessable income.

Termination value includes money received from the sale of an asset or insurance money received as the result of the loss or destruction of an asset.

Assessable balancing adjustment amount arises where the termination value of the depreciating asset is more than the adjustable value.

Deductible balancing adjustment amount arises where the termination value of the depreciating asset is less than the adjustable value.

Read on to determine if you need to make any further reconciliation adjustments.

What are reconciliation adjustments?

Income reconciliation adjustments include:

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

NOTE You need to subtract the total of items **3** and **4** from the total of items **1** and **2** to work out the net income reconciliation adjustment. The amount calculated is written at **X** item **P8** on your schedule. The **Reconciliation statement** on page 29 will assist you with your calculations.

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

Where the amount is negative, print **L** in the box at the right of the amount.

Expense reconciliation adjustments include:

- expense add backs—expenses shown in the accounts which are not tax deductible, including timing deductions, such as:
  5 prepaid expenses not deductible in this year
  6 depreciation
  7 loss on sale of a depreciating asset
  8 other items not allowable as a deduction—for example, capital expenditure, additions to provisions and reserves, income tax expense, expenses relating to exempt income, debt deduction denied by the thin capitalisation rules, other non-deductible expenses
  (For information on thin capitalisation, see page ix in **What's new**.)
- expense subtractions—items not shown as expenses which are deductible for tax purposes, such as:
  9 prepaid expenses deductible this year but not included at any other label
  10 deduction for decline in value of depreciating assets
  11 deductible balancing adjustment amounts on disposal of depreciating assets
  12 other items deductible for tax purposes.

NOTE You need to subtract the total of items **9**, **10**, **11** and **12** from the total of items **5**, **6**, **7** and **8** to work out the net expense reconciliation adjustment. The amount calculated is written at **H** item **P8** on your schedule. The **Reconciliation statement** on page 29 will assist you with your calculations.

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

Where the amount is negative, print **L** in the box at the right of the amount.

Read on for specific reconciliation adjustments.

Prepaid expenses

Special rules may affect the timing of deductions for prepaid expenditure. Under these rules certain expenses may be apportioned over more than one income year. You must make an expense reconciliation adjustment to add back that part of the expense that is not deductible in the year it is incurred.

If you had a prepaid expense in a prior year which is to be apportioned over the service period and you are entitled to a deduction for part of the expense this year but have not included it at any other label, show the adjustment as an expense subtraction on your **Reconciliation statement**. For further information about the prepayment rules, see page ix and the publication *Deductions for prepaid expenses*.

Deduction for decline in value (non-STS taxpayers only)

A deduction for a decline in value of a depreciating asset calculated under the income tax law may differ from the accounting or book calculation of depreciation. Different rules regarding such things as effective life, the calculation of balancing adjustment amounts and the treatment of debt forgiveness amounts can produce a discrepancy between the 2 calculations.

Under the income tax law you can deduct an amount equal to the decline in value of a depreciating asset in the 2001–02 income year if you held the depreciating asset for any time during the year and used it (or installed it ready for use) for a taxable purpose, such as for producing assessable income.

The deduction is reduced to the extent the asset is not used for a taxable purpose.

To assist you in calculating your deduction for decline in value you should refer to the publication *Guide to depreciating assets*. To find out how to get this publication, see page v. The guide also explains the option to allocate to a low-value pool depreciating assets that cost less than $1000 (excluding input tax credit entitlements) and depreciating assets that have an opening adjustable value of less than $1000.

If you choose to use the low-value pool method to calculate the decline in value of low-cost or low-value depreciating assets and the pool contains assets used for work related, self-education or rental purposes, read question **D7** in *TaxPack 2002*. Do not include the deduction at item **P8** on your schedule. If none of the depreciating assets in the pool are used for any of those purposes, include the amount of your low-value pool deduction at **(r)** on the **Reconciliation statement** on page 29. Where necessary, make a reasonable apportionment between primary production and non-primary production activities.

The deduction for decline in value of depreciating assets not allocated to a pool should also be included at **(r)** on the **Reconciliation statement** on page 29.

The depreciation charged in your accounts and shown at **M** **Depreciation expenses** in the **EXPENSES** section should be added back as an expense reconciliation adjustment. Include the amount at **(h)** on the **Reconciliation statement** on page 29.

