INDIVIDUALS	BUSINESS AND PROFESSIONAL TAXPAYERS	GUIDE	NAT 2543—6.2004
SEGMENT	AUDIENCE	FORMAT	PRODUCT ID

Australian Government
Australian Taxation Office

Business and professional items

To help you prepare your *2004 business and professional items schedule for individuals*

Lodge your tax return by 31 October 2004

Use this guide if directed by *TaxPack*

Looking for another way to do your tax?

You don't need to use *TaxPack* if you have access to the internet—for a fast, secure and easy way to do your tax, use e-tax, available 7 days a week at **www.ato.gov.au**

OUR COMMITMENT TO YOU

The information in this publication is current at May 2004 and we have made every effort to ensure it is accurate. However, if something in the publication is wrong or misleading and you make a mistake as a result, you will not be charged a penalty. You may have to pay interest, depending on the circumstances of your case.

You are protected under GST law if you have acted on any GST information in this publication. If you have relied on GST advice in this Tax Office publication and that advice has later changed, you will not have to pay any extra GST for the period up to the date of the change. Similarly, you will not have to pay any penalties or interest.

If you feel this publication does not fully cover your circumstances, please seek help from the Tax Office – the Small business infoline number is **13 28 66** – or a recognised tax adviser. Since we regularly revise our publications to take account of any changes to the law, you should make sure this edition is the latest. The easiest way to do this is by checking for a more recent version on our website at **www.ato.gov.au**

YOUR RIGHTS

It is important that you are aware of your rights and obligations when dealing with the Tax Office. These are explained in the taxpayer's charter, along with the service and other standards you can expect from the Tax Office. To view the taxpayers' charter, visit our website at **www.ato.gov.au** To get a printed copy of the *Taxpayers' Charter – what you need to know* (NAT 2548), phone our distribution service on **1300 720 092**.

HOW SELF-ASSESSMENT AFFECTS YOU

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

What are your responsibilities?

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

What if you lodge an incorrect tax return?

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

Initiatives to complement self-assessment

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

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

Do you need to ask for a private ruling?

If you have a concern about the way a tax law applies to your personal tax affairs, you may want to ask for a private ruling.

A private ruling will relate just to your situation. Write to the Tax Office describing your situation in detail and ask for advice. To do this, complete an *Application for a private ruling for individuals* (NAT 4106—3.2001). You should lodge your tax return by the due date, even if you are waiting for the reply to your private ruling. You may need to request an amendment to your tax return once you have received the private ruling.

The Tax Office publishes on its website all private rulings issued. What we publish will not contain anything which could identify you.

You can ask for a review of a private ruling decision if you disagree with it, even if you have not received your assessment. Details of the review procedures are sent to you when the private ruling decision is made. For more information on private rulings, visit the Tax Office website at **www.ato.gov.au**

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WHAT'S NEW

Simplifying tax obligations for business

The Commissioner has released *Practice Statement PS LA 2003/8—Taxation treatment of expenditure on low cost items for taxpayers carrying on a business*. The Practice Statement provides guidance on two straightforward methods that can be used by taxpayers carrying on a business to help determine whether expenditure incurred to acquire certain low-cost items is to be treated as revenue or capital.

Subject to certain qualifications, the two methods cover expenditure below a threshold and the use of statistical sampling to estimate total revenue expenditure on low-cost items. The threshold rule allows an immediate deduction for qualifying low-cost business items costing $100 or less. The sampling rule allows taxpayers with a low-value pool to use statistical sampling to determine the proportion of the total purchases on qualifying low-cost business items that are revenue expenditure.

A deduction for expenditure incurred on low-cost assets calculated in accordance with this Practice Statement will be accepted by tax officers.

Foreign exchange (forex) gains and losses

New measures have been introduced which set out new rules on the taxation of forex gains and losses and the manner in which tax-relevant foreign currency amounts are to be converted into Australian dollars.

For more information on the forex measures, visit the Tax Office website at **www.ato.gov.au**

INTRODUCTION

THIS SCHEDULE IS TO BE USED ONLY BY INDIVIDUALS

If you complete item **13**, **14** or **15** of your tax return (supplementary section), you must fill in the *2004 business and professional items schedule for individuals* at the back of this publication and send it in with your tax return. If the business or professional items that apply to you are not filled in, your tax return will be sent back to you. These instructions will help you to fill in the schedule.

If your tax return and completed schedule are lodged late, you may be liable for a penalty. For information on the penalty for failure to lodge on time, see page 8 in *TaxPack 2004*. To find out how to get a copy of this publication, see the inside back cover.

If you have a net loss from a business activity carried on in partnership with others, you may need to complete items **P3** and **P9** of the schedule. 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.

You will also need to complete the *Individual PAYG payment summary schedule 2004* at the back of this publication if you received any of the following:

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

These instructions will help you fill in that schedule.

HOW MANY HOURS DID IT TAKE YOU TO PREPARE AND COMPLETE THIS SCHEDULE?

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

Write the number of hours it took you to prepare and complete your *2004 business and professional items schedule for individuals* at **S** in the *Taxpayer's signature* block on your schedule.

When completing this item consider the time, rounded up to the nearest hour, 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 reflect the time your business spent preparing and completing your schedule and the time spent by your tax agent and any other person whose assistance you obtained.

If you are a tax agent preparing this schedule on behalf of your client, include your time and a reliable estimate of their time.

YOU NEED TO KNOW

Records you need to keep

You must keep records of most transactions in English for five years after you prepared or obtained them, or five years after you completed the transactions or acts to which they relate, whichever is the later. *Taxation Ruling TR 96/7 – 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 – Record keeping – electronic records* provides further information on electronic records. To find out how to get these rulings, see the inside back cover.

The Tax Office 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 Tax Office are failure to:

- record cash income and expenditure
- account for personal drawings
- record goods for your own use
- separate private expenses from business expenses
- keep valid tax invoices for creditable acquisitions when registered for GST
- keep adequate stock records
- keep adequate records to substantiate motor vehicle claims.

For additional information, please refer to the publication *Record keeping for small business*. To find out how to get this publication, or to get a CD-ROM of our electronic record-keeping package e-Record, see the inside back cover.

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
- has a purpose of profit as well as a prospect of 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, recreation or sporting activity.

For additional information, please read Are you carrying on a business in the publication *Tax basics for small business*. Primary producers should also refer to *Taxation Ruling TR 97/11 – Am I carrying on a business of primary production?* To find out how to get these publications, see the inside back cover.

BUSINESS AND PROFESSIONAL ITEMS

YOU NEED TO KNOW

When you have completed your *2004 business and professional items schedule for individuals*, you will need to transfer:

- your **Net PSI** amount (if any) from **A** item **P1** to **A** item **13** on your tax return
- your **NET INCOME OR LOSS FROM BUSINESS** amounts from **Y** and **Z** item **P8** to **B** and **C** item **14** on your tax return.

S1 SIMPLIFIED TAX SYSTEM (STS) ELECTIONS

Are you eligible to enter or continue in the STS and want to do so, or are you exiting from the STS?

NO Go to item **P1**.

YES Read on.

YOU NEED TO KNOW

The STS has three main elements:

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

In addition, the STS 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.

Participation in the STS is optional where you satisfy the eligibility tests.

If you choose to participate in the STS, you must use all three elements, where they apply. The STS accounting and the simplified depreciation (capital allowance) rules apply to your non-business income and deductions as well as business income and deductions. However, the STS depreciation rules do not apply to depreciating assets used in rental properties.

If you choose to leave the STS, you cannot re-enter the STS again until at least five years after the income year for which you were last an STS taxpayer. If you must leave the STS because you are no longer eligible, you can become an STS taxpayer again for an income year as soon as you are eligible.

For more information about the STS, refer to the publication *The Simplified Tax System – A guide for tax agents and small businesses*, visit our website at **www.ato.gov.au** or phone the Small business infoline on **13 28 66**. To find out how to get the publication, see the inside back cover.

If you want to enter the STS and are eligible to do so, you must complete **G**, **H** and **I** item **S1**. If you want to continue in the STS and are eligible to do so, you must complete **G**, **R** and **I** item **S1**.

If you are exiting from the STS, you must complete **S** or **T** item **S1**. Go to **Exiting from the STS** on page 4.

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

> **NOTE**
> If you are a partner in a partnership and the partnership is eligible and wants to enter the STS, the election to enter must be made at item 3 in the partnership's tax return. You do not complete item S1.
> If you carry on a business separate to the partnership and you are eligible to enter the STS, you can also elect to enter the STS by completing item **S1**.

