Print whole section

Income and deductions for business

As a business owner, you can use this information to help work out your business income and deductions for tax purposes.

Work out taxable income

Calculate your business's taxable income using a calculation of business profit or loss and applying adjustments.

Accounting for trading stock

Explains what trading stock is and that livestock is also trading stock.

Registered emissions units

Income tax treatment of registered emissions units, and basic principles of how an REU is taxed.

Crypto assets and business

Work out the tax treatment of crypto assets in business and how tax applies to crypto mining activities.

Business losses

How to carry forward business losses or offset them against other income.

Professional firms

Detailed information about income and deductions for professional firms.

Service entities

Detailed information about income and deductions for service entities.

QC 33872

Overview of business income and deductions

An overview of your responsibilities to keep accurate records and pay the right amount of tax.

Last updated 7 May 2025

Paying the right amount of tax is fair. Tax contributes to public services like schools, roads and hospitals, which is why it's important that everyone pays the right amount of tax.

Most income you receive from carrying on your business is assessable for income tax purposes.

You can claim tax deductions for most business expenses. You may also be eligible for certain concessions, offsets and rebates.

You must:

- keep accurate and complete records of your assessable income and expenses. Your records must be in English or able to be easily converted to English.
- use the correct method for calculating and reconciling the amounts you claim
- report all income and deductions to us at the right time
- pay any amounts owed on time.

We provide guidance on:

- whether you are in business
- definitions of tax and super terms which you don't know
- principles of effective tax governance for your business

If you aren't sure how this information applies to your situation, ask your tax professional or contact us for help. We will help you get back on track if you make an error.

QC 72740

Assessable business income

Understand which income from carrying on your business is assessable for income tax purposes.

Last updated 24 June 2019

If you are carrying on a business, most income you receive is assessable for income tax purposes. The total amount is referred to as assessable income (or total income).

However, your accounting method may affect which amounts must be included in an income year.

See our definitions for explanations of tax and super terms that you don't understand.

Find out about:

- What to include in your business's assessable income
- What to exclude from your business's assessable income
- Accounting methods for business income

What income to include

What to include in your assessable income from carrying on your business.

What income to exclude

Work out if an amount or payment your business receives is not assessable income.

Accounting methods

The amounts you include as assessable income in any financial year depends on if you account on a cash or accruals basis.

QC 44439

What to include in your business's assessable income

What to include in your assessable income from carrying on your business.

Last updated 8 July 2025

Business's assessable income

Media: Reporting Income (for businesses)
https://tv.ato.gov.au/ato-tv/media?v=bi9or7odhsw866 (**Duration:** 01:08)

If you are an individual not in business, see what income you must declare.

When calculating your business's assessable income, include:

- all **gross income** (before tax) from your everyday business activities, including
  - sales made over the internet
  - income from sales (cash and electronic)
  - foreign income.
- all **other business income** that is not part of your everyday business activities, including
  - government payments that are assessable
  - changes in the value of trading stock

- capital gains
- isolated transactions intended to make a profit
- cash prizes for your business.

Gross income doesn't include goods and services tax (GST).

If you carry on a business and earn income from salary and wages as someone else's employee, this is not included as business income in your tax return. It is included as salary and wages income.

Your business's structure and income will also determine your other tax registrations and obligations.

If you aren't sure how this information applies to your situation, ask a registered tax professional or contact us for help. We will help you get back on track if you make an error.

Cash and cash equivalent income

If your business receives cash payments for goods or services, you **must** declare them as assessable income.

This includes:

- all your cash earnings
- income your business earned through coupons, vouchers or gift cards
- tips or gratuities (which may be described as gifts) and subscription payments and fees your business earned
- income your business deposited into a mortgage or private credit card
- bank interest and dividends (including any franking credits).

Our data matching analysis and forensic capabilities are very sophisticated, making cash payments more visible to us. For example, we can identify people who may be running a part of their normal business activities off the books and avoiding their obligations.

To keep it fair for most businesses that do the right thing, we deal with those who try to operate outside the tax system – also known as the shadow economy. However, even when we take strong action, we remain willing to work with the business or their representative to help them to report their income and deductions correctly.

Non-cash income and barter transactions

In return for goods, services, or other products you provide as part of your business you may receive goods, services or other products or benefits. This is often referred to as a barter transaction. You may also receive tips or gratuities (these may be referred to as gifts) or something similar. For example, digital assets, such as cryptocurrencies.

If you receive goods, services, tips, gratuities, or other benefits, as full or part payment for goods or services you provide, their market value is included as income in your tax return.

Types of goods or services you may receive include:

- clothing, jewellery or accessories
- make up or skin care products
- gaming products
- flights or accommodation
- products or service provided by another organisation
- digital assets, such as cryptocurrency and NFTs
- other benefits you have received instead of money.

In most cases, we will accept as a market value the cash price that the taxpayer would normally have charged a stranger for the services or for the sale of the goods or property.

Example: receiving goods as payment for services

Janet runs a business doing reviews, endorsing products for new mothers and providing general parenting advice.

Baby Bo Co asks Janet to promote their baby seat to her subscribers. She agrees and Baby Bo Co gives her a new car seat and pram. The retail cost of the car seat is $150 and the pram is $2,000.

In total, Janet would include $2,150 income in her tax return from this arrangement.

Money or other considerations in barter transactions

A special rule applies to work out the amount included in your assessable income if you agree to provide money (or other consideration) in addition to the primary good or service you provide as part of your business in a barter transaction.

In this case, you include the market value of the goods, services or benefit received, less the amount of additional consideration you gave. This may occur when you acquire goods or services at a discount, as part of an agreement.

Example: receiving goods at a discount in return for services

Janet runs an online business reviewing and endorsing products for new mothers and providing general parenting advice.

Baby Bo Co was pleased with a previous review Janet did on their products. They offer to sell her a cot from their premium range at cost in return for her reviewing it, if she shares the review through her online channels.

Janet accepted the offer. She bought the cot from Baby Bo Co for her child at cost ($1,000). In return, she reviewed it and posted the review online through her channels. The normal retail price for the cot as offered on Baby Bo Co's website was $3,100.

Janet paid $1,000 towards the purchase of the cot. She needs to include $2,100 in her return as business income. This is the retail value of the cot ($3,100), less the amount she paid ($1,000).

Crypto assets

Your business income may include the:

- market value of crypto assets (including cryptocurrency) you dispose of in the ordinary course of your business
- Australian dollar value of crypto assets you received for goods or services you provide as part of your business.

For more information, see Crypto assets used in business.

Commissions, investment earnings, gratuities and compensation payments

If you receive commissions, investment earnings (such as dividends), gratuities, tips or compensation payments as part of your business activities, include these amounts as assessable income. You must include these even if they are received in the form of goods, services, assets or other benefits rather than cash.

These payments include:

- commission income, including sales commissions and for promotional work, such as promoting other brands' or organisations' goods or services online
- royalties, such as payments when other entities use your patent or copyrighted material
- incentive payments, such as a cash payment to lease business premises
- interest on business investments, and interest on overpayment or early payment of tax
- dividends and franking credits (from company tax already paid) on business investments
- rental income from property owned by your business
- lease payments and hire charges (if you are in the business of hiring out assets)
- tips and gratuities, including cash or electronic payments
- compensation, such as workers compensation, payments for trading stock losses, business interruptions or contract cancellations
- recovered bad debts for which you have received a tax deduction.

Income not part of everyday business activities

Your business may receive income that is not part of your everyday business activities. These amounts must also be included in your business's assessable income at the end of the income year.

Disposal of non-trading stock assets

If you sell some of your business's non-trading stock assets, you may need to include amounts in your assessable income. Non-trading stock assets include depreciating assets and other capital assets.

Depreciating assets are those that decline in value over time, such as motor vehicles and equipment. If you sell a depreciating asset and you use the:

- general depreciation rules, you may need to include a balancing adjustment amount in your assessable income
- simplified depreciation rules, you may need to include amounts in your assessable income and adjust your small business pool balance.

Other capital assets include those that don't decline in value over time, such as land. Include the net capital gain you made through sale, gift or transfer in your assessable income.

Profits on isolated transactions

If you enter into an isolated transaction that is outside your ordinary business activities, you need to work out whether your profit from the isolated transaction is assessable as ordinary income or a capital gain.

For example, if you sell any small-scale land subdivisions and do not carry on a property development business, you need to consider whether your profits are assessable as income or capital.

Taxation Ruling TR 92/3 *Income tax: whether profits on isolated transactions are income* provides guidance and the factors you should consider when determining whether any profits from isolated transactions are assessable as ordinary income or a capital gain.

Taking some of your trading stock for your own use

If you take some of your business's trading stock for your own use, include the value of the goods you take in your assessable income.

Sale of goods or services in return for something other than money

If you sell goods or services and receive something other than money, such as a barter transaction, then include the market value of what you received as payment in your assessable income.

Increase in trading stock value

If, during the income year, there is an increase in your trading stock's value, include the amount of the increase in your assessable income.

The increase will be the value of your trading stock on hand at the end of the financial year minus the value of your trading stock on hand at the start of the year.

Business prizes or awards

If your business receives a prize or award, such as a cash prize for being the best business in your region, include the amount in your assessable income.

Payments from insurance claims

If your business receives a payment from an insurance claim related to your business, include the amount in your assessable income.

