



Partnership tax return instructions 2013

For use by partnerships to assist with completion of 2013 tax returns.

Last updated 12 February 2019

About these instructions

The *Partnership tax return instructions 2013* will help you complete the *Partnership tax return 2013* (NAT 0659).

The instructions include:

- information about the schedules that partnerships might need to complete and attach to their tax return
- details of record keeping requirements
- separately identified information for partnerships.

This guide is **not** available in print or as a downloadable PDF (Portable Document Format) document.

Introduction



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Remainder of Partnership tax return



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Introduction

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These instructions will help you complete the [Partnership tax return 2013](#). They are not a guide to income tax law. You may need to refer to other publications.

When we say 'you' or 'your business' in these instructions, we mean either you as the partnership that conducts a business or you as the registered tax agent or partner responsible for completing the tax return.

These instructions contain abbreviations for names or technical terms. Each term is spelt out in full the first time it is used and there is a list of abbreviations.

What's new?

We have reviewed the company, trust and partnership income tax returns and some associated schedules in an effort to balance the cost of compliance to taxpayers and the ATO's information needs. We identified opportunities to refine the information we collect, and have made the following changes to the *Partnership tax return 2013*:

- The following items have been removed:
 - tax file number (TFN) of former partnership
 - item **5** label **A** – **Gross payments subject to foreign resident withholding (Primary Production)**
 - item **5** – **Foreign resident withholding expenses (primary production)**
 - item **17** – **Forestry management investment scheme ruling details**
 - item **36** label **K** – **Proprietors' funds**
 - item **52** label **F** – **Small business and general business tax break**
 - item **54** – **Interest expenses overseas**
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- item **57**, label **V – Deduction for environmental protection expenses**
 - item **61 – Entrepreneurs tax offset**.
- Item **29 – Overseas transactions** has replaced items **54** and **55**.
 - The *Personal Services Income schedule* and the *Capital Allowances schedule* have been decommissioned. This information is now collected at item **30 – Personal services income** and item **47 – Capital allowances**.

Conservation tillage refundable tax offset

The government has introduced a refundable tax offset for purchase of an eligible no-till seeder ('eligible seeder') used in conservation tillage farming practices. Qualifying primary producers may be entitled to a refundable tax offset of 15% of the cost of an eligible seeder. The refundable tax offset is only available for eligible seeders installed ready for use between 1 July 2012 and 30 June 2015.

No claims for the offset are made in the partnership return. Where eligible, each partner will claim the offset in the partner's tax return for the year. The offset claim will be made in accordance with the partner's share of the partnership in the proportions agreed by the partners.

For more information, see *Conservation tillage refundable tax offset*.

Entrepreneurs Tax Offset

As part of the May 2011 Federal Budget announcements, the government has abolished the Entrepreneurs tax offset from the 2012–13 income year onwards.

This question has been removed from the *Partnership tax return 2013*.

Related party debt and Limited recourse debt

As part of the May Federal Budget, the government announced its intention to amend the law to provide a more consistent tax treatment for bad debts between related parties, irrespective of whether they are members of a tax consolidated group. The measure will ensure that where the debtor and creditor are related parties, and a corresponding debt is terminated (written-off) or forgiven after 7.30pm on 8 May 2012:

- the creditor will be denied tax relief for the bad debt written-off, and
- the corresponding gain to the debtor will not be taxed.

This will affect entities that are related parties but are not wholly within the same tax consolidated group.

The limited recourse debt provisions will also be clarified. This will ensure tax deductions are not available for capital expenditure on assets that have been financed by limited recourse debt, to the extent that the taxpayer is not effectively at risk for the expenditure and does not make an economic loss.

At the time of publication these changes had not become law. For more information, see *Bad debts: Ensuring a consistent treatment in related financing arrangements*.

Repeal of foreign investment fund and deemed present entitlement rules

The [Tax Laws Amendment \(Foreign Source Income Deferral\) Act \(No. 1\) 2010](#) repealed section 96A, Part XI (the FIF rules) and sections 96B and 96C (the deemed present entitlement rules) of the *Income Tax Assessment Act 1936* (ITAA 1936). The repeal is applicable to the 2010–11 year of income and later years of income. In the absence of the FIF and deemed present entitlement rules, resident beneficiaries holding interests in foreign trusts will need to turn to the ordinary trust rules contained in Division 6 and the transferor trust provisions in Division 6AAA of the ITAA 1936 in order to determine their tax obligations. The ordinary trust rules will also continue to apply in precedence to the transferor trust rules.

Reforms to income tests

In the 2008 Federal Budget the Government announced measures to reform income tests across the tax and benefit systems. These measures will help to ensure Government assistance is targeted to those most in need. The measures also remove inconsistencies in the treatment of non-wage remuneration and ensure net losses from investment activities are better accounted for in income tests. The reforms to income tests measure took effect on 1 July 2009.

Questions in the partnership tax return will determine each partner's share of net financial investment income or loss and net rental property income or loss. If partners have these amounts, they will need to include them when completing the net financial investment loss and net rental property loss items in their own income tax return.

See [Income tests: an overview](#) for more information.

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General information

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An individual who was not in a partnership carrying on a business does not need to lodge a partnership tax return where the only income

derived jointly (or in common) with another person was:

- rent from a jointly owned investment property
- interest from a jointly held account
- dividends from jointly held shares.

In these instances, each individual shows their share of the income and expenses at the appropriate items on their own individual tax return.

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Australian Business Register

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We are authorised by the [A New Tax System \(Australian Business Number\) Act 1999](#)  to collect certain information relating to your entity. We may use business details supplied on your tax return to update the information held in the Australian Business Register (ABR) in relation to you. Those details may include your industry classification, status of business, public officer, email address and main business address. We may use postal address details from your tax return if we cannot contact you through your ABR postal address.

Where authorised by law, selected information on the ABR may be made publicly available and some may be passed to government agencies, including Australian, state and local government.

You can find details of agencies regularly receiving information from the ABR at **abr.gov.au**. You can phone us on **13 28 66** between 8.00am and 6.00pm Monday to Friday to have a list of the agencies sent to you.

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.

In addition to the publicly available information, these agencies can access the:

- name of the entity's associates, such as partner or public officer
- entity's address for service of notices
- entity's principal place of business
- entity's email address

- Australian and New Zealand Standard Industrial Classification (ANZSIC) code for the business conducted by the entity.

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International taxation

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

Under [Division 830](#) of the *Income Tax Assessment Act 1997* (ITAA 1997), and if certain conditions are met, non-resident limited partnerships and other foreign hybrids are treated as partnerships and not as companies for Australian income tax purposes. Investors in these entities are treated for Australian tax purposes as having partnership interests. There are special rules in addition to those normally applying to partnerships.

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Foreign exchange gains and losses

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Under the foreign exchange (forex) measures contained in Division 775 and Subdivisions 960-C and 960-D of the ITAA 1997, forex gains and losses are generally brought to account as assessable income or allowable deductions, when realised. The 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 assessable or deductible only under the forex measures. However, if a financial arrangement of a partnership is subject to the taxation of financial arrangements (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 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 forex gain or loss is usually matched with or integrated into the tax treatment of the underlying asset.

The general translation rule 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 forex gains or losses on existing foreign currency assets, rights and obligations that were acquired or assumed before 1 July 2003 are determined under the law as it was before that date unless:

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

See [Foreign exchange \(forex\)](#) for more information about these measures and how to calculate your forex gains and losses.

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Interposed entity elections and family trust elections

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The [Tax Laws Amendment \(2007 Measures No. 4\) Act 2007](#) [↗](#) amended the Schedule 2F to the ITAA 1936 to:

- allow interposed entity elections to be revoked where the election was made for an entity that was already included in the family group of the individual specified in the family trust election at the election commencement time. An interposed entity election may also be revoked at a later time where the entity becomes wholly owned by members of the family group. If an interposed entity election is revoked, you need to complete an *Interposed entity election or revocation 2013* (NAT 2788) and attach it to the partnership's tax return
- broaden the definition of 'family' to include lineal descendants of a nephew, niece, or child of the test individual or the test individual's

spouse

- ensure that the death of a family member does not by itself result in another family member ceasing to be a member of the family
- exempt distributions made to former spouses, former widows or widowers and former stepchildren from family trust distribution tax by including them within the definition of 'family group'
- allow family trust elections to be revoked if the family trust is a fixed trust or if the family trust election was not required for utilisation of tax losses, bad debt deductions or accessing franking credits
- permit family trusts that have made a family trust election in respect of the same test individual to be included in each other's 'family group' and not treated as an 'outsider to the trust' for the purposes of the income injection test
- allow the test individual specified in a family trust election to be changed only once, where the new test individual was a member of the original test individual's family, provided that no conferrals of present entitlement to (or distributions of) income or capital of the family trust (or an interposed entity) have been made outside the new test individual's family group.

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Electronic lodgments

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Tax agents who lodge partnership returns through the electronic lodgment service (ELS) must complete the *Partnerships and trusts rental property schedule 2013* if item **9 Rent** is completed. You do not have to complete that schedule if you are lodging a paper version of the partnership tax return.

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Information matching

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The ATO is making increasing use of information-matching technology to verify the correctness of tax returns. Ensure all information is fully and correctly declared on your tax returns. Certain claims made may be subject to additional scrutiny by the ATO.

In particular, we will be checking the following on the 2013 tax returns:

- distributions from [partnerships and trusts](#)
- [total salary and wages](#) paid against the pay as you go (PAYG) withholding system
- [interest](#) and [dividend](#) income
- [franking credits](#) claimed (including franked dividends that are correctly grossed up).

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Hobby or business

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It is important to determine whether the partnership is carrying on a business, as distinct from pursuing a hobby, sport or recreational activity that does not produce assessable income.

The factors or 'business indicators' that various courts and tribunals have taken into account in determining if a business exists for tax purposes include whether the activity:

- has actually started
- has a significant commercial purpose or character
- is undertaken with a purpose of profit, as well as a prospect of profit
- is carried out in a manner that is characteristic of the industry
- has repetition, regularity or continuity
- is planned, organised and carried on in a business-like manner
- is of a sufficient size, scale and permanency to generate a profit
- is not more properly described as a hobby, recreation or sporting activity.

For more information, see 'Are you carrying on a business?' in:

- [Tax basics for small business](#) (NAT 1908)
- If you are a primary producer, see [TR 97/11](#) *Income tax: am I carrying on a business of primary production?*

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Private ruling by the Commissioner of Taxation

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A private ruling is a written expression of opinion by the Commissioner of Taxation (the Commissioner) about the way in which tax laws and other specified laws administered by the Commissioner apply, or 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* (TAA).

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

- the entity to whom the ruling is to apply
- the facts describing the relevant scheme
- relevant supporting documents such as transaction documents
- issues and questions raised relating to the relevant provision to which the ruling relates, and
- 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 further improve the administration of the private rulings system, the ATO now publishes all notices of private rulings for public record – see [Register of Private Binding Rulings](#).

Private rulings are published in an edited form to safeguard taxpayer privacy.

Private ruling applicants are invited to provide a statement detailing any information they believe should be removed from the published version of their private ruling.

If the information the applicant wants removed is more than simply names and addresses, reasons why publication of this information will breach the applicant's privacy should be provided.

Before publication, applicants can comment on the edited version of their private ruling.

Review rights

Generally, 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. If a taxpayer is dissatisfied with the Commissioner's decision on an objection, they can apply to the Administrative Appeals Tribunal (AAT) for a review of the decision, or appeal to the Federal Court against the decision. An explanation of review rights and how to exercise them is issued with the private ruling.

A taxpayer cannot object to a private ruling if there is an assessment for the taxpayer for the same income year to which the ruling relates. If this is the case, the taxpayer can only object to the assessment.

Where a taxpayer has objected to a private ruling, the taxpayer cannot object to a later assessment relating to the same matter ruled on, unless the assessment relates to facts that are materially different from those dealt with in the private ruling, or deals with the application of tax law provisions not dealt with in the private ruling (for example, the application of Part IVA of the ITAA 1936).

Private rulings dealing with the ITAA 1936 continue to apply to the ITAA 1997, to the extent that the old law to which the ruling applies expresses the same ideas as the new law in the ITAA 1997.

For more information on how to object to private rulings and assessments, including the time limits within which those objections have to be made, go to [How to apply for a private ruling](#) and read 'What happens after you have applied for a private ruling?'

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, 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, the Commissioner can make a revised private ruling.

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Penalties and interest charges

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The law imposes penalties on partners for:

- failing to lodge a tax return on time and in the approved form (which includes all applicable schedules)
- having a shortfall amount for under-reporting a liability or over-claiming a credit that is caused by:
 - making a false or misleading statement
 - taking a position that is not reasonably arguable
- making a statement that is false or misleading in a material particular which does not result in a shortfall amount
- obtaining a scheme benefit
- failing to provide a tax return from which the Commissioner can determine a liability
- failing to keep and produce proper records
- preventing access to premises and documents
- failing to retain or produce declarations.

General interest charge

Partners are liable for interest charges (generally called the 'general interest charge') where they have:

- not paid a tax, penalty or certain other amounts by the due date
- varied their PAYG instalment amount or rate to less than 85% of the amount or rate that would have covered the partner's actual liability on business and investment income for the year.

Shortfall interest charge

Where an assessment is amended because of an increase in tax payable, the due date for payment of the amended assessment is 21 days after the Commissioner gives the notice increasing the liability. Generally the partners are liable to pay a shortfall interest charge calculated from the due date of the original assessment to the day before the issue date of the amended notice of assessment on the increase. The partners will be notified of the amount of the shortfall interest charge and it will be due 21 days after the notice is given. The general interest charge will apply automatically to any unpaid amount of the amended assessment and the shortfall interest charge once the due date has passed.

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

The Commissioner may remit all or part of the shortfall interest charge when it is fair and reasonable to do so. For further information, see [Shortfall interest charge – fact sheet](#).

Penalties

In addition to interest charges, penalties may be applied to any shortfall amount.

For example, penalties may apply for a shortfall that arises if reasonable care has not been exercised or there is not a 'reasonably arguable' position.

The Commissioner must explain, in writing, the reasons for a penalty and, if remission of a penalty has been considered but not fully granted, the reasons for the decision.

See [Penalties and interest](#) for further information, or phone **13 28 66**.

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Purchase or sale of a business during the income year

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Keep a record of the following:

- the name and address of the other party to the transaction
- the purchase or sale price, including details of the allocation of purchase or sale price to all items purchased or sold, including stock on hand and depreciating assets
- a copy of the contract of purchase or sale.

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Requirements

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Record-keeping requirements and retention

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

- any documents relevant for the purpose of ascertaining a person's income or expenditure
- documents containing particulars of any election, estimate, determination or calculation made by a 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 for those arrangements.

Generally, the partnership must keep all relevant records for five years after they were prepared or obtained, or five years after the completion of the transactions or acts to which they relate, whichever is the later. This period may be extended in certain circumstances. Keep records in writing and in English. You can keep them electronically as long as the records are in a form that we can access and understand to ascertain your taxation liability – see [TR 2005/9](#) - *Income tax: record keeping – electronic records*.

Partnership records

Keep the following records:

- a copy of the partnership agreement – if none exists, a copy of the partnership's certificate of registration; if none exists, documentary evidence that partners were carrying on their activities as a partnership
- commencement date of the partnership or the date of reconstitution
- detailed statement of assets and liabilities
- details of each partner's capital accounts and sources of capital contributed
- details of each partnership bank account including the name and number of the account, the bank and branch at which it is kept, the date the account was opened and the names of persons authorised to operate the account and the date of such authorisation
- the family relationship of the partners and, if the partners are husband and wife, details of the nature and extent of the services rendered by each to the partnership
- whether the partners own jointly or in common, any property from which interest, dividends, rents or royalties are derived
- the names in which business contracts are made
- details of any services rendered in the production of assessable income by a partner under 18 years old, or by a beneficiary under

18 years old in a trust where the trustee is a partner; details must include the nature, extent and value of the services rendered

- whether the partnership is constituted or conducted such that any partners cannot, of their own will, deal with any part of their share of the partnership income
- whether any partners are required to use any part of their share of the profits to meet any debt to another person
- records that show you have met your choice of superannuation fund employer obligations; for more information, see [Super Funds](#) or phone **13 28 64**.

See [TD 2007/2](#) - *Income tax: should a taxpayer who has incurred a tax loss or made a net capital loss for an income year retain records relevant to the ascertainment of that loss only for the record retention period prescribed under income tax law?*

Record keeping for overseas transactions

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

The involvement can be direct or indirect – for example, through individuals, trusts, companies or other entities. The interest can be vested or contingent, and includes a case where the partnership 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. Where 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 partnership has an interest, and
 - the nature of the interest.

If an overseas interest was created by exercising any power of appointment, or if the partnership 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 partnership has an interest.

Partnerships

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A partnership is an association of persons carrying on a business as a partner or receiving income jointly – see [TR 94/8](#) - *Income tax: whether business is carried on in partnership (including 'husband and wife' partnerships)*.

A partnership is not a taxable entity, but it must lodge a tax return at the end of each income year. Partners are taxed on their share of the profits of the partnership or are entitled to a deduction for their share of the losses incurred by the partnership as disclosed in their own tax returns.

Some deductions are not available to the partnership, but may be claimed by the partners – see [appendix 7](#).

A partnership asset is owned by the partners (and not the partnership) in the proportion to which the partners have agreed. A partner's share of the capital gains or losses relating to CGT (capital gains tax) events occurring for partnership assets must be disclosed on the partner's tax return – see [Partnerships and capital gains tax](#).

[Non-resident partner](#)

A partner who is not a resident of Australia is not taxed on the share of net income of the partnership attributable to sources outside Australia. Similar rules apply to temporary residents. If it is believed that any partner who has a share of such income is not an Australian resident, or, is a temporary resident, keep a record of their name and residential address, the basis of any contention and the partner's share of income derived from sources outside Australia.

Variation of partnership agreement

Keep a copy of any variation to the partnership agreement for the life of the partnership plus five years.

[Reconstituted partnerships](#)

Under the law, if the composition of a partnership changes – for example, a partner retires or dies, or a new partner is admitted – the partnership is dissolved and a new partnership is formed.

However, if the change in the composition amounts only to a technical dissolution of the partnership, the partnership may be able to continue as a reconstituted continuing entity. As such, it avoids the need to change its tax file number (TFN) and Australian business number (ABN), and only one partnership tax return is required at the end of the income year.

Generally, the ATO will treat a changed partnership as a reconstituted continuing entity if the original partnership agreement incorporated a provision for a change in membership or shares and the following factors apply:

- the partnership is a general law partnership
- at least one of the partners is common to the partnership before and after reconstitution
- there is no period where there is only one 'partner' (that is, in a two-person partnership, there is a direct transfer of interest from the outgoing partner to a new partner)
- the partnership agreement includes an express or implied continuity clause or, in the absence of a written partnership agreement, the conduct of the partners is consistent with continuity
- there is no break in the continuity of the enterprise or firm (that is, the partnership's assets remain with the continuing partnership and there are no changes to the nature of the business, the client or customer base, the business name or name of the firm).

For more information, see [GSTR 2003/13](#) - *Goods and services tax: general law partnerships*.

At the end of the income year, a reconstituted continuing partnership needs to lodge only one partnership tax return covering the full income year. The tax return must include the distributions made to every person who was a partner at any time during the income year, including those who left the partnership during the year.

When lodging the partnership tax return, supply the following details:

- the date of dissolution
- the date of the reconstitution
- the names of the new, continuing and retiring partners
- the TFN or address and date of birth of all new partners
- details of the changes if the persons authorised to act on behalf of the partnership have changed.

See [Other attachments to the tax return](#) for information on how to supply this information to the ATO.

If the changes in membership amount to more than a technical dissolution of the partnership, a new partnership is formed. This new partnership needs a new TFN and ABN. Both partnerships will need to lodge a partnership tax return. Lodge one tax return for the old partnership from the beginning of the income year to the date of its dissolution; and lodge another tax return for the new partnership from the date of its formation to the end of the income year.

[Lodging a partnership tax return](#)

A partnership tax return is lodged by the resident partner with the most individual interest in the partnership net income or loss. If partners have equal interests, or two partners have the same greatest interest, any of those partners may lodge the return. If there is no resident partner, the agent in Australia lodges the tax return. For information relating to non-residents, see [Non-resident partner](#).

Keep a copy of the partnership tax return and related documents because there may be a charge for obtaining a copy from the ATO.

Send the partnership tax return to the relevant lodgment address:

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 lodge a partnership tax return where the only income derived jointly (or in common) with another person was:

- rent from a jointly owned property
- interest from a jointly held account
- dividends from jointly held shares
- **and** you were not in a partnership carrying on a business (in the above three instances each person shows their share of the income and expenses at the appropriate items on their own tax return).

A partnership return is not required if the partnership was a subsidiary member of a consolidated group or Multiple Entry Consolidated (MEC) group for the full income year. Where this is the case, the head company of the group will have the responsibility for reporting any partnership income in its tax return and preparing any necessary schedules.

Where a return is required because the partnership had one or more periods in the income year when it was not a member of a consolidated group or MEC group (a non-membership period) the partnership should prepare a partnership return and prepare any necessary schedules.

For information about reporting multiple non-membership periods during the year, see the [Consolidation reference manual](#) – then select ‘Part C - Detailed information’ – ‘C9 – Determine tax liabilities, determine obligations’ – ‘C9-5-110’.

Limited partnerships

Certain limited partnerships which are taxed as companies must lodge a [Company tax return 2013](#) (NAT 0656).

This does not apply to a limited partnership (including an incorporated limited partnership) that is a venture capital management partnership, or a limited partnership that is unconditionally registered with Innovation Australia as a venture capital limited partnership, an early stage venture capital limited partnership, or an Australian venture capital fund of funds. These limited partnerships are taxed as ordinary partnerships (subject to special rules about the utilisation of their losses) and are not taxed as companies.

In the case of foreign limited partnerships, see [General information – International taxation](#).

[Other attachments to the tax return](#)

In some cases, we need more information about the partnership to raise correct assessments for the individual partners. These are:

- where the partnership attaches an election, notification, request or application when lodging the partnership tax return
- where the partnership has received a bonus or other amount in respect of a short-term life assurance policy issued after 7 December 1983 – see item [14 Other Australian income](#)
- where the partnership has paid or credited unfranked dividends or interest to a non-resident of Australia or has received unfranked dividends or interest on behalf of a non-resident of Australia – see [appendix 1](#)
- reconstituted partnerships where the dissolution of the partnership was only technical and the partnership business carried on as per [GSTR 2003/13](#) – see the details that must be supplied when lodging the partnership tax return under [Reconstituted partnerships](#).

If any of the above circumstances apply, attach separate pages, headed SCHEDULE OF ADDITIONAL INFORMATION, showing the full details, the partnership name and TFN, and attach them to the partnership tax return. Print **X** in the **Yes** box at **Have you attached any 'other attachments'?** at the top of page 1 of the tax return.

[Partnerships and capital gains tax](#)

A partnership does not own assets for capital gains tax (CGT) purposes. A partnership asset is owned by the partners in the proportion to which they have agreed. If a CGT event happens to a partnership during the income year, or the partnership received a share of a capital gain from a trust, each partner must include their share of the capital gain or capital loss on their own tax return. For more information about how a partner returns their share of a capital gain or capital loss, see the [Guide to capital gains tax 2012–13](#).

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Schedules

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Complete only one copy of the appropriate schedule.

Attach all completed schedules to the tax return unless otherwise directed – returns lodged without all the required schedules may not be considered to have been lodged in the approved form. Unless all schedules are lodged by the due date, a failure to lodge on time penalty may be applied.

When completing the schedules, print neatly in BLOCK LETTERS with a black pen only.

International dealings schedule



**Non-individual PAYG payment summary
schedule**



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International dealings schedule

Last updated 12 February 2019

Where the relevant information is reported in the tax return, you must complete an [International dealings schedule 2013](#) (NAT 73345).

For more information, see the [International dealings schedule instructions 2013](#) (NAT 73959).

You need to complete an *International dealings schedule 2013* if the thin capitalisation rules apply to the partnership.

You do **not** need to complete an *International dealings schedule 2013* if the partnership was a subsidiary member of a consolidated group for the entire income year.

Where the partnership is a member of a consolidated group for the whole income year and the thin capitalisation rules apply, the responsibility for preparing the schedule will rest on the head company of the consolidated group.

Where a return is required because the partnership had a period in the income year when it was not a member of a consolidated group (a non-membership period) the partnership should complete an *International dealings schedule 2013* where the thin capitalisation rules apply to the partnership during the non-membership period.

In other cases, complete an *International dealings schedule 2013* if the thin capitalisation rules apply to the partnership. For more information, see [appendix 3](#) and the *International dealings schedule instructions 2013*.

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Non-individual PAYG payment summary schedule

Last updated 12 February 2019

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

- payments for a supply where no ABN is quoted and no exemptions for quoting applied to the supplier
- payments arising from investments where no TFN or ABN is quoted
- certain payments to foreign residents prescribed in the Regulations.

If the payer withheld an amount from a payment to the partnership because the partnership did not quote an ABN, the payer should have sent a [PAYG payment summary – withholding where ABN not quoted](#) form (NAT 3283) to the partnership.

If the payer withheld an amount from a payment to the partnership because of the operation of foreign resident withholding, the payer should have sent a [PAYG withholding payment summary – foreign residents](#) to the partnership.

A payer may issue a receipt, remittance advice or similar document in place of the *PAYG payment summary – withholding where ABN not quoted* form or *PAYG withholding from foreign residents – payment summary*. If the partnership did not receive or has lost its copy of a payment summary, contact the payer responsible and request a signed photocopy of the payer's copy.

Complete a [Non-individual PAYG payment summary](#) schedule 2013 if you show amounts at:

- **C** or **D** item **5**
- **B** item **5**
- **T** item **6**

- **U** item **6**.

Income subject to foreign resident withholding that has been included in a distribution received from other partnerships and trusts must be shown at item **8**. A *Non-individual PAYG payment summary schedule 2013* is not required for these distributions because they do not have an associated payment summary.

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

From each [PAYG payment summary – withholding where ABN not quoted](#) form or [PAYG withholding payment summary – foreign residents](#), record on the schedule:

- payer's ABN (or withholding payer number)
- total tax withheld
- gross payment
- payer's name.

When you have entered details of all these payment summaries on the schedule, attach the schedule to the partnership tax return.

Do **not** attach copies of any payment summary to the tax return – keep them with the partnership's copy of the tax return and keep a copy of the schedule with the partnership's tax records.

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Completing the tax return – Page 1 Partnership tax return

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Attachments to the tax return

If these instructions ask you to provide additional information, attach the additional information to the tax return and print **X** in the **Yes** box at **Have you attached any 'other attachments'?** at the top of page 1 of the tax return. If, when you have finished completing this tax return, you have not attached any document to it, print **X** in the **No** box.

Tax file number (TFN)



Name of partnership



Australian business number (ABN)



**Full name of partner to whom notices
should be sent**



Interposed entity election status



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Tax file number (TFN)

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Print the TFN of the partnership in the boxes provided.

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Name of partnership

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The partnership name should be consistent from year to year, except in the year of a name change.

If the partnership name is legally changed, advise the ATO in writing at the time the change is made.

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Australian business number (ABN)

Last updated 12 February 2019

The ABN is a single, unique business identifier used for all dealings with the Australian Government. It is also available to state, territory and local government regulatory bodies. Identification for taxation law purposes is only one of the objects of the ABN.

Print the ABN of the partnership in the boxes provided if the partnership is registered in the Australian Business Register (ABR).

Follow the instructions on the partnership tax return for the following items:

- Previous name of the partnership
- Current postal address
- Postal address on previous tax return.

Note: C/- is the preferred format for 'care of'.

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Full name of partner to whom notices should be sent

Last updated 12 February 2019

Show the surname or family name and given names of the partner to whom notices should be sent. If the partner is a company, show the name and the ABN of the company.

If the partner is a trustee of a trust, show the name of the trust and trustee. If the trustee is a company, show the name and ABN of the company.

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Interposed entity election status

Last updated 12 February 2019

What you must complete

You must complete this item if **any** of the following apply:

- The partners are making one or more interposed entity elections specifying a day in the 2004–05 or later income year in accordance with [section 272-85](#) of Schedule 2F to the ITAA 1936.
- The partners have previously made one or more interposed entity elections specifying a day in any income years from 1994–95 to 2011–12 in accordance with section 272-85 of Schedule 2F to the ITAA 1936 and, if applicable, items 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 an income year before the 2012–13 income year in accordance with subsections 272-85(5) and 272-85(6) of Schedule 2F to the ITAA 1936.
- The partners are revoking, from a time in the 2012–13 income year, one or more previously made interposed entity elections in accordance with section 272-85 of Schedule 2F to the ITAA 1936.

