Print whole section

Company tax return instructions 2018

These instructions will help you complete the Company tax return 2018 (NAT 0656).

Last updated 16 February 2022

About these instructions

These instructions will help you complete the Company tax return 2018.

The instructions include:

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

When we say **you** or **your business** in these instructions, we mean either you as a business entity (the company) that conducts a business, or you as the tax agent or public officer responsible for completing the tax return.

These instructions are not a guide to income tax law. Ask for help from the ATO or a recognised tax adviser if you feel that these instructions do not fully cover your circumstances.

Publications and services

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

Introduction

Schedules

General information

Company information

1. Ultimate and immediate holding company name and ABN or country code

4. Interposed entity election status

5. Significant global entity

6. Calculation of total profit or loss

6. Income

6. Expenses

7. Reconciliation to taxable income or loss

8. Financial and other information

9. Capital allowances

10. Small business entity simplified depreciation

11. Consolidation deductions

12. National rental affordability scheme

13. Losses information

14. Personal services income

QC 55199

Introduction

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These instructions will help you complete the *Company tax return 2018* (NAT 0656), the tax return for all companies, including head companies of consolidated and multiple entity consolidated (MEC) groups.

These instructions contain a number of abbreviations for names and technical terms. Each term is spelt out the first time it is used. For more information, see Abbreviations.

What's new?

In this section:

- Company tax rate changes
- Expanding accelerated depreciation for small businesses
- Foreign resident capital gain withholding
- Corporate unit trusts and public trading trusts
- Increasing access to company losses
- Significant Global Entity (SGE)
- The Multinational Anti-Avoidance Law (MAAL)
- General Purpose Financial Statement (GPFS)
- Country-by-Country (CbC) reporting
- International Dealings Schedule (IDS)
- Increasing administrative penalties for SGEs

Company tax rate changes

From 2017–18, the lower company tax rate of 27.5% applies to corporate tax entities that are a base rate entity. The company tax rate remains at 30% for all other companies that are not a base rate entity.

These changes do not apply to corporate tax entities that are subject to a specific rate of tax, for example, companies in trustee capacity and certain life insurance, PDF, non-profit companies and medium credit unions.

A corporate tax entity may be both a base rate entity for the lower company tax rate purposes and a small business entity for the purposes of the small business concessions.

For more information, see:

- Base rate entities
- Changes to company tax rates.

Maximum franking credits

The maximum franking credit that can be allocated to a frankable distribution is based on a company's applicable corporate tax rate for imputation purposes.

For 2017–18, a company's corporate tax rate for imputation purposes may be either 27.5% or 30% depending on the company's circumstances.

For more information, see Allocating franking credits.

Expanding accelerated depreciation for small businesses

New laws have passed allowing small businesses to claim an immediate deduction for assets they first acquire and start to use, or have installed ready for use, from 12 May 2015 provided each depreciable asset costs less than $20,000. This replaces the previous instant asset write-off threshold of $1,000.

This measure started 7.30pm (AEST) 12 May 2015 and will end on 30 June 2018.

In the 2018 Budget, the government announced its intention to extend the end date of this measure to 30 June 2019. At the time of publishing, this change had not yet become law.

The balance of the general small business pool is also immediately deductible if the balance is less than $20,000 at the end of an income year that ends on or after 12 May 2015 and on or before 30 June 2018 (including an existing general small business pool).

The 'lock out' laws have also been suspended for the simplified depreciation rules (these prevent small businesses from re-entering the simplified depreciation regime for five years if they have opted out) until the end of 30 June 2018.

Foreign resident capital gain withholding

On 9 May 2017 the government announced changes to the threshold and withholding rate for foreign resident capital gains withholding. The changes apply to contracts entered into on or after 1 July 2017.

A 12.5% withholding obligation will apply to the disposal of:

- taxable Australian real property with a market value of $750,000 or more
- an indirect Australian real property interest
- an option or right to acquire such property or interest.

Where the vendor of these Australian assets is a foreign resident, the purchaser must pay 12.5% of the purchase price to the ATO as a foreign resident capital gains withholding payment.

A vendor can claim a credit for the foreign resident capital gains withholding payment the purchaser has made to the ATO by lodging a tax return for the relevant year.

The previous market value exemption threshold of $2 million for real property and 10 per cent withholding rate will apply for any contracts that were entered into before 1 July 2017 (even if settlement is after that date).

See new legislation for more information about foreign resident capital gains withholding:

- obligations
- exclusions, and
- exceptions.

For more information, see Capital gains withholding: Impacts on foreign and Australian residents.

Corporate unit trusts and public trading trusts

For income years starting on or after 1 July 2016, the Tax Laws Amendment (New Tax System for Managed Investment Trusts) Act 2016:

- repeals the corporate unit trust rules in Division 6B of Part III of the Income Tax Act 1936 (ITAA 1936). This means that trusts formerly subject to Division 6B are no longer 'corporate unit trusts'. Such trusts may either continue to be taxed similarly to companies if they are a 'public trading trust' under Division 6C (and should lodge a company tax return) or be taxed as a trust (and should lodge a trust tax return).
- modifies the 20% tracing rule in Division 6C of the ITAA 1936. This means that a trust will no longer be a public unit trust for the purposes of Division 6C of the ITAA 1936 solely because 20% or more of its membership interests are held by complying superannuation entities or tax exempt entities that are eligible for a refund of franking credits.
- introduces transitional rules to allow trusts that cease to be subject to Divisions 6B and 6C of the ITAA 1936 to deal with their franking accounts in respect of certain events that happen on or before 30 June 2018. For example, distributions of profits that arose whilst the trust was a corporate unit trust or public trading trust may be franked where the distribution is made on or before 30 June 2018.

For more information, see

- Repeal of Division 6B
- 20% tracing rule in Division 6C
- Transitional rules for trusts that cease to be corporate unit trusts or public trading trusts

Increasing access to company losses

On 1 March 2019, legislation was enacted that will supplement the current ‘same business test’ for company losses with a more flexible 'similar business test'. The new test will expand access to past year losses when companies enter into new transactions or business activities.

The similar business test will allow a company to access losses following a change in ownership where its business, while not the same, is similar having regard to:

- the extent to which the assets that are used in its current business to generate assessable income were also used in its former business to generate assessable income
- the extent to which the activities and operations from which its current business is generating assessable income were also the activities and operations from which its former business generated assessable income
- the identity of its current business and the identity of its former business, and
- the extent to which any changes to the former business resulted from the development or commercialisation of assets, products, processes, services or marketing or organisational methods of the former business.

As a test for accessing past year losses, the 'similar business test' will only be available for losses made in income years starting on or after 1 July 2015.

The 'same business test' and the 'similar business test' are collectively referred to as the 'business continuity test'.

This measure takes effect in relation to income years starting on or after 1 July 2015. For more information, see New legislation.

See also:

- LCR 2019/D1 The business continuity test - carrying on a similar business

Significant Global Entity (SGE)

The significant global entity (SGE) concept is used to give clarity to taxpayers about whether they are within the scope of the measures to which the definition applies.

The concept of SGE was introduced as part of the Tax Laws Amendment (Combating Multinational Tax Avoidance) Act 2015 legislation which contains a package of measures announced as part of the 2015-16 Budget. Further measures were announced in the 2016-17 Budget. These measures focus on combating multinational tax avoidance.

An entity is a SGE if it is:

- a global parent entity with an annual global income of A$1 billion or more, or
- a member of a group of entities consolidated for accounting purposes and one of the other group members is a global parent entity with an annual global income of A$1 billion or more.

SGEs taxpayers must self-assess themselves under the definition of a SGE and notify the ATO on their annual company tax return at 'Status of company' (item **3**, **G1**).

The SGE concept is part of the following measures:

- The Multinational Anti-Avoidance Law (MAAL)
- Diverted profits tax (DPT)
- General Purpose Financial Statement (GPFS)
- Country-by-Country (CbC) reporting
- International dealings schedule (IDS)
- Increasing administrative penalties for SGEs
- Reportable tax position (RTP) schedule

See also:

- Significant global entities

The multinational anti-avoidance law (MAAL)

The Multinational Anti-Avoidance Law (MAAL) is part of the government's efforts to combat tax avoidance by multinational companies operating in Australia. The MAAL has been introduced to ensure that multinationals pay their fair share of tax on the profits

earned in Australia. It is aimed at SGEs that enter into artificial arrangements to avoid taxation in Australia (or elsewhere) when supplying goods or services to Australian customers.

See also:

- Combating multinational tax avoidance – a targeted anti-avoidance law

Diverted profits tax (DPT)

The DPT aims to:

- ensure that the tax paid by SGEs properly reflects the economic substance of their activities in Australia
- prevent the diversion of profits offshore through arrangements involving related parties, and
- encourage SGEs to provide the ATO with sufficient information to allow for the timely resolution of tax disputes.

The DPT imposes a 40% tax on the diverted profit and will act to complement and strengthen our existing tax laws.

See also:

- Diverted profits tax

General Purpose Financial Statement (GPFS)

SGEs that are corporate tax entities are required to give the Commissioner a general purpose financial statement (GPFS) if they:

- are Australian residents or foreign residents operating an Australian permanent establishment at the end of the income year, and
- do not lodge a GPFS with the Australian Securities & Investments Commission (ASIC) within the time provided under subsection 319(3) of the *Corporations Act 2001*.

New item **5** has been added to the tax return to allow taxpayers to indicate if they have lodged or will be lodging a GPFS with ASIC.

Country-by-Country (CbC) reporting

Country-by-Country (CbC) reporting is part of a broader suite of international measures aimed at combating tax avoidance through more comprehensive information being provided to the ATO to better conduct risk assessments associated with transfer pricing.

The measure takes effect from income years commencing on, or after, 1 January 2016. It requires SGEs to supply the ATO with three statements which will provide a clear overview of its global and Australian operations. This information will be shared with tax authorities in the other jurisdictions in which the group operates. The measure also contains revised standards for transfer pricing documentation.

See also:

- Country-by-Country reporting

International Dealings Schedule (IDS)

Entities subject to CbC reporting are generally required to lodge a local file with the tax office as a part of their obligations under the regime. An administrative arrangement is in place with respect to such entities: taxpayers may be exempt from completing labels 2 to 17 of the IDS if they lodge Part A of the local file at the same time as their income tax return.

See also:

- International dealings schedule 2018
- Country-by-Country reporting

Increasing administrative penalties for SGEs

On 3 May 2016, the government announced the 'Tax integrity package - increasing administrative penalties for significant global entities' measure. This measure applies to conduct occurring from 1 July 2017.

Administrative penalties for statements will be doubled. This increases the penalties imposed on SGEs that do not take reasonable care, take a tax position that is not reasonably arguable, or fail to provide documents when required and the Commissioner determines the liability without the document.

Failure to lodge on time (FTL) penalties for SGEs will be increased. The base penalty amount will be multiplied by 500 if the entity concerned is an SGE.

QC 55199

Schedules

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Complete only one copy of the appropriate schedule.

Attach all completed schedules to the *Company tax return 2018* unless specified otherwise.

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

Companies that were subsidiary members of consolidated or MEC groups during only part of the income year and that are lodging a company tax return for a period they were not a subsidiary member of any group (non-membership period) must complete all relevant schedules for the non-membership period if required by the following instructions. For information about reporting multiple non-membership periods during the year, see the Consolidation reference manual sheet C9-5-110.

In this section:

- Schedule of additional information
- Dividend and interest schedule
- Capital gains tax (CGT) schedule
- Losses schedule
- Consolidated groups losses schedule
- Non-individual PAYG payment summary schedule
- Reportable tax position (RTP) schedule
- Research and development tax incentive schedule
- International dealings schedule

Schedule of additional information

Where we refer to a schedule of additional information, you must record any additional information on a separate sheet of paper and attach it to the tax return.

Dividend and interest schedule

Every company (see note) must lodge a Dividend and interest schedule 2018 (NAT 8030) showing:

- the names, addresses, dates of birth and tax file numbers (TFNs) or Australian business numbers (ABNs), where quoted, of all shareholders (including employee shareholders in a consolidated or MEC group) to whom dividends, or deemed dividends, have been paid during the income year ended 30 June 2018 (or approved substituted accounting period)
- the amount of dividend paid to each shareholder, and any franking credits for that amount. There are separate labels for unfranked dividends that are and are not declared to be conduit foreign income.

The names, addresses, dates of birth and TFNs or ABNs, where quoted, of all investors, other than those investors in the business of providing business or consumer finance, to whom interest of $1 or more was paid or credited during the income year ended 30 June 2018 (or substituted accounting period), and the amount of interest paid or credited to each person.

Consolidated and MEC groups do not include:

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

Consolidated and MEC groups include:

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

If a subsidiary member of a consolidated or MEC group must lodge a company tax return for any non-membership periods during the year of income, that company must also lodge a schedule showing the above details for dividends or interest paid during the non-membership periods. For more information about reporting multiple non-membership periods during the year, see the Consolidation reference manual, sheet C9-5-110.

Note: Annual investment income report (AIIR)

If Division 393 of Schedule 1 to the *Taxation Administration Act 1953* requires a company to lodge an (AIIR) for the income year ended 30 June 2018 containing the above details, the company does not need to lodge a dividend and interest schedule.

Lodging the schedule

You can lodge the schedule with the company tax return or under separate cover. However, you must lodge it by the due date for lodgment of the company tax return for companies whose income year ends on 30 June 2018. Companies with an approved substituted accounting period must lodge their schedule by 31 October 2018 or the due date for lodgment of their company tax return, whichever is later.

If you are lodging your schedule separately from your company tax return you will need to sign the schedule declaration.

Capital gains tax (CGT) schedule

Companies that have one or more CGT events during the income year must complete a *Capital gains tax (CGT) schedule 2018* and attach it to the *Company tax return 2018* if:

- total current year capital gains are greater than $10,000, or
- total current year capital losses are greater than $10,000.

The head company of a **consolidated or MEC group** must complete a *Capital gains tax (CGT) schedule 2018* if the total current year capital gains or the total current year capital losses that it makes (as head company of the consolidated or MEC group and while not a member of a consolidated or MEC group) are greater than $10,000.

If a subsidiary member of a **consolidated or MEC group** must lodge a company tax return for any non-membership periods during the year of income, then that company may also need to lodge a Capital gains tax (CGT) schedule 2018 for the non-membership periods if the total capital gains or total capital losses that it makes are greater than $10,000. For information about reporting multiple non-membership periods during the year, see the Consolidation reference manual, sheet C9-5-110.

The Guide to capital gains tax 2018 (NAT 4151) will help you complete the CGT schedule. It includes:

- a capital gain or capital loss worksheet for calculating a capital gain or capital loss for each CGT event

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

Losses schedule

Complete and attach a *Losses schedule 2018* if your company does not need to submit a *Consolidated groups losses schedule 2018* and satisfies one or more of the following tests:

- it has total tax losses and net capital losses carried forward to later income years greater than $100,000
- it can only deduct a tax loss or apply a net capital loss in the income year or a later income year if the business continuity test has been satisfied.

  The 'same business test' and the 'similar business test' are collectively referred to as the 'business continuity test'. For more information, see Increasing access to company losses.
- having passed the continuity of ownership test, it deducted tax losses and applied net capital losses totalling more than $100,000
- it has a changeover time that occurred after 1pm by legal time in the ACT on 11 November 1999 and determined that it has an unrealised net loss as defined in the provisions of Subdivision 165-CC of the ITAA 1997
- it is a life insurance company and the total of complying superannuation class tax losses and net capital losses carried forward to later income years is greater than $100,000
- it has an interest in a CFC that has current year CFC losses greater than $100,000
- it has an interest in a CFC that has deducted or carried forward a loss to later income years greater than $100,000.

If the company is required to complete a *Losses schedule 2018*, transfer the totals of the amounts at Part A of the losses schedule to **U** and **V** item **13** on the *Company tax return 2018*. For more information, see Losses schedule instructions 2018.

If a company needs to complete a losses schedule under the above criteria, it may also need to complete a CGT schedule. For more information, see the Guide to capital gains tax 2018.

If a subsidiary member of a **consolidated or MEC group** must lodge a company tax return for any non-membership periods during the year of income, that company may also need to lodge a *Losses schedule 2018* for the non-membership periods. For information about reporting multiple non-membership periods during the year, see the Consolidation reference manual, sheet C9-5-110.

Consolidated groups losses schedule

A head company of a **consolidated group or MEC group** must complete a *Consolidated groups losses schedule 2018* (NAT 7888) and lodge it with the *Company tax return 2018* if **any** of the following apply:

- the total of the group's tax losses and net capital losses carried forward to later income years is more than $100,000
- the total tax losses and net capital losses transferred from joining entities is more than $100,000
- the total of its deducted tax losses and applied net capital losses is greater than $100,000
- it has an interest in a CFC that has current year losses greater than $100,000
- it has an interest in a CFC that has deducted or carried forward a loss to later income years greater than $100,000
- it is a life insurance company, or is treated as a life insurance company under subdivision 713-L of the ITAA 1997, and the total of complying superannuation class tax losses and net capital losses carried forward to later income years is greater than $100,000.

Transfer the totals of tax losses carried forward and net capital losses carried forward in Part A of the *Consolidated groups losses schedule 2018* to **U** and **V** item **13 Losses information** on the *Company tax return 2018*.

For more information, see Consolidated groups losses schedule instructions 2018.

If a head company needs to complete a *Consolidated groups losses schedule 2018*, it might also need to complete a *Capital gains tax (CGT) schedule 2018* (NAT 3423). For more information, see the Guide to capital gains tax 2018.

Non-individual PAYG payment summary schedule

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

- payments for a supply where no ABN is quoted
- payments arising from investments where no TFN or ABN is quoted
- certain payments to foreign residents described in the Taxation Administration Regulations 2017 (Regulations 31 – 33 have foreign resident withholding provisions); and former *Taxation Administration Regulations 1976* (Regulations 44A – 44D have foreign resident withholding provisions).

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

Complete a Non-individual PAYG payment summary schedule 2018 if your company has an amount at:

- **Income, A Gross payments where ABN not quoted** item **6**
- **Income, B Gross payments subject to foreign resident withholding** item **6** (except where the amount is from partnership or trust distributions)
- **H2 Credit for tax withheld – foreign resident withholding** in the **Calculation statement**
- **H3 Credit for tax withheld where ABN is not quoted** in the **Calculation statement**

Income subject to foreign resident withholding that has been included in a distribution received by the company from a partnership or trust is declared at **Income, D Gross distribution from partnerships** item **6** or **Income**, **E Gross distribution from trusts** item **6**. However, a *Non-individual PAYG payment summary schedule 2018* is not required for these distributions because they do not have an associated payment summary.

Completing the Non-individual PAYG payment summary schedule 2018

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

From each PAYG payment summary – withholding where ABN not quoted (NAT 3283) and PAYG withholding from foreign residents – payment summary, record on the Non-individual PAYG payment summary schedule 2018:

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

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

Do **not** attach copies of any payment summary to the company tax return; keep them with the company's copy of the tax return. Keep a copy of the *Non-individual PAYG payment summary schedule 2018* with the company's tax records.

If a subsidiary member of a **consolidated or MEC group** must lodge a company tax return for any non-membership periods during the year of income, that company may also need to lodge a *Non-individual PAYG payment summary schedule 2018* for the non-membership periods. For information about reporting multiple non-membership periods during the year, see the Consolidation reference manual, sheet C9-5-110.

Reportable tax position (RTP) schedule

Companies we have notified in writing that they must lodge a Reportable tax position schedule must complete a *Reportable tax position schedule 2018* (NAT 74066) and attach it to the *Company tax return 2018*. Where you were notified of this requirement in writing, you must also select **Yes** at Item **23** 'Are you required to lodge a reportable tax position schedule?' on the *Company tax return 2018*.

A reportable tax position (RTP) is one or more of the following:

- Category A: a position that is about as likely to be correct as incorrect or less likely to be correct than incorrect
- Category B: a position in which uncertainty about taxes payable or recoverable is recognised or disclosed in the taxpayer's financial statements or a related party's financial statements

- Category C: a reportable arrangement.

For more information, see the *Guide to reportable tax positions 2018*.

Research and development tax incentive schedule

All companies claiming a tax offset under the research and development (R&D) tax incentive must complete the Research and development tax incentive schedule 2018 (NAT 73794) and attach it to the company tax return.

If you have a feedstock adjustment for 2017–18 but are not claiming a tax offset under the R&D tax incentive, you are not required to complete the *Research and development tax incentive schedule 2018*. However, you will need to record your feedstock adjustment at **B** of item **7** and **W** of item **21** on the *Company tax return 2018*.

For information about how to complete the schedule, see the Research and development tax incentive schedule instructions 2018. You can also use the Research and development tax incentive calculator. A printed schedule provided by the calculator will be accepted for lodgment with an original tax return or an amendment request.

If a subsidiary member of a **consolidated or MEC group** must lodge a company tax return for any non-membership periods during the year of income, that company may also need to lodge a Research and development tax incentive schedule 2018 for the non-membership periods. For information about reporting multiple non-membership periods during the year see the Consolidation reference manual, sheet C9-5-110.

How to lodge the R&D schedule

Lodge the *Research and development tax incentive schedule 2018* with the appropriate company tax return.

If you have requested an amendment

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

Australian Taxation Office
PO Box 3004
PENRITH NSW 2740

International dealings schedule

Where the relevant information is reported in the company tax return you must complete and attach an *International dealings schedule 2018* (NAT 73345) to the company tax return.

If a subsidiary member of a **consolidated or MEC group** must lodge a company tax return for any non-membership periods during the year of income, that company may also need to lodge an *International dealings schedule 2018* for the non-membership periods. For information about reporting multiple non-membership periods during the year, see the Consolidation reference manual, sheet C9-5-110.

Thin capitalisation rules

If your company is subject to the thin capitalisation rules, see item **27** and Appendix 3, you must complete and attach an *International dealings schedule 2018* to the company tax return. For more information, see the International dealings schedule instructions 2018.

QC 55199

General information

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In this section:

- Report of entity tax information
- Consolidation – taxing wholly owned groups as single entities
- Simplified imputation system
- Cooperatives – option to frank dividends
- Debt and equity rules
- Clubs, societies and associations
- Corporate unit trusts and public trading trusts
- Taxation of financial arrangements (TOFA) Rules
- Foreign exchange gains and losses
- General value shifting regime
- Trans-Tasman imputation

- International taxation – treatment of certain foreign hybrid entities
- Information matching
- Base rate entities
- Small business entities
- Calculating turnover
- Strata title bodies corporate
- Treatment of cryptocurrencies
- Record keeping requirements
- Tax return
- Amendment under self-assessment
- Private ruling by the Commissioner of Taxation
- Payment arrangements
- Penalties, shortfall interest charges, general interest charges

Report of entity tax information

Under the income tax transparency reporting requirements, the Commissioner of Taxation will publish Report of entity tax information about:

- Australian public and foreign owned corporate tax entities with total income of $100 million or more, and
- Australian resident private companies with total income of $200 million or more.

The information will be extracted from tax returns and amendments by the relevant entity that have been processed by 1 September in the year following the one being reported and the report will be published around December. For example, information from 2017–18 will be extracted on 1 September 2018 and published around December 2018.

See also:

- Tax transparency

The information you include at items **1**, **2** and **3**, along with certain income labels, will be used to identify entities for inclusion in the Report of entity tax information.

Consolidation – taxing wholly owned groups as single entities

The taxation of **consolidated groups and MEC groups**, that is, the taxing of wholly owned eligible companies, partnerships and trusts as if they are part of a single head company, was introduced on 1 July 2002. Consolidation may be an option for your business if the business structure includes a company that wholly owns one or more entities.

For the *Consolidation reference manual* and other relevant publications, see Consolidation.

If you are lodging a company tax return as a head company for a consolidated or MEC group, print **X** in the box at **Z1 Consolidated head company** item **3**. Print **X** in all other boxes in item **3** that also apply. A trust that is a consolidated head company must also show whether it is a private company or a public company.

Printing **X** at **Z1** at item **3** on the return does not meet the requirement to notify the Commissioner that you have made a valid choice in writing to form a consolidated or MEC group.

Subsidiary member – non-membership period

If the company is a subsidiary member of a **consolidated or MEC group** and is lodging a tax return because it had a period during the income year when it was not a member of a consolidated group (a non-membership period), print **X** in the box at **Z2 Consolidated subsidiary member** item **3**.

If a subsidiary member of a consolidated or MEC group must lodge a company tax return for any non-membership periods during the year of income, the company must complete all relevant schedules for the non-membership periods.

For information about reporting multiple non-membership periods during the income year, see the Consolidation reference manual, sheet C9-5-110.

- If you completed **Z2**, do **not** complete the part-year details at the top of page 1 of the tax return unless the company has an approved substituted accounting period. Even though the company will include only the income and deductions properly attributable to all of the periods of non-membership during the year, the tax return is still regarded as being for the whole of the income year, that is, from 1 July to 30 June or equivalent substituted accounting period, and is lodged at the usual time.

- Do **not** complete the **Final tax return** box on page 1 of the tax return if membership of the consolidated or MEC group is the only basis on which the company will not be required to lodge future returns.

Key elements of the consolidation regime

Choice to form a consolidated group or MEC group

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

A consolidated group comes into existence when a head company of a consolidatable group makes a choice in writing that it is forming a consolidated group from a particular date.

To form a MEC group, there must be a potential MEC group consisting of two or more eligible tier-1 companies of a top company. A MEC group comes into existence when the relevant eligible tier-1 companies of a potential MEC group make a choice in writing that they are forming a MEC group from a particular date. The choice must also include the appointment of the provisional head company (PHC) of the group by the eligible tier-1 companies.

The choice to consolidate is optional, but once made is irrevocable.

If a head company of a consolidatable group chooses to consolidate on a specified date then, from that time, both the head company and all of its eligible wholly owned subsidiaries will be members of the consolidated group for income tax purposes. Similarly, where the eligible tier-1 companies of a potential MEC group choose to consolidate, all the eligible tier-1 companies and their eligible wholly owned subsidiaries will be members of the MEC group for income tax purposes.

The choice to consolidate must be made in writing no later than:

- the day on which the head company lodges its income tax return for the income year in which the day specified in the choice occurs, or
- if a return is not required for that income year, the day it would otherwise have been due.

The period for making a choice in writing to consolidate cannot be changed. If the choice to consolidate is not made within the prescribed time, the group cannot be treated as consolidated for that income year. The Commissioner does not have the power to extend the time period for making the choice in writing. If more time is required to

make a choice to consolidate, it is recommended that you ask us for an extension of time to lodge the relevant income tax return. The written choice to consolidate is not required to be given to the Commissioner. For more information on making a choice in writing, see the Consolidation reference manual, sheet C7-1-110.

Notifying the Commissioner of your choice

In addition to making a choice in writing to form a group, the head company of a consolidated group or MEC group must notify the Commissioner of Taxation of its choice to consolidate using the appropriate approved form.

The appropriate notification must be lodged within the same time period as applies to making a choice to consolidate.

For a consolidated group, the head company needs to complete and lodge a *Notification of formation of an income tax consolidated group form* (NAT 6781). For a MEC group, the head company needs to complete and lodge a *Notification of formation of a multiple entry consolidated (MEC) group form* (NAT 7024).

For information about completing the relevant notification forms, see Consolidation.

If you cannot lodge your notification of formation within the required timeframe, contact us to discuss an extension of time to lodge your income tax return.

Operating

On consolidation, the head company of a consolidated or MEC group and all the subsidiary members are treated as a single entity for their income tax purposes, that is, each subsidiary member is treated as a part of the head company. The tax costs of assets of an entity joining a consolidated or MEC group (other than eligible tier-1 companies) which become assets of the head company under the single entity rule are reset in accordance with the tax cost setting rules.

The consolidated or MEC group operates as a single entity for income tax purposes, with the head company lodging a single income tax return and then paying a single set of PAYG instalments for the group.

A MEC group will have a PHC during the course of the income year. The PHC at the end of the income year will be the head company for the whole income year or, where the MEC group came into existence during the income year, from the time the MEC group came into existence. If a PHC becomes ineligible to be the PHC, a choice to

appoint a new PHC must be made in writing by all of the remaining eligible tier-1 companies and also notified to the Commissioner.

A consequence of choosing to consolidate is that transactions that occur solely between members of the consolidated or MEC group will be disregarded for income tax purposes.

If a subsidiary member of a consolidated or MEC group has a period or periods in its income year when it is not a subsidiary member (non-membership periods), it will need to lodge a tax return for that income year. However, the tax return will be based only on amounts properly attributable to the periods when the entity was not a subsidiary member of a consolidated or MEC group during the income year.

The losses, franking credits, pre-commencement excess foreign income tax, conduit foreign income and attribution account surpluses of each subsidiary member can generally be transferred to, and used by, the head company of the consolidated or MEC group.

Carry-forward losses, franking balances, pre-commencement excess foreign income tax and conduit foreign income transferred to the head company of the group remain with the head company when an entity leaves the group. Special rules apply regarding treatment of carry-forward losses transferred into the consolidated or MEC group.

The consolidation regime does not affect a subsidiary member's obligations for other taxes such as goods and services tax (GST), fringe benefits tax (FBT) and pay as you go (PAYG) withholding.

Certain corporate unit trusts and public trading trusts can be the head company of a consolidated group.

Where a consolidated or MEC group includes one or more subsidiary members that are life insurance companies, special consolidation rules apply to take into account the particular taxation treatment of life insurance companies. For more information, see the Consolidation reference manual.

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

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

- notify us of any members that join or leave the group.

Consolidated and MEC groups – head company tax returns

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

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

In addition, the concept of materiality applies to the tax return labels affected by consolidation. However, the amounts at **T Taxable income or loss** item **7** and those labels in the **Calculation statement** on page 11 of the tax return must be correct, not just materially correct.

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

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

Groups should have record-keeping, accounting and tax systems in place to ensure that materially correct consolidated data is available for the 2018 company tax return and for future years' tax returns.

2018 schedules

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

Simplified imputation system

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

A company that is paid a franked or unfranked distribution must include:

- the amount of the distribution at **Income, H Total dividends** item **6**
- any attached franking credits at **J Franking credits** item **7**. Franking credits should not be included in assessable income at **J** or claimed as a franking tax offset at **C** or **E** in the **Calculation statement** if
  - the shares are not held at risk as required under the holding period and related payments rules
  - dividend washing integrity rule applies, or
  - the imputation system has been manipulated in some other way.

The Commissioner may make a determination to deny imputation benefits where you have entered into a scheme for the purpose of obtaining franking credit benefits.

The amount of franking credits included in assessable income is allowed as a tax offset and claimed at **C Non-refundable non-carry forward tax offsets** in the **Calculation statement**.

Where the company has a franking deficit tax (FDT) liability, it can claim an FDT offset against its income tax liability. Some special rules apply to life insurance companies to ensure that an FDT liability can only be offset against that part of the company's income tax liability that is attributable to shareholders. The amount of FDT liability that can be claimed as a tax offset is reduced in certain circumstances. For more information on how to calculate this amount, see Franking deficit tax offset and Franking account tax return and instructions 2018 (NAT 1382). There are also special rules that apply to late balancing entities that elect to determine their FDT on a 30 June basis.

For more information, see:

- Simplified imputation: Franking deficit tax offset
- Simplified imputation: FDT offset for late balancers.

Other features of the simplified imputation system include:

- the franking account operates on a tax-paid basis and is also a rolling-balance account

- the period for determining a corporate tax entity's FDT liability is aligned with its income year. However, certain late balancing entities can elect to have their liability determined on 30 June
- the franking period relates to the operation of the benchmark rule
- corporate tax entities can choose the extent to which they frank frankable distributions made within a franking period. This choice is subject to the benchmark rule, except for certain listed public companies
- the benchmark rule, while limiting streaming opportunities, provides some flexibility in allocating franking credits to frankable distributions. To comply with this rule, a corporate tax entity must ensure that all frankable distributions made within a franking period are franked to the same extent, which is the benchmark franking percentage. The benchmark franking percentage is equal to the franking percentage established for the first frankable distribution made in that franking period
- a breach of the benchmark rule will not invalidate the allocation made to the distribution. However, a penalty will be imposed on the corporate tax entity. The penalty is either
  - an over-franking tax (OFT) if the franking percentage for the distribution exceeds the benchmark franking percentage, or
  - a franking debit to the franking account if the franking percentage for the distribution is less than the benchmark franking percentage
- the penalty is calculated by reference to the difference between the franking credits actually allocated and the benchmark franking percentage
- payment of OFT does not give rise to a franking credit in the franking account. If an entity is liable to pay OFT it must complete a *Franking account tax return 2018*
- under the disclosure rule, corporate tax entities must notify the Commissioner in the approved form if they have significantly varied their benchmark franking percentage between franking periods. This information is disclosed on the *Franking account tax return 2018*.
- the maximum franking credit than can be allocated to a frankable distribution is based on the entity's corporate tax rate for imputation purposes.

For 2017–18, the entity's corporate tax rate for imputation purposes can be 27.5% or 30%, depending on the entity's circumstances. For more information, see Allocating franking credits.

Franking account tax return

Corporate tax entities may be entitled to claim an FDT offset. In certain circumstances, the FDT offset reduction rule reduces the amount of FDT that can be offset against future income tax liabilities. For more information, see Franking deficit tax offset.

As a result of these rules, the *Franking account tax return 2018* requires you to complete **C Offsetable portion of current year FDT**.

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

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

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

For more information on completing this tax return, see the Franking account tax return and instructions 2018.

Cooperatives – option to frank dividends

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

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

For more information, see

- simplified imputation
- consolidation

- cooperatives measures.

Debt and equity rules

The debt and equity measures broadly operate to characterise certain interests as either debt or equity. For some tax law purposes, interests are treated in the same way as shares even though they are not shares in legal form. These interests are called 'non-share equity interests'. They include some income securities, some stapled securities and certain related party 'at call' loans. For more information, see Debt and equity tests: guide to the debt and equity tests. This provides an overview of the debt and equity rules and explains what a non-share equity interest is.

For an explanation of when and how the debt and equity measures apply to 'at call' loans made to a company, see Debt and equity tests: guide to 'at call' loans.

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

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

See also:

- Debt and equity tests

Clubs, societies and associations

Taxable clubs, associations, societies and organisations are generally treated as companies. Such companies can be either non-profit or other taxable companies depending on the company's constituent documents and purposes.

Non-profit companies are subject to special tax rules. For more information, see Mutuality and taxable income.

Non-profit companies that are resident and have taxable income of $416 or less do not have to lodge an income tax return, unless specifically requested.

Corporate unit trusts and public trading trusts

Trustees of trusts that satisfy the conditions of section 102P (public trading trusts) of the ITAA 1936 in an income year are subject to the company tax arrangements and lodge company tax returns and must apply for a company TFN.

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

Consolidated or MEC groups

Subdivision 713-C of the ITAA 1997 enables a public trading trust to be the head company of the consolidated group, if certain conditions are met. A public trading trust which is a head company of a consolidated group will be treated as a company for all income tax purposes including the treatment of losses

If the trust that satisfied former section 102J (corporate unit trust) of the ITAA 1936 is the head company of a consolidated group because it has made a choice under Subdivision 713-C of the ITAA 1997, the trust will continue to be treated as a company for income years commencing on or after 1 July 2016 despite the repeal of Division 6B of the ITAA 1936.

See also:

- Unit trusts treated as corporate entities

Taxation of financial arrangements (TOFA) Rules

For the purposes of these instructions, 'TOFA rules' is a reference to the TOFA rules contained in Division 230 of the ITAA 1997, and not to the 'foreign exchange gains or losses' rules contained in Division 775 of the ITAA 1997.

The TOFA rules found in Division 230 of the ITAA 1997 generally provide for:

- methods of taking into account gains and losses from financial arrangements, being accruals and realisation, fair value, foreign exchange retranslation, hedging, and reliance on financial reports and balancing adjustment
- the time when the gains and losses from financial arrangements will be brought to account.

The TOFA rules will apply to the following entities:

- authorised deposit-taking institutions, securitisation vehicles and financial sector entities with an aggregated turnover of $20 million or more
- superannuation entities, managed investment schemes or entities with a similar status to a managed investment scheme under foreign law relating to corporate regulation with assets of $100 million or more
- any other entity (excluding individuals) which satisfies one or more of the following
  - an aggregated turnover of $100 million or more
  - assets of $300 million or more
  - financial assets of $100 million or more.

Once the TOFA rules apply to a company, they will continue to apply to that company, even if its aggregated turnover, value of assets or value of financial assets subsequently falls below the requisite threshold.

A company that does not meet these requirements can elect to have the TOFA rules apply to it.

The aggregated turnover tests may mean that the TOFA rules will apply to companies that do not meet the turnover thresholds in their own right. Aggregated turnover includes the annual turnover of any entity a company is connected with, or any affiliate of the company, including overseas entities.

There are a number of elections available to companies under the TOFA rules. Elections under the TOFA rules are irrevocable and should be carefully considered before being made. For more information, see:

- TOFA elections
- Guide to the taxation of financial arrangements (TOFA).

Foreign exchange gains and losses

Under the foreign exchange (forex) measures contained in Division 775 of the ITAA 1997, forex gains and losses are generally brought to account as assessable income or allowable deductions, when realised. The forex measures cover both foreign currency denominated arrangements and, broadly, arrangements to be cash-settled in Australian currency with reference to a currency exchange rate. Forex

gains and losses of a private or domestic nature, or for exempt income or non-assessable non-exempt income, are generally not brought to account under the forex measures.

If a forex gain or loss is brought to account under the forex measures and under another provision of the tax law, it is generally assessable or deductible only under the forex measures. However, if a financial arrangement of a company is subject to the TOFA rules, forex gains and losses from the financial arrangement will generally be brought to account under those TOFA rules instead of the forex measures.

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

The general translation rule (Subdivision 960-C of the ITAA 1997) requires all tax-relevant amounts to be expressed in Australian currency, regardless of whether there is an actual conversion of that foreign currency into Australian dollars.

The tax consequences of gains or losses on existing foreign currency assets, rights and obligations that were acquired or assumed before 1 July 2003, being the commencement date of the forex measures, are to be determined under the law as it was before these measures came into effect, unless:

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

For more information about these measures and how to calculate your foreign exchange realisation gains and losses, see Foreign exchange gains and losses.

General value shifting regime

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

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

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

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

Trans-Tasman imputation

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

For more information, see the Trans-Tasman imputation special rules.

International taxation – treatment of certain foreign hybrid entities

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

Under Division 830 of the ITAA 1997, foreign hybrids (as defined in section 830-5 of the ITAA 1997) are treated as partnerships, and not as companies, for most Australian income tax purposes. This means that Division 5 - Partnerships of Part III of the ITAA 1936 applies to

foreign hybrids and their member investors (that is, as partners in a partnership for tax law purposes). Investors in these entities are treated for Australian tax purposes as having partnership interests. There are special rules in addition to those that normally apply to partnerships.

For more information, see Hybrid mismatch rules.

Information matching

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

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

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

In particular, we will check the following in the 2018 tax returns:

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

Base rate entities

For 2017–18, the lower company tax rate of 27.5% applies to the corporate tax entities that are a base rate entity. The company tax rate remains at 30% for all other companies (that are not a base rate entity). However, these changes do not apply to corporate tax entities that are subject to a specific rate of tax, for example, companies in trustee capacity and certain life insurance, PDF, non-profit companies and medium credit unions.

A corporate tax entity is a base rate entity for 2017–18 if:

- its aggregated turnover for 2017-18 is less than $25 million, and
- no more than 80% of its assessable income is base rate entity passive income.

Broadly, aggregated turnover is the company's annual turnover plus the annual turnovers of any entities that are connected to or affiliated with it. For information on how to determine a company's aggregated turnover, see Calculating turnover and Aggregation.

The base rate entity passive income is assessable income that is any of:

- corporate distributions such as dividends (other than non-portfolio dividends)
- franking credits on such corporate distributions
- non-share dividends
- interest or payment in nature of interest (unless an exception applies)
- royalties and rent
- gains on qualifying securities
- net capital gains
- amounts included in the assessable income of a partner in a partnership from the partnership, or a beneficiary of a trust from the trust ,to the extent the amounts are referable (either directly or indirectly) to an amount that is otherwise base rate entity passive income.

For more information about base rate entity passive income, see LCR 2018/D7 Base rate entities and base rate entity passive income.

A corporate tax entity may be both a base rate entity for the lower company tax rate purposes and a small business entity for the purposes of the Small business entity concessions.

For information about company tax rates see Changes to company tax rates.

Maximum franking credits

The maximum franking credit that can be allocated to a frankable distribution is based on a company's applicable corporate tax rate for imputation purposes.

For 2017–18, the company's corporate tax rate for imputation purposes may be either 27.5% or 30%, depending on the company's circumstances.

For more information see Allocating franking credits.

Proposed law change

On 18 October 2017, the government introduced a Bill to change the definition of a base rate entity. Under the proposed change, only corporate entities who meet the aggregated turnover threshold and have no more than 80% base rate entity passive income will be eligible for the lower corporate tax rate. The change will also impact how a company calculates its corporate tax rate for imputation purposes. The date of effect is intended to be from the 2017–18 income year. At the time of publishing of these instructions, the change had not yet become law.

For more information see Changes to company tax rates.

Small business entities

Depending on its aggregated turnover for an income year, a small business entity may be eligible for the following concessions:

- CGT 15-year asset exemption
- CGT 50% active asset reduction
- CGT retirement exemption
- CGT rollover provisions, including the small business restructure rollover with effect from 1 July 2016
- simplified depreciation rules
- deduction of certain prepaid business expenses immediately
- simplified trading stock rules
- accounting for GST on a cash basis
- annual apportionment of GST input tax credits
- payment of GST by quarterly instalments
- FBT car parking exemption
- PAYG instalments based on GDP-adjusted notional tax.

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

For more information about small business entity concessions:

- see Small business entity concessions, or
- phone **13 28 66**.

Eligibility

The company will be a small business entity if it is carrying on a business and has an aggregated turnover of less than $10 million.

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

For information about:

- what it means for a company to be carrying on a business, see Draft Taxation Ruling 2017/D7 Income tax: when does a company carry on a business within the meaning of section 23AA of the Income Tax Rates Act 1986?
- how to determine a company's aggregated turnover, see Calculating turnover and Aggregation.

Eligibility for the small business entity concessions must be reviewed each year.

For more information on eligibility, see Eligibility.

Calculating turnover

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

Table 1: Ordinary income

Include these amounts	Do not include these amounts
• revenue from sales of trading stock • fees for services provided • interest from business bank accounts • amounts received to replace something that would have had the character of business income, for example, a payment for loss of earnings.	na

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

For more information about calculating turnover, see Aggregation or phone **13 28 66**.

Aggregation rules

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

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

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

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

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

For more information on the aggregation rules, see Aggregation.

If the company is not connected or affiliated with any other entities and its annual turnover for the relevant period is less than $10 million, then the company is a small business entity.

Business operated for only part of the year

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

Satisfying the aggregated turnover threshold

There are three ways to satisfy the $10 million aggregated turnover requirement, but most businesses will only need to consider the first method.