Government payments

A number of Australian Government, state and territory government grants and payments have been made available to businesses in response to natural disasters and difficult times. Most grants and payments are assessable income and need to be included in the tax return.

These payments include:

- fuel tax credits or product stewardship (oil) benefit
- wine equalisation tax producer rebate
- excise refund scheme for alcohol manufacturers

- grants, such as an amount you receive under the Australian Apprenticeships Incentives Program
- subsidies for carrying on a business
- assessable payments you receive from government entities for services you provided or grants you received (these payments will be reported to us as part of taxable payments reporting system).

Do not include the following grants and payments:

- government grants and payments – including grants, payments and stimulus during COVID-19 – that are non-assessable, non-exempt income and you meet any eligibility criteria.

Capital gains and losses

You report capital gains and capital losses in your income tax return and pay tax on your net capital gains. Although it is referred to as 'capital gains tax', it is part of your income tax. It is not a separate tax.

You may have a net capital gain when you dispose of business capital assets by way of sale, gift, transfer, destruction, surrender or other means. However, you can only generally make a capital gain on particular assets, such as your business premises, land, goodwill, or rights or licences. You can't generally make a capital gain or loss on your trading stock.

If you have a net capital loss (rather than a capital gain) at the end of the financial year, you can't use it to reduce your assessable income in that year. However, you can carry it forward to offset future capital gains.

If you're a small business entity that owns active assets, you may also be eligible to apply the small business CGT concessions to reduce or defer your capital gain.

Income from online activities

If you conduct some or part of your business online, and receive income from those business activities, include these amounts as assessable income.

A business that has online activities may have multiple income streams. These can include:

- income from the sale of goods or services or digital products through an online store or platform
- income from monetising digital content, for example, advertising revenue or creator payments from platforms
- subscription fees you receive for access to content
- fees from clients to watch you perform online, or view personalised content you create for them
- tips, and gratuities (including livestream payments, such as payments from Super Chats and Super Stickers)
- appearance fees, for example if you are paid to present or appear at seminars, webinars or conferences.

If your business involves creating content and you receive advertising revenue or other payments from a hosting platform, you may continue receiving payments from existing content even if you stop making new content. These payments still need to be included as income in your tax return in the income year you receive them.

If you run your business online, you may receive income from overseas sources. If you are an Australian resident for tax purposes, you must report this income in your tax return.

Example: include payments from online activities as income

Jordan is an Australian resident for tax purposes and runs a content creation business.

She regularly livestreams though multiple platforms as part of this business. As viewers watch her livestream, they have an opportunity to make payments directly to Jordan through these platforms in appreciation of the content.

Jordan must include these payments in her tax return as income.

Income from the sharing economy

Income you earn through the sharing economy is assessable income. The sharing economy is economic activity through a digital platform (such as a website or an app) where people share assets or supply services for a fee.

Income from crowdfunding

Crowdfunding uses the internet or social media platforms, mail-order subscriptions, benefit events and other methods to find supporters and raise funds for a project or venture.

If you earn or receive any money through crowdfunding, some or all of it may be assessable income. This depends on the nature of the arrangement, your role in it and your circumstances.

Personal services income

Income that is produced mainly from an individual's personal skills or efforts is personal services income (PSI). Income is classified as PSI when more than 50% of the amount received by a business for a contract (or work done for a person or another business) was for an individual's labour, skills or expertise, rather than being generated by the use of assets, the sale of goods, or from a business structure.

If your business obtains PSI, you need to work out if special tax rules (the PSI rules) apply to that income. If the PSI rules apply, they will affect how you report the PSI to us and the deductions you can claim.

Foreign income

If you are an Australian resident for tax purposes, you need to include all income you receive in your tax return, whether it is from an Australian source or an overseas source.

If you are a foreign resident for tax purposes, you only pay income tax on Australian source income. You must do so even if you already paid tax on it overseas or tax was withheld overseas on your behalf. However, if you have already paid tax in the country that you received the income from, you may be able to claim a foreign income tax offset.

You must convert all foreign income to Australian dollars before including it in your tax return.

For more information see, Foreign and worldwide income.

Example: include income from overseas sources as an Australian resident for tax purposes

Ivy is an Australian resident for tax purposes. She runs an online influencer business.

As part of her business, she receives income from overseas companies including platform payments as a YouTube partner.

Ivy also has a deal with a US based company under which she is paid to promote their products and receives a commission when customers purchase products using her affiliate link.

In the 2024–2025 financial year, Ivy earned $25,000 (converted to Australia dollars) in income from the company.

When completing her income tax return for 2024–25 Ivy will include:

- the total amount of monthly payments she received in the financial year as a YouTube partner
- $25,000 income from her partnership with the company in the US
- all other foreign source income she received.

She may also be able to claim a foreign income tax offset if she paid tax in the US.

Related information

To make it easier to get your tax and super right, see:

- What to exclude from your business's assessable income
- Supporting your small business.

Crowdfunding ›

QC 44460

Crowdfunding

How crowdfunding to raise funds for a project or venture can have tax implications.

Last updated 27 February 2026

Overview of crowdfunding

Crowdfunding is the practice of using internet platforms, mail-order subscriptions, benefit events and other methods to find supporters and raise funds for a project or venture.

Crowdfunding is a rapidly evolving industry. This information represents our current view of the tax implications of crowdfunding arrangements. As the industry expands and new developments arise, we will review and update the information.

If you're involved in crowdfunding – regardless of your role – you need to be aware of the tax consequences. These vary depending on the nature of the arrangement, your role in it and your circumstances.

It's important to determine whether the money you receive through crowdfunding is income and whether you need to consider GST. If it is income, you will need to include it in your tax return and there may be deductions you can claim. We also explain the GST requirements if you are subject to GST on transactions.

Crowdfunding donations and tax deductibility

If you make a gift or donation through crowdfunding, you can **only** claim a tax deduction if the organisation receiving the funds has a deductible gift recipient (DGR) status. You can check the DGR status by using the ABN Look-up: Deductible gift recipients.

Crowdfunding roles

There are usually 3 parties (or roles) in a crowdfunding arrangement:

- the initiator of the project or venture or the campaign creator (who may act in a personal capacity or use a company or organisation as the vehicle to progress the crowdfunding project or venture) known as the 'promoter'
- the organisation providing the crowdfunding website or platform, known as the 'intermediary'
- individuals or entities that contribute or pledge money, known as ‘contributors'.

Each party may have income tax and GST obligations, depending on their circumstances and the nature of the crowdfunding arrangement.

Types of crowdfunding

There are currently 4 main types (or models) of crowdfunding. Each uses a different strategy to attract funding, and each may have different tax consequences for the parties involved.

Donation-based crowdfunding

In donation-based crowdfunding, a contributor makes a payment (or 'donation') to the project or venture, without receiving anything in return. The contributor's 'donation' may simply be acknowledged – for example, on the crowdfunding website.

Reward-based crowdfunding

In reward-based crowdfunding, the promoter provides a reward (goods, services or rights) to contributors in return for their payment. For example, the contributor may receive merchandise or a discount. In many cases, there are different levels or types of reward, according to the level of contribution and whether the fundraising reaches the prescribed levels.

Equity-based crowdfunding

In equity-based crowdfunding, the contributor makes a payment in return for a share (or equity interest) in the company undertaking the project or venture. The share in the company will provide the contributor with certain rights including the right to participate in future profits (dividends), voting rights, and rights to returns of capital upon winding up.

The Government is currently consulting on the appropriate legislative framework for crowd-sourced equity funding by public companies, including whether the Corporations law should be changed to facilitate access to crowd-sourced equity funding by proprietary companies.

We will update this guidance for crowdfunding (including examples to assist promoters and contributors) once consultations conclude.

Debt-based crowdfunding

In debt-based crowdfunding, the contributor lends money to the promoter (or pool of promoters) who, in return, agrees to pay interest and repay principal on the loan. For more information and consultation, see Facilitating crowd-sourced equity funding and reducing compliance costs.

Crowdfunding and income tax

If you earn or receive any money through crowdfunding, some or all of it may be assessable (taxable) income, depending on the nature of the arrangement, your role in it and your circumstances. All assessable income needs to be declared on your tax return.

Similarly, if any amount is assessable income then some of the costs related to gaining or producing that income may be allowable deductions, providing you have the appropriate records to substantiate your claims. See Income and deductions for business for more information.

The tax laws which apply to investment and financial activity undertaken in a conventional manner (for example, buying goods and services, buying shares, lending money) apply in the same way to investment and financial activity conducted under crowdfunding.

You must keep records explaining all transactions that relate to your tax affairs, including any crowdfunding arrangement. Generally, you need to keep records of most transactions, in English, for 5 years. The 5 years starts from when you prepared or obtained the records, or completed the transactions, whichever is the later.

Assessable income – promoters

If you're the promoter in a crowdfunding arrangement, the funds you receive or earn may be assessable income, depending on the nature of the funds and the way in which you receive them.

Funds you receive or the profit you make through crowdfunding, particularly under a donation-based or a reward-based arrangement, are likely to be assessable income where you:

- use crowdfunding in the course of your employment
- enter into a transaction or scheme with the intention or purpose of making a profit or gain
- receive money or property in the ordinary course of your business (money or property received in exchange for goods and services is income, but money received by way of loan is not).

Questions you need to consider include:

- Are you carrying on a business?
- Is it a profit-making scheme?

Are you carrying on a business?