A partner cannot make an interposed entity election specifying a year earlier than the 2004–05 income year (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 the 2004–05 income year to the *Partnership tax return 2013*.

Amendments to Schedule 2F to the ITAA 1936 in the [Tax Laws Amendment \(2007 Measures No. 4\) Act 2007](#) [↗](#) may affect the information 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 certain limited circumstances.

The partners cannot revoke an interposed entity election unless the revocation is in respect of an income year that occurs during the period:

- starting on 1 July 2007 and finishing on 30 June 2009
- 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 tax return for the income year from which the revocation is to be effective.

For further details on these amendments, see Family trusts - details of the amendments to increase flexibility for family trusts.

Instructions on how to complete the *Interposed entity election or revocation 2013* are on the form itself.

If the partnership's tax return is not lodged electronically using ELS, and an *Interposed entity election or revocation 2013* is being lodged with your partnership's 2013 tax return, send your tax return and the *Interposed entity election or revocation 2013*, 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 partners have not made or are not making any interposed entity elections, do not complete this item.

If the partners are 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 this item and complete an *Interposed entity election or revocation 2013* for each election specifying a day in the 2004–05 or later income years.

Example 1: New election specifying the current year

The partners have not previously made an interposed entity election. They now want to make an interposed entity election specifying a day in the 2012–13 income year.

They write **2013** in the box at this item.

They complete an *Interposed entity election or revocation 2013*, specifying a day in the 2012–13 income year.

They attach the completed form to their *Partnership tax return 2013*.

Example 2: New election specifying an earlier year

The partners have not previously made an interposed entity election. They now want to make an interposed entity election specifying a day in the 2004–05 income year.

They write **2005** in the box at this item.

They complete an *Interposed entity election or revocation 2013*, specifying a day in the 2004–05 income year.

They attach the completed form to their *Partnership tax return 2013*.

If the partners have previously made one or more elections specifying a day in an income year before the 2012–13 income year, write the earliest income year specified in the box at this item unless the partners are making one or more elections specifying a day in the 2004–05 or later income year.

Example 3: Multiple existing interposed entity elections

The partners have previously made interposed entity elections specifying a day in the 1997–98 and 2005–06 income years respectively. They are not making another interposed entity election.

They write **1998** in the box at this item.

The partners do not need to complete an *Interposed entity election or revocation 2013*.

Example 4: Additional election specifying a current year

The partners have previously made an interposed entity election specifying a day in the 1996–97 income year and want to make another interposed entity election specifying a day in the 2012–13 income year.

They write **2013** in the box at this item.

They complete an *Interposed entity election or revocation 2013*, specifying a day in the 2012–13 income year.

They attach the completed form to their *Partnership tax return 2013*.

If the partners have 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 [PS LA 2004/1 \(GA\)](#) - *Lodgment opportunity for family trust and interposed entity elections* to specify an earlier year, write the earliest income year specified unless the partners are making one or more elections specifying a day in the 2004–05 or later income years.

Example 5: Existing elections, taken advantage of the one-off opportunity

The partners have previously made an interposed entity election specifying a day in the 2002–03 income year. The partners took advantage of the one-off opportunity in [PS LA 2004/1 \(GA\)](#) - *Lodgment opportunity for family trust and interposed entity elections* requesting that the election apply from the 1997–98 income year.

They write **1998** in the box at this item.

The partners do not need to complete an *Interposed entity election or revocation 2013*.

Revocation

An interposed entity election can only be revoked by the partners of a partnership that satisfy all the relevant conditions in [section 272-85](#) of Schedule 2F to the ITAA 1936.

Print **R** in the box at this item if the interposed entity election made by the partners is being revoked from the 2012–13 income year. An *Interposed entity election or revocation 2013* must be completed and lodged with their *Partnership tax return 2013*.

Example 6: Revoking an interposed entity election

The partners have previously made an interposed entity election specifying a day in the 2007–08 income year and meet the conditions to revoke their interposed entity election in the 2012–13 income year.

They write **2008** in the box at this item and print **R** in the box at this item. The partners need to complete an *Interposed entity election or revocation 2013* and lodge this with their *Partnership tax return 2013*.

Note: 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 consequence of a partnership making an interposed entity election is that under [section 271-25](#) of Schedule 2F to the ITAA 1936 a special tax, called family trust distribution tax (FTDT), is payable at 46.5% on any conferral of present entitlement to, or distribution of, income or capital of the partnership to persons who are not members of the

family group of the specified individual within the meaning of [section 272-90](#) of that schedule.

A distribution of income or capital by a partnership is defined in sections [272-55](#) and [272-60](#) of Schedule 2F to the ITAA 1936.

Effective from 1 July 2007, the definition of 'family group' was amended to include a former spouse, a former widow or widower, and a former stepchild.

References to these terms are as follows:

- **former spouse** – was a spouse of either the primary individual or a member of the primary individual's family before a breakdown in the marriage
- **former widow or widower** – was a widow or widower of either the primary individual or a member of the primary individual's family, and who has a new spouse who is not a member of the primary individual's family
- **former stepchild** – was a stepchild of either the primary individual or a member of the primary individual's family, before a breakdown in the marriage of the primary individual or the member of the primary individual's family.

Post the [Family trust distribution tax payment advice](#) with your FTDT payment to the ATO address:

**Australian Taxation Office
Locked Bag 1936
ALBURY NSW 1936**

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.

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Final tax return

Last updated 12 February 2019

Print **X** in appropriate box.

If the partnership does not expect to lodge further tax returns, print **X** in the **Yes** box.

Provide a statement stating:

- the reason further tax returns will not be lodged, **and**
- the manner of disposal of any assets of the partnership if not disclosed elsewhere on the tax return.

If it is the final tax return because the partnership has been reconstituted, include in the statement the names of the partners in the new partnership and the trading name, if any, of the new partnership.

If the partnership is a subsidiary member of a consolidated group or MEC group, print **X** in the **No** box if membership of the consolidated group or MEC group is the only reason for which the partnership will not be required to lodge future tax returns.

Attach the statement to the tax return and print **X** in the **Yes** box at **Have you attached any 'other attachments'?** at the top of page 1 of the tax return.

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Remainder of Partnership tax return

Last updated 12 February 2019

1 Description of main business activity

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

Industry code

Show at **A** the appropriate industry code for the partnership's main business – the codes are listed in [Business industry codes 2013](#) (NAT 1827).

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 shown as **01600**.

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

The industry coding regime used by the ATO is a modified version of the [Australian and New Zealand Standard Industrial Classification \(ANZSIC\)](#)  produced jointly by the Australian Bureau of Statistics (ABS) and Statistics New Zealand.

2 Status of business



4 Did you sell any goods or services using the internet?



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2 Status of business

Last updated 12 February 2019

Print **X** at **B1**, **B2**, or **B3** to show the appropriate description for the status of the business. If more than one selection applies, select the first applicable option. If none of the selections applies, leave **B1** to **B3** blank.

Consolidation status

Print **X** at **Z2** if the partnership was a subsidiary member of a consolidated group at any time during the income year.

In this case the tax return is for the period or periods during which the partnership was not a subsidiary member of a consolidated group or MEC group in the income year (non-membership periods). If applicable, it will be necessary to complete an International dealings schedule for periods attributable to the non-membership period.

For information about reporting multiple non-membership periods during the year, refer to the [Consolidation reference manual](#) then select 'Part C - Detailed information' – 'C9 – Determine tax liabilities, determine obligations' – 'C9-5-110'.

If the partnership was a member of a consolidated group or MEC group for the whole income year, the head company of the group is responsible for including the details of the partnership's income and expenses in its return and preparing any relevant schedules.

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4 Did you sell any goods or services using the internet?

Last updated 12 February 2019

Print **X** in the **Yes** box at **Q** if in deriving income you used the internet to:

- receive orders for goods or services – for example, you received orders by email or a web page form, rather than by conventional post, phone or facsimile
- receive payment for goods or services – for example, you received
 - credit card or charge card details by email or web page form, rather than by conventional post, phone or facsimile
 - digital cash
- deliver goods or services – for example, you
 - used email, the world wide web (www) or file transfer protocol (FTP) to deliver digitised music, news articles or software, rather than conventional post to deliver software on a disc
 - 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, or
 - provided access to the internet.

Print **X** in the **No** box at **Q**, if you used the internet **only** to:

- advertise your goods or services
- give support to your customers
- buy your stock
- do your banking online.

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Income – excluding foreign income

Last updated 12 February 2019

5 Business income and expenses

The amounts you include here, at business income **C** to **G** and **D** to **H**, and expenses **P** to **N**, are accounting system amounts subject to **two** exceptions for small business entities. These exceptions apply where small business entities choose to use:

- the simplified trading stock rules – should use tax values for their closing stock in calculating their cost of sales shown at **E**
- the simplified depreciation rules – should use tax values for their depreciation expenses at **K**.

For more information on small business entities, see [Appendix 14](#): Small business entities.

The accounting system amounts are shown or included on the business profit and loss statements and form the basis of the calculation of the business net profit or loss. Make adjustments to these accounting amounts for tax purposes at item **5 Reconciliation items**.

Goods and services tax (GST) is payable by entities that are registered, or required to be registered, for GST. If GST is payable on income, exclude the GST from the income derived. Exclude input tax credit entitlements on outgoings from deductions. Some GST adjustments (for example, occurring where the percentage of business use of an asset changes) may be included in assessable income or allowed as deductions.

Only include at item **5**:

- business income amounts derived directly by the partnership. Include distributions received from other partnerships and trusts at item **8 Partnerships and trusts**.
- Australian-sourced income. Include foreign source income at
 - item **22 Attributed foreign income**
 - item **23 Other assessable foreign source income**.

Income and expenses are divided into three columns:

- primary production – showing relevant amounts of income and expenses from primary production
- non-primary production – showing relevant amounts of income and expenses from non-primary production
- totals – showing the total of the amounts within the previous two columns.

Income subject to foreign resident withholding is shown only at **B** in the 'Non-primary production' column and the 'Totals' column.

If the partnership is eligible and is continuing to use the simplified tax system (STS) accounting method, see [Former STS taxpayers](#) – otherwise, see the information for [All partnerships](#).

Former STS taxpayers

Continued use of the STS accounting method

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

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

- was an STS taxpayer continuously from the income year that started before 1 July 2005 and until the end of the 2006–07 income year
- used the STS accounting method for the 2005–06 to 2011–12 income years, and
- is a small business entity for the 2012–13 income year.

If the partnership 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 recognises most income only when received. A partnership that is eligible to continue using the STS accounting method can claim deductions for the following expenses only when they are paid:

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

If the partnership is registered or required to be registered for GST, exclude GST payable from income amounts and input tax credit entitlements from deductions.

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

In addition, if another provision of the income tax law apportions or alters the assessability or deductibility of a particular type of ordinary income or general deduction, the timing rule in the specific provision overrides the received or paid rule under 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 **5 Reconciliation items**.

Accordingly, base the amounts at item **5 Reconciliation items** on the STS accounting method where applicable. If the partnership is continuing to use the STS accounting method and its profit and loss statement does not reflect the STS accounting method rules, you may need to make additional adjustments to show the correct amounts at

items **Q**, **R** and **S** for **Net income or loss from business**. For more information about these adjustments, see item **5 Reconciliation items**.

Ceasing use of the STS accounting method

If the partnership has discontinued using the STS accounting method, business income and expenses that have not been accounted for (because they have not been received or paid), will be accounted for in this year. You may need to make additional reconciliation adjustments – see [appendix 14](#).

Income

All partnerships

Gross payments where ABN not quoted

Show at **C** and **D** item **5**, as appropriate, gross income received by the partnership that was subject to withholding where an ABN was not quoted. This includes amounts of tax withheld.

If you show an amount at **C** or **D**, complete a *Non-individual PAYG payment summary schedule 2013* and attach the completed schedule to the partnership tax return. For instructions on completing this schedule, see [Non-individual PAYG payment summary schedule](#).

If you complete **C** or **D**, show the corresponding amount of tax withheld where an ABN was not quoted at **T** item **6**.

Gross payments subject to foreign resident withholding

Complete this entry only if the partnership is a foreign resident.

Show at **B** item **5** gross payments to the partnership that was regulated foreign resident income. Gross payments include amounts withheld.

Regulated foreign resident income refers to payments which are prescribed in the [Tax Administration Regulations 1976](#)  as being subject to the foreign resident withholding measure.

Do not include payments where the amount was varied to nil under the foreign resident withholding measure because the income was not taxable under a tax treaty.

If an amount is shown at **B**, complete a *Non-individual PAYG payment summary schedule 2013* and attach the completed schedule to the partnership tax return. For instructions on completing this schedule, see [Non-individual PAYG payment summary schedule](#).

Broadly, the foreign resident withholding regime applies to foreign residents who engage in certain regulated categories of activities in Australia, such as foreign residents involved in sport, entertainment, and building and construction. Only foreign residents should complete

this entry. An Australian resident should not include an amount, such as foreign sourced income, at this entry.

Show gross distributions of foreign resident regulated income from other partnerships and trusts at item **8**. A *Non-individual PAYG payment summary schedule 2013* is not required for these distributions because they do not have an associated payment summary.

You will not have any primary production amounts at this item.

Assessable government industry payments

Generally, government grants, rebates, 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 amounts of a capital nature. However, amounts relating to the starting or ceasing of a business may not be assessable.

Show at **E** and **F**, as appropriate, the total amount of assessable government industry assistance. Examples are:

- bounties
- cleaner fuels grant
- employee subsidies
- export incentives grants
- fuel grant under the energy grants credits scheme
- fuel tax credits
- industry restructure and adjustment payments
- product stewardship (oil) benefit
- producer rebate (wine equalisation tax).

If the amount at **E** or **F** includes fuel tax credit or a fuel grant under the energy grants credits scheme, cleaner fuels grant or a product stewardship (oil) benefit, print **D** in the CODE box at the right of the amount.

Medical practices should show their Medicare payments at **H Other business income**, not at **F Assessable government industry payments**.

Other business income

Show at **G** and **H**, as appropriate, other business income, such as revenue from the sale of goods, services rendered, disposal of depreciated assets, work in progress amounts assessable under section 15–50 of the ITAA 1997, and royalties.

Even if the TOFA rules apply to the partnership's financial arrangements, show at **G** or **H** gains calculated under the TOFA rules.

Do not include amounts that are shown at **C, D, B, E** and **F**.

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

If you have included an amount for profit on the sale of depreciating assets **G** or **H**, see [appendix 6](#) Balancing adjustment amounts.

If what you show at **G** or **H** includes an amount which is brought to account under the TOFA rules, also complete item **31 Taxation of financial arrangements (TOFA)**.

For more information, see the [Guide to the taxation of financial arrangements \(TOFA\) rules](#).

Expenses

Apart from two exceptions for small business entities mentioned below, the amounts shown at **P** to **N** item **5** are amounts derived from the accounting system or financial statements of the partnership.

Make any adjustments to these amounts for tax purposes at **Reconciliation items, Expense reconciliation adjustments B** item **5**.

Small business entities using the [simplified trading stock rules](#) should use tax values for their closing stock in calculating their cost of sales shown at **E**.

Small business entities using the [simplified depreciation rules](#) should use tax values for their depreciation expenses at **K**.

If the partnership is registered or required to be registered for GST, exclude input tax credit entitlements on outgoings from deductions.

If any expenses have been prepaid, the prepayment provisions may affect the timing of the deduction that can be claimed. Generally, the partnership will need to apportion its deduction for prepaid business expenditure over the service period or 10 years, whichever is less. There are some exceptions to this under the 12-month rule for small business entities. If the amounts shown under any expense label at item **5** differ from the amount allowable as deductions in the 2012–13 income year, make a reconciliation adjustment at **B** item **5**. For more information, see *Deductions for prepaid expenses 2012–13*.

Foreign resident withholding expenses

Show at **P** item **5** all expenses directly relating to gaining the income shown at **B Gross payments subject to foreign resident withholding** item **5**. These amounts should not be shown at any other expenses label in item **5**. Do not include any expenses incurred in gaining income not assessable in Australia.

Only foreign residents should complete this entry. An Australian resident should not include expenses – such as expenses incurred in deriving foreign sourced income – at this entry.

You will not have any primary production amounts at this item.

Contractor, sub-contractor and commission expenses

Show 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
- commissions paid to people not receiving a retainer
- agency fees – for example, advertising
- service fees – for example, plant service
- management fees
- consultant fees.

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

- expenses for external labour which are incorporated into the amount shown at **E Cost of sales**
- expenses for accounting or legal services. Show these at **N All other expenses**.

Record keeping

Keep a record of the following:

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

Superannuation expenses

Show at **D** the employee 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), where the contribution is to provide superannuation benefits for employees or to provide benefits to the employee's dependants on the employee's death.

Employers can claim a deduction for superannuation contributions made in respect of a former employee within four months of the employee ceasing employment and at any time after the employee ceases employment for defined benefit interests. Contributions are deductible in the financial year it was made. Previously, employers were restricted to a two-month time limit

Superannuation benefits mean payments for superannuation member benefits or superannuation death benefits.

You can claim a deduction in the income year in which the contributions are made.

Contributions made to a non-complying fund:

- are not allowable as a deduction
- do not count towards superannuation guarantee obligations.

Under the superannuation guarantee legislation, an employer needs to provide a minimum level of superannuation for employees or pay the superannuation guarantee charge (SGC) payable on the superannuation guarantee shortfall.

The SGC is not a superannuation contribution and is not tax deductible. Employers may not claim a tax deduction for any late contribution which they make to reduce the amount of SGC they have to pay under the superannuation guarantee late payment measures.

Contributions paid by an employer for employees to a non-complying superannuation fund are fringe benefits and may be subject to tax under the [Fringe Benefits Tax Assessment Act 1986](#) .

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 in respect of employees under the age of 75 years old. However, the employee may be subject to excess contributions tax if their concessional contributions in a financial year exceed \$25,000. This tax is levied at the tax rate of 31.5% where the employee's concessional contributions in a financial year exceed their concessional contributions cap.

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 amount of the contribution required under an industrial award, determination or notional agreement preserving State awards.

Cost of sales

Small business entities

If the partnership is a small business entity using the simplified trading stock rules, it will need to know the value of its closing stock in order to calculate cost of sales. Small business entities only need to account for changes in the value of their trading stock in limited circumstances. If the partnership does not need to account for the change in value of closing stock, its closing stock will equal its opening stock value. If the partnership does need to account for the change in value of closing stock, or chooses to do so, see item [40 Closing stock](#) for information about how to calculate the closing stock value.

All partnerships

Show at **E** item **5** the total 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 recorded 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. Do not print brackets around the 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 [TR 98/7](#) - *Income tax: whether packaging items (that is, containers, labels, etc) held by a manufacturer, wholesaler or retailer are trading stock*.

Bad debts

Show at **F** item **5** the bad debts expense incurred for the income year.

- Show recovery of bad debts at **G** or **H** as appropriate at **Other business income**.
- You cannot claim a deduction for bad debts unless the debt which is bad has previously been included in assessable income, or is for money lent in the ordinary course of the business of the lending of money by a partnership carrying on that business.
- Do not include accounting provisions for doubtful debts at **F**. Show these under all other expenses at **N** then add them back at **B Expense reconciliation adjustments**. To calculate the amount of the expense reconciliation adjustment, see [worksheet 1](#).
- Before a bad debt can be claimed, it must be bad and not merely doubtful. The deduction depends upon the facts in each case and, where applicable, the action taken for recovery – for more information, see [TR 92/18](#) - *Income tax: bad debts*.

You can claim a deduction for partial debt write-offs where only part of a debt is bad and is written off. You can claim a deduction for the amount written off.

Deductions for bad debts may be reduced by the commercial debt forgiveness provisions – see [appendix 4](#).

You can claim a deduction for losses incurred in debt and equity swaps for debt written off. You may be able to claim a deduction for a debt and equity swap by the partnership 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. 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.

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

Even if the TOFA rules apply to the partnership, show at **F** item **5** all the partnership's bad debts. This includes amounts from financial arrangements subject to the TOFA rules.

If what you show at **F** includes an amount which is brought to account under the TOFA rules, also complete item **31 Taxation of financial arrangements (TOFA)**.

For more information, see the [Guide to the taxation of financial arrangements \(TOFA\) rules](#).

Record keeping

If the partnership writes off bad debts during the income year, keep a statement for all debtors in respect of which a write-off occurred. This statement should show:

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

Lease expenses

Show at **G** item **5** the expenditure incurred through both finance and operating leases on leasing assets, such as motor vehicles, plant or other equipment. Do not include the cost of leasing real estate or capital expenditure incurred to terminate a lease or licence.

Although capital expenditure to terminate a lease or licence is not deductible in one year, a five-year straight-line write-off may be allowable (see [section 25-110](#) of the ITAA 1997) for certain capital expenditure incurred to terminate a 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 [worksheet 1](#).

Expenses incurred under a hire-purchase or instalment-sale agreement of goods are not lease expenses. Such expenses are referred to in [appendix 6](#).

In some circumstances, lease expenses may be debt deductions for the purposes of the thin capitalisation rules – for information on thin capitalisation, see [appendix 3](#).

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. This is also subject to the operation of any relevant double tax agreements (DTAs). 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 2013 – for more information, phone **13 28 66**.

If an amount of lease expense is not allowable as a deduction – such as amounts disallowed under the thin capitalisation rules – add back the amount at **B** Expense reconciliation adjustments.

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
- full particulars of the lease expenses for each item, including motor vehicles, showing
 - to whom 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 the arrangement including to whom the payments were made
- details of use other than for producing assessable income
- any documentation on or relating to the lease of the items.

Rent expenses

Show at **H** item **5** the expenditure incurred as a tenant for the rental of land and buildings used in the production of income.

Total interest expenses

Show at **I** item **5** the interest incurred on money borrowed within Australia and overseas that relates to producing Australian income and that is to acquire income-producing assets, to finance business operations or to meet current business expenses.

Even if the TOFA rules apply to the partnership, show at **I** all interest incurred on money borrowed within Australia and overseas to acquire income-producing assets, to finance business operations or to meet current business expenses. This includes interest from financial arrangements subject to the TOFA rules.

Do not include interest expenses claimable against rental income – these interest deductions are shown at **G** item **9**.

An amount of tax (withholding tax) is generally withheld from interest paid or payable to non-residents and to overseas branches of residents. You must remit this 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 2013. For more information, phone **13 28 66**.

The thin capitalisation rules may apply to reduce interest deductions. These rules place a limit on the amount of interest and other loan costs that can be deducted for Australian tax purposes. For more information, see [appendix 3](#). Include the disallowed amount at **B Expense reconciliation adjustments**.

You may not be able to claim interest in certain situations – for example, if it has been incurred for private or domestic purposes.

If what you show at **I** includes an amount which is brought to account under the TOFA rules, also complete item **31 Taxation of financial arrangements (TOFA)**.

Show the amount of interest not allowable at **B Expense reconciliation adjustments**.

For more information, see the [Guide to the taxation of financial arrangements \(TOFA\) rules](#).

Record keeping

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

- name and address of recipient
- amount of interest paid or credited
- amount of withholding tax withheld and the date on which it was remitted to the ATO
- the period in which the payments were made
- the ABN or TFN (if known).

Total royalty expenses

Show at **J** the royalty expenses for the income year. Include royalties paid to residents and non-residents.

An amount of withholding tax is generally withheld from royalties paid or payable to non-residents and to overseas branches of residents. You must remit this to the ATO. If you have withheld amounts from payments to non-residents, you may need to lodge a *PAYG withholding form interest dividend and royalty payments paid to non-residents – annual report* by 31 October 2013. For more information, phone **13 28 66**.

Record keeping

Keep a record of the following:

- name and address 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 the ATO.

For more information, see [appendix 2](#).

Depreciation expenses

If the partnership is an eligible small business entity and has chosen to use the simplified depreciation rules, see [Small business entities](#) and the information for **All other partnerships** below.

All other partnerships

Show at **K** the book depreciation expenses for depreciating assets other than for those assets allocated in a prior year to a general small business pool or the former long-life small business pool. For assets allocated to such a pool, include at this entry the amount of the pool deduction to be claimed for tax purposes. See [Small business entities](#) for information about small business entity depreciation deductions.

The amount at **K** does not include:

- profit on the sale of a depreciating asset, shown at **G** or **H Other business income**
- loss on the sale of a depreciating asset, shown at **N All other expenses**.

The accounting or book depreciation may differ from the deduction for the decline in value of depreciating assets. Reconcile the deduction for the decline in value of depreciating assets with accounting depreciation at **B Expense reconciliation adjustments**.

For more information about deductions for the decline in value of depreciating assets, see [appendix 6](#).

Simplifying tax obligations for business

Our [PS LA 2003/8](#) *Taxation treatment of expenditure on low cost items for taxpayers carrying on a business* provides guidance on two straightforward methods which can be used by taxpayers carrying on a business to help determine whether expenditure incurred to acquire certain low-cost items is to be treated as revenue or capital.

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

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

by the ATO.

Small business entities

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

Small business entities can claim an immediate deduction for most depreciating assets costing less than \$6,500 (excluding input tax credit entitlements) and pool most of their other depreciating assets in a general small business pool.

The depreciation rules for claiming a motor vehicle deduction are slightly different to other assets.

Small business entities claiming a deduction for each eligible motor vehicle acquired this income year calculate the deduction in the following way:

- If the cost of the motor vehicle is less than \$6,500 you can claim the taxable purpose proportion of the cost as an immediate deduction.
- If the cost of the motor vehicle is \$6,500 or more, it is allocated to the general small business pool. If the taxable purpose proportion of the cost is:
 - more than \$5,000, the deduction is \$5,000 plus 15% of the remaining amount
 - \$5,000 or less, you are limited to that amount as the deduction.

A small business entity choosing to use these simplified depreciation rules must use both the immediate write-off and the pooling, where applicable. You can't choose to use one and not the other.

Some depreciating assets are excluded from these simplified depreciation rules, but you may be able to claim a deduction under the UCA rules. For example, horticultural plants (including grapevines) are excluded from the small business entity depreciation rules and are deducted under special UCA provisions in [appendix 6](#).

Assets that are leased out, or will be leased out, by a small business entity for more than 50% of the time on a depreciating asset lease are specifically excluded from the simplified depreciation rules. You can generally claim a deduction under the UCA provisions.

This exclusion does not apply to depreciating assets a taxpayer leases out under a hire-purchase agreement or a short-term hire agreement.

For certain depreciating assets used by a small business entity in the course of carrying on a business of primary production, a taxpayer can choose whether to use these simplified depreciation provisions or specific UCA provisions. The specific UCA provisions are those applying to landcare operations, water facilities, electricity connections

and telephone lines. For more information on these specific UCA provisions, see [appendix 6](#).

As the small business entity depreciation rules apply only to depreciating assets, certain capital expenditure incurred by a small business entity which does not form part of the cost of a depreciating asset may be deducted under the UCA provisions for deducting capital expenditure. This includes capital expenditure on certain business-related costs and amounts directly connected with a project. Do not include these amounts at **K** – show the amount that you can claim as a deduction at **B Expense reconciliation adjustments**. For more information, see [appendix 6](#).

For more information about the small business entity depreciation rules, see [Concessions for small business entities](#) (NAT 71874), or phone **13 28 66**.

Calculating depreciation deductions for small business entities

Only use steps 1 to 6 below to calculate the depreciation deductions if the partnership is an eligible small business entity and has chosen to use these simplified depreciation rules.

If the profit and loss statement of the partnership provides the amounts to complete [table 2](#), write these amounts in the table – otherwise, use steps 1 to 6 to calculate the depreciation deductions.

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

Table 1: Explanation of terms

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

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

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

Taxable purpose includes the purpose of producing assessable income.

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

Termination value includes money received from the sale of an asset or insurance money received as the result of the loss or destruction of an asset. Exclude the GST component where the amount received is for a taxable supply.

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

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

adjustable value.

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 costs of demolishing the asset).

