



Transactions and taxes

Understand the transactions and taxes that attract our attention.

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Learn which deductions claimed for bad debts attract our attention.

Deductions



Incorrectly claiming deductions will attract our attention.

Excise and excise equivalent goods issues



Learn which excise and excise equivalent transactions and governance issues attract our attention.

QC 58474

Private use of assets or private pursuits in business

Understand why business assets used for a mix of business and private purposes may attract our attention.

Last updated 30 January 2026

Where assets are used for private and business use

If an asset purchased by a business is used for a mix of business and private purposes, you can only claim a deduction for the portion of the expenses related to your business, see [Account for private use of assets correctly](#).

We continue to improve data matching processes across a range of sources to identify entities that may be using business assets for personal purposes without appropriately accounting for that use.

We also look at the use of assets for private pursuits that are not appropriately accounted for under the law, including deductibility of expenditure, Division 7A or fringe benefits tax. More information can be found on [Payments by private companies – use of assets and Depreciation and capital expenses and allowances](#).

Situations that attract our attention include:

- private aircraft ownership or activities
- art ownership and dealings
- car or motor bike racing activities
- high value and charter boat activities
- enthusiast or high value motor vehicles
- grape growing and other farming pursuits
- horse breeding, racing and training activities
- holiday homes and rental accommodation
- sporting clubs and other activities involving participation of the principals of private groups or their associates.

Income tax

We focus on issues about:

- claiming deductions against other income for the conduct of private pursuits or assets that are private in nature – this is a tax risk if the entity is not carrying on a business relating to those assets or pursuits
- eligibility for an immediate or accelerated deduction in relation to assets
- incorrectly apportioning deductions where the asset either
 - has been used for both income producing and private purposes
 - is not available for rent or hire
- entities that have disposed of assets but have not reported revenue income or capital gains.

Fringe benefits tax

We are concerned about entities that have purchased assets through their businesses but have used them for the personal enjoyment of an employee or associate.

GST

We are concerned about entities that have claimed input tax credits for expenditure for private pursuits.

Superannuation

We are concerned about self-managed super funds (SMSFs) that have acquired assets and used them for the benefit of the fund's trustees or beneficiaries.

QC 69480

Capital gains tax issues

Learn which capital gains or losses, disposals and small business concession claims attract our attention.

Last updated 30 January 2026

Capital losses

Situations that attract our attention include:

- losses that appear to be excessive, incorrect or misclassified
- changes to the company in the year the loss occurred and whether there was a change in either
 - the ownership of the company (may fail the continuity of ownership test)
 - the nature of the business (may fail the business continuity test)
- capital losses from non-arm's length transactions, where the market value substitution rules are not considered or applied
- capital losses artificially generated to offset **capital gains**, including
 - non-arm's length transactions used to manipulate cost base
 - capital losses realised solely to offset capital gains through wash sales
- entities that incorrectly apply capital losses
- entities that reclassify capital losses as revenue losses to offset taxable income
- mismatches between the tax return and the CGT schedule.

Capital gains tax – disposal

Situations that attract our attention include:

- when capital gains reported is less than what it should be, based on our estimates using external data sources
- entities that fail to meet their CGT schedule lodgment obligations
- companies (other than life insurance companies) claiming a CGT discount

- beneficiaries that fail to gross up the discounted share of capital gain distributed by a trust
- entities that received cash (or other ineligible consideration) through a partial scrip for scrip rollover
- entities that disposed of high value assets, but returned small capital gains or claimed unsubstantiated capital losses
- entities that incorrectly apply CGT rollover provisions.

Small business CGT concessions

We want to ensure entities genuinely meet the eligibility criteria when claiming small business CGT concessions.

Situations that attract our attention include:

- entities that fail the **small business entity test** (for example, fail to carry on a business or have an aggregated turnover greater than \$2 million)
- entities that fail the **maximum net asset value test** – net assets of the entity, connected entities and affiliates exceeds \$6 million
- where the asset disposed of does not meet the definition of an **active asset**
- entities that do not meet the **additional conditions where the CGT asset is a share or trust interest**
- entities that fail to correctly identify significant individuals and CGT concession stakeholders – see **Additional conditions if the CGT asset is a share or trust interest**
- entities that restructure for the primary purpose of enabling access to small business CGT concessions, which might not otherwise be available
- entities that claim the small business rollover, but do not report a CGT event J5 at the end of the replacement asset period when they fail to acquire a replacement asset
- entities that do not meet the additional conditions applicable to the type of small business CGT concession claimed, such as exceeding the small business CGT retirement exemption limit of \$500,000

- entities that fail to correctly report or apply the 15-year exemption.