Whether you are carrying on a business and when the business starts are important. For example, you must have made a decision to start your business and have done something about it. If you're still setting up or preparing to go into business, you might not yet have started the business.

Not all promoters will be carrying on businesses when they launch, or even complete, crowdfunding projects. To carry on business as a promoter, you need to carry on your activity for commercial reasons and in a commercially viable way. You will undertake activities in a business-like manner including preparing a business plan, acquiring capital assets or inventory in line with the business plan, preparing accounting records, and marketing a business name or product. You have to intend to make a profit or genuinely believe you will make a profit, even if you are unlikely to do so in the short term. There's usually repetition and regularity to your business activities, although one-off transactions can amount to a business in some cases.

There may be additional indications that a business is being carried on. For example, promoters who seek to claim the R&D tax incentive must be carrying on a business in order to be eligible for the incentive.

Money received (or property given) prior to a business being carried on is not generally assessable income. Likewise, you can't claim deductions incurred prior to the business being carried on.

For more information, see [Are you in business?]

Is it a profit-making scheme?

A crowdfunding project will be a profit-making scheme if you launched the project with the intention of making a profit, and the project was entered into and the profit made while carrying out a business operation or commercial transaction.

It doesn’t matter if:

- you are not already running a business
- the project is not part of your usual business activities
- you don’t have a clear idea of how you will make the profit.

If you expect to make a profit when you launch a project, and you run the project in a businesslike way, any funds raised by the project will be taken into account in determining your profit.

Other tax consequences

There may also be other income tax consequences – for example, assessable recoupment, capital gains tax (CGT) or trading stock rules may be relevant to your circumstances.

Assessable income – intermediaries

Typically, promoters make use of crowdfunding websites (or platforms) which provide a way of marketing the project or venture, connecting to potential funders and receiving pledges of support or payments from funders.

The crowdfunding platform is usually provided by a third party (or intermediary) who typically charges the promoter a flat fee or a percentage of the total funds received.

If you're the intermediary in a crowdfunding arrangement, the fees you charge and some or all of the total funding may be assessable income.

Assessable income – contributors

If you contribute funds to a crowdfunding venture or project, any promised return to you may be assessable income.

More examples are currently being developed to assist contributors.

Examples for promoters

The following examples describe various crowdfunding scenarios and explain whether the money earned or received is assessable income. The examples cover a range of promoter circumstances.

In the examples, it is assumed that the intermediary carries on a business in Australia and all promoters are Australian residents.

Personal or private arrangements

The following example describes a crowdfunding arrangement that is purely personal or private in nature, with no commercial or businesslike activities and no intention to make a profit.

Example 1: Tiffany's surgery and rehabilitation costs

Debbie owns a pet poodle, called Tiffany. Tiffany has a congenital heart defect and requires surgery. The surgery, and ancillary rehabilitation, is estimated to cost $10,500 (including GST).

Debbie can't afford the surgery, so she establishes a crowdfunding project through intermediary, Crowdfund, a specialist personal interest crowdfunding platform. Crowdfund charges flat membership fees instead of contingent fees.

Debbie’s project will last for 5 days on an ‘all-in’ basis. If the funding target is reached, Debbie will set up a blog to follow Tiffany’s future adventures.

Debbie’s project is overwhelmingly successful. She receives the funds and they are used exclusively for Tiffany’s surgery and rehabilitation. Debbie’s blog becomes extremely popular, but she hasn't yet been approached by advertisers or internet companies to make a profit from the traffic on her blog.

In Example 1, the crowdfunded amount is **not** part of Debbie’s assessable income because:

- her actions don't constitute carrying on a business or profit-making scheme
- she is not receiving any regular or recurring payments, and doesn't supply anything of value to funders

- there are no commercial or businesslike operations.

An alternative analysis might be that Debbie's crowdfunding project is similar to receiving a gift. A gift is generally not income, and in these circumstances, the funding is based on generosity and goodwill.

Either analysis is reasonable in Debbie's circumstances.

If Debbie later decides to continue with her blog and make a profit from the traffic on her blog, the tax consequences for the amount generated from advertising will depend on her circumstances at that time.

Activity might become a business in future

The following example describes a crowdfunding arrangement that currently has no commercial or businesslike characteristics and there is no intention to make a profit. While there may be plans to commercialise the operation in future, there is currently no indication of this.

Example 2: Coastalville Surf Club renovations

Aaron, Stephen, Cissie and Wendy live in Coastalville. The Coastalville Surf Lifesaving Club (CSLSC) owns a surf club building (surf club) in Coastalville that is in a state of disrepair. The CSLSC cannot afford to update and refurbish the surf club and is considering selling it to Big Smoke, a property developer. The CSLSC is a not-for-profit registered with the Australian Charities and Not-for-profits Commission and is a deductible gift recipient.

Aaron, Stephen, Cissie and Wendy lead a community group opposed to selling the surf club. They use an intermediary to launch a crowdfunding project with the aim of raising funds to update the surf club, including repainting and replacing the slats on the deck.

CSLSC supports the project (but not in any legal, financial or other arrangement). The community group dedicates its time voluntarily for the project's duration. The group establish a bank account called 'the CSLSC improvement fund' of which Aaron, Stephen, Cissie and Wendy are all signatories. The project is for two months with no cap on the funding or number of contributors.

The project goes viral due to creative Twitter use by Cissie. At the end of 2 months, the project has received $2 million (less fees). All the funds received will be used by CSLSC which has authorised the group to carry out its proposed activities; however, CSLSC is still in confidential talks with Big Smoke negotiating a price for selling the surf club.

In Example 2, the funds raised by Aaron, Stephen, Cissie and Wendy are **not** assessable income because:

- it is a one-off transaction outside the ordinary course of business
- there is no indication of a profit-making scheme or that the transaction is commercial in character
- the group's actions are not of a businesslike nature.

While there may be plans to commercialise the operation in future; we can't draw this conclusion. The current operations and intentions demonstrate an undertaking built on community values and responsibility.

Too early to be in business

The following example describes a crowdfunding arrangement where the activity may either be a hobby or in the very early stages of establishing a business but is not yet operating as a business.

Example 3: Georgina's film-making project

Georgina wants to make a film. She doesn't have the funds, so she establishes a project on a crowdfunding website. This is not Georgina's first film production. She funded her last film herself but did not make a profit (she only sold a handful of copies through social media).

Georgina is a full-time employee of a large publicly listed company ZYX Ltd which is not connected and does not contribute to the crowdfunding project.

On the crowdfunding website, Georgina is offering a digital video disc (DVD) of the film in return for funding. She does not intend to offer the film for public sale in any format at this time.

The intermediary that operates the website does so on an 'all-in' or 'all-or-nothing' basis (that is, if the funding target is not achieved Georgina does not receive any money).

If the funding target is met, Georgina will use all the funds for the project and she will not keep any funds for herself or draw personal wages from it. The intermediary charges a flat fee for the service and a percentage fee for transmitting funds.

In Example 3, the money Georgina receives through crowdfunding is **not** assessable income because:

- her employer is not contributing to the crowdfunding project, and it is entirely unrelated to her employment
- Georgina doesn't show an intention to profit from the film
- she hasn't previously profited from her films and the project is not a commercial transaction or business operation
- her actions don't constitute carrying on a business or businesslike operation
- she's either in the preparatory stages of establishing a new business or filmmaking is merely a hobby.

If Georgina makes plans in the future to sell DVDs, the tax consequences for the money she receives from the sale of the DVDs will depend on her circumstances at that time.

Starting a business

The following example describes an activity that is being conducted in a businesslike manner with the intention to make a profit.

Example 4: Boiliz kettle

Liz has invented a new method for boiling water which is about 10 times faster than the common kettle. Liz's prototype 'Boiliz' kettle – funded by her own money with assistance from an Australian Government science grant and donations received through a letterbox drop and door knocking initiative – cost her $45,000.

She estimates that, if she can produce approximately 10,000 kettles and they are all sold at $80 each, she will break even. Although this would include buying some new machinery and hiring contractors, she decides to attempt this production. Liz establishes an incorporated entity called Boiliz Pty Ltd (she is the only shareholder/director) and hires a financial adviser to manage her accounts.

Liz engages an intermediary to establish a project on its crowdfunding platform to obtain her funding. The intermediary charges Boiliz Pty Ltd 4.5% of all funding as a fee.

The Boiliz crowdfunding project has the following parameters:

- contributors can pledge from a minimum of $80 to a maximum of $1,000
- each contributor is guaranteed one Boiliz kettle (regardless of the amount pledged), delivered to them within 24 months of the end of the project
- the target is $80,000 (under which she would receive nothing), however there is no upper limit on the funding
- the project will run for 3 months.

The project goes viral and receives $750,000 from contributors. Liz realises that she will now require much more sophisticated equipment, and she has received advice that she should restructure her business operations more generally. This process has begun.

In Example 4, the $750,000 received from the crowdfunding project is assessable income of Boiliz Pty Ltd. Based on Liz’s actions, it's reasonable to conclude that Boiliz Pty Ltd is carrying on a business and it's not just an intention to engage in business:

- the scale of the business increased from a mere prototype to a commercial production line
- the activities are conducted in a businesslike manner – that is, in a systematic and organised way through an incorporated entity.

It is reasonable to conclude that Boiliz Pty Ltd is carrying on a business.

Expanding an existing business

The following example describes a crowdfunding project directly related to expanding an existing business.