Step 1

Deduction for certain assets costing less than \$6,500

For each depreciating asset:

- which the partnership 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 \$6,500 (excluding input tax credit entitlements), and
- 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). Calculate the deduction for each eligible asset as follows:

Asset's adjustable value	X	its taxable purpose proportion
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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 partnership solely for private purposes. For example, for a computer bought on 1 December at a cost of \$4,800 (excluding input tax credit entitlements) and used for producing assessable income from that date at an estimated 70% of the time, the immediate deduction would be $\$4,800 \times 70\% = \$3,360$.

Add up these results and write the total at (a) in [table 2](#).

Do **not** include in this calculation:

- amounts for depreciating assets the partnership started to hold prior to commencing to use the simplified depreciation rules and that cost less than \$6,500. Allocate these assets to the general small business pool (see step 2 below).
- amounts for depreciating assets that cost \$6,500 or more, but the taxable purpose proportion determines an amount to be deducted of less than \$6,500. Such assets must be allocated to the general small business pool (see step 2). For example, if the computer above cost \$6,800, the taxable purpose proportion is \$4,760 ($\$6,800 \times 70\%$), which is less than the \$6,500 instant deduction threshold. However, the computer must still be allocated to the general small business pool because its cost is above \$6,500.

Step 2

General small business pool deductions

To calculate the deductions for the general small business pool, you must first calculate the opening pool balance of the pool.

The opening pool balance of the general small business pool is the closing pool balance for the previous income year, except where an adjustment is made to reflect the changed business use of a pooled asset. For the 2012-13 income year, the opening balance of the general small business pool will also include the closing balance of a long life pool that was used in the 2011-12 income year.

Example:

Chantal's Café is a small business entity and at the end of the 2011-12 income year the closing balance of its long life pool was \$8,000 and the closing balance of its general small business pool was \$10,000. For the 2012-13 income year, Chantal's Café long life pool no longer exists, but its general small business pool opening balance is now \$18,000.

For partnerships 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 the 2012-13 income year, and that are not excluded from the simplified depreciation rules. When allocating each depreciating asset the partnership 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 \$10,000 which is used only 50% for an income-producing purpose, add only \$5,000 to the pool.

The partnership 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 partnership making this choice would depreciate such assets under the normal uniform capital allowance (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 as follows:

General small business pool deduction =	opening pool balance (\$) X 30%
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If necessary, make a reasonable apportionment for the general small business pool deduction between primary production and non-primary production activities.

Write the result of the general small business pool deduction at (b) in [table 2](#).

If the pool balance (after taking into account additions and disposals but before calculating the deductions in steps 2, 3 and 4) is less than \$6,500, calculate the deduction for the pool using [step 6\(b\)](#).

Step 3

Depreciating assets, other than eligible motor vehicles, first used for a taxable purpose during the income year and cost addition amounts for assets already allocated to a pool

Calculate the deduction at half the pool rate for:

- depreciating assets that the partnership first used or installed ready for use for a taxable purpose during the year, and
- cost addition amounts for assets already allocated to a pool.

Calculate 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 X 15% (general small business pool assets), plus
- the taxable purpose proportion of cost addition amounts X 15% (general small business pool assets).

Write the total deduction for general small business pool assets at (c) in [table 2](#).

If the pool balance (after taking into account additions and disposals but before calculating the deductions in steps 2, 3 and 4) is less than \$6,500, calculate the deduction for these assets using [step 6\(b\)](#).

Step 4

Special depreciation rules for eligible motor vehicles

From 1 July 2012, small businesses can claim up to \$5,000 as an immediate deduction for an eligible motor vehicle they started to hold in 2012–13 and used, or installed ready for use, for a taxable purpose.

An eligible vehicle is generally a motor powered road vehicle (including four wheel drive vehicles), but excludes road vehicles that are not used on public roads, or only travel on public roads as a secondary function to their main use (for example, earthmoving equipment, tractors, graders etc). Eligible motor vehicles include cars, trucks, vans and utilities.

An eligible motor vehicle can be purchased new or second-hand.

(a) Low-cost motor vehicles

For motor vehicles costing less than \$6,500, an immediate deduction is available as per Step 1 above and the special motor vehicle depreciation rules do not apply.

(b) Adjustable value of the motor vehicle is more than \$5,000

Each eligible motor vehicle subject to the special depreciation rules must be allocated to the general small business pool. Where the taxable purpose proportion of the adjustable value of an eligible motor

vehicle is more than \$5,000, the deduction for the start year comprises:

(i) \$5,000 and

(ii) $15\% \times (\text{the taxable purpose proportion} \times \text{the adjustable value of the motor vehicle}) - \$5,000$

Add up the totals of (i) and (ii) for each eligible motor vehicle at (d) in **table 2**.

(c) Adjustable value of the motor vehicle is less than \$5,000

If the taxable purpose proportion of the adjustable value of an eligible motor vehicle is \$5,000 or less, the deduction in the start year is that amount and this is included at (d) in table 2.

Where a motor vehicle is allocated to a small business pool with a balance (after taking into account additions and disposals but before calculating the deductions in steps 2, 3 and 4) below \$6,500, calculate the partnership's deduction for these assets using [step 6\(b\)](#). The deductions for the motor vehicle are included in this deduction for the general small business pool and no further deductions are available under the special depreciation rules for eligible motor vehicles.

Step 5

Other depreciating assets

Calculate the deduction for the decline in value of all other depreciating assets that are not included in steps 1 to 3. For more information, see [appendix 6](#) and the [Guide to depreciating assets 2013](#). Write the total deduction at (e) in [table 2](#).

Step 6

[Disposal of depreciating assets](#)

(a) Certain assets (costing less than \$6,500) and low-cost assets in previous years

If the partnership has disposed of a depreciating asset (costing less than \$6,500) for which it has claimed an immediate deduction in calculation 1 this year or a low-cost asset for which it has claimed an immediate deduction in a prior year, include the taxable purpose proportion of the termination value at Reconciliation items item 5. For example, for a low-cost asset used only 50% for an income-producing purpose which was sold for \$200 (excluding GST) only \$100 will be assessable and included as a reconciliation adjustment.

[\(b\) Assets allocated to the general small business pool](#)

If the partnership disposes of depreciating assets 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 a pool (after taking into account any additions and disposals but before calculating the deductions in [steps 2, 3 and 4](#)) is less than \$6,500 but more than zero, the partnership can claim an immediate deduction for this amount – write this deduction against the general small business pool at (b) [table 2](#).

If the closing pool balance is less than zero, the amount below zero is included in assessable income at **Reconciliation items**. 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](#).

(c) Other depreciating assets

See the [Guide to depreciating assets 2013](#) for information on how to calculate any balancing adjustment amounts on the disposal of other depreciating assets. Include balancing adjustment amounts at **Reconciliation items** item 5 – see [worksheet 1](#).

[Table 2: Depreciation deductions \(small business entities only\)](#)

	Primary production (\$)	Non-primary production (\$)	Total (\$)
Certain assets (costing less than \$6,500)			(a)
General small business pool			(b)
General small business pool (1/2 rate)			(c)
Deduction for eligible motor vehicles			(d)
Other assets			(e)
Depreciation expenses Add up the amounts from (a) to (e).			(f)
Transfer the amount at (f) to depreciation expenses K item 5.			
Transfer the amount at (a) to A item 48.			
Transfer the total of the amounts at (b), (c) and (d) to B item 48.			

Closing pool balance

The closing balance of each 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 cost addition amounts for assets in the pool during the year (see [step 3](#)), **minus**
- the taxable purpose proportion of the termination value of any pooled assets disposed of during the year (see [step 6\(b\)](#)), **minus**
- the general small business pool deduction (see [step 2](#)), **minus**
- the deduction for assets first used by the taxpayer during the year (see [step 3](#)), **minus**
- the deduction for any eligible motor vehicle (see [step 4](#)), **minus**
- the deduction for any cost addition amounts for pooled assets during the year (see [step 3](#)).

If the closing pool balance is less than zero, see [step 6\(b\)](#).

The closing pool balance for this year becomes the opening pool balance for the next income year, except if an adjustment is made to reflect the changed business use of a pooled asset.

The closing pool balance is needed to work out the pool deduction next year. Do not write the closing pool balance on the tax return.

Five-year restriction

If the partnership is a small business entity and has chosen to use these simplified depreciation rules, but then, in a later year, it chooses to stop using this concession, the partnership cannot again choose to use the simplified depreciation rules until at least five years after the income year in which it chose to stop using the rules.

Motor vehicle expenses

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

- **G Lease expenses**
- **I Total interest expenses**
- **K Depreciation expenses.**

Special substantiation and calculation rules for car expenses apply to partnerships in which at least one partner is an individual.

Under these rules, motor vehicle expenses can be claimed using one of four methods where the expense is for a motor car, station wagon,

panel van, utility truck or other road vehicle designed to carry a load less than one tonne or fewer than nine passengers. For an explanation of these methods, see question **D1** in the *Individual tax return instructions 2013*.

Print **N** in the **CODE** box if there is an amount shown at **L** and this amount relates to a:

- motorcycle
- taxi taken on hire
- road vehicle designed to carry a load of one tonne or more, or nine or more passengers.

In all other cases, print in the **CODE** box the code from [table 3](#) that determines the method used to claim motor vehicle expenses applicable to the partnership.

If the partnership has more than one vehicle and uses a different method to claim motor vehicle expenses for each vehicle, use the code applicable to the largest claim.

[Table 3: Motor vehicle expense claim methods](#)

Code	Method used
S	Cents per km
T	12% of original value
O	One-third of actual expenses
B	Logbook

Show any adjustment for tax purposes to the motor vehicle expenses included in the profit and loss statement at **B Expense reconciliation adjustments** item **5**. To calculate the amount of the expense reconciliation adjustment, see [worksheet 1](#).

Repairs and maintenance

Show at **M** the expenditure on repairs and maintenance of plant, machinery, implements and premises.

Write back any non-deductible expenditure, such as items of a capital nature or amounts relating to private use of an item shown at **M**, at **B Expense reconciliation adjustments**. The following information will help you work out whether you should make an expense reconciliation adjustment.

Repairs

As long as it is not expenditure of a capital nature, you may deduct the cost of repairs to property, plant, machinery or equipment used solely

for producing assessable income or in carrying on a business. You can only deduct expenditure on repairs to property used partially for business or income-producing purposes to an extent that is reasonable in the circumstances – for example, if the property is used for private purposes, or in the production of exempt income.

If items are newly acquired, including items acquired 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.

For more information on deductions for repairs, see [TR 97/23](#) - *Income tax: deductions for repairs*.

Record keeping

To support any claim for repairs, keep source records showing full details of the nature and cost of repairs to each item.

All other expenses

Show at **N** the total of all other business expenses for the income year which have not already been included at **P** to **M** – for example, travel expenses.

- Write back capital and other non-deductible items included at **N** at **B Expense reconciliation adjustments**.
- If you have included an amount for a loss on the sale of a depreciating asset at **N** – see [appendix 6](#).
- Calculation of some deductions may be affected by the commercial debt forgiveness provisions – see [appendix 4](#).
- Expenses that are costs associated with borrowing and servicing debt should only be included here if they relate to producing Australian income and have not already been included at **I**. These amounts may not be allowable under the thin capitalisation rules. For more information, see [appendix 3](#). Include the non-deductible amount at **B Expense reconciliation adjustments**.
- If what you show at **N** includes an amount which is brought to account under the TOFA rules, also complete item **31 Taxation of financial arrangements (TOFA)**.

For more information, see the [Guide to the taxation of financial arrangements \(TOFA\) rules](#).

Total expenses

Show at **O** the total of all expense items shown at **P** to **N**.

If there is a negative amount at **E Cost of sales** which exceeds the sum of expenses at shown at **P** to **D** and **F** to **N**, print **L** in the box at the right of the amount shown at **O**.

Reconciliation items

The reconciliation adjustments reconcile operating profit or loss as shown in the profit or loss account (the accounts) with the net income or loss for income tax purposes.

If the partnership has included any amounts such as exempt income or non-deductible expenses in the accounts, or has not included amounts which are assessable income or expenditure that is deductible, work out the reconciliation adjustments.

Income reconciliation adjustments

Show at **A** the net income-related reconciliation adjustments. The amounts included here are **either** add backs that increase the net adjustment **or** subtractions that reduce it.

- **Income add backs** are amounts not shown in the accounts, but which are assessable income, including timing adjustments. These items increase the total shown at **A**. Examples include:
 - any excess of the tax value of closing stock over the tax value of opening stock (other than small business entities using the simplified trading stock rules) see [Opening stock](#) and [Closing stock](#)
 - assessable balancing adjustment amounts on depreciating assets, see [appendix 6](#)
 - limited recourse debt amounts, see [appendix 6](#)
 - other assessable income not included in the accounts, former STS taxpayers should see [Former STS taxpayers](#).
- **Income subtractions** are income shown in the accounts, but which are not assessable income, including timing adjustments. These items reduce the total shown at **A**. Examples include:
 - exempt income, including income exempt from Australian tax under a double tax agreement (DTA)
 - profit on the sale of a depreciating asset, see [appendix 6](#)
 - personal services income included in the assessable income of an individual (attributed amount), see [30 Personal services income](#)
 - other income shown in the accounts which is not assessable for income tax purposes, former STS taxpayers should see [Former STS taxpayers](#).

To calculate the net amount of the income reconciliation adjustments, see [worksheet 1](#).

If the **income subtractions** exceed the **income add backs**, the total is a negative amount. Print **L** in the box at the right of the amount shown

at **A**.

Expense reconciliation adjustments

Show at **B** the net expense-related reconciliation adjustments. The amounts included here are either add backs that increase the net adjustment or subtractions that reduce it.

- **Expense add backs** are expenses shown in the accounts which are either not tax deductible or are only partly tax deductible, including timing adjustments. These items increase the total shown at **B**. Examples include:
 - additions to provisions and reserves
 - capital expenditure
 - certain expenses relating to personal services income that are not deductible – see item [30 Personal services income](#)
 - debt deductions denied by the thin capitalisation provisions – see [appendix 3](#)
 - depreciation expenses*
 - expenses relating to exempt income, including expenses relating to DTA exempt income
 - hire-purchase payments – see [appendix 6](#)
 - income tax expense
 - loss on the sale of a depreciating asset – see [appendix 6](#)
 - luxury car lease payments – see [appendix 6](#)
 - part of prepaid expenses not deductible this year – see [Prepaid expenses](#)
 - penalties and fines
 - other non-deductible expenses – former STS taxpayers should see [Former STS taxpayers](#).

*Only add back amounts of depreciation expenses if the partnership is not a small business entity using the simplified depreciation rules. However, exclude any small business pool deductions shown at **K**
Depreciation expenses.

- **Expense subtractions** are amounts not shown as expenses in the accounts, but which are tax deductible, including timing adjustments. These items reduce the total amount shown at **B**. Examples include:
 - any excess of the tax value of opening stock over the tax value of closing stock – see [Trading stock on hand](#)
 - any expenditure incurred under [Subdivision 40-J](#) of the ITAA 1997 to establish trees in carbon sink forests

- deductible balancing adjustment amounts on depreciating assets
– see [appendix 6](#)
- deduction for decline in value of depreciating assets (other than partnerships using the small business entity depreciation rules) – see [appendix 6](#)
- deduction for environmental protection expenses – see [appendix 6](#)
- deduction for project pool – see [appendix 6](#)
- hire-purchase agreements, interest component– see [appendix 6](#)
- luxury car leases, accrual amount – see [appendix 6](#)
- part of prepaid expenses deductible this year, but not shown in accounts – see [Prepaid expenses](#)
- section 40–880 deduction – see [appendix 6](#)
- TOFA rules deduction not shown in accounts
- other deductible items – former STS taxpayers should see below.

If the **expense subtractions** exceed the **expense add backs**, the total is a negative amount. Print **L** in the box at the right of the amount shown at **B**.

To calculate the net amount of the expense reconciliation adjustments, see [worksheet 1](#).

Specific reconciliation adjustments

Former STS taxpayers

If the partnership is eligible and is continuing to use the STS accounting method, you may need to make additional adjustments – see [continued use of the STS accounting method](#) and [appendix 14](#).

You will need to make adjustments at **Reconciliation items** item **5** if:

- the partnership is using the STS accounting method, and the amounts shown at item **5** sections are not based on the STS accounting method, or
- the partnership stops using the STS accounting method.

These adjustments are explained in more detail below. [Worksheet 1](#) will help with the calculations. See also [appendix 14](#).

Trade debtors and creditors as at 30 June 2013

If the partnership is eligible, has chosen to continue using the STS accounting method and has included at any income labels at item **5**, amounts of ordinary income that have been derived but not received in 2012–13, the amounts not received are not assessable – for example, trade debtors as at 30 June 2013.

Show these amounts as income subtractions at **A Income reconciliation adjustments**.

If the partnership is eligible, has chosen to continue using the STS accounting method and has included at any expense labels at item **5** amounts of general deductions, repairs or tax-related expenses that have been incurred but not paid in 2012–13, then the amounts not paid are not deductible – for example, trade creditors as at 30 June 2013.

Show these amounts as expense add backs at **B Expense reconciliation adjustments**.

Adjustments when ceasing to use the STS accounting method

If the partnership has discontinued using the STS accounting method and changed to an accruals accounting method this year, read below.

If the partnership has previously not included at any income label at item **5** amounts of ordinary income that were derived but not received while using the STS accounting method, these amounts are assessable this year – for example, trade debtors as at 30 June 2012.

Show these amounts as income add backs at **A Income reconciliation adjustments**.

If the partnership has previously not included at any expense labels at item **5** amounts of general deductions, repairs or tax-related expenses that were incurred but not paid while using the STS accounting method, these amounts are deductible this year – for example, trade creditors as at 30 June 2012.

Show these amounts as expense subtractions at **B Expense reconciliation adjustments** unless they are tax-related expenses – include the deduction for tax-related expenses at item **18**.

Disposal of depreciating assets

If the partnership has disposed of depreciating assets during the income year, the following amounts (if any) are income add backs at **A Income reconciliation adjustments**:

- taxable purpose proportion of the termination value of certain assets (costing less than \$6,500) disposed of, for which an immediate deduction has been claimed in the current year
- taxable purpose proportion of the termination value of low-cost assets disposed of, for which an immediate deduction has been claimed in a prior year
- if the closing pool balance of the general small business pool is less than zero, the amount below zero
- assessable balancing adjustment amounts on the disposal of depreciating assets not subject to the small business entity depreciation rules.

Show any deductible balancing adjustment amounts on the disposal of depreciating assets not subject to the small business entity

depreciation rules as expense subtractions at **B Expense reconciliation adjustments**.

Prepaid expenses (immediate deduction)

Generally, prepaid expenses are deductible over the eligible service period or 10 years if that is less.

The eligible service period is broadly the period over which you will receive the goods or services.

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. If the eligible service period is more than 12 months, or ends after the next year of income, you must apportion the deduction for the expenditure over the eligible service period or 10 years, whichever is less. For more information, see *Deductions for prepaid expenses 2012–13* (NAT 4170). If expense labels include prepaid expenses that differ from the amounts allowable as deductions in the 2012–13 income year, make the reconciliation adjustment at **B Expense reconciliation adjustments**.

Prepaid expenses (apportionment)

The partnership's total deduction for prepaid expenses in the 2012–13 income year may comprise **two** components:

- the part of prepaid expenses incurred in the 2012–13 income year which relates to that income year, and
- that part of the 2011–12 or earlier income year's expenses not deductible in that income year, but which is deductible in the 2012–13 income year under the prepayment rules.

For more information, see *Deductions for prepaid expenses 2012–13* (NAT 4170).

If any expenses labels include prepaid expenses which differ from the amounts allowable as deductions in the 2012–13 income year, make the reconciliation adjustment at **B Expense reconciliation adjustments**.

Trading stock on hand (other than small business entities using the simplified trading stock rules)

Reconciliation adjustments will be required where the tax values of trading stock on hand have not been used in calculating the amount shown at **E Cost of sales** item **5**. Any excess of the tax value of closing stock over the tax value of opening stock would be an income add back. Any excess of the tax value of opening stock over the tax value of closing stock would be an expense subtraction. If you have used accounting values for trading stock on hand in calculating the amount shown at **E Cost of sales**, you will need to take further reconciliation adjustments from those amounts.

For more information on the tax value of trading stock, see item [38 Opening stock](#) and item [40 Closing stock](#).

Taxation of financial arrangements (TOFA)

If what you show at **A Income reconciliation adjustments** or **B Expense reconciliation adjustments** includes an amount which is brought to account under the TOFA rules, also complete item **31 Taxation of financial arrangements (TOFA)**.

For more information, see the [Guide to the taxation of financial arrangements \(TOFA\) rules](#).

Net income or loss from business

The net income or loss from business is total business income **minus** total expenses incurred in producing that income, adjusted by any reconciliation items.

Show the net income or loss from business at:

- **Q** for primary production, and
- **R** for non-primary production.

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

Show at **S**:

- Total business income, **minus**
- **O Total expenses, plus or minus**
- **A Income reconciliation adjustments** and **B Expense reconciliation adjustments**.

The sum of the net income or loss from business at:

- **Q** for primary production, and
- **R** for non-primary production

equals the amount shown at **S**.

If the amount at **S** is an overall loss, print **L** in the box at the right of the amount.

6 Tax withheld



8 Partnerships and trusts



9 Rent

10 Forestry managed investment scheme income



11 Gross interest



12 Dividends



14 Other Australian income



15 Total of items 5 to 14



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6 Tax withheld

Last updated 12 February 2019

Tax withheld where ABN not quoted

Show at **T** the total of amounts withheld from income subject to withholding where an ABN was not quoted. This amount equals the sum of the amounts shown in the tax withheld boxes on the *Non-individual PAYG payment summary schedule 2013*. For instructions on completing the schedule, see [Non-individual PAYG payment summary schedule 2013](#).

Do not include any share of amounts withheld that is a distribution from another partnership or trust where an ABN was not quoted – show this at **C** item **8**.

If you show an amount of tax withheld at **T** item **6**, then declare the corresponding gross income at **C** and **D Gross payments where ABN not quoted** item **5**, as appropriate.

Credit for tax withheld – foreign resident withholding

You only complete this entry if the amount was withheld in Australia and remitted to the ATO.

Show at **U** the total amount of tax withheld from payments subject to foreign resident withholding. Do not include any share of foreign resident withholding credits distributed to the partnership from other partnerships or trusts.

If a credit is claimed **U** for tax withheld under foreign resident withholding, you must show the corresponding gross payments subject to foreign resident withholding at **B** item **5**.

Only foreign residents should complete this entry. An Australian resident should not claim a foreign income tax offset at this entry.

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8 Partnerships and trusts

Last updated 12 February 2019

The partnership's income from another partnership includes income or a loss which the partnership received, was entitled to receive, or was entitled to deduct in respect of that other partnership.

The partnership's income from a trust includes the partnership's share of the net income (for tax purposes) of the trust which generally corresponds to the percentage share of the trust's distributable income which the partnership received or was entitled to receive as a beneficiary under a will, settlement, and deed of gift or other instrument of trust.

Distributions from another partnership or a share of the net income of a trust includes the share of any:

- TFN amounts withheld from interest, dividends and unit trust distributions
- franking credits attached to franked dividends received indirectly from an Australian franking company
- amounts withheld where an ABN was not quoted
- TFN amounts withheld from payments by the trustee of a closely held trust because a TFN was not provided.

Copy the details from any statements of distribution or advice received from the other partnerships and trusts to [worksheet 2](#). This is the partnership's record if the ATO needs more details later.

If the partnership or trust statement of distribution or advice includes an amount described as dividends or franking credits from a New Zealand franking company, do not include these at item **8** – show these amounts at item **23 Other assessable foreign source income**.

Do not include any payments and loans received from trustees or amounts that are debts forgiven by trustees that are treated as dividends under Division 7A of Part III of the ITAA 1936 – show these amounts at **K** item **12** if they are unfranked.

However, Division 7A of Part III was amended to enable certain amounts treated as dividends to be franked. If the amounts are franked, show them at **L** item **12** – see **unfranked amount** and **franked amount** below.

If a partnership or trust statement of distribution or advice includes amounts described as foreign income or capital gains, Do not include these at item **8** – show foreign income at:

- item **22 Attributed foreign income**, and
- item **23 Other assessable foreign source income**.

A partnership does not own assets for CGT purposes. A partnership asset is owned by the partners in the proportion to which they have agreed. If a CGT event happens for a partnership during the year or to one of its CGT assets, or the partnership receives a share of a capital gain from a trust, any capital gain or capital loss is made by the partners individually. Each partner must calculate their capital gain or capital loss by reference to the partnership agreement, or to partnership law if there is no agreement, and include it on their own tax return. For more information on how a partner returns their share of a capital gain or capital loss, see the [Guide to capital gains tax 2012–13](#).

To the extent that family trust distribution tax (FTDT) has been paid on an amount that would otherwise be assessable to the partnership, that amount is excluded from the assessable income of the partnership under [section 271-105](#) of Schedule 2F to the ITAA 1936.

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

For more information about the circumstances in which FTDT is payable, see [Family trust distribution tax](#).

If trustee beneficiary non-disclosure tax (TBNT) has been paid in respect of an amount that would otherwise be assessable to the partnership, that amount is excluded from the assessable income of the partnership.

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 partnership 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.

Primary production

Distribution from partnerships

Show at **A** the amount of primary production income or loss distribution from other partnerships.

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

Share of net income from trusts

Show at **Z** the partnership's share of primary production income which has been included in the net income (for tax purposes) of the trust. The statement of distribution or advice from the trust should separately show this amount. This amount should include the partnership's share of primary production income which has been included in the net income of the trust where the partnership became presently entitled to primary production income of the trust in the income year, but has not yet received it.

If the partnership's share of primary production income included in the net income of the trust is zero because the trust has made a loss from its primary production activities, print **L** in the box at the right of the amount. Show a loss at **Z** only if it is a component of an overall distribution of net income from the same trust.

If this amount is not a loss, in the box at the right of **Z** print the code from [Table 4](#) that best describes the type of trust from which the distribution is made. If this amount is from more than one type of trust, print the code that represents the trust with the greatest amount of distribution.

Table 4: Trust Codes	
Code	Type
D	Deceased estate
F	Fixed trust, other than a fixed unit trust or public unit trust described in U , P or Q
H	Hybrid trust
S	Discretionary trust, where the main source of income of the trust is from service and 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 unit trust described in P or Q
P	Public unit trust (listed), other than a cash management unit trust
Q	Public unit trust (unlisted), other than a cash management unit trust

Deductions relating to amounts shown at A and Z

Show at **S** the partnership's deductions for its own expenses relating to primary production distributions from other partnerships or share of net income from trusts. Also show at **S** the partnership's deductions for its own expenses in deriving its share of primary production income which has been included in the net income (for tax purposes) of a trust. Note that expenses incurred on behalf of the trust are not able to be deducted by the partnership.

If you have prepaid any expenses, the amount that you can claim at **S** may be affected by the prepayment provisions – for more information, see *Deductions for prepaid expenses 2012–13* (NAT 4170).

Expenses listed here that are costs associated with borrowing and servicing debt may not be allowable deductions under the thin capitalisation rules – for more information, see [appendix 3](#). The disallowed amount reduces the amount that would otherwise be included at **S**.

Net primary production amount

Show at this entry the net result of adding partnership distributions of primary production income and the partnership's share of primary production income that has been included in the net income (for tax purposes) of a trust minus allowable deductions related to that income.

Write the total amount in the box at **Net primary production amount**. If this amount is a loss, print **L** in the box at the right of the amount.

Non-primary production

Distribution from partnerships, less foreign income

Show at **B** the amount of non-primary production income or loss distributions from other partnerships – include any share of credit for

tax withheld in Australia due to foreign resident withholding that is attached to the distribution. (You also include the share of credit at **U** item **8**).

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

If the distribution includes franked dividends from a franking entity, check the statement of distribution or advice detailing the distribution to ensure that the amounts to be included at this entry represent both the partnership's share of the franked dividend and its share of the franking credit attached to the franked dividend. The franking credit is included at **D** item **8**.

Do not show any dividends or franking credits indirectly received attributable to distributions from a New Zealand franking company at this entry. If the partnership received dividends or franking credits indirectly from a New Zealand franking company, see item [23 Other assessable foreign source income](#).

If the partnership received a distribution from another partnership, and that other partnership claimed a deduction for a listed investment company (LIC) capital gain amount, then the partnership must add back its share of the deduction claimed by the other partnership at item **14 Other Australian income**.