ELIGIBILITY

For the year of income you must have satisfied all three 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. For more information, phone the Small Business Infoline on **13 28 66** or see *Taxation Ruling TR 2002/11 – Simplified Tax System eligibility – STS average turnover*. To find out how to get this publication see the inside back cover.

Look back method

Under the look back method, you calculate your STS average turnover using the average of your STS group turnovers of any three years out of the previous four income years (excluding the current year).

If you have been in business for less than three 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 any of those years, you must use a reasonable estimate of what your turnover 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
1999–2000	$
2000–2001	$
2001–02	$
2002–03	$
Cross out the largest turnover amount if you have been in business for each of the four income years.	
Total of the three* years	$
	Divide by 3*.
STS average turnover	$

* or the number of years you have been in business if less than three 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 two 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 two income years.

If your business (or a grouped entity) has operated for only part of the current year, you must use a reasonable estimate of what your STS group turnover for this year would have been if you (and the grouped entity) had carried on a business throughout this year.

Use the following table to assist you with your calculation.

Income year	STS group turnover
2003–04	$
2004–05	$
2005–06	$
Total	$
	Divide by 3*.
STS average turnover	$

* or the number of years you expect to be in business if less than three 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 2004?

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 2004 is less than $3 million at this time, you satisfy this test.

Did you satisfy all three eligibility tests?

NO You are not eligible to enter or continue in the STS. If you were not in the STS in the prior year, go to item **P1**. If you were in the STS in the prior year and are no longer eligible, you must exit from the STS. Read on.

YES Read on.

COMPLETING THIS ITEM

ENTERING THE STS

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

CONTINUING IN THE STS

If you want to continue in the STS and are eligible to do so, complete G, R and I item **S1**.

Print **X** in the **YES** boxes at G and R 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**.

EXITING FROM THE STS

If you do satisfy all three eligibility tests but want to exit from the STS, you need to complete S item **S1**.

Print **X** in the **YES** box at S item **S1**. Leave all other boxes blank.

If you do not satisfy all three eligibility tests you must exit from the STS by completing T item **S1**.

Print **X** in the **YES** box at T item **S1**. Leave all other boxes blank.

If you choose to leave the STS, you cannot re-enter the STS again until at least five years after the income year for which you were last an STS taxpayer.

However, if you must leave the STS because you are no longer eligible, you can become an STS taxpayer again for an income year as soon as you are eligible.

P1 PERSONAL SERVICES INCOME (PSI)

Did you receive personal services income?

STOP

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.

NO Print **X** in the **NO** box at item **P1** on your schedule. Go to item **P2** on page 10.

YES Print **X** in the **YES** box at item **P1** on your schedule. Go to Part A on the next page.

YOU NEED TO KNOW

PSI 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, 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 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 four tests in part A on page 5–6.

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 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

Did 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% 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?

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** on page 10.

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

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** on page 10.

Did you receive 80% or more of your PSI from one source?

If you don't meet the results test and 80% 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% of your PSI comes from each client.

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

> **NOTE**
> Special rules apply to commission agents. For more information, phone the Small business infoline on **13 28 66**.

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 on the next page.

Did 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 two or more clients who are not associated with each other or with you?

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 merely registering with a labour hire firm, placement agency or similar organisation.

> **NOTE**
> Special rules apply to commission agents. For more information, ring the Small business infoline on **13 28 66**.

NO Read on.

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

Did 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 apprentices for at least half the income year?
- Did you have employees or did you engage subcontractors or entities who performed at least 20% (by market value) of the principal work?

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.

NO Read on.

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

Did you satisfy the business premises test?

You will meet the business premises test if you can answer YES to all of the following question:

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

NO Read on.

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

If you printed **X** at **D1**, **E1** or **F1**, go to item **P2** on page 10. Otherwise read on.

PART B

YOU NEED TO KNOW

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

- receive a personal services business determination in respect to your PSI
- satisfy the results test, or
- satisfy at least one of the other three personal services business tests if less than 80% 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.

STS TAXPAYERS

If you are eligible to enter or continue in the STS and you have chosen 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 12 and 23. If you are claiming STS depreciation, you also need to complete item **P10** on your schedule.

NOTE

If you are registered or required to be registered for GST, do not include any GST amounts in your assessable income. Your deductions should not include any amounts that relate to input tax credit entitlements.

WHAT YOU MAY NEED

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 2004* before completing item **P1**.

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

If you received income 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 2004*

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.

If you have both PSI (item **P1**) and business income (item **P8**) you will need to complete two separate Individual PAYG payment summary schedules.

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

- the type of withholding – 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 schedule and attached it 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 five years.

Payers are required to report to the Tax Office 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: PSI—VOLUNTARY AGREEMENT

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

NO Go to label N.

YES Read on.

Label M is the total income you received that was subject to a PAYG voluntary agreement, including amounts of tax withheld. You will be able to calculate this amount from your completed *Individual PAYG payment summary schedule 2004*.

COMPLETING THIS LABEL

Add up all amounts from the *Individual PAYG payment summary schedule 2004* at **Gross payment** boxes with a corresponding **V** in the TYPE box. Write this amount at M item **P1**. Do not show cents.

If you complete this label you must also complete G item **13** on your tax return.

LABEL N: PSI—WHERE AUSTRALIAN BUSINESS NUMBER NOT QUOTED

Did you have any amounts of tax withheld from your PSI for failure to quote an Australian business number (ABN)?

NO Go to label O.

YES Read on.

Label N is your total PSI from which an amount has been withheld because you did not quote your ABN, including the amounts of tax withheld.

You will be able to calculate this amount from your completed *Individual PAYG payment summary schedule 2004*.

COMPLETING THIS LABEL

From the *Individual PAYG payment summary schedule 2004* add up all amounts at **Gross payment** boxes which have N in the TYPE box. Write this amount at N item **P1**. Do not show cents.

If you complete this label you must also complete H item **13** on your tax return.

LABEL O: PSI—LABOUR HIRE OR OTHER SPECIFIED PAYMENTS

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

NO Go to label J.

YES Read on.

Label O is the total income you received from labour hire or other specified payments, including amounts of tax withheld. You will be able to calculate this amount from your completed *Individual PAYG payment summary schedule 2004*.

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

COMPLETING THIS LABEL

From the *Individual PAYG payment summary schedule 2004* add up all the amounts at the **Gross payment** boxes with a corresponding **S** in the TYPE box. Write this amount at O item **P1**. Do not show cents.

If you complete this label you must also complete J item **13** on your tax return.

LABEL J: PSI—OTHER

Did you receive any other PSI?

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

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 PSI rules.

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. *Taxation Ruling TR 2003/10 – Deductions that relate to personal services income* explains the PSI deduction limitation rules.

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.

The following are examples of items you may be able to deduct:

- premiums for workers' 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 a tax return or *Business activity statement* (BAS)
- registration or licensing fees
- expenses for advertising, tendering and quoting for work
- deduction for decline in value of depreciating assets
- STS depreciation
- 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 complying superannuation fund on behalf of an arm's length employee (not an associate) up to the age based deduction limit
- reasonable amounts paid to an associate for principal work
- contributions to a complying superannuation fund or retirement savings account up to the superannuation guarantee amount for an associate doing solely principal work.

Do not include any amount that was a superannuation contribution for yourself. Any deduction for your own superannuation contributions must be claimed at item **D13** on your tax return. See question **D13** in *TaxPack 2004 supplement*.

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 (or the residence of an associate)
- 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: DEDUCTIONS FOR PAYMENTS TO ASSOCIATES FOR PRINCIPAL WORK

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: TOTAL AMOUNT OF OTHER DEDUCTIONS AGAINST PSI

Do you have other allowable deductions against your PSI?

NO Go to label A.

YES Read on.

YOU NEED TO KNOW

In completing this label you only include non-commercial business losses deferred from a prior year if they relate to an activity which is the same as, or similar to, your current year activity. Question **15** in *TaxPack 2004 supplement* explains how the non-commercial business loss rules work.

The non-commercial business loss deduction may be reduced if:

- you earned net exempt income in this income year, or
- you have become bankrupt or are released from any debts by the operation of an Act relating to bankruptcy.

Phone the Small business infoline on **13 28 66** for more information. For an explanation of net exempt income, see question **L1** in *TaxPack 2004*.

COMPLETING THIS LABEL

Add up the total amount of all other expenses (including non-commercial business losses deferred from a prior year) that you can deduct from your PSI. Write the amount at **L** item **P1**.

Do not include amounts already recorded at **K** item **P1**.