Example 5: production of alpaca yarns

Anita carries a business of selling yarns, including those sourced from 6 alpacas on her farm. In the past, she has entered into contracts with third parties to use the fibres from her alpacas' fleeces to spin it into yarns and dye the resulting yarns.

Anita would like to extend her business by spinning and dyeing the alpaca yarns herself and increasing the number of alpacas to increase the quantity of yarn she can sell.

In order to fund this expanded production, Anita engages an intermediary to establish a crowdfunding project on their crowdfunding platform. The intermediary charges Anita a fee of 5% of all funds raised.

Anita has a blog and writes about the project on her website. She also advertises the project on various other websites to attract contributors from the knitting community. She offers to give each contributor yarns produced by her in exchange for their contribution, on a sliding scale. The project is hugely successful. Anita receives pledges sufficient to carry out the extension of her business and also has new customers that have come to her as contributors.

In Example 5, the amounts Anita received through the crowdfunding project are assessable income because:

- the project was entered into as an ordinary part of carrying on a business
- she is in the business of selling yarns and the project is directly related to expanding a product line within that business.

Factors such as advertising to actively seek contributors, the use of contributions for expansion, the provision of yarns to contributors in return for their contributions and an intention to increase the number of alpacas all point to commercial purpose of production and sale of alpaca yarns as part of a business of selling yarns.

Income tax implications of different crowdfunding models

The following commentary of the 4 crowdfunding models assumes that the promoter is carrying on a business or has a profit-making intention or purpose. If the promoter is not carrying on a business and does not have a profit-making intention or purpose, then the following commentary is not applicable.

Reward-based crowdfunding model

Under this crowdfunding model, contributors provide money to the promoter in return for the supply of goods or services.

The exact nature of the legal obligation of the promoter to supply the goods or services to the contributor may vary significantly under this model. Generally speaking, the promoter will be legally bound to any promise or commitment they have made to contributors.

Are contributions received by the promoter income?

Where the promoter is carrying on a business, the reward-based crowdfunding model can be characterised as the ordinary business of making sales to customers with an obligation to deliver goods or services. Since the supply of the goods or services is the business of the promoter, the funds are received in the ordinary course of business and are ordinary income.

Recognition or timing of the income depends on whether the promoter accounts for the income on a cash (receipts) or accruals (earnings) basis.

Under cash accounting, income is usually derived when it is received (either actually or constructively). However, cash accounting may not give a true indication of the promoter's income and depending on the promoter's circumstances, it may not be appropriate.

Under accruals accounting, income is derived when it is earned (that is, a recoverable debt is created). In certain scenarios, this may not occur until the goods or services are provided to the contributors. In the case of crowdfunding, this may require a certain fundraising target being met. If the goods and services are not provided and the funds are refunded (for example, Kickstarter terms), no income would have been earned.

For more information, see:

- Accounting methods for business income
- Income and deductions for business
- section 8-1 of the ITAA 1997 – *Income according to ordinary concepts*
- Taxation Ruling TR 98/1 *Determination of income; receipts versus earnings*

The cost of goods or services provided by the promoter to the contributor, and other associated expenses, may be deductible for the promoter provided the general tax deductibility rules are satisfied (for example, deductions may be claimed for the cost of goods sold). The deduction arises when the expense is incurred (that is, when a current legal obligation arises to pay for the required inputs to provide the goods or services to the contributor), subject to the operation of the trading stock rules.

Tax consequences for the contributor

The tax consequences for each contributor will depend on that contributor's circumstances and the purpose for acquiring the goods or services. For many, the acquisition of the goods or services will be purely private in nature and not deductible. However, for some contributors the goods or services may be acquired as part of an ongoing business and the cost may be a deductible business expense, subject to satisfying the general deductibility rules.

For more information, see:

- Income and deductions for business
- section 8-1 of the ITAA 1997 – General deductions
- Taxation Ruling TR 97/7 *Income tax: section 8-1 – meaning of 'incurred' – timing of deductions*

Example 6: Maria's designer jewellery

Maria runs her own designer jewellery business. She recently travelled to Spain and saw some additional jewellery designs that she would like to introduce into her business.

As Maria has a shortage of working capital she seeks additional funds through a crowdfunding platform to help introduce the new jewellery line.

Under the terms of the crowdfunding agreement, contributors are invited to participate by pledging $100 for which they are guaranteed 2 pieces of jewellery from the new line.

After a few months the crowdfunding target of $10,000 is met and Maria fulfils the orders.

Since Maria is carrying on a business, and the supply of jewellery is the business of the company, the funds will be ordinary income and a tax deduction will arise for the cost of goods sold (that is, the cost of providing the new jewellery).

As Maria accounts for income on an accruals (or earnings) basis, the $10,000 received is recognised as income when the jewellery is delivered to contributors.

Donation-based crowdfunding model

Under the donation-based crowdfunding model (and promoters are carrying on a business or have a profit-making intention), promoters do not commit to provide anything of material value to contributors. Instead, the promoter may simply acknowledge the contributions made, often in the form of a list of contributors on its website and use the money for the purpose stated in the crowdfunding campaign.

Are the contributions received by the promoter income?

Whether the receipt of a voluntary payment is assessable income will often need to be determined on a case-by-case basis. The courts have established a number of principles for deciding whether voluntary payments are assessable income.

The most decisive principle is whether it is connected enough for the funds to be considered a product of the income-producing activities of the promoter.

In many cases it will be possible to identify a common understanding between a promoter and a contributor. A typical crowdfunding campaign will often state a broad purpose funds will be used for (for example, to fund production). Likewise, the contributor will often commit to a production timeline, including milestones such as full production and first shipments.

In other words, the common understanding is that the funds will be received to further the business of the promoter, indicating the funds are a product of the income-producing activities of the promoter.

Similar to the reward-based crowdfunding model, recognition or timing of the income depends on whether the promoter:

- accounts for the income on a cash (receipts) or accruals (earnings) basis
- is under a legal or practical obligation to refund the donations (including as damages).

Tax consequences for the contributor

Funds contributed by an individual who is not carrying on a business are not deductible. Donations made to deductible gift recipients may be deductible. However, funds contributed in the course of carrying on a business may be deductible as ordinary business expenses (for example, sponsorship and marketing) if they satisfy the requirements of section 8-1 of the ITAA 1997.

For more information, see Receiving tax-deductible gifts.

Example 7: environment-friendly waste cement disposal

New Action is in the business of supplying concrete, sand and aggregate to the local region. The management of the company is concerned about the impact that leftover ready-mix cement can have on the environment.

To help explore innovative ways to dispose of the leftover cement, they invite public participation through a donation-based crowdfunding platform to help them identify ways to address the problem. They have been experimenting with a special process and additive for some time with promising results but do not yet have the funds to drive development further and create a commercially viable product.

Management explains to potential contributors that, in addition to helping the environment, if their idea takes off it will help grow the business and allow them to exploit further business opportunities with the product.

The business turns to a crowdfunding platform to help raise the $75,000 needed to drive development. Contributors are not provided with any return or reward for their contribution but are satisfied that the contribution they make will help the environment. Their contribution will be acknowledged on the company's website.

After a few months the $75,000 crowdfunding target is met. Since New Action is carrying on a business of supplying concrete, sand and aggregate, the funds are ordinary income. The fact that New Action actively solicited the funding to pursue its future income-producing activities is relevant in this conclusion.

New Action accounts for income on an accruals basis and is legally obliged to repay the funds if it does not spend at least $75,000 on the experimentation with special processes. The income is recognised by New Action at the earlier of when the funds are spent, or when the funds are no longer required to be repaid.

One of the contributors is a business which supplies the additive and makes a donation (in the form of a grant) to encourage development of the new process. If the new process is successful, it is likely to result in an immediate increase in their sales of the additive. In this case, a deduction may be available for the contributor's donation as an ordinary business expense.

A further contributor is a local business selling hamburgers near the New Action plant, who makes a donation on the condition they will get acknowledgement and publicity for their support of the project. As a result of the positive publicity, hamburger sales increase dramatically. In these cases, a deduction may be available to the contributor for the contributor's donation as an ordinary business expense.

Equity-based crowdfunding model

Although equity-based funding is only available in limited circumstances in Australia, certain proposed regulatory changes may facilitate increased use of this model.

Under the equity-based crowdfunding model, contributors provide money to the promoter in return for a share or other equity interest in the company undertaking the project or venture.

Are the contributions received by the promoter income?

In contrast to reward-based funding and donation-based crowdfunding funding models funds received by the promoter will not be income in their hands. Instead, they will form part of the share capital of the company undertaking the project or venture.

Providing a share or equity interest in the promoter may confer certain rights to the contributor, including dividend rights, voting rights, and rights to returns of capital upon winding up.

Dividends paid to contributors holding shares or other equity interests will be non-deductible for the promoter, but they may be able to frank those distributions. The promoter will need to consider whether withholding tax applies to distributions made to overseas shareholdings.

Tax consequences for the contributor

For contributors, the funds they contribute to promoters are not deductible.

Dividends paid to contributors will be assessable income in their hands, while returns of capital are not assessable but generally reduce the cost base of the share or equity interest. The subsequent disposal of shares in a company may also trigger CGT consequences.

Contributors may be able to claim a deduction for interest charged on money borrowed for the crowdfunding investment, which produces assessable dividend income. However, only interest expenses incurred for an income-producing purpose are deductible. If the money borrowed is used for both private and income-producing purposes, the interest expense needs to be apportioned between each purpose.