Share of net income from trusts, less capital gains, foreign income and franked distributions

Show at **R** the partnership's share of the non-primary production income which was included in the net income (for tax purposes) of trusts. The statement of distribution or advice from the trusts should separately show this amount. Include any share of credit for tax withheld in Australia due to foreign resident withholding that is attached to the distribution. (Also include the share of credit for tax withheld from foreign resident withholding at **U** item **8**.)

The partnership's share of franked distributions from trusts and its share of the franking credits referable to those franked distributions (the franking credit 'gross-up') are no longer included at the amount shown at **R**. These amounts are now included at **F**. The franking credit is also included at **D** item **8** – see [Franked distributions from trusts](#), for further instructions on this amount. However, these amounts are still relevant to working out whether the overall share of net income (for tax purposes) from non-primary production activities is a positive amount.

Do not show the partnership's share of any non-primary production income included in the net income of a trust that includes any dividends or franking credits indirectly received which were attributable to distributions from a New Zealand franking company at

this entry – instead, see item [23 Other assessable foreign source income](#).

In working out the partnership's share of non-primary production income that was included in the net income (for tax purposes) of a trust, amounts to which the partnership became presently entitled in the income year but has not yet received should also be taken into account.

Although for tax purposes a trust cannot distribute a loss, in certain circumstances a trust may have made a loss in relation to its non-primary production activities and yet still have a positive amount of net income because its share of primary production income included in the net income for tax purposes is positive. In these circumstances, for the purposes of certain provisions relating to primary producers, it may be necessary to identify where the partnership's share of net income from a trust related to non-primary production activities is a loss and record this at **R**.

If the partnership's share of non-primary production income which was included in the net income (for tax purposes) of a trust is a loss, print **L** in the box at the right of the amount. Show a loss at **R** only if the amount is a component of an overall distribution of net income from the same trust. The loss at **R** should be adjusted for any amounts shown at **F** and **G** relating to franked distributions from trusts.

If this amount is not a loss, in the box at the right of **R** print the code from [Table 4](#) that best describes the type of trust from which the distribution is made. If this amount is from more than one type of trust, print the code that represents the trust with the greatest amount of distribution.

If the partnership received or was entitled to receive income from a trust, and that trust claimed a deduction for a listed investment company (LIC) capital gain amount, then the partnership must add back its share of the deduction allowed to the trust at item **14 Other Australian income**.

Deductions relating to amounts shown at B and R

Show at **T** the partnership's deductions for its own expenses relating to non-primary production distributions from other partnerships or share of net income from trusts, except those deductions which are directly related to the earning of franked distributions from trusts which are shown at **G**. Also show at **T** the partnership's own expenses incurred in deriving its share of non-primary production income which has been included in the net income (for tax purposes) of a trust. Note that expenses incurred on behalf of a trust are not able to be deducted by the trust.

If any expenses have been prepaid, the amount that you can claim at **T** may be affected by the prepayment provisions – for more information,

see *Deductions for prepaid expenses 2012–13*.

Expenses listed here (and where relevant at **G** relating to franked distributions from trusts) that are costs associated with borrowing and servicing debt may not be allowable deductions under the thin capitalisation rules – for more information, see [appendix 3](#). The disallowed amount reduces the amount that would otherwise go at **T**.

If FTDT has been paid on the income or capital of another partnership or trust that the partnership is entitled to or which has been distributed to the partnership, an amount is excluded from the partnership's assessable income under [section 271-105](#) of Schedule 2F of the ITAA 1936. Do not show this at **A, Z, B** or **R** or **F**. You cannot claim a deduction for any losses or outgoings incurred in deriving an amount which is excluded from assessable income at **S, T** or **G** – for more information about the circumstances in which FTDT is payable, see [Family trust distribution tax](#).

If trustee beneficiary non-disclosure tax (TBNT) has been paid in respect of an amount that would otherwise be assessable to the partnership, that amount is excluded from the assessable income of the partnership. Do not show that income at **A, Z, B, R** or **F**. You cannot claim a deduction for any losses or outgoings incurred in deriving an amount which is excluded from assessable income at **S, T** or **G**.

[Franked distributions from trusts](#)

If the partnership's share of the non-primary production income included in the net income of a trust includes an amount described as franked dividends, franked distributions or attributable franked distributions, check the statement of distribution or advice detailing the distribution to ensure that the amounts to be included at this entry represent both the partnership's share of the franked distribution and its share of the franking credit attached to the franked distribution (the franking credit 'gross-up').

Show at **F** the partnership's share of the franked distribution (described as franked dividends, franked distributions or attributable franked distributions) plus its share of the franking credit attached to the franked distribution. The franking credit is also included at **D** item **8**.

Do not show any share of a trust's non-primary production income included in the net income of that trust that includes any dividends or franking credits indirectly received which were attributable to distributions from a New Zealand franking company at this entry – instead, see item [23 Other assessable foreign source income](#).

Deductions relating to franked distributions from trusts in Label F

Show at **G** the partnership's deductions for its own expenses incurred in deriving its share of the franked distributions from trusts at label **F**.

Net non-primary production amount

Show at this entry the net result of adding the partnership distributions of non-primary production income and the partnership's share of non-primary production income included in the trust's net income (for tax purposes), minus deductions related to that income, plus the net amount of the franked distributions from trusts, minus the deductions relating to the franked distributions from trusts.

Write the total amount in the box at **Net non-primary production amount**. If this amount is a loss, print **L** in the box at the right of the amount.

Share of credits from income

Share of credit for tax withheld where ABN not quoted

If the income shown at **A, Z, B, R** or **F** includes any share of amounts which have had tax withheld where an ABN was not quoted, show any share of credit for the tax withheld at **C**. The trust or partnership statement or distribution or advice should separately disclose this amount.

Share of franking credits from franked distributions

Show at **D** the partnership's share of any franking credits from a franking entity received through another partnership or trust.

Show franking credits received directly from a paying franking entity at **M** item **12**.

Do not show franking credits relating to a dividend received through another partnership or trust if **any** of the following apply:

- They were attributable to a distribution from a New Zealand franking company. If the partnership received franking credits indirectly from a New Zealand franking company, see item [23 Other assessable foreign source income](#).
- The holding period rule and related payments rule were not satisfied for the dividend – for more information, see [appendix 1](#).
- FTDT has been paid on the dividend paid or credited by a company which has made an interposed entity election. The dividend is excluded from assessable income under [section 271-105](#) of Schedule 2F to the ITAA 1936. A franking credit or tax offset cannot be claimed for any franking credit attached to that dividend – for more information about when FTDT is payable, see [Family trust distribution tax](#)

- Trustee beneficiary non-disclosure tax has been paid in respect of the dividend. A franking credit or tax offset cannot be claimed for any franking credit attached to that dividend.

Share of credit for TFN amounts withheld from interest, dividends and unit trust distributions

Unless an entity claimed an exemption or quoted a TFN, an investment body may withhold amounts from interest, dividends or income of a unit trust to which a beneficiary is presently entitled – these are called 'TFN amounts withheld'. The current rate is 46.5% of the payment made.

Show at **E** the partnership's share of any credit for TFN amounts withheld from amounts of interest, dividends and income of unit trusts to which a beneficiary is presently entitled, that are received from other partnerships or trusts. Credits for TFN amounts withheld are allowed in the assessments of the partners.

Share of credit for TFN amounts withheld from payments from closely held trusts

Where a beneficiary of a closely held trust does not provide their TFN to the trustee, the trustee may be required to withhold from payments or distributions.

Show at **O** the amounts withheld from payments where a TFN has not been provided to the trustee of a closely held trust.

If amounts have been withheld from distributions to the partnership under these rules, the partnership is required to receive an annual payment summary in the [approved form](#) from the trustee.

Share of credit for tax withheld from foreign resident withholding

Amounts may be withheld in Australia from some payments made to certain partnerships or trusts due to the operation of the foreign resident withholding measure. These payments relate to entertainment or sports activities, construction and related activities, and casino gaming junket activities.

Show at **U** the partnership's share of any foreign resident withholding credits received from other partnerships and trusts. Ensure this amount is included in the gross distribution amount shown at **B Distribution from partnerships, less foreign income** or **R Share of net income from trusts, less capital gains, foreign income and franked distributions**.

Taxation of financial arrangements (TOFA)

Even if the TOFA rules apply to the partnership, show at item **8 Partnerships and trusts** all primary production and non-primary production amounts from partnerships and trusts, or deductions relating to such amounts. This includes amounts from financial arrangements subject to the TOFA rules.

If what you show at item **8 Partnerships and trusts** includes an amount which is brought to account under the TOFA rules, also complete item **31 Taxation of financial arrangements (TOFA)**.

For more information, see the [Guide to the taxation of financial arrangements \(TOFA\) rules](#).

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9 Rent

Last updated 12 February 2019

Former STS taxpayers still using the STS accounting method

If the partnership is eligible and has chosen to continue using the STS accounting method, base the gross rent at **F**, interest deductions at **G**, and general deductions and repairs included at **H** on the STS accounting method – for more information, see [continued use of the STS accounting method](#).

Small business entities

Depreciating assets used in rental properties are generally excluded from the small business entity depreciation rules on the basis the assets are part of property that is subject to a depreciating asset lease. For more information, see the [Concessions for small business entities](#) (NAT 71874).

If the sole reason you derived income jointly (or in common) with another person was you were a part owner of a property available for rent, but you were not in a partnership carrying on a business of renting out properties, do not show any income or deductions from that rental property at this item. Show your share of the income or deductions at item **21 Rent** of your *Tax return for individuals (supplementary section) 2013* or the relevant items of the company, trust or fund tax return or the self-managed superannuation fund annual return.

To determine whether you are carrying on a business, see [TR 97/11](#) - *Income tax: am I carrying on a business of primary production?*

Income tests require each partner to report their share of the partnership rental property income or loss. If the rental income is merely investment income and not partnership business income, this should be reported in your individual income tax return at item **21** for rental income or losses. If your rental income is true partnership business income, you are required to complete item **9**, and show your net rental property income or loss at **H** item **50** and your share of net rental property income or loss at **K** item **51** – see item **50 Income tests** for more information.

Gross rent

Show at **F** the gross amount of rental income. This item cannot be a loss.

Rental income includes booking or letting fees, bond monies if the partnership becomes entitled to retain them, any insurance payouts that compensate for lost or forgone rent, and reimbursements from tenants of deductible expenses incurred.

If the partnership is registered for GST, and GST is payable for rental income, exclude the GST from gross rent at **F**.

Show rent from foreign sources at item **23 Other assessable foreign source income**.

Lease premium received from a CGT event

A capital gain or a capital loss made from the receipt of a lease premium is shown on each partner's own tax return.

For more information about CGT events involving leases, see the [Guide to capital gains tax 2012–13](#).

Interest deductions

If borrowed monies are used to finance a property investment, interest paid on the borrowing generally is deductible.

However, the thin capitalisation rules may apply to reduce interest deductions. These rules place a limit on the amount of interest and other borrowing costs that can be deducted for Australian tax purposes – for more information, see [appendix 3](#). The disallowed amount reduces the amount that would otherwise be included at **G**.

Even if the TOFA rules apply to the partnership, show at **G** all interest expense incurred on monies borrowed to finance a property – this includes interest expense from financial arrangements subject to the TOFA rules.

Show at **G** the total deductible amount of interest expense incurred in earning the rental income.

If what you show at **G** includes an amount which is brought to account under the TOFA rules, also complete item **31 Taxation of financial**

arrangements (TOFA).

For more information, see the [Guide to the taxation of financial arrangements \(TOFA\) rules](#).

Capital works deductions

Show at **X** the total capital works deductions amount for rental buildings only – for information on capital works deductions, see [appendix 5](#).

Other rental deductions

Show at **H** the total of other deductible expenses incurred in earning rental income.

If the partnership is registered for GST, and GST is payable for rental income, exclude any input tax credit entitlements that arise for expenses from the amount shown at **H**.

Expenses listed here that are costs associated with borrowing and servicing debt may not be allowable deductions under the thin capitalisation rules – for more information, see [appendix 3](#). The disallowed amount reduces the amount that would otherwise be shown at **H**.

Deductions for the decline in value of depreciating assets used to earn rental income are generally shown at **H**. However, if the partnership has allocated some of these assets to a low-value pool, you may need to show deductions at **18 Other deductions** – for more information, see [appendix 6](#).

Net rent

Show at this entry the net amount of any rent. If this amount is a loss, print **L** in the box at the right of the amount. For more information, see *Rental properties 2012–13* (NAT 1729).

Tax agents who lodge partnership tax returns through ELS must complete the *Rental property schedule 2013* if item **9 Rent** is completed. You do not have to complete the schedule if you are lodging a paper version of the partnership tax return.

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10 Forestry managed investment scheme income

Last updated 12 February 2019

Definitions

A partnership 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 partnership is a **subsequent participant** if it obtains an interest in a forestry managed investment scheme 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 in the scheme.

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 partnership's **total forestry scheme deductions** is the total of all the amounts it can deduct or has deducted for each income year it held its forestry interest – see item **17 Forestry managed investment scheme deduction** for further information on amounts you can deduct.

The amount of the partnership's incidental forestry scheme receipts is the total of all the amounts it has received from the FMIS in each income year it held its forestry interest, other than amounts received because of a capital gains tax (CGT) event.

Write at **Q** item **10** the total income from the following activities for each FMIS in which the partnership holds a forestry interest.

For an initial participant in an FMIS

Thinning receipts

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

Sale and harvest receipts – forestry interest no longer held

If the partnership ceased holding its forestry interest as a result of a CGT event (because it sold its interest or it received harvest proceeds), include the market value of the forestry interest at the time of the CGT event at **Q**.

Sale and harvest receipts – forestry interest still held

If a CGT event happened and the partnership still held its forestry interest (because it sold part of its interest or there was a partial

harvest), include the amount by which the market value of the forestry interest was reduced at **Q**.

For a subsequent participant in an FMIS

Thinning receipts

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

Sale and harvest receipts – forestry interest no longer held

If the partnership ceased holding its forestry interest as a result of a CGT event (because it sold its interest or it received harvest proceeds) include at **Q** 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 partnership still held its forestry interest (because it sold part of its interest or there was a partial harvest) 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.

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

amount worked out above	X	the decrease (if any) in the market value of the forestry interest <u>(as a result of the CGT event)</u> . the market value of the forestry interest just before the CGT event
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Include at **Q** the amount calculated using the formula.

To complete this item

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

See [examples 7](#) and [8](#) for how to calculate the amount you show at **Q**.

For more information on the CGT treatment of a partnership's forestry interest, see the [Guide to capital gains tax 2012–13](#).

Example 7

Cedar Partnership 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 Cedar Partnership 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 the same period, it received \$1,500 from thinning proceeds (its incidental forestry scheme receipts).

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

Example 8

Oakey Partnership 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 the 2012–13 income year.

The market value of its forestry interest was \$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 held its interest, Oakey Partnership claimed \$4,000 in deductions (its total forestry scheme deductions) for lease fees, annual management fees and the cost of felling that it has 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 minus \$1,500).

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

Step 2 Using the formula above:

$$\$2,500 \times \$5,000 = \$625$$

$$\$20,000$$

Step 3 Oakey Partnership will need to include **\$625** at **Q**.

Step 4 Oakey Partnership will need to include the remainder from step 2 of **\$1,875** (that is, \$2,500 minus \$625) at **Q** on its

2014 tax return.

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11 Gross interest

Last updated 12 February 2019

Show at **J** the interest from banks and credit unions, building societies, debentures, notes and deposits, income accrued on discounted or deferred interest securities, government securities, and interest paid by the ATO.

The total, which is the gross amount of interest received or credited, must be included in assessable income.

Even if the TOFA rules apply to the partnership, show at **J** all interest received or credited to it – this includes interest from financial arrangements subject to the TOFA rules.

If what you show at **J** includes an amount which is brought to account under the TOFA rules, also complete item **31 Taxation of financial arrangements (TOFA)**.

For more information, see the [Guide to the taxation of financial arrangements \(TOFA\) rules](#).

Show interest that is part of a cash management trust distribution or other similar trust investment product at item **8 Partnerships and trusts**.

Copy details from all statements to **worksheet 3** and keep the worksheet with your tax records.

Do not include non-share dividends received from holding a non-share equity interest. If the partnership holds such an interest, the issuer is obliged to forward a dividend statement with details of the dividends, which should be shown at item **12 Dividends**. Further information on non-share dividends and non-share equity interests is in [Debt and equity tests: guide to the debt and equity tests](#).

Discounted, deferred interest or capital-indexed securities

Show at **J** the appropriate amount of discount, interest or other gain which accrued this income year on a discounted, deferred interest or capital-indexed security.

Qualifying security rules

A discounted, deferred interest or capital-indexed security may be subject to the qualifying security rules in Division 16E of the ITAA 1936.

Those rules will only apply if the TOFA rules do not apply (see TOFA rules below). In addition, the security must be one that:

- was issued after 16 December 1984
- had a maturity date more than 12 months from the issue date, and
- the sum of all payments under the security (except periodic interest – for example, a coupon rate) exceeds its issue price by greater than 1.5%.

Example 9

On 1 July, a zero-interest-discounted security is issued at \$82.65, redeemable on 30 June after two years at a face value of \$100. The investor holds the security until it matures. Where this security is not subject to the TOFA rules, the investor is required to calculate the effective rate of interest for each six-month period – in this case, it is 4.88%.

The accrued amount included in gross interest is equal to the increase in value of the security in each income year, as follows:

Table 5: Accrual amount

Value of security at:	Beginning of year	Half-year	Increase	End of year	Increase	Inc for
	(a)	(b)	(b)–(a)= (c)	(d)	(d)–(b)= (f)	(c)
Year 1 (\$)	82.65	86.68	4.03	90.91	4.23	8.2
Year 2 (\$)	90.91	95.35	4.44	100.00	4.65	9.0

In the example, the six-monthly period falls at exactly half-year.

TOFA rules

A discounted, deferred interest or capital-indexed security that is a qualifying security may instead be subject to the TOFA rules.

This will be the case if the partnership starts to have the security on or after the start of the partnership's first income year starting on or after

1 July 2010 (or 1 July 2009 if the partnership made an early start election under the TOFA rules), and:

- the partnership is affected by the TOFA rules (below), or
- the security is to end more than 12 months after the partnership starts to have it.

The TOFA rules may also apply to securities the partnership starts to have before that time where it made the transitional election for existing financial arrangements under the TOFA rules (see below).

If what you show at **J** includes an amount which is brought to account under the TOFA rules, also complete item **31 Taxation of financial arrangements (TOFA)**.

Example 9A

On 1 July 2011, a zero-interest-discounted security is issued at \$82.65, redeemable on 30 June 2013 after two years at a face value of \$100. The investor holds the security until it matures. As this security is subject to the TOFA rules and the TOFA accruals method applies to the security (investor has not made any tax-timing method elections under the TOFA rules) the investor is required to calculate the rate of return for each accrual interval. Using a 12-month period interval, the rate of return is 10.00%.

The gain amount included in gross interest is equal to the increase in value of the security in each income year, as follows:

Table 5A: Accrual amount

	Amortised cost (year start)	Gain (increase in value of security)	Cash Flows	Amortised cost (year end)
	(a)	(b)	(c)	(a) + (b) – (c)
Year 0 (\$)			– 82.65	82.65
Year 1 (\$)	82.65	8.26	0	90.91

Year	90.91	9.09	100.00	0
2				
(\$)				

TFN amounts withheld from gross interest

Show at **I** any TFN amounts withheld from gross interest where a TFN has not been provided to the investment body.

Record keeping

Keep all documents issued by the investment body that detail payments of income and any TFN amounts withheld from those payments.

Do not attach these documents to the partnership tax return – keep them with the partnership's tax records.

We may check the amount shown at **J** with our own records to determine accuracy – see [Information matching](#).

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12 Dividends

Last updated 12 February 2019

If the partnership is a shareholder or holder of a non-share equity interest in a company (including a LIC) or held units in a corporate unit trust or a public trading trust, that entity gives the partnership a dividend or non-share dividend statement. The statement is likely to include the:

- name of the entity making the distribution
- date on which the distribution was made
- amount of the distribution
- amount of franking credit allocated to the distribution
- franking percentage for the distribution
- amount of any withholding tax has been deducted from the distribution
- name of the shareholder, and
- if the distribution is unfranked, a statement to that effect, and
- if the distribution is franked, the franked amount and the unfranked amount of the distribution.

If a franked distribution has been received with an associated distribution statement that does not distinguish between the franked and unfranked portions of the dividend, include the total dividend amount at **L Franked amount** and include any attached franking credits at **M Franking credit**.

Show only amounts received from Australian companies, corporate limited partnerships, corporate unit trusts and public trading trusts.

Show dividends that are part of a distribution from a managed investment fund at item **8 Partnerships and trusts**.

Show dividends received from foreign sources, including dividends from a New Zealand franking company with Australian franking credits attached, at item **23 Other assessable foreign source income**.

Copy details from all statements to **worksheet 4** and keep the worksheet with the partnership's tax records.

If the partnership was paid a dividend by a LIC and the dividend advice statement shows a LIC capital gain amount, the partnership can claim a deduction of 50% of the LIC capital gain amount at item **16 Deductions relating to Australian investment income**.

Dividends on which family trust distribution or trustee beneficiary non-disclosure tax has been paid

To the extent that FTDT has been paid on a dividend paid or credited to the partnership by a company that has made an interposed entity election, that amount is excluded from the assessable income of the partnership under section 271-105 of Schedule 2F to the ITAA 1936. Do not show it at **K** or **L**.

You cannot claim a deduction for any losses or outgoings incurred in deriving an amount that is excluded from assessable income under section 271-105 and you cannot claim a credit or tax offset for any franking credit attached to the non-assessable non-exempt portion of the dividend.

Accordingly, do not include any amount at **M** for a franking credit attached to the whole or part of a dividend that is excluded under section 271-105. For more information about the circumstances in which FTDT is payable, see [Family trust distribution tax](#).

If trustee beneficiary non-disclosure tax has been paid on a dividend that is included in a share of net income which the partnership is presently entitled to or which has been distributed to the partnership, then the dividend is not included in the assessable income of the partnership.

You cannot claim a deduction for any losses or outgoings incurred in deriving these amounts that are excluded from assessable income, and you cannot claim a tax offset for any franking credits attributable to the dividend.

For more information on dividends, franking credits and tax offset entitlements, see [appendix 1](#).

Unfranked amount

Show at **K** the gross amount of unfranked dividends, and the unfranked amount of partially franked dividends, received before any TFN amounts were withheld.

Even if the TOFA rules apply to the partnership, show at **K** all unfranked dividends that were paid or credited to it by Australian companies. This includes those amounts that were paid or credited in respect of financial arrangements subject to the TOFA rules.

If what you show at **K** includes an amount which is brought to account under the TOFA rules, also complete item **31 Taxation of financial arrangements (TOFA)**.

For more information, see the [Guide to the taxation of financial arrangements \(TOFA\) rules](#).

If the partnership is a holder, or an associate of a holder, of a share or non-share equity interest in a private company and it received:

- payments, loans or forgiveness of a debt from the company – directly or indirectly
- loans or forgiveness of a debt from a trustee, where the company has an unpaid present entitlement from the trust, or
- payments from a trustee which are attributable to certain unrealised gains, where the company has an unpaid present entitlement to the trust income

then the amounts of those payments (subject to distributable surplus and in the case of a trust the unpaid present entitlement), loans not repaid or debts forgiven are returned as an unfranked dividend unless they are specifically excluded under the provisions of Division 7A of Part III of the ITAA 1936, or the amount treated as a dividend is franked. Division 7A was amended to enable certain amounts treated as dividends to be franked. For example, a private company can frank an amount treated as a dividend that arises because of a family law obligation in certain circumstances.

Dividends paid under a demerger are generally not assessable dividends. Do not include a dividend paid under a demerger at **K** unless the head entity of the demerger group has advised that it is an assessable dividend.

Franked amount

Show at **L** the franked amount of franked dividends received before any TFN amounts were withheld.

If you have received a franked distribution with an associated distribution statement that does not distinguish between the franked and unfranked portions of the dividend, include the total dividend amount at **L** and include any attached franking credits at **M**.

Franking credit

Show at **M** the amount of franking credits received directly from a paying company.

The amount at **M** is distributed to the partners, and is allowed as a tax offset to reduce tax payable.

Do not show:

- franking credits if the partnership did not satisfy the holding period rule and the related payments rule for the dividend – for more information, see [appendix 1](#)
- franking credits received indirectly through another partnership or a trust – show your share of franking credit from franked distributions at **D** item **8**
- franking credits attached to distributions paid by a New Zealand franking company – if the partnership received franked distributions from a New Zealand franking company, see item [23 Other assessable foreign source income](#).

TFN amounts withheld from dividends

Show at **N** the total of TFN amounts withheld from dividends received, minus any refund of TFN amounts withheld.

We may check the franking amount shown at **K**, **L** and **M** with our own records to determine accuracy – see [Information matching](#).

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14 Other Australian income

Last updated 12 February 2019

Show at **O** the total amount of other Australian income.

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

The following are some examples of the amounts to be included at **O**.

Gains on the disposal of traditional securities

Show at **O** any gains on the disposal or redemption of a traditional security which are assessable under [section 26BB](#) of ITAA 1936. For more information about gains and losses on traditional securities, including traditional securities that are convertible notes or exchangeable notes, see *You and your shares 2012–13* (NAT 2632).

Bonuses from life insurance companies and friendly societies

If, during the year ended 30 June 2013, the partnership received any bonuses or other amounts in the nature of bonuses on the maturity, forfeiture, partial or full surrender of a short-term life insurance policy taken out after 7 December 1983, you may need to show the amount at **O**.

Life insurance policies are issued by life insurance companies and friendly societies.

A partnership is regarded as having received a bonus if it re-invests or otherwise deals with the bonus during the income year.

Do not include the amount shown on a bonus certificate if the partnership:

- received it because of death, accident, illness or other disability suffered by the person on whose life the policy was effected
- received it under a policy held by a complying superannuation fund or scheme, a complying approved deposit fund or a pooled superannuation trust
- can show that the amount was received because of serious financial difficulties
- received a bonus certificate in respect of an amount allocated to increase the amount receivable on surrender or maturity.

If the policy has a date of commencement of risk on or before 7 December 1983, any bonuses received this year are not assessable.

If the policy has a date of commencement of risk after 7 December 1983, any bonus is included in assessable income in full if received during the first eight years after the date of commencement of risk of the policy. Two-thirds of the bonus amount is included if it is received in the ninth year, and one-third of the bonus amount if it is received in the 10th year. Amounts received after the 10th year are not included.

If, during the term of the policy, the amount of a premium increases by more than 25% over the previous year's premium, the policy is taken to have started again with a commencement date at the beginning of the policy year in which the premium increased.

The partner may on their own tax return, claim a tax offset for a bonus or any other amount in the nature of a bonus included in the income, if the organisation issuing the life policy is a:

- life insurance company that pays tax on the income from which the amount was paid, or
- friendly society.

The tax offset for the 2012–13 income year is equal to 30 cents in each dollar.

Include the bonus or other amount in the nature of a bonus in the calculation of net income or loss of the partnership and apportion it among the partners or beneficiaries in the same ratio as they share in that net income or loss.

If the partnership received assessable bonuses from a life insurance company or friendly society, include the total amount at **O**. To ensure the tax offset is allowed, provide a statement showing the amounts from the life insurance company and friendly society life insurance policies. Attach the statement to the tax return. Print **X** in the **Yes** box at **Have you attached any 'other attachments'?** at the top of page 1 of the tax return.

Record keeping

If a bonus or other amount in the nature of a bonus is included at **O**, or an amount was not included because of the circumstances under which it was received, keep a record of the:

- type of policy
- name of the issuing organisation
- policy number
- date the policy was taken out
- bonus statement or advice
- date that each amount was received
- nature of each amount – for example, bonus, loan or withdrawal
- circumstances under which each amount was received – for example, partial surrender of policy, serious financial difficulties, death, accident, illness or other disability
- basis of calculation of the amount included.

For more information on bonuses received from certain life insurance policies, see [Taxation Ruling IT 2346](#) - *Income tax: bonuses paid on certain life assurance policies – section 26AH – interpretation and operation*.