LABEL A: WORKING OUT YOUR NET PSI

COMPLETING THIS LABEL

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 *2004 business and professional items schedule for individuals*.
  For information on how to complete item **P9**, see page 40.

Did you have any other business income?

NO ☐ Go to **CHECK THAT YOU HAVE…**

YES ☐ Go to item **P2**.

CHECK THAT YOU HAVE…

- ☐ written your tax file number and your full name on page 1 of your *2004 business and professional items schedule for individuals*
- ☐ provided the correct information on your schedules
- ☐ completed items **P2** and **P3**
- ☐ completed item **P9** on your schedule if you have a loss at **A** item **P1**
- ☐ completed item **P10** on your schedule if you have claimed STS depreciation, and are eligible to enter or continue in the STS and you have chosen to do so at item **S1**.
- ☐ signed and dated your *2004 business and professional items schedule for individuals* and attached it to page 3 of your tax return
- ☐ completed and attached the *Individual PAYG payment summary schedule 2004* 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**.

You do not need to complete any remaining items on your schedule.

P2 DESCRIPTION OF MAIN BUSINESS OR PROFESSIONAL ACTIVITY

Describe, as accurately as possible, the business or professional 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.

COMPLETING THIS ITEM

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

P3 NUMBER OF BUSINESS ACTIVITIES

COMPLETING THIS ITEM

Print at **B** the number of separate and distinct business activities you operated as a sole trader and in partnership during 2003–04. 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 STATUS OF BUSINESS

COMPLETING THIS ITEM

If you ceased your main business during 2003–04, print **X** at **C1** item **P4** on your schedule.

If you commenced a new business during 2003–04, 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 BUSINESS NAME OF MAIN BUSINESS AND AUSTRALIAN BUSINESS NUMBER (ABN)

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 us in writing at the time the change is made. The current business name should be shown on your tax return.

COMPLETING THIS ITEM

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.

P6 BUSINESS ADDRESS OF MAIN BUSINESS

COMPLETING THIS ITEM

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?

YOU NEED TO KNOW

You must answer YES at this item 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.

You must answer **NO** at this item 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 online.

COMPLETING THIS ITEM

If your answer is **yes**, print **X** in the **YES** box at Q item **P7** on your schedule.

If your answer is **no**, print **X** in the **NO** box at Q item **P7** on your schedule.

P8 BUSINESS INCOME AND EXPENSES

INCOME

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 16–18, and
- depreciation expenses for STS taxpayers only, which are to be shown at tax values as explained on page 23

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 page 12 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 franking credits (formerly called 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.

STOP

If you received PSI as a sole trader, you must complete item **P1** of the *2004 business and professional items schedule for individuals*. 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**.

If you are eligible to enter or continue in the STS and you have chosen 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 following 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, phone the Small business infoline on **13 28 66** or visit the Tax Office website at **www.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 ADJUSTMENTS** section. For more information about these adjustments, see pages 32–34. In addition to the STS accounting method there are also specific STS rules for depreciation as explained on page 23, and for trading stock as explained on pages 17–18.

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

NO Go to **part D** on page 14.

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 2004* before completing item **P8**.

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

If you received income 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 2004*

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.

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

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

- the type of withholding – 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 2004* 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 five years.

Payers are required to report to the Tax Office 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.

PART A: GROSS PAYMENTS WHERE AUSTRALIAN BUSINESS NUMBER (ABN) NOT QUOTED

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

NO Go to **part B**.

YES Read on.

YOU NEED TO KNOW

Gross payments where Australian business number not quoted item **P8** is the total income you received from which your payers have withheld an amount because you did not quote your ABN. It includes the amounts of tax withheld. You will be able to calculate this amount from your completed *Individual PAYG payment summary schedule 2004*.

COMPLETING THIS PART

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**.

If you complete these labels you must complete **W** item **14** on your tax return.

PART B: GROSS PAYMENTS—VOLUNTARY AGREEMENT

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

NO Go to **part C**.

YES Read on.

YOU NEED TO KNOW

Gross payments—voluntary agreement item **P8** is the total income you received that was 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.

COMPLETING THIS PART

STEP 1 Add up all amounts on your completed payment summary schedule at **Gross payment** boxes with an **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 an **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**.

If you complete these labels you must complete **D** item **14** on your tax return.

PART C: GROSS PAYMENTS—LABOUR HIRE OR OTHER SPECIFIED PAYMENTS

Did you receive:

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

NO Go to **part D**.

YES Read on.

YOU NEED TO KNOW

Gross payments—labour hire or other specified payments item **P8** is the total income 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 withholding payment summary – individual non business* and should be shown at item **1** on your tax return.

COMPLETING THIS PART

STEP 1 Add up all amounts from the payment summary schedule at the **Gross payment boxes** with an **S** in the TYPE box. These amounts are non-primary production income. Write your total at **O** item **P8**. Do not show cents. Leave **N** blank.

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

If you complete these labels you must complete **F** item **14** on your tax return.

PART D: ASSESSABLE GOVERNMENT INDUSTRY PAYMENTS

Did your business receive assessable government industry assistance?

NO Go to **part E**.

YES Read on.

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 amounts of a capital nature. However, amounts relating to the commencement or cessation of a business may not be assessable.

Examples of assessable government industry assistance are:

- bounties
- diesel fuel rebate
- diesel and alternative fuels grants/energy grants credits
- drought relief
- employee subsidies
- export incentive grants
- fuel sales grants
- industry restructuring and adjustment payments
- Medicare payments received by medical practices.

COMPLETING THIS PART

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, diesel and alternative fuels grant and/or energy grants credit, 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, diesel and alternative fuels grant and/or energy grants credit, 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: OTHER BUSINESS INCOME

Did you receive any other business income?

NO Go to **part F**.

YES Read on.

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 if it is not shown at item **P1**)
- 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**, **O**, **G** and **H** on your schedule.

COMPLETING THIS PART

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: TOTAL BUSINESS INCOME

COMPLETING THIS PART

STEP 1 Add up the primary production amounts shown at **C**, **E**, **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

STOP

Do not include the following expense items on your schedule:

- interest and dividend income expenses – claim deductible expenses at item **D7** 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.
- expenses relating to your personal services income shown at item **P1** on your schedule
- low-value pool deduction where the pool contains assets used for work-related, self-education or rental purposes – read question **D6** in *TaxPack 2004*.

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.

If you are a primary producer you will need a primary production worksheet to help you work out some of the amounts in this section. This worksheet is included in the publication *Information for primary producers*. To find out how to get this publication, see the inside back cover. Complete the worksheet before proceeding.

NOTE

Except for:

- the values of opening and closing stock – which are to be shown at tax values as explained on pages 16–18, and
- depreciation expenses for STS taxpayers only – which are to be shown at tax values as explained on page 23

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 of 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 **D10** on your tax return. Do not show the penalty on your *2004 business and professional items schedule for individuals*. For more information, see *TaxPack 2004*.

> NOTE
>
> If you made a prepayment of $1,000 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. Generally, you will need to apportion your deduction for prepaid business expenditure over the service period or 10 years, whichever is less. There are some exceptions under the 12-month rule for STS taxpayers, the special rules relating to plantation forestry managed agreements, and certain transitional provisions. For more information, see the publication *Deductions for prepaid expenses*. To find out how to get a copy of this publication, see the inside back cover.
>
> Where expense labels at item **P8** include prepaid expenses which differ from the amounts allowable as deductions in the 2003–04 income year, make an expense reconciliation adjustment at **H** item **P8**.

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

THIN CAPITALISATION

The thin capitalisation 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.

Do the thin capitalisation provisions apply to you?

The thin capitalisation rules will apply to you if:

- 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
- 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.

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% of the value of your and your associates' total assets.

What if the thin capitalisation rules apply to you?

If the thin capitalisation rules apply to you, you must complete the *Thin capitalisation schedule 2004*. 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*, which is available on the Tax Office website at **www.ato.gov.au**

Complete the thin capitalisation schedule and post it to:

Australian Taxation Office
PO Box 1365
ALBURY NSW 2640

PART A: OPENING STOCK

Did you have trading stock on hand at the start of the year?

NO Go to **part B**.

YES Read on.

YOU NEED TO KNOW

The opening value of an item of stock must equal its closing value in the previous year. The total value of all stock on hand at the start of the year is equal to the amount shown as closing stock on your 2003 schedule.

Do not include 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.

COMPLETING THIS PART

STEP 1 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 2 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 3 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: PURCHASES AND OTHER COSTS

Did you have purchases and other costs?

NO Go to **part C**.

YES Read on.