Example 8: innovative crop spraying

Turner and Co is in the business of making fertilizers for farmers. To help grow the business, it wants to develop a drone that will allow farmers to spray their crops without the need for employing a specialist (flying) crop duster.

Turner and Co has had some promising results with a drone developed in collaboration with a drone manufacturer. It wants to expand the idea and develop the drone into a commercially available product. It does not have sufficient funds to develop the product itself so it approaches a crowdfunding platform to help raise the $50,000 needed to drive development. As part of the crowdfunding arrangement, contributors are provided with ordinary shares in Turner and Co for their investment, with the amount of shares allocated to each contributor based on the amount invested.

Turner and Co raises the $50,000 needed to go into production. The funds received by the company will not be income in its hands, but will form part of the share capital of Turner and Co. The provision of shares to contributors provides contributors with ownership rights. Dividends paid to contributors will be assessable in contributors' hands and are capable of being franked.

For more information, see:

- Dividend income deductions
- Investment income
- Owning shares
- What to exclude from your business's assessable income
- When CGT applies to shares and units

Debt-based crowdfunding model

Debt-based crowdfunding involves a loan by a contributor to a promoter, who in return agrees to pay interest to the contributor and repay the principal.

Are the contributions received by the promoter income?

Where a contributor lends funds to a crowdfunding promoter, the promoter will not be assessed on receipt of those funds.

The interest expense incurred by the promoter will be deductible if they satisfy the tax deductibility rules in section 8-1 or Division 230 of the ITAA 1997. If the interest is paid to non-resident contributors, the promoter will need to consider whether relevant withholding tax applies.

Tax consequences for the contributor

The interest income derived by the contributor will be assessable income. The income will generally be derived when received, although certain contributors may be required to recognise the income on an accruals basis.

Contributors may be able to claim a deduction for certain fees and other costs (such as borrowing costs) for managing their loans.

Example 9: software application

Rajit Industries are IT developers and consultants. They are in the process of developing a new computer software application to help consumers find tradesmen to perform work at their home or workplace.

They want to develop the app further and make it commercially available, but they don't have sufficient funds. They approach a crowdfunding platform to help raise the $30,000 needed to drive development. As part of the crowdfunding arrangement, contributors are invited to loan funds for which Rajit agrees to pay interest and repay the principal.

Rajit Industries raises the $30,000 needed to develop the application. The funds received by them will not be income in their hands. Interest repayments made to contributors will be deductible for Rajit.

For more information, see:

- Income and deductions for business
- Interest, dividend and other investment income deductions

- Taxation Ruling TR 2004/4 *Income tax: deductions for interest incurred prior to the commencement of, or following the cessation of, relevant income earning activities*

Tax incentives for early stage investors

Parliament has passed measures which will give concessional tax treatment to investors promoting investment in innovative, high-growth potential start-up companies.

The incentive applies to interests issued by an early-stage innovation company (ESIC), which is an Australian-incorporated company that is:

- at an early stage of its development; and
- developing new or significantly improved innovations for the purpose of commercialising and generating an economic return.

An investor in an ESIC may be eligible for the following incentives if they don't hold a more than 30% interest in the ESIC:

- a 20% non-refundable carry-forward tax offset (based on the value of the investment), capped at $200,000 per investor per year (retail investors are subject to an investment limit of $50,000 per investor per year); and
- a 10-year exemption on CGT, provided investments are held for 12 months or more.

The tax offset will be available upon investment, not when the funds are used by the ESIC, and any sale of the shares will be taxed on a 'deemed capital account' basis.

These incentives apply to the 2016–17 and subsequent income years.

For more information, see:

- Subdivision 360-A of the ITAA 1997
- Tax incentives for early stage investors

Crowdfunding and GST

Crowdfunding transactions may be subject to GST, depending on the type and nature of the arrangement. For more information, see GST and crowdfunding.

Crowdfunding and disaster assistance

Some crowdfunding platform appeals seek funds to assist businesses, including primary producers affected by severe drought conditions or natural disasters such as bushfires or floods.

How these campaigns affect your assessable income depends on whether you are a promoter or intermediary of these platforms, or if you contribute to a campaign run on these platforms.

Businesses who receive assistance from crowdfunding platforms must consider how these payments affect their tax.

Tax consequences for recipients of drought or disaster assistance

If you or your business receive assistance payments from private funds, charitable groups or crowdfunding platforms the effect on your tax depends on how you use the funds.

Where the payments are intended to be used for business expenses they must be declared as assessable income. However, you may also be able to claim the associated business expenses as tax deductions. For example, if you spent all the money buying livestock feed (a deductible expense) there will be no net effect on your income tax. The increase in assessable income will be offset by the increase in deductions claimed.

If the amounts received are intended to be used for personal emergency relief such as food or clothing, or other such non-business purposes, they are not included in your assessable income.

For more information, see Drought support.

Example 10: crowdfunding amounts used for business expenses

Kevin is a farmer who receives money from a crowdfunding campaign fund set up to raise money to help farmers cope with the drought.

Kevin receives $130,000 for his business. He spends $120,000 on deductible expenses such as hay and water for his livestock.

Kevin declares $130,000 in his assessable income and deducts $120,000 as deductible expenses. The GST treatment of Kevin's purchases is as normal.

Example 11: crowdfunding amounts used to buy capital assets

Oliver is a farmer who receives money from a crowdfunding campaign fund set up to raise money to help farmers who have been impacted by recent bushfires.

Oliver receives $34,000 for his business. He spends $15,000 on fencing supplies and $19,000 replacing quad bikes that were destroyed in the fires. These are capital assets for the business.

Oliver includes the $34,000 in his assessable income at the end of the year. If Oliver is eligible to apply simplified depreciation rules for small business, the amounts he spent on each capital asset may be deductible in the year they were first used if they are below the applicable instant asset write-off limit for that income year.

Tax consequences for contributors to drought assistance

If you are an individual not carrying on a business, money you contribute to a drought help crowdfunding platform is not deductible.

However, donations made to deductible gift recipients are generally deductible.

Example 12: contributing to crowdfunding for drought assistance

Steve has decided to give $30,000 to drought-affected farmers. Steve uses ABN lookup to check the deductible gift recipient status of the entities he plans to donate to.

He donates $12,000 to a charity that is running a 'Buy a Bale' campaign. As the charity is a deductible gift recipient Steve can claim a tax deduction for that amount.

Steve also calls a feedstock retailer in Tamworth and pays for $10,000 worth of hay (including the delivery fees) to be delivered to anyone in need locally. Steve is not entitled to a tax deduction for this.

Finally, Steve goes to a crowdfunding website and donates $8,000 to a farmer who has requested assistance to keep his business afloat. The farmer is not a deductible gift recipient. Steve is not entitled to a tax deduction for this donation.

For more information, see Gifts and donations.

More information

If you're unsure of your circumstances, you may need to seek professional advice from us or a registered tax professional.

Even if you receive professional advice or use a tax professional to prepare your return, you're still responsible for providing proof of your income and deductions. Penalties may apply if you don't report your income correctly or if you claim deductions you're not entitled to.

QC 46617

What to exclude from your business's assessable income

Work out if an amount or payment your business receives is not assessable income.

Last updated 7 May 2025

Media: What income to exclude in your business' assessable income https://tv.ato.gov.au/ato-tv/media?v=bi9or7odhi1hgz (**Duration:** 01:16)

Non-assessable amounts

If an amount or payment you receive is not assessable income, you don't need to include it in your tax return.

Examples of amounts that are not assessable:

- betting and gambling wins (unless you operate a betting or gambling business)
- earnings from a hobby
- gifts or inheritance
- GST you have collected
- non-assessable non-exempt government grants
- prizes and awards not related to your business
- money you have borrowed
- money you contribute as the business owner.

Non-assessable non-exempt government grants

Some business support grants are non-assessable, non-exempt (NANE) income. If a business support grant you receive is NANE, you do not include it in your tax return and you do not pay tax on it.

NANE grants include:

- COVID-19 business support payments
- Natural disaster grants
- Water infrastructure improvement payments

COVID-19 business support payments

You **don't** need to pay tax on **some** COVID-19 payments from the government to support businesses. Eligible payments will be NANE income for tax purposes if you meet the criteria.

For more information, see Eligible COVID-19 business grants and support programs.

Example: Receiving a grant eligible for NANE income

Fresh Brew is a small business operating a café in Victoria.

Fresh Brew received an eligible grant payment under Business Costs Assistance Program Round Two for the 2020–21 financial year.

This package is part of the Victorian Government's response to the economic impacts of COVID-19.

The Minister has declared that the Business Costs Assistance Program Round Two is a grant program that's eligible for NANE income.

In the 2020–21 financial year, Fresh Brew self-assessed and identified that its aggregated turnover was less than $50 million in the income year the payment was received.

As Fresh Brew received an eligible grant payment in the 2020–21 financial year and its aggregated turnover is less than $50 million, it does not need to include the grant in its business income.

For more information, see tax implications of government grants or payments you receive as a result of COVID-19.

Natural disaster grants

If your business has been affected by a natural disaster, you may receive a government support grant or payment to help you recover. These payments are counted as assessable income unless they are made non-taxable by parliament.

For more information, see Disaster support grants and deductions for business.

Water infrastructure improvement payments

You can choose to treat payments received for sustainable rural water use and infrastructure programs as NANE income or ordinary income.