QC 69462

Debt forgiveness for commercial entities

Learn which situations where an entity has had a debt forgiven (either formally or informally) attracts our attention.

Last updated 30 January 2026

Situations that attract our attention include entities that have:

- had a debt forgiven (whether formally or informally)
- a commercial debt forgiven (see **Division 245** of the ITAA 1997 – *Forgiveness of a commercial debt*), but the gain it represents for the debtor has not been recorded correctly in the tax return
- had a deemed forgiveness that takes place when a debt is assigned to a party related to the debtor
- entered into a debt for equity swap and failed to adjust their loss claims.

For more information on commercial debt forgiveness, see **TD 2022/1** *Income tax: commercial debt forgiveness – does the exclusion for debts forgiven for reasons of natural love and affection require that the creditor be a natural person?*

QC 69464

Incorrect claims for franking credits

Understand when franking credit claims may attract our attention.

Last updated 30 January 2026

Situations that attract our attention include:

- entities incorrectly claiming franking credits or not applying appropriate governance to their franking credit balance (see **Imputation and Integrity rules**)
- a substantial increase in, or refund of, franking credits
- arrangements to access franking credits through an entity with a concessional tax rate, such as a superannuation fund.

For information on structured arrangements, see *TA 2018/1 Structured arrangements that provide imputation benefits on shares acquired on a limited risk basis around ex-dividend dates*.

QC 69478

Non-application of taxation of financial arrangement rules

Understand our focus on entities that don't apply the TOFA rules correctly.

Last updated 30 January 2026

The taxation of financial arrangements (TOFA) rules in Division 230 of the ITAA 1936 are often complex and errors can arise.

TOFA issues that attract our attention include:

- exceeding a TOFA threshold, but not applying the TOFA rules
- not reporting TOFA gains and losses correctly on the tax return, which may lead to an incorrect PAYG instalment rate being issued
- failing to bring to account accrued but unrealised gains on debt-like securities such as discounted bonds – this rule applies to all

taxpayers and is not limited to those subject to the TOFA rules

- failing to use market values for transfers of financial arrangements between related parties
- failing to consider if a contractual financing arrangement is an equity interest in terms of the debt and equity interest rules
- improper characterisation of a financial benefit as **sufficiently certain** for the purposes of the TOFA accruals methods.

QC 69491

Revenue losses

Understand when revenue losses incurred and used by privately owned and wealthy groups attract our attention.

Last updated 30 January 2026

Revenue losses incurred

We focus on entities that inappropriately generate tax losses by over-claiming expenses and reconciliation items in a given year.

Potential compliance risks include:

- inflating expenses and creating artificial losses
- understating, mischaracterising or omitting income
- misclassifying capital losses as revenue losses.

Entities with one or more of the following factors in their tax returns attract our attention:

- high operating loss in a single year
- significant revenue loss in a single year
- high negative reconciliation items resulting in low or no taxable income
- poor profitability over a sustained period.

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

Revenue losses used

We focus on entities that are using or carrying forward tax losses incorrectly.

Tax losses that attract our attention include those:

- being used where companies do not satisfy either the continuity of ownership or business continuity tests
- deducted in the current year and exceeding the previous year's carried forward tax losses
- that cannot be reconciled with relevant labels on the tax return
- being used by trusts that do not satisfy the relevant **trust loss rules**.

Rulings and determinations:

- *LCR 2019/1 The business continuity test - carrying on a similar business*
- *TR 1999/9 Income tax: the operation of section 165-13 and 165-210, paragraph 165-35(b), section 165-126 and section 165-132 (same business test)*
- *TR 2007/2 Income tax: application of the same business test to consolidated and MEC groups – principally, the interaction between section 165-210 and section 701-1 of the Income Tax Assessment Act 1997*
- *TD 2007/2 Income tax: should a taxpayer who has incurred a tax loss or made a net capital loss for an income year retain records relevant to the ascertainment of that loss only for the record retention period prescribed under income tax law?*

Fringe benefits tax issues

Understand which FBT issues attract our attention.

Last updated 30 January 2026

Motor vehicles

We look out for situations where an employer provides a motor vehicle to an employee who uses it for private travel or has it available to use privately.

Both the actual private use of a motor vehicle and its availability for private travel are fringe benefits. This means that the employer may have a fringe benefits tax liability.

Situations that concern us include when employers:

- fail to identify or report these fringe benefits
- incorrectly apply exemption provisions
 - for vehicles that are not eligible
 - by treating all travel as business
- incorrectly claim reductions for these benefits without the appropriate records to support the reduction.