Previous year turnover

If the company's aggregated turnover for the previous income year was less than $10 million, it will be a small business entity for the current year. This is regardless of its estimated or actual aggregated turnover for the current year.

Estimate of current year turnover

If the company's estimated aggregated turnover for the current income year is less than $10 million, it will be a small business entity for the current year.

If you are estimating the company's turnover you need to assess whether it is more likely than not to have less than $10 million aggregated turnover as at the first day of the income year or, if it started a business part way through the year, as at the time the business started. Estimate the company's turnover based on the conditions you are aware of at the beginning of the income year or, if the business was started part way through the year, at the time the business started. Companies that began carrying on a business in the current year need to make a reasonable estimate of what their turnover would have been had the business been carried on for the entire year.

This method cannot be used if the company's aggregated turnover in each of the previous two income years was $10 million or more.

Actual current year turnover

If the company's actual aggregated turnover is less than $10 million at the end of the income year, it will be a small business entity for that year.

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

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

Former simplified tax system taxpayers

There are transitional rules for former simplified tax system (STS) taxpayers that deal with the continued use of the STS accounting method.

A special rule applies if the company is winding up a business this year that it previously carried on and it was an STS taxpayer in the income

year it ceased business. For more information, see Small business entity concessions.

Strata title bodies corporate

Strata title bodies corporate are treated as public companies under the tax law and must lodge a company tax return for any year in which non-mutual income is earned. For more information, see Strata title body corporate tax return and instructions 2018 (NAT 4125).

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

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

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

Treatment of cryptocurrencies

If you are involved in acquiring or disposing of cryptocurrency, you need to be aware of the tax consequences. These vary depending on the nature of your circumstances.

For guidance on any of the activities below, see Tax treatment of cryptocurrencies.

- Transacting with cryptocurrencies
- Cryptocurrency as an investment
- Personal use assets
- Carrying on a business
- Using cryptocurrencies for business transactions
- Exchanging a cryptocurrency for another cryptocurrency
- Paying salary and wages in cryptocurrency

- Capital gains tax impacts on disposal

Record keeping requirements

Record keeping and retention

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

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

You must keep these records for your financial arrangements covered by the TOFA rules even if you are not carrying on a business in relation to those arrangements.

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

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

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

Prepare and keep the following documents:

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

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

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

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

Consolidated or MEC groups

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

- the choice in writing to form a consolidated group or MEC group

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

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

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

Recording the choice of superannuation fund

You must keep records to show that you have met your employer obligations about the choice of superannuation fund. For more information, see Records you need to keep.

Keeping records for capital gains tax

A company must keep records of everything that affects its capital gains and capital losses for at least five years after the relevant CGT events.

If a company carries forward a net capital loss, the company should generally keep records of the CGT event that resulted in the loss for five years from the year in which the loss was made or four years from the date of assessment for the income year in which the capital loss is fully applied against capital gains, whichever is the longer.

For more information on record keeping for capital gains tax, see the Guide to capital gains tax 2018 and Taxation Determination TD 2007/2 *Income tax: should a taxpayer who has incurred a tax loss or made a net capital loss for an income year retain records relevant to the ascertainment of that loss only for the record retention period prescribed under the income tax law?*

For more information about keeping a CGT asset register, see Taxation Ruling TR 2002/10 *Income tax: capital gains tax: asset register*.

Keeping record of tax losses

If a company incurs tax losses, it may need to keep records longer than five years from the date on which the losses were incurred.

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

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

Keeping records for overseas transactions and interests

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

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

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

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

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

Tax return

First company tax return

Apply for a tax file number (TFN) before lodging the company's first tax return to ensure that payments are credited to the correct account. You can apply for a TFN at abr.gov.au.

If the company has applied for a TFN, but has not received notification of its TFN at the time of lodging its *Company tax return 2018*, include a copy of the application with the return, prominently highlighted with the words in block letters 'ATTENTION COPY ONLY – TFN NOT RECEIVED AT THE TIME OF LODGING 2018 RETURN'. If the company does not have a copy of the original application, contact us on **13 28 66** for advice.

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

Lodging the tax return and schedules

Companies that derived assessable income in 2017–18 must lodge a tax return for 2017–18. Companies that are carrying forward losses that exceed $1,000 to 2018–19 must also lodge a tax return for 2017–18 even if no assessable income has been derived in that income year. Non-profit companies that are resident and have taxable income of $416 or less do not have to lodge an income tax return, unless specifically requested. Keep records so that the information reported on the tax return can be verified at a later date, if required, see Record-keeping requirements.

Send your completed tax return to the relevant address. See Mail.

The following are the schedules that are sent with the *Company tax return 2018*:

- Capital gains tax (CGT) schedule 2018
- Consolidated groups losses schedule 2018
- Dividend and interest schedule 2018
- International dealings schedule 2018 (NAT 73345)
- Interposed entity election or revocation 2018 (NAT 2788)
- Losses schedule 2018
- Non-individual PAYG payment summary schedule 2018

- *Reportable tax position schedule 2018* (NAT 74066)
- Research and development tax incentive schedule 2018
- any elections required by Taxation Ruling IT 2624 Income tax: company self assessment; elections and other notifications; additional (penalty) tax; false or misleading statement.

If a schedule is lodged separately from the tax return you are required to sign and date the schedule.

Do not send other schedules or documents with the *Company tax return 2018*. Keep these with the company's tax records.

The date for lodgment of the company tax return (including any relevant schedules) is notified in a legislative instrument on the Federal Register of Legislation.

The Commissioner may allow later lodgment dates. See Due dates for lodging and paying.

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

Do not attach the company's payment to the company tax return. The company can make payments by one of five methods. See Payment.

Lodging the tax return from outside Australia

Foreign resident companies carrying on a business in Australia or deriving Australian income must provide an Australian address for service on the tax return. This may be an Australian postal address.

If the entity has no Australian postal address, provide the address of the appointed public officer.

Amendment under self-assessment

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

Private ruling by the Commissioner of Taxation

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

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

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

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

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

Publication

To improve the integrity of the private rulings system, we publish a version of every private ruling on the ATO Legal database.

Before we publish, we edit the ruling to remove all identifying details, to ensure that taxpayer privacy is maintained.

A copy of the edited version of the ruling that we plan to publish is included with the ruling. Applicants who are concerned that the edited version may still allow them to be identified have 28 days to contact us to discuss these concerns.

For more information, see PS LA 2008/4 Publication of edited versions of written binding advice.

Review rights

Taxpayers can object to adverse private rulings or a failure to make a private ruling, in much the same way that they can object to assessments.

They can also seek a review of adverse objection decisions on a private ruling by the Administrative Appeals Tribunal or a court. An explanation of review rights and how to exercise them is issued with the private ruling. An objection to a ruling can be lodged within the later of:

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

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

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

When rulings are binding

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

Payment arrangements

Paying your tax debt

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

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

The Commissioner may allow later lodgment dates. See Due dates.

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

For more information on the interest charge, phone **13 28 66**.

If you can't pay your tax debt when due

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

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

Penalties, shortfall interest charges, general interest charges

Penalties

The law may impose penalties on companies for:

- having a shortfall amount by understating a tax related liability or over-claiming a credit that is caused by
  - making a statement which is false or misleading in a material particular, unless you took reasonable care in connection with the making of the statement
  - taking a position that is not reasonably arguable, and the shortfall amount is more than the greater of $10,000 or 1% of the income tax payable for the income year

- making a statement which is false or misleading in a material particular that does not result in a shortfall amount, unless you took reasonable care in connection with the making of the statement

- failing to provide a tax return from which the Commissioner can determine a liability
- obtaining, but for the relevant anti-avoidance provision, a scheme benefit.

The Commissioner may remit all or a part of a penalty. If the Commissioner decides not to remit the penalty in full, he must give written notice to the company of the decision and the reasons for the decision.

Shortfall interest charges

Companies are liable for the shortfall interest charge where their income tax assessment is amended to increase their liability. Generally, the shortfall interest charge accrues on the increase in tax payable from the due date for payment of the original assessment until the day before the assessment is amended.

Shortfall interest charge is calculated at a rate 4% lower than the general interest charge.

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

General interest charges

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

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

The Commissioner may remit all or a part of a general interest charge. For more information, see General interest charge.

QC 55199

Company information

Last updated 16 February 2022

In this section:

- Tax file number (TFN)
- Name of company
- Australian business number (ABN)
- Previous name of company, current and previous postal address
- Business address of main business
- Final tax return
- Electronic funds transfer (EFT)

Tax file number (TFN)

Write the TFN of the company in the boxes provided.

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

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

Name of company

When recording the name of the company entity:

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

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

For a **consolidated or MEC group**, use the head company's name.

Australian business number (ABN)

We are authorised by the *A New Tax System (Australian Business Number) Act 1999* and other taxation laws to collect certain information relating to your entity. We may use business details

supplied on the tax return to update the information held in the Australian Business Register (ABR) in relation to your entity. This may include cancelling the ABN if your entity is no longer entitled to be registered in the ABR.

Where authorised by law, selected information on the ABR may be made publicly available and some may be passed on to other Commonwealth, state, territory and local government agencies. These agencies may use ABR information for purposes authorised by their legislation or for carrying out other functions of their agency. Examples of possible uses include registration, reporting, compliance, validation and updating of databases.

You can find details of agencies that regularly receive information from the ABR at abr.gov.au or you can phone us on **13 92 26** between 8.00am and 6.00pm Monday to Friday to have a list of the agencies sent to you.

For more information about privacy, the information we collect and how it may be used, see our Privacy statement.

Write the ABN of the company in the boxes provided if the company is registered on the Australian Business Register (ABR).

For a **consolidated or MEC group**, write the ABN of the head company. It is important to use the correct ABN to avoid delays in processing the tax return.

Previous name of company, current and previous postal address

Follow the instructions on the *Company tax return 2018* for the following items:

- previous name of the company
- current postal address; if you are lodging the tax return from outside Australia, see Lodging your tax return from outside Australia
- postal address on previous tax return.

Use C/- when 'care of' is part of an address. It is the only acceptable format. Using any other term will delay the processing of the tax return.

Business address of main business

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

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

Final tax return

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

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

Electronic funds transfer (EFT)

Direct refund

We need your financial institution details to pay any refund owing to you, even if you provided them to us before.

Complete the following:

- BSB number (this number has six digits, do not include spaces or hyphens)
- account number (this number has no more than nine digits, do not include spaces or hyphens)
- account name, as it appears on the bank account records. Include blank spaces where required. If the account name exceeds 32 characters, complete only the first 32.

Items 1, 2 and 3

The information you include at items **1**, **2** and **3**, along with certain income labels, will be used to identify entities for inclusion in the Report of entity tax information.

1. Ultimate and immediate holding company name and ABN or country code

Last updated 16 February 2022

The information you include at item **1**, along with certain income labels, will be used to identify entities for inclusion in the Report of entity tax information.

Ultimate holding company name and ABN or country code

Print the name of the ultimate holding company in the group. This is the company that has ownership and controlling interest over the whole group of companies of which the company lodging the *Company tax return 2018* and the immediate holding company form part.

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

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

If it is resident in another country, give the code for that country. See Appendix 8.

Immediate holding company name and ABN

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

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

2. Description of main business activity

The information you include at item **2**, along with certain income labels, will be used to identify entities for inclusion in the Report of entity tax information.

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

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

Industry code

Write at **B** the appropriate industry code for the company's main business. You can use the Business industry code tool to work out which code to use.

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

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

An incorrect code may result in clients not receiving a necessary service or material from us or could lead to incorrect targeting of audits. The industry code provided is also used to publish industry benchmarks in Taxation statistics.

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

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

Percentage of foreign shareholding

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

For the purpose of **A**, a foreign shareholder includes, but is not limited to, a shareholder:

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

3. Status of company

The status of a company is defined with reference to several sections of the income tax law. It is important that you correctly complete this item as the information is used for multiple purposes including assessment, verification activities and for the purposes of the annual corporate tax transparency report.

In this section:

- C Residency
- D Entity type
- E Activity indicator
- F Business indicator
- G Significant global entity
- Z Consolidated indicator

C Residency

C1, C2 and C3

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

Residency status is not required if you select **D7 Corporate unit trust** or **D8 Public trading trust**.

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

D Entity type

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

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

Marking the incorrect box may result in you not receiving a necessary service or material from us or could lead to incorrect targeting of audits.

D1 to D10

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

D7 Corporate unit trust applies only to trusts that were a corporate unit trust within the meaning of former section 102J of the ITAA 1936. You can only select this status if the entity's income year started before 1 July 2016 (early balancer) or the entity is the head company of a consolidated group.

For more information see Unit trusts treated as corporate entities and Repeal of Division 6B.

D8 Public trading trust applies only to trusts that are public trading trusts as defined in section 102R of the ITAA 1936.

Legislative amendments in 2016 to modify Division 6C resulted in some trusts ceasing to be public trading trusts for income years starting on or after 1 July 2016. For more information see Unit trusts treated as corporate entities and 20% tracing rule in Division 6C.

D9 Private or **D10 Public** is a company's status for tax purposes, not for company law purposes. A company must determine its status (as a public or private company) for tax purposes each income year.

If you are a consolidated head company you need to indicate if you are **D9 Private** or **D10 Public**. You also need to select **Z1 Consolidation head company**.

E Activity indicator

E1 to E3

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

F Business indicator

F1

Print **X** at **F1** if the company is a small business entity for 2017–18.

The company will be a small business entity if it is carrying on a business and has an aggregated turnover of less than $10 million. If you are an eligible small business entity it is important to indicate it at this label as it is used to correctly assess pay as you go instalments. See Eligibility.

F2

Print **X** at **F2** if the company is a base rate entity for 2017–18 . For more information about base rate entities, see Base rate entities.

A company can be both a small business and a base rate entity.

G Significant global entity

G1

Print **X** in the box if the entity was a significant global entity (SGE) at any time during the income year.

An entity is a SGE if it is:

- a global parent entity with an annual global income of A$1 billion or more, or
- a member of a group of consolidated entities for accounting purposes and one of the other group members is a global parent entity with an annual global income of A$1 billion or more.

Print **X** in the box if the entity is a SGE because it, or any other member of the accounting consolidated group which the entity is a member of, has been given a notice by the Commissioner determining that its global parent entity would have an annual global income of A$1 billion or more for any period during the income year.

For more information on SGEs search *significant global entity* on ato.gov.au

If you are an SGE you **must** complete item **5** on the Company tax return.

See also:

- Significant global entities

Z Consolidated indicator

Z1 and Z2

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

- Select **Z1 Consolidated head company** if the company was a head company of a consolidated or MEC group at any time during the income year. Consolidated head companies need to indicate if they are **D9 Private** or **D10 Public**.
- Select **Z2 Consolidated subsidiary member** if **Z1** does not apply and the company was a subsidiary member of a consolidated or MEC group that had a period when it was not a member of the group (non-membership period) during the income year.

If neither applies, leave the boxes blank.

QC 55199

4. Interposed entity election status

Last updated 16 February 2022

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

- The company has previously made one or more interposed entity elections specifying a day in the income years from 1994–95 to 2014–15 in accordance with
  - section 272-85 of Schedule 2F to the ITAA 1936, and
  - if applicable, item 23 or 23A of Schedule 1 to the *Taxation Laws Amendment (Trust Loss and Other Deductions) Act 1998*, and
  - at least one interposed entity election has not been revoked, in accordance with subsections 272-85(5A) to (8), in an income year before 2017–18.

- The company is making one or more interposed entity elections specifying a day in the 2004–05 or later income years in accordance with section 272-85 of Schedule 2F to the ITAA 1936.
- The company is revoking, from a time in 2017–18, one or more previously made interposed entity elections in accordance with

section 272-85 of Schedule 2F to the ITAA 1936.

Do not attach election forms for an interposed entity election made specifying an income year before 2004–05 to the *Company tax return 2018*. Under section 272-85 of Schedule 2F to the ITAA 1936 a company cannot make an interposed entity election specifying a year earlier than 2004–05 in the *Company tax return 2018*.

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

Changes to section 272-85 of Schedule 2F to the ITAA 1936 now allow an interposed entity election to be revoked in limited circumstances.

The company cannot revoke an interposed entity election unless the revocation is for an income year that occurs during the period:

- starting on 1 July 2007 and finishing on 30 June 2009, or
- starting at the later of
  - the beginning of the income year specified in the election, and
  - the beginning of the income year in which the entity became a member of the family group

and finishing at the end of the fourth income year after the income year referred to in the above two dot points.

The revocation must be made with the entity's return of income for the income year from which the revocation is to be effective.

Instructions on how to complete the Interposed entity election or revocation 2018 are on the form.

If you are not using ELS, and an *Interposed entity election or revocation 2018* is being lodged with your *Company tax return 2018*, send your tax return and the *Interposed entity election or revocation 2018* to:

Australian Taxation Office
GPO Box 9845
[insert the name and postcode of your capital city]

For example;

Australian Taxation Office
GPO Box 9845
SYDNEY NSW 2001

If the company has previously made one or more elections specifying a day in an income year before 2017–18, write the earliest income year specified in the box at **L** unless the company is making one or more elections specifying a day in the 2004–05 or later income year.

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

If the company is making one or more interposed entity elections specifying a day in the 2004–05 or later income year, write the earliest income year specified in the box at **L** and complete an *Interposed entity election or revocation 2018* for each election specifying a day in the 2004–05 or later income year.

If the company has not made or is not making any interposed entity elections, do not complete this item.

Revocation

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

Print the code **R** in the box at this item if the interposed entity election made by the company is being revoked from a time in 2017–18. An *Interposed entity election or revocation 2018* must be completed and lodged with the *Company tax return 2018*.

Example 1: New election, specifying the current year

The company has not previously made an interposed entity election. The company wants to make an interposed entity election specifying a day in 2017–18.

- Write **2017** in the box at **L**.
- Complete an *Interposed entity election or revocation 2018*, specifying a day in 2017–18, to provide details of the interposed entity election the company is making.

The completed form can be attached to the company's 2018 tax return.

Example 2: New election, specifying an earlier year

The company has not previously made an interposed entity election. The company wants to make an interposed entity election specifying a day in 2004–05.

- Write **2005** in the box at **L**.
- Complete an *Interposed entity election or revocation 2018*, specifying a day in 2004–05, to provide details of the interposed entity election the company is making.

The completed form can be attached to the company's 2018 tax return.

Example 3: One existing election

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

- Write **1995** in the box at **L**.

The company does not need to complete an Interposed entity election or revocation 2018.

Example 4: Multiple existing interposed entity elections

The company has previously made interposed entity elections specifying a day in 1997–98 and 2005–06 respectively. It is not making another interposed entity election.

- Write **1998** in the box at **L**.

The company does not need to complete an Interposed entity election or revocation 2018.

Example 5: Additional election, specifying a current year

The company has previously made an interposed entity election specifying a day in 1996–97 and is making another interposed entity election specifying a day in 2017–18.

- Write **2018** in the box at **L**.
- An *Interposed entity election or revocation 2018* form must be completed, specifying a day in 2017–18, to provide details of the interposed entity election the company is making.

The completed form can be attached to the company's 2018 tax return.

Example 6: Revoking an election

The company has previously made an interposed entity election specifying a day in 2007–08 and is revoking the election from a day in 2017–18.

- Write **2008** in the box at **L**.
- Print **R** in the box at this item.
- Complete an *Interposed entity election or revocation 2018*, specifying the day in 2017–18.

The form must be lodged with the company's 2018 tax return.

An interposed entity election is taken to be revoked if the family trust election to which it relates is revoked.

Family trust distribution tax

A company may make an interposed entity election under section 272-85 of Schedule 2F to the ITAA 1936 to be included in the family group

of an individual specified in a family trust election made by a trust under section 272-80 of Schedule 2F to the ITAA 1936.

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

A consequence of a company making an interposed entity election is that under section 271-30 of Schedule 2F to the ITAA 1936 the company pays a special tax, called family trust distribution tax (FTDT), at 47% on any conferral of present entitlement to, or distribution of, the company's income or capital to persons who are not members of the family group of the specified individual within the meaning of section 272-90 of Schedule 2F to the ITAA 1936. For this purpose, a company's distribution of income or capital has the meaning given in sections 272-50 and 272-60 of Schedule 2F to the ITAA 1936.

For income years commencing on or after 1 July 2007, the definition of 'family group' includes a former spouse, a former widow or widower, and a former step child.

From 1 July 2009 and later years 'spouse' includes another person (of any sex) who:

- you were in relationship with that was registered under a prescribed state or territory law
- although not legally married to you, lived with you on a genuine domestic basis in a relationship as a couple.

Mail the Family trust distribution tax payment advice with your FTDT payment to the appropriate address (see Mail). Make cheques or money orders payable to the Deputy Commissioner of Taxation and print 'Not negotiable' across the cheque. Tender all cheques in Australian currency. Do not send cash by post.

QC 55199

5. Significant global entity

Last updated 16 February 2022

SGEs that are corporate tax entities are required to give the Commissioner a general purpose financial statement (GPFS) if they:

- are Australian residents or foreign residents operating an Australian permanent establishment at the end of the income year, and
- do not lodge a GPFS with the Australian Securities & Investments Commission (ASIC) within the time provided under subsection 319(3) of the *Corporations Act 2001*.

The GPFS must be for the financial year that most closely corresponds to the income year, and it must be given to the Commissioner by the time the entity is required to lodge its income tax return.

GPFSs cannot be lodged with the income tax return and must be lodged through ATO Online Services.

See also:

- Online services

Question 5A – Have you lodged a general purpose financial statement with ASIC for the financial year that most closely corresponds to this income year (on or before the due date for lodgment of the statement with ASIC)?

Answer **Yes** if you have lodged a GPFS with ASIC on or before the due date(s) for lodgment of the statement with ASIC and your income tax return. You do not need to answer **5B**.

Answer **No** in all other circumstances. You will need to answer **5B**.

Question 5B – Will you be lodging a general purpose financial statement with ASIC for the financial year that most closely corresponds to this income year (on or before the due date for lodgment of the statement with ASIC)?

Answer **Yes** if you intend to lodge a GPFS with ASIC on or before the due date(s) for lodgment of the statement with ASIC and your income tax return.

Answer **No** in all other circumstances. You may be required to lodge a GPFS with the ATO on or before the due date for lodgment of your income tax return if you have not already lodged a GPFS with the ATO for the income year.

QC 55199

6. Calculation of total profit or loss

Last updated 16 February 2022

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

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

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

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

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

Former STS taxpayers

Continued use of the STS accounting method

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

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

- was an STS taxpayer and used the STS accounting method in 2006–07
- used the STS accounting method in each subsequent year, and
- is a small business entity for 2017–18.

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

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

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

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

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

For more information, see STS accounting method or phone **13 28 66**.

QC 55199

6. Income

Last updated 16 February 2022

In this section:

- B Gross payments subject to foreign resident withholding

- A Gross payments where ABN not quoted
- C Other sales of goods and services
- D Gross distribution from partnerships
- E Gross distribution from trusts
- X Forestry managed investment scheme income
- F Gross interest
- G Gross rent and other leasing and hiring income
- H Total dividends
- I Fringe benefit employee contributions
- Q Assessable government industry payments
- J Unrealised gains on revaluation of assets to fair value
- R Other gross income
- S Total income

B Gross payments subject to foreign resident withholding

Only complete **B** if the company is a foreign resident. An Australian resident should not include an amount, such as, foreign sourced income, at **B**.

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

- for promoting or organising casino gaming junket activities
- for entertainment or sports activities, or
- under contract for the construction, installation and upgrading of buildings, plant and fixtures, and for associated activities.

This withholding is not a final tax. A credit can be claimed at **H2 Credit for tax withheld – foreign resident withholding** in the **Calculation statement**.

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

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

Do not include at this label amounts subject to the foreign resident capital gains withholding.

Do not include at **B** amounts that are subject to a final withholding tax, for example, amounts subject to withholding tax under section 128B of the ITAA 1936. Include these amounts at:

- **F Gross interest** or **H Total dividends** or **R Other gross income** in item **6 Income**
- **Q Other income not included in assessable income** in the **Reconciliation to taxable income or loss** at item **7**

A final withholding tax cannot be claimed at **H2 Credit for tax withheld – foreign resident withholding** in the **Calculation statement**.

If an amount is written at **B**, complete and attach a *Non-individual PAYG payment summary schedule 2018*. For instructions on completing this schedule, see Non-individual PAYG payment summary schedule.

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

A Gross payments where ABN not quoted

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

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

- complete a *Non-individual PAYG payment summary schedule 2018*. For instructions on completing this schedule, see Non-individual PAYG payment summary schedule.
- ensure that you write the corresponding amount of tax withheld at **H3 Credit for tax withheld where ABN is not quoted** in the **Calculation statement**.

C Other sales of goods and services

Write at **C** the gross sales of trading stock including wool, produce and livestock, including the assessable value, for income tax purposes, of forced disposal, manufactured goods, goods taken ex-stock, livestock

killed for rations or exchanged for other goods or services, gross income from sale of goods not treated as trading stock and gross earnings from services. Gross income is to be shown before any legal set off or other netting off between amounts.

Do not include at **C**:

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

D Gross distribution from partnerships

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

Include any amounts subject to foreign resident withholding in Australia that were distributed to the company from a partnership. Also include the company's share of credit from foreign resident withholding. A credit can be claimed for the company's share of credit from foreign resident withholding at **H2 Credit for tax withheld – foreign resident withholding** in the **Calculation statement**.

If the TOFA rules apply to the company, show at **D** all distributions from partnerships. This includes amounts from financial arrangements subject to the TOFA rules.

Do not include at **D**:

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

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

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

Also include the company's share of franking credits included in the gross distribution from the partnership at **C Non-refundable non-carry forward tax offsets** in the **Calculation statement**.

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

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

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

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

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

Record keeping

Keep a record of the following:

- full name of the partnership
- TFN of the partnership, if known
- amount of income

- deductible expenses relating to the amount of income that were not claimed in the partnership tax return but are claimed on the company tax return.

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

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

E Gross distribution from trusts

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

Include any amounts subject to foreign resident withholding in Australia that were distributed to the company from a trust. Also include the company's share of credit from foreign resident withholding. A credit can be claimed for the company's share of credit from foreign resident withholding at **H2 Credit for tax withheld – foreign resident withholding** in the **Calculation statement**.

If the TOFA rules apply to the company, show at **E** all distributions from trusts. This includes amounts from financial arrangements subject to the TOFA rules.

Do not include at **E**:

- distributions from a public trading trust or corporate unit trust. Include these amounts at **H Total dividends** item **6**
- capital gains received from a trust. Include these at **A Net capital gain** item **7**. For information on how to include an amount of a capital gain received from a trust at **A** (for example, how to gross-up a capital gain from a trust) see the Guide to capital gains tax 2018
- any amount referable to Australian franking credits received indirectly from a New Zealand franking company through a trust. Include these amounts at **C Australian franking credits from a New Zealand company** item **7**.

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

Also write the company's share of the franking credits included in the gross distribution from the trust at **C Non-refundable non-carry forward tax offsets** in the **Calculation statement**. However, if the relevant interest is not held at risk as required under the holding period

and related payments rules, or there is some other manipulation of the imputation system, or if the gross distribution from the trust is exempt income or non-assessable non-exempt income (other than because of certain provisions mentioned in section 207-110 of the ITAA 1997), the company is not entitled to a franking tax offset. Do not write the amount of franking credit attached to these distributions at **C Non-refundable non-carry forward tax offsets**.

Instead, the company is entitled to a deduction under section 207-150 or section 207-95 of the ITAA 1997, and this is included at **X Other deductible expenses** item **7**.

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

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

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

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

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

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

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

Table 2: Trust codes

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

Table 3: Descriptions of trusts

Trust type	Description
Fixed trust	A trust in which persons have fixed entitlements (as defined in section 272-5 of Schedule 2F to the ITAA 1936) to all of the income and capital of the trust at all times during the income year.
Hybrid trust	A trust that is not a fixed trust but in which persons have fixed entitlements (as defined in section 272-5 of Schedule 2F to the ITAA 1936) to income or capital of the trust during the income year.

Discretionary trust	A trust that is neither a fixed trust nor a hybrid trust and under which persons benefit from income or capital of the trust upon the exercise of a discretion by persons, usually the trustee.
Fixed unit trust	A fixed trust in which interest in the income and capital of the trust are represented by units.
Public unit trust	A fixed unit trust that is a widely held unit trust (as defined in section 272-105 of Schedule 2F to the ITAA 1936) at all times during the income year.
Public unit trust, listed	A public unit trust in which any of its units were listed for quotation in the official list of a stock exchange in Australia or elsewhere during the income year.
Public unit trust, unlisted	A public unit trust in which none of its units were listed for quotation in the official list of a stock exchange in Australia or elsewhere during the income year.

Record keeping

Keep a record of the following:

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

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

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

X Forestry managed investment scheme income

Definitions

A company is an initial participant in a forestry managed investment scheme (FMIS) if:

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

A company is a **subsequent participant in an FMIS** if it acquired its interest through secondary market trading. This means it acquired its interest other than as an initial participant, usually by purchasing that interest from an initial participant.

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

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

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

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

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

Do not include capital gains from an FMIS; show these at **A Net capital gain** item **7**. For more information on the CGT treatment of the company's forestry interests, see the Guide to capital gains tax 2018.

If the company is a member of a collapsed agribusiness managed investment scheme, then for information on calculating your income and deductions, see Collapse and restructure of agribusiness managed investment schemes – participant information.

Participants in an FMIS

For an initial participant

Thinning receipts

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

Sale and harvest receipts – forestry interest no longer held

If:

- the company ceased holding its forestry interest as a result of a CGT event (because it sold its interest or it received harvest proceeds), and
- the company has claimed a deduction, or can claim a deduction, or would be entitled to deduct such amounts but for a CGT event happening within 4 years after the end of the income year in which the company first pays an amount under the FMIS

include the market value of the forestry interest at the time of the CGT event at **X**.

Sale and harvest receipts – forestry interest still held

If:

- a CGT event happened and the company still held its forestry interest (because it sold part of its interest or there was a partial harvest), and
- the company has claimed a deduction, or can claim a deduction, or would be entitled to deduct such amounts but for a CGT event happening within 4 years after the end of the income year in which the company first pays an amount under the FMIS

include at **X** the amount by which the market value of the forestry interest was reduced as a result of the CGT event.

For a subsequent participant

Thinning receipts

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

Sale and harvest receipts – forestry interest no longer held

If:

- the company ceased holding its forestry interest as a result of a CGT event (because it sold its interest or it received harvest proceeds), and

- the company has deducted, or can deduct, or could have deducted, an amount if the company had paid the amount under the FMIS in relation to the forestry interest,

include at **X** the lesser of the following two amounts:

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

Sale and harvest receipts – forestry interest still held

If:

- a CGT event happened and the company still held its forestry interest (because it only sold part of its interest or there was a partial harvest), and
- the company can deduct, or has deducted, or could have deducted, an amount if the company had paid the amount under the FMIS in relation to the forestry interest,

work out the following two amounts:

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

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

Amount worked out above multiplied by the decrease (if any) in the market value of the forestry interest (as a result of the CGT event) divided by the market value of the forestry interest just before the CGT event.

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

In a future income year (a year in which the company receives further proceeds from a harvest or the sale of its forestry interest), disregard the amount of the net deductions that has already been included at **X.**

To complete this item

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

See **examples 7** and **8** for how to calculate the amount you show at **X** where the company is a subsequent participant that holds the forestry interest on capital account.

For more information on the CGT treatment of a company's forestry interest, see the Guide to capital gains tax 2018.

Example 7 – Sale receipts: forestry interest no longer held

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

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

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

CGT notes:

- Cedar Pty Ltd will take the amount that it included at **X** into account when working out the amount to include at **A Net capital gain** item **7**.
- The capital gain would be $3,500 (capital proceeds of $20,000 less cost base of $16,500 (made up of $14,000 plus $2,500 that was included in assessable income)).

Example 8 – Harvest receipts: forestry interest still held

Oakey Pty Ltd is a subsequent participant in an FMIS. It received harvest proceeds over two income years. It received the first harvest payment of $5,000 in 2017–18.

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

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

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

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

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

Step 2: Using the formula above:

Oakey Ptd disregards $625 when determining the amount to include in step 2 for any future income year when it receives harvest proceeds or sells its forestry interest. This is because the $625 amount is already reflected in its assessable income in the current income year.

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

CGT notes:

- Oakey Pty Ltd has disposed of 25% of its forestry interest. The company will take the amount that it included at **X** into account when working out the amount to include at **A Net capital gain** item **7**.
- For 2017–18 the capital gain would be $875 (capital proceeds of $5,000 less apportioned original cost base of $4,125 (made up of $3,500 (25% of $14,000) plus $625 that is included in assessable income)).

F Gross interest

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

If the TOFA rules apply to the company, show at **F** all interest received or credited to it. This includes interest from financial arrangements subject to the TOFA rules.

Record keeping

Keep a record of the following:

- name and address of the borrower
- amount received or credited.

G Gross rent and other leasing and hiring income

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

H Total dividends

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

For an overview of the debt and equity rules and an explanation of a non-share dividends, see Guide to the debt and equity tests.

If the TOFA rules apply to the company, show at **H** all unfranked dividends that were paid or credited to it from all sources. This includes unfranked dividends from financial arrangements subject to the TOFA rules.

Do **not** include at **H**:

- a dividend received under a demerger unless the head entity of the demerger group has elected under subsection 44(2) of the ITAA 1936 that the dividend be treated as an assessable dividend
- any franking credits that were attached to dividends received from an Australian company; include these amounts at **J Franking credits**

item **7**

- any Australian franking credits from a New Zealand franking company; include them at **C Australian franking credits from a New Zealand company** item **7**.

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

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

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

Record keeping

Keep a record of the following for dividends and non-share dividends:

- name of the payer
- date received or credited
- franked amount
- unfranked amount
- franking credit allocated
- franking percentage
- gross amount
- type of distribution, for example, foreign source dividend, bonus shares, phasing-out dividend, liquidator's distribution.

I Fringe benefit employee contributions

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

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

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

Q Assessable government industry payments

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

Write at **Q** all assessable government industry payments, including:

- bounties
- cleaner fuels grants
- employee subsidies
- industry assistance grants including grants relating to R&D
- producer rebate (wine equalisation tax)
- product stewardship for oil program benefit.

If this amount includes a cleaner fuels grant or a product stewardship for oil program benefit, print **D** in the CODE box.

For more information on fuel schemes, phone **13 28 66**.

For more information on government industry payments, see Taxation Ruling TR 2006/3 *Income tax: government payments to industry to assist entities (including individuals) to continue, commence or cease business*.

J Unrealised gains on revaluation of assets to fair value

Write at **J** the amount (if any) of any unrealised gains made on the revaluation of assets and liabilities to fair value that may arise as a

result of the adoption of Australian equivalents to the international financial reporting standards.

- Include any unrealised gain on the revaluation of a financial arrangement to fair value assessable under the TOFA rules.
- Adjustments for tax purposes are made at item **7**.
- An unrealised gain that is not assessable income is included at **Q Other income not included in assessable income** item **7**.
- Any net capital gain for taxation purposes is written at **A Net capital gain** item **7**.
- Any net capital loss is included with any unapplied capital losses carried forward to later income years and is written at **V Net capital losses** carried forward to later income years item **13**.

R Other gross income

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

Include at **R** any assessable gains from the company's financial arrangements to which the TOFA rules apply, except where they have already been included at item **6**.

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

This label excludes amounts included at **Income**, **B** to **J** item **6**. If this amount is a loss, print **L** in the box at the right of the amount.

Record keeping

Keep a record of the following:

- types of income, for example, sales, commissions
- amount derived for each type of income.

If various profit and loss account balances are combined when calculating **R**, keep a list of the names and amounts of those accounts.

S Total income

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

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6. Expenses

Last updated 16 February 2022

Write all expense amounts from the company's financial statements at **B** to **S**, see relevant item names and labels.

Write at **B Foreign resident withholding expenses** all expenses that directly relate to income subject to foreign resident withholding. Do not include these amounts at other expenses labels.

Input tax credit entitlements that arise for outgoings are excluded from expenses, see 6 Calculation of total profit or loss.

Write non-deductible expenses incurred in deriving any exempt income at the appropriate expense labels. Add back these non-deductible expenses at **U Non-deductible exempt income expenditure** item **7**.

Other expenses, to the extent that they are not deductible in 2017–18, which have been included at **A** to **S** item **6**, are added back at **W Non-deductible expenses** item **7**. This includes non-deductible expenses incurred in deriving any non-assessable non-exempt income.

Record prepaid expenses that appear in the company's financial statements at the relevant expense label. Where the amounts of those expenses differ from the amounts which are deductible for income tax purposes in 2017–18, make adjustments at **W** or **X** item **7**.

For a company to claim a deduction for gifts and donations made to an organisation, the organisation must be a deductible gift recipient (DGR). DGRs are endorsed by us or specifically named in the income tax law. All receipts issued for gifts by a DGR must include the name of the fund, authority or institution to which the gift has been made and the DGR's ABN, and must state that the receipt is for a gift. To check whether an organisation is a DGR, go to abn.business.gov.au or phone **1300 130 248**.

The company may elect to spread a deduction for a gift over five income years or less where the gift is money, property gifted to the

Cultural Gifts Program, certain heritage property or property valued by us at more than $5,000.

In this section:

- B Foreign resident withholding expenses
- A Cost of sales
- C Contractor, sub-contractor and commission expenses
- D Superannuation expenses
- E Bad debts
- F Lease expenses within Australia
- I Lease expenses overseas
- H Rent expenses
- V Interest expenses within Australia
- J Interest expenses overseas
- U Royalty expenses overseas
- W Royalty expenses within Australia
- X Depreciation expenses
- Y Motor vehicle expenses
- Z Repairs and maintenance
- G Unrealised losses on revaluation of assets to fair value
- S All other expenses
- Q Total expenses

B Foreign resident withholding expenses

Only complete **B** if the company is a foreign resident. An Australian resident should not include expenses, such as expenses incurred in deriving foreign sourced income, at **B**.

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

Any expenses written at **B** that directly relate to gaining income that is not assessable in Australia should also be written at **U Non-deductible**

exempt income expenditure item **7**.

Do not include at this label expenses in relation to foreign resident capital gains withholding.

A Cost of sales

Small business entities

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

All companies

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

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

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

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

C Contractor, sub-contractor and commission expenses

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

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

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

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

Record keeping

Keep a record of the following:

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

D Superannuation expenses

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

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

Provided certain conditions are met, employers can claim a deduction for superannuation contributions made for a former employee within four months of the employee ceasing employment and at any time after the employee ceases employment for defined benefit interests.

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

There is no limit on the amount of contributions that can be claimed as a deduction by an employer contributing to a complying superannuation fund or RSA for employees under the age of 75 years. However, the employee may be liable to pay additional tax if their concessional contributions exceed their concessional contributions cap. For more information, see Key super rates and thresholds.

If an employee has reached the age of 75 years, there is a restriction on the deduction that can be claimed for an employer contribution to a complying superannuation fund or RSA. For contributions made after the 28th day of the month following the employee's 75th birthday, the deduction claimable is limited to the greater of the following amounts:

- the amount of the contribution required under an industrial award, determination or notional agreement preserving state awards; or
- the amount of the contribution that reduces the employer's charge percentage under the *Superannuation Guarantee (Administration) Act 1992* for the employee.

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

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

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

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

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

Consolidated or MEC groups

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

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

E Bad debts

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

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

A deduction can also be claimed for:

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

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

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

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

incurred through to the end of the income year in which it writes off the debt.

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

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

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

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

Deductions for bad debts may also be reduced by the commercial debt forgiveness provisions, see Appendix 1.

If the TOFA rules apply to the company, show at **E** all of the company's bad debts. This includes amounts from financial arrangements subject to the TOFA rules.

Record keeping

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

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

Consolidated and MEC groups

Special rules apply to determine if the head company of a consolidated or MEC group can deduct a bad debt that for a period has been owed to a member of a consolidated or MEC group and for another period

has been owed to an entity that was not a member of that group, see Subdivisions 709-D and 719-I of the ITAA 1997.

F Lease expenses within Australia

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

Do not include the cost of leasing real estate or the capital expenditure incurred to terminate a lease or licence. However, section 25-110 of the ITAA 1997 provides a five-year straight-line write-off for certain capital expenditure incurred to terminate an operating lease or licence if the expenditure is incurred in the course of carrying on a business or in connection with ceasing to carry on a business. Include the allowable deduction at **X Other deductible expenses** item **7**. See worksheet 2 and note 6, and Other capital expenses (including capital works deductions).

I Lease expenses overseas

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

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

Record keeping

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

- a description of the items leased
- where applicable, the country from which the items were leased
- full particulars of the lease expenses for each item of property, including motor vehicles, showing
  - to whom the payments were made

- where applicable, the country to which the payments were made
- the terms of the payments, including details of any prepayments or deferred payments
- if any assignment, defeasance or re-direction to pay the payments was entered into, full particulars of those arrangements, including to whom the payments were made
- details of any use other than for producing assessable income
- any documentation on or relating to the lease of the asset.

In certain cases, an amount of tax (withholding tax) is withheld from amounts paid or payable under equipment leases to non-residents and overseas branches of residents, and must be remitted to the ATO. If you have withheld amounts from payments to non-residents, you may need to lodge by 31 October 2018 a PAYG withholding from interest, dividend and royalty payments paid to non-residents – annual report. For more information, phone **13 28 66**.

H Rent expenses

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

V Interest expenses within Australia

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

If the TOFA rules apply to the company, show at **V** all interest incurred on money borrowed from Australian sources. This includes interest on financial arrangements subject to the TOFA rules.

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

For information on thin capitalisation, see Appendix 3.

Distributions from a non-share equity interest are not deductible; see the Guide to the debt and equity tests. This provides an overview of the debt and equity rules and explains what a non-share equity interest is.

J Interest expenses overseas

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

If an amount is reported at **J**, complete and attach an International dealings schedule 2018.

If the TOFA rules apply to the company, show at **J** all interest expenses incurred on money borrowed overseas. This includes interest on financial arrangements subject to the TOFA rules.

An amount of tax (withholding tax) is generally withheld from interest paid or payable to non-residents and to overseas branches of residents, and must be remitted to the ATO. If you have withheld amounts from payments to non-residents you may need to lodge a *PAYG withholding from interest, dividend and royalty payments paid to non-residents – annual report* (NAT 7187) by 31 October 2018. For more information, phone **13 28 66**.

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

For information on thin capitalisation, see Appendix 3.

Distributions from a non-share equity interest are not deductible. For an overview of the debt and equity rules and an explanation of a non-share equity interest, Guide to the debt and equity tests.

Record keeping

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

- names and addresses of recipients
- amount of interest paid or credited
- amount of withholding tax withheld and the date on which it was remitted to the ATO.

U Royalty expenses overseas

Write at **U** the royalty expenses incurred during the income year to non-residents. If an amount is reported at **U**, complete and attach an International dealings schedule 2018.

An amount of tax (withholding tax) is generally withheld from royalties paid or payable to non-residents and overseas branches of residents,

and must be remitted to the ATO. If you have withheld amounts from payments to non-residents, you may need to lodge a *PAYG withholding from interest, dividend and royalty payments paid to non-residents – annual report* by 31 October 2018. For more information, phone **13 28 66**.