For more information on the choice options and eligible programs, see Sustainable rural water use and infrastructure program.

QC 44457

Accounting methods for business income

The amounts you include as assessable income in any financial year depends on if you account on a cash or accruals basis.

Last updated 20 June 2025

Accounting methods

Don't confuse these 2 accounting methods with the 2 types of GST accounting methods (cash and non-cash).

You need to account for all transactions within a financial year using the same method.

Cash basis

If you account for your assessable income on a cash basis you:

- **include** payments you received during the financial year, even if the work was done in a different financial year
- **don't include** amounts where the work was done, but you did not receive payment during the financial year.

When you complete your tax return, you may have to reconcile any unpresented cheques to remove them from your income or deductions if you had previously included these amounts.

Accruals basis

If you account for your assessable income on an accruals basis, you **include** all income earned for work done during the financial year. This is even if you hadn't received payment by the end of the financial year.

Example: cash versus accruals basis

Dimitris manages his own business as a carpenter. He completes a contract in May 2024 worth $7,240 (in the 2023–24 financial year). His client pays the invoice on 10 July 2024 (in the 2024–25 financial year).

If he uses the:

- cash basis method – he includes the $7,240 (minus any GST) in his assessable income for 2024–25 financial year because he received payment in that financial year
- accruals basis method – he includes the $7,240 (minus any GST) in his assessable income for the 2023–24 financial year because he did the work in that financial year.

Declaring income from a farm management deposits account

If you are a primary producer eligible to concessional tax treatment under the farm management deposits (FMD) scheme, it is important you understand how to declare any income from this account.

What happens if I deposit money into an FMD?

If you deposit money into an FMD account you can claim a tax deduction in that financial year (under certain conditions).

What happens if I take money out of an FMD?

When you redraw from your account, we treat the amount as assessable income in that year.

If you redraw an amount within 12 months of depositing it, you generally can't claim a tax deduction. However, if the repayment is due to an exceptional circumstance, such as drought or an applicable natural disaster, it may be deductible.

For more information about income and deductions under the FMD scheme see Farm management deposits scheme.

QC 44456

Business deductions

Understand which business expenses can be claimed as tax deductions.

Last updated 1 July 2025

What you can claim

You can claim a tax deduction for most expenses you incur in carrying on your business if they are directly related to earning your assessable income.

Types of business expenses you may be able to claim deductions for include:

- day-to-day operating expenses
- purchases of products or services for your business
- certain capital expenses, such as the cost of depreciating assets like machinery and equipment used in your business.

The amount of your deduction and when you can claim it will depend on the type of expense (for example certain capital expenditures are deductible over time) and whether it has any private or domestic purpose for which you must reduce your deduction. Also, some expenses are not deductible (for example fines).

There are 3 golden rules for what we accept as a valid business deduction:

1. The expense must have been for your business, available as an allowable deduction and not for private use.
2. If the expense is for a mix of business and private use, you can only claim the portion that is used for your business.
3. You must have records to prove it.

You can't claim the GST component of your expenses as a deduction if you can claim it as a GST credit on your business activity statement.

You can also claim deductions for expenses related to protecting staff from safety hazards involved in performing their duties. For example, infection from transmissible diseases. This may include hand sanitiser, sneeze or cough guards, face masks, gloves, other personal protective equipment, antibacterial wipes and other cleaning supplies that are used for business purposes.

Learn more by taking our online course Claiming small business tax deductions.

If you need assistance with understanding some of the tax and super terms, see our definitions.

What you can't claim

There are some expenses that are not deductible, such as:

- entertainment expenses, other than those you provide as a fringe benefit
- traffic fines
- private or domestic expenses, such as childcare fees or clothes for your family
- expenses relating to earning income that is not assessable
- payments for which you have not met your PAYG withholding or reporting obligations – non-compliant payments
- the GST component of a purchase if you can claim it as a GST credit on your business activity statement.

You generally cannot claim a deduction for the cost of capital assets that are dealt with under the capital gains tax rules, such as the land your business premises are on. Some exceptions apply for capital works, plant and certain expenditure of primary producers on improvements to land.

Your deductions may be limited for expenses incurred in relation to personal services income (PSI) if the PSI rules apply to that income.

How to apportion for expenses that have both business and private purposes

You cannot claim a deduction for an expense to the extent it is incurred for a private or domestic purpose.

How you apportion depends on how much of the expense relates to running your business and the type of expense.

- If you have a home-based business and claim occupancy expenses you will generally apportion these based on floor area and the time your home is used in your business. For running expenses, there is a variety of methods you may use depending on your circumstances.
- There are different methods you can use to calculate deductions for your motor vehicle expenses depending on your business structure and the type of vehicle you are claiming them for.
- For other expenses, you will generally apportion based on the private and business use of the asset or service acquired. This must be done on a fair and reasonable basis that reflects any private use of the asset or purpose of the expense.
- You need to keep records to show how you have apportioned your expense. For example, if you incur an expense to repair your laptop which you only use for your business, you can claim a deduction for the full cost of the repair. However, if you use the laptop 50% of the time for your business and 50% of the time for private use, you can only claim a deduction for 50% of the cost of the repair.

Example: Expenses that have both business and private purposes

Jax is a make-up artist who runs a business teaching make-up techniques and promoting make-up and products for profit through multiple online channels.

Jax purchases make-up for use in that business, but also uses some of the make-up they purchase for personal use. They estimate this to be about 50% with the remainder used in their teaching business. Jax is only able to claim a deduction for 50% of the cost of the make-up.

When you can claim your deduction

The type of expense – operating expense or capital expense – determines when you can claim your deduction. Generally, you can claim:

- operating expenses (such as office stationery and wages) in the year you incur them
- certain capital expenses (such as depreciating assets and capital works assets) over a longer period – however, you may be eligible to claim an immediate deduction for the business use portion of depreciating assets you acquire for your business if you are a small business entity and chose to apply the simplified depreciation rules.
- other capital expenses (such as start-up expenses) may be immediately deductible or claimed over time.

For more information see Deductions for depreciating assets and other capital expenses.

You generally incur an expense when you have a legal obligation to pay for the goods or services. An invoice is not necessary for an expense to have been incurred, but you do need a record of the expense.

If you use an item in your business for only part of a year, you generally need to restrict your claim to the period it was used for the business.

Claiming a deduction for a prepaid expense

There are different rules for expenses you pay in advance – that is, expenses you incur now for goods or services you will receive (in whole or in part) in a later income year.

Where the expense is $1,000 or more, you will usually need to apportion (or distribute) the expense across the whole supply or service period if you:

- won't receive the goods or services in full within 12 months
- are not eligible for an immediate deduction.

How to claim your tax deduction

How to claim your business deductions depends on your business type:

- Sole trader – claim the deductions in your individual tax return in the 'Business and professional items' schedule, using myTax or a registered tax agent.

- Partnership – claim the deductions in your partnership tax return.
- Trust – claim the deductions in your trust tax return.
- Company – claim the deductions in your company tax return.

Types of expenses

Learn more about the different types of expenses using the following links:

Deductions for motor vehicle expenses

As a business owner, you can claim a tax deduction for expenses for motor vehicles used in running your business.

Deductions for home-based business expenses

How to claim tax deductions for home-based business expenses if you operate some or all of your business from home.

Deductions for business travel expenses

You can claim a tax deduction for expenses you incur travelling for your business.

Deductions for digital product expenses

As a business owner, you can claim a tax deduction for the cost of digital products used in running your business.

Deductions for salaries, wages and super contributions

How business owners can claim a tax deduction for employee salaries, wages and super contributions.

Deductions for repairs, maintenance and replacement expenses

Check what deductions your business can claim for repairs, maintenance, and replacement expenses.

Deductions for other operating expenses

Operating expenses for the everyday running of businesses are generally deductible in the year you pay for them.

Deductions for depreciating assets and capital expenses

When businesses can claim tax deductions for depreciating assets and other capital expenses.

Deductions for carbon sink forest expenses

Businesses can claim a deduction for expenses incurred establishing trees in a carbon sink forest.

Deductions for unrecoverable income (bad debts)

Information about income that cannot be recovered (or a 'bad debt') and how to write off a debt as bad.

Small business skills and training boost

Check if you can claim a 20% bonus deduction on certain eligible training expenditure for your employees.

Small business technology investment boost

Check if you can claim a 20% bonus deduction on technology expenditure to help digitise your small business.

Small business energy incentive

Small businesses can receive a 20% bonus deduction on expenditure to improve energy efficiency.

QC 33725

Deductions for motor vehicle expenses

As a business owner, you can claim a tax deduction for expenses for motor vehicles used in running your business.

Last updated 7 May 2025

Watch:

Media: Claiming deductions – Motor vehicle expenses
https://tv.ato.gov.au/ato-tv/media?v=bi9or7od7bf956 (**Duration:** 01:18)

For a summary of this content in poster format, see Motor vehicle expenses (PDF, 269KB).

Types of vehicles

Cars (for income tax purposes) are defined as motor vehicles (including 4-wheel drives) designed to carry both:

- a load less than one tonne
- fewer than 9 passengers.

Other vehicles include:

- motorcycles
- vehicles designed to carry either
  - one tonne or more (such as a utility truck or panel van)
  - 9 passengers or more (such as a minivan).

The motor vehicle must be owned, leased or under a hire-purchase agreement.