YOU NEED TO KNOW

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 also includes the cost of stock acquired when starting or acquiring a business during the year. 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**.

COMPLETING THIS PART

STEP 1 Work out the value of your primary production purchases and other costs directly related to trading stock. 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 directly related to trading stock 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 directly related to trading stock. 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 directly related to trading stock 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 directly related to trading stock and write the total value at **L** item **P8** on your schedule.

> **NOTE**
> STS taxpayers – only show purchases and other costs that you have paid.

PART C: CLOSING STOCK

Did you have trading stock on hand at the end of the year?

NO Go to **part D**.

YES Read on.

If you are eligible to enter or continue in the STS and have chosen to do so at item **S1**, read on. Otherwise go to **Closing stock for other businesses** on page 18.

CLOSING STOCK FOR STS TAXPAYERS

YOU NEED TO KNOW

You only need to account for changes in the value of your trading stock if there is a difference of more than $5,000 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.

The value of your stock on hand at the start of the income year is the same value as the closing value shown on your schedule in the previous year. This may not necessarily reflect the actual value of your stock if you did not account for the change in value of your stock in the previous year. For more information on a reasonable estimate of the value of stock, refer to the publication *Simplified tax system: simplified trading stock rules: reasonable estimate* or phone the Small business infoline on **13 28 66** or visit the Tax Office website at **www.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 $5,000?

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.

COMPLETING THIS PART

STEP 1 If the difference referred to above is $5,000 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 you used last year to value closing stock:

C cost
M market selling value
R replacement value.

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 page 18.

STEP 2 If the difference referred to above is more than $5,000 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 **Closing stock for other businesses** below for information on how to complete this part.

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.

CLOSING STOCK FOR OTHER BUSINESSES

YOU NEED TO KNOW

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

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

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

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

- cost
- market selling value
- replacement value.

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 value, 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.

COMPLETING THIS PART

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 value.

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

PART D: COST OF SALES

Did you have any cost of sales?

NO Go to **part E**.

YES Read on.

YOU NEED TO KNOW

Goods taken for your own use should not be accounted for as stock on hand at 30 June 2004. 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.

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

Cost of sales

		Primary production	Non-primary production
Stock at 1 July 2003	(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 2004	(f)	$	$
Take (f) away from (e)			
This is your cost of sales		$	$

For further information on stock on hand at 1 July 2003, read **Part A Opening stock**. For information on stock on hand at 30 June 2004, read **Part C Closing stock**.

COMPLETING THIS PART

STEP 1 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 2 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 3 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 4 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 5 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 6 If your total cost of sales is a negative amount, print **L** in the box at the right of this amount.

PART E: CONTRACTOR, SUB-CONTRACTOR AND COMMISSION EXPENSES

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

NO Go to **part F**.

YES Read on.

YOU NEED TO KNOW

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.

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**.

COMPLETING THIS PART

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: SUPERANNUATION EXPENSES

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.

YOU NEED TO KNOW

Show superannuation expenses for the year of income. Do not include any amount that was a contribution for yourself. The deduction for your own superannuation contributions must be claimed at item **D13** on your tax return. See question **D13** in *TaxPack 2004 supplement*.

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 or RSA in respect of eligible employees is limited by the age of each relevant employee.

Where an employee has reached the age of 70, there is a further restriction on the deduction that can be claimed for an employer contribution to a complying superannuation fund or RSA.

For the 2003–04 income year the age based limits are as follows:

Employee's deduction limit	
Age in years	**Deduction limit**
under 35	$13,233
35 to 49	$36,754
50 and over*	$91,149*

* For contributions made after the 28th day of the month following the employee's 70th birthday, the deduction claimable is limited to the amount of the contribution required:

(i) under a federal, state or territory award, or

(ii) to meet the employer's superannuation guarantee obligation on salary or wages paid to the employee before the employee's 70th birthday.

The employee's age limit is determined at the end of the day on which the last contribution for the income year was made by the employer or 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 $1,200 per employee.

COMPLETING THIS PART

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: BAD DEBTS

Did you write off any bad debts in your business?

NO Go to **part H**.

YES Read on.

YOU NEED TO KNOW

Include income from the recovery of bad debts in **Other business income** at **I** or **J** in the **INCOME** section item **P8** on your schedule.

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 – Bad debts*. To find out how to get this publication, see the inside back cover.

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.

COMPLETING THIS PART

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: LEASE EXPENSES

Did you have lease expenses in your business?

NO Go to **part I**.

YES Read on.

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 more information on thin capitalisation, see page 16.

> **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 in **RECONCILIATION ITEMS**, **Part E Reconciliation adjustments** on page 32.

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 2003–04 is $57,009. 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 35.

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.

COMPLETING THIS PART

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: RENT EXPENSES

Did you have rent as a business expense?

NO Go to **part J**.

YES Read on.

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.

COMPLETING THIS PART

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: INTEREST EXPENSES WITHIN AUSTRALIA

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

NO Go to **part K**.

YES Read on.

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 16.

COMPLETING THIS PART

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: INTEREST EXPENSES OVERSEAS

Did you have overseas interest as a business expense?

NO Go to **part L**.

YES Read on.

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.

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 Tax Office.

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. Show the name and address of each recipient, 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, phone the Small business infoline on **13 28 66**.

> **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 16.

COMPLETING THIS PART

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: DEPRECIATION EXPENSES

Did you have depreciation as a business expense?

NO Go to **part M**.

YES Read on.

YOU NEED TO KNOW

If you did not carry on a business in the year, but in a prior year allocated assets to a general STS pool or long-life STS pool, do not include the STS pool deductions at **M**. In such a case, show any allowable STS pool deductions at item **D15** on your tax return.

If you are eligible to enter or continue in the STS and have chosen to do so at item **S1**, read on. Otherwise go to **Depreciation expenses for other businesses** on page 25.

DEPRECIATION EXPENSES FOR 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 2004*.

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

- a general STS pool for depreciating assets with an effective life of less than 25 years
- 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, refer to the publication *The Simplified Tax System – A guide for tax agents and small businesses*, phone the Small business infoline on **13 28 66** or visit our website at **www.ato.gov.au**

CALCULATING DEPRECIATION DEDUCTIONS FOR STS TAXPAYERS

NOTE FOR STS TAXPAYERS

Only use calculations 1 to 5 to work out your depreciation deductions if you are eligible to enter or continue in the STS and have chosen 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 25, write these amounts in the table. Otherwise, use calculations 1 to 5 below to calculate your depreciation deductions.

The amounts you write in the table on page 25 must be tax values 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 (excluding input tax credit entitlements) 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 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. Exclude the GST component where the amount received is for a taxable supply.

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.

Calculation 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 $1,000 (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:

asset's adjustable value × 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, for a tool set bought on 1 December 2003 at a cost of $800 (excluding input tax credit entitlements) and used for producing assessable income from that date at an estimated 70% of the time, the immediate deduction would be $800 × 70% = $560.

Add up these results and write the total at (a) in the table on page 25.

Do not include in this calculation amounts for depreciating assets that you acquired prior to entering the STS and that cost less than $1,000 (excluding input tax credit entitlements). These assets are allocated to the general STS pool (see calculation 2).

Calculation 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.

If you are entering 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% for an income-producing purpose, only $5,000 will be added to the pool.

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.

The opening pool balance for each STS pool is calculated by adding the value of all depreciating assets allocated to the relevant pool.

If you are continuing in the STS, the opening pool balance of each STS pool is the closing pool balance for the 2002–03 income year, except where an adjustment is made to reflect the changed business use of a pooled asset.

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 page 25.

Write the result of your long-life STS pool deduction at (c) in the table on page 25.

If either pool balance (after taking into account additions and disposals but before working out the deductions in calculations 2 and 3) is below $1,000, you work out the deduction for the pool using calculation 5(b).

Calculation 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% (general STS pool assets) or 2.5% (long-life pool assets), plus
- the taxable purpose proportion of the cost of the improvement × 15% (general STS pool assets) or 2.5% (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 page 25.

If either pool balance (after taking into account additions and disposals but before calculating the deductions in calculations 2 and 3) is below $1,000, work out your deduction for these assets using calculation 5(b).

Calculation 4: Other depreciating assets

Work out your deduction for the decline in value of all your other depreciating assets that are not included in calculations 1 to 3. See the publication *Guide to depreciating assets* for information on how to calculate the decline in value of these assets. To find out how to get this publication, see the inside back cover

Write your total deduction for other depreciating assets at (f) in the table on page 25.

Do not include at (f) in the table depreciating assets which qualify for a deduction under Subdivision 40-F or 40-G ITAA 1997 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**.