For more information on amounts switched between investment options for the same life insurance policy, see [TD 94/82](#) - *Income tax: does section 26AH of the Income Tax Assessment Act 1936 apply when investment options are 'switched' under an eligible policy?*

Bonuses credited from friendly society income bonds

Include bonuses received from friendly society income bonds at **O**. The distribution statement issued by friendly societies to income bond

holders will advise the amount that should be included as income. Do not include these amounts in the calculation of the tax offset applicable to bonuses from life insurance policies.

Add backs: Listed investment company (LIC) capital gain

If a distribution is received from another partnership or trust which advises it has claimed a deduction for a LIC capital gain amount, the partnership or trust is required to add back as income its share of the deduction allowed to the other partnership or trust.

Royalties

For information on royalty income shown at **O**, see [appendix 2](#).

Foreign exchange gains or losses

Show at **O** the assessable Australian source foreign exchange (forex) gains or deductible losses that you have not already included at any other label – for example, a label in item **5 Business income and expenses**. If the total amount at **O** is a loss, print **L** in the box at the right of the amount.

For more information on how to calculate forex gains and losses, see [Foreign exchange \(forex\)](#).

As foreign currency is a CGT asset, the capital gains tax provisions can apply to any capital gain or capital loss made on a CGT event. Any capital gain would generally be ignored or reduced to prevent double taxation if the gain was assessable under the TOFA rules or Division 775 of the ITAA 1997.

If a partnership has made a foreign exchange gain or loss which is subject to CGT, each partner must include their share of the capital gain or capital loss on their own tax return.

TOFA amounts from financial arrangements

If the TOFA rules apply to calculate an assessable gain or deductible loss on the partnership's financial arrangements, include at this item those assessable gains and any assessable TOFA transitional balancing adjustments relating to existing financial arrangements.

TOFA amounts that have been included elsewhere should not be included here – for example, amounts that have already been included at:

- **S Net income or loss from business** item **5**
- **A Distribution from partnerships** item **8**

- **Z Share of net income from trusts** item 8
- **J Gross interest** item 11
- **K Unfranked amount** item 12
- **B Gross other assessable foreign source income** item 23.

If the TOFA rules apply to the partnership and the other Australian income shown at **O** includes an amount which is brought to account under the TOFA rules, also complete item **31 Taxation of financial arrangements (TOFA)**.

For more information, see the [Guide to the taxation of financial arrangements \(TOFA\) rules](#).

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15 Total of items 5 to 14

Last updated 12 February 2019

Show at item **15** the total of all Australian income. If this amount is a loss, print **L** in the box at the right of the amount.

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Deductions

Last updated 12 February 2019

16 Deductions relating to Australian investment income

Show at **P** the expenses incurred in earning interest and dividends.

If the partnership was paid a dividend by a LIC and the dividend included a LIC capital gain amount which is shown on the LIC's dividend statement, the partnership can claim a deduction of half of the LIC capital gain amount.

Expenses listed here that are costs associated with borrowing and servicing debt may not be allowable deductions under the thin capitalisation rules – for more information, see [appendix 3](#). The disallowed amount reduces the amount that would otherwise go at **P**.

Deductions for the decline in value of depreciating assets used to earn interest and dividends are generally shown at **P**. However, if the

partnership has allocated some of these assets to a low-value pool, you may need to show deductions at **Q** item **18** – for more information, see [appendix 6](#).

Even if the TOFA rules apply to the partnership, show at **P** all deductions relating to Australian investment income. This includes amounts from financial arrangements subject to the TOFA rules.

If what you show at **P** includes an amount which is brought to account under the TOFA rules, also complete item **31 Taxation of financial arrangements (TOFA)**.

For more information, see the [Guide to the taxation of financial arrangements \(TOFA\) rules](#).

Former STS taxpayers still using the STS accounting method

If the partnership is eligible and has chosen to continue using the STS accounting method, it can claim general deductions (for example, interest expense) only when they are paid – for more information on the STS accounting method, see [continued use of the STS accounting method](#).

17 Forestry managed investment scheme deduction



18 Other deductions



19 Total of items 16 to 18



20 Net Australian income or loss



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17 Forestry managed investment scheme deduction

Last updated 12 February 2019

A partnership may be able to claim a deduction at this item for payments made to a forestry managed investment scheme (FMIS) if it:

- currently holds a forestry interest in an FMIS, or held a forestry interest in an FMIS during the income year, **and**
- paid an amount to a forestry manager of an FMIS under a formal agreement.

The partnership can only claim a deduction at this item if the forestry manager has advised you that the FMIS satisfies the 70% direct forestry expenditure rule in [Division 394](#) of the ITAA 1997.

The partnership is an **initial participant** in an FMIS if:

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

The partnership is a **subsequent participant** if it obtains an interest in an FMIS 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 in the scheme.

If the partnership is an initial participant, it 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. However, the deduction will be allowed if the disposal occurs because of circumstances outside of the partnership's control, provided the partners could not have reasonably foreseen the disposal happening when they acquired the interest. Disposals that would generally be outside the partnership's control may include compulsory acquisition, insolvency of one or more of the partners or the scheme manager, or cancellation of the interest due to fire, flood or drought.

If the partnership is a **subsequent participant**, it cannot claim a deduction for the amount paid for acquiring the interest. The partnership can only claim a deduction for ongoing payments.

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 scheme – whether the right is actual, prospective or contingent, and whether it is enforceable or not.

Initial participants can claim at this item **initial and ongoing payments** made under an FMIS were made as an initial participant of the FMIS.

Subsequent participants can claim at this item ongoing payments made under an FMIS were made as a subsequent participant of the FMIS.

Excluded payments

Direct forestry expenditure does not include, among other things, any of the following payments made under FMIS (see [sections 394-10](#) and

[394-40](#) of the ITAA 1997):

- payments for borrowing money
- interest and payments in the nature of interest
- payments of stamp duty
- payments of goods and services tax (GST)
- payments that relate to transportation and handling of felled trees after the earliest of the following:
 - 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
- marketing and sale of forestry produce.

Show at **D** the total amount of deductible payments made to an FMIS.

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18 Other deductions

Last updated 12 February 2019

Show at **Q** any deductible losses and outgoings not already claimed by the partnership at any other items.

If the partnership is registered for GST, exclude any input tax credit entitlements for expenses incurred by the partnership from the amount shown at **Q**.

Former STS taxpayers still using the STS accounting method

If the partnership is eligible and has chosen to continue using the STS accounting method, it can claim deductions for the following expenses only when they are paid:

- general deductions – for example, interest expense
- tax-related expenses
- expenses for repairs.

For more information on the STS accounting method, see [continued use of the STS accounting method](#).

Losses and outgoings

You can claim a deduction for losses and outgoings if they are incurred in gaining or producing assessable income, or necessarily incurred in carrying on a business for the purpose of gaining or producing such income.

However, under section 25–90 of the ITAA 1997 a partnership may also be able to claim a debt deduction for costs such as interest and borrowing costs incurred in relation to a debt interest (as defined in the ITAA 1997) if the costs are incurred in earning foreign source income which is non-assessable non-exempt income under section [23A](#) or [23AK](#) of the ITAA 1936. The amount of the deduction is subject to any reduction required by the thin capitalisation rules. Similar rules apply under [subsection 230-15\(3\)](#) of the ITAA 1997 for your debt interest that is a financial arrangement covered by the TOFA rules.

Debt deductions for foreign source income are not quarantined to foreign source income. Therefore, you can deduct these expenses against assessable income of the partnership, subject to any reduction required under the thin capitalisation rules. If these amounts relate to foreign income, include the deduction for these expenses at **Q** unless they are attributable to an overseas permanent establishment. Do not include them at item **23 Other assessable foreign source income** or any other item. If the debt deductions are attributable to an overseas permanent establishment, see [Net foreign source income](#) at item **23 Other assessable foreign source income**.

You cannot claim a deduction for the following:

- losses or outgoings of capital or of a capital, private or domestic nature, except where special provision is made in the income tax law
- expenses incurred in gaining or producing exempt or non-assessable non-exempt income (except certain debt deductions under [section 25–90](#) or [subsection 230-15\(3\)](#) of the ITAA 1997)
- penalties or fines
- income tax liabilities
- entertainment, except in very limited circumstances
- costs associated with borrowing and servicing debt to the extent that a deduction is denied under the thin capitalisation rules.

For more information, see [appendix 3](#). The disallowed amount reduces the amount that would otherwise be shown at **Q**.

Tax-related expenses

Show at **Q** any expenses incurred by the partnership in the management of its tax affairs. These expenses include:

- the cost of attending an ATO audit
- tax planning
- expenditure on your income tax affairs – that is, a fee or commission for professional advice, where the advice is provided by a registered tax agent, or a barrister or solicitor
- an interest charge imposed by the ATO, and
- a penalty for underestimating a varied GST instalment or PAYG instalment.

Show a deduction for the decline in value of a depreciating asset used in managing the tax affairs of the partnership at **Q**. For more information about working out decline in value, see [appendix 6](#).

You cannot claim a deduction for costs for any offence-related matter – for example, the cost of defending a tax prosecution.

If expenditure allowed or allowable as a deduction is recouped, include the amount recouped in assessable income in the year of recoupment.

Losses on the disposal of traditional securities

Show at **Q** any non-capital losses incurred upon the disposal or redemption of a traditional security which are deductible under [section 70B](#) of the ITAA 1936. For more information about gains and losses on traditional securities, including traditional securities that are convertible notes or exchangeable notes, see *You and your shares 2012–13*.

TOFA amounts from financial arrangements

If the TOFA rules apply to calculate an assessable gain or deductible loss on the partnership's financial arrangements, include at this item any of those deductible losses and any deductible TOFA transitional balancing adjustment relating to existing financial arrangements.

TOFA amounts that have been included elsewhere should not be included here – for example, amounts that have already been included at:

- **S Net income or loss from business** item **5**
- **G Interest deductions** item **9**.

If what you show at **Q** includes an amount which is brought to account under the TOFA rules, also complete item **31 Taxation of financial arrangements (TOFA)**.

For more information, see the [Guide to the taxation of financial arrangements \(TOFA\) rules](#).

Payment of premiums to a non-resident insurer

You cannot claim a deduction for insurance premiums paid to a non-resident insurer for the insurance of property situated in Australia or of an event which can happen only in Australia, unless arrangements have been made to the satisfaction of the ATO for the payment of any tax payable or may become payable for the premium. Keep a record of the details supporting any claim for a deduction.

For more information about the tax obligations of non-resident insurers and their agent in Australia, see *Insurance with foreign resident insurers*.

Gifts

The partnership can only claim a deduction for gifts (including cash) made to an organisation which is a deductible gift recipient (DGR). DGRs are endorsed by the ATO or specifically named in income tax law. Some of the types of bodies that can be endorsed as DGRs are public benevolent institutions, school building funds and approved overseas aid funds.

To check whether the organisation is a DGR, go to the [ABN Lookup](#) or phone **1300 130 248**.

Gifts of \$2 or more of certain property as well as money may be deductible – this includes gifts of:

- property valued by the ATO at more than \$5,000
- property purchased by the donor during the 12 months before the gift was made, and
- shares, but only if
 - the shares were acquired in an Australian publicly listed company at least 12 months before the gift was made, and
 - on the day shares were gifted, the company was listed on an approved Australian stock exchange, and
 - the shares had a market valuation of \$5000 or less.

A partnership may elect to spread deductions over five income years or less, where the gift is money, or property valued by the ATO at more than \$5,000. Special requirements apply for spreading deductions for certain environmental, heritage and cultural property gifts.

For more information, see [Making tax deductible gifts and contributions](#).

Deductions for political contributions and gifts

From 1 July 2008, only individuals can deduct contributions and gifts to political parties and independent members and candidates. Individuals claiming the deduction must not have made the contributions or gifts in the course of carrying on a business.

Show at **Q** the deduction for gifts to DGRs. The deduction cannot add to or create a tax loss. You may need to reduce the claim where the amount at item **20 Net Australian income** or loss is a loss.

Subscriptions

Show at **Q** any expenses incurred for subscriptions paid to:

- trade, business or professional associations
- other organisations where the subscription expense is incurred in producing assessable income
- journals or magazines where these relate to producing assessable income.

Do not claim for fees paid for membership of a sporting or social club or a political party.

Deductions for depreciating assets in a low-value pool

If the partnership has allocated depreciating assets used for different income-producing purposes to its low-value pool (for example, some assets are used for producing rental income and others are used in carrying on a business) show the low-value pool deduction at **Q**. For more information, see [appendix 6](#).

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19 Total of items 16 to 18

Last updated 12 February 2019

Show at item **19** the total deductions relating to Australian income.

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20 Net Australian income or loss

Last updated 12 February 2019

Show at **\$** the net income or loss relating to Australian income – that is, total Australian income minus total deductions. If this amount is a loss, print **L** in the box at the right of the amount.

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Foreign income

Last updated 12 February 2019

22 Attributed foreign income

For more information on calculating the amounts shown at **M**, **U** and **X**, see the [Foreign income return form guide 2012-13](#) (NAT 1840).

If the partnership was a subsidiary member of a consolidated group for the entire income year, the *International dealings schedule 2013* is not required.

Where the partnership is a member of a consolidated group for the whole income year and derived foreign income, the responsibility for preparing the schedule will rest on the head company of the consolidated group.

Where a return is required because the partnership had a period in the income year when it was not a member of a consolidated group (a non-membership period), the partnership should complete an *International dealings schedule* where it has derived foreign income attributable to any non-membership period.

Did you have overseas branch operations or a direct or indirect interest in a foreign trust, foreign company, controlled foreign entity or transferor trust?

Direct or indirect interests in a controlled foreign company or a foreign trust are taken to have the same meaning as set out in [Division 3](#) of Part X of the ITAA 1936.

A partnership has an interest in a transferor trust if the partnership has ever made, or caused to be made, a transfer of property or services to

a non-resident trust. Transfer of property and services is defined in [section 102AAB](#) of the ITAA 1936.

[Sections 102AAJ](#) and [102AAK](#) of the ITAA 1936 provide guidance on whether there was a transfer, or a deemed transfer, of property or services to a non-resident trust.

Yes Print **X** in the **Yes** box at **S** and complete an *International dealings schedule 2013*.

No Print **X** in the **No** box at **S**.

For more information, see the [International dealings schedule instructions 2013](#).

Listed country

Show at **M** the amount of gross attributed foreign income from controlled foreign entities and transferor trusts of listed countries. Listed countries are set out in Part 1 of [Schedule 10](#) to the *Income Tax Regulations 1936* (ITR 1936).

Attributed foreign income is the income attributed to the taxpayer from controlled foreign entities, calculated in accordance with Division 7 of Part X of the ITAA 1936, and includes an amount grossed-up under [section 392](#) of the ITAA 1936, to the extent of any foreign taxes paid.

Show at **M** the amount of income attributed from a transferor trust that is a listed country trust estate, calculated in accordance with Subdivision D of Division 6AAA of the ITAA 1936.

A listed country trust estate is defined in [section 102AAE](#) of the ITAA 1936.

Section 404 country

Show at **U** the amount of attributed foreign income from controlled foreign entities in section 404 countries. Section 404 countries are listed in Part 2 of [Schedule 10](#) to the ITR 1936.

Also show at **U** the amount of income attributed from a transferor trust if the entire income and profits of the trust are subject to tax in a section 404 country. Do not include the amount if it is shown at **M**.

Unlisted country

Show at **X** the amount of attributed foreign income from controlled foreign entities in unlisted countries. Unlisted countries are countries that are not listed in [Schedule 10](#) to the ITR 1936.

Show at **X** the amount of income attributed from a transferor trust if the amount has not been shown at **M** or **U**.

23 Other assessable foreign source income

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23 Other assessable foreign source income

Last updated 12 February 2019

If the partnership received assessable dividends directly or indirectly from a New Zealand franking company, the dividends (including any supplementary dividends) must be declared as assessable foreign income even if dividend withholding tax was deducted in New Zealand. The individual partners may be able to claim a foreign income tax offset for any New Zealand dividend withholding tax paid on the dividend – see the [Foreign income return form guide 2012-13](#) to work out whether the dividend is assessable income.

If the dividend from a New Zealand company is assessable income, then the amount of the Australian franking credit attached to the dividend is also assessable income if the partnership is eligible to receive imputation benefits. Subject to the holding period rule and related payments rule, the partnership can claim a franking tax offset equal to the amount of the Australian franking credit included in its assessable income. For more information, see [appendix 1](#).

The dividend may include an amount of New Zealand imputation credits. Australian residents cannot claim any amounts of New Zealand imputation credits.

All dividend income, deductions and foreign tax paid must be converted into Australian dollars. The amount of Australian franking credits should also be expressed in Australian dollars.

Changes to income tests require each partner to report their share of the partnership rental property income or loss. As such, if you have included foreign rental income at item **23**, show your net rental property income or loss at **H** item **50** and complete your share of net rental property income or loss at **K** item **51** – see [Income tests](#).

Gross foreign source income

Show at **B** the gross amount (that is, the amount before any foreign or Australian tax is withheld or paid) of assessable income derived from foreign sources, including amounts distributed from other partnerships and trusts as well as New Zealand dividends and supplementary dividends.

Do not include at **B**:

- any income which is exempt from tax in Australia or treated as non-assessable non-exempt income under [sections 23AI](#) and [23AK](#) of the ITAA 1936
- any amount of New Zealand imputation credits
- any amount of Australian franking credits attached to dividends from a New Zealand franking company – show these at **D**
- income already shown at item **22 Attributed foreign income**
- any foreign source capital gains or capital losses.

Each partner must include their share of any foreign source capital gains or capital losses on their own tax return.

In referring to 'foreign source capital gains', an Australian resident partner makes a capital gain if a CGT event happens to any of their worldwide CGT assets.

A partner that is not an Australian resident makes a capital gain, generally speaking, only if their CGT asset is taxable Australian property just before the CGT event happens.

If what you show at **B** includes an amount which is brought to account under the TOFA rules, also complete item **31 Taxation of financial arrangements (TOFA)**. This may include assessable TOFA gains from unrealised movements in the value of financial arrangements.

For more information, see the [Guide to the taxation of financial arrangements \(TOFA\) rules](#).

[Net foreign source income](#)

Show at **V** the net income derived from foreign sources.

The amount at **V** is the gross amount shown at **B**, minus any deductions allowable to the partnership against that income. Debt deductions (such as interest and borrowing costs) that relate to assessable foreign source income and that are not attributable to an overseas permanent establishment of the taxpayer should not be applied against assessable foreign source income at this item – include them at item **18 Other deductions**.

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

If what you show at **V** includes an amount which is brought to account under the TOFA rules, also complete item **31 Taxation of financial arrangements (TOFA)**.

For more information, see the [Guide to the taxation of financial arrangements \(TOFA\) rules](#).

Current year foreign losses

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. Foreign losses can be deducted in calculating the partnership's net income or loss under [section 90](#) of the ITAA 1936, and so be distributed to the partners for use against their own assessable income.

Pre-existing foreign losses

There are transitional rules that restrict the deduction of the foreign loss component of a tax loss.

For more information on the transitional rules, see:

- *Changes to foreign loss quarantining and foreign tax credit calculation rules - overview*
- [Foreign income return form guide 2012-13](#).

Foreign income tax offset

Show at **Z** the amount of any foreign income tax paid by the partnership on foreign source income.

If foreign income tax has actually been paid by the partnership, then the partners may be able to claim a foreign income tax offset in their individual income tax returns if they meet the necessary conditions.

Example 10

A partnership of two Australian partners with equal interests in all income of the partnership derives net income of \$1,000 on which it pays \$100 of foreign income tax. The partners each include \$500 in their assessable income, being their share of the net income of the partnership. They will both be entitled to a tax offset to the extent that foreign income tax is paid on the amount that is part of their assessable income. The foreign income tax paid is apportioned according to each partner's share of the net income of the partnership included in their assessable income. Therefore, the amount of foreign tax that counts towards the offset for each partner is \$50, as this is the proportionate amount of foreign income tax they are taken to have paid on the amount included in their assessable income – that is, $(500/1,000) \times \$100$. The amount of foreign income tax offset that each partner can claim is subject to the foreign income tax offset limit calculated under subsection 770-75(2) of the ITAA 1997.

For more information, see the [Guide to foreign income tax offset rules](#).

Australian franking credits from a New Zealand franking company

Show at **D** the amount of Australian franking credits that are included in the net income of the partnership because of franked dividends received from a New Zealand franking company directly, or indirectly through another partnership or trust.

The amount shown at **D** is not necessarily the total amount that each partner can claim – see [appendix 1](#).

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24 Total of items 20 to 23

Last updated 12 February 2019

Show at item **24** the total of the amounts shown at items **20** to **23**.

If this amount is a net loss, print **L** in the box at the right of the amount – do not include prior year Australian or foreign source losses here.

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Overseas transactions

Last updated 12 February 2019

29 Overseas transactions

Was the aggregate amount of your transactions or dealings with international related parties (including the value of any property or service transferred, or the balance of any loans) greater than \$2 million?

No Print **X** in the **No** box at **W**.

Yes Print **X** in the **Yes** box at **W**.

Did the thin capitalisation provisions apply? (See appendix 3 for more information.)

Print **X** in the appropriate box at **O**.

If you answered yes at labels **29W** or **29O**, complete and attach an *International dealings schedule 2013* to the tax return. Print **X** in the **Yes** box at **Have you attached any 'other attachments'?** at the top of page 1 of the tax return.

However, if the partnership was a subsidiary member of a consolidated group or MEC group for the entire income year, you do not need to complete a return or *International dealings schedule 2013*.

Where the partnership is a member of a consolidated group or MEC group for the whole income year and derived foreign income, the responsibility for preparing the schedule will rest on the head company of the consolidated group.

Where a return is required because the partnership had a period in the income year when it was not a member of a consolidated group (a non-membership period) the partnership should complete an *International dealings schedule 2013* where it has derived foreign income attributable to any non-membership period.

The aggregate amount of the partnership's transactions or dealings is the total amount of all dealings, whether on revenue or capital account (including property transfers or service provision) and includes the balance of any loans or borrowings outstanding with international related parties. Transactions must not be netted off against each other – for example, a \$600,000 purchase from, and a \$700,000 sale to, related parties should be treated as totalling \$1,300,000, not \$100,000.

International related parties are persons who are parties to international dealings that can be subject to section 136AD of the ITAA 1936 or the associated enterprises article of a relevant double tax agreement. The term includes the following:

- any overseas entity or person who participates directly or indirectly in the management, control or capital of the partnership
- any overseas entity or person in respect of which the partnership participated directly or indirectly in the management, control or capital
- any overseas entity or person in respect of which persons who participate directly or indirectly in its management, control or capital are the same persons who participate directly or indirectly in the management, control or capital of the partnership.

'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 [IT 2514](#) - *Income tax: Company Schedule 25A: Information return for companies that transact business with related overseas entities*.

The type of dealings or transactions which will require the partnership to complete the *International dealings schedule 2013* are dealings with related parties as above, such as an overseas holding company, overseas subsidiary, or 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. They may include the transfer of tangible or intangible property, provision or receipt of services, 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 to be taken as an international transaction.

Overseas expenses

Interest expenses overseas

Show at **D** the amount of interest paid to non-residents. Include this amount at I item **5**.

If you include an amount at **D**, you must complete an *International dealings schedule 2013*.

An amount of tax (withholding tax) is generally withheld from:

- interest paid (or payable) to non-residents, and
- from interest derived by a resident through an overseas branch.

You must remit these amounts to the ATO. You cannot claim a deduction unless you have remitted any withholding tax to the Commissioner of Taxation. 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 2013**. For more information, phone **13 28 66**.

Royalty expenses overseas

Show at **E** the royalty expenses paid to non-residents during the income year.

If you include an amount at **E**, complete an *International dealings schedule 2013*.

Include this amount at **J** item **5**, plus or minus any reconciliation adjustment for royalty expenses that you included at **B Expense reconciliation adjustments** item **5**.

An amount of tax (withholding tax) is generally withheld from royalties:

- paid or payable to non-residents and
- derived by a resident through an overseas branch.

You must remit this amount to the ATO. You cannot claim a deduction unless you have remitted any withholding tax to the Commissioner. 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 2013**. For more information, phone **13 28 66**.

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 tax withheld where applicable, and the date on which it was remitted to the ATO.

Transactions with specified countries

Did you send any funds or property to, or receive any funds or property from, any of the countries listed below? This includes sending or receiving funds or property indirectly – for example, through another entity or country.

Do you have the ability to control the disposition of any funds, property, investments, or any other assets located in any of the countries listed below? This includes:

- funds or assets that may be located elsewhere, but are controlled or managed from one of the countries listed below, and
- where you have an expectation you are able to control the disposition of the funds or assets, or you have the capacity to control the disposition indirectly – for example, through associates.

Print **X** in the **Yes** box for yes, or **X** in the **No** box for no at **C**.

The specified countries are as follows:

Andorra	Liberia
Anguilla	Liechtenstein
Antigua and Barbuda	Marshall Islands
Aruba	Mauritius
Bahamas	Monaco
Bahrain	Montserrat
Belize	Nauru
Bermuda	Niue
British Virgin Islands	Panama
Cayman Islands	Saint Martin (Dutch part)

Cook Islands	Samoa
Curacao	San Marino
Cyprus	Seychelles
Dominica	St Kitts & Nevis
Gibraltar	St Lucia
Grenada	St Vincent & the Grenadines
Guernsey	Turks & Caicos Islands
Isle of Man	US Virgin Islands
Jersey	Vanuatu
Labuan (in Malaysia)	

30 Personal services income



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30 Personal services income

Last updated 12 February 2019

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 partnership 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
- derived under a contract which is wholly or principally for the labour or services of an individual
- for the exercise of professional skills by a professional sportsperson or entertainer
- 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.

If the income of the partnership includes an individual's PSI, print **X** in the **Yes** box at **N** – otherwise, print **X** in the **No** box at **N**.

If you answered no at **N**, you have now finished with this question.

If the partnership 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 partnership, and
- certain related expenses are not deductible under the special rules.

For purposes of item **30 Personal services income**, 'you' or 'your' refers to the partnership.

Expenses specifically denied include rent, mortgage interest, rates and land tax for the residence of individuals (or their associates, such as a spouse) whose efforts or skills mainly generate the PSI for the partnership; 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 denied expenses include the total amount of the deductions allowed to the individual for a net personal services income loss.

Include adjustments for PSI at item **5 Reconciliation items** – see Treatment of attributed PSI on your income tax return.

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 **5** income labels. Exclude any exempt or non-assessable non-exempt components of the PSI, for example, goods and services tax (GST).

Write at **B** the total amount of deductions against PSI included at item **5** expense labels.

What is a personal services business?

You qualify as a personal services business if:

- you meet the results test

- less than 80% of the individual's PSI in an income year comes from one source 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.

The results test

Did you satisfy the results test in respect of any individual?

Yes Print **X** in the **Yes** box at **C**.

No 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, and
- 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.

You can self-assess whether you satisfy the results test.

Personal services business (PSB) determination

Do you hold a PSB determination in respect of any individual?

Yes Print **X** in the **Yes** box at **D**

No Print **X** in the **No** box at **D**.

You can go to [Personal services business determination application](#) to get a copy of the PSB determination application form and instructions.

What is the 80% rule?

If you don't meet the results test, and 80% or more of the PSI in the income year comes from one entity (or one entity and their associates), you cannot self-assess whether you meet the other tests.

The PSI rules apply to you unless you get a determination from the Commissioner.

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, and
- 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 customer, 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.

Indicate 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, whether you satisfied any of the personal services business tests.

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 the individual doing the personal services work generates PSI from two or more clients who are not associated with each other, or with the individual, 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.

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.

If you are a partnership you can also count any partners who perform principal work that helps generate the PSI.

You cannot count any individual whose PSI you receive.

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
 - the individual doing the personal services work
 - their associates
 - 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.

What if I 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 relation to 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 be able to claim a deduction for a portion of the contributions you make to a complying superannuation fund or retirement savings account (RSA) for the purpose of making provision for superannuation benefits payable for your associate to the extent that their work for you relates to gaining or producing your PSI.

If you make such a contribution for your associate and their work forms part of the principal work for which you gain or produce your PSI, your

deduction is limited. Your deduction cannot exceed the amount you would have to contribute for the associate to ensure that 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 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 relation to the preparation or lodgment of a document under Corporations Law, except if the payment is made to an associate
- 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:

excess entity maintenance deductions	X	<u>individual's PSI</u> total PSI
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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, your business will have additional PAYG obligations for the amount attributed (treated as belonging) to each individual who performed the services.