Record keeping

Keep a record of the following:

- names and addresses of recipients
- amounts paid or credited
- nature of the benefit derived, for example, a copy of the royalty agreement
- details of tax withheld, where applicable, and the date on which it was remitted to us.

W Royalty expenses within Australia

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

Record keeping

Keep a record of the following:

- names and addresses of recipients
- amounts paid
- nature of the benefit derived, for example, a copy of the royalty agreement
- details of amounts withheld, where applicable, and the date on which they were remitted to us.

X Depreciation expenses

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

All other companies

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

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

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

For reconciliation purposes, split the amount written at **X** into R&D and non-R&D amounts when adding back at item **7**. Include non-R&D amounts at **W Non-deductible expenses** item **7** when adding back.

Include R&D amounts at **D Accounting expenditure** in item **6** subject to R&D tax incentive item **7** when adding back.

Write the deduction for decline in value of most depreciating assets at **F** Deduction for decline in value of depreciating assets item **7**. If a depreciating asset is subject to the R&D tax incentive, this amount will form part of your notional R&D deduction. Eligible companies can claim this notional R&D deduction amount as an R&D tax offset.

See also:

- 21 Research and development tax incentive
- Research and development tax incentive schedule instructions 2018.

Our Practice Statement PS LA 2003/8 *Practical approaches to low-cost business expenses* provides guidance on the threshold rule and the sampling rule taxpayers can apply to determine if their business expenses on low cost items are to be treated as revenue expenditure.

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

Small business entities

Small business concessions: changes to simpler depreciation rules

New laws have passed that allow small businesses to claim an immediate deduction for assets they first acquire and start to use, or have installed ready for use, provided each depreciable asset costs less than $20,000. This replaces the previous instant asset write-off threshold of $1,000.

This measure started at 7.30pm (AEST) 12 May 2015 and will end on 30 June 2018.

In the 2018 Budget, the government announced its intention to extend the end date of this measure to 30 June 2019. At the time of publishing, this change had not yet become law.

The balance of the general small business pool is also immediately deductible if the balance is less than $20,000 at the end of an income year that ends on or after 12 May 2015 and on or before 30 June 2018 (including existing general small business pool).

The 'lock out' laws have also been suspended for the simplified depreciation rules (these prevent small business from re-entering the simplified depreciation regime for five years if the they have opted out) until the end of 30 June 2018.

If the company is an eligible small business entity and has chosen to use the simplified depreciation rules, write at **X** the total depreciation deductions being claimed under the simplified depreciation rules and the uniform capital allowances (UCA) rules.

If you are a small business entity and have total depreciation deductions at **X**, you must also complete item **10 Small business entity simplified depreciation**.

Small business entities can claim an immediate deduction for most depreciating assets costing less than $20,000 (excluding input tax credit entitlements) and pool most of their other depreciating assets in a general small business pool.

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

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

For more information about the small business entity depreciation rules, see Simplified depreciation – rules and calculations or phone **13 28 66**.

Calculating depreciation deductions for small business entities

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

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

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

Step 1: Deduction for certain assets costing less than $20,000 ('Low-cost assets')

For each depreciating asset:

- the company started to hold this income year and used, or installed ready for use, for a taxable purpose such as for producing assessable income
- whose cost at the end of this year is less than $20,000 (excluding input tax credit entitlements)
- which qualifies for a deduction under the small business entity depreciation rules

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

asset's adjustable value × its taxable purpose proportion

The adjustable value of an asset is its cost **less** its decline in value since it was first used, or installed ready for use, for any purpose, whether business or private. The adjustable value of an asset, at the time it was first used, or installed ready for use, for a taxable purpose, will be its cost unless the asset was previously used, or installed ready for use, by the company solely for non-taxable purposes. For example, for a vehicle bought on 1 December at a cost of $19,990 (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 $19,990 × 70% = $13,993.

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

Do **not** include in this calculation:

- amounts for depreciating assets that the company started to hold before starting to use the simplified depreciation rules and that cost

less than $20,000. These assets are allocated to the general small business pool (see step 2).

- amounts for depreciating assets that cost $20,000 or more, but the taxable purpose proportion determines an amount to be deducted of less than $20,000. Such assets must be allocated to the general small business pool (see step 2). For example, if the vehicle bought above cost $20,200, the taxable purpose proportion is $14,140 ($20,200 × 70%), which is less than the $20,000 instant deduction threshold. However, the vehicle must still be allocated to the general small business pool because its cost is above $20,000.

Step 2: General small business pool deductions

To calculate the deduction for the general small business pool, first calculate the opening pool balance of the pool.

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

For companies which have not previously used the simplified depreciation rules, the opening pool balance is the sum of the taxable purpose proportions of the adjustable values of those depreciating assets that are used, or held for use, just before the start of 2017–18, and that are not excluded from the simplified depreciation rules.

When allocating each depreciating asset that the company holds at the start of the income year to the general small business pool only include the taxable purpose proportion of the adjustable value of each depreciating asset.

For example, for an asset with an adjustable value of:

- $50,000 which is used only 50% for an income-producing purpose, add only $25,000 to the pool, or
- $20,200 which is used 70% for an income-producing purpose, add only $14,140 to the pool.

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

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

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

Opening pool balance $ × 30%

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

If the pool balance (after taking into account additions and disposals but before calculating the deductions in steps 2 and 3) is below $20,000, the company calculates the deduction for the pool using step 5(b).

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

The company calculates the deduction at half the general small business pool rate for:

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

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

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

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

If the pool balance (after taking into account additions and disposals but before calculating the deductions in steps 2 and 3) is below $20,000, calculate the company's deduction for these assets using step 5(b).

Step 4: Other depreciating assets

Calculate the deduction for the decline in value of all the other depreciating assets of the company that are not included in steps 1 to

3. For information on how to calculate the decline in value of these assets, see the Guide to depreciating assets 2018.

Write the company's total deduction at **d** in worksheet 1.

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

Step 5: Disposal of depreciating assets

Step 5a Certain assets less than $20,000 (Low-cost assets)

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

For example, the company acquired an asset on 1 February 2013 for $6,400 for 100% taxable use and claimed an immediate write-off under the threshold which existed at that time. The company disposed of the asset at arm's length on 1 February 2018 for $3,000. Include $3,000 as income at **B Other assessable income** item **7**.

Step 5b Assets allocated to the general small business pool

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

If the balance of the pool (after taking into account any additions and disposals but before calculating the deductions in steps 2 and 3) is below $20,000 but greater than zero, the company claims an immediate deduction for this amount.

Write this deduction against general small business pool assets at **b** in worksheet 1.

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

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

Step 5c Other depreciating assets

For information on how to calculate any balancing adjustment amounts on the disposal of other depreciating assets, see the Guide to depreciating assets 2018.

Include assessable balancing adjustment amounts at **B Other assessable income** item **7**. Include deductible balancing adjustment amounts at **X Other deductible expenses** item **7**. See worksheet 2.

Worksheet 1: Depreciation deductions (small business entities only)

Row	Calculation element	Total
a	Certain assets (less than $20,000)	$
b	General small business pool	$
c	General small business pool (½ rate)	$
d	Other assets	$
e	Depreciation expenses: add **a** to **d**	$

Transfer the amount at **e** to **X Depreciation expenses** item **6**

Transfer the amount at **a** to **A Deduction for certain assets** item **10**.

Transfer the total of the amounts at **b** and **c** to **B Deduction for general small business pool** item **10**.

Closing pool balance

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

- the opening pool balance (see step 2), plus

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

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

The closing pool balance for this year becomes the opening pool balance for 2018–19, except where an adjustment is made to reflect the changed business use of a pooled asset.

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

Five-year restriction

The law has been changed to suspend the 5 year 'lock out' rule that applies to small business entities that have previously chosen to use these simplified depreciation rules but have opted-out in a later year.

If the company is a small business entity that has previously chosen to use these simplified depreciation rules but in a later year has chosen to stop using this concession, the company can again choose to use the simplified depreciation rules until the end of 30 June 2018.

Y Motor vehicle expenses

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

- **F Lease expenses within Australia** item **6**
- **I Lease expenses overseas** item **6**
- **V Interest expenses within Australia** item **6**

- **J Interest expenses overseas** item **6**
- **X Depreciation expenses** item **6**.

Z Repairs and maintenance

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

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

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

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

G Unrealised losses on revaluation of assets to fair value

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

- Include any unrealised loss on the revaluation of a financial arrangement to fair value deductible under the TOFA rules.
- Adjustments for tax purposes are made at item **7**.
- An unrealised loss that is not deductible is added back at **W Non-deductible expenses** item **7**.
- Any net capital gain for taxation purposes is included at **A Net capital gain** item **7**.

- Any net capital loss is included with any unapplied capital losses carried forward to later income years and is written at **V Net capital losses carried forward to later income years** item **13**.

S All other expenses

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

Include at **S** any losses from the company's financial arrangements to which the TOFA rules apply, except where they have already been included at item **6**.

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

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

Calculation of some deductions may be affected by the commercial debt forgiveness provisions, see Appendix 1.

Q Total expenses

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

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

T Total profit or loss

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

7. Reconciliation to taxable income or loss

Last updated 16 February 2022

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

In this section:

- Former STS Taxpayers
- Other reconciliation adjustments
- G Did you have a CGT event during the year?
- M Have you applied an exemption or roll-over?
- Add-back items
- A Net capital gain
- U Non-deductible exempt income expenditure
- J Franking credits
- C Australian franking credits from a New Zealand franking company
- E TOFA income from financial arrangements not included in item 6
- B Other assessable income
- W Non-deductible expenses
- D Accounting expenditure in item 6 subject to R&D tax incentive
- Subtotal
- Subtraction items
- C Section 46FA deduction for flow-on dividends
- F Deduction for decline in value of depreciating assets
- U Forestry managed investment scheme deduction
- E Immediate deduction for capital expenditure
- H Deduction for project pool
- I Capital works deductions
- Z Section 40-880 deduction
- N Landcare operations and deduction for decline in value of water facility, fencing asset and fodder storage asset
- O Deduction for environmental protection expenses

- P Offshore banking unit adjustment
- V Exempt income
- Q Other income not included in assessable income
- W TOFA deductions from financial arrangements not included in item 6
- X Other deductible expenses
- R Tax losses deducted
- S Tax losses transferred in (from or to a foreign bank branch or a PE of a foreign financial entity)
- Subtraction items subtotal

Former STS Taxpayers

If the company is eligible and is continuing to use the STS (simplified tax system) accounting method, the following might apply.

You might need to make additional adjustments at item **7** if:

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

These adjustments are explained in more detail below. Worksheet 2 will help with the calculations.

Trade debtors and creditors as at 30 June 2018

If the company is eligible and has chosen to continue using the STS accounting method, and has included at any labels at **Income** item **6** amounts of ordinary income that have been derived but not received in 2017–18, (for example, trade debtors as at 30 June 2018), the amounts not received are not assessable this year.

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

If the company is eligible and has chosen to continue using the STS accounting method and has included at any labels at **Expenses** item **6** amounts of general deductions, repairs or tax-related expenses that have been incurred but not paid in 2017–18, (for example, trade

creditors as at 30 June 2018), the amounts not paid are not deductible this year.

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

Ceasing to use the STS accounting method

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

If you have not included anywhere at **Income** item **6** amounts of ordinary income that the company derived but did not receive while using the STS accounting method (for example, trade debtors as at 30 June 2018), these amounts are assessable this year.

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

If you have not included anywhere at **Expenses** item **6** amounts of general deductions, repairs or tax-related expenses that the company incurred but not paid while using the STS accounting method, (for example, trade creditors as at 30 June 2018), these amounts are deductible this year.

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

Worksheet 2 will help with the calculations.

Other reconciliation adjustments

Disposal of depreciating assets

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

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

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

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

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

Prepaid expenses

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

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

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

If you are an early balancer and, on a date that was both before 1 July 2018 and falls within 2017–18, you incurred expenditure under a forestry management agreement, phone us on **13 28 66** for further assistance.

For more information, see Deductions for prepaid expenses 2018. If the labels at **Expenses** item **6** include prepaid expenses that differ from the amounts allowable as deductions in 2017–18, include the reconciliation adjustment at **W Non-deductible expenses** item **7** or **X Other deductible expenses** item **7** as required. See Worksheet 2.

G Did you have a CGT event during the year?

If the company had a CGT event (explained in more detail below) during the income year, or had a capital gain amount from a trust, print **X** in the **Yes** box at **G** item **7**. Otherwise print **X** in the **No** box.

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

An Australian resident company makes a capital gain or capital loss if a CGT event happens to any of its worldwide CGT assets. Foreign residents are only subject to CGT if a CGT event happens to assets that have the necessary connection with Australia if the CGT event happens before 12 December 2006 or that are taxable Australian property if the CGT event happens on or after that date. For more information, see the Guide to capital gains tax 2018.

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

For more information about CGT events, see the Guide to capital gains tax 2018. This includes:

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

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

However, if the company has:

- total current year capital gains greater than $10,000, or
- total current year capital losses greater than $10,000

complete a Capital gains tax (CGT) schedule 2018 and attach it to the company tax return.

Consolidated or MEC groups

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

M Have you applied an exemption or roll-over?

If you have disregarded or deferred a capital gain or capital loss because your entity is eligible to apply a CGT exemption or roll-over,

print **X** in the **Yes** box at **M** item **7**. If you are required to lodge a CGT schedule, you may need to provide details of certain CGT exemptions and roll-overs.

If you answered yes at **M**, print in the code box the code(s), from the list below, for the CGT exemption(s) and roll-over(s) you or your entity has applied to disregard or defer a capital gain. Choose the most specific roll-over and exemption that applies, such as Scrip for scrip roll-over (Subdivision 124-M), before you choose a more general roll-over and exemption, such as Replacement asset roll-overs (Division 124). If you have applied more than one CGT exemption or roll-over, select all of the codes that apply. If you are lodging by paper, write the code that represents the CGT exemption or roll-over that deferred or disregarded the largest amount of capital gain.

Table 4: CGT exemptions or roll-over code

Code	Type
A	Small business active asset reduction
B	Small business retirement exemption
C	Small business roll-over (Subdivision 152-E)
D	Small business 15-year exemption (Subdivision152-B)
E	Foreign resident CGT exemption (Division 855)
F	Scrip for scrip roll-over (Subdivision 124-M)
G	Inter-company roll-over (Subdivision 126-B)
H	Demerger exemption (Subdivision 125-C)
J	Capital gains disregarded as a result of the sale of a pre-CGT asset
K	Disposal of assets to, or creation of assets in, a wholly-owned company (Division 122)
L	Replacement asset roll-overs (Division 124)
M	Exchange of shares or units (Subdivision 124-E)

N	Exchange of rights or options (Subdivision 124-F)
O	Exchange of shares in one company for shares in another company (Division 615)
P	Exchange of units in a unit trust for shares in a company (Division 615)
Q	Disposal of assets by a trust to a company (Subdivision 124-N)
R	Demerger roll-over (Subdivision 125-B)
S	Same asset roll-overs (Division 126)
T	Small business restructure roll-over (Subdivision 328-G)
U	Early stage investor (Subdivision 360-A)
V	Venture capital investment (Subdivision 118-F)
X	Other exemptions and roll-overs

Note: use code **T** if you have either received or disposed of an asset under the Small business restructure roll-over provisions.

See also:

- Guide to capital gains tax 2018

If the company is required to lodge a CGT schedule, you may need to provide details of the capital gains deferred or disregarded as a result of applying certain CGT exemptions and roll-overs.

Add-back items

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

A Net capital gain

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

- **6A** at **part 6** of the CGT summary worksheet, or

- **A** at **part 6** of the CGT schedule.

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

- 50% active asset reduction
- retirement exemption
- roll-over provisions.

A company is **not** eligible for the CGT discount.

For more information about CGT, see the Guide to capital gains tax 2018.

For information regarding the small business concessions, see Small business CGT concessions.

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

The company may need to complete either a *Consolidated Groups Losses schedule 2018* or a *Losses schedule 2018*.

For more information, see:

- Consolidated groups losses schedule instructions 2018
- Losses schedule instructions 2018.

U Non-deductible exempt income expenditure

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

J Franking credits

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

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

- a distribution the company receives indirectly, through one or more partnerships or trusts (include these at **D Gross distribution from partnerships** item **6** or **E Gross distribution from trusts** item **6**)
- a distribution that is exempt income or non-assessable non-exempt income
- franked distributions received from a New Zealand franking company (include these at **C Australian franking credits from a New Zealand company**)
- a distribution where the shares are not held at risk as required under the holding period and related payments rules, if the dividend washing integrity rule applies, or there is other manipulation of the imputation system.

There is no entitlement to a franking tax offset in these circumstances.

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

The maximum franking credit that can be allocated to a frankable distribution is based on a company's corporate tax rate for imputation purposes.

For 2017–18, a company's corporate tax rate for imputation purposes may be either 27.5% or 30%, depending on the company's circumstances. For more information see Allocating franking credits.

Example 9

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

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

Bee Jay's Honey Pty Ltd's corporate tax rate for imputation purposes is 30%.

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

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

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

For most companies, the amount of franking credits included at **J** is allowable as a tax offset and should be claimed at **C Non-refundable non-carry forward tax offsets** in the **Calculation statement**. If the company is a life insurance company or organisation entitled to claim a refund of excess franking credits, claim the refundable amount at **E Refundable tax offset** in the **Calculation statement**, not at **C Non-refundable non-carry forward tax offsets**.

C Australian franking credits from a New Zealand franking company

Write at **C** amounts of Australian franking credits from a New Zealand franking company that are included in assessable income because of a franked distribution paid to the company by a New Zealand franking company or because of its receipt indirectly through a partnership or trust. To work out whether the distribution is included in assessable income, see the Foreign income return form guide 2018 (NAT 1840).

To calculate the amount to write at **C**, the Australian franking credits received directly or indirectly from a New Zealand franking company

must be reduced by the amount of a supplementary dividend or the company's share of a supplementary dividend if:

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

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

For most companies the amount of Australian franking credits included at **C** is allowable as a tax offset and should be claimed at **C Non-refundable non-carry forward tax offsets** in the **Calculation statement**. If the company is a life insurance company or organisation entitled to claim a refund of excess franking credits, claim the refundable amount at **E Refundable tax offset** in the **Calculation statement**.

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

E TOFA income from financial arrangements not included in item 6

If the company has financial arrangements to which the TOFA rules apply, include at **E** assessable gains under the TOFA rules from financial arrangements which have not been shown at item **6**.

For more information, see the Guide to the taxation of financial arrangements (TOFA).

B Other assessable income

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

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

- the excess of the company's foreign source income and attributed foreign income for taxation purposes over income from such sources shown in the accounts. Gross up foreign source income by the amount of foreign tax paid include any add-back or subtraction adjustment to expenses claimed against such income separately at **W Non-deductible expenses** item **7** or at **X Other deductible expenses** item **7**
- assessable foreign exchange gains to the extent that they have not been included at item **6** or at any other label of item **7**. See Foreign exchange gains and losses for more information.
- assessable balancing adjustment amounts for non-R&D assets
- assessable balancing adjustment amounts for assets used in R&D activities. If the asset has only been used for R&D activities, the amount to be included at **B** is uplifted by one third (as per subsection 355-315(3) of the ITAA 1997). If the asset has been used partly for R&D activities, under subsection 40-292(5) of the ITAA 1997, the amount included and uplifted by one third is the proportion of the assessable balancing adjustment amount that relates to notional deductions claimed under the R&D tax incentive. Feedstock adjustments as a result of expenditure on goods, materials or energy used, and claimed as notional R&D deductions on R&D activities that produce marketable products supplied or applied to the company's own use.

There are special transitional rules for assets used for both the R&D tax incentive and the R&D tax concession. For more information on transitional rules, assessable balancing adjustments for assets used in R&D activities and feedstock adjustments, see Research and development tax incentive and the Research and development tax incentive schedule instructions 2018.

If the company ceases to hold a depreciating asset, or permanently ceases using it (or ceases having it installed ready for use) for any purpose and expects (or has decided) never to use it again, a balancing adjustment event occurs.

For assets subject to the small business entity depreciation rules, see step 5: Disposal of depreciating assets.

For assets not subject to the small business entity depreciation rules, calculate a balancing adjustment amount to include in the company's assessable income or to claim as a deduction.

If the asset was used for both taxable and non-taxable purposes, reduce the balancing adjustment amount by the amount attributable to the non-taxable use. A capital gain or capital loss amount may arise attributable to that non-taxable use. For more information, see the Guide to depreciating assets 2018.

- if a company receives a distribution from a partnership or trust and that partnership or trust claimed a deduction for a listed investment company (LIC) capital gain amount, then the company must add back as income its share of the deduction claimed by the partnership or trust. There is an exception for life insurance companies. For more information, see 16 Life insurance companies and friendly societies only.
- excessive deductions for capital allowances that are to be included in assessable income under the limited recourse debt rules contained in Division 243 of the ITAA 1997. This will occur where
  - expenditure on property has been financed or re-financed wholly or partly by limited recourse debt
  - the limited recourse debt is terminated after 27 February 1998 but has not been paid in full by the debtor, and
  - because the debt has not been paid in full, the capital allowance deductions allowed for the expenditure exceed the deductions that would be allowable if the unpaid amount of the debt was not counted as capital expenditure of the debtor. Special rules apply in working out whether the debt has been fully paid. 'Limited recourse debt' is a debt where the rights of the creditor as against the debtor in the event of default in payment of the debt or of interest, are limited wholly or predominantly to the property that has been financed by the debt or is security for the debt, or rights to such property. A debt is also limited recourse debt if, notwithstanding that there may be no specific conditions to that effect, it is reasonable to conclude that the creditor's rights as against the debtor are capable of being so limited. Limited recourse debt includes a notional loan under a hire-purchase or sale agreement of goods to which Division 240 of the ITAA 1997 applies. See section 243-20. The rules in section 243-75 apply where Division 243 of the ITAA 1997 and Division 245 of the ITAA 1997 (commercial debt forgiveness, see Appendix 1) both apply to the same debt.
- amounts assessable under Division 45 of the ITAA 1997 Broadly, if a taxpayer holds plant which has been used principally for leasing and

some part of the lease period occurred on or after 22 February 1999, Division 45 and related amendments may apply from that date to include an amount in the assessable income of the taxpayer upon disposal of such plant, or an interest in the plant, or an interest in, or rights under, a lease of the plant, see section 45-5 of the ITAA 1997. Similar tax consequences arise for a partner in a partnership if the partnership holds plant which has been used principally for leasing and some part of the lease period occurred on or after 22 February 1999, see section 45-10 of the ITAA 1997. A subsidiary member of a wholly owned company group is treated under Division 45 as if it had disposed of and immediately reacquired plant that it holds where

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

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

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

W Non-deductible expenses

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

The amount written at **W** excludes:

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

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

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

- debt deductions disallowed under the thin capitalisation rules
- unrealised losses on revaluation of assets and liabilities to fair value under international financial reporting standards
- any expenses (including interest or amounts in the nature of interest) incurred in deriving non-assessable non-exempt income such as foreign income that is non-assessable non-exempt income under section 23AH of the ITAA 1936
- a non-share dividend, to the extent that it is an expense for accounting purposes and therefore taken into account in determining total profit and loss, but which is not deductible for income tax purposes.

For more examples of specific items, see Worksheet 2.

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

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

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

Write at **D**, the expense amounts included at the expenditure labels at item **6 Calculation of total profit or loss**, which relate to amounts that you are claiming as a notional R&D deduction under the R&D tax incentive provisions. Generally, these amounts include expenditure for accounting purposes on R&D activities, which are used in calculating the R&D tax offset, rather than being claimed as allowable deductions. Also include at **D** losses on disposal of assets used in R&D activities which are subject to the R&D tax incentive that were shown at **S All**

other expenses item **6** and any book depreciation expenses for assets used in Research & Development activities which are subject to the R&D tax incentive that were included at **X Depreciation expenses** item **6** (any amounts not subject to the R&D tax incentive must be included at **W Non-deductible expenses** item **7**).

At **D** you also need to include amounts that you have written at the expenditure labels in item **6 Calculation of total profit or loss** which you have incurred to your associates that are not yet paid or claimed and are to be carried forward. For more information, see Research and development tax incentive schedule instructions 2018.

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

The amount written at **D** on the company tax return must be the same as the amount written at **D Preliminary calculation – Add-back of research and development (R&D) accounting expenditure** on the *Research and development tax incentive schedule 2018*.

Subtotal

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

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

Subtraction items

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

C Section 46FA deduction for flow-on dividends

Write at **C** any amounts claimed as a deduction during the income year that are deductible under section 46FA of the ITAA 1936. If an amount is reported at **C**, complete and attach an *International dealings schedule 2018*.

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

If a deduction is claimed under section 46FA, the claiming entity must maintain an unfranked non-portfolio dividend account under section 46FB of the ITAA 1936 and complete **Do you have an unfranked non-**

portfolio dividend account (section 46FB ITAA 1936)? tem **43** on the *International dealings schedule 2018*.

F Deduction for decline in value of depreciating assets

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

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

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

If a depreciating asset is used in R&D activities, the notional decline in value amount will form part of your notional R&D deduction. Eligible companies can claim this notional R&D deduction amount in calculating the R&D tax offset. For more information, see:

- Research and development tax incentive
- Research and development tax incentive schedule instructions 2018.

If a decline in value amount is included as a notional R&D deduction, add back at **D Accounting expenditure in item 6 subject to R&D tax incentive** item **7** any related depreciation expenses included at **X Depreciation expenses** item **6**.

If you have elected to use the hedging tax-timing method provided for in the TOFA rules and you have a gain or loss from a hedging financial arrangement used to hedge risks for a depreciating asset, work out separately:

- the deduction for decline in value of depreciating assets (include this at **F Deduction for decline in value of depreciating assets**), and
- your gain or loss on the hedging financial arrangement; include this at either
  - **E TOFA income from financial arrangements not included in item 6**, item **7** or

- **W TOFA deductions from financial arrangements not included in item 6**, item **7**.

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

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

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

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

Practice Statement PS LA 2003/8 *Practical approaches to low-cost business expenses* provides guidance on the threshold rule and the sampling rule taxpayers can apply to determine if their business expenses on low cost items are to be treated as revenue expenditure.

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

U Forestry managed investment scheme deduction

For more information about the terms in this section, see Definitions.

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

- the company currently holds a forestry interest in an FMIS, or held a forestry interest in an FMIS during 2017–18
- the company paid an amount to a forestry manager of an FMIS under a formal agreement

- the forestry manager has advised the company that the FMIS satisfies the 70% direct forestry expenditure rule in Division 394 of the ITAA 1997
- the company does not have day to day control over the operation of the scheme
- there is more than one participant in the scheme or, the forestry manager or an associate of the forestry manager manages, arranges or promotes similar schemes, **and**
- the trees are established within 18 months of the end of the income year in which an amount is first paid under the FMIS by a participant in the scheme.

If the company is an **initial participant** in an FMIS it can claim initial and ongoing payments at this item. However, the company cannot claim a deduction if it has disposed of its forestry interest in an FMIS within four years after the end of the income year in which it first made a payment. The deduction will be allowed if the disposal occurs because of circumstances outside of the company's control, provided the company could not have reasonably foreseen the disposal happening when they acquired the interest. Disposals that would generally be outside the company's control may include compulsory acquisition, insolvency of the company or the scheme manager, or cancellation of the interest due to fire, flood or drought.

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

The deduction is claimed in the income year in which the payment is made.

Excluded payments

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

- payments for borrowing money
- interest and payments in the nature of interest (such as a premium on repayment or redemption of a security, or a discount of a bill or bond)
- payments of stamp duty
- payments of GST

- payments that relate to transportation and handling of felled trees after the earliest of the
  - sale of the trees
  - arrival of the trees at the mill door
  - arrival of the trees at the port
  - arrival of the trees at the place of processing (other than where processing happens in-field)

- payments that relate to processing
- payments that relate to stockpiling (other than in-field stockpiling).

While the payments are not deductible FMIS payments, they may qualify as revenue or capital payments under another label.

Write at **U Forestry managed investment scheme deduction** the total amount of deductible payments made to an FMIS.

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

E Immediate deduction for capital expenditure

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

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

See also:

- Guide to depreciating assets 2018

H Deduction for project pool

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

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

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

For more information about project pools, see Appendix 6.

I Capital works deductions

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

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

Z Section 40-880 deduction

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

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

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

N Landcare operations and deduction for decline in value of water facility, fencing asset and fodder storage asset

Write at **N** the company's total deductions for landcare operations expenses and for water facilities, fencing assets and fodder storage assets.

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

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

For information about deductions for landcare operations and water facilities, fencing assets and fodder storage assets, see Appendix 6.

O Deduction for environmental protection expenses

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

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

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

P Offshore banking unit adjustment

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

If you complete **P**, you must complete an *International dealings schedule 2018*. For more information, see the International dealings schedule instructions 2018.

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

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

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

To get the effective 10% tax rate on OB activity income, section 121EG of the ITAA 1936 reduces the assessable income and allowable deductions from OB activities so that an OBU's taxable income includes only the 'eligible fraction' (currently 10/applicable company tax rate) of its net income from OB activities.

Calculation of the offshore banking unit adjustment

Label **P** ensures that the net income from OB activities is taxed at an effective tax rate of 10%. Write at **P** the difference between the OBU's net income from OB activities and the eligible fraction:

P = net OB income minus (net OB income × eligible fraction)

When the amount written at **P** is deducted from the OBU's total profit, this results in only the eligible fraction being included at **T Taxable income or loss** item **7**. This is illustrated in the following examples.

Example 10: An OBU has income and expenses from various activities as follows:

Income

	Relating to OB activities	Relating to non-OB activities	Total activities
Interest	$200	$400	$600
Rent	$0	$500	$500
Dividends	$100	$400	$500
Total income	$300	$1,300	$1,600

Expenses

	Relating to OB activities	Relating to non-OB activities	Total activities
Rent expenses	$0	$600	$600
Interest (within Australia)	$200	$300	$500

Total expenses	$200	$900	$1,100
Net profit	$100	$400	$500

Complete item 6 as follows:

Item 6 income

Income	Label	Amount
Gross interest	F	$400
Gross rent and other leasing and hiring income	G	$500
Total dividends	H	$400
Other gross income	R	$300
Total income	S	$1,600

Item 6 expenses

Expense	Label	Amount
Rent expenses	H	$600
Interest expenses within Australia	V	$300
All other expenses	S	$200
Total expenses	Q	$1,100
Total profit or loss	T	$500

If this company was not an OBU, the amount of tax payable at 30% on a taxable income of $500 is $150 (assuming the company is not a base rate entity). However, because the company is an OBU, it is entitled to an effective 10% tax rate on its net profit of $100 from OB activities. This is achieved by recording at **P** the untaxed portion of the net profit from OB activities. In this example, that is calculated as follows:

P = net OB income – (net OB income × eligible fraction)

= $100 – (100 × 10 ÷ 30*)

= $67 (amount shown at item **7**)

As a result, the taxed portion is $33 and is the only part of the net profit from OB activities included at **T Taxable income or loss** item **7**.

Item **7** in this example contains the following entries:

Total profit or loss amount shown at **T** item **6** = $500

Less:

Offshore banking unit adjustment at **P** = $67

Taxable income or loss at **T** = $433

The tax payable at 30% on a taxable income of $433 is $130, which is the same as the total of the tax payable on:

Taxable non-OBU activity income of $400 at 30% = $120

Plus:

Taxable OBU activity income of $100 at 10% = $10

Tax payable = $130

(*Assuming the OBU is not a base rate entity.)

OBU losses

Do not use **P** to record a loss from OBU activities.

If a loss is incurred, make the adjustment at **W Non-deductible expenses** item **7** to ensure that the company is taxed at the correct rate.

The adjustment is made by inserting the following amount at **W**:

- net OB loss – (net OB loss × eligible fraction)

The following example assumes that the OBU is not a base rate entity, therefore a tax rate of 30% has been applied.

Example 11:

An OBU has income and expenses from various activities as follows:

	Relating to OB activities	Relating to non-OB activities	Total
Gross income	$200	$1,300	$1,500
Expenses	$300	$900	$1,200
Net income	$(100)	$400	$300

Although the company's net income is $300, its taxable income is actually $367. This is because only 10 ÷ 30 (the eligible fraction at 30% tax rate) of the income and expenses from OB activities is taken into account in calculating an OBU's taxable income, that is:

Net income from non-OB activities = $400

Less:

Loss from OB activities (100 × 10 ÷ 30) = $(33)

Taxable income = $367

W = net OB loss – (net OB loss × eligible fraction)

= $100 – (100 × 10 ÷ 30)

= $67

In this example, the company tax return would show the following entries:

Item **6**

S Total income	$1,500
Q Total expenses	$1,200
T Total profit or loss	$300

Add:

Item **7**

W Non-deductible expenses	$67
T Taxable income or loss	$367

For more information on the taxation of OBUs, see Taxation Determinations TD 93/202 to 93/217, TD 93/241, TD 95/1 and TD 95/2.

V Exempt income

Write at **V** all income that is exempt from Australian tax.

Do not include at **V** amounts that are not assessable income and not exempt income, for example, any foreign income amounts that are treated as non-assessable non-exempt income under sections 23AH, 23AI, 23AK, 99B(2A) of the ITAA 1936 or sub-division 768-A in the ITAA 1997. Include these amounts at **Q Other income not included in assessable income** item **7**.

Do not include at **V** income exempt under an RSA. Exempt income from RSAs is taken into account in determining the Net taxable income from RSAs at **V** item **19**.

Q Other income not included in assessable income

Write at **Q** income-related adjustments that have to be subtracted from **T Total profit or loss** item **6** to reconcile with **T Taxable income or loss** item **7**. Do not include again amounts included at **C Section 46FA deductions for flow-on dividends** to **V Exempt income** item **7** here.

Generally, the amounts that are included at **Q** are income for accounting purposes, but not assessable for income tax purposes.

Write exempt income separately at **V Exempt income** item **7**.

Include the following items at **Q**:

- any excess of gross foreign source income, shown in income at item **6**, over the amount that represents assessable income

  - in calculating the excess, include dividends and other amounts that are not assessable because of sections 23AH, 23AI, 23AK, 99B(2A) of the ITAA 1936 or sub-division 768-A in the ITAA 1997
  - complete and attach an International dealings schedule 2018 if the company received dividends or other amounts covered by any of these provisions

- any part of an unfranked distribution that is not assessable due to sections 802-15 or 802-20 of the ITAA 1997 (these provisions are relevant to conduit foreign income)
- other amounts of non-assessable non-exempt income (do not include demerger dividends or other amounts not shown at item **6**)
- profits on disposal of assets used in R&D activities which are subject to the R&D tax incentive included at **R Other gross income** item **6**
- Australian and foreign source capital gains for accounting purposes that have been included at **J Unrealised gains on revaluation of assets to fair value** item **6** or **R Other gross income** item **6**. For Australian taxation purposes, include any net capital gain at **A Net capital gain** item **7**
- any excess of a forex gain for accounting purposes, included at item **6**, over the assessable forex gain. For more information on the forex measures, see Foreign exchange gains and losses.

For more examples of specific items, see Worksheet 2.

W TOFA deductions from financial arrangements not included in item 6

If the company has financial arrangements to which the TOFA rules apply, include at item **W** losses allowable under the TOFA rules from financial arrangements which have not been shown at item **6**.

For more information, see the Guide to the taxation of financial arrangements (TOFA).

X Other deductible expenses

Write at **X** expense-related adjustments that are subtracted from **T Total profit or loss** item **6** to reconcile with **T Taxable income or loss** item **7**. Do not include items included under **C** to **P** item **7** again here.

Generally, **X** shows amounts, including timing differences, that are an allowable deduction for income tax purposes but are not shown in the accounts or specifically shown at **C** to **P** item **7**.

For examples of specific items to be included, see Worksheet 2.

If the company is a life insurance company, include at **X**:

- tax losses deducted in the complying superannuation/ class
- the deduction it is entitled to if it receives a dividend from a LIC, which includes a LIC capital gain amount. For more information, see 16 Life insurance companies and friendly societies only. Other companies are not entitled to this deduction.

Show at **X** any capital expenditure you incurred under Subdivision 40-J of the ITAA 1997 for the establishment of trees in a carbon sink forest. Only costs incurred in establishing trees for the purpose of carbon sequestration are deductible. These costs are deductible over 14 years and 105 days at a rate of 7% per annum. If you are eligible to claim an extra deduction for the destruction of trees in a carbon sink forest, include the amount calculated under section 40-1030 of the ITAA 1997 at **X**.

Include at **X** deductible foreign exchange losses to the extent that they have not been included in item **6** or in any other label at item **7**. For more information on the forex measures, see Foreign exchange gains and losses.

Show at **X** balancing adjustment losses for assets used for both R&D and non-R&D activities. If the company is otherwise eligible for an R&D tax offset under section 355-100 of the ITAA 1997, the amount shown at **X** is calculated and uplifted under sections 40-292 or 40-293 of the ITAA 1997. If the company is not otherwise eligible for an R&D tax offset under section 355-100 of the ITAA 1997, the balancing adjustment losses for assets used on R&D and non-R&D activities, as calculated under section 40-285 of the ITAA 1997, is included at **X** and claimed at 100%.

Do not show any balancing adjustment losses for assets used only for R&D activities at **X**. Instead, see the *Research and development tax incentive schedule 2018* and instructions for details about how you record your balancing adjustment loss.

R Tax losses deducted

You generally make a tax loss when the total deductions you can claim for an income year exceed the total of your assessable and net exempt

income for the year. The company may need to complete either a *Consolidated groups losses schedule 2018* or a *Losses schedule 2018*.

See also:

- Consolidated groups losses schedule 2018, or
- Losses schedule 2018

A prior year tax loss may be reduced by the 'net forgiven amount' of debt forgiven under the commercial debt forgiveness rules, see Appendix 1.

Include at **R** those tax losses of prior income years that are deducted for 2017–18 under section 36-17 of the ITAA 1997.

Foreign losses are no longer quarantined from domestic assessable income (or from assessable foreign income of a different class). Resident taxpayers are also no longer required to make an election to deduct domestic tax losses against assessable foreign income.

Therefore, for the purposes of loss utilisation, no distinction is made regarding the source of the assessable income, deductions and exempt income, whether foreign or domestic. A taxpayer combines both foreign and domestic deductions. Where the combined deductions exceed assessable income and net exempt income from all sources, the excess is a tax loss and can potentially be deducted from assessable income of a future income year.

Subject to various rules, prior year tax losses are deducted in a later income year or years in the order in which they were incurred, to the extent that they have not already been deducted.

For a life insurance company or the head company of a consolidated or MEC group that has at least one subsidiary member that is a life insurance company, include tax losses deducted in the complying superannuation class at **X Other deductible expenses**, not at **R**.

Continuity of ownership and business continuity tests

A company cannot deduct a tax loss of an earlier year unless the company meets the continuity of ownership test as prescribed by section 165-12 or section 165-215 of the ITAA 1997. If a company is unable to meet the continuity of ownership test, it must meet the business continuity test as prescribed by sections 165-13, 165-210 of the ITAA 1997 and explained in Taxation Ruling TR 1999/9.

The 'same business test' and the 'similar business test' are collectively referred to as the 'business continuity test'.

For more information, see

- Increasing access to company losses
- LCR 2019/1 - The business continuity test - carrying on a similar business

Control

Additionally, a company may be prevented from deducting a tax loss where there has been a change in control of the voting power as prescribed by subsection 165-15(1) of the ITAA 1997. However, this will only occur where the company also fails to satisfy the conditions relating to the carrying on of the same business in subsections 165-15(2) and (3).

Keep a record of tax losses and account for any adjustments, including those made by us. Keep these records until the amendment period for the assessment in which the tax losses of the company were fully recouped has lapsed (up to four years from the date of that assessment).

Do not include the film component of any tax loss (film loss) at **R**. For a film loss to be deductible, see Divisions 36 and former Division 375 of the ITAA 1997. Film losses are only deducted from net exempt film income or net assessable film income for taxation purposes and are shown at either **W Non-deductible expenses** item **7**, or **X Other deductible expenses** item **7**.

Do not include pooled development fund (PDF) tax losses at **R** unless the PDF tax losses are deductible under Division 195 of the ITAA 1997.

Capital losses may only be applied in accordance with Division 102 of the ITAA 1997.

For more information see, Keep records longer.

Consolidated or MEC groups

Tax losses deducted

The head company may need to complete a *Consolidated groups losses schedule 2018*. For more information, see:

- Consolidated groups losses schedule 2018, or
- Consolidated groups losses schedule instructions 2018.

Write at **R** the tax losses deducted during the year of income under section 36-17 of the ITAA 1997.

A head company may be entitled to deduct tax losses broadly comprising tax losses:

- made by it for prior income years (group tax losses)
- that were originally made by an entity before it became a member of the consolidated or MEC group and that were transferred to the head company of that group (transferred tax losses)

Before deducting a 'group tax loss' or a 'transferred tax loss' a head company must satisfy the continuity of ownership test and control tests. If it does not, then it must satisfy the same business test.

For more information, see Loss recoupment rules for companies How to claim a tax loss.

For more information on the business continuity test, see:

- sections 165-13 and 165-210 of the ITAA 1997,
- Taxation Rulings TR 1999/9 and TR 2007/2 *Income tax: application of the same business test to consolidated and MEC groups* principally, the interaction between section 165-210 and section 701-1 of the ITAA 1997 (as at 20 June 2007), and
- LCR 2019/1 - The business continuity test - carrying on a similar business

S Tax losses transferred in (from or to a foreign bank branch or a PE of a foreign financial entity)

Write at **S** the amount of tax losses transferred to the company from group companies under Subdivision 170-A of the ITAA 1997.

A group company may transfer the whole or a part of a tax loss to another company where:

- both companies are members of the same wholly owned group
- one of the companies is
  - an Australian branch of a foreign bank, or
  - an Australian PE of a foreign financial entity if the tax loss is for an income year commencing on or after 26 June 2005
- the other company is
  - the head company of a consolidated or MEC group, or

  - not a member of a consolidatable group, and

- further conditions in Subdivision 170-A of the ITAA 1997 are satisfied.

The tax loss transferred to the income company is deductible to the income company in accordance with the provisions of section 36-17 of the ITAA 1997 in the year of transfer (for example, the tax loss transferred to the income company is first deducted against the income company's net exempt income, then against its assessable income).

Tax losses transferred cannot be used to create a tax loss.

The Commissioner has power in certain circumstances to amend assessments to disallow a deduction for an amount of a transferred tax loss despite section 170 of the ITAA 1936 - see section 170-70 of the ITAA 1997.

Consolidated or MEC groups

Do not show tax losses transferred from subsidiary companies under Subdivision 707-A of the ITAA 1997. These losses should be shown in Part A of the *Consolidated groups losses schedule 2018* at item 1 or item 2.

Subtraction items subtotal

Write the sum of the amounts from **C Section 46FA deductions for flow-on dividends** to **S Tax losses transferred in (from or to a foreign bank branch or a PE of a foreign financial entity)** at **Subtraction items subtotal**.