Calculation 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 calculation 1 this year or in the prior year, 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% 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% for an income-producing purpose which was sold for $3,000 (excluding GST), only $1,500 will be deducted from the closing pool balance. If the balance of a pool (after taking into account any additions and disposals but before calculating the deductions in calculations 2 and 3) is below $1,000, you can claim an immediate deduction for this amount. Write this deduction against the appropriate pool at (b) or (c) in the table in the next column.

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 publication *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 32.

CLOSING POOL BALANCE FOR STS TAXPAYERS

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

- the opening pool balance (see calculation 2), *plus*
- the taxable purpose proportion of the adjustable value of assets that were first used or installed ready for use for a taxable purpose during the year (see calculation 3), *plus*
- the taxable purpose proportion of the cost of any improvements made to assets in the pool during the year (see calculation 3), *less*
- the taxable purpose proportion of the termination value of any pooled assets disposed of during the year [see calculation 5(b)], *less*
- the STS pool deduction (see calculation 2), *less*
- the deduction for assets first used by the taxpayer during the year (see calculation 3), *less*
- the deduction for the cost of improvements made to the pooled assets during the year (see calculation 3).

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

The closing pool balance for this year becomes the opening pool balance for the 2004–05 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.

Depreciation deductions (for STS taxpayers)

	Primary production ($)	Non-primary production ($)		Total ($)
Low-cost assets			(a)	
General pool			(b)	
Long-life pool			(c)	
General pool (1/2 rate)			(d)	
Long-life pool (1/2 rate)			(e)	
Other assets			(f)	
Depreciation expenses [add (a) to (f)]			(g)	

COMPLETING THIS PART

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

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

STEP 3 Transfer the amount at (g) in the above table to **M** **Depreciation expenses** item **P8** on your schedule. Do not show cents.

STEP 4 Transfer the amount at (a) in the above table to **A** item **P10 STS depreciating assets** on your schedule. Do not show cents.

STEP 5 Transfer the total of the amounts at (b) and (d) in the above table to **B** item **P10 STS depreciating assets** on your schedule. Do not show cents.

STEP 6 Transfer the total of the amounts at (c) and (e) in the above table to **C** item **P10 STS depreciating assets** on your schedule. Do not show cents.

STEP 7 Go to part M on page 26.

DEPRECIATION EXPENSES FOR OTHER BUSINESSES

YOU NEED TO KNOW

You show at **M** **Depreciation expenses** item **P8** the depreciation claimed in your books of account other than for those assets allocated in a prior year to a general STS pool or a long-life STS pool. For assets allocated to such a pool, include at this part the amount of the pool deduction to be claimed for tax purposes. For information about STS depreciation deductions see page 23.

The depreciation amount shown at **M** should not include profit or loss on the sale of depreciating assets. Profit on the sale of depreciating assets should be included in **Other business income** at **I** or **J** in the **INCOME** section item **P8** on your schedule. 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 publication *Guide to depreciating assets* for information on the deduction for decline in value. To find out how to get this publication, see the inside back cover.

NOTE

Is expenditure revenue or capital?

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

Subject to certain qualifications, the two methods cover expenditure below a threshold and the use of statistical sampling to estimate total revenue expenditure on low-cost items. The threshold rule allows an immediate deduction for qualifying low-cost business items costing $100 or less. The sampling rule allows taxpayers with a low-value pool to use statistical sampling to determine the proportion of the total purchases on qualifying low-cost business items that are revenue expenditure.

A deduction for expenditure incurred on low-cost assets calculated in accordance with this Practice Statement will be accepted by tax officers.

COMPLETING THIS PART

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.

DO YOU NEED TO COMPLETE A CAPITAL ALLOWANCES SCHEDULE?

If you have included an amount greater than $15,000 at **M**, you will need to complete and attach a *Capital allowances schedule 2004* unless you:

- are eligible to enter or continue in the STS and have chosen to do so at item **S1**, or
- are exiting from the STS at item **S1** or have previously exited from the STS, and the amount at label **M** relates entirely to STS depreciating assets.

For more information, refer to the publication *Capital allowances schedule 2004 instructions*. To find out how to get these instructions and the schedule, see the inside back cover.

STEP 4 If you are exiting the STS or have previously exited the STS, and are continuing to claim a deduction in respect of any prior STS pool at label **M** – **Depreciation expenses**, you will also need to print in the CODE box at label **M** the appropriate code from the following table.

Code	Type of depreciation expense
S	The amount at label **M** relates entirely to STS depreciating assets. Do not complete a *Capital allowances schedule 2004*.
M	The amount at label **M** relates to both STS depreciating assets and to UCA items. You will need to complete and attach a *Capital allowances schedule 2004* if the total amount at label **M** exceeds $15,000.

In all other cases leave the CODE box blank.

PART M: MOTOR VEHICLE EXPENSES

Did you have motor vehicle expenses in your business?

NO Go to **part N**.

YES Read on.

YOU NEED TO KNOW

Questions **D1** and **D2** in *TaxPack 2004* 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** item **P8** on your schedule.

COMPLETING THIS PART

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 four methods described in question **D1** in *TaxPack 2004*, 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 2004* – 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: REPAIRS AND MAINTENANCE

Did you have repairs and maintenance as a business expense?

NO Go to **part O**.

YES Read on.

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 non-deductible expenditure, such as items of a capital nature or amounts relating to private use of an item, 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 – Deductions for repairs*. To find out how to get this publication, see the inside back cover.

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.

COMPLETING THIS PART

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: ALL OTHER EXPENSES

Did you have any other business expenses?

NO Go to **part P**.

YES Read on.

YOU NEED TO KNOW

This is the total of all other expenses which 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 E Reconciliation adjustments** on page 32 for more information.

For more information on thin capitalisation, see page 16.

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 the additional running expenses you incur may be deductible.

For further details, refer to *Taxation Ruling TR 93/30 – Deductions for home office expenses* and *Practice Statement PS LA 2001/6 – Home office expenses: diaries of use and calculation of home office expenses*. To find out how to get these publications, see the inside back cover.

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

COMPLETING THIS PART

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: TOTAL EXPENSES

COMPLETING THIS PART

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: DEDUCTION FOR ENVIRONMENTAL PROTECTION EXPENSES

Did you have a business expense for environmental protection activities?

NO Go to **part B**.

YES Read on.

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 publication *Guide to depreciating assets* for information on the deduction for decline in value. To find out how to get this publication, see the inside back cover.

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

Expenditure on an environmental assessment of a project is not deductible as expenditure on EPA. If it is capital expenditure directly connected with a project, it could be a project amount for which a deduction would be available over the project life – see **Business deduction for project pool** on page 30. 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.

COMPLETING THIS PART

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 B: SECTION 40-880 DEDUCTION

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

NO Go to **part C**.

YES Read on.

YOU NEED TO KNOW

Certain business related costs incurred after 30 June 2001 are deductible over five income years under section 40-880 of ITAA 1997 to the extent that the business is, was or will be carried on for a taxable purpose, such as for producing assessable income. You may be able to claim a deduction for the following types of business related capital expenditure:

- costs of establishing your business structure – such as the costs of incorporating a company or creating a trust or partnership through which you will carry on your business
- costs of converting your business structure to another structure – such as the costs of transferring your business assets to another entity through which you will carry on your business
- costs of raising equity for your business
- costs of defending your business against a takeover
- costs to 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 to stop carrying on your business – such as the legal costs of terminating the services of employees when the business ceases.

> **NOTE**
> You deduct 20% of the expenditure in the year you incur it and in each of the following four years.

The deduction cannot be claimed for capital expenditure which:

- can be deducted under another provision
- forms part of the cost of a depreciating asset or of land
- relates to a lease
- would be taken into account in working out a profit or loss
- would be taken into account when working out the amount of a capital gain or capital loss, or
- is specifically not deductible under the income tax laws – such as a fine.

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 must be shown as assessable income, either at **Other business income** or as part of your **Income reconciliation adjustments** in **RECONCILIATION ITEMS** item **P8** on your schedule.

Claim the amount deductible under section 40-880 at this part where you carried on a business as an individual at any time during the year. If you stopped carrying on business as an individual in the prior year and you have not fully claimed your five-year write-off under section 40-880, claim the amount deductible this year at item **D15** on your tax return.

COMPLETING THIS PART

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 C: BUSINESS DEDUCTION FOR PROJECT POOL

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

NO Go to **part D**.

YES Read on.

YOU NEED TO KNOW

Certain capital expenditure you 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 allocated to a project pool and written off over the life of the project.

