



Tax time for small business: how to nail your tax return

The ATO has flagged what it will be focussing on for small business tax returns for 2021–22.

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The Australian Taxation Office (ATO) has released a tax time toolkit to help small businesses and their tax professionals nail their income tax returns. It has also flagged what it will be focussing on for small business tax returns for 2021–22:

- deductions that are private in nature and not related to business income, as well as overclaiming of business expenses (especially for taxpayers running a home-based business)
- omission of business income, for example income from the sharing economy or new business ventures
- record keeping – including insufficient or non-existent records that are needed to substantiate claims.

The ATO's small business tax time toolkit includes guides on:

- Home-based business expenses
- Motor vehicle expenses
- Travel expenses
- Claiming deductions for the cost of digital expenses
- Using business money and assets for personal use
- Pausing or permanently closing your business.

ATO Assistant Commissioner Andrew Watson said “We know most small businesses do their best to meet their tax obligations and get it

right. The majority lodge their tax returns through a registered tax professional, but we know that some (particularly sole traders) like to 'DIY'. So if you're going to give it a go yourself, we recommend you take a look at our guides, to help you nail it."

"We know it's been a tough couple of years for many small business owners, and we understand your tax obligations may not be at the top of your list. So, if you need a hand, I encourage you to contact your registered tax professional or the ATO," Mr Watson said.

"If you're feeling overwhelmed or getting behind with your tax, let us know as early as possible so we can work with you to find a solution. No matter what your situation is, it's never too late to ask for help. Tax time is also a great time to discuss ATO debts with your registered tax professional or the ATO – and set up a payment plan if you need one."

"Making the decision to close your business is a big step. We know that some small businesses decide to close at this time of year when reconciling their accounts, often during a conversation with their tax professional. If you decide your business is no longer viable, I encourage you to look at our guide **Pausing or permanently closing your business** so you know what to do, like lodging outstanding activity statements and instalment notices, making GST adjustments on your final activity statement and lodging final tax returns – so we can finalise your account and issue any refunds that might be owed to you."

Income

Mr Watson reminded small businesses to include all **income**, including earnings from 'side hustles'. "Almost half of the 1.9 million sole traders also have non-business income, like salary and wages or income from investments, so make sure to double check you've included it all before you lodge. Don't fall into the trap of leaving out non-business income thinking we won't notice."

Small businesses should include all income in their income tax return, including cash, coupons, EFTPOS, online, credit or debit card transactions, and income from platforms such as PayPal, WeChat or Alipay.

The ATO also reminded small businesses (including sole traders) in the building and construction, courier, cleaning, information technology, road freight, security, and investigation or surveillance industries that

payment information is provided to the ATO through the taxable payments reporting system.

“For sole traders, this will be available as pre-fill in your tax returns, whether you are using a registered tax agent or doing it yourself. Just remember, it's important to cross-check your own records against the payment information pre-filled by the ATO before lodging, to ensure it is complete and accurate,” Mr Watson said.

The ATO has also reminded businesses that most government payments or financial support received as a result of COVID-19 need to be included as taxable income, whereas some others are exempt and should not be included. The ATO has detailed information listing how all **support payments** should be treated on its website.

Deductions

On **deductions**, Mr Watson reminded businesses to only claim what they are entitled to, and that their business structure affects their entitlements and obligations. The way that sole traders, partnerships, trusts, and companies claim deductions is often different.

There are three golden rules for what the ATO accepts as a valid business deduction:

- the expense must have been for your business, not for private use
- if the expense is for a mix of business and private use, you can only claim the portion that is used for your business
- you must have records to prove it.

“Don't forget, eligible businesses can claim an **immediate deduction** for the business portion of the cost of an asset in the year the asset is first used or installed ready for use”, Mr Watson said.

If your home has been your main place of business (for example, if you relocated your base of operation from an office to your home because of COVID-19), you can claim **deductions** for the portion of expenses that relate to running your business.

“It may be tempting to over-claim a deduction for your business, but it's not worth the risk. Make sure you are eligible, only claim the business portion of expenses, and also keep complete and accurate records so you have appropriate evidence for any deductions you are planning to claim.”

Lodgment deadlines

Mr Watson reminded small businesses who lodge their own tax returns that they must lodge by 31 October. “But if you have a registered tax agent, you will have more time to prepare and lodge. Just make sure you are on the books with your tax agent before 31 October, so we know you are not planning to lodge your own return”.

Notes to journalists

- A high-resolution headshot of **Assistant Commissioner Andrew Watson** is available for download from the ATO media centre.
- ATO file footage is available for download and use in news bulletins from the **ATO Media centre**.

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