T Taxable/net income or loss

Write at **T** all assessable income less deductions that equals the amount at **T Total profit or loss** item **6** plus or minus the reconciliation adjustments at item **7**.

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

If the company has a taxable income of $1 or more, transfer the amount at **T** to **A Taxable or net income** in the **Calculation statement**.

The company's tax loss at **T** is the excess of its total deductions (except tax losses for earlier income years) over its total assessable income and net exempt income, see section 36-10 of the ITAA 1997.

The company's net exempt income is calculated under section 36-20 of the ITAA 1997 and is not necessarily equal to the amount written at **V Exempt income** item **7**. Check that the amount at **B Other assessable income** item **7** includes the amount of net exempt income taken into account in calculating the company's tax loss. If the company has a tax loss at **T**, write zero (**0**) at **A Taxable or net income** in the **Calculation statement**.

If the company has excess franking offsets that can be converted under section 36-55 of the ITAA 1997 into a tax loss to be carried forward (see Excess franking offsets), do not include at **T Taxable/net income or loss** the amount of that tax loss. However, that amount should be taken into account in calculating the company's tax loss at U Tax losses carried forward to later income years item **13**. This means that a company may have a taxable income at **T** and a tax loss carried forward at item **13**. Alternatively, if the company's total deductions exceed total assessable income and net exempt income, it would show an amount at **T** that, disregarding section 36-55, would have been its tax loss for the income year.

QC 55199

8. Financial and other information

Last updated 16 February 2022

In this section:

- N Functional currency translation rate
- O Functional currency chosen
- A Opening stock
- S Purchases and other costs
- B Closing stock
- Trading stock election
- C Trade debtors
- D All current assets
- E Total assets
- F Trade creditors

- G All current liabilities
- H Total liabilities
- J Total debt
- K Commercial debt forgiveness
- J Franked dividends paid
- K Unfranked dividends paid
- M Franking account balance
- H Excess franking offsets
- N Loans to shareholders and their associates
- D Total salary and wage expenses
- Q Payments to associated persons
- G Gross foreign income
- R Net foreign income
- Attributed foreign income
- Taxation of financial arrangements (TOFA)

N Functional currency translation rate

Complete **N** if the company keeps its accounts solely or predominantly in a foreign currency (its applicable functional currency) and has chosen to use that currency as its applicable functional currency to work out its taxable income or tax loss. If the company is using a functional currency, see the Guide to functional currency rules.

Do not complete **N** if the company has chosen to use a non-A$ functional currency only to calculate the net income attributable to the activities of an overseas permanent establishment, or the attributable income of a controlled foreign company, Offshore Banking Unit or Transferor Trust. For more information, see the Foreign income return form guide.

Write at **N** the exchange rate employed to translate the net taxable income figure from the applicable functional currency into A$. The translation rate is the amount by which the functional currency amount must be divided in order to reflect an equivalent amount of A$, that is, the number of non-A$ currency units that equal one A$, rounded to four significant figures.

If **N** is completed, also complete **O Functional currency chosen**.

O Functional currency chosen

Complete **O** if **N Functional currency translation rate** has been completed.

Print at **O** the functional currency code that corresponds to the functional currency chosen by the company. See the Guide to functional currency rules - Currency codes for label 8O.

Show amounts calculated for tax purposes at **A Opening stock**, **S Purchases and other costs**, **B Closing stock**, **J Total debt** and **K Commercial debt forgiveness**.

A Opening stock

Write at **A** the total value of all trading stock on hand at the beginning of the income year or accounting period for which the company tax return is being prepared. The amount shown by the company at **A** is the value for income tax purposes under section 70-40 of the ITAA 1997 or, for small business entities using the simplified trading stock rules, subsection 328-295(1) of the ITAA 1997. The opening value of an item of stock must equal its closing value in the previous income year. If a taxpayer did not have any trading stock in the previous year, the value of trading stock at the start of the year is zero. This might occur in the case of a new business or in the first year a taxpayer has trading stock.

Include motor vehicle floor plan stock and work in progress of manufactured goods.

Do not include any amount that represents opening stock of a business that commenced operations during the income year. Include this amount at **S Purchases and other costs** item **8**.

For **consolidated and MEC groups**, see the Consolidation reference manual for more information on trading stock held by entities that join the group.

S Purchases and other costs

Write at **S** the cost of direct materials used for manufacture, sale or exchange in deriving the gross proceeds or earnings of the business. This amount includes freight inwards.

Former STS Taxpayers

If the company is eligible and continuing to use the STS accounting method, only write at **S Purchases and other costs** the costs that the company has paid. (See Former STS taxpayers.)

For information on GST and input tax credits, see 6 Calculation of total profit or loss.

B Closing stock

If the company is an eligible small business entity, see Small business entities. Otherwise, see All other companies.

Small business entities

The company must account for changes in the value of its trading stock only if the difference between:

- the value of the company's stock on hand at the start of the income year as shown at **A Opening stock**, and
- a reasonable estimate of the value of the company's stock on hand at the end of the income year,

is more than $5,000.

For more information relating to 'reasonable estimate', phone us on **13 28 66**.

If the difference is not more than $5,000, the company can still choose to conduct a stocktake and account for changes in the value of trading stock.

If the difference between the value of the opening stock and a reasonable estimate of its closing stock is more than $5,000, the company must account for changes in the value of its trading stock. Go to step 2 if the difference is more than $5,000 or the company wishes to account for changes in the value. Otherwise, go to step 1.

Step 1

If the difference referred to above is $5,000 or less and the company chooses not to account for this difference, the closing stock value written at **B Closing stock** is the same value that the company wrote for opening stock at **A** item **8**. Do not put the company's reasonable estimate at **B Closing stock**.

Print in the CODE box at **B Closing stock** the code from **table 5** that matches the code the company used to value closing stock in the

previous year.

If this is the company's first year in business, the value of its closing stock will be zero. Print code **C** in the CODE box.

Table 5: Valuation method codes

Code	Valuation method
C	Cost
M	Market selling value
R	Replacement value

Step 2

If the difference referred to above is more than $5,000 or the company chooses to account for the difference in trading stock, the closing stock values must be brought to account under section 70-35 of the ITAA 1997. See the instructions for All other companies for calculating the value of trading stock.

Include in closing stock value at **B Closing stock** the value of all stock on hand, regardless of whether the company has paid for the stock.

All other companies

Write at **B** the total value of all trading stock on hand at the end of the income year or accounting period for which the company tax return is being prepared. The amount at **B** is the value calculated for income tax purposes under section 70-45 of the ITAA 1997.

If the company is registered or required to be registered for GST, the value of closing stock should not include an amount equal to the input tax credit that the company has claimed or is entitled to claim. Input tax credits do not arise for some items of trading stock, such as shares.

Include floor plan stock and work in progress of manufactured goods.

Do not include any amount that represents closing stock of a business that ceased operations during the income year. Include this amount at **Income**, **R Other gross income** item **6**.

Print in the **CODE** box the code from **table 5** indicating the method used to value closing stock for income tax purposes. If more than one

method is used, use the code applicable to the method representing the highest value.

Different methods of valuation may be used to value the same item of trading stock in different income years, and similar items may be valued using different methods in the same income year.

However, the opening value of an item in a particular income year must equal the closing value for that item in the previous income year. The company cannot reduce the value of stock on hand by creating reserves to offset future diminution of the value of stock, or any other factors. Keep records showing how each item was valued.

If incorrect trading stock information has been included on a tax return, advise us by submitting a full statement of the facts, accompanied by a reconciliation of the value of stock as returned for each income year with the values permissible under the law.

Companies engaged in manufacturing include the value of partly manufactured goods as part of their stock and materials on hand at the end of the income year.

For more information on the circumstances in which packaging items held by a manufacturer, wholesaler or retailer are 'trading stock' as defined in section 70-10 of the ITAA 1997.

See also:

- Taxation Ruling TR 98/7 *Income tax: whether packaging items (ie, containers, labels, etc) held by a manufacturer, wholesaler or retailer are trading stock*
- Taxation Ruling TR 98/8 *Income tax: whether materials and spare parts held by a taxpayer supplying services are trading stock*.

Consolidated or MEC groups

If the company was a subsidiary member of a consolidated or MEC group at the end of the income year and is completing a tax return because of any non-membership periods, write at **B** the value for trading stock on hand as at the end of the latest non-membership period. The amount at **B** is generally a tax-neutral value. This may not be the case if the company was a continuing majority-owned entity when it became a member of the group. For more information, see the Consolidation reference manual.

Trading stock election

A company may elect to value an item of trading stock below the lowest value of cost, market selling value or replacement value because of obsolescence or any other special circumstances. The value that is elected must be reasonable.

For guidelines on trading stock valuations where obsolescence or other special circumstances exist, see Taxation Ruling TR 93/23 *Income tax: valuation of trading stock subject to obsolescence or other special circumstances*.

If an election is made, print **X** in the Yes box at this item. Otherwise print **X** in the No box.

Include amounts taken from the company's financial statements at **C Trade debtors** to **H Total liabilities**, and **N Loans to shareholders and their associates** as these amounts relate to accounting values.

C Trade debtors

Write at **C** the total amounts owing to the company at year end for goods and services provided during the income year, that is, the gross amount of current trade debtors from the company's accounts. Also include this amount at **D All current assets** item **8**.

If the company was a subsidiary member of a **consolidated or MEC group** at the end of the income year and is completing a tax return because of any non-membership periods, write at **C** the relevant amount as at the end of the latest non-membership period.

D All current assets

Write at **D** all current assets of the company, including cash on hand, short-term bills receivable, inventories and trade debtors as written at **C Trade debtors** item **8**.

If the company was a subsidiary member of a **consolidated or MEC group** at the end of the income year and is completing a tax return because of any non-membership periods, write at **D** the relevant amount as at the end of the latest non-membership period.

E Total assets

Write at **E** all assets of the company, including fixed, tangible and intangible assets and all current assets as written at **D All current assets** item **8**.

For a **consolidated or MEC group** include all the assets of the group as disclosed in the financial accounts and not the amounts that are calculated by way of the allocable cost amount.

If the company was a subsidiary member of a **consolidated or MEC group** at the end of the income year and is completing a tax return because of any non-membership periods, write at **E** the relevant amount as at the end of the latest non-membership period.

F Trade creditors

Write at **F** the total amounts owed by the company at year end for goods and services received during the income year, that is, current trade creditors. Also include this amount at **G All current liabilities** item **8**.

If the company was a subsidiary member of a **consolidated or MEC group** at the end of the income year and is completing a tax return because of any non-membership periods, write at **F** the relevant amount as at the end of the latest non-membership period.

G All current liabilities

Write at **G** the total obligations payable by the company within the coming year. Also include the amount written at **F Trade creditors** item **8**.

If the company was a subsidiary member of a **consolidated or MEC group** at the end of the income year and is completing a tax return because of any non-membership periods, write at **G** the relevant amount as at the end of the latest non-membership period.

H Total liabilities

Write at **H** all liabilities of the company, including other creditors and deferred liabilities such as loans secured by mortgage and long-term loans. Also include the amount shown at **G All current liabilities** item **8**.

If the company was a subsidiary member of a **consolidated or MEC group** at the end of the income year and is completing a tax return because of any non-membership periods, write at **H** the relevant amount as at the end of the latest non-membership period.

J Total debt

Write at **J** the average total debt of the company for the income year. Calculate the average total debt by adding the opening and closing balances of the total debt of the company for the income year, and dividing this sum by two.

The total debt of a company includes all financial instruments and arrangements that were used by the company to provide funds for their operations and investments. The instruments and arrangements that are shown at **J** include all loans, securities and instruments that give rise to deductible finance expenses, which include any of the following:

- interest, a payment in the nature of interest, or a payment in substitution for interest
- payments made for assignments of the right to interest
- a discount on a security for a finance arrangement
- an amount that is taken under a tax law to be an amount of interest for a lease, a hire-purchase arrangement or any other financial instrument specified by that law
- any application or processing fee for a finance arrangement
- any finance expense for a repurchase agreement or securities lending arrangement
- any other form of yield associated with a finance arrangement
- any such amount that, instead of being paid to a party to the arrangement, is dealt with in any way on behalf of that party.

Accordingly, there is no requirement that amounts included at **J** satisfy the definition of 'debt interest' for the purposes of Division 974 of the ITAA 1997 (the debt and equity rules).

For an overview of the debt and equity rules, see Guide to the debt and equity tests.

If the company was a subsidiary member of a **consolidated or MEC group** at the end of the income year and is completing a tax return because of any non-membership periods, write at **J** the relevant amount calculated as at the end of the latest non-membership period.

K Commercial debt forgiveness

Write at **K** the net amount of commercial debts owed by the company that were forgiven during the income year, see Division 245 of the ITAA 1997. Broadly, a debt is a commercial debt if any part of the interest

payable on the debt is, or would be, an allowable deduction. A debt is forgiven if the company's obligation to pay the debt is released or waived or otherwise extinguished.

The net amount of commercial debts forgiven must be applied to reduce the company's deductible revenue losses, net capital losses, certain undeducted revenue or capital expenditure and the cost base of certain CGT assets, in that order.

For more information, see Appendix 1.

Show at **J** to **H** and **D** to **V** amounts calculated for tax purposes.

J Franked dividends paid

Write at **J** paid the amount of fully franked dividends paid or credited during the income year, including non-share dividends or deemed dividends that are fully franked, and the franked deemed dividend component of any off-market share buy-back under section 159GZZZP of the ITAA 1936. If a partly franked dividend has been paid during the income year, include the franked portion at **J** and the unfranked portion at **K Unfranked dividends paid** item **8**.

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

Record keeping

Keep a record of the following:

- dividends or non-share dividends paid
- recipients
- dates paid
- amounts paid.

K Unfranked dividends paid

Write at **K** the amount of unfranked dividends paid or credited during the income year, including amounts deemed to be dividends by various sections of the ITAA 1936 and the ITAA 1997. Include unfranked non-share dividends, unfranked deemed dividends under Division 7A of Part III of the ITAA 1936, and the unfranked deemed dividend component of any off-market share buy-back under section 159GZZZP of the ITAA 1936.

Consolidated and MEC groups do not include

- dividends paid by one member to another within a consolidated or MEC group
- a dividend paid under a demerger unless the head entity of the demerger group has elected under subsection 44(2) of the ITAA 1936 that it be treated as an assessable dividend.

Under Division 7A of Part III of the ITAA 1936, payments, loans and debts forgiven (unless they come within specified exclusions) by a private company to a shareholder or associates of a shareholder are treated as assessable dividends to the extent of the private company's distributable surplus as defined in Division 7A.

The provision of a private company owned asset for the use by a shareholder (or associate of a shareholder) is to be treated as a payment. This includes provisions provided under a lease or licence arrangement.

A payment made in 2017–18 by a private company to a shareholder (or associate of a shareholder) can be converted into a loan before the end of the private company's lodgment day that is defined to be the earlier of the due date for lodgment or the date of lodgment of the company's income tax return for the year in which the loan is made.

Loans, and payments converted to loans in 2017–18, made by a private company to a shareholder (or associate of a shareholder) that are not repaid, may be put on a commercial footing before the private company's lodgment day. This will prevent the loan from being treated as a deemed dividend.

See also:

- Division 7A

Record keeping

Keep a record of the following:

- dividends or non-share dividends paid
- recipients
- dates paid
- amounts paid.

M Franking account balance

Write at **M Franking account balance** the balance of the franking account at the end of 2017–18, unless it is a deficit balance.

If there is a deficit balance in the franking account at the end of the income year, the company must lodge a *Franking account tax return 2018* and pay FDT by the last day of the month following the end of the income year. If the company is a late balancing company that has elected to have its FDT liability determined on 30 June 2018, it must lodge its franking account tax return on or before 31 July 2018.

If the company is a PDF and its venture capital sub-account is in deficit at the end of the PDF's income year or immediately before it ceases to be a PDF, the company is liable to pay venture capital deficit tax. If the PDF has a liability to venture capital deficit tax, a Venture capital deficit tax return must be lodged.

Shareholder loans and other advances made by private companies that are deemed dividends are not frankable unless a section in the ITAA 1936 or ITAA 1997 provides that the dividend can be franked, for example, where the Commissioner exercises a limited power to permit the deemed dividend to be franked, or where the deemed dividend is paid in connection with a relationship breakdown.

Deemed dividends may also arise when a shareholder (or associate of such shareholder) of a private company that has (or will have by a certain time) an unpaid present entitlement from a trust estate receives a payment or loan or has a debt forgiven in their favour by the trustee of the trust estate. However, this will not result in a debit to the franking account of the private company with the unpaid present entitlement.

A company needs to determine whether its franking account needs adjustment, because these measures may affect imputation benefits available to shareholders, deny franking credits, or give rise to additional franking debits.

If you are a company that receives a R&D refundable tax offset, then only include franking credits arising from either payments of PAYG instalments or income tax after all deferred franking debits have been utilised. For more information on how a R&D tax offset affects your franking account, see the Franking account tax return and instructions 2018.

See also:

- Simplified imputation system

Consolidated and MEC groups

If the company was a subsidiary member of a consolidated or MEC group at the end of the income year and is completing a tax return because of any non-membership periods, write at **M** its franking

account balance as at the end of the latest non-membership period if it is a surplus balance. If there is a deficit balance at the end of any non-membership period, the company must lodge a franking account tax return and pay the FDT.

H Excess franking offsets

Write at **H** any excess franking offset calculated as follows:

Step 1: Calculate the amount of franking tax offsets that the company is entitled to. Franking tax offsets are available under Division 207 of the ITAA 1997 as a result of receiving a franked distribution, and Subdivision 210-H of the ITAA 1997 as a result of receiving a franked distribution franked with a venture capital credit. The amount of franking tax offset that a company is entitled to is equal to the share of franking credits included in distributions received from partnerships and trusts, the amount of franking credits included at **J Franking credits** item **7**, and the amount of franking credits included at **C Australian franking credits from a New Zealand company** item **7**.

Do not include any franking tax offsets that are subject to the refundable tax offset rules under Division 67 of the ITAA 1997, for example, franking tax offsets of a life insurance company are generally subject to the refundable tax offset rules to the extent that they relate to distributions paid on shares and other membership interests held on behalf of policy holders. Do not include these amounts. Generally, the franking tax offsets of other companies are not subject to the refundable tax offset rules.

Step 2: Calculate the amount of income tax that would be payable, taking into account all tax offsets (including its foreign income tax offset) with the exception of the following tax offsets:

- any franking tax offsets
- any tax offsets subject to the tax offset carry forward rules or the refundable tax offset rules
- any tax offset arising from an FDT liability.

Step 3: Calculate the amount of excess franking offsets. If the amount of franking tax offsets from step 1 exceeds the amount of hypothetical tax calculated at step 2, the excess is the amount of excess franking offset which should be written at **H**.

Excess franking offsets can affect the choice a company can make in how much of any prior year tax loss it can deduct this year. For more information, see Tax losses deducted.

If the company has excess franking offsets, it may convert the excess franking offsets into an amount of tax loss to carry forward to later income years. For more information, see Tax losses carried forward to later income years.

Example 13

For 2017–18 Veck Company Ltd, has the following:

6H	Total dividends	$280 Franked distribution
7J	Franking credits	$120
7X	Other deductible expenses	$100

The $120 franking tax offset is not subject to the refundable tax offset rules in Division 67 of the ITAA 1997. Veck Company Ltd has no net exempt income for the year and it does not have a tax loss for the year.

Veck Company Ltd is not a base rate entity and its applicable company tax rate is 30%.

Veck Company Ltd would work out its excess franking offsets as follows:

Step 1: Calculate the amount of franking tax offsets it is entitled to. In this instance, Veck Company Ltd's franking tax offsets are not subject to the refundable tax offset rules, therefore it is entitled to franking tax offsets of $120. However, for the purposes of calculating the amount of excess franking offset, these offsets are ignored in step 2 below.

Step 2: Calculate the amount of income tax payable, ignoring franking tax offsets:

Taxable income	$300	($280 + $120 − $100)
Gross tax	$90	
Non-refundable non-carry forward tax offsets	Nil	Veck Company Ltd is required to disregard the franking tax offset.

Tax payable	$90	

Step 3: The excess franking offsets amount is equal to $30, that is, the amount left over after deducting the amount at step 2 from the amount at step **1**.

Veck Company Ltd would record $30 at **H**.

Veck Company Ltd would now convert this amount of excess franking offsets into a tax loss by dividing the excess franking offsets amount ($30) by the applicable corporate tax rate (30%) which results in a tax loss amount of $100. Veck Company Ltd would record the amount of this tax loss at **U Tax losses carried forward to later income years** item **13**.

N Loans to shareholders and their associates

Complete **N** only if:

- the company is a private company or a closely held corporate limited partnership
- the company or closely held corporate limited partnership has a loan to a shareholder or an associate of a shareholder that has a debit balance at the end of the income year, and
- the recipient of the loan was a natural person, partnership or trust.

Division 7A of Part III of the ITAA 1936 applies to closely held corporate limited partnerships. A closely held corporate limited partnership is a corporate limited partnership that has fewer than 50 members or an entity has, directly or indirectly and for the entity's own benefit, an entitlement to a 75% or greater share of the income or capital of the partnership.

For the purposes of completing **N** all references to shareholders include partners in a closely held corporate limited partnership.

Write at **N** the sum of all such loans that have a debit balance at the end of the income year. Write the sum in whole figures only.

Print the relevant code from **table 6** in the CODE box at **N**.

Table 6: Loan codes

Code	Description
A	All loans were made on or after 4 December 1997.
B	All loans were made before 4 December 1997.
M	Some loans were made before 4 December 1997 and some loans were made on or after 4 December 1997.

Under Division 7A of Part III of the ITAA 1936, loans by a private company or a closely held corporate limited partnership to a shareholder or associates of a shareholder (unless the loans come within specified exclusions) are treated as assessable dividends to the extent of the distributable surplus including realised and unrealised profit. Advances or loans to shareholders or associates may represent a distribution of profits and may be assessed to the recipient as unfranked dividends.

A loan made in 2017–18 by a private company or closely held corporate limited partnership to a shareholder (or associate) may be repaid or put on a commercial footing, before the earlier of the due date for lodgment or the date of lodgment of the private company's or closely held corporate limited partnership's income tax return for the year in which the loan is made, in order to prevent the loan from being treated as a dividend.

For loans made in an earlier income year that have not been fully repaid by the end of 2017–18, a deemed dividend may arise if the Division 7A minimum yearly repayment has not been made to the company or the closely held corporate limited partnership by the end of 2017–18.

D Total salary and wage expenses

Write at **D** the total salary, wage and other labour costs incurred, including directors' remuneration, as per payment summaries.

These expenses include any salary and wage component of **A Cost of sales** item **6**, that is, allowances, bonuses, casual labour, retainers and commissions paid to people who received a retainer, and workers compensation paid through the payroll.

Also included are direct and indirect labour costs, directors' fees, holiday pay, locums, long service leave, lump sum payments, other employee benefits, overtime, payments under an incentive or profit sharing scheme, retiring allowances and sick pay. Any salary and

wages paid by a private company to a current or former shareholder or director of the company, or to an associate of such a person, is included here and at **Q Payments to associated persons** item **8**.

However, do not include agency fees, contract payments, sub-contract payments, service fees, superannuation, reimbursements or allowances for travel, management fees, consultant fees, and wages or salaries reimbursed under a government program.

Print in the CODE box at **D** the code from **table 7** that matches the description of the expense component where salary and wage expenses have been wholly or predominantly reported at item **6**.

Table 7: Salary and wage expenses codes

Code	Salary and wage expenses included in:
C	Cost of sales
A	All other expenses
B	Cost of sales and All other expenses
O	Other than Cost of sales and/or All other expenses

Q Payments to associated persons

Write at **Q** the amounts, including salaries, wages, commissions, superannuation contributions, allowances and payments in consequence of retirement or termination of employment, paid by a private company to associated persons. An associated person is a current or former shareholder or director of the company, or an associate of such a person.

Also include the amounts of salaries and wages paid to associated persons at **D Total salary and wage expenses** item **8**.

Record keeping

Excessive remuneration paid to an associated person may not be deductible and could be treated as an unfranked dividend (see section 109 of the ITAA 1936). Records to establish the reasonableness of remuneration include:

- age, if under 18
- hours worked

- nature of duties performed
- other amounts paid, for example, retiring gratuities, bonuses and commissions
- total remuneration.

G Gross foreign income

Write at **G** assessable income derived by the company from foreign sources, grossed up by the amount of the foreign tax paid.

R Net foreign income

Write at **R** assessable income derived by the company from foreign sources grossed up by the amount of the foreign tax, but net of expenses. This amount includes:

- foreign source capital gains, after offsetting any unapplied capital losses
- assessable dividends paid by a New Zealand company
- income attributable to a dividend from a New Zealand company received from a partnership or trust.

Do **not** write at **R**:

- attributed foreign income (such as attributed income from a CFC)
- any amount of Australian franking credits attached to franked distributions received from a New Zealand franking company. Include these amounts at **C Australian franking credits from a New Zealand company** item **7**.

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

Foreign losses are not quarantined from domestic assessable income (or from assessable foreign income of a different class) from the first income year starting on or after 1 July 2008.

Foreign source capital gains are made by an Australian resident company if a CGT event happens to any of its overseas CGT assets unless the gains are excluded from assessable income.

Any foreign source capital gains made during the income year should be reported at **R** and should also be included as part of the company's

total capital gain which is reported at **A Net capital gain** item **7**. For more information about CGT, see the Guide to capital gains tax 2018.

Do not apply debt deductions other than those attributable to an overseas PE of the taxpayer against foreign source income for the purpose of calculating net foreign income or loss.

The company may need to complete either a Consolidated groups losses schedule 2018 or a Losses schedule 2018.

Attributed foreign income

B Listed country

Write at **B Listed country** the amount of attributed foreign income from controlled foreign entities in listed countries. Listed countries are included in Part 8, regulation 19 of the Income Tax Assessment (1936 Act) Regulation 2015.

Do not include amounts attributed from transferor trusts, see Transferor trust.

U Unlisted country

Write at **U Unlisted country** the amount of attributed foreign income from controlled foreign entities in unlisted countries. Unlisted countries are countries that are not listed countries in Part 8, regulation 19 of the income Tax Assessment (1936 Act) Regulation 2015

Do not include amounts attributed from transferor trusts, see **Transferor trust** below.

V Transferor trust

Write at **V Transferor trust** the amount of attributed foreign income from transferor trusts.

Taxation of financial arrangements (TOFA)

For more information about completing the TOFA labels, including at **T**, **U** and **S**, see:

- TOFA tax return labels
- the Guide to the taxation of financial arrangements (TOFA).

T Total TOFA gains

Write at **T** the total of all assessable TOFA gains from financial arrangements recognised at item **6** and item **7**.

In working out a company's total TOFA gains ensure the company's assessable TOFA gains from financial arrangements included in any of the following is taken into account:

- **D Gross distribution from partnerships** item **6**
- **E Gross distribution from trusts** item **6**
- **F Gross interest** item **6**
- **H Total dividends** item **6**
- **J Unrealised gains on revaluation of assets to fair value** item **6**
- **R Other gross income** item **6**
- **E TOFA income from financial arrangements not included in item 6** item **7**.

U Total TOFA losses

Write at **U** the total of all allowable TOFA losses from financial arrangements recognised at item **6** and item **7**.

In working out a company's total TOFA losses, ensure the company's allowable TOFA losses from financial arrangements included in any of the following is taken into account:

- **D Gross distribution from partnerships** item **6**
- **E Bad debts** item **6**
- **V Interest expenses within Australia** item **6**
- **J Interest expenses overseas** item **6**
- **G Unrealised losses on revaluation of assets to fair value** item **6**
- **S All other expenses** item **6**
- **W TOFA deductions from financial arrangements not included in item 6** item **7**.

S TOFA gains from unrealised movements in the value of financial arrangements

Write at **S** the total of all TOFA gains recognised at item **6** as a result of unrealised movements in the value of financial arrangements. A company may have TOFA gains from unrealised movements in the

value of financial arrangements as a result of making certain TOFA rules tax-timing method elections.

QC 55199

9. Capital allowances

Last updated 16 February 2022

Do not include information at this item if you are a small business entity that has chosen to use the simplified depreciation rules. For information about these rules, see Small business entity concessions.

In this section:

- Depreciating assets first deducted this income year
- For all depreciating assets
- For entities connected with mining operations, exploration or prospecting (J, K and L)

Depreciating assets first deducted this income year

A – Intangible depreciating assets first deducted

Write at **A** the cost of all intangible depreciating assets for which the company is claiming a deduction for decline in value for the first time.

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

- certain items of intellectual property (patents, registered designs, copyrights and licences of these)
- computer software, or a right to use computer software, that the company acquires, develops or has someone else develop for its use for the purposes for which it is designed (in-house software)
- mining, quarrying or prospecting rights and information
- spectrum licences
- datacasting transmitter licences

- certain indefeasible rights to use telecommunications cable systems (IRUs)
- certain telecommunications site access rights.

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

If the company has allocated any intangible depreciating assets with a cost of less than $1,000 to a low-value pool for the income year, also include the cost of those assets at **A**. Do not reduce the cost for estimated non-taxable use.

Expenditure on in-house software which has been allocated to a software development pool is not included at **A**.

For more information on decline in value, cost, low-value pools, in-house software and software-development pools, see the Guide to depreciating assets 2018.

Consolidated or MEC groups

The head company of a consolidated or MEC group must also include the cost of intangible depreciating assets that a subsidiary member would have included at **A** if it had not joined the consolidated or MEC group. However, the head company must not include the cost of depreciating assets at **A** if the subsidiary member deducted their decline in value before becoming a member of the consolidated or MEC group.

For a company that was a subsidiary member of a consolidated or MEC group for part of the income year and is completing a tax return because of any non-membership periods, write at **A** the cost of intangible depreciating assets first deducted during the non-membership periods. However, do not include the cost of depreciating assets where the head company of the consolidated or MEC group deducted its decline in value during any period that the subsidiary was a member of the group, and that period was before the non-membership period in which the subsidiary first deducted the decline in value.

B Other depreciating assets first deducted

A depreciating asset that the company holds starts to decline in value from the time the company uses it (or installs it ready for use) for any

purpose. However, the company can only claim a deduction for the decline in value to the extent it uses the asset for a taxable purpose, such as for producing assessable income.

Write at **B** the cost of all depreciating assets (other than intangible depreciating assets) for which the company is claiming a deduction for the decline in value for the first time.

If the company has allocated any assets (other than intangible depreciating assets) with a cost of less than $1,000 to a low-value pool for the income year, also include the cost of those assets at **B**. Do not reduce the cost for estimated non-taxable use.

For information on decline in value, cost and low-value pools, see the Guide to depreciating assets 2018.

Consolidated or MEC groups

The head company of a consolidated or MEC group must also include the cost of depreciating assets that a subsidiary member would have included at **B** if it had not joined the consolidated or MEC group. However, the head company must not include the cost of depreciating assets at **B** if the subsidiary member deducted its decline in value before becoming a member of the consolidated or MEC group.

For a company that was a subsidiary member of a consolidated or MEC group for part of the income year and is completing a tax return because of any non-membership periods, write at **B** the cost of depreciating assets first deducted during the non-membership periods. However, do not include the cost of depreciating assets where the head company of the consolidated or MEC group deducted its decline in value during any period the subsidiary was a member of the group, and that period was before the non-membership period in which the subsidiary first deducted the decline in value.

C Self-assessment of effective life

For most depreciating assets, you can choose to:

- work out the effective life yourself (self-assess), or
- use an effective life determined by the Commissioner.

If you have adopted the Commissioner's effective life determination for all your depreciating assets, print **X** in the **No** box at **C**.

If you have self-assessed the effective life of any of your depreciating assets, print **X** in the **Yes** box at **C**.

For all depreciating assets

D Recalculation of effective life

You may recalculate the effective life of assets in certain circumstances if the effective life you have been using is no longer accurate. There are also circumstances where you must recalculate the effective life of a depreciating asset.

If you have not recalculated the effective life of any of your depreciating assets in this income year, print **X** in the **No** box at **D**.

If you have recalculated the effective life of any of your depreciating assets this income year, print **X** in the **Yes** box at **D**.

E Total adjustable values at end of income year

Write at **E** the total of the adjustable values of your depreciating assets as at the end of the income year.

If the company has allocated any assets with a cost of less than $1,000 to a low-value pool for the income year, do not include the adjustable values of those assets at **E**.

F Assessable balancing adjustments on the disposal of intangible depreciating assets

Write at **F** the total assessable income you have from balancing adjustment events on the disposal of intangible depreciating assets that occurred this income year (this type of assessable income may arise if, for example, you disposed of an intangible depreciating asset for more than its adjustable value). If you do not have any assessable balancing adjustment amounts for intangible assets this year, leave **F** blank.

If the company has allocated any assets with a cost of less than $1,000 to a low-value pool for the income year, do not include the assessable balancing adjustments for these assets at **F**.

G Deductible balancing adjustments on the disposal of intangible depreciating assets

Write at **G** the total deductible amount you have from balancing adjustment events on the disposal of intangible depreciating assets that occurred this income year (this type of deduction may arise if, for example, you disposed of an intangible depreciating asset for less than its adjustable value). If you do not have any deductible balancing adjustment amounts for intangible assets this year, leave **G** blank.

If the company has allocated any assets with a cost of less than $1,000 to a low-value pool for the income year, do not include the assessable balancing adjustments for these assets at **G**.

H Termination value of intangible depreciating assets

Write at **H** the termination value of each balancing adjustment event occurring for intangible depreciating assets to which the UCA rules in Division 40 of the ITAA 1997 apply, including assets allocated to a low-value pool.

Do not write at **H** any termination value for in-house software for which the company has allocated expenditure to a software development pool.

A balancing adjustment event occurs if the company stops holding or using a depreciating asset or decides not to use it in the future, for example, assets were sold, lost or destroyed.

Generally, the termination value is the amount the company received or is deemed to have received for the balancing adjustment event. It also includes the market value of any non-cash benefits, such as goods and services that the company receives for the asset.

For more information on balancing adjustment events, termination value, in-house software and software development pools, see the Guide to depreciating assets 2018.

I Termination value of other depreciating assets

Write at **I** the termination value of each balancing adjustment event occurring for depreciating assets, including assets allocated to a low-value pool.

Do **not** include at **I** any termination value for:

- assets allocated in a prior year to a general small business pool or long life small business pool
- intangible depreciating assets
- buildings or structures for which a deduction is available under the capital works provisions
- assets used in R&D activities that are subject to the R&D tax incentive
- assets falling within the provisions relating to investments in Australian films.

A balancing adjustment event occurs if the company stops holding or using a depreciating asset or decides not to use it in the future, for example, assets were sold, lost or destroyed.

Generally, the termination value is the amount the company received or is deemed to have received for the balancing adjustment event. It also includes the market value of any non-cash benefits, such as goods and services that the company received for the asset.

For more information on balancing adjustment events and termination value, see the Guide to depreciating assets 2018.

For entities connected with mining operations, exploration or prospecting (J, K and L)

At **J** write the total of any amounts you have allocated to a project pool for mining capital expenditure or transport capital expenditure incurred this income year. If you have not allocated any such amounts to a project pool, leave **J** blank.

For information on project amount and how to work out your deductions, see the Guide to depreciating assets 2018.

Questions **9K** and **9L** require information on your deductions for the decline in value of depreciating assets used in exploration or prospecting. If you did not claim any deductions for depreciating assets used in exploration or prospecting, you do not need to complete these questions.

At **K** write the total of your deductions for decline in value of intangible depreciating assets used in exploration or prospecting.

At **L** write the total of your deductions for decline in value of other depreciating assets used in exploration or prospecting.

QC 55199

10. Small business entity simplified depreciation

Last updated 16 February 2022

Only complete this item if the company is a small business entity using the simplified depreciation rules.

Small business concessions: changes to simpler depreciation rules

Recent changes to the law mean that from 7:30pm on 12 May 2015 until 30 June 2018 the instant asset write-off threshold for small business entities has increased from $1,000 to $20,000.

To complete this item use the amounts the company calculated for small business entity depreciation deductions at **X Depreciation expenses** item **6**. For more information, see Small business entities.

A Deduction for certain assets (costing less than $20,000)

Write at **A** the total amount the company claimed at item **6** relating to assets costing less than $20,000 for which an immediate deduction is available.

B Deduction for general small business pool

Write at **B** the total amount the company claimed at item **6** relating to the general small business pool.

QC 55199

11. Consolidation deductions

Last updated 16 February 2022

Only complete this item if the head company of a **consolidated group or a MEC group** (or for deductions claimed under section 716-405 by a former subsidiary of a consolidated group or a MEC group) has claimed in this income year at item **6 Calculation of total profit or loss** or item **7 Reconciliation to taxable income or loss**, all or part of the tax cost setting amount of:

- unbilled income assets, consumable stores or assets where subsection 701-55(6) of the ITAA 1997 applies under the pre rules
- rights to future income assets, consumable stores or assets where subsection 701-55(6) of the ITAA 1997 applies under the interim rules, or
- work in progress (WIP) amount assets, consumable stores or assets where subsection 701-55(6) of the ITAA 1997 applies under the prospective rules.

The tax law affecting consolidated groups was amended by Schedule 3 to the *Tax Laws Amendment (2012 Measures No.2) Act 2012* to modify the consolidation tax cost setting and rights to future income rules so that the tax outcomes for consolidated groups and MEC groups are more consistent with the tax outcomes that arise when assets are acquired outside the consolidation regime.

The rules applying to an entity will depend on the time when the corporate acquisition took place. Different rules apply to acquisitions that took place before 12 May 2010 (the pre-rules), after 30 March 2011 (the prospective rules) and the intervening period (the interim rules).

D Pre rules deductions

Write at **D** the total amount the company has claimed in this income year under the pre rules at another label in item **6 Calculation of total profit or loss** or item **7 Reconciliation to taxable income or loss** for the tax cost setting amount of unbilled income assets, consumable stores or assets where subsection 701-55(6) of the ITAA 1997 applies.

Generally, the pre rules apply to an assessment of the head company of a consolidated group or a MEC group for an income year for an entity that becomes a member of the group if:

- the joining time was before 12 May 2010, or
- the arrangement under which the joining entity joined the group commenced before 10 February 2010.

Generally, the amendments in the pre-rules:

- ensure that a deduction is allowed for the reset tax costs for consumable stores
- limit deductions for rights to future income to unbilled income assets

- restore the original 2002 residual tax cost setting rule
- treat certain assets as goodwill.

E Interim rules deductions

Write at **E** the total amount the company has claimed in this income year under the interim rules at another label in item **6 Calculation of total profit or loss** or item **7 Reconciliation to taxable income or loss** for the tax cost setting amount of rights to future income assets, consumable stores or assets where section 701-55(6) of the ITAA 1997 applies.

Generally, the interim rules apply to an assessment of the head company of a consolidated group or a MEC group for an income year for an entity that becomes a member of the group if:

- the joining time was on or after 12 May 2010, and
- the arrangement under which the joining entity joined the group commenced on or after 10 February 2010 and on or before 30 March 2011.

The interim rules amend the law as modified by the pre-rules. Generally, the amendments:

- ensure that the reset tax costs for consumable stores are deductible
- restore the original 2010 version of the rights to future income and residual tax cost setting rules with modifications to
  - ensure that no value is attributed to certain contractual rights to future income; and
  - treat certain assets as goodwill.

F Prospective rules deductions

Write at **F** the total amount the company has claimed in this income year under the prospective rules at another label in item **6 Calculation of total profit or loss** or item **7 Reconciliation to taxable income or loss** for the tax cost setting amount of work in progress amount assets, consumable stores or assets where section 701-55(6) of the ITAA 1997 applies.

Generally, the prospective rules apply to an assessment of the head company of a consolidated group or a MEC group for an income year for an entity that becomes a member of the group if:

- the joining time is on or after 31 March 2011, and
- neither the pre-rules nor the interim rules apply.

The prospective rules amend the law as modified by both the pre-rules and the interim rules. Generally, the amendments:

- restrict the operation of the tax cost setting rules to CGT assets, revenue assets, depreciating assets, trading stock and financial arrangements under Division 230 of the ITAA 1997
- ensure that the reset tax costs for rights to future income that are WIP amount assets and consumable stores are deductible
- treat rights to future income, other than WIP amount assets, as retained cost base assets, and
- apply a business acquisition approach to the residual tax cost setting rule.

QC 55199

12. National rental affordability scheme

Last updated 16 February 2022

J National rental affordability scheme tax offset entitlement

Write at **J** the company's entitlement to a tax offset under the National Rental Affordability Scheme (NRAS). Show cents.

The NRAS is designed to encourage large-scale investment in affordable housing. The NRAS offers incentives to providers of new dwellings on the condition that they are rented to low and moderate income households at 20% below market rates.

The refundable tax offset is only available when the secretary of the Department of Social Services has issued a certificate under the

NRAS. In order to claim the tax offset in 2017–18, the NRAS certificate must relate to the NRAS year 1 May 2017 to 30 April 2018.

Find out about:

- National Rental Affordability Scheme – refundable tax offset and other taxation issues

The NRAS tax offset is intended to be subject to the refundable tax offset rules and can be claimed at **E Refundable tax offsets** in the **Calculation statement**.

QC 55199

13. Losses information

Last updated 16 February 2022

The 'same business test' and the 'similar business test' are collectively referred to as the 'business continuity test'. For more information, see Increasing access to company losses.

Consolidated or MEC groups

Any company that is a subsidiary member of a **consolidated or MEC group** at the end of 2017–18 is not required to complete **U** and **V**. Other companies, including the head company of a consolidated or MEC group at the end of 2017–18, may need to complete **U** and **V**.

U Tax losses carried forward to later income years

Write at **U** the unapplied (undeducted or not transferred) amount of tax losses incurred by the company and carried forward to a later income year under section 36-17 of the ITAA 1997.

If the company is a designated infrastructure project (DIP) entity, ensure the amount of tax losses carried forward to later income years include any uplift amount.

Net exempt income (if any) must be taken into account in calculating the amount of tax losses carried forward to a later income year, see sections 36-10 and 36-17 of the ITAA 1997.

Tax losses carried forward may be affected by the commercial debt forgiveness provisions, see Appendix 1.

Under sections 36-17 and 36-55 of the ITAA 1997, a company is:

- subject to certain limitations, able to choose the amount of prior year tax losses it wishes to deduct in a later year of income from the excess (if any) of its assessable income over total deductions (other than tax losses). Providing choice means that companies can choose not to deduct prior year losses in order to pay sufficient tax to be able to frank their distributions
- able, in certain circumstances, to convert excess franking offsets into a tax loss for the income year and carry forward the tax loss for consideration as a deduction in a later income year.

If the company has excess franking offsets at **H Excess franking offsets** item **8**, calculate the company's tax loss for the income year under the method statement in subsection 36-55(2) of the ITAA 1997 as follows:

Step 1: Work out the amount (if any) that would have been the company's tax loss for the year under section 36-10, 165-70, 175-35 or 701-30 of the ITAA 1997, disregarding any net exempt income.