A project is carried on if it involves a continuity of activity and active participation. Merely holding a passive investment such as a rental property would not be regarded as carrying on a project.

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

- creating or upgrading community infrastructure for a community associated with the project – this expenditure must be paid (not just incurred) to be a project amount
- 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 publication *Guide to depreciating assets*.

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

Project amounts are allocated to a 'project pool'. Your deduction for project amounts allocated to a project pool is spread over the 'project life'. The project life is the period from when the project will start to operate until when it will stop operating. The period must be limited by something inherent in the project. A deduction for project amounts would be available over that limited project life (or an earlier abandonment, sale or other disposal). If there is no limited project life, no deduction is available under these rules.

A deduction is available for the 2003–04 income year if you started to operate a project in that year to gain or produce assessable income. The deduction is worked out on the value of the project pool at the end of 2003–04. Use the worksheet below to work out your deduction.

Worksheet

Value of project pool at 30 June 2004. This is the closing pool value for the 2002–03 income year (if any) plus the sum of the project amounts you allocated to the pool in 2003–04.	(a)	$	
Your estimate of the life of the project (in years)	(b)		years
Divide (a) by (b)	(c)	$	
Multiply (c) by 150% – this is your 2003–04 deduction for project pool.	(d)	$	

Note: Your deduction at (d) must not be more than the amount at (a).

If a project operated in 2003–04 for purposes other than earning assessable business income, your deduction at (d) must be reduced by a reasonable amount for the extent to which the project operated for such purposes.

The pool value can be subject to adjustments. An adjustment could happen under new rules that apply to transactions conducted in foreign currency. If during the income year you met an obligation to pay foreign currency incurred as a project amount which you allocated to a project pool, you might have derived a gain or incurred a loss under these rules. For more information about the new rules, visit the Tax Office website at **www.ato.gov.au**

CLOSING POOL VALUE FOR 2003–04

This is amount (a) less amount (d) in the worksheet above. You will need the closing pool value for 2003–04 to work out your deduction for the project pool next year.

Any recoupment of the expenditure must be shown as assessable income either at **Other business income** or as part of your **Income reconciliation adjustments** in **RECONCILIATION ITEMS** item **P8** on your schedule.

Where a project is abandoned, sold or otherwise disposed of in 2003–04

In this case – whether or not the project had begun to operate – you can claim a deduction for the 2002–03 closing pool value (if any) plus any project amounts allocated to the pool in the 2003–04 year. Any proceeds from the abandonment, sale or disposal of the project must be shown as assessable income either at **Other business income** or as part of your **Income reconciliation adjustments** in **RECONCILIATION ITEMS** item **P8** on your schedule.

COMPLETING THIS PART

STEP 1 Write your total primary production project pool business 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 business 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 business deductions and write the total amount at **L** item **P8** on your schedule.

> NOTE
>
> If you have included an amount greater than $1,000 at **L**, you will need to complete and attach a *Capital allowances schedule 2004* unless you are eligible to enter or continue in the STS and have chosen 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 the inside back cover.

PART D: LANDCARE OPERATIONS AND BUSINESS DEDUCTION FOR DECLINE IN VALUE OF WATER FACILITY

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

NO Go to **part E**.

YES Read on.

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.

You must reduce your deduction to the extent you do not use the land wholly for either of these purposes.

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 combatting 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 three-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 must be shown as assessable income either at **Other business income** or as part of your **Income reconciliation adjustments** in **RECONCILIATION ITEMS**, item **P8** on your schedule. Phone the Small business infoline on **13 28 66** 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 three 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. Phone the Small business infoline on **13 28 66** 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.

> **STS TAXPAYERS ONLY**
>
> The amount you 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.

COMPLETING THIS PART

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 E: RECONCILIATION ADJUSTMENTS

Do you need to make any reconciliation adjustments?

NO ☐ Go to **part F**.

YES ☐ Read on.

YOU NEED TO KNOW

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.

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.

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 37 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 more information on thin capitalisation, see page 16, and for PSI deductions, see page 8.)

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.

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 37 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 examples of specific reconciliation adjustments that may apply to you. The **Reconciliation statement** on page 37 will assist you with your calculations.

If you are eligible to enter or continue in the STS and have chosen to do so at item **S1**, read on. Otherwise go to **Specific reconciliation adjustments** on page 34.

RECONCILIATION ADJUSTMENTS FOR 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 12.

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 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 37 will assist you with your calculations.

TRADE DEBTORS AND CREDITORS AS AT 30 JUNE 2004

If you have included at item **P8** amounts of ordinary income that have been derived but not received in 2003–04, 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 37.

If you have included at item **P8** amounts for general deductions, repairs and tax-related expenses that have been incurred but not paid in 2003–04, 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 37.

ADJUSTMENTS WHEN ENTERING THE STS

If you have included at item **P8** amounts of ordinary income received in 2003–04 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 2003).

These amounts form part of your **Income reconciliation adjustments** at **X** item **P8**. Include these amounts at (f) on the **Reconciliation statement** on page 37.

If you have included at item **P8** amounts paid in 2003–04 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 2003).

These amounts form part of your **Expense reconciliation adjustments** at **H** item **P8**. Include these amounts at (n) on the **Reconciliation statement** on page 37.

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.

See the **Definitions** box on the next page for an explanation of these terms.

Include the amounts at (b) on the **Reconciliation statement** on page 37.

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 37.

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

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 (excluding input tax credit entitlements) 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 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. Exclude the GST component where the amount received is for a taxable supply.

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 the next section to determine if you need to make any further reconciliation adjustments.

SPECIFIC RECONCILIATION ADJUSTMENTS

The following are examples of specific reconciliation adjustments that may apply to you.

EXITING FROM THE STS THIS YEAR

If you have exited from the STS and have not included at any income labels at item **P8** amounts of ordinary income that were derived but not received whilst in the STS, these amounts are assessable in this year – for example, debtors as at 30 June 2003.

Include these amounts at (b) on the **Reconciliation statement** on page 37.

If you have exited from the STS and have not included at any deduction labels at item **P8**, amounts of general deductions including repairs and tax-related expenses that have been incurred but not paid whilst in the STS, these amounts are deductible this year – for example, creditors as at 30 June 2003.

Include these amounts (other than tax-related expenses) at (t) on the **Reconciliation statement** on page 37. Show your deduction for tax-related expenses at **D10** on your tax return.

PREPAID EXPENSES

Special rules may affect the timing of deductions for prepaid expenditure. Under these rules you may need to apportion certain prepaid expenses 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. Show the adjustment at (k) on the **Reconciliation statement** on page 37.

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 at (s) on the **Reconciliation statement** on page 37. For further information about the prepayment rules, see the publication *Deductions for prepaid expenses*. To find out how to get a copy of this publication, see the inside back cover

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 two calculations.

Under the income tax law you can deduct an amount equal to the decline in value of a depreciating asset in the 2003–04 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*. This publication also provides explanations of relevant terms. To find out how to get this publication, see the inside back cover. The guide also explains the option to allocate to a low-value pool depreciating assets that cost less than $1,000 (excluding input tax credit entitlements) and depreciating assets that have an opening adjustable value of less than $1,000.

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 **D6** in *TaxPack 2004*. Do not include the deduction at item **P8** on your schedule. If none of the depreciating assets in the pool is used for any of those purposes, include the amount of your low-value pool deduction at (r) on the **Reconciliation statement** on page 37. 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 37.

The depreciation charged in your accounts and shown at **M** Depreciation expenses in the **EXPENSES** section item **P8** should be added back as an expense reconciliation adjustment. Include the amount at (h) on the **Reconciliation statement** on page 37. The amount at (h) should not include any STS pool deductions which you have claimed at **M**.

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 2003–04 is $57,009.

Luxury car leases entered into after 7.30pm (by legal time in the ACT) on 20 August 1996 (other than genuine short-term hire arrangements) are treated as 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** item **P8** on your schedule. Include the amount at (p) on the **Reconciliation statement** on page 37.

In relation to the notional sale, the lessee is treated as the holder of the luxury car and may be entitled to claim a deduction for the decline in value of the car. If the lessee is an STS taxpayer for the income year in which the lease is entered into, the lessee allocates the car to its general STS pool.

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 publication *Guide to depreciating assets*. To find out how to get this publication, see the inside back cover.

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, unless the car is allocated to the general STS pool.

Both deductions are reduced to reflect any use of the car for other than a taxable purpose.

Where the car is allocated to the general STS pool with the cost based on the applicable car limit, see page 23 to calculate the deduction under the STS depreciation rules.