The additional PAYG withholding obligation ensures:

- an amount of withholding has been reported and paid to us for the attributed income (the income treated as belonging to the individual who performed the services)
- each individual who performed the services receives a PAYG withholding credit for their individual 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 individual tax return.

If your business has 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 partnership. Include the PSI on the partnership tax returns as follows:

Include the attributed amount in the amount shown at **A Income reconciliation adjustments** item **5**, as calculated in **Worksheet 1: Reconciliation statement** in the *Partnership tax return instructions 2013*. The attributed amounts are income subtraction amounts. If the income subtractions exceed the income add backs, the total is a negative amount. If the total is a negative amount, print **L** in the box at the right of **A** on the tax return.

The following example will help you complete the PSI details on your return. The entity in the example is not conducting a personal services business.

Example:

Income of the partnership comprises PSI which is attributed to one or more of the partners.

A partnership derives PSI from the contributions of its two partners, A and B. However, the PSI is mainly derived by the efforts of partner A. The partnership's profit and loss statement is as follows:

Income (all PSI of the partners)		\$100,000
<i>Less</i> Expenses		
Rent for home that is		
a place of business	\$5,000	
Other expenses (all deductible)	\$55,000	\$60,000

Net profit	\$40,000
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The business is conducted from the home of partner A. The rent paid for partner A's home used as a place of business is not deductible under the alienation of PSI provisions. The net profit is PSI of partner A and will be attributed for income tax purposes (together with the amount representing non-deductible rent expense).

The information is then entered at the following labels at **item 5 Business income and expenses** on the *Partnership tax return 2013*:

(It is assumed the income is non-primary production income.)

Income		
Other business income H	\$100,000	
Total business income		\$100,000
Expenses		
Rent expenses H	\$5,000	
All other expenses N	\$55,000	
Total expenses O		\$60,000
Reconciliation items		
<i>Add</i>		
Income reconciliation adjustments: attributed income A		*\$45,000 /L
<i>Add</i>		
Expense reconciliation adjustments: rent B	\$5,000	
Net income or loss from business R and S		\$0
Item 15 Total of items 5 to 14		
(assuming no other amounts in items 6 to 14 are relevant to the tax return)		\$0
Item 20 Net Australian income or loss		
(assuming no other amounts in items 16 to 18 are relevant to the tax return)		\$0

* This figure is a loss and is deducted from the net income figure.

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 partnership is entitled is reduced by that amount. Include the PSI loss amounts on the partnership tax returns as follows:

Include the net PSI loss amounts in the amount shown at **B Expense reconciliation adjustments** item **5**, as calculated in **Worksheet 1: Reconciliation statement** in the *Partnership tax return instructions 2013*.

For more information on Personal services income, see:

- [Personal services income - basic information you need to know](#)
- [Personal services income - companies, partnerships and trusts](#)
- [Personal services income – avoiding common mistakes](#).

QC 35433

Taxation of financial arrangements

Last updated 12 February 2019

31 Taxation of financial arrangements (TOFA)

The key provisions of the TOFA rules are found in Division 230 of the ITAA 1997, which generally provides for:

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

The TOFA rules apply to the following partnerships:

- authorised deposit-taking institutions, securitisation vehicles and financial sector entities with an aggregated annual turnover of \$20 million or more
- managed investment schemes, or entities with a similar status under foreign law relating to corporate regulation with assets of \$100 million or more

- any other partnership 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.

An entity 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 partnerships that do not meet the thresholds in their own right. Aggregated turnover includes the annual turnover of any entity a partnership is connected with, or any affiliate of the partnership (including overseas entities).

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

There are a number of elections available to partnerships under the TOFA rules. Elections under the TOFA rules are irrevocable, and should be carefully considered before being made. For more information, go to [TOFA](#).

L – Did you make a gain, loss or transitional balancing adjustment from a financial arrangement subject to the TOFA rules?

Print **X** in the appropriate box at **L**.

Print **X** in the **Yes** box only if during the 2012–13 income year the partnership:

- made an assessable gain or deductible loss under the TOFA rules (unless it was made only because the partnership held a qualifying security), or
- had an assessable or deductible amount from a transitional balancing adjustment as a result of making the transitional election for existing financial arrangements.

Print **X** in the **No** box if during the 2012–13 income year the partnership:

- had an assessable gain or deductible loss under the TOFA rules only because the partnership held a qualifying security to which the TOFA rules apply, or
- satisfies both of the following
 - did not make an assessable gain or deductible loss under the TOFA rules, and

- did not have an assessable or deductible amount from a transitional balancing adjustment as a result of making the transitional election for existing financial arrangements.

For more information, see the [Guide to the taxation of financial arrangement \(TOFA\) rules](#).

M – Total TOFA gains

Show at **M** the partnership's total assessable TOFA gains from financial arrangements.

N – Total TOFA losses

Show at **N** the partnership's total deductible TOFA losses from financial arrangements.

O – TOFA transitional balancing adjustment

Show at **O** the partnership's transitional balancing adjustment amount for the income year as a result of making the transitional election for existing financial arrangements.

If the transitional balancing adjustment is a deductible amount, print **L** in the box at the right of **O**.

Working out the partnership's total assessable TOFA gains, deductible TOFA losses, and TOFA transitional balancing adjustment.

Ensure you take into account at **M**, **N** and **O** any amount for a TOFA financial arrangement that you have shown at labels such as:

- **S Net income or loss from business** item 5
- **A, Z, S, B, R or T Partnerships and trusts** item 8
- **G Interest deductions** item 9
- **J Gross interest** item 11
- **K Unfranked dividend amount** item 12
- **O Other Australian income** item 14
- **Q Other deductions** item 18
- **B Gross other assessable foreign source income** item 23.

You should only take into account an amount once at one of **M**, **N** and **O**.

P – TOFA gains from unrealised movements in the value of financial arrangements

Show at **P** the partnership's TOFA gains from unrealised movements in the value of financial arrangements. This may include TOFA gains shown at:

- **Other business income** at **G** and **H** item **5**
- **Other assessable foreign source income** item **23**.

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Key financial information

Last updated 12 February 2019

32 All current assets

Show at **F** all current assets of the partnership, including cash on hand, short-term bills receivable, inventories and trade debtors as shown at item **41 Trade debtors**.

33 Total assets



34 All current liabilities



35 Total liabilities



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33 Total assets

Last updated 12 February 2019

Show at **G** all of the partnership assets, including fixed, tangible and intangible assets, and all current assets as shown at item **32 All current assets**.

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34 All current liabilities

Last updated 12 February 2019

Show at **I** the total obligations payable by the partnership within the coming year – include the amount shown at item **42 Trade creditors**.

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35 Total liabilities

Last updated 12 February 2019

Show at **J** all of the partnership liabilities, including other creditors and deferred liabilities, such as loans secured by mortgage and long-term loans. Also, include the amount shown at item **34 All current liabilities**.

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Business and professional items

Last updated 12 February 2019

36 Business name of main business

The business name of the main business activity should be consistent from year to year, except in the year of a name change or if it is no longer the main business.

If the business name is legally changed, send written advice of the change to the ATO at the time the change is made. Show the current business name on the tax return.

37 Business address of main business



38 Opening stock



39 Purchases and other costs

40 Closing stock



41 Trade debtors



42 Trade creditors



43 Total salary and wage expenses



44 Payments to associated persons



45 Fringe benefit employee contributions



46 Trading stock election



47 Capital allowances



48 Small business entity simplified depreciation



49 National rental affordability scheme tax offset



50 Income tests



37 Business address of main business

Last updated 12 February 2019

Show the street address of the main business – this is the place where most of the business decisions are made. Ensure that you include the postcode at **A**.

Items **38** to **40** below reflect amounts that have been calculated for tax purposes.

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38 Opening stock

Last updated 12 February 2019

Show at **C** the total value of all trading stock on hand at the beginning of the income year or accounting period for which the partnership tax return is being prepared. The amount shown by the partnership at **C** is the calculated 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 year. If you 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 you have 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 started operations during the income year – show this amount **E Cost of sales** item **5**.

QC 35433

39 Purchases and other costs

Last updated 12 February 2019

Show at **B** the cost of direct materials used for manufacture, sale or exchange in deriving the gross proceeds or earnings of the business.

Former STS taxpayers still using the STS accounting method

If the partnership is eligible and has chosen to continue using the STS accounting method, only show at **B** purchases and other costs which the partnership has paid – see [Continued use of the STS accounting method](#).

QC 35433

40 Closing stock

Last updated 12 February 2019

If the partnership is a small business entity choosing to use the simplified trading stock rules, see the information for small business entities below – otherwise, go to [All other businesses](#).

Small business entities

Small business entities only need to account for changes in the value of trading stock if the value of stock on hand at the start of the income year and a reasonable estimate of the value of stock on hand at the end of the income year varies by more than \$5,000.

For more information on 'reasonable estimate', see [Simplified trading stock rules](#) or phone **13 28 66**.

Small business entities who wish to do so can still conduct a stocktake and account for changes in the value of trading stock.

If the difference between the value of opening stock and a reasonable estimate of closing stock is more than \$5,000, the partnership must account for the change in the value of trading stock – go to **step 2**. If the difference is not more than \$5,000, go to **step 1**.

Step 1

If the difference referred to above is \$5,000 or less and the partnership chooses not to account for this difference, the closing stock value at **D** is the same as the value at **C** item **38** – do not put the reasonable estimate at **D**.

Print in the **CODE** box at the right of **D** the code letter from **table 6** that matches the code the partnership used to value closing stock in the previous year.

Table 6

Code	Valuation method
C	Cost
M	Market selling value
R	Replacement value

If this is the partnership's first year in business, the value of the closing stock will be zero – print **C** in the **CODE** box.

Step 2

If the difference referred to above is more than \$5,000 or the partnership 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 information for [All other businesses](#) for instructions on how to calculate the value of closing stock.

The partnership must include in the closing stock value at **D** the value of all stock on hand, regardless of whether the partnership has paid for the stock.

All other businesses

Show at **D** the total value of all trading stock on hand at the end of the income year or accounting period for which the partnership tax return is being prepared. The amount at **D** is the value calculated for income tax purposes under [section 70-45](#) of the ITAA 1997.

If the partnership is registered for GST or required to be registered for GST, the value of closing stock (other than items the supply of which was not a taxable supply) should not include an amount equal to the input tax credit that would arise if the partnership had acquired the item solely for business purposes at the end of the income year. Input tax credits do not arise for some items of trading stock, such as shares.

Include motor vehicle floor plan stock and work in progress of manufactured goods.

Do not include any amount for closing stock of a business that ceased operations during the income year – show this amount at **Total business income** item 5.

Print in the **CODE** box the code from [table 6](#) indicating the method used to value closing stock for income tax purposes. If you use more than one method, use the code for the method representing the greatest value.

You can use different methods to value the same item of trading stock in different income years, and you can value similar items 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 partnership cannot reduce the value of stock on hand by creating reserves to offset falls in the value of stock or any other factors. Keep records showing how each item was valued.

The partnership may elect to value an item of trading stock below the lowest value calculated by any of these methods because of obsolescence or other special circumstances – but the value in the election must be reasonable. If you elect to value an item of trading stock below cost, market selling value and replacement value, see item **46 Trading stock election**.

If you include incorrect trading stock information on the tax return, advise the ATO 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.

Partnerships 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 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 [TR 98/7](#) - *Income tax: whether packaging items (that is, containers, labels, etc) held by a manufacturer, wholesaler or retailer are trading stock*.

Items **41** and **42** below reflect amounts calculated for accounting purposes.

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41 Trade debtors

Last updated 12 February 2019

Show at **E** the total amounts owing to the partnership at year end for goods and services provided during the income year – that is, current trade debtors. Include this amount at item **32 All current assets**.

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42 Trade creditors

Last updated 12 February 2019

Show at **H** the total amounts owed by the partnership at year end for goods and services received during the income year – that is, current trade creditors. Include this amount at item **34 All current liabilities**.

Items **43** and **44** below reflect amounts that have been calculated for tax purposes.

QC 35433

43 Total salary and wage expenses

Last updated 12 February 2019

Show at **L** the total salary, wages and other labour costs actually paid or payable to persons employed in the partnership's business. However, exclude those costs for private domestic assistance or which form part of capital expenditure, as they are not deductible.

A partner cannot be an employee of a partnership – you cannot claim a deduction for partners' salaries, nor can partners' salaries create or increase a partnership loss. In reality, partners' salaries are an allocation or advancement of profits before general distribution and are not taken into account in calculating the net partnership income or loss – see [TR 2005/7](#) - *Income tax: the taxation implications of 'partnership salary' agreements*.

You can only claim a deduction for a payment made or liability incurred by a partnership to an associated person, principal, agent, related entity or associate entity if it is incurred in producing assessable income and the ATO is satisfied that the amount is reasonable.

These expenses include any salary and wage component shown at **E Cost of sales** item **5**, such as:

- allowances
- bonuses
- casual labour
- retainers and commissions paid to people who received a retainer
- workers' compensation paid through the payroll
- 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
- sick pay.

Include here and at item **44 Payments to associated persons** any salary or wages paid to an associated person, principal, agent, related entity or associate entity.

However, these expenses do not include:

- agency fees
- contract payments
- sub-contract payments
- service fees
- superannuation
- management fees
- consultant fees.

Print in the **CODE** box the code from table 7 that shows where you predominantly reported salary and wage expenses.

Table 7

Salary and wages wholly or predominantly reported in:	Code
the expense component of Cost of sales	C
all other expenses	A
the expense component of both Cost of sales and All other expenses	B
neither Cost of sales nor All other expenses	O

QC 35433

44 Payments to associated persons

Last updated 12 February 2019

For partnerships, show at **M** the amounts, including salaries, wages, commissions, superannuation contributions or allowances, paid to:

- a relative of a partner
- another partnership in which a relative is a partner
- a shareholder or director (or their relatives) of a private company that is a partner in the partnership
- a beneficiary (or a relative of a beneficiary) of a trust where the trustee is a partner in the partnership.

Do not show at **M** the amounts paid to a partner in the partnership.

Also, include the amounts of salaries and wages paid to an associated person, relative, principal, agent, related entity or associate entity at item **43 Total salary and wage expenses**.

Record keeping

Excessive payments to a relative or other related entity may not be deductible (see [section 26–35](#) of the ITAA 1997). Keep a record of the following to establish the reasonableness of remuneration:

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

QC 35433

45 Fringe benefit employee contributions

Last updated 12 February 2019

Show at **T** all payments the partnership has received from recipients of fringe benefits.

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

QC 35433

46 Trading stock election

Last updated 12 February 2019

The partnership 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 – however, the value it elects must be reasonable. For more information on trading stock valuations where obsolescence or other special circumstances exist, see [TR 93/23](#) - *Income tax: valuation of trading stock subject to obsolescence or other special circumstances*.

If the partnership makes an election, print **X** in the **Yes** box at this item – otherwise, print **X** in the **No** box.

QC 35433

47 Capital allowances

Last updated 12 February 2019

Small business entities

Broadly, a small business entity is a business with an aggregated turnover of less than \$2 million.

You do not include information at this item if you are a small business entity that has chosen to use the simplified depreciation rules. See our publication [Concessions for small business entities](#) (NAT 71874) for information about these rules.

Depreciating assets first deducted in this income year

Intangible depreciating assets first deducted

Show at **A** the cost of all intangible depreciating assets for which the partnership 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, such as patents, registered designs, copyrights and certain types of licences of these
- computer software, or a right to use computer software, that the partnership acquires, develops or has someone else develop for its own use (that is, in-house software)
- mining, quarrying or prospecting rights and information
- spectrum licences
- datacasting transmitter licences
- certain indefeasible rights to use telecommunications cable systems (IRUs)
- some access rights to telecommunications sites.

A depreciating asset that the partnership holds starts to decline in value from the time the partnership uses it (or installs it ready for use) for any purpose, including a private purpose. However, the partnership 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 partnership 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.

Do not include expenditure on in-house software which has been allocated to a software development pool.

Other depreciating assets first deducted

Show at **B** the cost of all depreciating assets (other than intangible depreciating assets) for which the partnership is claiming a deduction for the decline in value for the first time.

A depreciating asset the partnership holds starts to decline in value from the time the partnership uses it (or installs it ready for use) for any purpose. However, the partnership 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 any assets (other than intangible depreciating assets) costing less than \$1,000 have been allocated to a low-value pool for the income year, also include the cost of those assets at **B** – do not reduce the cost for any estimated non-taxable use.

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

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**.

Total adjustable values at end of income year

At **E**, write the total of the adjustable values of your depreciating assets as at the end of the income year.

If the partnership has allocated any assets with a cost of less than \$1,000 to a low-value pool, **do not** include the adjustable values of those assets at **E Total adjustable values at end of income year**.

Assessable balancing adjustments on the disposal of intangible depreciating assets

At **F**, write 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 a depreciating asset for more than its adjustable value). If you do not have any assessable balancing adjustment amount this year, leave this label blank. For more information see [appendix 6](#).

If the partnership has allocated any assets with a cost of less than \$1,000 to a low-value pool, **do not** include the assessable balancing adjustments for these assets at **F Assessable balancing adjustments on the disposal of intangible depreciating assets**.

Deductible balancing adjustments on the disposal of intangible depreciating assets

At **G**, write 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 a depreciating asset for less than its adjustable value). If you do not have any deductible balancing

adjustment amount this year, leave this label blank. For more information see [appendix 6](#).

If the partnership has allocated any assets with a cost of less than \$1,000 to a low-value pool, **do not** include the assessable balancing adjustments for these assets at **G Deductible balancing adjustments on the disposal of intangible depreciating assets**.

Termination value of intangible depreciating assets

Show at **H** the termination value of each balancing adjustment event occurring for intangible depreciating assets to which the UCA rules applied, including assets allocated to a low-value pool.

Do not show at **H** any consideration received during the income year for in-house software for which the partnership has allocated expenditure to a software- development pool.

A balancing adjustment event occurs if the partnership stops holding or using a depreciating asset or decides not to use it in the future – for example, assets sold, lost or destroyed. Generally, the termination value is the amount the partnership receives or is deemed to receive for the balancing adjustment event. It includes the market value of any non-cash benefits, such as goods and services the partnership receives for the asset.

Termination value of other depreciating assets

Show at **I** the termination value of each balancing adjustment event occurring for depreciating assets, including assets allocated to a low-value pool.

Do not show at **I** any consideration received during the income year for:

- depreciating 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 research and development (R&D) activities, or
- assets falling within the provisions relating to investments in Australian films.

A balancing adjustment event occurs if the partnership stops holding or using a depreciating asset or decides not to use it in the future – for example, assets sold, lost or destroyed. Generally, the termination value is the amount the partnership receives or is deemed to receive

for the balancing adjustment event. It includes the market value of any non-cash benefits, such as goods and services the partnership receives for the asset.

Deduction for project pool

Show at **J** the partnership's deductions for project pools. For more information, see [appendix 6](#).

Section 40-880 deduction.

Show at **K** the total of the partnership's deductions allowable under [section 40-880](#) of the ITAA 1997. For more information, see [appendix 6](#).

For more information on deductions you can claim for depreciating assets and other capital expenditure see [Guide to depreciating assets 2013](#).

QC 35433

48 Small business entity simplified depreciation

Last updated 12 February 2019

Only complete this item if the partnership is a small business entity using the simplified depreciation rules.

To complete this item, use the amounts calculated for small business entity depreciation deductions at **K** item **5**:

- deduction for certain assets (costing less than \$6,500) – show at **A** the total amount claimed relating to these assets
- deduction for small business general pool assets – show at **B** the total amount claimed relating to the general small business pool

Only put the depreciation deduction in the two small business entity depreciating asset labels, and not the pool balance.

QC 35433

49 National rental affordability scheme tax offset

Last updated 12 February 2019

The National rental affordability scheme (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. Entities participating in the NRAS may claim their share of the refundable tax offset in their tax return.

Partners entitled to the NRAS tax offset must show the entitlement at F of this item and at **I item 51 Statement of distribution**. The amount of the entity's tax offset is the amount stated in the certificate issued by the Secretary of the Department of Families, Housing, Community Services and Indigenous Affairs. However, if the Secretary issues the entity with an amended certificate under the *National Rental Affordability Scheme Act 2008*, the amount of the entity's tax offset is the amount stated in the amended certificate.

QC 35433

50 Income tests

Last updated 12 February 2019

Income tests are used to work out an individual's eligibility for certain tax offsets and determining other obligations, such as:

- Higher Education Loan Program and Student Financial Supplement Scheme repayments
- Super co-contributions
- Medicare levy surcharge.

Income test information is also used by other agencies, such as the Department of Human Services, to work out eligibility for other government benefits and obligations.

These income tests require the individual (where applicable) to provide their net financial investment loss and net rental property loss in their income tax return.

The individual's net financial investment loss and net rental property loss includes any financial investment income or loss and any rental property income or loss received as part of an overall distribution from a partnership.

You do not lodge a partnership tax return where the only income derived jointly (or in common) with another person was:

- rent from a jointly owned property, or
- dividends from jointly held shares

and you were not in a partnership carrying on a business.

In these instances, each person shows their share of the income and expenses at the appropriate items on their own tax return.

The information provided at items **50** and **51** (the statement of distribution) will assist each partner to complete their income test information in their individual income tax return.

Net financial investment income or loss

If the partnership received income or claimed deductions during the 2012–13 financial year, then work out the net income or loss from financial investments and show it at **G**.

Financial investments for income test purposes include the following:

- shares
- an interest in a managed investment scheme
- rights or options in respect of any of shares or interests in a managed investment scheme
- distributions from a partnership that included income or losses from an investment listed above
- interests in trusts that the partnership provided consideration to acquire
- any investment that is of a similar nature to those listed above.

We consider that if a financial investment is held by a trust, then for the purposes of the income tests the trustee will generally be the owner of the investment.

Do not include any of the following when calculating the partnership's net financial investment income or loss:

- interest from everyday transactions accounts
- capital gains
- capital losses.

Managed investment schemes

The investment manager will be able to tell you whether your investment is a managed investment scheme – that is, a scheme registered under the [Corporations Act 2001](#).

Managed schemes include:

- cash management trusts
- property trusts
- Australian equity (share) trusts
- international equity trusts

- agricultural schemes, which include horticultural, aquaculture and commercial horse-breeding schemes
- some film schemes
- some time-share schemes
- some mortgage schemes
- actively managed strata title schemes.

Investments that are **not** managed investments schemes include:

- regulated superannuation funds
- approved deposit funds
- debentures issued by a body corporate
- barter schemes
- franchises
- direct purchases of shares or other equities
- schemes operated by an Australian bank in the ordinary course of banking business, such as term deposits.

Rights and options

To work out the partnership's financial investment income or loss, you need to include income and deductions from rights and options the partnership holds over shares and interests in managed investment schemes. Rights and options include:

- warrants
- futures contracts.

For more information on financial investments and income tests, see 'Total net investment loss' in [Income tests: an overview](#).

Deductions

Allowable deductions the partnership can claim for an investment include (but are not limited to) expenses paid to:

- borrow money to purchase an investment
- manage investments
- obtain advice about changes to the mix of investments.

The expenses should be taken into account only to the extent that they are attributable to the partnership's financial investments.

Answering this question

Completing **G Net financial investment income or loss** item **50**:

Step 1

Use [example 11](#) and the [worksheet](#) to list the partnership income and deductions from financial investments – then calculate the net financial investment income or loss.

Step 2

Write the result from step 1 at **G**.

Step 3

Write each partner's share of the net financial investment income or loss at **J** item **51**.

Example 11: Net financial investment income or loss

The XYZ partnership has a share portfolio. The partnership's total dividend income for the financial year is \$7,000 from Australian shares, all of which are unfranked (shown at **K** item **12**). The partnership claimed interest expenses of \$4,300 (shown at **P** item **16**) on the money borrowed to purchase the Australian shares.

During the financial year, XYZ also received income from a cash management trust (managed investment scheme), forestry managed investment scheme, and dividends from foreign shares. XYZ completed the partnership tax return questions as follows:

- R item 8 – \$400 from non-primary production distribution from cash management trust (managed investment scheme)
- K item 12 – \$7,000 income from Australian shares
- Q item 10 – \$1,200 from forestry managed investment scheme income
- B item 23 – \$1,230 income from gross dividends from foreign shares.

This example uses only the income for the financial investments. In many cases the financial investment income is only part of the income shown at particular items.

XYZ incurred expenses against the financial investment income and showed deductions at the following items:

- T item 8 – \$2,500 for expenses for the cash management trust
- P item 16 – \$4,300 for interest on money borrowed to purchase Australian shares
- D item 17 – \$2,600 deductions for the forestry managed investment scheme
- Q item 18 – \$3,000 as the interest expense on money borrowed to purchase the foreign shares was \$3,000.

In addition to the above, XYZ received \$300 as a share of net financial investment income from the ABC partnership. The \$300 was shown at **J** item **51** on the statement of distribution for the ABC partnership tax return.

XYZ's net financial investment income or loss is the difference between the financial investment income and deductions, plus the net financial investment income from the ABC partnership.

Worksheet: Working out the partnership's net financial investment income or loss

Financial investment income	XYZ Partnership	Partnership	
Managed investment scheme income included at R item 8	\$400	\$	(a)
Forestry managed investment scheme income included at Q item 10	\$1,200	\$	(b)
Dividends from Australian shares shown at item 12 :			
K Unfranked amount	\$7,000	\$	(c)
L Franked amount	\$	\$	(d)
M Franking credit	\$	\$	(e)
Gross dividend income from foreign companies and gross income from foreign managed investment schemes, shown at B item 23	\$1,230	\$	(f)
Any other income from a financial investment (other than the partnership's share of net financial investment income or loss from other partnerships shown on the statement of distribution from the other partnership)			(g)
Add (a) to (g).	\$9,830	\$	(h)
Financial investment deductions			
Deductions relating only to the managed investment scheme	\$2,500	\$	(i)

income you have included at T item 8			
Deductions relating to Australian investment income where the investment type is included in definition of financial investment shown at P item 16	\$4,300	\$	(j)
Forestry managed investment scheme deductions you have shown at D item 17	\$2,600	\$	(k)
Dividend deductions from foreign companies and deductions for foreign managed investment scheme income (other than debt type deductions you have shown at Q item 18) you used to calculate the combined net foreign dividend and net foreign managed investment scheme amount shown at V item 23	\$0	\$	(l)
Any other deductions relating to a financial investment (including deductions you have shown at Q item 18).	\$3,000		(m)
Add (i) to (m).	\$12,400	\$	(n)

Net financial investment income or loss			
Take (n) away from (h) – show a loss as negative.	\$– 2,570	\$	(o)
If applicable, write your partnership's share of net financial investment income or loss from other partnerships shown on the statement of distribution from the other partnership – if it is a loss, write as a negative number.	\$300	\$	(p)
Add (o) and (p) – show a loss as negative.	\$– 2,270	\$	(q)

The amount at (q) is the partnership's net financial investment income or loss. Write this amount at **G** item **50**. If the amount is a loss, write **L** in the box on the right hand side of **G**.

Statement of distribution

Once you have shown the net financial investment income or loss at item **50**, you also need to show each partner's share of the financial investment income or loss at **J** item **51**. If the amount at **J** is a loss, print **L** in the box at the right of the figure.

Go to **H** item **50**.

Net rental property income or loss

Show at **H** item **50** the amount of partnership net income or loss from rental properties. When calculating the partnership's net rental property income or loss, you need to consider Australian rent, foreign rent, and net rental income or loss distributed from other partnerships.

Net rental property losses occur when the amount of allowable deductions you claim for the partnership's rental properties is greater than the gross rental income you receive.

Capital gains or losses made in regard to a rental property are not included in your net rental property income or loss.

If the partnership earned rental income or claimed rental deductions, you must complete **H** item **50** and **K** item **51** showing each partner's share of net rental property income or loss.

Answering this question

Completing **H Net rental property income or loss** at item **50**.

Before completing this question, first complete item **9 Rent** and item **23 Other assessable foreign source income**.

Step 1

Use the worksheet to list all rental income and deductions and then calculate the net rental property income or loss – write a loss as a negative number.

Step 2

Write the result from step **1** at **H** item **50**.

Step 3

Write each partner's share of net rental property income or loss at **K** item **51**.