Step 2: Divide the amount of excess franking offsets by the applicable corporate tax rate.

Step 3: Add the result of steps **1** and **2**.

Step 4: Take away the company's net exempt income (if any).

The result (if a positive amount) is the company's tax loss for the income year. Include this amount at **U** with any unapplied tax losses from prior income years.

If a company is required to complete a *Losses schedule 2018*, the amount of the tax losses shown at **U Total** at item **1 Tax losses carried forward to later income years** in part A of that schedule must be the same as the amount shown at **U** on the *Company tax return 2018*.

Do not include any net capital losses to be carried forward to later income years at **U**. Write these separately at **V Net capital losses carried forward to later income years** item **13** on the *Company tax return 2018* and in the CGT schedule, if a CGT schedule is required.

Consolidated or MEC groups

If a head company of a **consolidated or MEC group** is required to complete a *Consolidated groups losses schedule 2018*, the amount of the tax losses shown at **U Total** at item **5 Tax losses carried forward to later income years** in part A of that schedule must also be the same as the amount shown at **U** on the company tax return.

If the company is a subsidiary member of a consolidated or MEC group at the end of the income year, **U** is not applicable.

V Net capital losses carried forward to later income years

Write at **V** the total of any unapplied net capital losses from collectables and unapplied net capital losses from all other CGT assets and events. This information is calculated or transferred from:

- **3B** in table 5 and **3A** at Specified countries of the CGT summary worksheet, or
- **A** and **B** in part **3** of the CGT schedule, if a CGT schedule is required.

See also:

- Guide to capital gains tax 2018

If the company is required to complete a *Losses schedule 2018*, the amount of the net capital losses shown at **V Total** at item **2 Net capital losses carried forward to later income years** in part A of that schedule must also be the same as the amount shown at **V** on the company tax return.

Consolidated or MEC groups

If a head company of a **consolidated or MEC group** is required to complete a Consolidated groups losses schedule 2018, the amount of the net capital losses shown at **V Total** at item **10 Net capital losses carried forward to later income years** in part A of that schedule must also be the same as the amount shown at **V** on the company tax return.

If the company is a subsidiary member of a consolidated or MEC group at the end of the income year, **V** is not applicable.

QC 55199

14. Personal services income

Last updated 16 February 2022

In this section:

- N Does your income include an individual's personal services income?
- A Total amount of PSI included at item 6 income labels
- B Total amount of deductions against PSI included at item 6 expense labels
- C Did you satisfy the results test for any individual?
- D Do you hold a personal services business (PSB) determination for any individual?
- E Personal services business tests

N Does your income include an individual's personal services income?

Personal services income (PSI) is income that is mainly a reward for an individual's personal efforts or skills (or would mainly be such a reward if it was derived by the individual).

A company may derive income which includes the PSI of one or more individuals.

Examples of PSI include:

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

PSI does not include income that is mainly:

- for supplying or selling goods, for example, from retailing, wholesaling or manufacturing
- generated by an income-producing asset, for example, from operating a bulldozer
- for granting a right to use property, for example, the copyright to a computer program, or
- generated by a business structure, for example, a large accounting firm.

There are special rules for the income tax treatment of PSI earned by contractors and consultants.

If the company receives an individual's PSI other than in the course of conducting a personal services business, and does not promptly pay it to the individual as salary or wages:

- the net amount of PSI is attributed to the individual and is not assessable to the company
- certain related expenses are not deductible under the special rules.

Print **X** in the Yes box at **N** if the company's income includes an individual's PSI. Otherwise print **X** in the **No** box.

If you answered **No** at **N**, you do not need to complete the remaining labels at item **14**.

If you answered **Yes** at **N**, read on and complete the remaining labels at item **14**.

A Total amount of PSI included at item 6 income labels

Write at **A** the total amount of income gained by you during the year that is PSI of one or more individuals that you have included at item **6** income labels (including income earned in the course of conducting a personal services business). Do not include at **A** any exempt or non-assessable non-exempt components of the PSI, for example, goods and services tax (GST).

B Total amount of deductions against PSI included at item 6 expense labels

Write at **B** the total amount of deductions against PSI included at item **6** expense labels.

C Did you satisfy the results test for any individual?

If you satisfy the results test for any individual, print **X** in the **Yes** box at **C**; otherwise, print **X** in the **No** box at **C**.

You will meet the results test in an income year if for at least 75% of the PSI of the individual doing the personal services work, having

regard to the custom or work practice when work of that kind is performed:

- the PSI is paid to achieve a result under your contract or agreement
- you provide the tools or equipment necessary (if any) to do the work, and
- you are liable for the cost of rectifying defects in the work performed.

We consider that the PSI is paid to achieve a result when the individual is required to produce a specified result or outcome, and payment is conditional upon that result or outcome being achieved. The essence of the contract or agreement has to be to achieve a result and not just to do the work as required.

D Do you hold a personal services business (PSB) determination for any individual?

If you hold a personal services business (PSB) determination for any individual, print **X** in the **Yes** box at **D**; otherwise, print **X** in the **No** box at **D**.

To apply for a personal services business determination see Personal services business determination application. If your income is the PSI of more than one individual, you can apply for a determination for each of those individuals.

E Personal services business tests

E1, **E2** and **E3** require information for any individual for whom you did not satisfy the results test or hold a PSB determination, and where each source of their PSI income yielded less than 80% of their total PSI. If 80% or more of the PSI in the income year comes from one client (and their associates):

- you cannot self-assess whether you meet the unrelated clients test, employment test or business premises test, and
- do not complete **E1**, **E2** and **E3**.

When considering the 80% rule, do not take into account PSI received as an employee or income that is not PSI (for example, investment income or income from the sale of goods or the use of an income-producing asset).

If you are a commission agent your PSI will be treated as coming from each customer provided you meet all of the following conditions:

- You are an agent of the principal but not an employee.
- You receive income from your principal for services that you provide to customers on the principal's behalf.
- At least 75% of that income is performance-based commissions or fees.
- You actively seek other customers to whom you could provide services on the principal's behalf.
- You do not provide any services to the customers, on the principal's behalf, using premises that the principal (or their associate) owns or has a leasehold interest in, unless you use the premises under an agreement entered into at arm's length.

If you meet all of these conditions and, as a consequence, less than 80% of the PSI is treated as coming from each source, you can self-assess against the unrelated clients test, the employment test and the business premises test. You do not need a determination from the Commissioner to be a personal services business although you may apply for a determination if you are unsure.

For any individual for whom you did not satisfy the results test or hold a PSB determination, and each source of their PSI income yielded less than 80% of their total PSI, indicate whether you satisfied any of the personal services business tests.

E1 Unrelated clients test

If you satisfied the unrelated clients test, print **X** in the box at **E1**.

You will meet the unrelated clients test in the income year if you generate income from two or more clients who are not associated with each other or with you.

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

Separate government departments are deemed not to be associates of each other for the purposes of this test.

If you are a commission agent who meets all of the conditions for the special rules, you will pass the unrelated clients test if your services

are provided to at least two customers as a direct result of your making offers or invitations to the public on behalf of your principal.

E2 Employment test

If you satisfied the employment test, print **X** in the box at **E2**.

Subject to certain exceptions noted below, you will meet the employment test in the income year if you:

- have employees, engage subcontractors or engage entities that perform at least 20% (by market value) of the principal work, or
- have apprentices for at least half the income year.

'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.

Do not count any individual whose PSI you receive.

E3 Business premises test

If you satisfied the business premises test, print **X** in the box at **E3**.

You will meet the business premises test if, at all times during the income year, you maintain and use business premises that are:

- mainly used to conduct the work, that is, used for gaining or producing personal income for more than 50% of the time
- used exclusively by you
- physically separate from the private residence of you or your associates, and
- physically separate from the business address of your clients or their associates.

The phrase 'at all times during the income year' is taken to mean the whole period during which activities are conducted for the purposes of generating personal services income.

You do not need to maintain and use the same business premises throughout the year, but you must satisfy all the above criteria.

Include adjustments relating to non-deductible expenses at **W Non-deductible expenses** item **7** and adjustments relating to attributed PSI at **Q Other income not included in assessable income** item **7**. For

information on how to complete item **7** for PSI attributed to an individual, see Appendix 9, Worksheet 2 and Note 4.

Find out about:

- Personal services income – basic information you need to know
- Personal services income – What to do when the PSI rules apply
- Personal services income tool

QC 55199

15. Licensed clubs only

Last updated 13 September 2024

A Percentage of non-member income

Write at **A** the percentage, in whole figures, of total income attributable to non-members.

QC 55199

16. Life insurance companies and friendly societies only

Last updated 16 February 2022

A life insurance company is defined for tax purposes as a company registered under the *Life Insurance Act 1995* and includes:

- life insurance companies
- life reinsurance companies
- friendly societies carrying on life insurance business.

If a friendly society does not conduct life insurance business, write zero (**0**) at **B** to **F** item **16**.

Life insurance companies separate their taxable income into two classes (the ordinary class and the complying superannuation class) and multiply the taxable income of each class by the appropriate tax rate to determine their gross tax. Where a life insurance company is an RSA provider and there is no-TFN contributions income, the tax rate is determined in accordance with section 29 of the *Income Tax Rates Act 1986*.

The taxable incomes of the complying superannuation class and the ordinary class are worked out separately.

Tax losses of one class can only be applied to reduce future income of the same class.

The tax rates to assist with the calculation of the gross tax amount for life insurance companies are listed in Appendix 7.

Life insurance companies, including friendly societies carrying on life insurance business, are entitled to a franking tax offset for franked dividends.

If franking tax offsets exceed the tax that would be payable after all other tax offsets are taken into account, life insurance companies may be entitled to a refund of the excess to the extent that it relates to distributions paid on shares and other membership interests held on behalf of policy holders. Claim the amount of the excess franking tax offset that is refundable at **E Refundable tax offsets** in the **Calculation statement**.

If a life insurance company receives a dividend from a LIC which includes a LIC capital gain amount, the life insurance company is entitled to a deduction of 33⅓% of its share of the LIC capital gain amount if the shares in the LIC are complying superannuation assets. The deduction should be included at **X Other deductible expenses** item **7**.

If a life insurance company's assessable income includes a distribution from a partnership or trust that claimed a deduction for a LIC capital gain amount, the company must add back an amount as income in accordance with subsection 115-280(5) of the ITAA 1997. Include the amount added back at **B Other assessable income** item **7**.

Consolidated or MEC groups

The special rules in the income tax law that apply to life insurance companies will apply to the head company of a **consolidated or MEC group** if that group has at least one member that is a life insurance company.

In this section:

- B Complying superannuation class
- C Net capital gain – complying superannuation class
- D Net capital gain – ordinary class
- E Assessable contributions
- F Fees and charges

B Complying superannuation class

Write at **B** the amount of taxable income of the complying superannuation class.

If the company is a life insurance company that is not a member of a consolidated group and has the following losses carried forward to later income years in the complying superannuation class:

- tax losses, or
- net capital losses

then it may need to complete a Losses schedule 2018. For more information, see Losses schedule instructions 2018.

Consolidated or MEC groups

The head company of a **consolidated or MEC group** that has at least one subsidiary member that is a life insurance company at any time during the income year is also taken to be a life insurance company for the purposes of applying the income tax law.

If the head company has the following losses carried forward to later income years in the complying superannuation class:

- tax losses, or
- net capital losses

then it may need to complete a Consolidated groups losses schedule 2018. For more information, see Consolidated groups losses schedule instructions 2018.

C Net capital gain – complying superannuation class

Write at **C** the amount of the net capital gain that accrued from the investment of complying superannuation assets.

D Net capital gain – ordinary class

Write at **D** the amount of the net capital gain that is included in the ordinary class of taxable income.

For the head company of a consolidated or MEC group that has at least one subsidiary member that is a life insurance company, include at **D** the net capital gain for all members of the consolidated or MEC group, except for any net capital gain from complying superannuation assets.

E Assessable contributions

Write at **E** assessable contributions of complying superannuation funds that were transferred to the life insurance company under section 295-260 of the ITAA 1997 and are included in its assessable income under paragraph 320-15(1)(i).

F Fees and charges

Write at **F** the amount of all fees and charges included in assessable income. This includes premium-based fees, establishment fees, time-based account fees, asset fees, switching fees, surrender penalties, buy–sell margins, exit fees and interest on overdue premiums. For more information on fees and charges, see Taxation Ruling TR 2003/14 *Income tax: Life insurance companies: the actuarial determination of fees and charges*.

QC 55199

18. Pooled development funds

Last updated 16 February 2022

G Small and medium sized enterprises income

Write at **G** the small and medium sized enterprises (SME) income component.

A PDF's SME income component is its SME assessable income, less deductions allowable to the PDF for the income year, whether those

deductions relate to the SME assessable income or not. (Allowable deductions to a PDF are offset first against SME assessable income, then applied against unregulated investment income.)

SME assessable income is the **sum** of:

- non-CGT assessable income derived from an SME investment or derived from the disposal of an SME investment at a time when the company was a PDF, and
- the overall capital gain allocated to the SME assessable income class.

The overall capital gain allocated to the SME assessable income class is the amount of any ordinary capital gain that would otherwise arise from a CGT event at a time the company was a PDF for an SME investment less:

- any ordinary capital loss for that class, and
- any overall capital loss from another class of assessable income, and then
- any prior year net capital losses.

Capital gains in one class of assessable income are first reduced by capital losses in that class and then by capital losses in another class. Prior-year capital losses are applied first against capital gains in the SME assessable income class.

Full-year PDF

For a company that is a PDF for the full income year, the SME income component is SME assessable income less deductions allowable to the PDF for the income year.

Part-year PDF

A company that becomes a PDF part way through the income year and is still a PDF at the end of the income year is taxed as a PDF from the day it became registered as a PDF to the end of the income year as if that period were an income year ('the PDF period'). The PDF component is the taxable income for the PDF period. (A company's 'PDF component' is its 'adjusted taxable income'.)

The SME income component of a part-year PDF is the company's SME assessable income less any deductions allowable to the company for the income year that relate to the PDF period.

H Unregulated investment income

Write at **H** the unregulated investment component.

Full-year PDFs

The unregulated investment component of a company that is a PDF for the full income year is worked out by deducting the company's SME income component from its taxable income for the year. The amount (if any) remaining is the company's unregulated investment component.

Part-year PDFs

The unregulated investment component of a part-year PDF is worked out by deducting the company's SME income component for the year of income from its adjusted taxable income.

QC 55199

19. Retirement savings accounts (RSAs) providers only

Last updated 16 February 2022

Only RSA providers complete **U** to **V**.

RSA providers other than life insurance companies work out the RSA component of their taxable income and apply the applicable rate to that component. For information on the tax rate, see Appendix 7.

U No-TFN contributions income

Write at **U** the no-TFN contributions income of the RSA provider. If zero, write zero (**0**). Complete **U** as it is mandatory.

X Income tax payable on no-TFN contributions income

Write at **X** the amount of further income tax payable on no-TFN contributions income written at **U** above. If zero, write zero (**0**). Complete **X** as it is mandatory. For the tax rate, see Appendix 7.

Include the amount at **X** in **B Gross tax**, in the **Calculation statement**.

For more information on the further tax on no-TFN contributions, see Tax file numbers and super contributions.

V Net taxable income from RSAs

Write at **V** the RSA component of the taxable income of the RSA provider that is not a life insurance company, or the amount to be included in the complying superannuation class of the taxable income of a life insurance company that is referable to RSAs provided by the company.

QC 55199

20. Foreign income tax offset

Last updated 16 February 2022

J Foreign income tax offset

Write at **J** the allowable foreign income tax offset referable to the current year of income. Do not include any allowable pre-commencement excess foreign income tax.

Include the amount at **J** in **C Non-refundable non-carry forward tax offsets** in the **Calculation statement**. Include at **D Non-refundable carry forward tax offsets** in the **Calculation statement** any allowable pre-commencement excess foreign income tax that has not already been utilised, provided it has not already expired.

The company may be able to claim a foreign income tax offset where it has paid foreign income tax on an amount included in its assessable income.

The company's foreign income tax offset cannot exceed the lesser of:

- the foreign income tax paid, or
- its foreign income tax offset limit (the greater of $1,000 and the amount calculated under paragraph 770-75(2)(b) of the ITAA 1997).

The company is taken to have paid foreign income tax on an amount included in its assessable income where the foreign income tax has effectively been paid by someone else on its behalf under an arrangement with it or under the law relating to that tax, for example,

foreign income tax paid by deduction or withholding, or by a trust (or partnership) in which the company is a beneficiary (or partner).

When determining whether a foreign income tax offset is allowable, the company must refer to and adhere to the provisions of Division 770 of the ITAA 1997.

The following are key points:

- You cannot claim a foreign income tax offset for amounts of attributed income included under section 459A of the ITAA 1936.
- You cannot claim a foreign income tax offset in certain circumstances where there has been a refund of foreign income tax or a receipt of any other benefit as a direct result of the payment of the foreign income tax.
- You cannot carry-forward an amount of excess foreign income tax for use in a later income year.
- Foreign income tax includes foreign tax forgone on income by foreign countries under tax sparing arrangements where the tax sparing amounts are subject to Australia's tax treaty with the relevant country.
- The foreign income tax paid on the offshore banking income of an OBU is taken to be one-third (the current offshore banking eligible fraction) of the amount of foreign income tax actually paid (see subsection 121EG(3A) of the ITAA 1936). This rule does not apply where the OBU has had excessive use of non-OB money (see section 121EH of the ITAA 1936).
- The foreign income tax offset rules described above also apply to the head company of a consolidated or MEC group. Where a subsidiary member paid foreign income tax on an amount included in the head company's assessable income, the head company is treated as having paid the foreign income tax and is eligible to claim a foreign income tax offset. For more information, see the Consolidation reference manual.

For more information on how to calculate the company's allowable foreign income tax offset, see the Guide to foreign income tax offset rules.

21. Research and development tax incentive

Last updated 16 February 2022

An eligible company will be entitled to an R&D tax offset if its total notional deductions for an income year are at least $20,000. If your total notional deductions are less than $20,000, you will only be able to obtain the R&D tax offset for:

- expenditure incurred to a Research Service Provider (RSP) for services within a research field for which the RSP is registered under the IR&D Act, where that RSP isn't an associate of the R&D entity
- expenditure incurred as a monetary contribution under the Co-operative Research Centre (CRC) program.

A notional deduction is an amount that a company can take into account in calculating its tax offset. The total of your notional deductions is multiplied by the relevant R&D tax offset percentage and shown at either **A Non-refundable R&D tax offset** or at **U Refundable R&D tax offset** in item **21** of the *Company tax return 2018*. Notional deduction amounts are shown in Part A of the *Research and development tax incentive schedule 2018*.

If you are claiming an R&D tax offset amount at **A Non-refundable R&D tax offset** item **21** or at **U Refundable R&D tax offset** item **21**, you must complete and lodge a *Research and development tax incentive schedule 2018* with your *Company tax return 2018*.

For more information on eligible notional deduction amounts and calculating your entitlement to the R&D tax offsets, see:

- Research and development tax incentive schedule instructions 2018
- Research and development tax incentive schedule 2018.

Non-refundable R&D tax offset

To claim a non-refundable R&D tax offset, an eligible company must:

- have an aggregated turnover of $20 million or more, or
- be controlled by one or more income tax-exempt entities.

For eligible notional deductions on R&D activities that are $100 million or less, the non-refundable R&D tax offset is equal to the amount of eligible notional deductions × 38.5%. For eligible notional deductions on R&D activities which exceed $100 million, the non-refundable R&D tax offset is equal to the sum of eligible notional deductions for the first $100 million × 38.5%, and eligible notional deductions in excess of $100 million × the applicable company tax rate.

Any unused portion of the non-refundable R&D tax offset may be carried forward to future income years, subject to the tax offset carry-forward rules in Division 65 of the ITAA 1997.

If you have taxable income in 2017–18, the amount of the tax offset that can be carried forward is reduced by your net exempt income × 0.275 for a base rate entity. Otherwise, the amount of tax offset that can be carried forward is reduced by your net exempt income × 0.3.

A Non-refundable R&D tax offset

Write at **A** the amount of non-refundable R&D tax offset. This is the amount calculated in Part E, **A Non-refundable R&D tax offset** item **5**, on the *Research and development tax incentive schedule 2018*.

This amount plus the amount included in **B Non-refundable R&D tax offset carried forward from previous year** item **21** are included in your total at **D Non-refundable carry forward tax offsets** in the **Calculation statement**.

B Non-refundable R&D tax offset carried forward from previous year

Write at **B** the amount of non-refundable R&D tax offset carried forward from the previous year. If you claimed a non-refundable R&D tax offset in one or more earlier income years commencing on or after 1 July 2011 and did not apply all or part of the tax offset in those earlier income years, you may be able to carry forward and use those parts of the tax offset that was unapplied in this income year. To work out whether you can carry forward and use all or part of the non-refundable R&D tax offset from an earlier income year to this year, see Division 65 of the ITAA 1997.

If you can carry forward and use all or part of your non-refundable R&D tax offset from one or more earlier income years commencing on or after 1 July 2011, you may be able to obtain the amount to include at **B** from your previous year's company tax return. The amount to include at **B** may be found at **D Non-refundable R&D tax offset carried forward to next year** item **21** in the *Company tax return 2017*.

Do not include an amount at B if you are prevented from using the non-refundable R&D tax offset from the income year ending 30 June 2012 by Division 65 of the ITAA 1997. For example, Division 65 states that before you can apply a tax offset brought forward from a prior year to reduce the amount of income tax that you will pay in a later year, you must apply it to reduce certain amounts of net exempt income. If the company is a base rate entity for the year, net exempt income is reduced by $1 for each 27.5 cents of the tax offset; otherwise net exempt income is reduced by $1 for each 30 cents of the tax offset.

If you have not previously claimed this non-refundable R&D tax offset, or you did not have any non-refundable R&D tax offset carried forward from one or more earlier income years commencing on or after 1 July 2011 you do not need to complete **B** item **21**.

The amount you have included at **B** plus the amount included in **A non-refundable R&D tax offset** item **21** are included in your total at **D Non-refundable carry forward tax offsets** in the **Calculation statement**.

Prior to completing **C** item **21** and **D** item **21** you will need to complete the *Company tax return 2018* **Calculation statement** to work out your income, tax payable (and other offset amounts) before you will know how much can be applied.

C Non-refundable R&D tax offset to be utilised in current year

Write at **C** the amount of non-refundable R&D tax offset utilised in the current year. The non-refundable R&D tax offset can be utilised to reduce your tax payable to zero, but cannot go below zero, that is, not into a negative.

To work out the non-refundable R&D tax offset you can use this year, you will need to consider amounts you have included in **A Non-refundable R&D tax offset** item **21** and **B Non-refundable R&D tax offset carried forward from previous year** item **21**.

If the amount at **T2 Subtotal 1** in the **Calculation statement** is more than the amount at **D Non-refundable carry forward tax offsets** in the **Calculation statement**, the amount at **C** item **21** will be equal to the amount at **A** plus **B** item **21** (see example 14a).

If the amount at **T2 Subtotal 1** in the **Calculation statement** is less than the amount at **D Non-refundable carry forward tax offsets** in the **Calculation statement**, you will need to calculate an amount at **C**. Show at **C** the amount of non-refundable R&D tax offset utilised to make **T3 Subtotal 2** in the **Calculation statement** zero (see example 14b).

D Non-refundable R&D tax offset carried forward to next year

Write at **D** the amount of non-refundable R&D tax offset carried forward to next year. This amount is calculated by adding the amounts at **A** and **B** item **21** and then subtracting the amount at **C** item **21**.

You must complete **C** item **21** and the **Calculation statement** prior to completing **D** item **21**.

Example 14a

Company XYZ has an amount at **T2 Subtotal 1** in the **Calculation statement** of $100,000. The amount at **D Non-refundable carry forward tax offsets** in the **Calculation statement** was $60,000 from a non-refundable R&D tax offset of $60,000. The company had no R&D non-refundable tax offset carried forward from the previous income year. The amount at **C** item **21** will be equal to the amount at **A** plus **B** item **21**. **D** item **21** is $0 as the entire non-refundable R&D tax offset has been applied against the amount at **T2 Subtotal 1** in the **Calculation statement** and there is no amount remaining to be carried forward and applied in a future income year.

In this example, the **Calculation statement** labels would show:

Subtotal 1 **T2**	100,000.00
Non-refundable carry forward tax offsets **D**	60,000.00
Subtotal 2 **T3**	40,000.00

The item **21 Non-refundable R&D tax offset** labels would be completed as follows:

Non-refundable R&D tax offset **A**	60,000.00
Non-refundable R&D tax offset carried forward from previous year **B**	0.00
Non-refundable R&D tax offset to be utilised in current year **C**	60,000.00

Non-refundable R&D tax offset carried forward to next year **D**	0.00

Example 14b

Company XYZ has an amount at **T2 Subtotal 1** in the **Calculation statement** of $60,000. The amount at **D Non-refundable carry forward tax offsets** in the **Calculation statement** was $100,000 (including a non-refundable R&D tax offset of $50,000 from the current income year and a non-refundable R&D tax offset of $50,000 from the previous income year that Company XYZ can use in the current income year). The amount at **C** item **21** was $60,000 as this was the amount utilised to make **T2 Subtotal 2** in the **Calculation statement** zero. **D** item **21** is $40,000 as this is the amount remaining after applying the non-refundable R&D tax offset against the amount at **T2 Subtotal 1** in the **Calculation statement**.

In this example, the **Calculation statement** labels would show:

Subtotal 1 **T2**	60,000.00
Non-refundable carry forward tax offsets **D**	100,000.00
Subtotal 2 **T3**	0.00

The item **21 Non-refundable R&D tax offset** labels would be completed as follows:

Non-refundable R&D tax offset **A**	50,000.00
Non-refundable R&D tax offset carried forward from previous year **B**	50,000.00
Non-refundable R&D tax offset to be utilised in current year **C**	60,000.00
Non-refundable R&D tax offset carried	40,000.00

forward to next year **D**	

Refundable R&D tax offset

To claim a refundable R&D tax offset, an eligible company must:

- have an aggregated turnover of less than $20 million, and
- not be controlled by one or more income tax exempt entities.

For eligible notional deductions on R&D activities that are $100 million or less, the refundable R&D tax offset is equal to the amount of eligible notional deductions × 43.5%.

For eligible notional deductions on R&D activities which exceed $100 million, the refundable R&D tax offset is equal to the sum of eligible notional deductions for the first $100 million × 43.5%, and eligible notional deductions in excess of $100 million × the applicable company tax rate.

Due to the refundable tax offset rules in Division 67 of the ITAA 1997, the refundable R&D tax offset directly reduces basic income tax liability of a company (income tax). Where the amount of the refundable R&D tax offset exceeds the amount of tax that the company would otherwise have had to pay, then the excess is refundable (subject to any other tax debts owing).

U Refundable R&D tax offset

Write at **U** the amount of refundable R&D tax offset. This amount is calculated in Part E, **U Refundable R&D tax offset** item **4** of the *Research and development tax incentive schedule 20178*

Include this amount in your total at **E Refundable tax offsets** in the **Calculation statement**.

Feedstock adjustment

You may need to include a feedstock adjustment to include an additional amount in your assessable income if you can claim the R&D tax offset under Division 355 of the ITAA 1997 for expenditure on goods, materials or energy used during R&D activities to produce marketable products or products applied to your own use.

W Feedstock adjustment – additional assessable income

Write at **W** the total of all feedstock adjustments that are required to be made. A feedstock adjustment will need to be made where your R&D activities have produced products supplied to someone else, or applied to your own use (other than in transforming such products for supply) in this income year.

If you have completed the *Research and development tax incentive schedule 2018*, include at **W** the amount calculated in Part B, **B Feedstock adjustment - additional assessable income** item **3**. You will also need to include this amount in **B Other assessable income** item **7**.

If you have a feedstock adjustment but are not claiming the R&D tax offset, you do not need to complete the *Research and development tax incentive schedule 2018*. You will still need to work out your feedstock adjustment and include it at **W**. See the instructions for the *Research and development tax incentive schedule 2018* (part B) for details about how you work out your feedstock adjustment. When you have worked out your feedstock adjustment, include the amount at **W**.

You will also need to include this amount in **B Other assessable income** item **7**.

QC 55199

22. Early stage venture capital limited partnership tax offset

Last updated 16 February 2022

You may be able to claim the early stage venture capital limited partnership (ESVCLP) tax offset if one or both of the following applies:

- you are entitled to a tax offset in the current income year
- you have an amount of unused ESVCLP tax offset carried forward from a previous income year.

Any unused portion of the ESVCLP tax offset can be carried forward to future income years, subject to the tax offset carry forward rules in Division 65 of the ITAA 1997.

L Current year tax offset

Write at **L** the amount of ESVCLP tax offset referrable to the current income year.

Include this amount in your total at **D Non-refundable carry forward tax offsets** in the **Calculation statement**.

Your current income year ESVCLP tax offset is the sum of your tax offsets worked out based on your contributions to the ESVCLP:

- as a limited partner of the ESVCLP, or
- through a partnership or a trust.

The ESVCLP must have become unconditionally registered on or after 7 December 2015.

If you are a limited partner of an ESVCLP, your tax offset is limited to 10% of the lesser of the following:

- your total contributions to the ESVCLP during the current income year (certain exclusions apply), and
- your share (based on your interest in the entire capital of the ESVCLP at the end of the current income year) of the sum of eligible venture capital investments made by the ESVCLP during the period starting at the beginning of the current income year and ending two months after the end of the current income year.

If you are a partner in a partnership or a beneficiary of a trust which has contributed to an ESVCLP, you may be entitled to an amount of ESVCLP tax offset. A written notification will be provided by the partnership to the trustee of the trust, setting out the fund's entitlement to this tax offset. If a written notification has not been provided, contact the partnership or the trustee.

For more information about the ESVCLP tax offset and the eligibility requirements, see ESVCLP tax incentives and concessions.

P Tax offset carried forward from previous year

Write at **P** the amount of ESVCLP tax offset carried forward from a previous year.

If you claimed the ESVCLP tax offset in one or more earlier income years commencing on or after 1 July 2016, and did not apply all or part of the tax offset in those earlier income years, you may be able to

carry forward and use those parts of the tax offset that was unapplied in this income year. To work out whether you can carry forward and use all or part of the ESVCLP tax offset from an earlier income year to this year, see Division 65 of the ITAA 1997.

Do not include an amount at **P** if you are prevented from using the ESVCLP tax offset from an earlier income year by Division 65 of the ITAA 1997. For example, Division 65 states that before you can apply a tax offset from a prior year to reduce the amount of income tax that you will pay in a later year, you must apply it to reduce certain amounts of net exempt income. If the company is a base rate entity for the year, net exempt income is reduced by $1 for each 27.5 cents of the tax offset. Otherwise, net exempt income is reduced by $1 for each 30 cents of the tax offset.

If you have not previously claimed this ESVCLP tax offset, or you did not have any unused ESVCLP tax offset from one or more earlier income years commencing on or after 1 July 2016, you do not need to complete **P** item **22**.

Include this amount in your total at **D Non-refundable carry forward tax offsets** in the **Calculation statement**.

For more information, see ESVCLP tax incentives and concessions.

QC 55199

23. Early stage investor tax offset

Last updated 16 February 2022

You may be entitled to claim the early stage investor tax offset for the income year if you:

- invested in an early stage innovation company during the current income year
- have an amount of unused early stage investor tax offset carried forward from a previous year.

The maximum offset (including current income year and carried forward prior year amounts) that you, and your affiliates combined ,can claim in the current income year cannot exceed $200,000.

Any unused portion of the early stage investor tax offset can be carried forward to future income years, subject to the tax offset carry

forward rules in Division 65 of the ITAA 1997.

For more information about the early stage investor tax offset and eligibility requirements, see Tax incentives for early stage investors.

M Current year tax offset

Write at **M** the amount of early stage investor tax offset referrable to the current income year.

Include this amount in your total at **D Non-refundable carry forward tax offsets** in the **Calculation statement**.

If you are eligible for the early stage investor tax offset as a result of investing in an early stage innovation company during the current income year, follow the steps below:

Step 1: Work out the total amount you paid for eligible shares in all early stage innovation companies during the current income year.

- If you do not meet the requirements of the 'sophisticated investor' test under the *Corporations Act 2001* for at least one of your investments in an early stage innovation company made during the year, the step 1 amount must not exceed $50,000. If the step 1 amount **exceeds $50,000** you **cannot claim** this offset.

Step 2: Multiply the step 1 amount by 20%.

Step 3: Identify your entitlements to any early stage investor tax offsets as a beneficiary of a trust or a partner in a partnership that has invested in an early stage innovation company during the current income year.

- If you are a partner in a partnership or a beneficiary of a trust which has contributed to an early stage innovation company during the current income year, you may be entitled to an amount of ESVCLP tax offset. A written notification will be provided by the partnership to trustee of the trust setting out your entitlement to this tax offset. If a written notification has not been provided, contact the partnership or the trustee.

Step 4: Add together the amounts from step 2 and step 3. This is the step 4 amount.

Step 5: Subtract from $200,000 the amount (if any) reported at **R Tax offset carried forward from previous year**. This result is the step 5 amount.

Step 6: If the step 4 amount is equal to or less than the step 5 amount, write the step 4 amount at **M**.

If the step 4 amount is greater than the step 5 amount, write the step 5 amount at **M.**

The amount you report at **M** may need to be further reduced if any of your affiliates are entitled to the early stage investor tax offset (whether for investments they made in the current income year or carried forward from a previous income year).

The maximum offset (including current income year and carried forward prior year amounts) that you, and your affiliates combined, can claim in the current income year cannot exceed $200,000.

R Tax offset carried forward from previous year

Write at **R** the amount of unused early stage investor tax offset carried forward from a previous year.

If you claimed the early stage investor tax offset in one or more earlier income years commencing on or after 1 July 2016 and did not apply all or part of the tax offset in those earlier income years, you may be able to carry forward and use those parts of the tax offset that were unapplied in this income year. To work out whether you can carry forward and use all or part of the early stage investor tax offset from an earlier income year to this year, see Division 65 of the ITAA 1997.

Do not include an amount at **R** if you are prevented from using the early stage investor tax offset from an earlier income year by Division 65 of the ITAA 1997. For example, Division 65 states that before you can apply a tax offset from a prior year to reduce the amount of income tax that you will pay in a later year, you must apply it to reduce certain amounts of net exempt income. If the company is a base rate entity for the year, net exempt income is reduced by $1 for each 27.5 cents of the tax offset; otherwise net exempt income is reduced by $1 for each 30 cents of the tax offset.

If you have not previously claimed this early stage investor tax offset, or you did not have any unused early stage investor tax offset from one or more earlier income years commencing on or after 1 July 2016, you do not need to complete **R** item **22**.

Include this amount in your total at **D Non-refundable carry forward tax offsets** in the **Calculation statement**.

Example: Calculating early stage investor tax offset

Company XYZ has a carried forward early stage investor tax offset of $60,000 from 2016–17.

In 2017–18, Company XYZ invested $500,000 in eligible shares in one early stage innovation company, and $250,000 in another early stage innovation company. Company XYZ meets the requirements of the sophisticated investor test.

Company XYZ has gross tax of $180,000 at label **B**, no amounts at label **C** (non-refundable non-carry forward offsets) and no exempt income.

The amount that Company XYZ writes at **R** is $60,000 (carried forward early stage investor tax offset from 2016-17). It calculates the amount reported at **M** as:

Step 1: The total amount paid for eligible shares in early stage innovation companies in 2017-18 = $750,000.

Step 2: Multiply step 1 amount ($750,000) by 20% = $150,000.

Step 3: Nil - Company XYZ has no other early stage investor entitlements via trusts or partnerships.

Step 4: Company XYZ adds the amounts from steps 2 and 3. The result is $150,000.

Step 5: Company XYZ subtracts the amount at **R**, $60,000, from $200,000. The result is $140,000.

Step 6: As the step 4 amount ($150,000) is greater than the step 5 amount ($140,000), Company XYZ writes $140,000 at **M**.

Company XYZ can claim an early stage investor tax offset equal to the sum of the **R** and **M** amounts ($60,000 plus $140,000, totalling $200,000). Although the carried forward tax offset from 2016–17 of $60,000, and the current year tax offset of $150,000 (step 4 amount) equals $210,000, Company XYZ's total tax offset is capped at $200,000 for 2017-18. The unused excess of $10,000 cannot be carried forward to future income years.

As Company XYZ's entitlement to the tax offset ($200,000) is greater than its gross tax payable ($180,000), the unused portion of the offset ($20,000) may be carried forward to future income years (subject to the rules in Division 65).

24. Internet trading

Q – Did you sell any goods or services using the internet?

Print **X** in the **Yes** box at **Q** if, in deriving income, the company used the internet to:

- receive orders for goods or services, for example, the company received orders by email or a web page form, rather than by conventional post, telephone or facsimile
- receive payment for goods or services, for example, the company received digital cash as
  - credit card or charge card details by email or web page form, rather than by conventional post, telephone or facsimile

- deliver goods or services, for example, the company
  - used email, the internet or file transfer protocol to deliver digitised music, news articles or software, rather than conventional post to deliver software on a disk
  - used email, in conjunction with a website, to give advice and received a payment in connection with this advice
  - advertised goods or services of other businesses for a fee on the internet
  - hosted websites
  - provided access to the internet.

Print **X** in the **No** box at **Q** if the company used the internet **only** to:

- advertise the company's goods or services
- give support to the company's customers
- buy the company's stock
- do the company's banking online.

QC 55199

25. Reportable tax position

Last updated 16 February 2022

B – Are you required to lodge a reportable tax position schedule?

Only complete this item if you have been notified in writing by us that you are required to lodge a *Reportable tax position schedule in 2018*.

To complete this item:

If you have been notified in writing by us that you are required to lodge a reportable tax position schedule in 2018, print **X** in the **Yes** box at **B** item **25**.

QC 55199

Items 26 to 30 – Overseas transactions or interests/thin capitalisation

Last updated 16 February 2022

These items must be answered even if you do not have any overseas transactions or interests.

In this section:

- Agents for non-residents
- Dividends as the only international transactions
- International dealings schedule
- 26. and 27. International related party dealings/transfer pricing
- 28. Overseas interests
- 29. Thin capitalisation
- 30. Transactions with specified countries

Agents for non-residents

If a tax return that includes income or deductions from only the activities listed in table 8 is lodged in accordance with the following sections of the ITAA 1936 and does not include income or deductions from any other source, print **X** in the **No** box at **X** item **26**, **Y** item **27** and **Z** item **28**. Do **not** complete an *International dealings schedule 2018*.

Table 8: Activities carried out by agents for non-residents

Industry type	Industry code	Section number
Overseas shipping	99020	129
Agents for non-resident insurer	99050	144
Agents for non-resident reinsurers	99050	148
Control of non-resident's money	99070	255

Dividends as the only international transactions

If dividends were paid to or received from a related overseas entity and those dividends were the only transactions with related overseas entities, print **X** in the **No** boxes at **X** item **26** and **Y** item **27** for overseas transactions and do not complete an *International dealings schedule 2018*. Answer items **28**, **29**, and **30** as required.

International dealings schedule

If you need to lodge an *International dealings schedule 2018*, see the International dealings schedule instructions 2018.

26. and 27. International related party dealings/transfer pricing

X – Did you have any transactions or dealings with international related parties (irrespective of whether they were on revenue or capital account)?

Print **X** in the appropriate box at **X** item **26**.

International related parties are persons who are not dealing wholly independently with one another in their international commercial or financial relations. The term includes:

- any overseas entity or person who participates directly or indirectly in the company's management, control or capital

- any overseas entity or person in which the company participates directly or indirectly in the management, control or capital
- any overseas entity or person in which persons who participate directly or indirectly in its management, control or capital are the same persons who participate directly or indirectly in the company's management, control or capital.

Participates includes a right of participation, the exercise of which is contingent on an agreed event occurring.

Person has the same meaning as in subsection 6(1) of the ITAA 1936 and section 995-1 of the ITAA 1997.

For more information as to the relevant degree of participation, see Taxation Ruling IT 2514 *Income tax: Company Schedule 25A: Information return for companies that transact business with related overseas entities*.

The type of 'dealings or transactions' that will require the entity to answer **yes** at this question are dealings by the entity with related parties (as mentioned above), such as an overseas holding company, overseas subsidiary, or a non-resident trust in which the entity has an interest. These dealings or transactions may be the provision or receipt of services, or transactions in which money or property has been sent out of Australia, or received in Australia from an overseas source during the income year. The dealings may also include transfer of tangible or intangible property, or the provision or receipt of loans or financial services.

If money or property is not actually sent out of Australia or received in Australia but accounting entries are made that have the effect of money or property being transferred, this is also taken to be an international transaction.

Y – Was the aggregate amount of the transactions or dealings with international related parties (including the value of property transferred or the balance outstanding on any loans) greater than $2 million?

Print **X** in the appropriate box at **Y** item **27**.

The aggregate amount of the dealings with international related parties is the total amount of all dealings, whether on revenue or capital account, and includes the balance of any loans or borrowings outstanding at the end of the income year.

Transactions must not be netted off against each other. Hence, a $600,000 purchase from and a $700,000 sale to a related party should

be treated as totalling $1,300,000 not $100,000.

If the answer is **yes**, complete the *International dealings schedule 2018*.

28. Overseas interests

Z – Did you have overseas branch operations or a direct or indirect interest in a foreign trust, foreign company, controlled foreign entity or transferor trust?

Print **X** in the appropriate box at **Z** item **28**.

Overseas branch operations include:

- business operations carried on by an Australian resident entity at or through a fixed place of business in another country
- business operations carried on by a foreign resident entity at or through a fixed place of business in Australia.

You must answer yes if the company derived a dividend or other amount that is treated as non-assessable non-exempt income under section 23AH, 23AI, 23AK, 99B(2A) of the ITAA 1936 or sub-division 768-A in the ITAA 1997.

If the answer is **yes**, complete the *International dealings schedule 2018*.

The 'interests' in item **28** that will require the entity to complete the schedule are those where:

- the entity has an interest in a controlled foreign company (CFC) or trust (CFT)
- the entity has transferred property, at any time, including money or services, to a non-resident trust, or is able to influence the decisions relating to a non-resident trust, or
- the entity held a direct voting percentage of 10% or more in a foreign company and it had a CGT event happening to a share in the foreign company.

An interest in a CFC or CFT may be either direct or indirect, and has the same meaning as set out in Division 3 of Part X of the ITAA 1936. For the purposes of the CFC rules, do not trace interests through an Australian entity. For example, if your company has an interest in an Australian trust which owns a CFC, your company is not regarded as having a direct or indirect interest in the CFC, although your company

must still include any attributable income to which it was presently entitled as its assessable income.

A company has an interest in a transferor trust if the company has ever made, or caused to be made, a transfer of property or services to a non-resident trust. 'Transfer', 'property' and 'services' are defined in section 102AAB of the ITAA 1936. Sections 102AAJ and 102AAK of the ITAA 1936 provide guidance on whether there has been a transfer or deemed transfer of property or services to a non-resident trust.