If you have included the lease expense at **J** **Lease expenses** in the **EXPENSES** section item **P8** in your schedule, the amount should also form part of your **Expense reconciliation adjustments** at **H** item **P8**. Include the amount at (i) on the Reconciliation statement on page 37. Include the deduction for the accrual amount at (p) on the **Reconciliation statement**.

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. If the car is not subject to the STS rules, any assessable or deductible balancing adjustment amount for the lessee must be determined. If the car has been allocated to the lessee's general STS pool, see **Calculation 5 Disposal of depreciating assets** for STS taxpayers on page 24.

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** on your schedule. Include the amount at (t) on the **Reconciliation statement** on page 37.

In relation to the notional sale, the hirer of a depreciating asset is treated as the holder of the asset and either allocates the asset to the appropriate STS pool if they are an STS taxpayer for the income year, or may be 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 hire purchase charges at an expenses label in item **P8** on your schedule, 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 page 37.

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 exceed the deductions that would be allowable if the unpaid amount of the debt was not counted as capital expenditure. 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 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 creditor's rights against the debtor are capable of being limited in that way. 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** on your schedule. Include the amount at (b) on the **Reconciliation statement** on page 37.

RECONCILIATION STATEMENT

The **Reconciliation statement** on page 37 refers 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 publication *Guide to depreciating assets*. To find out how to get this publication, see the inside back cover.

COMPLETING THIS PART

STEP 1 Fill in the **Reconciliation statement** on page 37 using the explanations provided on pages 32 to 36.

STEP 2 Write your total primary production income reconciliation adjustments and total primary production expense 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 income reconciliation adjustments and total non-primary production expense 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 primary production and non-primary production **Income reconciliation adjustments** and write the total amount at **X** item **P8** on your schedule.

STEP 7 Add up your primary production and non-primary production **Expense reconciliation adjustments** and write the total amount at **H** item **P8** on your schedule.

STEP 8 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):

- 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 **V**, **A**, **L** and **W** item **P8** on your schedule.

RECONCILIATION STATEMENT

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

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*	(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)		$ /	$ /

* Only include amounts at (h) if you are not an STS taxpayer. However, exclude any STS pool deductions which you have included at **M** item **P8**.

PART F: NET INCOME OR LOSS FROM BUSINESS THIS YEAR

Working out your net income or loss from business this year, not including any non-commercial business losses deferred from a prior year

COMPLETING THIS PART

STEP 1 Work out your primary production and non-primary production net income or loss separately by using the tables on this page.

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 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 in the next column 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 it is, or if you have a negative amount at (n) or (o), the examples below will help you to work out your loss from non-primary production business.

EXAMPLES

- If the amount at (e) is a $5,000 loss, the amount at (f) is $12,000 income, and the amount at (g) is a $1,000 loss, the net income from the primary production business is $6,000 (h).
- If the amount at (e) is $5,000 profit, the amount at (f) is $2,000 income and the amount at (g) is an $8,000 loss, the loss from the primary production business is $1,000 (h).
- If the amount at (m) is a $5,000 loss, the amount at (n) is a $4,000 loss and the amount at (o) is a $1,000 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 a prior year (which are shown at **D** or **E** – see part G below).

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

If the amount at **B** or **C** includes details from more than one business activity, and any one of these activities resulted in a net loss, you also need to complete items **P3** and **P9** on your schedule.

PART G: DEFERRED NON-COMMERCIAL BUSINESS LOSSES FROM A PRIOR YEAR

Do you have any deferred non-commercial business losses from a prior year?

NO Go to **part H**.

YES Read on.

YOU NEED TO KNOW

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

Question **15** in *TaxPack 2004 supplement* explains how the non-commercial business loss rules work.

> **NOTE**
>
> The non-commercial business loss may be reduced if:
>
> - you earned net exempt income in this income year, or
> - you have become bankrupt or are released from any debts by the operation of an Act relating to bankruptcy.
>
> Phone the Small business infoline on **13 28 66** for more information.
>
> For an explanation of net exempt income, see question **L1** in *TaxPack 2004*.

COMPLETING THIS PART

STEP 1 Write the amount of any primary production losses you deferred in a prior year from activities that are the same or similar to your current year activity at **D** item **P8** on your schedule. Do not show cents.

STEP 2 Write the amount of any non-primary production losses you deferred in a prior year from activities that are the same or similar to your current year activity at **E** item **P8** on your schedule. Do not show cents.

STEP 3 Add up the amount of primary and non-primary production deferred non-commercial business losses and write the total amount at **Deferred non-commercial business losses from a prior year**, Totals column, item **P8**.

PART H: NET INCOME OR LOSS FROM BUSINESS, INCLUDING LOSSES DEFERRED FROM A PRIOR YEAR

COMPLETING THIS PART

STEP 1 If you have **net income** from primary production business this year at **B**, **take away** the amount of your deferred non-commercial primary production business losses from a prior year shown at **D**. Write this amount at **Y** item **P8** on your schedule. This is your total net income or loss from your primary production business.

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

If you have a **loss** from primary production business this year at **B**, **add** it to the amount of your deferred non-commercial primary production business losses from a prior year shown at **D**. Write the amount at **Y** item **P8** on your schedule and print **L** in the box at the right of the amount. This is your total net loss from your primary production business.

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

STEP 2 If you have **net income** from non-primary production business this year at **C**, **take away** the amount of your deferred non-commercial non-primary production business losses from a prior year shown at **E**. Write this amount at **Z** item **P8** on your schedule. 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 at the right of the amount.

If you have a **loss** from non-primary production business this year at **C**, **add** it to the amount of your deferred non-commercial non-primary production business losses from a prior year shown at **E**. Write the amount at **Z** item **P8** on your schedule and print **L** in the box at the right of the amount. This is your total net loss from your non-primary production business.

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

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

Write this amount at **NET INCOME OR LOSS FROM BUSINESS**, *Totals* column, item **P8** on your schedule. Where the total is a negative amount, print **L** in the box at the right of the amount.

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

P9 BUSINESS LOSS ACTIVITY DETAILS

Did you have a loss from a business activity you carried on either as a sole trader or in partnership?

NO Go to item **P10**.

YES Read on.

ACTIVITY 1

PART A: DESCRIPTION OF ACTIVITY

COMPLETING THIS PART

Describe the business activity from which you made the largest loss and print this at **D**, item **P9** on your schedule. 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**.

PART B: PARTNERSHIP OR SOLE TRADER

COMPLETING THIS PART

Print either **P** in the box at **Partnership** (loss from a business activity carried on in partnership with others) or **S** in the box at **Sole trader** (loss from a business activity carried on as a sole trader), as appropriate, at **F** item **P9** on your schedule.

PART C: DEFERRED NON-COMMERCIAL BUSINESS LOSS FROM A PRIOR YEAR, AND NET LOSS

YOU NEED TO KNOW

Rules relating to deferred non-commercial business losses have applied since 1 July 2000. Under the rules, you can only use a 2003–04 loss from a business activity you conduct either as a sole trader or in partnership in calculating your 2003–04 taxable income where:

- the exception applies
- one of the four tests is satisfied, or
- if one of the four tests is not satisfied, the Commissioner has exercised his discretion to allow you to claim the loss or has given you a ruling that he will exercise his discretion.

For more information about the exception, the four tests and the Commissioner's discretion, see question **15** in *TaxPack 2004 supplement*.

If you are unable to claim your loss against other income this year because of these rules, you must defer the loss this year by showing the amount at item **15** on your tax return.

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. The deferred loss is a deduction when calculating any net profit or loss from the activity in that future year.

Whether any overall loss from that activity can be taken into account 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 2003 Kieren had to defer his non-commercial business loss of $6,000 from his beef cattle primary production business activity. Because he operated the same activity in the 2004 income year he can claim the $6,000 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 *2004 business and professional items schedule for individuals*.

P8 Business income and expenses

	Primary production	Non-primary production	Totals
Deferred non-commercial business losses from a prior year	**D** 6,000 .00	**E** .00	6,000 .00

This year, Kieren made a loss of $4,000. However after taking into account his deferred non-commercialbusiness loss of $6,000 from the prior year, he 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 $6,000 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 *2004 business and professional items schedule for individuals*. As the loss is to be deferred he would show loss code 8 at **G** item **P9** in the **Type of loss** box. See **Part D Type of loss** below for a description of the loss codes.

P9 Business loss activity details

Show details of up to three business activities in which you made a net loss this year. List them in order of size of loss—greatest first. 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 a 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 *2004 business and professional items schedule for individuals* must be completed before you complete this item.