If you operate your business as a company or trust, you can also claim for motor vehicles provided to an employee or their associate as part of their employment.

Expenses you can claim

You can claim:

- fuel and oil
- repairs and servicing
- interest on a motor vehicle loan
- lease payments
- insurance cover premiums
- registration
- depreciation (decline in value).

Make sure you use the correct calculation method when claiming motor vehicle expenses. Using the wrong method can lead to incorrect claims. For more information, see Calculation methods for claiming business motor vehicle expenses.

Separate private from business use

If you use a motor vehicle for both business and private use, you must be able to correctly identify and justify the percentage that you are claiming as business use. The percentage that is for private use isn't claimable and fringe benefits tax may apply (see Cars and FBT). This is an area where we often see errors made.

It is important to keep records. You can use a logbook or diary to record private versus business travel. For more information, see Motor vehicle expense records you need to keep.

Travelling between your home and your place of business is considered private use, **unless** you are a home-based business and your trip was for business purposes. For more information, see Motor vehicle expenses for a home-based business.

You can also refer to Motor vehicles used by shareholders of private companies.

Car limit

There is a limit on the cost you can use to work out the depreciation of passenger vehicles (except motorcycles or similar vehicles) designed to carry a load of less than one tonne and fewer than 9 passengers.

Motor vehicle expense calculation methods

Work out how to claim motor vehicle expenses, depending on your business structure and the type of vehicle.

Cents per kilometre method

Check how sole traders and some partnerships can use the cents per kilometre method for car-related business expenses.

Logbook method

Sole traders and some partnerships can use the logbook method

Actual cost method

The actual cost method may be the only method you can use to claim your business's motor vehicle expenses.

Calculating car expenses prior to 1 July 2015

For 2014–15 and earlier income years, there are four different methods for claiming work-related car expenses.

Motor vehicle expenses for a home-based business

Information on motor vehicle expenses for a home-based business.

Motor vehicles used by your employees

How to claim expenses when your employees use a vehicle as part of running the business.

Motor vehicles used by shareholders

Information for private companies providing vehicles to a shareholder or their associate (not as an employee).

Taxi industry assistance payments and passenger levies

Tax obligations for taxi, hire car and limousine licence for industry assistance payments and passenger movement levies.

Motor vehicle expense records you need to keep

The records you need to keep for your business's motor vehicle expenses depend on how you calculate your claim.

QC 33720

Motor vehicle expense calculation methods

Work out how to claim motor vehicle expenses, depending on your business structure and the type of vehicle.

Last updated 7 May 2025

Using the correct method

Make sure you use the correct calculation method. Using the wrong method can lead to incorrect claims. Different rules apply depending on your business structure and the type of vehicle you are claiming for:

- Sole trader or partnership
- Company or trust

Sole trader or partnership

If you operate your business as a sole trader or partnership (where at least one partner is an individual), the method you can use depends on the type of vehicle:

- When claiming for a **car**, you can use either the cents per kilometre method or the logbook method (you can use different methods for different cars and you can also change methods from year to year)
- When claiming for **other vehicles**, you must use the actual costs method.

If you are completing an outstanding tax return for 2014–15 or earlier, you may be able to use other methods that were available before 1 July 2015.

Company or trust

You must use the actual costs method to work out motor vehicle expenses, regardless of the type of motor vehicle.

QC 33877

Cents per kilometre method

Check how sole traders and some partnerships can use the cents per kilometre method for car-related business expenses.

Last updated 4 July 2024

This method

Only use this method if you are a sole trader or partnership (where at least one partner is an individual) claiming for a car.

The cents per kilometre method:

- uses a set rate for each kilometre travelled for business
- allows you to claim a maximum of 5,000 business kilometres per car, per year
- doesn't require written evidence to show exactly how many kilometres you travelled (but we may ask you to show how you worked out your business kilometres, for example diary records)
- uses a rate that takes all your vehicle running expenses (including registration, fuel, servicing and insurance) and depreciation into account.

Rates

Rates are reviewed regularly. The rate is:

- 88 cents per kilometre for 2025–26
- 88 cents per kilometre for 2024–25
- 85 cents per kilometre for 2023–24
- 78 cents per kilometre for 2022–23
- 72 cents per kilometre for 2020–21 and 2021–22
- 68 cents per kilometre for 2018–19 and 2019–20
- 66 cents per kilometre for 2017–18.

How you use this method

To work out how much you can claim, multiply the total business kilometres you travelled by the rate.

You also need to apportion for private and business use, understand the expenses you can claim and keep the right records.

QC 33712

Logbook method

Sole traders and some partnerships can use the logbook method when claiming expenses for a car.

Last updated 19 June 2024

This method is only for sole traders or partnerships claiming for a car.

Work out how much to claim

To work out the amount you can claim with this method:

1. Keep a logbook.

2. Work out your business-use percentage by
   - dividing the distance travelled for business by the total distance travelled
   - then multiplying by 100.
3. Add up your total car expenses for the income year.
4. Multiply your total car expenses by your business-use percentage.

The records you need to keep are:

- an electronic or pre-printed logbook (available from stationery suppliers)
- evidence of your actual fuel and oil costs, or odometer readings on which you estimate your fuel and oil use
- evidence of all your other car expenses.

If you're a sole trader with simple tax affairs, you can create a logbook and record business-related car trips using the myDeductions tool in the ATO app.

Example: Travelling for work

At the end of the income year, Tim's logbook shows he travelled a total of 11,000 kilometres. Of these, 6,600 were for business-related purposes.

To work out the percentage of car travel used for business-related purposes, Tim made the following calculation: 6,600 ÷ 11,000 × 100 = 60% of travel was for business-related purposes.

Tim's total expenses, including depreciation, are $9,000 for the income year. To work out how much he could claim as a deduction, Tim completed the following calculation:

$9,000 × 60% = $5,400

What to record in your logbook

Your logbook must contain:

- when the logbook period begins and ends
- the car's odometer readings at the start and end of the logbook period
- the total number of kilometres the car travelled during the logbook period
- the number of kilometres travelled for each journey. If you make two or more journeys in a row on the same day, you can record them as a single journey
- the odometer readings at the start and end of each subsequent income year your logbook is valid for
- the business-use percentage for the logbook period
- the make, model, engine capacity and registration number of the car.

For **each journey**, record the:

- reason for the journey (such as a description of the business reason or whether it was for private use)
- start and end date of the journey
- odometer readings at the start and end of the journey
- kilometres travelled.

Logbook timeframe

If this is the first year you have used the logbook method, you must keep a logbook for at least 12 continuous weeks during the income year. That 12-week period needs to be representative of your travel throughout the year.

If you started to use your car for business-related purposes less than 12 weeks before the end of the income year, you can continue to keep a logbook into the next year so it covers the required 12 continuous weeks.

Each logbook you keep is valid for five years, but you may start a new logbook at any time.

If you establish your business-use percentage using a logbook from an earlier year, you must keep that logbook and maintain odometer readings in the following years.

If your circumstances change, such as a change in the type of work undertaken by your business, you may need a new logbook.

Using the logbook for two or more cars

If you want to use the logbook method for two or more cars, the logbook for each car must cover the same period. The 12-week period you choose should be representative of the business use of all cars.

Depreciation of the motor vehicle

If you use the logbook method, you can generally claim depreciation, or decline in value, of the motor vehicle. You can only claim depreciation on the business portion of the motor vehicle's cost.

You may be eligible for an immediate deduction or an accelerated rate of depreciation under one of the tax depreciation incentives.

If the vehicle is a car, there's a limit on the amount you can use to work out your depreciation claim – see Car cost limit for depreciation.

Things to remember

- Apportion for private and business use
- Understand the expenses you can claim
- Keep the right records

QC 33731

Actual cost method

The actual cost method may be the only method you can use to claim your business's motor vehicle expenses.

Last updated 7 May 2025

The actual cost method

The actual cost method is where you claim expenses based on actual receipts.

You must use this method to calculate motor vehicle expenses if your business is a:

- company or trust, regardless of the type of vehicle you're claiming for
- sole trader or partnership, if you are claiming for other vehicles such as a motorcycle or a van.

Understand the expenses you can claim and remember you need to keep all records to substantiate your claims.

You can only claim the percentage of the actual costs that relate to business use of the vehicle. Therefore, if a vehicle is used for both business and private purposes, you must separate private from business use and keep records that allow you to work out the business use percentage.

If you are providing a vehicle to an employee, shareholder or an associate (such as a spouse), there can be tax implications – see Motor vehicles used by shareholders of private companies.

Depreciation of the motor vehicle

If you work out your deduction for expenses using the actual cost method, then you can generally claim a deduction for capital expenses, such as the purchase price of a motor vehicle, over a period of time. This is known as depreciation or a decline in value.

You may be eligible for an immediate deduction or an accelerated rate of depreciation under one of the tax depreciation incentives. – see Interaction of tax depreciation incentives.

If the business vehicle is a car, there's a limit on the amount you can use to work out your depreciation claim. See Car cost limit for depreciation.

QC 59372

Calculating car expenses prior to 1 July 2015

For 2014–15 and earlier income years, there are four different methods for claiming work-related car expenses.

Last updated 28 June 2019

If you are claiming **up to** 5,000 business kilometres you can use either the:

- cents per kilometre method
- logbook method

If you are claiming for **more than** 5,000 business kilometres you can use either the:

- logbook method
- 12% of original value method
- one-third of actual expenses method

After 1 July 2015, you can only use the cents per kilometre and logbook method.