29. Thin capitalisation

O – Did the thin capitalisation provisions affect you?

Print **X** in the appropriate box at **O** item **29**. If the answer is yes, complete and attach an *International dealings schedule 2018*.

For information on whether the thin capitalisation provisions affect you, see Appendix 3.

30. Transactions with specified countries

I – Did you directly or indirectly send to, or receive from, one of the countries specified in the instructions, any funds or property, OR

Do you have the ability or expectation, to control, whether directly or indirectly, the disposition of any funds, property, assets or investments located in, or located elsewhere but controlled or managed from one of those countries?

Print **X** in the appropriate box at **I** item **30**.

The specified countries are listed below:

- Andorra
- Anguilla
- Antigua and Barbuda
- Aruba
- Bahamas
- Bahamas
- Bahrain
- Barbados
- Belize

- Bermuda
- British Virgin Islands
- Cayman Islands
- Cook Islands
- Curacao
- Cyprus
- Dominica
- Gibraltar
- Grenada
- Guernsey
- Hong Kong
- Ireland
- Isle of Man
- Jersey
- Labuan
- Liberia
- Liechtenstein
- Luxembourg
- Marshall Islands
- Mauritius
- Monaco
- Montserrat
- Nauru
- Netherlands
- Niue
- Panama
- Saint Martin (Dutch part)
- Samoa
- San Marino

- Seychelles
- Singapore
- St Kitts and Nevis
- St Lucia
- St Vincent and the Grenadines
- Switzerland
- Turks and Caicos Islands
- US Virgin Islands
- Vanuatu

QC 55199

Calculation statement

Last updated 16 February 2022

This statement works out the tax liability (if any) where there is a taxable or net income. It also takes into account amounts that reduce the tax liability. The final outcome is the net amount the company must pay or we will refund.

We use the information you provide in the **Calculation statement** to calculate the Commissioner's instalment rate and the Commissioner's instalment amount for taxpayers under the PAYG instalment system for the next income year.

Complete the **Calculation statement** as accurately as possible, so the rate and instalment amounts we calculate result in a reliable estimate of your tax payable for 2018–19.

To work through the **Calculation statement** on the tax return, begin with the right-hand column at the top.

A, **B**, **T1**, **T5**, **I** and **S** of the **Calculation statement** are mandatory for legal or ATO purposes. Complete these labels to facilitate smooth processing of the tax return.

In this section:

- Calculating your T5 TAX PAYABLE and S AMOUNT DUE OR REFUNDABLE

- A Taxable or net income
- T1 Tax on taxable or net income
- M R&D recoupment tax
- B Gross tax
- Priority of use of tax offsets
- C Non-refundable non-carry forward tax offsets
- T2 Subtotal 1
- D Non-refundable carry forward tax offsets
- T3 Subtotal 2
- E Refundable tax offsets
- T4 Subtotal 3
- F Franking deficit tax offset
- T5 Tax payable
- G Section 102AAM interest charge
- H Eligible credits
- I Tax offset refunds (Remainder of refundable tax offsets)
- K PAYG instalments raised
- S Amount due or refundable

Calculating your T5 TAX PAYABLE and S AMOUNT DUE OR REFUNDABLE

Step 1: Write the following amounts.

- If the amount is a positive at **T Taxable/net income or loss** item **7** then write the amount at **A Taxable or net income**.
  - If the amount is a loss at **T** item **7** then write zero at **A**.
  - Include an amount at **A** even if it is zero (if zero write **0**).
  - Complete **A**, as it is mandatory.

- Write the totals for the following (**C**, **D**, **E** and **F** have details within these *Company tax return instructions* to help you work out your totals)

  - **C Non-refundable non-carry forward tax offsets**
  - **D Non-refundable carry forward tax offsets**
  - **E Refundable tax offsets**
  - **F Franking deficit tax offset**
  - **H7 Other credits (excluding credits for foreign resident capital gains withholding)**.

- From your records, transfer the respective amounts to
  - **M R&D recoupment tax**
  - **G Section 102AAM interest charge**
  - **H1 Credit for interest on early payments – amount of interest**
  - **H2 Credit for tax withheld – foreign resident withholding (excluding credits for foreign resident capital gains withholding)**
  - **H3 Credit for tax withheld where ABN is not quoted**
  - **H4 Tax withheld from interest or investments**
  - **H5 Credit for TFN amounts withheld from payments from closely held trusts**
  - **H8 Credit for foreign resident capital gains withholding amounts**
  - **K PAYG instalments raised**.

- For retirement savings accounts (RSA) providers only
  - write at **U** in item **19** the amount of no-TFN contributions income; if zero write **0**
  - write at **X** in item **19** the amount of tax payable on no-TFN contributions income; if zero, write **0**.

Step 2: Work out the amount at **T1** by referring to Appendix 7 for the tax rates.

- If any tax is payable (a positive amount) on the amount at **A**, write this tax payable amount at **T1**.
  - Include an amount at **T1** even if it is zero (if zero write **0**).

- Complete **T1**, as it is mandatory.

Step 3: Work out the amount at **B Gross Tax** (for more information, see the label instructions).

- Add **T1** and **M**.
- For RSAs, add **T1**, **M** and the amount at **X Income tax payable on no-TFN contributions income** item **19**.
- Write the result at **B**.

Step 4: Work out the amount at **T2 Subtotal 1** (for more information, see the label instructions and examples).

- If the amount at **C** is less than the amount at **B Gross tax**
  - take **C** away from **B**
  - write the result at **T2**
  - go to step 5.

- If the amount at **C** is more than or equal to the amount at **B Gross Tax**
  - write zero at each of **T2**, **T3 Subtotal 2**, **T4 Subtotal 3** and **T5 Tax Payable**
    - include an amount at **T5** even if it is zero (if zero write **0**)
    - complete **T5**, as it is mandatory
  - the amount at **D** and **F** may be carried forward to a later income year (subject to the tax offset carry forward rules in Division 65 of the ITAA 1997)
  - copy the amount at **E** to **I Tax offset refunds** (**Remainder of refundable tax offsets**).
    - an amount must be included at **I** even if it is zero (if zero write **0**)
    - complete **I** as it is mandatory
  - go to step 8.

Step 5: Work out the amount at **T3** (for more information, see the label instructions and examples).

- If the amount at **D** is less than the amount at **T2**
  - take **D** away from **T2**
  - write the result at **T3**
  - go to step 6.

- If the amount at **D** is more than or equal to the amount at **T2**
  - write zero at **T3**, **T4** and **T5**
  - the difference between **T2** and **D** (take **T2** away from **D**) may be carried forward to later income year (subject to the tax offset carry forward rules in Division 65 of the ITAA 1997)
  - the amount at **F** may be carried forward to a later income year
  - copy the amount at **E** to **I**
  - go to step 8.

Step 6: Work out the amount at **T4** (for more information, see the label instructions and examples).

- If the amount at **E** is less than the amount at **T3**
  - take **E** away from **T3**
  - write the result at **T4**
  - write zero at **I**
  - go to step **7**.

- If the amount at **E** is more than or equal to the amount at **T3**
  - take **T3** away from **E** and write the result at **I**
  - write zero at **T4** and at **T5**
  - the amount at **F** may be carried forward to a later income year
  - go to step 8.

Step 7: Work out the amount at **T5** (for more information, see the label instructions and examples).

- If the amount at **F** is less than the amount at **T4**
  - take **F** away from **T4**
  - write the result at **T5**
  - go to step 8.

- If the amount at **F** is more than or equal to the amount at **T4**
  - write zero at **T5**
  - the result of taking **T4** away from **F**, may be carried forward to a later income year
  - go to step 8.

Step 8: Work out the amount at **H**:

- add from **H1** to **H8** and write the result at **H**
- go to step 9.

Step 9: Work out the amount at **S Amount due or refundable**:

- add **T5** and **G**, and then take away **H**, **I** and **K**
- write the result at **S**
- if the amount at **S** is positive, that amount is payable by you.
- if the amount at **S** is negative, that amount is refundable to you.

A Taxable or net income

If the company is a resident company, taxable income equals assessable income derived from all sources **less** allowable deductions incurred in gaining that income.

If the company is a non-resident company, taxable income equals assessable income derived from sources within Australia, **plus** income that is included on some basis other than having an Australian source, **less** allowable deductions incurred in gaining that income.

Taxable income takes into account any concessions or adjustments allowable for income tax purposes.

Write at **A** the amount of taxable income of $1 or more. The amount at **A** will often be the amount written at **T Taxable/net income or loss**. Write zero (**0**) at **A** if the company has no taxable income or has a loss

amount written at **T Taxable/net income or loss** item **7** with **L** in the box at the right of the amount.

Complete **A** as it is mandatory.

Public trading trusts and corporate unit trusts with an income year that started before 1 July 2016 show net income at **A**.

T1 Tax on taxable or net income

Write at **T1** the amount of tax payable before the allowance of any rebates, tax offsets, credits or FDT offsets. The tax rates applicable to companies are listed in Appendix 7.

An amount must be included at **T1** even if it is zero (if zero write **0**). Complete **T1** as it is mandatory.

M R&D recoupment tax

Show at **M** the extra tax required on your recoupment as calculated under Subdivision 355-G of the ITAA 1997.

If you have claimed the R&D tax incentive and you have received or become entitled to receive a government recoupment (such as a government grant or reimbursement) that relates to expenditure that you or a related entity have claimed a notional deduction for under the R&D tax incentive, the income tax you are liable to pay on the recoupment will be increased. This is referred to as a clawback adjustment.

The amount to be shown at **M** is the extra income tax required on your recoupment.

The clawback adjustment is capped so that the extra tax payable cannot exceed the amount of the grant you received.

For more information about how this amount is calculated, see Clawback adjustments.

B Gross tax

If you are not an RSA provider, write at **B** the total of amounts at **T1** and **M**.

If you are an RSA provider, write at **B** the total of amounts at **T1**, **M** and any further tax on no-TFN contributions recorded at **X** item **19**.

Complete **B** to ensure smooth processing of your tax return.

For more information on the further tax on no-TFN contributions, see Tax file numbers and super contributions.

Priority of use of tax offsets

The first category of tax offsets to be applied against gross tax is **C Non-refundable non-carry forward tax offsets**. If the offsets are greater than the gross tax, the excess offsets cannot be used and are lost.

If tax is still payable after applying this category of offsets, at **T2 Subtotal 1**, the second category, **D Non-refundable carry forward tax offsets**, is applied against any remaining tax payable at **T2**.

Any excess of offsets in this category may be carried forward to the next year (subject to the tax offset carry forward rules in Division 65 of the ITAA 1997). If tax is still payable after applying the Non-refundable carry forward tax offsets at **T3 Subtotal 2**, the third category **E Refundable tax offsets** is applied against the tax remaining. Any excess of refundable tax offsets above the residual tax payable at **T3** becomes part of the credits available to you and is shown at **I Remainder of refundable tax offsets**.

However, if tax is still payable at **T4 Subtotal 3** after applying tax offsets from the above three categories, **F Franking deficits tax offsets** are applied against this remaining tax to determine your tax payable amount. Any excess of **F** over the residual tax payable at **T4** may be carried forward to a later income year.

C Non-refundable non-carry forward tax offsets

Write at **C** the total of actual rebates and tax offsets available (in dollars and cents) and not the amounts giving rise to those tax offsets.

The rebates and tax offsets shown at **C** are not refundable, nor are they carried forward. They are only offset against gross tax. Gross tax cannot be less than zero. If these tax offsets are greater than the gross tax, the excess tax offsets cannot be used and are lost.

Tax offsets to be shown at C include:

Calculation element	Amount
Allowable franking tax offsets for the income year. The amount claimed here should include the share	$

of franking credits included in gross distributions from partnerships and gross distributions from trusts, the amount recorded at **J Franking credits** item **7** and the amount recorded at **C Australian franking credits from a New Zealand company** item **7**. If the shares or relevant interest are not held at risk as required under the holding period and related payments rules, or there is other manipulation of the imputation system, there is no entitlement to a franking tax offset.	
Tax offsets for bonuses and certain other amounts received under short-term life insurance policies taken out after 27 August 1982	$
Foreign income tax offset (the amount at **J** item **20**) (Subject to some transitional rules) For more information, see **19 Foreign income tax offset**.	$
TOTAL of all non-refundable non-carry forward tax offsets (write this amount at C)	$

Do **not** show at **C**:

- any FDT offset; write this amount at **F Franking deficit tax offset**.

Record keeping

Keep a record of the following:

- for each type of tax offset
  - the amount claimed for each type

- for franking tax offsets
  - the distribution statement, which contains the
    - name of the payer
    - date the dividend was received or credited
    - franked amount of the dividend
    - unfranked amount of the dividend
    - franking credit allocated to the dividend
    - amount of franking credit tax offsets allowable for each franked dividend received

    - franking percentage of the dividend

  - and other records to substantiate
    - deductions relating to dividends
    - the type of distribution: for example, foreign source dividend, bonus shares, phasing-out dividend, liquidator's distribution
    - the dates on which shares, for which dividends were received and tax offsets claimed, were acquired and disposed of

- for short-term life insurance policies
  - a copy of the policy
  - the amount of the bonus included in assessable income under section 26AH of the ITAA 1936.

T2 Subtotal 1

Write at **T2** the amount of tax payable after **C** has been offset against **B Gross tax**.

T2 cannot be less than zero.

Work out the amount at **T2** as follows.

- If the amount at **C** is less than the amount at **B**
  - take **C** away from **B**
  - write the result at **T2**.

- If the amount at **C** is more than or equal to the amount at **B**
  - write zero at **T2**, **T3**, **T4** and **T5**
  - the amount at **D** and **F** may be carried forward to a later income year (subject to the tax offset carry forward rules in Division 65 of the ITAA 1997)
  - copy the total amount at **E** to **I**.

Example 15a

Dark Blue Co. Pty Ltd, a base rate entity, has the following amounts entered into its company tax return:

Dark Blue Co. Pty Ltd amounts for tax return

Label	Description	Amount
A	Taxable income	$10,000
B	Gross tax (27.5%)	$2,750
C	Non-refundable non-carry forward tax offset	$2,000
T2	Subtotal 1	$750
T3	Subtotal 2	$750
T4	Subtotal 3	$750
T5	TAX PAYABLE	$750
I	Tax offset refunds (remainder of refundable tax offsets)	$0
S	**AMOUNT DUE OR REFUNDABLE**	**$750**

The lower company tax rate of 27.5% has been applied in this example.

Dark Blue Co. Pty Ltd has an entitlement of $2,000 of non-refundable non-carry forward tax offset to be used to offset against $2,750 gross tax.

- Tax payable has been reduced to $750.
- **T3**, **T4** and **T5** should also show $750, indicating that no other offsets are available to be used.
- **I** must also show $0.

Example 15b

Light Blue Co. Pty Ltd, a base rate entity, has the following amounts entered into its company tax return:

Light Blue Co. Pty Ltd amounts for tax return

Label	Description	Amount
A	Taxable income	$10,000
B	Gross tax (27.5%)	$2,750
C	Non-refundable non-carry forward tax offset	$4,000
T2	Subtotal 1	$0
T3	Subtotal 2	$0
T4	Subtotal 3	$0
T5	TAX PAYABLE	$0
I	Tax offset refunds (remainder of refundable tax offsets)	$0
S	**AMOUNT DUE OR REFUNDABLE**	**$0**

The lower company tax rate of 27.5% has been applied in this example.

Light Blue Co. Pty Ltd has an entitlement of $4,000 of non-refundable non-carry forward tax offset to be used to offset against $2,750 gross tax.

- Tax payable has been reduced to $0.
- Light Blue Co. Pty Ltd will have $1,250 of non-refundable non-carry forward tax offset remaining that it will lose as tax payable has been reduced to $0.
- **T3**, **T4**, **T5** and I must also show $0.

D Non-refundable carry forward tax offsets

Write at **D** the total of actual tax offsets available (in dollars and cents) and not the amounts giving rise to those tax offsets.

The tax offsets shown at **D** are not refundable. They are only offset against gross tax, if there is any gross tax to be paid after **C** has been applied to gross tax. Gross tax cannot be less than zero. Any excess offsets can be carried forward to a later income year (subject to the tax offset carry forward rules in Division 65 of the ITAA 1997).

Before you can apply a tax offset carried forward from a prior year to reduce the amount of income tax that you will pay, you must apply it to reduce certain amounts of net exempt income. Net exempt income is reduced by $1 for each 27.5 cents of the tax offset if the company is a base rate entity, otherwise $1 for each 30 cents of the tax offset.

Tax offsets to be shown at D include:

Tax offsets	Amount
Landcare and water facility tax offset carried forward from prior years	$
Early stage venture capital limited partnership tax offset (the amount at **L** item **22**)	$
Early stage venture capital limited partnership tax offset carried forward from previous year (the amount at **P** item **22**)	$
Early stage investor tax offset (the amount at **M** item **23**)	$
Early stage investor tax offset carried forward from previous year (the amount at **R** item **23**)	$
Non-refundable R&D tax offset (the amount at **A** item **21**)	$
Non-refundable R&D tax offset carried forward from previous year (the amount at **B** item **21**)	$
TOTAL of all non-refundable carry forward tax offsets (write this amount at **D**)	$

T3 Subtotal 2

Write at **T3** the amount of tax payable after **D** has been offset against **T2**.

T3 cannot be less than zero.

Work out the amount at **T3** as follows.

- If the amount at **D** is less than the amount at **T2**
  - take **D** away from **T2**
  - write the result at **T3**.

- If the amount at **D** is more than or equal to the amount at **T2**
  - write zero at **T3**, **T4** and **T5**
  - the difference between **T2** and **D** (take **T2** away from **D**) may be carried forward to a later income year (subject to the tax offset carry forward rules in Division 65 of the ITAA 1997)
  - the amount at **F** may be carried forward to a later income year
  - copy the total amount at **E** to **I**.

Example 16a

Dark Green Co. Pty Ltd, a base rate entity has the following amounts entered into its company tax return:

Dark Green Co. Pty Ltd amounts for tax return

Label	Description	Amount
A	Taxable income	$20,000
B	Gross tax (27.5%)	$5,500
C	Non-refundable non-carry forward tax offset	$3,000
T2	Subtotal 1	$2,500
D	Non-refundable carry forward tax offset	$2,000

T3	Subtotal 2	$500
T4	Subtotal 3	$500
T5	TAX PAYABLE	$500
I	Tax offset refunds (remainder of refundable tax offsets)	$0
S	**AMOUNT DUE OR REFUNDABLE**	**$500**

The lower company tax rate of 27.5% has been applied in this example.

Dark Green Co. Pty Ltd has an entitlement of $3,000 of non-refundable non-carry forward tax offset and $2,000 of non-refundable carry forward tax offset to be used to offset against $5,500 gross tax.

- Tax payable has been reduced to $500.
- **T4** and **T5** should also show $500, indicating that no other offsets are available to be used.
- **I** must also show $0.

Example 16b

Light Green Co. Pty Ltd, a base rate entity, has the following amounts entered into its company tax return:

Light Green Co. Pty Ltd amounts for tax return

Label	Description	Amount
A	Taxable income	$20,000
B	Gross tax (27.5%)	$5,500
C	Non-refundable non-carry forward tax offset	$3,000
T2	Subtotal 1	$2,500

D	Non-refundable carry forward tax offset	$4,000
T3	Subtotal 2	$0
T4	Subtotal 3	$0
T5	TAX PAYABLE	$0
I	Tax offset refunds (Remainder of refundable tax offsets)	$0
S	**AMOUNT DUE OR REFUNDABLE**	**$0**

The lower company tax rate of 27.5% has been applied in this example.

Light Green Co. Pty Ltd has an entitlement of $3,000 of non-refundable non-carry forward tax offset and $4,000 of non-refundable carry forward tax offset to be used to offset its gross tax to $0.

- Light Green Co. Pty Ltd will have $1,500 of non-refundable carry forward tax offset remaining that can be carried over to the next income year (subject to the tax offset carry forward rules in Division 65 of the ITAA 1997), as tax payable has been reduced to $0.
- **T4**, **T5** and **I** must also show $0.

E Refundable tax offsets

Write at **E** the total of actual tax offsets available (in dollars and cents) and not the amounts giving rise to those tax offsets.

The tax offsets shown at **E** are refundable, although they must first be offset against gross tax, if there is any gross tax to be paid after **C** and **D** have been applied to gross tax. Gross tax cannot be less than zero. Any excess offsets should be recorded at **I** and will be available as a refundable (credit) amount for the purpose of calculating the tax liability. An amount must be included at **I** even if it is zero (if zero write **0**). Complete **I** as it is mandatory.

Tax offsets to be shown at E include:

Calculation element	Amount
R&D tax offset (the amount at **U** item **21**)	$
Film tax offsets under Division 376 of the ITAA 1997	$
Franking tax offsets claimed by life insurance companies to the extent that they relate to distributions paid on shares and other membership interests held on behalf of policy holders	$
Franking credits claimed by endorsed income tax exempt entities and deductible gift recipients that are entitled to a refund of excess franking credits. These entities may complete the *Application for refund of franking credits – Endorsed income tax exempt entities and deductible gift recipients* (NAT 4131), rather than the company tax return to obtain a refund	$
No-TFN tax offset claimed by RSA providers. For more information on the no-TFN tax offset, see Tax file numbers and super contributions.	$
NRAS tax offset (the amount at **J** item **12**)	$
The tax offset available under subsection 713-545(5) of the ITAA 1997 where a life insurance company's subsidiary joins a consolidated or MEC group	$
Exploration credit tax offsets allowable to a life insurance company under section 418-15 of the ITAA 1997	$
Seafarer tax offset under Subdivision 61-N of the ITAA 1997	$
TOTAL of all refundable tax offsets (write this amount at **E**)	$

Record keeping

Keep a record of the following:

- for each type of tax offset
  - the amount claimed for each type

- for franking tax offsets
  - the distribution statement, which contains the
    - name of the payer
    - date the dividend was received or credited
    - franked amount of the dividend
    - unfranked amount of the dividend
    - franking credit allocated to the dividend
    - amount of franking credit tax offsets allowable for each franked dividend received
    - franking percentage of the dividend
  - and other records to substantiate
    - deductions relating to dividends
    - the type of distribution; for example, foreign source dividend, bonus shares, phasing-out dividend, liquidator's distribution
    - the dates on which shares, for which dividends were received and tax offsets claimed, were acquired and disposed of.

T4 Subtotal 3

Write at **T4** the amount of tax payable after **E** has been offset against **T3**.

T4 cannot be less than zero.

Work out the amount at **T4** as follows.

- If the amount at **E** is less than the amount at **T3**
  - take **E** away from **T3**
  - write the result at **T4**
  - write zero at **I**.

- If the amount at **E** is more than or equal to the amount at **T3**

- take **T3** away from **E** and write the result at **I**
- an amount must be included at **I** even if it is zero (if zero write **0**)
- complete **I** as it is mandatory
- write zero at **T4** and **T5**
- the amount at **F** may be carried forward to a later income year.

Example 17a

Dark Orange Co. Pty Ltd, a base rate entity, has the following amounts entered into its company tax return:

Dark Orange Co. Pty Ltd amounts for tax return

Label	Description	Amount
A	Taxable income	$30,000
B	Gross tax (27.5%)	$8,250
C	Non-refundable non-carry forward tax offset	$3,000
T2	Subtotal 1	$5,250
D	Non-refundable carry forward tax offset	$3,000
T3	Subtotal 2	$2,250
E	Refundable tax offset	$2,000
T4	Subtotal 3	$250
T5	TAX PAYABLE	$250
I	Tax offset refunds (remainder of refundable tax offsets)	$0
S	**AMOUNT DUE OR REFUNDABLE**	**$250**

The lower company tax rate of 27.5% has been applied in this example.

Dark Orange Co. Pty Ltd has an entitlement of $3,000 of non-refundable non-carry forward tax offset, $3,000 of non-refundable carry forward tax offset and $2,000 of refundable tax offset to be used to offset against $8,250 gross tax.

- Tax payable has been reduced to $250.
- **T5** should also show $250, indicating that no other offsets are available to be used.
- **I** must also show $0.

Example 17b

Light Orange Co. Pty Ltd, a base rate entity, has the following amounts entered into its company tax return:

Light Orange Co. Pty Ltd amounts for tax return

Label	Description	Amount
A	Taxable income	$30,000
B	Gross tax (27.5%)	$8,250
C	Non-refundable non-carry forward tax offset	$3,000
T2	Subtotal 1	$5,250
D	Non-refundable carry forward tax offset	$3,000
T3	Subtotal 2	$2,250
E	Refundable tax offset	$4,000
T4	Subtotal 3	$0
T5	TAX PAYABLE	$0

I	Tax offset refunds (remainder of refundable tax offsets)	$1,750
S	**AMOUNT DUE OR REFUNDABLE**	**$1,750**

The lower company tax rate of 27.5% has been applied in this example.

Light Orange Co. Pty Ltd has an entitlement of $3,000 of non-refundable non-carry forward tax offset, $3,000 of non-refundable carry forward tax offset and $4,000 of refundable tax offset to be used to offset against $8,250 gross tax.

- Tax payable has been reduced to $0.
- Light Orange Co. Pty Ltd will have a $1,750 of refundable tax offset remaining that should be transferred to **I**, as tax payable can ONLY be reduced to $0.
- An amount must be included at **I** even if it is zero (if zero write **0**). Complete **I** as it is mandatory. It can then be used to reduce Amount Due or be refunded.
- **T4** and **T5** should also show $0.

F Franking deficit tax offset

Write this amount at **F**.

The tax offsets shown at **F** are not refundable. They are only offset against gross tax, if there is any gross tax to be paid after **C**, **D** and **E** have been applied to gross tax. Gross tax cannot be less than zero. Any excess of FDT offset can be carried forward to the next income year.

Tax offsets to be shown at F include:

Calculation element	Amount
Current year FDT offset	$
Prior year FDT offset	$
TOTAL of all FDT offsets (write this amount at F)	$

Under the simplified imputation system, entities that have incurred a FDT liability may be allowed to offset the whole or part of this amount against an income tax liability. Some special rules apply to life insurance companies to ensure that a FDT liability can only be offset against that part of the company's income tax liability that is attributable to shareholders.

A corporate tax entity is entitled to apply the FDT offset to reduce its income tax liability for an income year if it satisfies the residency requirement and at least one of the following conditions:

- it incurred a liability to pay FDT in that year
- it carried forward an amount of FDT offset from a previous year, and not all the FDT offset could be applied against a previous income tax liability
- it incurred a liability to pay FDT in a previous year when it did not meet the residency requirement, and that liability has not been included in calculating the FDT offset.

Generally, an entity satisfies the residency requirement for an income year if it is an Australian resident for more than one half of the year, or it is a resident at all times during the year when it exists.

The FDT offset rules contain provisions that reduce the amount of FDT liability that an entity can use to offset against its income tax liability in certain circumstances.

The FDT offset reduction will only apply for an income year for franking debits in an entity's franking account arising under items **1**, **3**, **5** or **6** of the table in section 205-30 of the ITAA 1997, and if one of these items applies then any franking debit under item 2 of that table (relating to income tax refunds) will also be relevant. These debits usually arise as a result of having franked a distribution.

The amount of the FDT offset is reduced where the amount of the FDT liability, which is attributable to the franking debits for items **1**, **2**, **3**, **5** and **6**, is greater than 10% of the total amount of credits that arose in the franking account for the year. The amount of the reduction is equal to 30% of that part of the FDT liability attributable to those franking debits. For more information on the debits to the franking account that affect the amount of offset and how to calculate this amount, see Franking account tax return and instructions 2018.

There is an exception to the reduction rule for private companies with no previous income tax liability where certain conditions are met. The Commissioner also has discretion to allow the full FDT liability as an

offset where the FDT liability arose due to events outside the entity's control.

To determine the amount of the FDT offset to which the company is entitled for the income year, use the following method. These steps are modified in certain circumstances. See Exclusions from the offset reduction rule.

Step 1: Work out the amount of FDT liability that the entity has incurred in the income year.

Step 2: Did any franking debits arise in the entity's franking account under items **1**, **3**, **5** or **6** of section 205-30 of the ITAA 1997 for that income year?

- If **yes**, go to step 3.
- If **no**, the FDT offset reduction does not apply. The amount of FDT liability from step 1 is the amount of the FDT offset that the entity is entitled to for the current income year. Go to step 5.

Step 3: Work out the amount of FDT liability attributable to franking debits under items **1**, **2**, **3**, **5** and **6** for that income year.

To do this add together the opening credit balance (if any) of the franking account and any franking credits that arose in the account for the income year. Take away from this amount the total of the franking debits under items **1**, **2**, **3**, **5** and **6**.

If there is an excess of franking credits over franking debits (or they are equal), the FDT offset reduction does not apply and the amount of FDT liability from step **1** is the amount of the FDT offset that the entity is entitled to for the current income year. Go to step **5**.

If there is an excess of franking debits over franking credits, this is the amount of FDT liability attributable to items **1**, **2**, **3**, **5** and **6**. Go to step 4.

Step 4: If the excess of franking debits over franking credits worked out at step 3 is less than or equal to 10% of the total franking credits that arose in the franking account for the same year, the FDT offset reduction does not apply and the amount of FDT liability from step 1 is the amount of the FDT offset that the entity is entitled to for the current year. Go to step 5.

If that excess is greater than 10% of the total franking credits that arose in the franking account for that income year, the FDT offset reduction applies as follows:

- Work out 30% of that excess. This is the reduction amount. Reduce the amount of FDT liability for that income year from step 1 by the reduction amount. This is the amount of the FDT offset that the entity is entitled to for the current year. Go to step 5.

Step 5: For each previous income year for which the entity did not meet the residency requirement, repeat steps 1–4 for that income year to work out the amount of that previous year's FDT liability that is eligible to be claimed as an offset and that has not previously been claimed as an offset.

Add up the amounts covered by this step 5 for all the previous income years in which the entity did not meet the residency requirements. Go to step 6.

Step 6: For each previous income year for which the entity did meet the residency requirement and was entitled to the FDT offset, work out the amount of any excess FDT offset. This is the amount of FDT offset that exceeded the entity's hypothetical income tax liability for that previous year (worked out as if the entity did not have an FDT offset but did have all its other tax offsets). Go to step 7.

Step 7: Add up any FDT offset amounts from steps 2, 3 or 4 (these relate to any FDT liability incurred in 2017–18) and any offsettable portions of previous year FDT amounts from steps 5 and 6. This is the total amount of FDT offset the entity is entitled to for the current income year.

Reduction in FDT that can be offset

Steps 2 to 4 in the above method statement show that the amount of the FDT offset that you can claim may be reduced in some situations. This reduced amount should equal the amount you completed at **C Offsetable portion of current year FDT** in section **B** of the Franking account tax return and instructions 2018.

See also:

- Exclusions from the offset reduction rule

Example 18

In 2015–16, Stripe Co. Ltd franked a distribution with franking credits of $13,000 (item 1 of section 205-30 of the ITAA 1997: debit to the franking account). The company's franking account showed that franking credits of $10,000 arose during the year. Stripe Co. Ltd's franking account has a $3,000 deficit at the end

of the income year, resulting in the company incurring an FDT liability of this amount. As the franking deficit from the item 1 debit is greater than 10% of the total franking credits that arose during the year, the offset is reduced by 30% of that portion of the deficit. Therefore Stripe Co. Ltd will only be able to offset $2,100 of its FDT liability of $3,000 against its current or future income tax liabilities. The remaining $900 will not be offsettable at any time.

Exclusions from the offset reduction rule

Private companies with no previous income tax liability

The FDT offset reduction rule will not apply if all the following conditions are met:

1. the entity is a private company for the relevant year
2. the company has not had an income tax liability for any income year before the relevant year
3. if the company did not have the tax offset (but had all its other tax offsets) it would have had an income tax liability for the relevant year, and
4. the amount of the liability referred to in paragraph (c) is at least 90% of the amount of the deficit in the company's franking account at the end of the relevant year.

Commissioner's discretion where deficit was outside the entity's control

The Commissioner has discretion to allow the full tax offset where the FDT liability arose due to circumstances that were outside the entity's control.

For more information on the application of these exclusions, see Imputation: Franking deficit tax offset. Entitlement to the full offset resulting from one of the exclusions mentioned above should have been noted by inserting the code **F**, **P** or **C** in the **Code** box in section **A** on the *Franking account tax return 2018*. If you did not do this, you will need to request an amendment to that return in order to receive the full offset.

The amount completed at **E Franking deficit tax offset** in this return will not necessarily be the same as the amount shown at **C Offsetable portion of current year FDT** in section **B** of the *Franking account tax return 2018*. For information on how to complete **C Offsetable portion**

of current year FDT, see Franking account tax return and instructions 2018.

T5 Tax payable

Write at **T5** the amount of tax payable after **F** has been offset against **T4**.

Work out the amount at **T5** as follows.

- If the amount at **F** is less than the amount at **T4**
  - take **F** away from **T4**
  - write the result at **T5**.

- If the amount at **F** is more than or equal to the amount at **T4**
  - write zero at **T5**
  - the difference between **T4** and **F** (take **T4** away from **F**) may be carried forward to a later income year.

T5 cannot be less than zero. Include an amount even if it is zero (if zero write **0**). Complete **T5** as it is mandatory.

Example 19a

Dark Red Co. Pty Ltd, a base rate entity has the following amounts entered into its company tax return:

Dark Red Co. Pty Ltd amounts for tax return

Label	Description	Amount
A	Taxable income	$42,000
B	Gross tax (27.5%)	$11,550
C	Non-refundable non-carry forward tax offset	$3,000
T2	Subtotal 1	$8,550
D	Non-refundable carry forward tax	$3,000

	offset	
T3	Subtotal 2	$5,550
E	Refundable tax offset	$3,000
T4	Subtotal 3	$2,550
F	Franking deficit tax offset	$2,000
T5	TAX PAYABLE	$550
I	Tax offset refunds (remainder of refundable tax offsets)	$0
S	**AMOUNT DUE OR REFUNDABLE**	**$550**

The lower company tax rate of 27.5% has been applied in this example.

Dark Red Co. Pty Ltd has an entitlement of $3,000 of non-refundable non-carry forward tax offset, $3,000 of non-refundable carry forward tax offset, $3,000 of refundable tax offset and $2,000 of franking deficit tax offset to be used to offset against $11,550 gross tax.

- Tax payable has been reduced to $550.
- **I** must show $0.

Example 19b

Light Red Co. Pty Ltd, a base rate entity, has the following amounts entered into its company tax return:

Light Red Co. Pty Ltd amounts for tax return

Label	Description	Amount
A	Taxable income	$42,000
B	Gross tax (27.5%)	$11,550

C	Non-refundable non-carry forward tax offset	$3,000
T2	Subtotal 1	$8,550
D	Non-refundable carry forward tax offset	$3,000
T3	Subtotal 2	$5,550
E	Refundable tax offset	$3,000
T4	Subtotal 3	$2,550
F	Franking deficit tax offset	$4,000
T5	TAX PAYABLE	$0
I	Tax offset refunds (remainder of refundable tax offsets)	$0
S	**AMOUNT DUE OR REFUNDABLE**	**$0**

The lower company tax rate of 27.5% has been applied in this example.

Light Red Co. Pty Ltd has an entitlement of $3,000 of non-refundable non-carry forward tax offset, $3,000 of non-refundable carry forward tax offset, $3,000 of refundable tax offset and $4,000 of franking deficit tax offset to be used to offset against $11,550 gross tax.

- Tax payable has been reduced to $0.
- **I** must show $0.
- Light Red Co. Pty Ltd will have a $1,450 remaining (of FDT offset) that can be carried over to the next income year, as tax payable has been reduced to $0.

G Section 102AAM interest charge

Write at **G** any section 102AAM interest relating to a distribution received from a non-resident trust. Section 102AAM of the ITAA 1936 imposes an interest charge on certain distributions from non-resident trusts.

For more information, see chapter 2 of the Foreign income return form guide 2018.

H Eligible credits

Write at **H** the total of the amounts **H1**, **H2**, **H3**, **H4**, **H5**, **H7** and **H8**.

In this section:

- H1 Credit for interest on early payments – amount of interest
- H2 Credit for tax withheld – foreign resident withholding
- H3 Credit for tax withheld where ABN is not quoted
- H4 Tax withheld from interest or investments
- H5 Credit for TFN amounts withheld from payments from closely held trusts
- H7 Other credits
- H8 Credit for foreign resident capital gains withholding amounts

H1 Credit for interest on early payments – amount of interest

Write at **H1** only the calculated interest amount of 50 cents or more for early payment. Do not show actual payments.

The company may be entitled to interest if it makes an actual payment on account of certain amounts more than 14 days before the due date of payment. Amounts which may attract early payment interest include payments of:

- income tax
- shortfall interest charge
- interest payable under section 102AAM.

Amounts which are not directly paid but are reduced by the crediting or applying of an amount do not attract early payment interest.

These amounts include:

- credit for instalments payable under the PAYG instalment regime
- credit for amounts withheld from withholding payments under the PAYG withholding regime
- an overpayment of other income tax liabilities

- a running balance account (RBA) surplus
- any other credit entitlement arising under a taxation law.

Early payment interest is also not payable on:

- any component of the payment that exceeds the amount due
- an amount for any period during which that amount also attracts interest on overpayment.

Calculate early payments interest from the date the early payment is made to the date the amount becomes due and payable. However, if an amount paid early on account of a tax liability is refunded before the due and payable date of the liability; interest does not accrue for the period after the date the amount is refunded.

Date of payment is the date:

- shown on the receipt for payment to the ATO
- the payment is posted to us, plus three days
- shown on the taxpayer's bank statement if payment is made through direct debit; that is, electronic funds transfer (EFT).

Table 10: Interest rates for calculation of early payment

Quarter	Interest rate (pa)
Jul–Sep 2017	1.73%
Oct–Dec 2017	1.70%
Jan–Mar 2018	1.72%
Apr–Jun 2018	1.77%%

If the early payment extends over two or more interest periods, calculate the interest for the number of days in each period.

Calculate interest as follows:

Interest equals number of days divided by 365 (or 366 in a leap year) multiplied by amount of payment multiplied by interest rate for period.

Keep a record of the amount of early payments interest claimed. This interest is assessable income in the income year it is paid or credited

against another liability.

H2 Credit for tax withheld – foreign resident withholding

Only complete **H2** if the amount was withheld in Australia and remitted to the ATO.

Write at **H2** the total tax withheld from payments made to the company that were subject to foreign resident withholding.

This includes any share of credits received by the company from a partnership or trust.

If an amount of tax withheld is shown at **H2**, ensure that you include the corresponding gross payment at Income, **B Gross payments subject to foreign resident withholding** item **6**, or the corresponding gross distribution from a partnership or trust at Income, **D** or **E** item **6**.

Only complete **H2** if the company is a foreign resident. An Australian resident should not claim at **H2** a foreign income tax offset (FITO) for foreign tax paid on foreign source income.

Do not include credits for foreign resident capital gains withholding at **H2**. Include these at **H8 Credit for foreign resident capital gains withholding amounts**.

H3 Credit for tax withheld where ABN is not quoted

Write at H3 the total tax withheld from payments made to the company that were subject to withholding where an ABN was not quoted.

This amount equals the sum of the amounts shown in the relevant 'tax withheld' boxes on the *Non-individual PAYG payment summary schedule 2018*. For instructions on completing the schedule, see Non-individual PAYG payment summary schedule 2018.

Do not include any share of tax withheld from a partnership or trust distribution where an ABN was not quoted. This is shown at **H7 Other refundable credits**.

If an amount of tax withheld is reported at **H3**, declare the corresponding gross payment at Income, **A Gross payments where ABN not quoted** item **6**.

H4 Tax withheld from interest or investments

Write at **H4** any amounts withheld from investment income by an investment body because the company did not provide a TFN or ABN and that have not been refunded already to the company.

Record keeping

Keep the following details of credits for amounts withheld from investments:

- all documentation issued by the investment body detailing payments of income and any amounts withheld from those payments
- details of any amounts withheld from an income payment made to the company and subsequently refunded by the investment body.

Keep the following details of refund receipts:

- amount of refund
- date of refund
- investment reference number; for example, the bank account number of the investment relating to the refund.

H5 Credit for TFN amounts withheld from payments from closely held trusts

Show at **H5** the total amounts withheld from payments where a TFN has not been provided to a trustee of a closely held trust.

If amounts have been withheld from distributions to the company under these rules, the company is required to receive a payment summary in the approved form from the trustee.

For more information, see TFN withholding for closely held trusts.

H7 Other credits

Write at **H7**:

- the company's share of credit from a partnership or trust for tax withheld where an ABN was not quoted
- the company's share of credit for tax paid by a trustee on net income
- for RSA providers, interest on no-TFN tax offset. Write on a schedule of additional information the amount of interest on no-TFN tax offset that you included at **H7**. Attach the schedule to your tax return.

For more information, see Interest on no-TFN tax offset.

Do not include at **H7** those credits included at **J Foreign income tax offset** item **20**. Also, do not include at **H7** any amounts that relate to

PAYG instalments. Include these at **K PAYG instalments raised**.

Do not include credits for foreign resident capital gains withholding at **H7**. Include these at **H8 Credit for foreign resident capital gains withholding amounts**.

H8 Credit for foreign resident capital gains withholding amounts

Write at **H8** the total amount of tax withheld from payments to the Company that were subject to foreign resident capital gains withholding in Australia.

You should only claim at **H8** a credit equal to the amount of foreign resident capital gains withholding paid by a purchaser to the ATO on your behalf. The ATO would have issued you with confirmation of this amount.

Do not include credits for other foreign resident withholding at **H8**. Include these at **H2 Credit for tax withheld – foreign resident withholding**.

I Tax offset refunds (Remainder of refundable tax offsets)

Write at **I** the remaining amount (if any) of refundable tax offsets from **E**. Include an amount at **I** even if it is zero (if zero write **0**). Complete **I** as it is mandatory.

If you have an excess amount of refundable tax offsets remaining from **E** that was not able to be offset set against **T3**, you must write this amount at **I**.

If the complete amount at **E** has been offset against **T3**, that is, there is no refundable tax offset amount remaining, you must write zero (**0**) at **I**.

K PAYG instalments raised

Write at **K** the total of the company's PAYG instalments for the income year of the tax return, whether or not the instalments have actually been paid.

Include in **K** the total instalment amount either:

- the amounts pre-printed at **T7** on the company's quarterly activity statements or at **T5** on its annual instalment activity statement (if it

used the instalment amounts worked out by us which it did not vary) or

- the amounts the company reported at **5A** on its activity statements, reduced by any credits it claimed at **5B** (if it did not use the instalment amounts worked out by us).

To ensure the company receives the correct amount of credit for its PAYG instalments, make sure all of its activity statements are lodged before its income tax return is lodged. Lodge any outstanding activity statements, even if the company has paid the instalments or had nothing to pay.

The company is entitled to a credit for its PAYG instalments even if it has not actually paid a particular instalment. However, the company will be liable for the general interest charge on any outstanding instalment for the period from the due date for the instalment until the date it is fully paid.