Total deferred losses **H** 10,000 .00

COMPLETING THIS PART

STEP 1 Write the amount of your deferred non-commercial business loss from a prior year for the business activity at **H** item **P9** on your schedule. Do not show cents.

STEP 2 Write your net loss from the business activity for 2003–04 at **I** item **P9** on your schedule. Do not show cents. 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.

PART D: TYPE OF LOSS

YOU NEED TO KNOW

The code you use at **G** item **P9** on the schedule will determine whether you can take into account your net loss from the business activity when calculating your taxable income this year.

Choose the most appropriate code from the following list.

1. Your assessable income from the business activity for this income year is at least $20,000.
2. The business activity has produced a profit for tax purposes in three out of the past five years (including the current year).

3 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.

4 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.

5 The Tax Office 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. This would include instances where the Commissioner has issued a product ruling or a private binding ruling allowing losses to be claimed from an activity you participate in.

6 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.)

7 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.

8 None of the above codes applies and the loss is required to be deferred.

> **USING LOSS CODE 5**
>
> Some business activities may be covered by a product ruling or private ruling that does not relate to the current income year. Only use loss code 5 where you have advice in writing that the Commissioner's discretion will be exercised for 2003–04. If you have applied for a private binding ruling about the exercise of the Commissioner's discretion for 2003–04 but have not yet received the ruling, you should use loss code 8.

For more information see *Taxation Ruling 2001/14 – Division 35: non-commercial business losses*.

COMPLETING THIS PART

Print the code you have chosen from the above list at **G** item **P9** on your schedule.

> **ELECTRONIC LODGMENTS**
>
> 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**.
> - Where you have correctly shown the relevant loss code but an electronic edit prevents you from lodging your return electronically, please phone the Small business infoline on **13 28 66** for assistance.

ACTIVITIES 2 AND 3

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

> **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). 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 2003–04.

P10 STS DEPRECIATING ASSETS

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

COMPLETING THIS ITEM

To complete this item use the amounts you calculated for STS depreciation deductions in your **Depreciation deductions** table on page 25.

At **A** **Deduction for low-cost assets**, write the amount at (a) in the table.

At **B** **Deduction for general pool assets**, write the total of the amounts at (b) and (d) in the table.

At **C** **Deduction for long-life pool assets**, write the total of the amounts at (c) and (e) in the table.

> **REMEMBER**
>
> Only put the depreciation deduction in the three STS depreciating asset labels – and not the pool balance.

ITEMS P11 TO P19

You need to fill in all items relating to your business expenses. However, if you are eligible to enter or continue in the STS and have chosen 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.

P11 TRADE DEBTORS

Did you have any trade debtors?

STOP

If you are eligible to enter or continue in the STS and you have chosen to do so at item **S1**, do not complete this item.

NO Go to item **P12**.

YES Read on.

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 2003–04, that is, current trade and other debtors.

COMPLETING 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 this amount at **E** item **P11** on your schedule. Do not show cents.

P12 TRADE CREDITORS

Did you have any trade creditors?

STOP

If you are eligible to enter or continue in the STS and you have chosen to do so at item **S1**, do not complete this item.

NO Go to item **P13**.

YES Read on.

YOU NEED TO KNOW

This is the total amount owed by the business at the end of the year for goods and services received during 2003–04, that is, current trade and other creditors.

COMPLETING 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 this amount at **F** item **P12** on your schedule. Do not show cents.

P13 TOTAL SALARY AND WAGE EXPENSES

Did you pay salary and wages as a business expense?

NO Go to item **P14**.

YES Read on.

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 these are 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.

COMPLETING THIS ITEM

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 Included in expense components 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 PAYMENTS TO ASSOCIATED PERSONS

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

NO Go to item **P15**.

YES Read on.

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. The PSI rules (see item **P1**) also limit deductions for payments to associates.

COMPLETING THIS ITEM

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

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

P15 INTANGIBLE DEPRECIATING ASSETS FIRST DEDUCTED

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

STOP

If you are eligible to enter or continue in the STS and you have chosen to do so at item **S1**, do not complete this item.

NO Go to item **P16**.

YES Read on.

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 $1,000 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.

Expenditure on in-house software that you allocated to a software development pool is not shown at item **P15**.

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 the inside back cover.

COMPLETING THIS ITEM

STEP 1 Total the costs.

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

P15 AMOUNTS EXCEEDING $75,000

If you have included an amount of more than $75,000 at item **P15**, you need to complete and attach a *Capital allowances schedule 2004*. For more information, refer to the publication *Capital allowances schedule instructions*. To find out how to get these publications, see the inside back cover.

P16 AMOUNTS EXCEEDING $75,000

If you have included an amount of more than $75,000 at item **P16**, you need to complete and attach a *Capital allowances schedule 2004*. For more information, refer to the publication *Capital allowances schedule 2004 instructions*. To find out how to get these publications, see the inside back cover.

P16 OTHER DEPRECIATING ASSETS FIRST DEDUCTED

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

STOP

If you are eligible to enter or continue in the STS and you have chosen to do so at item **S1**, do not complete this item.

NO Go to item **P17**.

YES Read on.

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 $1,000 to a low-value pool for the income year, you also need to include the cost of those assets at item **P16**. 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 the inside back cover..

COMPLETING THIS ITEM

STEP 1 Total the costs.

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

P17 TERMINATION VALUE OF INTANGIBLE DEPRECIATING ASSETS

Did you stop holding or using any intangible depreciating assets?

STOP

If you are eligible to enter or continue in the STS and you have chosen to do so at item **S1**, do not complete this item.

NO Go to item **P18**.

YES Read on.

YOU NEED TO KNOW

See item **P15** on page 44 for more information about intangible depreciating assets.

At item **P17** you include the termination values for intangible depreciating assets – including intangible assets allocated to a low-value pool – that you stopped holding or using during the year (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 asset that you stopped holding or using. It includes the market value of any non-cash benefits such as goods and services you receive for the asset.

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 is not shown at item **P17**.

For more information on 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 the inside back cover.

COMPLETING THIS ITEM

STEP 1 Add up any amounts you received or are deemed to have received for all intangible depreciating assets that you stopped holding or using in your business, other than:

- assets allocated to a general STS pool or a long-life STS pool in a prior year

- low-cost assets for which an immediate deduction has been allowed under the STS rules
- in-house software for which you allocated expenditure to a software development pool
- assets falling within the provisions relating to investments in Australian films.

STEP 2 Write this amount at **D** item **P17** on your schedule. Do not show cents.

P18 TERMINATION VALUE OF OTHER DEPRECIATING ASSETS

Did you stop holding or using any other depreciating assets?

STOP

If you are eligible to enter or continue in the STS and you have chosen to do so at item **S1**, do not complete this item.

NO Go to item **P19**.

YES Read on.

YOU NEED TO KNOW

At item **P18** you include the termination values for other depreciating assets – including assets allocated to a low-value pool – that you stopped holding or using during the year (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 asset that you stopped holding or using. It includes the market value of any non-cash benefits such as goods and services you receive for the asset.

For more information on termination value, refer to the publication *Guide to depreciating assets*. To find out how to get this publication, see the inside back cover.

COMPLETING THIS ITEM

STEP 1 Add up the amounts you received or are deemed to have received for all depreciating assets that you stopped holding or using in your business other than:

- intangible depreciating assets
- assets allocated to a general STS pool or a long-life STS pool in a prior year
- low-cost assets for which an immediate deduction has been allowed under the STS rules
- 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 this amount at **K** item **P18** on your schedule. Do not show cents.

P19 TRADING STOCK ELECTION

Have you made a trading stock election?

NO Go to **CHECK THAT YOU HAVE...**

YES Read on.

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 Closing stock** on page 17–18, the Commissioner must be notified.

COMPLETING THIS ITEM

If you must notify the Commissioner about your trading stock election, print **Y** at **P** item **P19** on your schedule. Otherwise leave **P** blank.

CHECK THAT YOU HAVE...

- ☐ written your tax file number and your full name on page 1 of your *2004 business and professional items schedule for individuals*
- ☐ 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 *2004 business and professional items schedule for individuals* 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 *2004 business and professional items schedule for individuals* to **B** and **C** item **14** on your tax return respectively
- ☐ kept your records to prove your claims, where required
- ☐ signed and dated your *2004 business and professional items schedule for individuals* and attached it to page 3 of your tax return
- ☐ completed and attached the *Individual PAYG payment summary schedule 2004* to page 3 of your tax return, if you received business income that was subject to withholding.