DEFINITIONS

Depreciating asset is an asset with a limited effective life which declines in value over that life.

Decline in value (previously ‘depreciation’) is the value that an asset loses over its effective life.

Adjustable value of a depreciating asset is its cost less its decline in value since you first used it or installed it ready for use for any purpose, including a private purpose.

Taxable purpose includes for the purpose of producing assessable income.

Taxable purpose proportion is the extent to which you use the asset for a taxable purpose, such as for the purpose of producing assessable income.

Termination value includes money received from the sale of an asset or insurance money received as the result of the loss or destruction of an asset.

Assessable balancing adjustment amount arises where the termination value of the depreciating asset is more than the adjustable value.

Deductible balancing adjustment amount arises where the termination value of the depreciating asset is less than the adjustable value.

Luxury car leasing

A leased car, either new or second hand, is a luxury car if its cost exceeds the car limit that applies for the financial year in which the lease commences. The car limit for 2001–02 is $55 134.

Luxury car leases entered into after 7.30 p.m. (by legal time in the ACT) on 20 August 1996 (other than genuine short-term hire arrangements) are treated as a notional sale and loan transaction.

The cost or value of the car specified in the lease (or the market value if the parties were not dealing at arm’s length in connection with the lease) is taken to be the cost of the car for the lessee and the amount loaned by the lessor to the lessee to buy the car.

In relation to the notional loan, the actual lease payments are divided into notional principal and finance charge components. That part of the finance charge component for the notional loan applicable for the particular period (the *accrual amount*) is deductible to the lessee subject to any reduction required under the thin capitalisation rules. The amount forms part of your **Expense reconciliation adjustments** at **H**. Include the amount at **(p)** on the **Reconciliation statement** on page 29.

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 financial year in which the lease is granted. For more information on deductions for the decline in value of leased luxury cars, refer to the *Guide to depreciating assets*. To find out how to get this publication, see page v.

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, such as to produce assessable income.

If you have included the lease expense at **J** **Lease expenses** in the **EXPENSES** section, the amount should also form part of your **Expense reconciliation adjustments** at **H** item **P8**. Include the amount at **(n)** on the **Reconciliation statement** on the next page.

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.

Hire purchase agreements

Hire purchase and instalment sale agreements of goods are treated as a sale of the property by the financier (or hire purchase company) to the hirer (or instalment purchaser).

The sale is treated as being financed by a loan from the financier to the hirer at a sale price of either their agreed cost or value or the property's arm's length value. The periodic hire purchase (or instalment) payments are treated as payments of principal and interest under the notional loan. The interest component is deductible to the hirer, subject to any reduction required under the thin capitalisation rules. This amount forms part of the **Expense reconciliation adjustments** at **H** item **P8**. Include the amount at **(t)** on the **Reconciliation statement** on the next page.

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 of the depreciating asset. The cost of the asset for this purpose is taken to be the agreed cost or value, or the arm's length value if the dealing is not at arm's length.

If you have included the hire purchase charges at an expenses label in item **P8**, the amount should also form part of your **Expense reconciliation adjustments** at **H** item **P8**. Include the amount at **(n)** on the **Reconciliation statement** on the next page.

Termination of a limited recourse debt

Excessive deductions for capital allowances are to be included in assessable income where expenditure on property has been financed or refinanced wholly or partly by limited recourse debt.

This will occur where:

- the limited recourse debt is terminated after 27 February 1998 but has not been paid in full by the debtor
- because the debt has not been paid in full, the capital allowance deductions allowed for the expenditure exceed the deductions that would be allowable if the unpaid amount of the debt was not counted as capital expenditure of the taxpayer. Special rules apply in working out whether the debt has been fully paid.

Limited recourse debt is a debt where the rights of the creditor as against the debtor in the event of default in payment of the debt or of interest are limited wholly or predominantly to the property that has been financed by the debt, or is security for the debt, or rights in relation to such property.

A debt is also a limited recourse debt if notwithstanding that there may be no specific conditions to that effect, it is reasonable to conclude that the creditors' rights as against the debtor are capable of being so limited. Limited recourse debt includes a notional loan under a hire purchase agreement.