K is only to be used for the monthly, quarterly or annual instalments raised during the financial year. The amount recorded at **K** must not include 'wash up' or residual payments.

Monthly instalments

From 1 January 2014, the way you make PAYG instalments may have changed. If your adjusted base assessment instalment income exceeded the threshold of $1 billion, you will now be paying monthly rather than quarterly instalments.

From 1 January 2015, taxpayers who exceed the threshold of $100 million will start paying monthly instalments. You will be notified of this change in writing.

Taxpayers who exceed the threshold of $20 million will transition to monthly instalments by 1 January 2017.

Consolidated or MEC groups

After the head company of a consolidated group or MEC group lodges its first income tax return, we calculate a consolidated instalment rate for the group based on the head company's income tax return. Once the head company of the consolidated group or MEC group obtains this consolidated instalment rate, the group is considered to be a mature group for PAYG instalment purposes ('mature group'). The head company of a mature group will be the only entity in the group that will be liable to pay PAYG instalments for the group's income year.

The head company of a mature group is entitled to claim a credit in its income tax return for the PAYG instalments it was liable to pay for the income year.

If the consolidated group or MEC group is a mature group for the entire income year, write at **K** the total amount of instalments payable by the head company of the consolidated group or MEC group for the income year.

The period from the chosen date of consolidation though to the instalment period in which the head company matures is known as the 'formation period'. During the 'formation period', each member of the consolidated group or MEC group must continue to calculate their instalment income as if they were not members of the consolidated group or MEC group and each will continue to be individually liable for their PAYG instalments. In this instance, special rules apply in determining the amount of PAYG instalment credit that the head company of a consolidated group or MEC group is entitled to claim in its income tax return. For more information, see Treatment of PAYG instalments in the Consolidation reference manual.

When an entity (a 'joining entity') joins a mature group, the single entity rule ensures that the joining entity's PAYG instalment obligations will generally cease from the beginning of the instalment period that starts after the date of joining. For more information, see Treatment of PAYG instalments in the Consolidation reference manual.

When an entity (an 'exiting entity') leaves a mature group, it will be given the instalment rate that the head company had during the instalment period in which it exits the group and it will have to report and pay instalments from the exiting Instalment period onwards. The single entity rule ensures that it the exiting entity only has a liability for reporting instalment income from the date that it exits the consolidated group or MEC group.

A joining entity may be required to lodge an income tax return for any non-membership periods during the income year in which it joins a consolidated group or MEC group. In the joining entity's income tax return for its non-membership periods, write at **K** the total of instalments payable by it. This sum is the total of the amounts included at **5A** of all activity statements for the joining entity's non-membership periods.

S Amount due or refundable

Write at **S** the balance of tax payable (+) or refundable (–).

For the amount at **S**, add **T5** and **G**, and then subtract **H**, **I** and **K**.

If the amount at **S** is positive, that amount is payable by you.

If the amount at **S** is negative, that amount is refundable to you.

The amount at **S** does not take into account any interim or voluntary payments the company has made against its income tax liability for the year of this return. If the company has made such payments, take these into account in calculating the company's final payment, but do not show the amounts on this tax return.

Send the company's payment to the address on the pre-identified payment slip. If the company has not received one, see Payment.

Do not send the company's payment with the Company tax return 2018.

QC 55199

Declarations

Last updated 16 February 2022

Tax agent's declaration

If the tax agent is a partnership or a company, this declaration must be signed by a person authorised by that partnership or company to sign on its behalf. Print that person's name at this item also.

Public officer's declaration

The public officer is responsible for doing all things required by the company under section 252 of the ITAA 1936 or the ITR 1936. In the case of default, the public officer is liable to the same penalties; for example, the public officer is responsible for lodging the company tax return. If the tax return is lodged late, the public officer may be liable for a failure to lodge on time penalty.

Include in the declaration a signature, date, name, title and telephone number for the public officer.

J Hours taken to prepare and complete this tax return

We are committed to reducing the costs involved in complying with your taxation obligations. By completing **J** you will help us to monitor these costs as closely as possible. Your response to this question is voluntary.

When completing this question consider the time, rounded up to the nearest hour, that your business spent:

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

The answer should relate to the time both you and your tax agent spent in preparing and completing your tax return. This includes the time spent by any other person whose assistance was obtained in doing this, such as an employee.

If you are preparing this tax return on behalf of your client, consult with your client to obtain a reliable estimate.

QC 55199

Worksheet 2

Last updated 16 February 2022

Other reconciliation items

Worksheet 2 caters for those items that reconcile **T Total profit or loss** item **6** with **T Taxable income or loss** item **7**, other than those items specifically included in item **7**. It does not contain an exhaustive list of reconciliation items. All references to accounts below are taken to mean the company's profit and loss account.

Additions to **T Total profit or loss** item **6** not covered by:

- **A Net capital gain**

- **U Non-deductible exempt income expenditure**
- **J Franking credits**
- **C Australian franking credits from a New Zealand company**
- **E TOFA income from financial arrangements not included in item 6**
- **D Accounting expenditure in item 6 subject to R&D tax incentive**

in item **7** are specified under **B Other assessable income** and **W Non-deductible expenses**.

Use Worksheet 2 to help calculate the total for income-related add-back items at **B Other assessable income** item **7** and the total for expense-related add-back items at **W Non-deductible expenses** item **7**.

Subtractions from **T Total profit or loss** item **6** not covered by:

- C Section 46FA deductions for flow-on dividends to V Exempt income
- R Tax losses deducted
- S Tax losses transferred in (from or to a foreign bank branch or a PE of a foreign financial entity)

in item **7** are specified under **Q Other income not included in assessable income** and **X Other deductible expenses**. Use Worksheet 2 to help calculate the total for income-related subtraction items at **Q** and the total for expense-related subtraction items at **X**.

In some cases, a reconciliation adjustment at item **7** adds back or subtracts the whole of an amount shown at item **6** and a separate label at item **7** shows the amount for income tax purposes; for example, for companies not using the small business entity depreciation rules, depreciation as per the accounts is shown at item **6** and added back in full at **W Non-deductible expenses** item **7**. The deduction for the decline in value of depreciating assets is listed at **F Deduction for decline in value of depreciating assets** item **7**.

Worksheet 2

B Other assessable income (assessable income not shown in accounts)

Description	Amount

Adjustments to income derived: increase in interest	$
Adjustments to income derived: increase in dividends	$
Adjustments to income derived: increase in partnership distribution	$
Adjustments to income derived: increase in trust distribution	$
Adjustments to income derived: year-end sales cut-off adjustment	$
Assessable balancing adjustment amounts on depreciating assets, uplifted by the relevant portion	$
R&D feedstock adjustments	$
Attributed foreign income not included in accounts	$
Bad debts recovered not included in accounts	$
Benefits or prizes from investment-related lotteries not included in accounts	$
Foreign exchange taxable gains	$
Grants received not included in accounts	$
Gross taxable foreign source income	$
Other assessable income not included in accounts (former STS taxpayers should see Former STS taxpayers)	$
Total	**$**

W Non-deductible expenses

Description	Amount
Amortisation as per accounts (including goodwill)	$
Borrowing costs	$

Capital items written off as repairs	$
Depreciation expenses, **X** item **6**, (see note 5 and note 4)	$
Entertainment expenses - to the extent to which they are not deductible	$
Legal expenses and consultants' fees - to the extent to which they are not deductible	$
Subscriptions and donations - to the extent to which they are not deductible	$
Bad debts - to the extent to which they are not deductible	$
Part of prepaid expenses not deductible this year (see note 1(a)) - to the extent to which they are not deductible	$
Travel expenses by spouse (of any sex) - to the extent to which they are not deductible	$
Expenses incurred in deriving non-assessable non-exempt income	$
Certain expenses relating to PSI that are not deductible (see note 4)	$
Extraordinary loss per accounts	$
Finance lease interest	$
Foreign exchange accounting losses	$
Foreign tax paid or deemed paid	$
Debt deductions denied by thin capitalisation (see Appendix 3)	$
Loss on sale of depreciating assets included in accounts (exclude R&D assets see note 3)	$
Loss on sale of other assets included in accounts	$

Luxury car lease payments (see Luxury car leases)	$
Net adjustment to expenses claimed: decrease in consumable stores (see note 2)	$
Net increase in provisions	$
Net increase in trading stock valuation for tax purposes	$
Non-share dividends	$
Offshore banking unit losses (17.5 ÷ 27.5 of eligible deductions if 27.5% company tax rate, otherwise 20 ÷ 30 of eligible deductions if 30% company tax rate)	$
Other capital items included in accounts	$
Penalties and fines	$
Superannuation charged in accounts	$
Trust losses deducted from accounting income	$
Unrealised losses on revaluation of assets to fair value	$
Total	**$**

Q Other income not included in assessable income (income shown in the accounts that is not assessable)

Description	Amount
Adjustments to income derived: decrease in interest	$
Adjustments to income derived: decrease in dividends	$
Adjustments to income derived: decrease in trust distribution	$
Adjustments to income derived: year-end sales cut-off adjustment	$

Extraordinary profits per accounts	$
Foreign exchange accounting profits	$
Foreign source income in the accounts that is not assessable income	$
Grants receivable	$
PSI included in the assessable income of an individual (attributed amount)	$
Profit on sale of depreciating assets included in accounts	$
Profit on sale of other assets included in accounts (including assets used for R&D)	$
Unrealised gains on revaluation of assets to fair value	$
Other income amounts in the accounts that are not assessable income	$
Total	**$**

X Other deductible expenses

Description	Amount
Allowable superannuation fund payments	$
Capital expenditure for the establishment of trees in carbon sink forests	$
Deductible balancing adjustment amounts on depreciating assets (see Appendix 6) (for R&D assets that are excluded, see note 3)	$
Deduction for certain capital expenditure incurred to terminate a lease or licence (see note 6)	$
Foreign exchange taxable losses (see Foreign exchange gains and losses)	$

Interest charge	$
Hire-purchase agreements: interest component (see GST – Hire purchase and leasing)	$
Luxury car leases: accrual amount (see Luxury car leases)	$
Mains electricity connection to land used in carrying on a business (see Electricity and phone connections)	$
Net adjustment to expenses claimed: increase in consumable stores (see note 2)	$
Net decrease in provisions	$
Net decrease in trading stock valuation for tax purposes	$
Part of prepaid expenses deductible this year, but not included at any other label (see note 1(b))	$
Tax deductible borrowing costs	$
Telephone line connection to land used for primary production (see Electricity and phone connections)	$
Other deductible items	$
Total	**$**

Note 1(a)

Insert the difference between the total amount of prepaid expenses incurred in 2017–18 and the amount the company is entitled to claim as a deduction in this year. See Deductions for prepaid expenses 2018 for a detailed explanation of how to calculate the company's deduction for 2017–18.

Note 1(b)

Insert the amount of prepaid expenditure that the company was not entitled to deduct in previous years, and which it is now entitled to

deduct in 2017–18. See Deductions for prepaid expenses 2018 for a detailed explanation of how the deduction for later years is calculated.

Note 2

Insert the difference between the value of consumable stores on hand at the end of the previous income year and the value of consumable stores on hand at the end of the current income year. The balance of these items determines whether they are add-backs or subtractions.

Note 3

W and **X** on **worksheet 2** do not include any amounts for R&D assets subject to the R&D tax incentive.

Generally, labels at item **7** require a split between amounts subject to the R&D tax incentive and other amounts; for example, book depreciation shown at **X Depreciation expenses** item **6** includes amounts for assets used in R&D activities.

However, amounts subject to the R&D tax incentive are added back at **D Accounting expenditure in item 6 subject to R&D tax incentive** item **7** and not at **W Non-deductible expenses** item **7**, and the amount for decline in value of assets used in R&D activities is claimed as part of calculating an R&D tax offset in item **21**.

Similarly, disposal losses included at **S All other expenses** item **6** includes losses for assets used in R&D activities, but amounts subject to the R&D tax incentive are added back at **D Accounting expenditure in item 6 subject to R&D tax incentive** at item **7**.

Any deductible balancing adjustment amount for assets used wholly in R&D activities is included as part of calculating an R&D tax offset at item **21**. Any deductible balancing adjustment amount where the assets have been used in R&D and non-R&D activities is included at **X Other deductible expenses** item **7**.

Additionally, disposal profits included at **R Other gross income** item **6** that are subject to the R&D tax incentive are uplifted by the relevant portion and included at **B Other assessable income** item **7**, but balancing profits for all assets are subtracted at **Q Other income not included in assessable income** item **7**.

Find out about:

- Research and development tax incentive schedule instructions 2018

Note 4

If the company receives an individual's PSI other than in the course of conducting a personal services business, and does not promptly pay it to the individual as salary or wages:

- the net amount of PSI is attributed to the individual and is not assessable to the company
- certain related expenses are not deductible.

Expenses specifically denied include rent, mortgage interest, rates and land tax for the residence of individuals (or their associates; for example, spouse) whose efforts or skills mainly generate the PSI for the company, the costs of a second private use car and payments of salary or wages and superannuation for associates to the extent such payments relate to non-principal work.

The company is not entitled to a deduction for any net PSI loss that is attributed to the individual.

Note 5

Only include depreciation expenses at **W Non-deductible expenses** item **7** if the company is not using the small business entity depreciation rules. However, do not include any pool deductions shown at Expenses, **X Depreciation expenses** item **6**.

Note 6

Section 25-110 of the ITAA 1997 provides a five-year straight-line write-off for certain capital expenditure incurred in terminating an operating lease or licence if the expenditure is incurred in the course of carrying on a business, or in connection with ceasing to carry on a business; see Other capital expenses (including capital works deductions).

If you have included an amount of capital expenditure incurred to terminate a lease or licence at any expense label in item **6**, include the amount at **W Non-deductible expenses** item **7**.

QC 55199

Appendices

Last updated 16 February 2022

In this section:

- Appendix 1. Commercial debt forgiveness
- Appendix 2. Capital works deductions
- Appendix 3. Thin capitalisation
- Appendix 4. Taxation treatment of pooled development funds and investors
- Appendix 6. Uniform capital allowances
- Appendix 7. Company tax rate
- Appendix 8. Foreign and other jurisdictions codes
- Appendix 9. Personal services income

Appendix 1. Commercial debt forgiveness

If a commercial debt owed by a company is forgiven during the income year, the company should apply the 'net forgiven amount' of that debt to reduce the company's tax losses, net capital losses, certain undeducted revenue or capital expenditure and the cost bases of CGT assets, in that order.

A debt is a commercial debt if any part of the interest (or an amount in the nature of interest) paid or payable on the debt is, or would be, an allowable deduction or could have been deducted but for a specific exception provision in the ITAA 1997 (other than the exceptions in subsection 8-1(2) for outgoings of a capital nature, private or domestic outgoings and for outgoings relating to exempt income or non-assessable non-exempt income). Where interest is not payable in respect of the debt, it is still a commercial debt if interest would have been deductible if interest had been charged. The commercial debt forgiveness rules also apply to a non-equity share issued by a company.

A debt is forgiven if the company's obligation to pay the debt is released, waived or otherwise extinguished, other than by repaying the debt in full.

A debt is also forgiven if:

- the right to recover it ceases because of the expiry of a limitation period
- a creditor assigns the right to receive payment of the debt to an associate of the debtor

- the debtor is a company, and the creditor subscribes to shares in that company to enable the debtor to repay the debt it owes to the creditor, and the debtor uses any of the money subscribed in or towards payment of the debt
- an agreement is entered into under which the obligation to pay some or all of the debt will end without the debtor incurring any obligation (other than an insignificant obligation).

Calculation of net forgiven amount

Calculate the net forgiven amount as follows:

1. Determine the value of the debt. This is usually the lesser of

- the market value of the debt at the time of forgiveness (assuming the company was solvent at the time the debt was incurred and the company's capacity to pay the debt has not changed from the time the debt was incurred), and
- the sum of the market value of the debt at the time the debt was forgiven (based on the above assumptions and assuming that interest rates and currency exchange rates that affect the market value of the debt remain constant from the time the debt was incurred until the forgiveness time), plus any amounts allowable as deductions because of the forgiveness of the debt that are attributable to changes in those interest rates and currency exchange rates. This might occur because of a decrease in the value of the debt due to market movements. Special rules apply in calculating the value of non-recourse debt and assigned debt; see sections 245-60 and 245-61 of the ITAA 1997.

2. Calculate the gross forgiven amount of the debt by subtracting from the value of the debt certain amounts paid or given in respect of the forgiveness; see section 245-65 of the ITAA 1997.

3. Work out the net forgiven amount by subtracting from the gross forgiven amount any amount

- which has been, or will be, included in the company's assessable income for any income year as a result of the forgiveness of the debt
- by which a deduction otherwise allowable to the company has been, or will be, reduced as a result of the forgiveness of the debt, except for a reduction under Division 727 of the ITAA 1997 (which is about indirect value shifting), and

- by which the cost base of any CGT assets of the company has been, or will be, reduced as a result of the forgiveness of the debt under the CGT provisions of the ITAA 1997.

4. For intra-group debt only (where the debtor company and the creditor company are under common ownership throughout the term of the debt), the companies may enter into an agreement whereby the creditor company agrees to forgo its entitlement to a specified amount of a capital loss, or to a deduction for a bad debt under section 8-1 or section 25-35 of the ITAA 1997, that would otherwise have arisen from the creditor forgiving the debt in the forgiveness income year. If such an agreement is made, reduce the creditor's capital loss or the deduction otherwise allowable to the creditor, to the extent of the amount agreed on, up to the amount left after 3 above. For the debtor company, reduce the amount remaining after 3 above by the same amount.

5. The amount remaining (if any) is the net forgiven amount of the debt. Add the net forgiven amount of each debt forgiven during the income year to arrive at the total net forgiven amount for the income year.

Application of total net forgiven amount

Apply this total net forgiven amount to reduce the amounts the company has in the following categories, in the order listed:

- tax losses
- net capital losses
- certain expenditures, and
- cost bases of certain CGT assets.

Within each category, the company may choose the item against which the total net forgiven amount is applied, provided it is applied to the maximum extent possible within that category. Once the total net forgiven amount is applied against all the amounts in a category, apply any excess against the next category in the above order. If there is an excess remaining after applying the amount against all categories, disregard this excess.

Tax losses

These are tax losses from an earlier income year and undeducted at the beginning of the forgiveness income year.

Net capital losses

These are unapplied net capital losses that were made in income years before the forgiveness income year and that could be applied in working out the debtor's net capital gain in the forgiveness income year, assuming that the company had sufficient capital gains.

Expenditures

Expenditures against which the total net forgiven amount can be applied are limited to those incurred by the company before the forgiveness income year which remain undeducted but which, on conditions prevailing during the forgiveness income year, would be deductible in that year or future income years. The relevant expenditures are:

- expenditure deductible under Division 40 of the ITAA 1997 (depreciating assets)
- expenditure incurred in borrowing money to produce assessable income under section 25-25 of the ITAA 1997
- expenditure on scientific research under subsection 73A(2) of the ITAA 1936
- R&D expenditure deductible under Division 355 of the ITAA 1997
- advance revenue expenditure under Subdivision H of Division 3 of Part III of the ITAA 1936
- expenditure on acquiring a unit of industrial property to produce assessable income under former subsection 124M(1) of the ITAA 1936
- expenditure on Australian films under section 124ZAFA of the ITAA 1936
- expenditure on assessable income-producing buildings and other capital works under section 43-10 of the ITAA 1997.

There are **two** principal methods for reducing expenditures:

- **Straight line deduction**: If the deduction is calculated as a percentage, fraction or proportion of a base amount (for example, deductions for the decline in value of depreciating assets calculated under the prime cost method), make the reduction to the base amount. The effect is that deductions allowable in the forgiveness income year and later income years are reduced. The total amount of deductions allowable is limited to the reduced base amount. The amount of the reduction is treated as if it had been a deduction when calculating any required balancing adjustment amount.

- **Diminishing balance deduction**: If the deduction for a particular expenditure is a percentage, fraction or proportion of an amount worked out after taking into account any previous deductions for the expenditure (for example, deductions for the decline in value of depreciating assets calculated under the diminishing value method), the amount of the reduction is taken to have been allowed as a deduction before the forgiveness income year.
- If any deductions are disallowed under the ITAA 1936 or the ITAA 1997 as a result of recouping an amount of expenditure that is subject to reduction as a result of the above debt forgiveness rules, the recouped expenditure against which the total net forgiven amount was previously reduced is included in the assessable income in the year it is recouped.

Cost bases of certain CGT assets

The cost bases and reduced cost bases of certain CGT assets owned by the company at the beginning of the forgiveness income year are reduced by the total net forgiven amount remaining after reducing the expenditures (see above). These are assets where a capital gain or capital loss might arise on a CGT event occurring, such as disposal of the assets.

Assets whose cost bases are not subject to reduction include those for which a capital gain or capital loss will not arise or is unlikely to arise if a CGT event happens to them, for example, CGT assets acquired before 20 September 1985, trading stock or a personal use asset within the meaning of section 108-20 of the ITAA 1997. Also excluded are CGT assets whose cost is deductible, such as depreciating assets.

The company may choose the CGT assets whose cost bases and reduced cost bases are to be reduced and the extent of that reduction. However, the cost base of CGT assets that constitute investments in associates of the company must be reduced last.

If a company chooses to apply an amount to reduce either the cost base or the reduced cost base of a CGT asset, then at any time on or after the beginning of the forgiveness income year, the cost base and reduced cost base) of each relevant CGT asset is taken to be reduced by that amount.

Ordinarily, the reduction of a CGT asset's cost base and reduced cost base cannot exceed the amount that would have been the reduced cost base of the asset, calculated as if the asset was disposed of at market value on the first day of the forgiveness income year. However, a special rule applies (see subsection 245-190(3) of the ITAA 1997) if

an event occurred after the beginning of the forgiveness income year that would cause the reduced cost base of the asset to be reduced.

The reduction of the cost base and reduced cost base of a CGT asset affects the calculation of the amount of the capital gain or capital loss on a CGT event happening to the nominated reducible CGT asset, because the cost base or reduced cost base that is taken into account in determining the capital gain or capital loss must reflect that reduction.

Consolidated and MEC groups

Where a commercial debt is owed by a member of a **consolidated or MEC group** to a non-group entity, the head company is treated as the debtor for its income tax purposes. If the debt is forgiven, the head company must calculate the net forgiven amount and apply this amount to the head company's tax losses, net capital losses, certain expenditures and the cost bases of certain CGT assets.

In certain circumstances the head company of a consolidated group can apply a transferred tax loss or net capital loss with a nil available fraction to reduce the total net forgiven amount under the commercial debt forgiveness rules (see section 707-415 of the ITAA 1997).

Intra-group debts

One of the consequences of consolidation is that intra-group loans and intra-group dealings are not recognised for the group's income tax purposes. Where a debt owed by one member of a **consolidated or MEC group** to another member of the same group is forgiven, there will be no income tax consequences for the head company or the subsidiary members of the group.

Appendix 2. Capital works deductions

Appendix 3. Thin capitalisation

Appendix 4. Taxation treatment of pooled development funds and investors

Appendix 6. Uniform capital allowances

Appendix 7. Company tax rate

Appendix 9. Personal services income

QC 55199

Appendix 2. Capital works deductions

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Division 43 of the ITAA 1997 provides for a system of deducting capital expenditure incurred in the construction of buildings and other capital works used to produce assessable income.

Capital works

You can deduct construction costs for the following capital works:

- buildings or extensions, alterations or improvements to a building
- structural improvements or extensions, alterations or improvements to structural improvements
- environmental protection earthworks; see Appendix 6.

Deductions for construction costs and structural improvements must be based on actual costs incurred. If it is not possible to genuinely determine the actual costs, obtain an estimate by a quantity surveyor or other independent qualified person. The costs incurred by the company for the provision of this estimate are deductible as a tax-related expense, not as an expense in gaining or producing assessable income.

Different deduction rates apply (2.5% or 4%) depending on the date on which construction began, the type of capital works, and the manner of use.

Who can claim?

The company can claim a deduction under Division 43 for an income year only if it:

- owns, leases or holds part of a construction expenditure area of capital works ('your area')
- incurred the construction expenditure or is an assignee of the lessee or holder who incurred the expense, and
- uses 'your area' to produce assessable income or in some cases for carrying on R&D activities.

In calculating the company's deductions, identify 'your area' for each construction expenditure area of the capital works. Your area may comprise the whole of the construction area or part of it.

There are special rules that qualify the use of the capital works for R&D activities. The R&D activities must be conducted in connection with a business carried on for the purposes of producing assessable income and be registered under section 27A of the *Industry Research and Development Act 1986* for an income year.

Lessee or holder of capital works

A lessee or holder can claim a deduction for an area leased or held under a quasi-ownership right. To claim a deduction the lessee or holder must have:

- incurred the construction expenditure or be an assignee of the lessee or holder who incurred the expenditure
- continuously leased or held the capital works area itself, or leased or held the area that had been so held by previous lessees, holders or assignees since completion of construction, and
- used the area to produce assessable income, or in some cases for carrying on R&D activities.

If there is a lapse in the lease, the entitlement to the deduction reverts to the building owner.

Requirement for deductibility

The company can deduct an amount for capital works in an income year if:

- the capital works have a 'construction expenditure area'

- there is a ‘pool of construction expenditure’ for that area, and
- the company uses the area in the income year to produce assessable income or for carrying on R&D activities in the way set out in section 43-140 of the ITAA 1997.

No deduction until construction is complete

The company cannot claim a deduction for any period before the completion of construction of the capital works even though the company used them, or part of them, before completion. Additionally, the deduction cannot exceed the undeducted construction expenditure for your area.

Capital works are taken to have begun when the first step in the construction phase starts; for example, pouring foundations or sinking pilings for a building.

Establishing the deduction base

You can deduct expenditure for the construction of capital works if there is a construction expenditure area for the capital works. Whether there is a construction expenditure area for the capital works and how it is identified depends on the following factors:

- the type of expenditure incurred
- the time the capital works commenced
- the area of the capital works to be owned, leased or held by the entity that incurred the expenditure
- for capital works begun before 1 July 1997, the area of the capital works that was used in a particular manner, see section 43-90 of the ITAA 1997.

Construction expenditure

Expenses incurred on construction include:

- preliminary expenses, such as an architect’s fees, engineering fees, foundation excavation expenses and costs of building permits
- costs of structural features that are an integral part of the income-producing building or income-producing structural improvements; for example, lift wells and atriums

- some portion of indirect costs.

For an owner/builder entitled to a deduction under Division 43 of the ITAA 1997, the value of the owner/builder's contributions to the works (labour or expertise and any notional profit element) do not form part of construction expenditure.

See also:

- Taxation Ruling TR 97/25 and 97/25A Addendum – *Income tax: property development: deduction for capital expenditure on construction of income producing capital works, including buildings and structural improvements*.

Construction expenditure does not include expenditure on:

- acquiring land
- demolishing existing structures
- clearing, levelling, filling, draining or otherwise preparing the construction site before carrying out excavation work
- landscaping
- plant
- property or expenditure for which a deduction is allowable, or would be allowable if the property were for use for the purpose of producing assessable income, under another specified provision of the ITAA 1936 or the ITAA 1997.

Construction expenditure area

The construction of the capital works must be complete before the construction expenditure area is determined. A separate construction expenditure area is created each time an entity undertakes the construction of capital works.

For construction expenditure incurred before 1 July 1997, the capital works must have been constructed for a specified use at the time of completion, depending on the time when the capital works commenced. The first specified use construction time was 22 August 1979; see section 43-90 and section 43-75(2) of the ITAA 1997.

Pool of construction expenditure

The pool of construction expenditure is the portion of the construction expenditure incurred by an entity on capital works, which is

attributable to the construction expenditure area.

Deductible use

The company can only obtain a deduction under Division 43 if it uses your area in a way described in table 43-140 or 43-145 of Subdivision 43-D of the ITAA 1997.

Special rules about uses

Your area is taken to be used for a particular purpose or manner if:

- it is maintained ready for that use and is not used for another purpose, and its use has not been abandoned, or
- its use has temporarily ceased because of construction or repairs, or for seasonal or climatic conditions.

Your area is not accepted as being used to produce assessable income:

- if it is a building (other than a hotel or apartment building) used or for use wholly or mainly for exhibition or display in connection with the sale of all or part of any building, where construction began after 17 July 1985 but before 1 July 1997. If construction began after 30 June 1997, buildings that are used for display are eligible
- if it is a building (other than a hotel or apartment building) where construction began after 19 July 1982 and before 18 July 1985 and it is used wholly or mainly for
  - or in association with, residential accommodation, and is not a hotel or apartment building, or
  - exhibition or display in connection with the sale of all or part of any building, or the lease of all or any part of any building for use wholly or mainly for, or in association with, residential accommodation and is not a hotel or apartment building or an extension, alteration or improvement to such a building
- to the extent that the company or an associate uses part of it for residential accommodation and it is not a hotel or apartment building, for exceptions to this rule, see subsection 43-170(2) of the ITAA 1997.

Your area is taken to be used wholly or mainly as, or in association with residential accommodation if it is:

- part of an individual's home, other than a hotel or apartment building
- a building (other than a hotel or apartment building) where construction began after 19 July 1982 and before 18 July 1985, and used as a hotel, motel or guest house.

Special rules for hotels and apartments are contained in section 43-180 of the ITAA 1997.

Calculation and rate of deduction

The company's entitlement to a deduction begins on the date the building is first used to produce assessable income after construction is completed. The first and last years of use may be apportioned. The entitlement to a deduction runs for either 25 or 40 years (the limitation period) depending on the rate of deduction applicable.

The legislation contains two calculation provisions:

- section 43-210 of the ITAA 1997 deals with the deduction for capital works that began after 26 February 1992
- section 43-215 of the ITAA 1997 deals with deductions for capital works that began before 27 February 1992.

Capital works begun before 27 February 1992 and used as described in table 43-140

Calculate the deduction separately for each part that meets the description of your area.

Multiply the company's construction expenditure by the applicable rate (either 4% if the capital works were begun after 21 August 1984 and before 16 September 1987 or 2.5% in any other case) and by the number of days in the income year for which the company owned, leased or held your area and used it in a relevant way. Divide that amount by the number of days in the year.

Apportion the amount if your area is used only partly to produce assessable income or for carrying on R&D activities.

The amount the company claims cannot exceed the undeducted construction expenditure.

Capital works begun after 26 February 1992

Calculate the deduction separately for each part of capital works that meets the description of your area.

There is a basic entitlement to a rate of 2.5% for parts used as described in table 43-140: Current year use. The rate increases to 4% for parts used as described in table 43-145: Use in the 4% manner.

Undeducted construction expenditure

The undeducted construction expenditure for your area is the part of the company's construction expenditure it has left to write off. It is used to work out:

- the number of years in which the company can deduct amounts for the company's construction expenditure
- the amount that the company can deduct under section 43-40 of the ITAA 1997 if your area or a part of it is destroyed.

Balancing deduction on destruction

If a building is destroyed or damaged during an income year, you can claim a deduction for the remaining amount of undeducted construction expenditure that has not yet been deducted, less any compensation received. If the destruction or demolition is voluntary, the entitlement to a deduction is unaffected.

You can claim the deduction in the income year in which the destruction occurs.

The deduction is reduced if the capital works are used in an income year only partly for the purpose of producing assessable income or for carrying on R&D activities.

For guidelines issued by the Commissioner on these measures, see Taxation Ruling TR 97/25 and 97/25A Addendum.

QC 55199

Appendix 3. Thin capitalisation

Last updated 16 February 2022

The thin capitalisation provisions reduce certain deductions (called debt deductions) incurred in obtaining and servicing debt if the debt

used to finance the Australian operations of a company exceeds the limits set out in Division 820 of the ITAA 1997. These rules ensure that entities fund their Australian operations with an appropriate amount of equity.

The rules apply to a range of situations. Where in a given year, you are not affected by the rules, answer no at item **29 Thin capitalisation**.

Do the thin capitalisation rules apply?

Australia's thin capitalisation rules apply to:

- Australian entities with certain overseas operations, and their associate entities
- Australian entities that are foreign controlled
- foreign entities with operations or investments in Australia that are claiming debt deductions.

The thin capitalisation rules may apply to a company if the company:

- is an Australian resident company and either
  - the company, or any of its associate entities, is an Australian controller of a foreign entity or carries on business overseas at or through a PE, or
  - the company is foreign controlled, either directly or indirectly
- is a foreign resident company and carries on business in Australia at or through a PE or otherwise has assets that produce assessable income in Australia.

Entities that are not affected by the rules

For any given income year, the following entities are not affected by thin capitalisation rules:

- an entity that does not incur debt deductions for the income year
- an entity whose debt deductions, together with those of any associate entities, are $2 million or less for the income year
- an Australian resident entity that is neither an inward investing entity nor an outward investor
- a foreign entity that has no investment or presence in Australia

- an outward investor that is not also foreign controlled and meets the assets threshold test. This is explained further in section 820-37.

Certain special purpose entities are also excluded, where all of the following apply:

- the entity is established for the purposes of managing some or all of the economic risk associated with assets, liabilities or investments
- at least 50% of its assets are funded by debt interests
- the entity is an insolvency remote special purpose entity according to the criteria of an internationally recognised rating agency that are applicable to the entity's circumstances. That entity does not have to have been rated by a rating agency.

Where several large entities are taken to be a single, notional entity, any one of those entities can still meet this exception provided that all the entities taken together would meet the above conditions. The entity will only be exempted from the thin capitalisation rules for the period that it meets all of the above conditions.

For more information, see Thin capitalisation. This explains what certain terms mean for thin capitalisation purposes, such as control, associated entities, debt deductions and asset threshold test. For example, the rules regarding 'control' take into account both direct and indirect interests that the company holds in the other entity (or vice versa), and the direct and indirect interests that associate entities of the company hold in the other entity.

What if the thin capitalisation rules affect you this year?

If the thin capitalisation rules affect you, print **Y** for yes at item **29 Thin capitalisation**. In addition, complete the *International dealings schedule 2018*.

The International dealings schedule is available through the electronic lodgment service (ELS), Standard Business Reporting (SBR), or complete and lodge the paper schedule.

What if the thin capitalisation rules are breached?

If the thin capitalisation rules are breached, some of the company's debt deductions may be denied. Include the amount denied at **W Non-deductible expenses** item **7**.

QC 55199

Appendix 4. Taxation treatment of pooled development funds and investors

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How pooled development funds (PDFs) are taxed

A PDF is a company that is registered as a PDF and provides development capital to small and medium sized companies. The PDF regime was closed to new applications for registration as a PDF from 21 June 2007.

If a company was registered as a PDF part way through an income year and is still a PDF at the end of the income year, it is taxed as a PDF for the period from the date of registration to the end of the income year as if that period were an income year. The taxable income in the pre-PDF period is taxed at the rate of 30%.

If a company ceases to be a PDF part way through an income year, it is taxed as an ordinary company for the whole year; that is, taxable income is taxed at the rate of 30% (or 27.5% if it is a base rate entity).

The SME income component of the PDF's taxable income is taxed at the rate of 15%. The SME component is the company's SME assessable income less any deductions allowable to the company for the year, whether they relate to SME assessable income or not. If the available deductions exceed the amount of SME assessable income, the excess may be applied against the unregulated investment component of the company's taxable income.

SME assessable income is income derived from, or from the disposal of, an SME investment and includes amounts that would otherwise be capital gains. An SME investment is not an unregulated investment

which is an investment by way of a loan to, deposit with or debenture of a bank, or a deposit with an authorised money market dealer.

The unregulated investment component of the PDF's taxable income is worked out by deducting the company's SME income component from its taxable income for the year. The amount (if any) remaining is the company's unregulated investment component. The unregulated investment component is taxed at the rate of 25%.

Imputation

PDFs generate franking credits in the same way as other companies, mainly from the payment of income tax and from the receipt of franked distributions. The franking credit that arises is the tax paid (at the relevant rate applicable to the taxable income of PDFs, not at the company tax rate).

PDFs make franked distributions in the same manner as other companies.

The PDF obtains venture capital credits from the payment of income tax reasonably attributable to capital gains from venture capital investments; that is, SME investments made in accordance with the *Pooled Development Funds Act 1992*. If a PDF keeps a record of its venture capital sub-account, it can make distributions franked with venture capital credits.

If a PDF over-distributes venture capital credits during the income year, it incurs a liability to venture capital deficit tax.

Tax offset for franking credits

A PDF that receives a franked distribution must include the distribution and the franking credit attached to the distribution in its assessable income. The PDF is then entitled to a tax offset equal to the amount of franking credits included in its assessable income. This is the gross-up and tax offset rule.

Losses

Deductions for PDF tax losses are allowable only in an income year in which the company is a PDF throughout that income year.

PDF tax losses cannot be transferred to other companies in the same group.

Non-PDF tax losses incurred before the company became a PDF that are not recouped while the company is a PDF continue to be

deductible after the company ceases to be a PDF.

Capital losses incurred while the company is a PDF are not deductible from capital gains accruing to the company after it ceases to be a PDF.

How PDF shareholders are taxed

Unfranked PDF distributions and the unfranked part of a franked distribution are exempt from tax.

The franked part of a PDF distribution is also exempt from income tax unless the shareholder elects to be taxed on it. The election is made by including the distribution (and franking credit) in assessable income. The election will apply to all franked PDF distributions derived during the income year. A corporate shareholder who receives a franked PDF distribution and who elects to include the distribution in assessable income will receive a franking credit equal to the franking credit attached to the distribution.

Special rules apply to PDF distributions franked with venture capital credits that are paid to complying superannuation funds, pooled superannuation trusts and like entities. Such entities are also entitled to a venture capital tax offset and the relevant part of the distribution is also exempt income.

The costs associated with borrowing to purchase PDF shares are not deductible to the extent the distributions are exempt from tax.

Non-resident PDF shareholders are exempt from withholding tax on PDF distributions.

PDF shares are not trading stock.

Income from selling shares in a company that is a PDF at the time of sale is exempt from income tax. Any capital gains or capital losses from the disposal of PDF shares are disregarded.

QC 55199

Appendix 6. Uniform capital allowances

Last updated 16 February 2022

The following concepts relevant to the UCA system are referred to in this appendix:

- balancing adjustment amounts
- deduction for decline in value of depreciating assets
- deduction for environmental protection expenses
- deduction for project pool
- electricity connections and telephone lines
- hire-purchase agreements
- landcare operations and decline in value of water facility, fencing asset and fodder storage asset
- loss on the sale of a depreciating asset
- luxury car leases
- profit on the sale of a depreciating asset
- section 40-880 deduction
- the TOFA rules and UCA.

See also:

- Guide to depreciating assets 2018

Small business entities

Eligible small business entities that choose to use the simplified depreciation rules calculate deductions for most of their depreciating assets under the specific small business entity depreciation rules.

Balancing adjustment amounts

If the company ceases to hold or to use a depreciating asset, a balancing adjustment event occurs. Calculate a balancing adjustment amount to include in the company's assessable income or to claim as a deduction.

Include the assessable balancing adjustment amount for all assets at **B Other assessable income** item **7**. (Assessable balancing adjustment amounts for assets used in R&D activities are required to be uplifted prior to being included at **B Other assessable income** item **7**.

Include the deductible balancing adjustment amount for non-R&D assets at **X Other deductible expenses** item **7**.

Balancing adjustment loss amounts for assets used only for R&D activities subject to the R&D tax incentive are taken into account in part **A** of the *Research and development tax incentive schedule 2018* and also as part of calculating an **R&D tax offset amount** at item **21**.

Balancing adjustment losses for assets used on R&D and non-R&D activities are uplifted under sections 40-292 or 40-293 of the ITAA 1997 and included at **X Other deductible expenses** item **7**, if the company is otherwise eligible for an R&D tax offset under section 355-100 of the ITAA 1997. If the company is not otherwise eligible for an R&D tax offset under section 355-100 of the ITAA 1997, the balancing adjustment losses for assets used on R&D and non-R&D activities, as calculated under section 40-285 of the ITAA 1997, is included at **X Other deductible expenses** item **7** and claimed at 100%.

If the asset was used for both taxable and non-taxable purposes, reduce the balancing adjustment amount by the amount attributable to the non-taxable use. A capital gain or capital loss may arise for the amount attributable to that non-taxable use. This capital gain or capital loss is included in calculating the net capital gain or net capital loss for the income year.

Include any profit or loss on the sale of a depreciating asset that has been included in the accounts of the company at either **R Other gross income** item **6** or **S All other expenses** item **6**. See Profit on the sale of a depreciating asset or Loss on the sale of a depreciating asset.

If you have elected to use the hedging tax-timing method provided for in the TOFA rules and you have a gain or loss from a hedging financial arrangement used to hedge risks for a depreciating asset, work out separately:

- the balancing adjustment assessable or deductible amount (include this at either **B Other assessable income** item **7** or **X Other deductible expenses** item **7** as appropriate), and
- the gain or loss on the hedging financial arrangement under the TOFA rules that has not yet been assessed or deducted (include this at E TOFA income from financial arrangements not included in item **6** item **7** or **W TOFA deductions from financial arrangements not included in item 6** item **7** as appropriate).

If a balancing adjustment event occurred to a depreciating asset of the company during the income year, you may also need to include an amount at **H Termination value of intangible depreciating assets** item **9** or at **I Termination value of other depreciating assets** item **9**.

Deduction for decline in value of depreciating assets

The decline in value of a depreciating asset is generally worked out using either the prime cost or diminishing value method. Both methods are based on the effective life of an asset. For most depreciating assets, the company can choose whether to self-assess the effective life or adopt the Commissioner's determination that can be found in ATO Interpretative Decision ATO ID 2002/180 *Income tax: effective life of depreciating asset: choice of Commissioner's determination*.

The company can deduct an amount equal to the decline in value for an income year of a depreciating asset for the period that it holds the asset during that year. However, the deduction is reduced to the extent the company uses the asset or has it installed ready for use other than for a taxable purpose.

The decline in value of a depreciating asset costing $300 or less is its cost (but only to the extent the asset is used for a taxable purpose) if the asset satisfies all of the following requirements:

- It is used predominantly for the purpose of producing assessable income that is not income from carrying on a business.
- It is not part of a set of assets acquired in the same income year that costs more than $300.
- It is not one of any number of substantially identical items acquired in the same income year that together cost more than $300.

Certain assets that cost less than $1,000 or that have an opening adjustable value of less than $1,000 can be allocated to a low-value pool to calculate the decline in value. Assets eligible for the immediate deduction cannot be allocated to a low-value pool.

To work out the deduction for decline in value of most depreciating assets use worksheets 1 and 2 in the Guide to depreciating assets 2018.

Deduction for environmental protection expenses

The company can deduct expenditure to the extent that it incurs it for the sole or dominant purpose of carrying on environmental protection activities (EPA). EPA are activities undertaken to prevent, fight or remedy pollution or to treat, clean up, remove or store waste from the

company's earning activity. The company's earning activity is one it carried on, carries on or proposes to carry on for the purpose of:

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

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

The deduction is not available for:

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

Expenditure that forms part of the cost of a depreciating asset is not expenditure on EPA.