Additional resources can be found in the *Fringe benefits tax – a guide for employers*:

- Chapter 7 – Car fringe benefits
- Chapter 18 – Residual fringe benefits (refer to section 18.6 'Taxable value of motor vehicles other than cars')
- Chapter 4 – Fringe benefits tax record keeping
- Fringe benefits tax – car calculator

Employee contributions

The general effect of an employee contribution to benefits is that it:

- reduces the amount of fringe benefits tax payable (see, [Reducing your FBT liability](#))
- is included in the employer's income.

We look out for mismatches between the amount reported as an employee contribution on the fringe benefits tax return and the income amounts on the employer's tax return.

For more information see, *Fringe benefits tax – a guide for employers* Chapter 2 – Calculating fringe benefits tax.

Entertainment

If you provide your employees or their associates with food and drink, gifts or leisure activities (such as Christmas parties and business lunches) you may have a fringe benefits tax liability.

We look out for situations where employers are providing entertainment activities to their employees and the expenses are:

- claimed as deductions in their tax return without correctly reporting and paying fringe benefits tax
- classified as sponsorship or advertising where there is an entertainment aspect to the activity.

See *Fringe benefits tax – a guide for employers*:

- Chapter 14 – Entertainment and fringe benefits
- Chapter 20 – Fringe benefits tax exempt benefits

Car parking valuation

You are required to obtain a valuation report to support the calculation of car parking fringe benefits from a suitably qualified valuer and substantiate the market valuation.

We are aware that COVID-19 has affected the rates of commercial parking in many areas, and that market valuations may be impacted as a result.

For car parking, situations that concern us include when the calculation is based on:

- nil market valuations or market valuations that appear to be significantly discounted
- parking rates that are not representative of commercial parking in the area
- parking rates that are not supported by evidence.

See *Fringe benefits tax – a guide for employers* Chapter 16 – Car parking fringe benefits.

More information

For more information about FBT issues see [What attracts our attention](#).

QC 69479

Deductions for bad debts

Learn which deductions claimed for bad debts attract our attention.

Last updated 30 January 2026

We focus on deductions claimed for bad debts, in particular:

- the genuine nature of bad debts
- whether it is correct to treat the debt as bad
- arm's length treatment of debts within closely held groups
- the treatment, by related entities, of income reflecting the debt
- the documentation and evidence supporting the claims.

We also look at the correct application of the deduction rules, in particular:

- the period when the debts were written off
- the amount being claimed

- whether there is a lending business or the debt is included in income
- the rules being used for individuals, companies and trusts.

For more information on bad debts, refer to:

- Section 25-35 ITAA 1997
- TR 92/18 *Income tax: bad debts*.

QC 69461

Deductions

Incorrectly claiming deductions will attract our attention.

Last updated 24 August 2022

Situations that attract our attention include:

- incorrectly claiming deductions (see **income and deductions for business**) that decrease taxable income including from
 - failing to add back non-deductible expenses in the reconciliation statement
 - inappropriately valuing closing stock at below cost or replacement value
- payments made to related parties for services that either
 - were not provided
 - had no connection with earning assessable income
- undefined expenses
- using the trading stock election rules to lower the valuation of closing stock.

For more information on trading stock, see TR 93/23 *Valuation of trading stock subject to obsolescence or other special circumstances*.

QC 69466

Excise and excise equivalent goods issues

Learn which excise and excise equivalent transactions and governance issues attract our attention.

Last updated 30 January 2026

We have an ongoing focus on the risks associated with:

- licence and permission obligations
- record keeping
- releasing goods without the proper authority to deal.

Information about these can be found in our detailed web content:

- Excise on alcohol
- Excise on fuel and petroleum products
- Excise on tobacco
- Excise equivalent goods (imports)

We have increased our focus on illicit alcohol products that reach retailers and consumers without excise or customs duty obligations being met.

Arrangements that attract our attention involve excisable or customisable alcohol products entering the Australian domestic market without the required excise or customs duty being paid. This is illegal and we treat it very seriously.

Arrangements that attract our attention around illicit alcohol include:

- unlicensed manufacture
- licensed manufacture or storage of unreported product
- selling illicit alcohol

- diversion of illicit alcohol.

QC 69476

Our commitment to you

We are committed to providing you with accurate, consistent and clear information to help you understand your rights and entitlements and meet your obligations.

If you follow our information and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we will take that into account when determining what action, if any, we should take.

Some of the information on this website applies to a specific financial year. This is clearly marked. Make sure you have the information for the right year before making decisions based on that information.

If you feel that our information does not fully cover your circumstances, or you are unsure how it applies to you, contact us or seek professional advice.

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