The amount that is included within assessable income as a result of these provisions forms part of your **Income reconciliation adjustments** at **X** item **P8**. Include the amount at **(b)** on the **Reconciliation statement** on the next page.

Reconciliation statement

The **Reconciliation statement** on the next page contains reference to **Assessable balancing adjustment amounts on disposal of depreciating assets**, **Deduction for decline in value of depreciating assets** and **Deductible balancing adjustment amounts on disposal of depreciating assets**. All these terms are explained in the *Guide to depreciating assets*. To find out how to get this publication, see page v.

Step 1 Fill in the **Reconciliation statement** on the next page.

Step 2 Write your total primary production reconciliation adjustments at **Income reconciliation adjustments** and **Expense reconciliation adjustments**, *Primary production* column, item **P8** on your schedule. Do not show cents.

Step 3 If either of the total primary production reconciliation adjustments is a negative amount, print **L** in the box at the right of the amount.

Step 4 Write your total non-primary production reconciliation adjustments at **Income reconciliation adjustments** and **Expense reconciliation adjustments**, *Non-primary production* column, item **P8** on your schedule. Do not show cents.

Step 5 If either of the total non-primary production reconciliation adjustments is a negative amount, print **L** in the box at the right of the amount.

Step 6 Add up your **Income reconciliation adjustments** and **Expense reconciliation adjustments** and write the total amounts at **X** and **H** item **P8** on your schedule.

Step 7 If either of the total reconciliation adjustments is a negative amount, print **L** in the box at the right of the amount at **X** or **H** item **P8** on your schedule.

In the **Reconciliation statement** do not include in the amount at **(t)**:

- drought investment allowance
- environmental protection expenditure
- section 40-880 deductions
- business deductions for project pools
- deductions for landcare operations and water facilities.

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

Reconciliation statement

Income reconciliation adjustments

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

Expense reconciliation adjustments

			Primary production	*Non-primary production*
Additions	Depreciation charged in accounts (non-STS taxpayers only)	(h)	$	$
	Lease payments for luxury cars	(i)	$	$
	Loss on sale of depreciating assets included in accounts	(j)	$	$
	Part of prepaid expenses not deductible this year	(k)	$	$
	Items not allowable as deductions:			
	– capital expenditure	(l)	$	$
	– additions to provisions and reserves	(m)	$	$
	– other non-deductible items, including income tax	(n)	$	$
	Subtotal—add all amounts from (h) to (n)	(o)	$	$
Subtractions	Accrual amount deduction for lessee of luxury cars	(p)	$	$
	Deductible balancing adjustment amounts on disposal of depreciating assets	(q)	$	$
	Deduction for decline in value of depreciating assets (non-STS taxpayers only)	(r)	$	$
	Part of prepaid expenses deductible this year but not included at any other label	(s)	$	$
	Other items deductible for tax purposes not included in the profit and loss statement	(t)	$	$
	Subtotal—add all amounts from (p) to (t)	(u)	$	$
	Expense reconciliation adjustment—take (u) away from (o)		$ /	$ /

A separate reconciliation should be done for primary production and for non-primary production items.

PART G Working out your net income or loss from business this year, not including any non-commercial business losses deferred from the previous year

Step 1 Work out your primary production and non-primary production net income or loss separately by using the tables below.

Working out your net income or loss from primary production business this year

Write your primary production total business income shown at **TOTAL BUSINESS INCOME**, *Primary production* column, item **P8**.	(a)	$ /
Write your primary production total business expenses shown at **S** item **P8**.	(b)	$ /
Total the amounts of any drought investment allowance and deductions for primary production environmental protection expenses, section 40-880 expenditure, project pool and landcare operations and water facilities.	(c)	$ /
Add the amount at (b) to the amount at (c).	(d)	$ /
Take the amount at (d) from the amount at (a).	(e)	$ /
Add: • any primary production income reconciliation adjustment and	(f)	$ /
• any primary production expense reconciliation adjustment	(g)	$ /
to the amount at (e).		
This is your net income or loss from primary production business.	(h)	$ /

Note: *If the amount at **(d)** is more than the amount at **(a)**, the amount at **(e)** is a loss. If it is, or if you have a negative amount at **(f)** or **(g)**, the examples on the next page will help you to work out your loss from primary production business.*