Worksheet: Net rental property income or loss

Net rental property income or loss	Partnership	
Net rental property income shown at item 9 Rent – write a loss as a negative number.	\$	(a)
Net foreign rental property income or loss included at V item 23 Other assessable foreign source income – write a loss as a negative number.	\$	(b)
If applicable, write your partnership's share of net rental property income or loss from other partnerships shown on the statement of distribution from the other partnership – write a loss as a negative number.	\$	(c)
Add up (a) to (c).	\$	(d)
Write the amount at (d) at H item 50 . If the amount is a loss, write L in the box on the right hand side of H item 50 .		
Statement of distribution Once you have shown the net rental property income or loss at item 50 , you also need to show each partner's share of the net rental property income or loss at K item 51 Statement of distribution .		

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Statement of distribution

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51 Statement of distribution

The distribution statement must show only Australian source income or loss, as shown at item **20** on the partnership tax return.

If the following persons or entities are partners, and the partnership claimed a deduction in respect of a LIC capital gain amount, the partnership must advise these partners of their share of the deduction claimed:

- trustee of a trust
- trustee of a superannuation entity
- company – including a life insurance company
- partnership.

If the partnership has purchased an eligible no-till seeder and is eligible for the Conservation tillage refundable tax offset, the partnership must advise the partners of their share of the offset to be claimed. Each partner will claim their share of the offset in their tax return for the year. For further information see *Conservation tillage refundable tax offset*.

Show the distribution of the net Australian income or loss on each partner's own tax return at the following:

Individual

- item **13 Partnerships and trusts** – this item is in the [Individual tax return instructions supplement 2013](#) (NAT 71051)

Company

- item **6 Calculation of total profit or loss**.

Trust

- item **8 Partnerships and trusts**, except for distributions of income subject to foreign resident withholding, which are shown at item **5 Business income and expenses**.

Do not show capital gains, attributed foreign income, foreign source income or foreign tax credits on the distribution statement. Record and distribute these separately, keeping details for your records.

Include this income or credit on each partner's own tax return at the following:

- for an **individual** tax return
 - item **18 Capital gains**
 - item **19 Foreign entities**
 - item **20 Foreign source income and foreign assets or property**
 - item **20 Foreign income tax offset**
- for a **company** tax return
 - item **7 Reconciliation to taxable income or loss**
 - item **20 Foreign income tax offset**
- for a **trust** tax return
 - item **21 Capital gains**
 - item **22 Attributed foreign income**
 - item **23 Other assessable foreign source income**.

For more information on capital gains, see the [Guide to capital gains tax 2012-13](#).

More than four partners

If you are completing a tax return on paper and the total number of partners is more than four, photocopy page 11 of the tax return before filling it, one copy for each additional partner. Complete the copies showing the details of each additional partner. Attach these to the tax return and print **X** in the **Yes** box at **Have you attached any 'other attachments'?** at the top of page 1 of the tax return.

Completing the statement of distribution

For each partner's individual statement of distribution, show:

- individual name or non-individual name
- postal address
- tax file number (TFN).

Show the full name and TFN of each partner. If the TFN is not shown, show the partner's address for the service of notices. If the partner is a trustee, show the name and TFN of the trust.

A Share of income, Primary production and **B Share of income, Non-primary production**

Show each partner's share of income in whole dollars only, separated into primary production income and non-primary production income. While the partnership's non-primary production income includes franked distributions, for the purposes of recording partners' franked distributions in the distribution statements, franked distributions should not be included at **B**. Franked distributions should be shown at **L**.

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

C Credit for tax withheld where ABN not quoted

Show each partner's share of credit for amounts withheld where an ABN was not quoted. Show whole dollars only. The aggregate of each amount shown at **C** for each completed distribution statement equals the sum of any credit claimed at:

- **T** item **6 Tax withheld where ABN not quoted**
- **C** item **8 Share of credit for tax withheld where ABN not quoted**.

L Franked distributions

Show each partner's share of franked distributions (net of relevant expenses) and its share of the franking credits referable to those franked distributions (the franking credit 'gross-up') in whole dollars only.

D Franking credit

Show each partner's share of franking credits for franked dividends. The aggregate of each amount shown at **D** for each completed

distribution statement must equal the sum of franking credits claimed at:

- **D item 8 Share of franking credits from franked distributions**
- **M item 12 Franking credit.**

ETFN amounts withheld

Show each partner's share of credit for amounts withheld from payments of interest, dividends and unit trust distributions by investment bodies because the recipient did not quote a TFN. The aggregate of each amount shown at **E** for each completed distribution statement must equal the sum of TFN amounts withheld on interest, dividends and unit trust distribution at:

- **E item 8 Share of credit for TFN amounts withheld from interest, dividends and unit trust distributions**
- **I item 11 TFN amounts withheld from gross interest**
- **N item 12 TFN amounts withheld from dividends.**

O Share of credit for TFN amounts withheld from payments from closely held trusts

Show at **O** the share of the net amount of TFN amounts withheld by a trustee of a closely held trust, which is subject to the TFN Withholding rules. The total amounts for each partner at this entry should equal the amount reported at **O** item **8**, and the amount of credit claimed by each partner should be claimed in proportion to their partnership interest.

- Credits for the TFN amounts withheld may be claimed by the partners when they lodge their income tax returns.

For more information regarding the TFN withholding rules for closely held trusts, see [TFN Withholding for closely held trusts – Who the rules apply to](#).

F Credit for tax withheld – foreign resident withholding

Show each partner's share of credit for amounts withheld under foreign resident withholding. Show whole dollars only. The aggregate of each amount shown at **F** for each completed distribution statement must equal the total amount of credit shown on the tax return at **U** item **6** and **U** item **8**.

G Australian franking credits from a New Zealand franking company

Show each partner's share of Australian franking credits that were attached to franked dividends received from a New Zealand franking company either directly or indirectly through another partnership or trust.

This amount is not necessarily the total amount that each partner can claim – this is because under [section 220-405](#) of the ITAA 1997, each partner's share of franking credits should be reduced by the amount of

any share of supplementary dividend paid by the New Zealand franking company if:

- the supplementary dividend was paid in connection with the franked dividend, and
- the partner is entitled to a foreign income tax offset because the franked dividend is included in their assessable income – see [appendix 1](#).

If the above conditions exist, the reduction should be made on the partner's own tax return.

I Share of National rental affordability scheme tax offset

Show each partner's share of the NRAS tax offset. The aggregate of each amount shown at **I** for each completed distribution statement must equal the amount of NRAS tax offset entitlement shown at **F** item **49** on the partnership tax return. With this figure, include cents.

J Share of net financial investment income or loss

Show each partner's share of net financial investment income or loss. Show whole dollars only. The aggregate of each amount shown at **J** for each completed distribution statement must equal the amount shown at **G** item **50**.

K Share of net rental property income or loss

Show each partner's share of net rental property income or loss. Show whole dollars only. The aggregate of each amount shown at **K** for each completed distribution statement must equal the amount shown at **H** item **50**.

Real and effective control of share in partnership income

If a partner aged 18 years or more on the last day of the partnership's income year does not have real and effective control and disposal of part or the whole of their share of partnership net income, the partner pays further tax – see [section 94](#) of the ITAA 1936. Provide the partner's details at the top of page 12 of the tax return.

Real control depends on the constitution and control of the partnership and the conduct of its operations. Broadly, there is a lack of real control if the partner must allow any part of their share of income to be dealt with in a particular way so that the partner cannot, on their own, deal with it in another way.

If you are completing a tax return on paper, and there is more than one partner without real or effective control over their part of the partnership income, then on a separate sheet of paper titled 'Additional partners without real or effective control' list the title and full names of the additional partners. Attach it to the tax return and print **X** in the **Yes** box at **Have you attached any 'other attachments'?** at the top of page 1 of the tax return.

Under special circumstances, the Commissioner may treat a partner as having real control of a share or part of a share of partnership income. If you want a partner to be treated as having real control of a share or part of a share of partnership income, provide full details on a separate sheet of paper in support of your request. Attach it to the tax return and print **X** in the **Yes** box at **Have you attached any 'other attachments'?** at the top of page 1 of the tax return.

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Declarations

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For a partnership, one of the partners must sign and date the declaration.

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 this item you will help us to monitor these costs as closely as possible. Your response to this item is voluntary.

When completing this item, consider the time, rounded up to the nearest hour, your business spent:

- reading the instructions
- collecting the necessary information to complete this tax return
- making any necessary calculations
- actually completing this tax return or putting the tax affairs of your business in order so that the information could be handed to your tax agent.

The answer should relate to the time the partners or tax agent spent in preparing and completing the tax return – this includes the time spent by any other person whose assistance was obtained in doing this, such as an employee.

Tax agents

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

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.

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Worksheets

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Worksheet 1: Reconciliation statement

The [Reconciliation statement worksheet \(PDF, 102 KB\)](#)  is available to download.

[Worksheet 2: Distribution of income from other partnerships and share of net income from trusts](#)

The [Distribution of income from other partnership and share of net income from trusts worksheet \(PDF, 80KB\)](#)  is available to download.

Worksheet 3: Interest

The [Interest worksheet \(PDF, 48KB\)](#)  is available to download.

Worksheet 4: Dividends

The [Dividends worksheet \(PDF, 48KB\)](#)  is available to download.

Worksheet 5: Distribution of foreign income

The [Distribution of foreign income worksheetworksheet \(PDF, 62.1KB\)](#)  is available to download.

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Appendixes

Last updated 12 February 2019

[Appendix 1: Dividends](#)

An imputation system applies for taxing dividends paid by franking entities. Certain dividends (including non-share dividends) paid by franking entities, which have paid Australian tax may have a franking credit attached. These dividends are known as franked dividends.

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, and there is no entitlement to a franking tax offset.

Trans-Tasman imputation

The Australian Government has rules, administered by the ATO, to allow New Zealand companies to join the Australian imputation system. The New Zealand Government has similar rules, administered by the New Zealand Inland Revenue Department, to allow Australian companies to join the New Zealand imputation system. Subject to full compliance with the Australian imputation rules, a New Zealand company that has chosen to join the Australian imputation system is able to maintain an Australian franking account and may pay dividends franked with Australian franking credits.

For dividends paid by Australian franking companies, the total amount of dividends received or credited and the franking credit is included in the assessable income of the partnership to determine the relevant net income or loss.

For dividends paid by New Zealand franking companies, the amount of the dividend received or credited and the franking credit included in the assessable income of the partnership can vary depending on whether or not the dividend is assessable. See the [Foreign income return form guide 2012-13](#) to work out whether the dividend is assessable income.

If the dividend from the New Zealand company is assessable, you must declare it (including any supplementary dividend) as assessable foreign income, even if dividend withholding tax was deducted in New Zealand. Each partner may be entitled to a foreign income tax offset in respect of some or all of any New Zealand withholding tax paid on the dividend.

If the franked dividend from the New Zealand company is included in assessable income, the amount of the Australian franking credit on that dividend is also assessable income and you can claim a tax offset equal to that amount (subject to the exceptions described below).

If the recipient is entitled to a tax offset under [section 207-45](#), the Australian franking credit is included in the assessable income of the recipient. The tax offset is reduced by the relevant amount of a supplementary dividend paid by the New Zealand company if:

- the supplementary dividend is paid in connection with the franked dividend

- the franked dividend and the supplementary dividend flow indirectly to the recipient because the recipient is a partner in a partnership
- the recipient (each partner in the case of a partnership) is entitled to foreign income tax offsets because of the distribution.

Australian resident shareholders are not entitled to a tax offset for New Zealand imputation credits which are attached to dividends paid by a New Zealand company. Australian resident shareholders are only entitled to a tax offset for Australian franking credits which are attached to those dividends.

Franking credit trading

For the franking credits to flow through to the partners, both they and the partnership must be qualified persons for the dividend.

Qualified person

To be a qualified person for a dividend, a taxpayer must, during the relevant 'qualification period' (see below), hold the shares, or an interest in the shares, at risk for 45 days (90 days for certain preference shares), not counting the days on which the shares or interests were acquired or disposed of. This is sometimes referred to as the 'holding period rule'.

To hold the shares, or an interest in shares, at risk, the taxpayer must carry at least 30% of the risks of loss and opportunities for gain associated with the shares, or interest in the shares.

If the taxpayer does not have an obligation to make a payment for a dividend (generally one passing the benefit of the dividend to another) the relevant qualification period for that dividend is the period beginning the day after the relevant shares or interests are acquired, and ending 45 days (90 days for certain preference shares) after the shares go ex-dividend. Otherwise, if the taxpayer is obliged to make, has made, or is likely to make a related payment, the relevant qualification period is the period beginning 45 days (90 days for certain preference shares) before the shares go ex-dividend and ending 45 days (90 days for certain preference shares) after the shares go ex-dividend. This is sometimes referred to as the 'related payments rule'.

The holding period rule applies to shares acquired on or after 1 July 1997 (unless acquired under a contract entered into before 7.30pm Australian eastern standard time (AEST) on 13 May 1997) and the related payments rule applies to arrangements entered into after 7.30pm AEST on 13 May 1997.

Alternatively, a partner can be a qualified person if they are an individual and their total franking credit entitlements do not exceed \$5,000.

General anti-avoidance rule

[Section 177EA](#) of the ITAA 1936 is a general anti-avoidance rule against franking credit trading and streaming. The rule applies where a more-than-incidental purpose of certain arrangements is to obtain a tax advantage for franking credits.

For more information, see *You and your shares 2012–13*.

Franking credit

The franking credit from Australian franking entities is shown at:

- **M item 12** – if received directly from a paying company
- **D item 8** – if received indirectly through another partnership or trust.

Do not show the franking credit if the partnership was not a [qualified person](#) or the partnership was otherwise unable to claim a franking credit for the dividend.

Australian franking credits from a New Zealand franking company

The Australian franking credits attached to franked dividends received directly or indirectly from a New Zealand franking company are shown at **D item 23**. For credits received indirectly through another partnership or trust, do not show the franking credit if the partnership was not a qualified person or the partnership was otherwise unable to claim a franking credit.

Show expenses claimed against earning dividend income at item **16 Deductions relating to Australian investment income**.

The share of the partnership's net income or loss distributed to a resident partner is shown on the partner's own tax return.

If that share includes some or all of the franked dividends paid to the partnership, the partner who is a resident individual is entitled to a tax offset equal to their share of franking credits attached to the franked dividends, undiminished by the expenses of the partnership.

For the franking credits to flow to a partner, both the partner and the partnership must be qualified persons (satisfying the holding period and related payments rules).

[Non-resident partners](#)

Non-resident partners are not liable to pay any Australian tax on the franked amount of dividends. Unfranked dividends and the unfranked part of franked dividends, if any, are subject to withholding tax.

Share traders

Traders of shares (including non-share equity interests) who operated as a partnership and received dividends during the income year must show them at item **12**.

Exempt dividends

Keep supporting records if the partnership claims the whole or part of any dividend, bonus share issue or other distribution is exempt from tax – for example, because FTDI has been paid on the amount.

Foreign source dividends

Foreign source dividends (other than dividends from a New Zealand franking company) are not subject to the imputation rules. However, they are usually included in the assessable income of the partnership. If the partnership receives foreign source dividends, other than dividends that qualify as non-assessable non-exempt income under [sections 23AI](#) and [23AK](#), include these amounts at item **23**.

Unfranked dividends

An unfranked dividend includes the unfranked part of a partly franked dividend.

Unfranked dividends and the TOFA rules

The TOFA rules may apply to some or all of the unfranked dividends that a partnership receives – where this is the case, such amounts are still shown at item **12 Dividends** and must also be shown at item **31 Taxation of financial arrangements (TOFA)**.

Dividends or interest paid to non-residents

Interest paid includes amounts in the nature of interest. If the partnership paid or credited any amounts in the nature of interest to a non-resident of Australia or has received unfranked dividends or interest on behalf of a non-resident of Australia, provide a statement showing the amount paid, credited or received on behalf of the non-resident and whether withholding tax was deducted. If it was not deducted, state why. Attach the statement to the tax return. Print **X** in the **Yes** box at **Have you attached any 'other attachments'?** at the top of page 1 of the tax return.

Appendix 2: Royalties



Appendix 3: Thin capitalisation



Appendix 4: Commercial debt forgiveness



Appendix 5: Capital works deductions and other tax offsets >

Appendix 6: Uniform capital allowances >

Appendix 7: Deductions applicable to partners >

Appendix 14: Small business entities >

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Appendix 2: Royalties

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Royalties include considerations of any kind paid or credited for:

1. the use of, or right to use:
 - a. any copyright, patent, design or model, plan, secret formula or process, trademark or other like property or right
 - b. industrial, commercial or scientific equipment
 - c. motion picture films
 - d. films or video tapes for use with television
 - e. tapes for use with radio broadcasting
 - f. visual images and or sounds transmitted by satellite, cable, optic fibre or other similar technology, in connection with television or radio broadcasting
 - g. capacity covered by a spectrum licence under the [Radio Communications Act 1992](#) 
2. the supply of scientific, technical, industrial or commercial knowledge or information
3. the supply of any assistance that is ancillary and subsidiary to, and is furnished as a means of enabling the application or enjoyment of any property, right, equipment, knowledge or information mentioned in 1a, 1b or 2

4. the reception of, or the right to receive, visual images or sounds transmitted to the public by satellite, cable, optic fibre or similar technology
5. the total or partial forbearance in respect of the previously listed activities.

Show royalties derived by an Australian resident as income in the normal manner.

Royalties paid by a resident to a non-resident may be subject to withholding tax. The rate for royalties is 30% – however, if there is a double tax agreement, the rate may be reduced.

For more information on the definition of royalty, see [IT 2660](#) - *Income tax: definition of royalties*.

Record keeping

If the partnership claims a deduction for royalties paid or credited, keep a record of the name and address and the amounts paid or due to each person. If payment was made to a non-resident, keep details on whether or not tax has been paid or an amount withheld to provide for tax payable by the non-resident.

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Appendix 3: Thin capitalisation

Last updated 12 February 2019

The thin capitalisation provisions reduce certain expenditure (called 'debt deductions') incurred in obtaining and servicing debt where the debt used to finance the Australian operations of a partnership exceeds the limits set out in Division 820 of the ITAA 1997. These rules ensure that taxpayers fund their Australian operations with an appropriate amount of equity.

Do the thin capitalisation rules apply?

Subject to two exclusions listed below, the thin capitalisation rules will apply to a partnership if:

- the partnership has at least one partner which is an Australian resident (an Australian partnership) and either:
 - the partnership, or any of its associate entities, is an Australian controller of an Australian controlled foreign entity (explained below) or carries on business overseas at or through a permanent establishment, or

– that partnership is foreign controlled, either directly or indirectly,
or

- the partnership does not have any partners that are Australian residents and the partnership carries on business in Australia at or through a permanent establishment or otherwise has assets that produce assessable income.

Entities that are not affected by the rules

For any given income year, the following entities are not affected by the 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 \$250,000 or less for the income year
- an Australian entity that is neither an inward investing entity nor an outward investing entity
- a foreign entity that has no investments or presence in Australia
- an outward investing entity 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: refer to section 820-39.

Exclusions

The thin capitalisation rules will not apply if:

- the partnership's debt deductions (combined with the debt deductions of its associate entities) do not exceed \$250,000 in the income year, **or**
- in the case of an Australian partnership which is not foreign controlled, the combined value of the partnership's Australian assets and the Australian assets of its associates comprise at least 90% of the value of the total assets of the partnership and those associates.

Control

The rules measuring control take into account both direct and indirect interests that the partnership holds in the other entity (or vice-versa) and the direct and indirect interests that associate entities of the partnership hold in the other entity. This means an Australian partnership can be an Australian controller of a foreign entity even if it holds a direct interest of less than 50% in the foreign entity.

What if the thin capitalisation rules apply?

If the thin capitalisation rules apply to the partnership or further information is required, see the instructions to section D of the IDS Instructions. If the thin capitalisation rules apply, the partnership must complete the [International dealings schedule 2013](#) unless the partnership was a subsidiary member of a consolidated group or a MEC group for the entire income year.

Where a partnership is a member of a consolidated group or MEC Group for the whole income year and the thin capitalisation rules apply, the responsibility for preparing the *International dealings schedule 2013* will rest on the head company of the consolidated group.

Where a return is required because the partnership had a period in the income year when it was not a member of a consolidated group (a non-membership period) the partnership should complete an *International dealings schedule 2013* where the thin capitalisation rules apply to the partnership during the non-membership period.

What if the thin capitalisation rules are breached?

If the thin capitalisation rules are breached, some of the partnership's debt deductions may be denied. The amount denied for business income is shown at **B Expense reconciliation adjustments** item 5. If the partnership incurred debt deductions for other types of income (for example, rental income, dividend income or foreign income) the amount of deductions shown at the relevant entries must exclude the debt deductions denied.

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Appendix 4: Commercial debt forgiveness

Last updated 12 February 2019

If a commercial debt owed by the partnership is forgiven during the income year, apply – in this order – the net amount of debts forgiven to reduce the partnership's tax losses, net capital losses, certain undeducted revenue or capital expenditure and the cost base of CGT assets.

A debt is a commercial debt if any part of the interest payable on it is or would be an allowable deduction if not for some specific exception provision. If interest is not payable, the debt is still a commercial debt if interest, if charged, would have been deductible.

A debt is forgiven if the partnership's obligation to pay the debt is released or waived or otherwise extinguished, other than by

repayment of the debt in full.

A debt is also forgiven if a creditor assigns it to an associate of the debtor, in certain other circumstances, or if the right to recover it ceases.

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:

- value of the debt at the time of forgiveness (assuming the partnership was solvent at the time the debt was incurred and the partnership's credit-worthiness has not changed from the time the debt was incurred), and
- sum of the value of the debt at the time the debt was forgiven (based on the above assumptions and assuming that any market variables remain constant) plus any amounts allowable as deductions because of the forgiveness of the debt that are attributable to changes in market variables. This might occur because of a decrease in value of the debt due to market movements. Special rules apply in calculating the notional value of non-recourse debt and in respect of debt parking circumstances – see [sections 245-60](#) and [245-61](#) of the ITAA 1997.

2. Calculate the gross forgiven amount of the debt by deducting from the value of the debt certain amounts in respect of the forgiveness. These amounts are normally the sum of the amounts of money the partnership is required to pay in respect of the forgiveness or, if property is required to be given, the market value of the property. Special rules apply in determining the consideration given for the forgiveness if a debt is forgiven in exchange for shares or if there are debt parking circumstances – see [section 245-65](#) of the ITAA 1997.

3. Reduce the gross forgiven amount by any amount:

- which has been, is, or will be, included in the partnership's assessable income as a result of the forgiven debt
- by which a deduction otherwise allowable to the partnership has been or will be reduced as a result of the forgiven debt except for a reduction under [Division 727 \(indirect value shifting\)](#) of the ITAA 1997, and
- by which the cost base to the partnership of any CGT asset has been or will be reduced as a result of the forgiveness of the debt under [Part 3-1](#) or [3-3](#) of the ITAA 1997.

The balance remaining is the net forgiven amount of that debt.

4. Add the net forgiven amount to the net forgiven amounts of other debts 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 partnership has in the following categories, in the order listed:

- tax losses
- net capital losses
- expenditures
- cost bases of certain CGT assets.

Note: Partnerships cannot have tax losses or net capital losses.

Within each category, the partnership 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 to the maximum extent possible against all categories, disregard this excess. However, see [Special rules](#) applying in the case of certain partnerships.

Expenditures

Expenditures are limited to those incurred before the forgiveness year which remain undeducted but which, on conditions prevailing at the beginning of the forgiveness year, would be deductible in that year or future years. Expenditures mean:

- expenditure deductible under Division 40 of the ITAA 1997 (uniform capital allowances)
- expenditure incurred in borrowing money to produce assessable income
- expenditure on scientific research
- R&D expenditure deductible under Division 355 of the ITAA 1997
- advance revenue expenditure
- expenditure on acquiring a unit of industrial property to produce assessable income
- expenditure on Australian films
- expenditure on assessable income-producing buildings and other capital works.

There are **two** principal methods for reducing expenditures:

- If the deduction is calculated as a percentage of a base amount (for example, deductions for 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 year and later 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.

- If the deduction for a particular expenditure is a percentage, fraction or proportion of an amount worked out after taking into account any deductions for the expenditure previously allowed to the partnership (for example, deductions for decline in value of depreciating assets calculated under the diminishing value method) the forgiven amount 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 expenditure, the total net forgiven amount by which the recouped expenditure was previously reduced is treated as assessable income in the year it is recouped.

Cost bases of certain CGT assets

The cost bases of certain CGT assets owned by the partnership at the beginning of the forgiveness year may be reduced by the partnership's total net forgiven amount – 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 partnership may choose the CGT assets whose 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 partnership must be reduced last. If a partnership chooses to apply an amount to reduce either the cost base or the reduced cost base of a CGT asset, then at any time from the beginning of the forgiveness income year, each of the relevant cost bases (that is, the cost base or reduced cost base) is taken to be reduced.

Ordinarily, the reduction of a CGT asset's relevant 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 first day of the forgiveness year that would cause the reduced cost base of the asset to be reduced.

The reduction of the relevant 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 CGT asset because the relevant cost base that is taken into account in determining the capital gain or capital loss must reflect that reduction.

[Special rules](#)

Special rules apply if a partnership (other than a corporate limited partnership) has a total net forgiven amount which cannot be fully applied in reducing its categories of amounts set out above. Any part that cannot be applied in that way is allocated to the partners in the proportion they share in the net income or loss of the partnership. This amount is added to the individual partner's net forgiven amounts in calculating the partner's total net forgiven amount – see Subdivision 245-F of the ITAA 1997.

QC 35433

Appendix 5: Capital works deductions and other tax offsets

Last updated 12 February 2019

Capital works deductions

[Division 43](#) of the ITAA 1997 provides for a system of deducting capital expenditure incurred in the construction of 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 (such as bridges, retaining walls and sealed roads) or extensions, alterations or improvements to structural improvements
- environmental protection earthworks – see also [appendix 6](#).

You must base deductions for construction costs and structural improvements on actual costs incurred. If it is not possible to genuinely determine the actual costs, provide an estimate by a quantity surveyor or other independent qualified person. The costs incurred by the partnership for providing this estimate are deductible as a tax-related expense, not as an expense in gaining or producing assessable income.

Who can claim?

You can only claim a deduction under Division 43 for an income year if the partnership:

- owns, leases or holds part of a construction expenditure area of capital works ('your area')

- incurred the expense, or is an assignee of the lease or holder who incurred the expense, and
- uses your area to produce income, or in some cases for carrying on R&D activities.

There are special rules that qualify the use of the capital works in relation to 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.

In calculating the partnership's deduction, identify your area for each construction expenditure area of the capital works. Your area may comprise the whole or part of the construction area.

Lessee or holder of capital works

You can claim a deduction for an area leased or held under a quasi-ownership right by the lessee or holder. 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 your 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

A partnership 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
- it 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

You cannot claim a deduction for any period before the construction of the capital works is complete even though the partnership 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 started when the first step in the construction phase starts – for example, the pouring of foundations or sinking of pilings for a building.

Establishing the deduction base

Expenditure for the construction of capital works is deductible if there is a construction expenditure area for the capital works. Whether there is such an area and how it is identified depends on:

- the type of expenditure incurred – only construction expenditure, see below, is deductible under [Division 43](#) of the ITAA 1997
- the time the capital works started
- the area of the capital works to be owned, leased or held by the entity that incurred the expenditure, and
- for capital works begun before 1 July 1997, the area of the capital works that was at the time of completion intended to be used in a particular manner – see [section 43–90](#) of the ITAA 1997.

Construction expenditure

Construction expenditure includes:

- preliminary expenses – such as 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 their contributions to the work (that is, labour or expertise and any notional profit element) do not form part of construction expenditure – see [TR 97/25](#) - *Income tax: property development: deduction for capital expenditure on construction of income producing capital works, including buildings and structural improvements* and addendum.

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 to be used for 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 before 1 July 1997, the capital works must have been constructed for a specified use at the time of completion, depending upon the time when the capital works started.

The first specified use construction time was 22 August 1979 – see [table 43-90](#) and [subsection 43-75\(2\)](#) of the ITAA 1997. No deduction is available under Division 43 of the ITAA 1997 for capital works which were begun on 21 August 1979 or earlier – see [subsection 43-20\(1\)](#) 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

You can only claim a deduction under this Division if the partnership 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, is not used for another purpose, and its use has not been abandoned
- its use has temporarily ceased because of, for example, construction or repairs, or 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 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 started 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 the construction began after 19 July 1982 and before 18 July 1985 and which is used or available for use wholly or mainly:
 - for, or in association with, residential accommodation, and it is not a hotel or apartment building
 - for 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 partnership 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 entitlement to a deduction begins on the date your area 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 upon 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 which began after 26 February 1992
- [Section 43-215](#) of the ITAA 1997 deals with deductions for capital works which 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 construction expenditure by the applicable rate (either 4% if the capital works began 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 in which the partnership 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.