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

Expenditure on an environmental impact assessment of a project of the company is not deductible as expenditure on EPA. If it is capital expenditure directly connected with a project, it could be a project amount for which a deduction would be available over the life of the project; see Deduction for project pools.

If the deduction arises from a non-arm's length transaction and the expenditure is more than the market value of what it was for, the amount of the expenditure is taken instead to be that market value.

Any recoupment of the expenditure is assessable income.

Deduction for project pools

Certain capital expenditure incurred after 30 June 2001 that is directly connected with a project carried on or proposed to be carried on for a taxable purpose can be allocated to a project pool and written off over the project life. Each project has a separate project pool.

The project must be of sufficient substance and be sufficiently identified that it can be shown that the capital expenditure said to be a 'project amount' is directly connected with the project.

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

For more information, see Taxation Ruling TR 2005/4 *Income tax: capital allowances – project pools – core issues*.

The capital expenditure, known as a project amount, must be expenditure incurred:

- to create or upgrade community infrastructure for a community associated with the project, this expenditure must be paid (not just incurred) to be regarded as a project amount
- for site preparation for depreciating assets (other than in draining swamp or low-lying land or in clearing land for horticultural plants including grapevines)
- for feasibility studies for the project
- for environmental assessments for the project
- to obtain information associated with the project
- in seeking to obtain a right to intellectual property
- for ornamental trees or shrubs.

Project amounts also include mining capital expenditure and transport capital expenditure.

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

If the expenditure incurred arises from a non-arm's length dealing and is more than the market value of what it was for, the amount of the expenditure is taken to be that market value.

The deduction for project amounts allocated to a project pool commences when the project starts to operate.

If your project pool contains only project amounts incurred on or after 10 May 2006 and the project starts to operate on or after that date, your deduction is calculated as follows:

- (Pool value × 200%) divided by DV project pool life

In some circumstances, a post 9 May 2006 project may be taken to have started to operate before 10 May 2006. This would occur, for

example, if the company abandoned a project and then restarted it on or after 10 May 2006 in an attempt to enable it to claim deductions in accordance with the above formula.

For other project pools, the deduction is calculated using the following formula:

- (Pool value × 150%) divided by DV project pool life

The 'DV project pool life' is the project life or, if that life has been recalculated, the most recently recalculated project life. The project life is determined by estimating how long (in years and fractions of years) it will be from when the project starts to operate until it stops operating. Generally, a project starts to operate when the activities that will produce assessable income start. The project life is estimated from the company's perspective, having regard to factors which are outside the company's control.

See also:

- TR 2005/4

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

The pool value can be subject to adjustments.

If the company is or becomes entitled to a GST input tax credit for expenditure allocated to a project pool, the pool value is reduced by the amount of the credit. Certain increasing or decreasing adjustments for expenditure allocated to a project pool will also require an adjustment to the pool value.

If during any income year commencing after 30 June 2003 the company ceased to have an obligation to pay foreign currency and the obligation was incurred as a project amount allocated to a project pool, a foreign currency gain or loss (referred to as a forex realisation gain or loss) may have arisen under the forex provisions. If the amount was incurred after 30 June 2003 (or earlier, if so elected) and became due for payment within 12 months after it was incurred, then (unless elected otherwise, see below) the pool value for the income year in which the amount was incurred is increased by any forex realisation loss and decreased by any forex realisation gain. However, if a forex realisation gain exceeds the pool value, the pool value is reduced to zero and the excess gain is assessable income. If the company elected

that this treatment should not apply, any forex realisation gain will be assessable and any forex realisation loss will be deductible.

The deduction for a project pool cannot be more than the amount of the pool value for that income year.

There is no need to apportion the deduction if the project starts to operate during the income year or for project amounts incurred during the year. However, the deduction is reduced to the extent to which the project is operated for other than a taxable purpose during the income year.

If the project is abandoned, sold or otherwise disposed of, the company can deduct the sum of the closing pool value of the prior income year (if any) plus any project amounts allocated to the pool during the income year, after allowing for any necessary pool value adjustments. A project is abandoned if it stops operating and will not operate again.

Any amount received for the abandonment, sale or other disposal of a project is assessable.

If an amount of expenditure allocated to a project pool is recouped or if the company derives a capital amount for a project amount or something on which a project amount was expended, the amount must be included in assessable income.

If any receipt arises from a non-arm's length dealing and the amount is less than the market value of what it was for, the amount received is taken to be that market value.

Electricity connections and telephone lines

A deduction can be claimed by the company over 10 years for capital expenditure incurred in connecting:

- mains electricity to land on which a business is carried on or in upgrading an existing connection to that land, or
- a telephone line to land being used to carry on a primary production business.

Include the deduction at **X Other deductible expenses** item **7**. If you have included the expenditure as an expense at item **6 Calculation of total profit or loss**, also include the expenditure at **W Non-deductible expenses** item **7**.

Include any recoupment of the expenditure in assessable income at **B Other assessable income** item **7** if you have not included it at **R Other gross income** item **6**.

Hire-purchase agreements

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

The sale is treated as being financed by a loan from the financier to the hirer at a sale price of either their agreed cost or value or the property's arm's length value. The periodic hire-purchase (or instalment) payments are treated as payments of principal and interest under the notional loan. The hirer can deduct the interest component subject to any reduction required under the thin capitalisation rules.

In relation to the notional sale, the hirer of a depreciating asset is treated as the holder of the asset and is entitled to claim a deduction for the decline in value. The cost of the asset for this purpose is generally taken to be the agreed cost or value, or the arm's length value if the dealing is not at arm's length.

If the company has included hire-purchase charges at any label at item **6 Calculation of total profit or loss**, include the amount at **W Non-deductible expenses** item **7**.

Include the deduction for the decline in value of the goods at **F Deduction for decline in value of depreciating assets** item **7**. Include the interest component at **X Other deductible expenses** item **7**.

Landcare operations and decline in value of water facility, fencing asset and fodder storage asset

Landcare operations

The company can claim a deduction in the year it incurs capital expenditure on a landcare operation for land in Australia.

Unless the company is a rural land irrigation water provider, the deduction is available to the extent the company uses the land for either:

- a primary production business, or

- in the case of rural land, carrying on a business for a taxable purpose from the use of that land, except a business of mining or quarrying.

The company may claim the deduction even if it is only a lessee of the land.

The deduction is also available to rural land irrigation water providers, that is, to entities whose business is primarily and principally the supply of water (other than by using a motor vehicle) to entities for use in primary production businesses on land in Australia or to businesses (other than mining or quarrying businesses) using rural land in Australia.

If the company is a rural land irrigation water provider, it can claim a deduction for capital expenditure it incurs on a landcare operation for:

- land in Australia that other entities (being entities supplied with water by the company) use at the time for carrying on primary production businesses, or
- rural land in Australia that other entities (being entities supplied with water by the company) use at the time for carrying on businesses for a taxable purpose from the use of that land (except a business of mining or quarrying).

A rural land irrigation water provider's deduction is reduced by a reasonable amount to reflect an entity's use of the land for other than a taxable purpose after the water provider incurred the expenditure.

A landcare operation is one of the following operations:

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

- an alteration, addition, extension, or repair of a capital nature to an asset described in the fourth to seventh dot points, or an extension of an operation described in the first three dot points
- a structural improvement, or an alteration, addition, extension or repair of a capital nature to a structural improvement, that is reasonably incidental to levees or drainage works deductible under a landcare operation.

You cannot claim a deduction if the capital expenditure is on plant unless it is on certain fences, dams or other structural improvements.

Any recoupment of the expenditure would be assessable income.

Water facilities

The company may be entitled to claim a deduction for capital expenditure it incurs on a water facility if it is a primary producer or an irrigation water provider (for expenditure incurred on or after 1 July 2004). If the company incurred the expenditure from 7.30pm (AEST), 12 May 2015 it can deduct the full amount in the year it incurred the expenditure. If the company incurred the expenditure before this time, it can deduct one-third of the amount in the income year in which it incurred the expenditure, and one-third in each of the following two years.

A water facility is plant or a structural improvement that is primarily or principally for the purpose of conserving or conveying water, or a structural improvement that is reasonably incidental to conserving or conveying water. It also includes a repair of a capital nature, or an alteration, addition or extension, to that plant or structural improvement. Examples of water facilities include dams, tanks, tank stands, bores, wells, irrigation channels or similar improvements, pipes, pumps, water towers, and windmills.

Unless the company is an irrigation water provider, the expenditure must be incurred by the company primarily and principally for conserving or conveying water for use in its primary production business on land in Australia. The company may claim the deduction even if it is only a lessee of the land.

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

- carrying on a primary production business on land in Australia, or
- a taxable purpose.

The deduction for water facilities is also available to irrigation water providers, that is, to entities whose business is primarily and principally

the supply (other than by using a motor vehicle) of water to other entities for use in a primary production business on land in Australia.

If the company is an irrigation water provider, it must incur the expenditure on the water facility primarily and principally for conserving or conveying water for use in primary production businesses conducted by other entities on land in Australia, being entities supplied with water by the company. The company's deduction is reduced if the water facility is not wholly used for a taxable purpose.

Fencing assets

The company may be entitled to claim a deduction for capital expenditure it incurs on fencing assets. If the company incurred the expenditure from 7.30pm (AEST), 12 May 2015 it can deduct the full amount in the year it incurred the expenditure. If the company incurred the expenditure before this time - or if the expenditure relates to a stockyard, pen or portable fence – the company can deduct an amount for the asset's decline in value based on its effective life.

A fencing asset includes a structural improvement, a repair of a capital nature, or an alteration, addition or extension, to a fence. The expenditure must be incurred by you on the construction, manufacture, installation or acquisition of a fencing asset that is used primarily and principally in a primary production business you conduct on land in Australia. The company may claim the deduction even if it is only a lessee of the land.

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

- carrying on a primary production business on land in Australia, or
- a taxable purpose.

Fodder storage assets

The company can claim a deduction for the capital expenditure it incurs on fodder storage assets. If the company incurred the expenditure from 7.30pm (AEST), 12 May 2015 it can deduct one-third of the amount in the income year in which the company incurred it, and one-third in each of the following two years. If the company incurred the expenditure before this time, the company can deduct an amount for the asset's decline in value based on its effective life.

A fodder storage asset is an asset that is primarily and principally for the purpose of storing fodder. It includes a structural improvement, a repair of a capital nature, or an alteration, addition or extension, to an

asset or structural improvement, that is primarily and principally for the purpose of storing fodder.

The term 'fodder' refers to food for livestock, usually but not exclusively dried, such as grain, hay or silage. Fodder can include liquid feed and supplements. Examples of typical fodder storage assets include:

- silos
- liquid feed supplement storage tanks
- bins for storing dried grain
- hay sheds
- grain storage sheds, and
- above-ground bunkers.

The expenditure must be incurred by the company on the construction, manufacture, installation or acquisition of a fodder storage asset that is used primarily and principally in a primary production business it conducts on land in Australia. The company may claim the deduction even if it is only a lessee of the land.

The deduction is reduced where the fodder storage asset is not wholly used for either:

- carrying on a primary production business on land in Australia, or
- a taxable purpose.

Loss on the sale of a depreciating asset

Any such loss included in the accounts will differ from the balancing adjustment amount taken into account for taxation purposes.

If the accounts show a loss on the sale of a depreciating asset under **S All other expenses** item **6**, include that amount at **W Non-deductible expenses** item **7** except to the extent it relates to assets used in R&D activities, which are shown at **D Accounting expenditure in item 6 subject to R&D tax incentive** item **7**. Also see Balancing adjustment amounts.

Luxury car leases

Luxury car leasing arrangements (other than genuine short-term hiring agreements or a hire-purchase agreement) are treated as notional sale and loan transactions.

A leased car, either new or second hand, is a luxury car if its cost exceeds the car limit that applies for the income year in which the lease commences. The car limit for 2017–18 is $57,581.

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

In relation to the notional loan, the actual lease payments are divided into notional principal and finance charge components. That part of the finance charge component for the notional loan applicable for the particular period (the accrual amount) is deductible to the lessee subject to any reduction required under the thin capitalisation rules.

In relation to the notional sale, the lessee is treated as the holder of the luxury car and is entitled to claim a deduction for the decline in value of the car.

For the purpose of calculating the deduction, the cost of the car is limited to the car limit for the income year in which the lease is granted. For more information on deductions for the decline in value of leased luxury cars, see Guide to depreciating assets 2018.

In summary, the lessee is entitled to deductions equal to:

- the accrual amount, and
- the decline in value of the luxury car, based on the applicable car limit.

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

If the company has included the lease expenses at **F Lease expenses within Australia** item **6** or **I Lease expenses overseas** item **6**, include the amount at **W Non-deductible expenses** item **7**.

Include the deduction for decline in value of the luxury car at **F Deduction for decline in value of depreciating assets** item **7**.
Include the accrual amount at **X Other deductible expenses** item **7**.

If the lease terminates or is not extended or renewed and the lessee does not actually acquire the car from the lessor, the lessee is treated under the rules as disposing of the car by way of sale to the lessor. This constitutes a balancing adjustment event and any assessable or deductible balancing adjustment amount for the lessee must be determined.

Profit on the sale of a depreciating asset

Any such profit included in the accounts will differ from the balancing adjustment amount taken into account for taxation purposes.

If the accounts show a profit on the sale of a depreciating asset under **R Other gross income** item **6**, include that amount at **Q Other income not included in assessable income** item **7**. Also see Balancing adjustment amounts.

The TOFA rules and UCA

The TOFA rules contain interaction provisions which may modify the cost and termination value of a depreciating asset acquired by a company to which the TOFA rules apply. This will be the case where the consideration (or a substantial proportion of it) is deferred for greater than 12 months after delivery.

For more information, see the Guide to the taxation of financial arrangements (TOFA) rules.

Section 40-880 deduction

Immediate deductibility for start-up costs

From 2015–16, section 40-880 allows a company that is not in business, or that is a small business entity, to immediately deduct certain start-up expenses relating to the proposed structure or proposed operation of a business that is proposed to be carried on.

Expenditure is fully deductible in the income year incurred if:

- it is incurred by a small business entity or a company that is not carrying on business and is not connected or affiliated with another company that is carrying on business that is not a small business entity, and
- it relates to a business that is proposed to be carried on and is either
  - incurred for advice or services relating to the proposed structure or proposed operation of the business, or
  - is paid to an Australian government agency in relation to setting up the business or establishing its operating structure.

Section 40-880 deduction

If the deduction relates to an earlier income year, or does not meet the criteria set out above, the previous rules apply, which is a five-year write-off for certain business-related capital expenditure incurred by the company for a past, present or proposed business.

As part of the tax treatment for black hole expenditure, rules apply to business-related capital expenditure incurred after 30 June 2005. Section 40-880 deductions are no longer limited to seven specific types of business-related capital expenditure. The company may now be able to claim a deduction for capital expenditure it incurs after 30 June 2005:

- for its business
- for a business that it used to carry on, such as capital expenses incurred in order to cease the business
- for a business it proposes to carry on, such as the costs of feasibility studies, market research or setting up the business entity
- as a shareholder or partner to liquidate or deregister a company or to wind up a trust or partnership, provided that the company, trust or partnership carried on a business.

If the company incurs the relevant capital expenditure for its existing business, a former business or a proposed business, the expenditure is only deductible to the extent the business is, was, or is proposed to be, carried on for a taxable purpose.

The company cannot deduct expenditure for an existing business that is carried on by another entity or a proposed business unless it is proposed to commence within a reasonable time. However, it can deduct expenditure it incurs for a business that used to, or is proposed to be, carried on by another entity. Such expenditure is only deductible to the extent that:

- the business was, or is proposed to be, carried on for a taxable purpose, and
- the expenditure is in connection with
  - business that was, or is proposed to be, carried on, and
  - derivation of assessable income from that business by the partnership.

A section 40-880 deduction cannot be claimed for capital expenditure to the extent that it:

- can be deducted under another provision of the income tax laws

- forms part of the cost of a depreciating asset the company holds, used to hold, or will hold
- forms part of the cost of land
- relates to a lease or other legal or equitable right
- would be taken into account in working out an assessable profit or deductible loss
- could be taken into account in working out a capital gain or a capital loss from a CGT event
- would be specifically not deductible under the income tax laws if the expenditure was not capital expenditure
- is specifically not deductible under the income tax laws for a reason other than that the expenditure is capital expenditure
- is of a private or domestic nature
- is incurred for gaining or producing exempt income or non-assessable non-exempt income
- is excluded from the cost or cost base of an asset because, under special rules in the UCA or capital gains tax regimes respectively, the cost or cost base of the asset was taken to be the market value
- is a return of or on capital (for example, distributions by trustees) or a return of a non-assessable amount (for example, repayments of loan principal).

The company deducts 20% of the qualifying capital expenditure in the year it is incurred and in each of the following four years.

If you have included any of the expenditure incurred for the income year as an expense at item **6**, show this amount as an expense add back at **W Non-deductible expenses** item **7**.

Include the deduction for the section 40-880 deduction at **X Other deductible expenses** item **7**.

QC 55199

Appendix 7. Company tax rate

Last updated 16 February 2022

- See Company tax rates

Appendix 8. Foreign and other jurisdictions codes

Note: Guernsey, Jersey and Isle of Man each have a separate country code

Foreign and other jurisdiction codes

Country	Code
Afghanistan	AFG
Aland Islands	ALA
Albania	ALB
Algeria	DZA
American Samoa	ASM
Andorra	AND
Angola	AGO
Anguilla	AIA
Antarctica	ATA
Antigua and Barbuda	ATG
Argentina	ARG
Armenia	ARM
Aruba	ABW
Austria	AUT
Azerbaijan	AZE
Bahamas	BHS

Bahrain	BHR
Bangladesh	BGD
Barbados	BRB
Belarus	BLR
Belgium	BEL
Belize	BLZ
Benin	BEN
Bermuda	BMU
Bhutan	BTN
Bolivia	BOL
Bonaire, Saint Eustatius and Saba islands	BES
Bosnia and Herzegovina	BIH
Botswana	BWA
Bouvet Island	BVT
Brazil	BRA
British Indian Ocean Territory	IOT
British Virgin Islands	VGB
Brunei Darussalam	BRN
Bulgaria	BGR
Burkina Faso	BFA
Burundi	BDI
Cambodia	KHM
Cameroon	CMR

Canada	CAN
Cape Verde	CPV
Cayman Islands	CYM
Central African Republic	CAF
Chad	TCD
Chile	CHL
China	CHN
Christmas Island	CXR
Cocos (Keeling) Islands	CCK
Colombia	COL
Comoros	COM
Congo, Democratic Republic of (was Zaire)	COD
Congo, People’s Republic of	COG
Cook Islands	COK
Costa Rica	CRI
Cote D’Ivoire (Ivory Coast)	CIV
Croatia (Hrvatska)	HRV
Cuba	CUB
Curacao	CUW
Cyprus	CYP
Czech Republic	CZE
Denmark	DNK
Djibouti	DJI

Dominica	DMA
Dominican Republic	DOM
East Timor (Timor-Leste)	TLS
Ecuador	ECU
Egypt	EGY
El Salvador	SLV
Equatorial Guinea	GNQ
Eritrea	ERI
Estonia	EST
Ethiopia	ETH
Falkland Islands (Malvinas)	FLK
Faroe Islands	FRO
Fiji	FJI
Finland	FIN
France	FRA
French Guiana	GUF
French Polynesia	PYF
French Southern Territories	ATF
Gabon	GAB
Gambia	GMB
Georgia	GEO
Germany	DEU
Ghana	GHA

Gibraltar	GIB
Greece	GRC
Greenland	GRL
Grenada	GRD
Guadeloupe	GLP
Guam	GUM
Guatemala	GTM
Guernsey	GGY
Guinea	GIN
Guinea-Bissau	GNB
Guyana	GUY
Haiti	HTI
Heard and McDonald Islands	HMD
Holy See (Vatican City State)	VAT
Honduras	HND
Hong Kong	HKG
Hrvatska (Croatia)	HRV
Hungary	HUN
Iceland	ISL
India	IND
Indonesia	IDN
Iran	IRN
Iraq	IRQ

Ireland	IRL
Isle of Man, The	IMN
Israel	ISR
Italy	ITA
Ivory Coast (Cote D'Ivoire)	CIV
Jamaica	JAM
Japan	JPN
Jersey	JEY
Jordan	JOR
Kazakhstan	KAZ
Kenya	KEN
Kiribati	KIR
Korea, Democratic People's Republic of (North Korea)	PRK
Korea, Republic of (South Korea)	KOR
Kuwait	KWT
Kyrgyzstan	KGZ
Laos	LAO
Latvia	LVA
Lebanon	LBN
Lesotho	LSO
Liberia	LBR
Libya	LBY
Liechtenstein	LIE

Lithuania	LTU
Luxembourg	LUX
Macau	MAC
Macedonia, The Former Yugoslav Republic of	MKD
Madagascar	MDG
Malawi	MWI
Malaysia	MYS
Maldives	MDV
Mali	MLI
Malta	MLT
Marshall Islands	MHL
Martinique	MTQ
Mauritania	MRT
Mauritius	MUS
Mayotte	MYT
Mexico	MEX
Micronesia, Federated States of	FSM
Moldova	MDA
Monaco	MCO
Mongolia	MNG
Montenegro	MNE
Montserrat	MSR
Morocco	MAR

Mozambique	MOZ
Myanmar (Burma)	MMR
Namibia	NAM
Nauru	NRU
Nepal	NPL
Netherlands	NLD
New Caledonia	NCL
New Zealand	NZL
Nicaragua	NIC
Niger	NER
Nigeria	NGA
Niue	NIU
Norfolk Island	NFK
Northern Mariana Islands	MNP
North Korea	PRK
Norway	NOR
Oman	OMN
Pakistan	PAK
Palau	PLW
Palestinian Territories	PSE
Panama	PAN
Papua New Guinea	PNG
Paraguay	PRY

Peru	PER
Philippines	PHL
Pitcairn Island	PCN
Poland	POL
Portugal	PRT
Puerto Rico	PRI
Qatar	QAT
Reunion	REU
Romania	ROU
Russian Federation	RUS
Rwanda	RWA
Saint Barthelemy	BLM
Saint Helena	SHN
Saint Kitts and Nevis	KNA
Saint Lucia	LCA
Saint Martin (Dutch part)	SXM
Saint Martin (French part)	MAF
Saint Pierre and Miquelon	SPM
Saint Vincent and The Grenadines	VCT
Samoa	WSM
San Marino	SMR
Sao Tome and Principe	STP
Saudi Arabia	SAU

Senegal	SEN
Serbia	SRB
Seychelles	SYC
Sierra Leone	SLE
Singapore	SGP
Slovakia (Slovak Republic)	SVK
Slovenia	SVN
Solomon Islands	SLB
Somalia	SOM
South Africa	ZAF
South Georgia and the South Sandwich Islands	SGS
South Korea	KOR
South Sudan	SSD
Spain	ESP
Sri Lanka	LKA
Sudan	SDN
Suriname	SUR
Svalbard and Jan Mayen Islands	SJM
Swaziland	SWZ
Sweden	SWE
Switzerland	CHE
Syria	SYR
Taiwan	TWN

Tajikistan	TJK
Tanzania, United Republic of	TZA
Thailand	THA
Timor-Leste (East Timor)	TLS
Togo	TGO
Tokelau	TKL
Tonga	TON
Trinidad and Tobago	TTO
Tunisia	TUN
Turkey	TUR
Turkmenistan	TKM
Turks and Caicos Islands	TCA
Tuvalu	TUV
Uganda	UGA
Ukraine	UKR
United Arab Emirates	ARE
United Kingdom	GBR
United States	USA
United States Minor Outlying Islands	UMI
United States Virgin Islands	VIR
Uruguay	URY
Uzbekistan	UZB
Vanuatu	VUT

Vatican City State (Holy See)	VAT
Venezuela	VEN
Vietnam	VNM
Wallis and Futuna Islands	WLF
Western Sahara	ESH
Yemen	YEM
Zambia	ZMB
Zimbabwe	ZWE

QC 55199

Appendix 9. Personal services income

Last updated 16 February 2022

PSI is income that is mainly a reward for an individual's personal efforts or skills. If PSI is received by a company (a personal services entity) it is still the individual's PSI for income tax purposes.

The PSI rules do not affect PSI received by employees, except when the individual is an employee of a personal services entity. The rules also do not apply to PSI that is earned in the course of conducting a personal services business.

What is a personal services business?

You qualify as a personal services business if, in respect of each individual whose PSI is included in your income:

- you meet the results test, or
- less than 80% of the individual's PSI in an income year comes from each client (and their associates) and you meet either the unrelated clients test, the employment test or the business premises test, or

- you obtain a determination from the Commissioner of Taxation confirming that you are a personal services business.

What if you do not qualify as a personal services business and the PSI rules apply?

Generally, if the rules apply to you there are three main effects:

The PSI, reduced by certain deductions to which the personal services entity is entitled, is treated as the income of the individual who does the personal services work and must be included on their income tax return.

The personal services entity must either

- pay the PSI promptly, as salary or wages, to the individual who does the personal services work, or
- attribute the net PSI to the individual who does the personal services work and withhold and remit tax on that income.

The deductions that may be claimed are limited.

If the personal services entity has made a net PSI loss:

- the individual is entitled to a deduction for the loss, and
- the total amount of the deductions to which the entity is entitled is reduced by the amount of the individual's deduction for the loss.

Deductions

The deductions that may be limited include the following:

Certain car expenses

You may deduct:

- a car expense for each car used solely for business purposes
- a car expense or an amount of fringe benefits tax payable for a car fringe benefit where a car is used partly for private purposes. However, there cannot be, at the same time, more than one car for which such deductions can arise in gaining or producing the same individual's PSI. If there is more than one car used privately at the same time for the same individual, you must choose one car only for which to claim deductions. The choice remains in effect until you cease to hold that car.

Superannuation contributions

You may claim a deduction for contributions that you make to a complying superannuation fund or retirement savings account (RSA) for the purpose of making provision for superannuation benefits for an individual whose PSI you derive.

However, if the individual:

- performs less than 20% of your principal work, and
- is an associate of another individual whose PSI you derive

Then your deduction cannot exceed the amount you would have to contribute to ensure you did not have an individual superannuation guarantee shortfall for that associate.

If the associate only performs non-principal work, you cannot claim any deduction relating to PSI for contributions you make to a complying superannuation fund or RSA for the associate.

Entity maintenance deductions

These are:

- fees or charges associated with an account with an authorised deposit-taking institution (but not including interest or interest-like amounts)
- tax-related expenses
- any expense incurred in preparing or lodging a document under Corporations Law, except if the payment is made to an associate, and
- certain statutory fees.

Entity maintenance deductions must first be offset against your other income. If the entity maintenance deductions exceed your other income, the excess of the entity maintenance deductions may reduce PSI attributable to the individuals.

If your income includes the PSI of more than one individual, apportion the excess entity maintenance deductions between the individuals using the following formula:

Mortgage interest, rates and land tax

You cannot deduct amounts that are incurred in gaining or producing an individual's PSI if such amounts represent rent, mortgage interest,

rates and land tax for the residence of the individual or the residence of an associate of yours.

Payments to associates

You cannot deduct payments to associates or any amount you incur from an obligation you have to your associate to the extent the payment or obligation relates to the associate performing non-principal work.

Additional PAYG withholding obligations

When the PSI rules apply, you will have additional PAYG obligations for the amount attributed (treated as belonging) to each individual who generated the PSI.

The additional PAYG withholding obligation ensures that:

- an amount of withholding has been reported and paid to us for the attributed income (the income treated as belonging to the individual who generated the PSI)
- each individual who generated PSI receives a PAYG withholding credit for their income tax return.

Normal PAYG withholding applies to the PSI you received that is promptly paid out to the individual as salary or wages.

An individual receiving such salary or wages must complete item **1 Salary or wages** on their income tax return.

If you have a net PSI loss for an income year, there are no additional PAYG withholding obligations as no income has been attributed.

Treatment of attributed PSI on your income tax return

If PSI is attributed to an individual, the income is not assessable to the company. Include the PSI on the company tax return as follows:

Include the attributed amount at **Q Other income not included in assessable income** item **7**, as calculated in Worksheet 2: Other reconciliation items.

The following example will help you complete the PSI details on the company tax return. The entity in the example is not conducting a personal services business.

Example 20: Some salary or wages have been promptly paid, and some PSI is attributed to an individual because it has not been promptly paid as salary or wages

A company derives income that is the PSI of a director.

Part of the PSI has been promptly paid as salary within 14 days of the end of the relevant PAYG withholding period. The company's profit and loss statement is as follows:

Income (all PSI of the director) = $100,000

Less Expenses

Salary = $30,000

Rent for director's home that is a place of business = $5,000

Other expenses (all deductible) = $25,000

Total = $60,000

Net profit = $40,000

The rent paid for the director's home used as a place of business is not deductible under the alienation of PSI provisions. The net profit is PSI of the director and is attributed to the director for income tax purposes (together with the amount representing non-deductible rent expense).

Income information

Income	Label	Amount
Other gross income	R	$100,000
Total income	S	$100,000

Expense information

Expense	Label	Amount
Rent expenses	H	$5,000
All other expenses	S	$55,000
Total expenses	Q	$60,000

Total profit or loss

Calculation	Label	Amount
(subtract **Total expenses** from **Total income**)	T	$40,000

Complete item **14 Personal services income** as follows:

Write the amount of income you included at **6R** at **14A**. Write the amount of expenses you included at **6Q** at **14B**.

Profit or Loss

Total profit or loss amount shown at **T** item **6**	-	$40,000
Add Non-deductible expenses (rent)	W	$5,000
Subtotal	-	$45,000
Less Other income not included in assessable income	Q	$45,000
Subtraction items subtotal	-	$45,000
Taxable income or loss	T	$0

Treatment of net PSI loss on your income tax return

If an individual can deduct the net PSI loss, the total amount of the deductions to which the company is entitled is reduced by that amount. Include the PSI loss amounts on the company tax return as follows:

Include the net PSI loss amounts at **W Non-deductible expenses** item **7 Reconciliation to taxable income or loss** as calculated in Worksheet 2: Other reconciliation items.

The following example will help you complete the PSI details on the company tax return. The entity in the example is not conducting a personal services business.

Lodgment

Last updated 16 February 2022

The postal address for lodgment of the company tax return is below. See Publications for a list of the schedules that you can lodge with your *Company tax return 2018*.

> **Australian Taxation Office**
> **GPO Box 9845**
> **[insert the name and postcode of your capital city]**
>
> For example;
>
> **Australian Taxation Office**
> **GPO Box 9845**
> **SYDNEY NSW 2001**

Do not post payments to this address. For payment information, see Payment.

If you wish to write to the ATO, send your correspondence to:

Australian Taxation Office
PO Box 9990
PENRITH NSW 2740

Payment

How to pay

We offer you a range of convenient payment options, both in Australia and overseas.

For more information, see How to pay.

Your payment needs to reach us on or before its due date. Payments made electronically or at Australia Post may take up to 4 business days, from the date you make the payment, to appear on your ATO account.

Abbreviations

Last updated 16 February 2022

Abbreviation code listing

Code	Full name
A$	Australian dollars
ABN	Australian business number
ABR	Australian Business Register
ACN	Australian Company Number
ACT	Australian Capital Territory
ADI	Authorised Deposit-taking Institution
AGAAP	Australian Generally Accepted Accounting Principles
ANZSIC	Australian and New Zealand Standard Industrial Classification
CFC	controlled foreign company
CGT	capital gains tax
Commissioner	Commissioner of Taxation
DGR	deductible gift recipient
DTA	double-tax agreement
DVS	direct value shifting
EFT	electronic funds transfer
ELS	electronic lodgment service
EPA	environmental protection activities

FaHCSIA	Department of Families, Housing, Community Services and Indigenous Affairs
FBT	fringe benefits tax
FDT	franking deficit tax
FMIS	forestry managed investment scheme
forex	foreign exchange
FTDT	family trust distribution tax
GDP	gross domestic product
GST	goods and services tax
GVSR	general value shifting regime
IRUs	indefeasible rights to use telecommunications cable systems
ITAA	Income Tax Assessment Act
IVS	indirect value shifting
LIC	listed investment company
MEC	multiple entry consolidated
NRAS	National rental affordability scheme
OB	offshore banking
OBU	offshore banking unit
OFT	over-franking tax
PAYG	pay as you go
PDF	pooled development fund
PE	permanent establishment
PHC	provisional head company

PSI	personal services income
PST	pooled superannuation trust
R&D	research and development
RBA	running balance account
RSA	retirement savings account
SME	small and medium enterprises
STS	simplified tax system
TBNT	trustee beneficiary non-disclosure tax
TFN	tax file number
TOFA	taxation of financial arrangements
UCA	uniform capital allowances

QC 55199

Taxation determinations, taxation rulings and practice statements

Last updated 16 February 2022

Taxation determinations

TD 93/202 *Income tax: Offshore Banking Units (OBU) – can an OBU use offshore banking (OB) money (ie money that is not non-OB money) for purposes other than OB activities and replace those funds at a later date?*

TD 93/203 *Income tax: Offshore Banking Units (OBU) – does share capital subscribed by a resident owner to its subsidiary, before that subsidiary becomes registered as an OBU, constitute 'OBU resident-owner money'?*

TD 93/204 *Income tax: Offshore Banking Units (OBU) – where a non-resident has an Australian branch and an Australian subsidiary, and the subsidiary is registered as an OBU, does any share capital subscribed in the subsidiary by the parent fall within the definition of 'non-OB money'?*

TD 93/205 *Income tax: Offshore Banking Units (OBU) – does trading in, or entering into commodity derivatives such as commodity futures, forwards, options and swaps constitute offshore banking (OB) activity for the purposes of section 121D?*

TD 93/206 *Income tax: Offshore Banking Units (OBU) – if an OBU carries on a business of trading in shares or debt instruments, such that the trading is an offshore banking (OB) activity for the purposes of subsection 121D(1), are dividends and interest derived from holding the shares or debt instruments assessable OB income?*

TD 93/207 *Income tax: Offshore Banking Units (OBU) – if an OBU acts as funds manager for a trust with offshore investors and an Australian trustee, does the funds management role fall within the definition of an investment activity under subsection 121D(6)?*

TD 93/208 *Income tax: Offshore Banking Units (OBU) – does the definition of advisory activity in subsection 121D(7) encompass the provision of financial knowledge and information to an offshore person?*

TD 93/209 *Income tax: Offshore Banking Units – does the definition of advisory activity in subsection 121D(7) encompass: advising offshore parties on offshore infrastructure financing; and advising lessors or lessees on leasing transactions, where both lessor and lessee are offshore persons and the leased asset is not located in Australia?*

TD 93/210 *Income tax: Offshore Banking Units (OBU) – does the definition of advisory activity in section 121D(7) encompass advising an offshore debt investor or offshore borrower in an offshore leveraged lease which has an Australian end-user?*

TD 93/211 *Income tax: Offshore Banking Units (OBU) – where an OBU provides the services of its employees to a non-resident subsidiary to assist the subsidiary in advising offshore clients on offshore financial matters, can fees charged by the OBU to the subsidiary qualify as assessable OB income?*

TD 93/212 *Income tax: Offshore Banking Units (OBU) – are salaries and other operating expenses that are paid from non-OB money taken into account for purposes of the 'purity test' in section 121EH where the expenses are incurred in undertaking OB activities?*

TD 93/213 *Income tax: Offshore Banking Units (OBU) – if an OBU earns fee income for completing an assignment (say advisory activities) on a success only basis, are expenses incurred on unsuccessful deals exclusive offshore banking (OB) deductions or general OB deductions?*

TD 93/214 *Income tax: Offshore Banking Units (OBU) – must an OBU enter details of expenditure that it intends to claim as allowable offshore banking (OB) deductions or allowable non-OB deductions in its relevant books of account at the time of incurring that expenditure?*

TD 93/215 *Income tax: Offshore Banking Units (OBU) – where an institution that is registered as an OBU lends money to another institution that is registered as an OBU, how do the counterparties know whether the loan qualifies as an offshore banking (OB) activity?*

TD 93/216 *Income tax: Offshore Banking Units (OBU) – is an OBU entitled to concessional tax treatment for income derived on a success only basis from offshore banking (OB) advisory activities which were entered into prior to the entity being registered as an OBU?*

TD 93/217 *Income tax: Offshore Banking Units (OBU) – what is the effect of funding an offshore banking (OB) activity with both OB and non-OB money?*

TD 93/241 *Income tax: Offshore banking units – if an OBU sells down or disposes of its interest in a loan which originally qualified as an OB activity, does any fee receivable constitute assessable OB income?*

TD 95/1 *Income tax: Offshore Banking Units (OBU): what is the effect of converting a profit from offshore banking (OB) activities denominated in a foreign currency into Australian currency in an arm's length transaction with a separate Australian counterparty or with another division of the entity of which the OBU forms part?*

TD 95/2 *Income tax: Offshore Banking Units (OBU): can foreign currency denominated assets and receivables generated from offshore banking (OB) activities be hedged into Australian dollars (AUD) and if so, would the AUD received from the forward sale constitute non-OB money?* TD 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?*

For consolidated or MEC groups

TD 2004/4 *Income tax: is a dividend paid before 1 July 1987 an unfranked dividend for the purposes of section 705-50 of the Income Tax Assessment Act 1997?*

Taxation rulings

IT 2624 *Income tax: company self assessment; elections and other notifications; additional (penalty) tax; false or misleading statement*

TR 92/18 *Income tax: bad debts*

TR 93/23 *Income tax: valuation of trading stock subject to obsolescence or other special circumstances*

TR 96/7 *Income tax: record keeping – section 262A – general principles*

TR 97/23 *Income tax: deductions for repairs*

TR 97/25 and TR 97/25A *Addendum – Income tax: property development: deduction for capital expenditure on construction of income producing capital works, including buildings and structural improvements*

TR 98/7 *Income tax: whether packaging items (ie, containers, labels, etc) held by a manufacturer, wholesaler or retailer are trading stock*

TR 98/8 *Income tax: whether materials and spare parts held by a taxpayer supplying services are trading stock*

TR 1999/9 *Income tax: the operation of sections 165-13 and 165-210, paragraph 165-35(b), section 165-126 and section 165-132*

TR 2002/10 *Income tax: capital gains tax: asset register*

TR 2003/14 *Income tax: life insurance companies: the actuarial determination of fees and charges*

TR 2005/4 *Income tax: capital allowances – project pools – core issues*

TR 2005/9 *Income tax: record keeping – electronic records*

TR 2006/3 *Income tax: government payments to industry to assist entities (including individuals) to continue, commence or cease business*

TR 2013/3 *Income tax: research and development tax offsets: feedstock adjustments*

TR 2017/2 *Income tax: effective life of depreciating assets (applicable from 1 July 2017)*

LCR 2019/1 - The business continuity test - carrying on a similar business

LCR 2018/D7 Base rate entities and base rate entity passive income

For consolidated or MEC groups

TR 2004/9 *Income tax: consolidation: what is meant by 'injection of capital' in section 707-325 of the ITAA 1997?*

TR 2007/2 *Income tax: application of the same business test to consolidated and MEC groups – principally, the interaction between section 165-210 and section 701-1 of the ITAA 1997 (As at 20 June 2007)*

Law administration practice statements

PS LA 2003/8 *Practical approaches to low-cost business expenses*

PS LA 2005/2 *Penalty for failure to keep or retain records*

QC 55199

Publications

Last updated 13 September 2024

You may need to refer to the following publications when completing the company tax return.

A New Tax System (Australian Business Number) Act 1999

Application for ABN registration for companies, partnerships, trusts and other organisations (NAT 2939)

Application for refund of franking credits – endorsed income tax exempt entities and deductible gift recipients (NAT 4131)

Capital allowances: copyright in a film and certain licences relating to copyright in a film

Capital gains tax (CGT) schedule 2018 (NAT 3423)

Company tax return 2018 (NAT 0656)

Concessions for small business entities (NAT 71874)

Debt and equity tests: guide to 'at call' loans

Debt and equity tests: guide to the debt and equity tests

Deductions for prepaid expenses 2018

Development Allowance Authority Act 1992

Direct debit request

Dividend and interest schedule 2018 (NAT 8030)

Family trusts – details of amendments

Family trust distribution tax payment advice

Federal Register of Legislative Instruments (also at frli.gov.au)

Film Licensed Investment Company Act 2005

Foreign exchange (forex): Guide to functional currency rules

Foreign income return form guide 2018

Franking account tax return and instructions 2018 (NAT 1382)

Fringe Benefits Tax Assessment Act 1986

Fringe benefits tax - a guide for employers

General value shifting regime: overview of provisions (NAT 8366)

Guide to capital gains tax 2018 (NAT 4151)

Capital gains tax concessions for small business - overview

Guide to depreciating assets 2018 (NAT 1996)

Guide to foreign income tax offset rules 2018 (NAT 72923)

Guide to functional currency rules

Guide to the taxation of financial arrangements (TOFA)

Income Tax Assessment Act 1936

Income Tax Assessment Act 1997

Income Tax (Transitional Provisions) Act 1997

Industry, Research and Development Act 1986

International dealings schedule (NAT 73345)

International dealings schedule instructions

Interposed entity election or revocation 2018 (NAT 2788)

Life Insurance Act 1995

Losses schedule instructions 2018

Market valuation for tax purposes

Mutuality and taxable income

National Rental Affordability Scheme (Consequential Amendments) Act 2008

Non-individual PAYG payment summary schedule 2018 (NAT 3422)

Other capital expenses (including capital works deductions)

Our statistics

PAYG withholding from interest, dividend and royalty payments paid to non-residents – annual report (NAT 7187)

Personal services income - basic information you need to know

Personal services income - What to do when the PSI rules apply

Personal services income tool

Pooled Development Funds Act 1992

Private ruling application form

Research and development tax incentive schedule instructions 2018

Shortfall Interest Charge (Imposition) Act 2005

Simplified imputation: Franking deficit tax offset

Simplified imputation: FDT offset for late balancers

Small business entity concessions - Eligibility

Strata title body corporate tax return and instructions 2018 (NAT 4125)

Tax Laws Amendment (Improvements to Self Assessment) Act (No.1) 2005

Tax Laws Amendment (2007 Measures No.2) Act 2007

Tax Laws Amendment (2007 Measures No.3) Act 2007

Tax Laws Amendment (2007 Measures No.4) Act 2007

Tax Laws Amendment (2007 Measures No.5) Act 2007

Tax Laws Amendment (2010 Measures No.1) Act 2010

Tax Laws Amendment (2012 Measures No.2) Act 2012

Taxation Administration Act 1953

Tax Laws Amendment (Small Business) Act 2007

Tax Laws Amendment (Small Business Measures No.1) Act 2015

Tax Laws Amendment (Stronger, Fairer, Simpler and Other Measures) Act 2012

Taxation Laws Amendment (Trust Loss and Other Deductions) Act 1998

TFN withholding for closely held trusts

Thin capitalisation

Venture capital deficit tax return and explanatory notes

For consolidated or MEC groups

Consolidated groups losses schedule 2018 (NAT 7888)

Consolidated groups losses schedule instructions 2018

Consolidation reference manual

QC 55199

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