Working out your net income or loss from non-primary production business this year

Write your non-primary production total business income shown at **TOTAL BUSINESS INCOME**, *Non-primary production* column, item **P8**.	(i)	$ /
Write your non-primary production total business expenses shown at **T** item **P8**.	(j)	$ /
Total the amounts of any deductions for non-primary production environmental protection expenses, section 40-880 expenditure, project pool and landcare operations.	(k)	$ /
Add the amount at (j) to the amount at (k).	(l)	$ /
Take the amount at (l) from the amount at (i).	(m)	$ /
Add: • any non-primary production income reconciliation adjustment and	(n)	$ /
• any non-primary production expense reconciliation adjustment	(o)	$ /
to the amount at (m).		
This is your net income or loss from non-primary production business.	(p)	$ /

Note: *If the amount at **(l)** is more than the amount at **(i)**, the amount at **(m)** is a loss. If the amount at **(m)** is a loss, or if you have a negative amount at **(n)** or **(o)**, the examples on the next page will help you to work out your loss from non-primary production business.*

EXAMPLES

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

If the amount at **(e)** is $5000 profit, the amount at **(f)** is $2000 income and the amount at **(g)** is a $6000 loss, the loss from the primary production business is $1000 **(h)**.

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

Step 2 Write the amount of your net income or loss from your primary production business at **B** item **P8** on your schedule. Do not show cents. If you made a loss from primary production business, print **L** in the box at the right of this amount.

Step 3 Write the amount of your net income or loss from your non-primary production business at **C** item **P8** on your schedule. Do not show cents. If you made a loss from non-primary production business, print **L** in the box at the right of this amount.

Step 4 Add up your primary production and non-primary production net income or loss from business and write the total amount at **NET INCOME OR LOSS FROM BUSINESS THIS YEAR**, *Totals* column, item **P8** on your schedule. The amount shown should not include any non-commercial business losses deferred from the previous year (which are shown at **D** or **E**—see part H below).

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

PART H *Do you have any deferred non-commercial business losses from last year?*

NO Go to part I.

YES Read on.

What you need to know

Deferred non-commercial business losses

A deferred non-commercial business loss is a loss you incurred last year which you were unable to claim against other income.

Question **15** on page s12 of *TaxPack 2002 supplement* (NAT 2677—6.2002) explains how the non-commercial business loss rules work.

Step 1 **Primary production business losses**
At **D**, write the amount of any primary production losses you deferred last year from activities that are the same or similar to your current year activity.

Step 2 **Non-primary production losses**
At **E**, write the amount of any non-primary production losses you deferred last year from activities that are the same or similar to your current year activity.

Step 3 Add up the amount of deferred non-commercial business losses shown at **D** and **E**.

Write this amount in the *Totals* column.

PART I *Working out your net income or loss from business, including losses deferred from last year*

Step 1 Take away the amount at **D** from the amount at **B**. Write this amount at **Y**. This is your total net income or loss from your primary production business.

Where **Y** is a negative amount, print **L** in the box to the right of **Y**.

NOTE If you have printed **L** in the box at the right of **Y**, you also need to complete items **P3** and **P9** in the schedule.

Step 2 Take away the amount at **E** from the amount at **C**. Write this amount at **Z**. This is your total net income or loss from your non-primary production business.

Where **Z** is a negative amount, print **L** in the box to the right of **Z**.

NOTE If you have printed **L** in the box at the right of **Z**, you also need to complete items **P3** and **P9** in the schedule.

Step 3 Add up the total net income or loss shown at **Y** and **Z**.

Write this amount in the *Totals* column. Where the total is a negative amount, print **L** in the box to the right.

Step 4 Transfer the amounts at **Y** and **Z** to **B** and **C** item **14** on your tax return respectively.

P9

Business loss activity details

Activity 1

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

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

From 1 July 2000 rules relating to deferred non-commercial business losses apply. This means that you can only use a 2001–02 loss from a business activity you conduct either as a sole trader or in partnership in calculating your 2001–02 taxable income where:

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

If you are unable to claim your loss against other income this year because of these rules, you must defer the loss this year.