The amount claimed 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 construction expenditure the partnership has left to write off. Use it to work out the:

- number of years in which the partnership can deduct amounts for its construction expenditure, and
- amount that the partnership 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 the remaining amount of undeducted construction expenditure that has not yet been deducted, minus any compensation received. This applies even if the destruction or demolition is voluntary.

You can claim the deduction in the income year in which the destruction occurs.

The deduction is reduced where 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 on these measures, see [TR 97/25](#) - *Income tax: property development: deduction for capital expenditure on construction of income producing capital works, including buildings and structural improvements* and addendum.

Infrastructure borrowings

The previous infrastructure borrowings tax concession, which was introduced in 1992 to facilitate private sector investment in certain publicly accessible infrastructure projects, was closed to new projects from 14 February 1997. The provisions relating to the concession are contained in [Division 16L](#) of the ITAA 1936 and Chapter 3 of the [Development Allowance Authority Act 1992](#) [↗](#).

The lender's interest and amounts in the nature of interest on infrastructure borrowings are not assessable. Alternatively, the lender may choose to be assessed on the amounts and to claim a tax offset of 30%. The borrower's interest and amounts in the nature of interest on the infrastructure borrowings are not deductible. In addition, any profit on the disposal of an infrastructure borrowings instrument is non-assessable and any loss is non-deductible.

Appendix 6: Uniform capital allowances

Last updated 12 February 2019

This appendix covers the following uniform capital allowance (UCA) topics:

- 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
- grapevines and horticultural plants
- hire-purchase agreements
- landcare operations and deductions for decline in value of a water facility
- limited recourse debt
- loss on the sale of a depreciating asset
- low-value pools
- luxury car leases
- profit on the sale of a depreciating asset
- section 40-880 deduction
- the TOFA rules and UCA.

For more information on any of these topics, see the [Guide to depreciating assets 2013](#).

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 partnership ceases to hold or to use a depreciating asset, a balancing adjustment event may occur. For assets subject to the small business entity depreciation rules, see [Step 6 Disposal of depreciating assets](#). For assets not subject to these rules, the partnership will need to calculate a balancing adjustment amount to include in its assessable income or to claim as a deduction.

Show an assessable balancing adjustment amount as an income add back at **A Income reconciliation adjustments** item 5.

Show a deductible balancing adjustment amount as an expense subtraction at **B Expense reconciliation adjustments** item **5**.

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 which is attributable to that non-taxable use.

Show any profit or loss on the sale of a depreciating asset that has been included in the accounts of the partnership as either an income subtraction at **A Income reconciliation adjustments** item **5** or an expense add back at **B Expense reconciliation adjustments** item **5**.

See [Profit on the sale of a depreciating asset](#) and [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 the gain or loss allocated under the TOFA rules and show the amount at **A Income reconciliation adjustments** or **B Expense reconciliation adjustments** when calculating the depreciating asset's balancing adjustment amount.

Also include the gain or loss on the hedging financial arrangement at item **31 Taxation of financial arrangements (TOFA)**.

For more information, see the [Guide to the taxation of financial arrangements \(TOFA\) rules](#) and the [Guide to depreciating assets 2013](#).

If a balancing adjustment event occurred to a depreciating asset of the partnership during the income year, you may need to include an amount at label **H** or **I**, item **47 Capital allowances**.

[Deduction for decline in value of depreciating assets](#)

For assets subject to the small business entity depreciation rules, see [Calculating depreciation deductions for small business entities](#). For assets not subject to the small business entity depreciation rules, the decline in value 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 partnership can choose whether to self-assess the effective life or to adopt the Commissioner's determination in [Taxation Ruling TR 2012/2 - Income Tax: effective life of depreciating assets \(applicable from 1 July 2012\)](#).

The partnership can deduct an amount equal to the decline in value of a depreciating asset for the period that it holds the asset during the income year. However, the deduction is reduced to the extent the asset is used, or installed ready for use, for other than a taxable purpose.

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, then the amounts shown at **A Income reconciliation adjustments** and **B Expense reconciliation adjustments** will also need to take into account the effect of that gain or loss from the hedging financial arrangement.

Also include the gain or loss on the hedging financial arrangement at item **31 Taxation of financial arrangements (TOFA)**.

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.

You can allocate certain assets that cost less than \$1,000 or that have an opening adjustable value of less than \$1,000 to a low-value pool to calculate the decline in value. You cannot allocate assets eligible for the immediate deduction to a low-value pool.

If the partnership is not using the small business entity depreciation rules, show the deduction for decline in value of depreciating assets used in carrying on a business as an expense subtraction at **B Expense reconciliation adjustments** item **5**.

This amount is often different from the amount of depreciation calculated for accounting purposes shown at **K** item **5**, so you will need to include the amount at **K** as an expense add back at **B Expense reconciliation adjustments** item **5**.

Show deductions for the decline in value of depreciating assets used to earn rental income, earn interest or dividends, or used by the partnership in the management of its tax affairs at **H** item **9 Rent**, item **16 Deductions relating to Australian investment income** or item **18 Other deductions**, respectively.

For information about where to show deductions for depreciating assets in a low-value pool, see [Low-value pools](#).

A partnership cannot claim a deduction for the decline in value of certain depreciating assets – instead, the individual partners are usually entitled to claim a deduction.

See [Electricity connections and telephone lines](#), [Grapevines and horticultural plants](#) and [Landcare operations and decline in value of a water facility](#) for more information.

To calculate the deduction for the decline in value of most depreciating assets, use worksheet 1 and worksheet 2 in the [Guide to depreciating assets 2013](#).

Foreign exchange gains and losses

If you purchased a depreciating asset in foreign currency, the first element of the asset's cost is converted to Australian currency. From 1 July 2003, if the foreign currency amount became due for payment within the 24-month period that began 12 months before the time when you began to hold the depreciating asset, any realised foreign exchange gain or loss (referred to as a forex realisation gain or a forex realisation loss) can modify the asset's cost, opening adjustable value, or the opening balance of your low-value pool, as applicable.

However, if the foreign currency amount relates to the second element of the cost of a depreciating asset, the translation to Australian currency is made at the exchange rate applicable at the time you incurred the relevant expenditure, and a 12month rule instead of a 24month rule applies. The 12month rule requires that the foreign currency became due for payment within 12 months after the time you incurred the relevant expenditure. In some circumstances, you may be able to elect that forex gains and losses do not modify the asset's cost, opening adjustable value or the opening balance of your low-value pool. For more information, see [Forex: election out of the 12 month rule](#).

Deduction for environmental protection expenses

The partnership can deduct expenditure incurred 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 partnership's earning activity. The earning activity is one the partnership has 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
- mining site rehabilitation.

The partnership may 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 partnership can deduct an amount for it under another provision.

Expenditure which forms part of the cost of a depreciating asset is not expenditure on EPA.

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

You cannot claim a deduction for expenditure on an environmental assessment of a project of the partnership as expenditure on EPA. If it is capital expenditure directly connected with a project, it could be a project amount for which a deduction would be available over the project life – see [Deduction for project pool](#).

If the deduction arises from a non-arm's length transaction and the expenditure is more than the market value of what it was for, the amount of the expenditure is instead taken to be that market value.

Include any recoupment of the expenditure as assessable income at **G** or **H Other business income** item **5**, or as an income add back at **A Income reconciliation adjustments** item **5**.

Include the deduction for environmental protection expenses at **N** item **5** or as an expense subtraction at **B Expense reconciliation adjustments** item **5**.

[Deduction for project pool](#)

You can allocate certain capital expenditure incurred after 30 June 2001 directly connected with a project that is carried on, or proposed to be carried on, for a taxable purpose to a project pool and write it off over the project life.

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.

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 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 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 X 200%

DV project pool life

Certain projects may be taken to have started to operate before 10 May 2006

– for example, if a project is abandoned and then restarted on or after 10 May 2006 just so deductions can be calculated using the above formula.

For other project pools, the deduction is calculated using the following formula:

pool value X 150%

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. Determine the project life 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 perspective of the partnership, but the event used to determine when the project will stop operating must be something outside its control.

The pool value for an income year is broadly the sum of the project amounts allocated to the pool up to the end of that year, minus the sum of the deductions claimed for the project pool in previous years or that which could have been claimed had the project operated wholly for a taxable purpose.

The pool value can be subject to adjustments.

If there is an entitlement to a GST input tax credit for expenditure allocated to a project pool, reduce the pool value by the amount of the credit. You will need to adjust the pool value for certain increasing or decreasing adjustments for expenditure allocated to a project pool.

The pool value can be subject to adjustment under the forex provisions. A relevant foreign exchange (forex) gain or loss may arise if, during an income year beginning on or after 1 July 2003, the partnership ceased to have an obligation to pay foreign currency

where the obligation was incurred as a project amount allocated to a project pool. 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 the pool value for the income year in which the amount was incurred is increased by any forex loss, and decreased by any forex gain. If the forex gain exceeds the pool value, reduce the pool value to zero, and the excess gain is assessable. This is known as 'the 12 month rule'. In limited circumstances a partnership may elect out of the 12 month rule. For more information, see [Forex: election out of the 12 month rule](#). If it has been elected that the 12 month rule should not apply, any forex gain will be assessable and any forex realisation loss will be deductible in accordance with the forex measures. For more information about the forex measures, see [Foreign exchange \(forex\)](#).

The deduction for project amounts allocated to a project pool cannot be more than the amount of the pool value for that income year.

There is no need to apportion the deductions if the project starts to operate during the income year for project amounts incurred during the year. However, the deduction is reduced for 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, you can claim a deduction for 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 income.

If an amount of capital expenditure allocated to a project pool is recouped, or if a capital amount is derived for a project amount or something on which a project amount was expended, include the amount 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.

Include any deduction for a project pool as an expense subtraction at **B Expense reconciliation adjustments** item 5. You must show the deduction at **J** item 47 **Capital allowances**.

The partnership must add back any capital expenditure allocated to the pool that has been included as an expense at item 5. Show the amount as an expense add back at **B Expense reconciliation adjustments** item 5.

Include assessable income at **G** or **H Other business income** item 5 or as an income add back at **A Income reconciliation adjustments** item 5.

[Electricity connections and telephone lines](#)

Expenditure on electricity connections and telephone lines incurred in partnership is allocated to each partner and the relevant deduction is available to them. It is not available in calculating the net income or loss of a partnership.

The partnership must add back any such capital expenditure included as an expense at item **5**. Show the amount as an expense add back at **B Expense reconciliation adjustments** item **5**.

[Grapevines and horticultural plants](#)

Expenditure on establishing grapevines and horticultural plants incurred by a partnership is allocated to each partner, and the relevant deduction is available to them. It is not available in calculating the net income or loss of a partnership.

The partnership must add back any such capital expenditure included as an expense at item **5**. Show the amount as an expense add back at **B Expense reconciliation adjustments** item **5**.

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 the arm's length value of the property. The periodic hire-purchase (or instalment) payments are treated as payments of principal and interest under the notional loan. The hirer can claim a deduction for the interest component, subject to any reduction required under the thin capitalisation rules.

For the notional sale, the hirer of a depreciating asset may be entitled to claim a deduction for the decline in value. The cost of the asset for this purpose is taken to be the agreed cost or value, or the arm's length value, if the dealing is not at arm's length. For assets subject to the small business entity depreciation rules, see [Small business entities](#). For assets not subject to the small business entity depreciation rules, see [Deduction for decline in value of depreciating assets](#).

If the partnership has included any hire-purchase charges for the goods at item **5**, include the amount at **B Expense reconciliation adjustments** item **5** as an expense add back. Include the deduction for the interest component of the hire-purchase payments as an expense subtraction at **B**.

[Landcare operations and decline in value of a water facility](#)

Landcare operation expenditure and expenditure for water facilities incurred in partnership is allocated to each partner, and the relevant deduction is available to the partner. It is not available in calculating the net income or loss of a partnership.

The partnership must add back any such capital expenditure included as an expense at item **5**. Show the amount as an expense add back at **B Expense reconciliation adjustments** item **5**.

Limited recourse debt

- Under [Division 243](#) of the ITAA 1997 (the limited recourse debt rules) you must include excessive deductions for capital allowances as assessable income if expenditure on property has been financed or refinanced wholly or partly by limited recourse debt. This will occur if:
 - 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.

A limited recourse debt is a debt where the rights of the creditor against the debtor in the event of default in payment of the debt, or of interest, are limited wholly or predominantly to the property that has been financed by the debt, or is security for the debt, or rights, for such property. A debt is a limited recourse debt if, notwithstanding that there may be no specific conditions to that effect, it is reasonable to conclude that the creditor's rights against the debtor are capable of being limited in that way.

A limited recourse debt includes a notional loan under a hire-purchase or instalment-sale agreement of goods to which Division 240 of the ITAA 1997 applies (see [section 243-20](#) of the ITAA 1997). The rules in [section 243-75](#) apply where [Divisions 243](#) and [245](#) commercial debt forgiveness, see [appendix 4](#) of the ITAA 1997 both apply to the same debt.

[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 **N** item **5**, show that amount as an expense add back at **B Expense reconciliation adjustments** item **5** – see [Balancing adjustment amounts](#).

[Low-value pools](#)

If the partnership has allocated depreciating assets used for different income-producing purposes to its low-value pool (for example, some assets that are used for producing rental income and others that are used in carrying on a business) show the low-value pool deduction at item **18 Other deductions**. However, if all the depreciating assets in the low-value pool are used for the same income-producing purpose, show the deduction for decline in value of the assets in the pool as follows:

- depreciating assets used in carrying on a business – show the deduction as an expense subtraction at **B Expense reconciliation adjustments** item **5**
- depreciating assets used to produce rental income – show the deduction at **H** item **9**
- depreciating assets used to produce Australian investment income – show the deduction at item **16 Deductions relating to Australian investment income**.

To calculate the deduction for decline in value of depreciating assets in a low-value pool, use worksheet 2 in the [Guide to depreciating assets 2013](#).

Luxury car leases

Luxury car leasing arrangements (other than genuine short-term hire arrangements) are treated as a notional sale and loan transaction.

A leased car (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 2012–13 is \$57,466.

The cost or value of the car specified in the lease is its market value at the start of the lease.

For the notional loan, divide the actual lease payments into notional principal and finance charge components. Depending on how much the car is used for a deductible purpose, the lessee can claim a deduction for that part of the finance charge component for the notional loan applicable for the particular period (the accrual amount) subject to any reduction required under the thin capitalisation rules.

For the notional sale, the lessee is treated as the holder of the luxury car and may be entitled to claim a deduction for the decline in value of the car.

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 information about where to show the deduction for decline in value, see [Deduction for decline in value of depreciating assets](#).

Alternatively, if the lessee is using the small business entity depreciation rules for the income year in which the lease is entered

into, the lessee allocates the car to its general small business pool. For the purpose of calculating the deduction under the small business entity depreciation rules, the cost of the car is limited to the car limit for the income year in which the lease is granted.

In summary, the lessee is entitled to deductions equal to:

- the accrual amount, and
- the decline in value of the luxury car, based on the applicable car limit, unless the car is allocated to the general small business pool.

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

If the car is allocated to the general small business pool with the cost based on the applicable car limit, calculate the deduction under the small business entity depreciation rules.

If the lease terminates or is not extended or renewed, and the lessee does not actually acquire the car from the lessor, the lessee is treated under the rules as disposing of the car by way of sale to the lessor – this constitutes a balancing adjustment event. If the car is not subject to the small business entity depreciation rules, you must determine any assessable or deductible balancing adjustment amount for the lessee. If the car has been allocated to the lessee's general small business pool, see [Step 6 Disposal of depreciating assets](#).

If you included luxury car lease payments at **G Lease expenses** item 5, include the amount at **B Expense reconciliation adjustments** item 5 as an expense add back. Include the deduction for the accrual amount as an expense subtraction at **B Expense reconciliation adjustments** item 5.

[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 **G** or **H Other business income** item 5, include that amount as an income subtraction at **A Income reconciliation adjustments** item 5 – see [Balancing adjustment amounts](#).

Section 40-880 deduction

This section provides a five-year write-off for certain business-related capital expenditure incurred by the partnership 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 partnership 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 partnership 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 partnership 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 partnership 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 partnership deducts 20% of the qualifying capital expenditure in the year it is incurred and in each of the following four years.

If a partner in a partnership is an individual, the non-commercial loss rules may defer the partner's deductions for their share of a loss from a business activity of the partnership – see [Non-commercial losses: partnership](#).

Show the section 40-880 deduction as an expense subtraction at **B Expense reconciliation adjustments** item **5**. Also show the amount at **K** item **47 Capital allowances**.

If you have included any of the expenditure incurred for the income year as an expense at item **5**, show this amount as an expense add back at **B Expense reconciliation adjustments** item **5**.

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 partnership 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](#) and the [Guide to depreciating assets 2013](#).

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Appendix 7: Deductions applicable to partners

Last updated 12 February 2019

Capital allowances for primary producers and some landholders

A partnership cannot claim a deduction under [Subdivisions 40-F](#) and [40-G](#) of the ITAA 1997 for:

- electricity connections and telephone lines
- grapevines and horticultural plants
- landcare operations and the decline in value of a water facility.

Each partner can claim a deduction in accordance with any agreement on how the expenditure is to be borne or, if there is no agreement, according to each partner's interest in the partnership income or loss.

For more information, see the [Guide to depreciating assets 2013](#).

Film industry incentives

The conditions under which concessions are available for the Australian film industry are explained in [Film industry incentives 2012-13](#). The concessions do not apply in the calculation of the partnership net income or loss.

In very limited circumstances, a concession may be available to the individual partners. The law about claiming deductions for investments in Australian films has changed for 2009–10 and later income years. As a consequence of the introduction of the Australian screen production incentive, Division 10B and Division 10BA of Part III of the ITAA 1936 has been repealed with effect from 1 July 2010. A partner cannot claim a deduction under Division 10BA for the 2009–10 or later income years. A partner cannot claim a deduction under Division 10B for the 2010–11 or later income years. For the 2009–10 income year, a partner can claim a deduction for an Australian film under Division 10B only if the partner first claimed such a deduction for that film for the 2008–09 income year.

If you wish to claim deductions for income years prior to 2009–10, or a Division 10B deduction for the 2009–10 income year, see the publication *Film industry incentives 2010–11*.

Farm management deposits scheme

The farm management deposits (FMD) scheme reduces fluctuations in a primary producer's income.

A partnership cannot have an FMD or claim a deduction for a deposit to an FMD.

A partner in a partnership that carries on a primary production business in Australia may be able to claim a deduction in the income year in which they deposit an amount into an FMD. The deposit must

be made by or on behalf of only one person. Any repayments of that deposit are assessable income to the extent they have been previously claimed as a deduction.

For information about further requirements for the FMD deduction, see question 17 Net farm management deposits or repayments in the [Individual tax return instructions supplement 2013](#) and [Information for primary producers](#) (NAT 1712).

Partnership losses

If a partnership loss is incurred by a partnership in an income year, individual partners can claim a deduction for their share of the partnership loss. A partnership loss is incurred if the allowable deductions (other than deductions allowable for personal superannuation contributions or tax losses of earlier income years under the ITAA 1997) exceed the assessable income of the partnership. The partnership loss is the amount of that excess.

For the tax treatment of current year, and pre-existing, foreign losses of the partnership, see the subheading [Net foreign source income](#) under the heading, [23 Other assessable foreign source income](#).

Rules on deferring non-commercial business losses may apply to a partner who is an individual, to defer the deduction for their share of a loss from a business activity of the partnership. An individual may be covered by an exception, or the business activity may satisfy one of four tests, or the Commissioner may exercise his discretion. For more information on these rules, see question 16 Deferred non-commercial business losses in the [Individual tax return instructions supplement 2013](#) and [Non-commercial losses: partnerships](#).

Research and development expenditure

Eligible companies may be entitled to a tax offset for eligible expenditure incurred on qualifying R&D activities. A partner in a partnership of otherwise eligible companies (an R&D partnership) may also be entitled to the R&D tax incentive for eligible expenditure on qualifying activities. For information on how a company may claim the R&D tax incentive, see [Research and development tax incentive schedule instructions 2013](#) (NAT 6709).

Superannuation

For information on claiming a deduction for [personal superannuation contributions](#), see [Individual tax return instructions supplement 2013](#).

Appendix 14: Small business entities

Last updated 12 February 2019

Small businesses with an aggregated turnover of less than \$2 million are called small business entities and may qualify for a range of tax concessions.

Eligible businesses can choose to use the concessions that best suit their needs. It is not necessary to elect to be a small business entity each year to access the concessions – however, eligibility must be reviewed each 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
- simplified depreciation rules
- immediate deduction for certain prepaid business expenses
- simplified trading stock rules
- choice to account for GST on a cash basis
- annual apportionment of GST input tax credits in certain circumstances
- paying GST by instalments
- FBT car parking exemption
- PAYG instalments based on GDP-adjusted notional tax.

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

For more information about small business entity concessions, see [Concessions for small business entities](#) (NAT 71874) or phone **13 28 66**.

Eligibility

The partnership will be a small business entity if it is carrying on a business and has an aggregated turnover of less than \$2 million. This is known as the small business entity test.

‘Business’ is defined broadly to include ‘any profession, trade, employment, vocation or calling, but does not include occupation as an employee’. ‘Carrying on a business’ is not defined in the tax law and,

therefore, takes its ordinary meaning. An entity is taken to be carrying on a business for the purposes of the small business entity test in an income year if:

- the entity is winding up a business it formerly carried on, and
- it was a small business entity in the income year that it stopped carrying on the business.

Aggregated turnover is the annual turnover of the partnership, plus the annual turnovers of any entities that are connected with it, or that are its affiliate.

For more information on calculating aggregated turnover, including the meaning of 'connected with' or 'affiliated with' the partnership, see [Concessions for small business entities](#) (NAT 71874).

Eligibility must be reviewed each year.

Calculating turnover

Turnover includes all ordinary income the partnership earned in the ordinary course of business for the income year. The following are some examples of amounts included and not included in ordinary income of a business:

Table 14.1: Ordinary income	
Include these amounts	Do not include these amounts
• 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	• GST the partnership has charged on a transaction • proceeds from the sale of business capital assets • insurance proceeds for the loss or destruction of a business asset • amounts received from repayments of farm management deposits

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

For further information on calculating turnover, see [Am I eligible for the small business entity concessions?](#)

Aggregation rules

Special rules called the aggregation rules will determine who the partnership is connected or affiliated with.

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

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

When calculating the aggregated turnover of the partnership, do not include income from:

- dealings between the partnership and a relevant entity
- dealings between any relevant entities of the partnership
- a relevant entity when it was not a relevant entity of the partnership.

For more information on the aggregation rules, including the meaning of 'connected with' or 'affiliated with' the partnership, see [Concessions for small business entities](#) (NAT 71874).

If the partnership carries on a business during the current income year and has an aggregated business turnover of less than \$2 million under the aggregation rules discussed above, then the partnership is a small business entity.

Business operated for only part of the year

If the partnership, 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 partnership, or a 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 \$2 million aggregated turnover requirement, but most businesses will only need to consider the first method.

Previous year turnover

If the aggregated turnover of the partnership for the previous income year was less than \$2 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 estimated aggregated turnover of the partnership for the current income year is less than \$2 million, it will be a small business entity for the current year.

If you are estimating your turnover, you need to assess whether you are more likely than not to have less than \$2 million aggregated turnover as at the first day of the income year or, if you have started a business part way through the year, as at the time you started your business. You should estimate your turnover based on the conditions you are aware of at the beginning of the income year or, if you have started a business part way through the year, at the time that you started your business. Partnerships that commenced 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 aggregated turnover of the partnership in each of the previous two income years was \$2 million or more.

Actual current year turnover

If the actual aggregated turnover of the partnership is less than \$2 million as 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 partnership is a small business entity by means of this method only, it cannot use the GST and PAYG concessions for that income year, as those particular concessions must have been chosen earlier in the income year.

Former STS taxpayers

There is a transitional rule for former STS taxpayers that deals with the [continued use of the STS accounting method](#).

There is also a special rule that applies if the partnership 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 [Concessions for small business entities](#) (NAT 71874).

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Abbreviations

Last updated 12 February 2019

AAT	Administrative Appeals Tribunal
ABN	Australian business number
ABR	Australian Business Register
ABS	Australian Bureau of Statistics
ACT	Australian Capital Territory
ADF	approved deposit fund
ADI	authorised deposit-taking institution
AEST	Australian eastern standard time (by legal time in the Australian Capital Territory)
ANZSIC	Australian and New Zealand Standard Industrial Classification
ATO	Australian Taxation Office
BSB	bank state branch
CGT	capital gains tax
Commissioner	Commissioner of Taxation
DGR	deductible gift recipient
DTA	double tax agreement
DVA	Department of Veterans' Affairs
EFT	electronic funds transfer
ELS	electronic lodgment service
EPA	environmental protection activities
ETP	employment termination payment
FBT	fringe benefits tax
FMD	farm management deposit
FMIS	forestry managed investment scheme
FTDT	family trust distribution tax
FTP	file transfer protocol

GIC	general interest charge
GST	goods and services tax
ID	identification
IRUs	indefeasible rights to use telecommunications cable systems
ITAA 1936	<i>Income Tax Assessment Act 1936</i>
ITAA 1997	<i>Income Tax Assessment Act 1997</i>
ITR 1936	Income Tax Regulations 1936
LIC	listed investment company
IMEC	Multiple entry consolidated group
MLS	Medicare levy surcharge
NRAS	National rental affordability scheme
PAYG	pay as you go
PSI	personal services income
PST	Pooled superannuation trust
R&D	research and development
RBA	running balance account
RSA	retirement savings account
SGC	superannuation guarantee charge
SIS	simplified imputation system
STS	simplified tax system
TAA 1953	<i>Taxation Administration Act 1953</i>
TBNT	trustee beneficiary non-disclosure tax
TFN	tax file number
TOFA	Taxation of Financial Arrangements
Trust Loss Act	<i>Taxation Laws Amendment (Trust Loss and Other Deductions) Act 1998</i>

UCA	uniform capital allowance
US	United States of America

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Lodgment

Last updated 12 February 2019

You have until 31 October 2013 to lodge the Partnership tax return, unless we have allowed you to lodge it later, or you have a later due date because a registered tax agent prepares the return.

If you cannot lodge the tax return by 31 October 2013 contact us as soon as possible, before 31 October 2013, to find out whether you can lodge at a later date.

The postal address for lodgment of the Partnership tax return is below. See [Schedules](#) for a list of the schedules that you can lodge with your *Partnership tax return 2013*.

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.

If you wish to write to us, send your correspondence to:

Australian Taxation Office
PO Box 9990
PENRITH NSW 2740

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More information

Last updated 12 February 2019

Publications

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- phone **1300 720 092**

If you are a tax agent:

- go to taxagents.iorder.com.au 
- order by fax on **1300 361 462**.

If you know the title of the publication you want, you may order it through our automated speech recognition system operating 24 hours a day, every day, phone **1300 720 092**.

Phone

Business

13 28 66

For information about business income tax, fringe benefits tax (FBT), fuel tax credits (FTC), goods and services tax (GST), pay as you go (PAYG) and activity statements, including lodgment and payment, accounts and business registration, including Australian business number (ABN) and tax file number (TFN), and dividend and royalty withholding tax.

Tax agents

13 72 86

For inquiries from registered tax agents

Individual Tax

13 28 61

Individual income tax and general personal tax enquiries

Superannuation

13 10 20

For information about the super guarantee and Government super contributions.

Choice of superannuation fund

13 28 64

For information about the choice of superannuation fund and the role of the employer.

Other services

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If you are deaf or have a hearing or speech impairment, you can phone the ATO through the National Relay Service (NRS) on the numbers listed below, and ask for the ATO number you need:

- TTY users, phone **13 36 77**. For ATO **1800** free call numbers, phone **1800 555 677**.
- Speak and Listen users, phone **1300 555 727**. For ATO 1800 free call numbers, phone **1800 555 727**.
- Internet relay users, connect to the NRS at relayservice.com.au 

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

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

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