This deferred loss is not disallowed. Instead, you take it into account for the next income year in which you carry on this business activity or one of a similar kind in the following way:

- the deferred loss is taken into account in calculating any net profit or loss from the activity in that future year
- hence, the deferred loss may be offset against any profit from the activity in that year.

Whether any overall loss can be included in your calculation of taxable income for that future year will depend on the application of the non-commercial business loss deferral rules in that year.

EXAMPLE

In 2001 Kieren had to defer his non-commercial business loss of $6000 from his beef cattle primary production business activity. Because he operated the same activity in the 2002 income year he can claim the $6000 as a deduction in relation to calculating any net profit or loss from the business activity for this income year. Kieren would show the amount as a deduction at **D** item **P8** on his *2002 business and professional items schedule*.

P8 Business income and expenses

	Primary production	Non-primary production	Totals
Deferred non-commercial business losses from the prior year	D 6,000.00	E .00	6,000.00

This year, after taking into account his deferred non-commercial business loss from the prior year, Kieren made a net loss of $10 000. He did not satisfy any of the Division 35 criteria that allow a business loss to be used to reduce other income so he must defer the $10 000 net loss this year.

Kieren would show the $6000 deferred non-commercial business loss from the prior year at **H** item **P9** and the net loss of $10 000 at **I** item **P9** on his *2002 business and professional items schedule*. As the loss is to be deferred he would show the number **8** at **G** item **P9** in the *Type of loss* box. See the **Type of loss** section on page 33 for a description of the loss codes.

P9 Business loss activity details

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

ACTIVITY 1

Description of activity **D** BEEF CATTLE

ATO use only **E**

F Partnership ☐ Sole trader S

Type of loss **G** 8

Deferred non-commercial business loss from the prior year **H** 6,000.00

Net loss **I** 10,000.00

Kieren would also need to complete **G** item **15** on his tax return deferring his $10 000 net loss. He would not be able to use this net loss to reduce his other income this year.

15 Deferred non-commercial business losses

Your share of deferred losses from partnership activities **F** .00

Deferred losses from sole trader activities **G** 10,000.00

Item **P9** in the *2002 business and professional items schedule* must be completed before you complete this item.

Total deferred losses **H** 10,000.00

Type of loss

The code you use at **G** item **P9** on the schedule will determine whether you can claim your loss against other income this year.

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

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

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

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

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

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

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

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

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

Print **8** If none of the above codes apply and the loss is required to be deferred.

Print the amount of last year's deferred non-commercial business loss from the business activity at **H** item **P9** on your schedule.

Print the amount of the net loss from the business activity for 2001–02 at **I**. For partners in a partnership this would be your share of the net loss from the business activity and includes any deferred non-commercial business losses from the prior year claimed at **X** or **Y** item **12** on your tax return.

NOTE If you print code **8** at **G**, **M** or **S** item **P9** your loss is required to be deferred and you must also complete item **15** on your tax return (supplementary section).

NOTE For some tax returns lodged electronically where there is a loss from a partnership from a passive investment—for example, from a rental property—it will be necessary to use code **0** at **G** item **P9**.

Activities 2 and 3

Fill out details for the 2nd and 3rd largest losses (if applicable) in the same way you have done for activity 1.

If loss code **8** applies to one or more of the net loss amounts shown at **I**, **O** or **U**, the total of the amounts required to be deferred are to be shown at item **15** on your tax return (supplementary section). The effect of showing an amount at item **15** is that this loss amount is not taken into account when calculating your taxable income for 2001–02.

For more details on these rules, see question **15** *TaxPack 2002 supplement*.

P10

STS depreciating assets

Only complete this item if you are eligible to enter the STS and you have elected to do so at item **S1**.

To complete this item use the amounts you calculated for STS depreciation deductions at **M** **Depreciation expenses** item **P8** on page 17.

At **A** **Low-cost assets** write the total amount you claimed at item **P8** relating to low-cost assets.

At **B** **General pool assets**, write the total amount you claimed at item **P8** relating to your general STS pool.

At **C** **Long-life pool assets**, write the total amount you claimed at item **P8** relating to your long-life STS pool.

Other business and professional items

ITEMS P11 TO P19

You need to fill in all items relating to your business expenses. However, if you are eligible to enter the STS and you have elected to do so at item **S1**, you do not need to fill in items **P11**, **P12** and **P15** to **P18**.

If you have more than one business, you must add the figures for all businesses, irrespective of whether they are primary or non-primary production and write only one figure at each item.

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

P11

Did you have any trade debtors?

NO Go to item **P12**.

YES Read on.

What you need to know

This is the total amount owing to the business at the end of the year for goods and services provided during 2001–02; that is, current trade and other debtors.

NOTE If you are eligible to enter the STS and you have elected to do so at item **S1**, you do not need to complete this item.

Step 1 Work out the total amount owing from trade and other debtors. If you have more than one business, add up all trade and other debtor amounts.

Step 2 Write the total amount owing from trade and other debtors at **E** item **P11** on your schedule. Do not show cents.

P12

Did you have any trade creditors?

NO Go to item **P13**.

YES Read on.

What you need to know

This is the total amount owed by the business at the end of the year for goods and services provided during 2001–02; that is, current trade and other creditors.

NOTE If you are eligible to enter the STS and you have elected to do so at item **S1**, you do not need to complete this item.

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

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

P13

Did you pay salary and wages as a business expense?

NO Go to item **P14**.

YES Read on.

What you need to know

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

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

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

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

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

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

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

P14

Did you make any payments to associated persons as a business expense?

NO Go to item **P15**.

YES Read on.

What you need to know

These are amounts, including salary or wages, commissions, superannuation contributions or allowances paid to your relatives or a partnership in which your relative is a partner. Amounts of salaries or wages paid to relatives and related partnerships should also be included at **G** item **P13** on your schedule.

You need to keep the following records:

- full name of relative or related partnership
- age, if under 18 years old
- relationship
- nature of duties performed
- hours worked
- total remuneration
- salary or wages claimed as deductions
- other amounts paid—for example, retiring gratuities, bonuses and commissions.

Excessive payments to a relative or related partnership may not be deductible.

Step 1 Add up payments made to relatives and related partnerships from each business.

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

P15

Did you start to deduct the decline in value of any **intangible** depreciating assets?

NO Go to item **P16**.

YES Read on.

STOP If you are eligible to enter the STS and you have elected to do so at item **S1**, do not complete this item.

What you need to know

The following intangible assets are regarded as depreciating assets (as long as they are not trading stock):

- certain items of intellectual property
- computer software (or a right to use computer software) that you acquire, develop or have someone else develop for your use for the purposes for which it is designed (in-house software)
- mining, quarrying or prospecting rights and information
- spectrum licences
- datacasting transmitter licences.

A depreciating asset that you hold starts to decline in value from the time you use it (or install it ready for use) for any purpose, including a private purpose. However, you can only claim a deduction for the decline in value to the extent that you use the asset for a taxable purpose, such as for producing assessable income.

At item **P15** you need to show the cost of all intangible depreciating assets for which you are claiming a business deduction for decline in value for the first time. If you have allocated any intangible depreciating assets with a cost of less than $1000 to a low-value pool for the income year, you also need to include the cost of those assets at item **P15**. Do not reduce the cost for estimated non-taxable use.

While expenditure on developing in-house software may not give rise to a depreciating asset when the expenditure is incurred and while any deduction for this year's expenditure allocated to a software development pool is not available until next year, you must include at item **P15** any expenditure you incurred during this income year to develop (or to have developed) in-house software and which you allocated to a software development pool. You must also include expenditure incurred this year on any in-house software development that you have not allocated to a software development pool.

For more information on decline in value, cost, low-value pools, in-house software and software development pools, refer to the publication *Guide to depreciating assets*. To find out how to get this publication, see page v.

Step 1 Total the costs and expenditure.

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

NOTE If you have included an amount of more than $5000 at item **P15**, you need to complete and attach a *Capital allowances schedule 2002*. For more information, refer to the publication *Capital allowances schedule instructions*. To find out how to get this schedule and the instructions, see page v.

P16

Did you start to deduct the decline in value of any other depreciating assets?

NO Go to item **P17**.

YES Read on.

STOP If you are eligible to enter the STS and you have elected to do so at item **S1**, do not complete this item.

What you need to know

A depreciating asset that you hold starts to decline in value from the time you use it (or install it ready for use) for any purpose, including a private purpose. However, you can only claim a deduction for the decline in value to the extent you use the asset for a taxable purpose, such as for producing assessable income.

At item **P16** you need to include the cost of all depreciating assets (other than intangible depreciating assets) for which you are claiming a business deduction for the decline in value for the first time.

If you have allocated any depreciating assets with a cost of less than $1000 to a low-value pool for the income year, you also need to include the cost of those assets at item **P15**. Do not reduce the cost for estimated non-taxable use.

For more information on decline in value, cost and low-value pools, refer to the publication *Guide to depreciating assets*. To find out how to get this publication, see page v.

Step 1 Total the costs.

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

NOTE If you have included an amount of more than $5000 at item **P16**, you need to complete and attach a *Capital allowances schedule 2002*. For more information, refer to the publication *Capital allowances schedule instructions*. To find out how to get this schedule and the instructions, see page v.

P17

Did you stop holding or using any **intangible** depreciating assets?

NO Go to item **P18**.

YES Read on.

STOP If you are eligible to enter the STS and you have elected to do so at item **S1**, do not complete this item.

What you need to know

(See item **P15** on page 35 for more information about intangible depreciating assets.)

At item **P17** you include the termination value of each balancing adjustment event occurring for intangible depreciating assets (including pooled assets). A balancing adjustment event occurs if you stop holding or using a depreciating asset or decide not to use it in the future (for example, assets sold, lost or destroyed).

Generally, the termination value is the amount you receive or are deemed to receive in relation to the balancing adjustment event. It includes the market value of any non-cash benefits such as goods and services you receive for the asset.

While amounts received in relation to in-house software may not constitute the termination value from a balancing adjustment event, you must include at item **P17** any consideration you receive during the income year in relation to in-house software for which you have allocated expenditure to a software development pool.

For more information on balancing adjustment events, termination value, in-house software and software development pools, refer to the publication *Guide to depreciating assets*. To find out how to get this publication, see page v.

Step 1 Add up any amounts received in relation to in-house software and the termination values for all intangible depreciating assets other than assets falling within the provisions relating to investments in Australian films.

Step 2 Write the amount at **D** item **P17** on your schedule. Do not show cents.

P18

Did you stop holding or using any other depreciating assets?

NO Go to item **P19**.

YES Read on.

STOP If you are eligible to enter the STS and you have elected to do so at item **S1**, do not complete this item.

What you need to know

At item **P18** you include the termination value of each balancing adjustment event occurring for depreciating assets (including pooled assets). A balancing adjustment event occurs if you stop holding or using a depreciating asset or decide not to use it in the future (for example, assets sold, lost or destroyed).

Generally, the termination value is the amount you receive or are deemed to receive in relation to the balancing adjustment event. It includes the market value of any non-cash benefits such as goods and services you receive for the asset.

For more information on balancing adjustment events and termination value, refer to the publication *Guide to depreciating assets*. To find out how to get this publication, see page v.

Step 1 Add up the termination values for all depreciating assets that you stopped holding or using in your business other than:

- intangible depreciating assets
- buildings or structures for which a deduction is available under the capital works provisions
- assets used in research and development activities
- assets falling within the provisions relating to investments in Australian films.

Step 2 Write the amount at **K** item **P18** on your schedule. Do not show cents.

P19

Have you made a trading stock election?

NO Go to **Check that you have...**

YES Read on.

What you need to know

If you have valued trading stock on hand at the end of the year of income at an amount that is less than the lowest amount available using one of the valuation methods at **Part C—What is the value of your closing stock?** on page 12, the Commissioner must be notified. Print **Y** for yes in the box at this item.

Check that you have...

- written the correct amount on your schedule for each item that applies to you
- correctly transferred the amount at **A** **Net PSI** item **P1** on your *2002 business and professional items schedule* to **A** item **13** on your tax return
- correctly transferred the amounts at **Y** and **Z** **NET INCOME OR LOSS FROM BUSINESS** item **P8** on your *2002 business and professional items schedule* to **B** and **C** item **14** on your tax return respectively
- kept records to prove your claims, where required
- signed and dated your *2002 business and professional items schedule* and attached it to page 3 of your tax return
- completed and attached the *Individual PAYG payment summary schedule 2002* to page 3 of your tax return, if you received business income that was subject to withholding.