12% of original value method

This method is not available after 1 July 2015.

With this method you could claim 12% of the original value of your car, up to the 'car limit' (which was $57,466 for 2014–15).

If you bought the car you could claim 12% of the purchase price. If you leased the car you could claim 12% of its market value at the time you started leasing it.

Under this method:

- your car must have travelled **more than** 5,000 business kilometres during the income year
- you **don't need** written evidence to show how many kilometres you have travelled, but you must be able to show us how you worked out your business kilometres
- you **can't claim** a separate deduction for your car's depreciation.

Example: using the 12% original value method

Raji's vehicle cost $20,000. She had the vehicle for the full year and met the requirements to make a claim under this method. Raji worked out she could claim $2,400 for her vehicle expenses, as follows:

- 12% × $20,000 = $2,400.

One-third of actual expenses method

This method is not available after 1 July 2015.

With this method you could claim one-third of your car expenses.

Under this method:

- your car must have travelled **more than** 5,000 business kilometres during the income year
- you must have written evidence of your fuel and oil costs, or odometer readings on which your estimates are based
- you must have written evidence of all your other car expenses.

You must also keep records that show:

- your car's odometer readings at the start and end of the period of ownership or leasing in the income year
- the car's engine capacity, make, model and registration number
- how you worked out your business kilometres and any reasonable estimate you made.

Example: using the one-third of actual expenses method

Kosta’s vehicle expenses totalled $9,000 for the income year. These costs were for:

- fuel and oil
- registration and insurance
- interest on a loan to buy the vehicle
- repairs and maintenance
- depreciation.

Kosta met all the other requirements for claiming under this method. He worked out he could claim $3,000, as follows:

- $9,000 ÷ 3 = $3,000

QC 33719

Motor vehicle expenses for a home-based business

Information on motor vehicle expenses for a home-based business.

Last updated 20 June 2024

If you're operating a home-based business, you **can** claim the cost of trips between your home and other places if the travel is for business purposes. For example, you could claim the cost of travel to:

- a client's premises, if you're working there or delivering some documents
- purchase equipment or supplies
- the bank to do your banking

- the post office to mail out invoices or get mail from a PO Box
- see your business tax agent or BAS agent.

There are different methods that you can use to calculate motor vehicle expenses claims depending on your business structure.

QC 59286

Motor vehicles used by your employees

How to claim expenses when your employees use a vehicle as part of running the business.

Last updated 7 May 2025

Employee uses own vehicle

If your employee uses their own vehicle as part of the everyday running of your business, your business can claim a deduction for any motor vehicle allowances or reimbursements you pay them for their costs, such as the cost of fuel.

Employee uses business vehicle

If you operate your business as a company or trust and your employee or their associate (such as a spouse) uses a business vehicle for private purposes, then:

- you may be asked to show how the expenses were connected to the business
- your business may have to pay fringe benefits tax (FBT)
- the FBT you pay is tax deductible
- the private portion of the expenses that are subject to FBT are tax deductible.

Example: Motor vehicle expenses related to employment

Habib has a small accountant consultancy business he runs through his company, Beetle Pty Ltd. Habib is the sole director and worker in his business.

Beetle has entered into a four-year lease for a four wheel drive vehicle with a carrying capacity of less than one tonne. Habib uses the vehicle for both business and private purposes.

As the motor vehicle was provided to Habib to use for business and private activities, Beetle is entitled to claim a deduction for all of the lease payments and other expenses incurred.

However, Beetle may have to pay FBT for the percentage of the vehicle use that was for private purposes. Any FBT that Beetle pays is tax deductible.

Example: Fringe benefits tax implications when employee uses business vehicle and garages it at home

Prime Plumbing is a plumbing business set up as a company and they provide their two employees with business vehicles to use as part of the job. There is no space at Prime Plumbing's business premises where the vehicles can be safely garaged overnight, so the two employees drive the vehicles to and from their homes and garage the vehicles at their homes each night.

As the vehicles are garaged at each employee's home, they are taken to be available for the employee's private use.

This arrangement means that Prime Plumbing is providing a fringe benefit. However, if the vehicles are utes that carry less than one tonne and their private use is limited to travelling between work and home as well as minor, infrequent and irregular private use, then the use of the vehicle exempt from FBT.

For more information, see Car fringe benefits.

QC 59380

Motor vehicles used by shareholders of private companies

Information for private companies providing vehicles to a shareholder or their associate (not as an employee).

Last updated 20 June 2024

If your business is a private company and you provide a vehicle to a shareholder or their associate (not in their role as an employee):

- we may treat it as a dividend or loan
- your related motor vehicle expenses may not be deductible.

Example: non-deductible motor vehicle expense

Peter owns 60% of ABC Pty Ltd. Peter doesn't work in the business and isn't an employee.

As part of the original ownership agreement, Peter has an arrangement where he is entitled to the use of a 4-wheel drive vehicle and ABC pays for all lease, petrol, insurance cover premiums, repairs and fuel costs.

The car payments made by ABC on Peter's behalf are:

- taken into account in working out his share of ownership profits
- not incurred as a business expense of ABC, so can't be claimed as a deduction by ABC.

QC 59382

Taxi licence holders – payments and levies

Tax obligations for taxi, hire car and limousine licence for industry assistance payments and passenger movement levies.

Last updated 7 May 2025

Taxi industry assistance payments

In response to the arrival of ride-sourcing arrangements such as UberX, and GoCatch, state governments announced reforms to the regulation of taxi and ride-sourcing industries.

These reforms include industry assistance payments to taxi licence holders, which help:

- offset the impacts of new regulatory regimes
- taxi licence holders compete under new industry arrangements.

Depending on the state, industry assistance payments to eligible taxi licence holders include:

- one-off transitional assistance payments to help transition to the new regulatory arrangements
- recurring hardship or income support payments. These are means-tested in some states.

These rules also apply to state government payments made to hire car and limousine licence holders.

Some states made further announcements that their industry assistance payments are to be funded through the introduction of a passenger movement levy on metropolitan taxi and ride-sourcing trips.

Income tax consequences of payments

If you hold a taxi licence (including a hire car or limousine licence) and you receive an industry assistance payment from your state government in relation to the licence (excluding a licence surrender payment), it's generally not a capital receipt. It’s more likely to be ordinary income as it's a government transitional assistance and hardship payment made to licence holders to:

- assist them to continue operating
- compensate them for loss of income.

Licence holders are required to include the full amount of the payment in their assessable income.

The payments are generally not capital receipts (also known as capital proceeds) because the licence holder isn't required to give up or sell their taxi licence plate, or finish their business.

If a licence holder leaves the industry after receiving the transitional assistance or hardship payment, the payment may be included in calculating the capital gain or loss made by the licence holder when they surrendered or sold the taxi licence.

If you seek legal or professional tax advice about these payments, you can claim a tax deduction for the costs.

Victorian Taxi Reform Fairness Fund

We note the decision of the Administrative Appeals Tribunal (AAT) in the matter of Bains and Commissioner of Taxation [2023] AATA 2477 about payments made to licence holders from the Victorian Taxi Reform Fairness Fund. The AAT found that these payments are not income according to ordinary concepts. This decision is only relevant to Victorian Taxi Licence owners who received a payment from the Victorian Taxi Reform Fairness Fund. It does not include payments from the Victorian Taxi Reform Hardship Fund or the Victorian Transition Assistance payments.

Having your past assessments reviewed

If you received a payment from the Victorian Taxi Reform Fairness Fund in the 2017–18 income year and included that in your income tax return, you will need to complete an objection form to have us review your past assessment.

Please ensure you complete Question 10 (the extension of time section) to set out why the objection was not lodged within the time limit. In response to this question, you should state that you have become aware of the recent *Bains AAT* case that decided that payments made under the Victorian Taxi Reform Fairness Fund are not assessable income.

As part of your objection, you must include:

- A statement that the objection relates to the Victorian Taxi Reform Fairness Fund.
- Evidence that you received the payment from the Victorian Taxi Reform Fairness Fund by the Victorian Department of Economic Development, Jobs, Transport and Resources, which includes:
  - the letter or email stating the outcome of your application
  - a bank statement showing receipt of the payment.
- The question number in the income tax return where you reported the payment as income and the payment amount.
- If other income was reported at that question, further information about that income and the amount.

If the interest in a Victorian taxi licence was held by an entity other than an individual (for example, a company, trust or partnership) and the payment was made to that entity, the entity may also have to lodge a separate objection form to adjust the amount in its income tax assessment.

Further information can be found at Decision Impact Statement: Bains and Commissioner of Taxation [2023] AATA 2477.

GST consequences of payments

Generally, there are no GST consequences in relation to the receipt of transitional payments or hardship payments if the licence holder:

- need only meet eligibility criteria
- doesn't change their behaviour in order to receive the payment.

There are also no GST consequences for payments received from the Victorian Taxi Reform Fairness Fund.

Passenger movement levies

In states and territories that have introduced passenger movement levies to fund industry assistance packages, additional income tax and GST issues arise.

Income tax consequences of levies

In some states the passenger movement levy is imposed on the service provider and levied on each trip at a flat rate. For example, in NSW, all taxi and booking service providers need to pay a temporary $1 levy on all point-to-point trips taken.

To recover the levy, the service provider may charge a fee to a third party (for example, a taxi operator or taxi driver) and that fee may be passed on to passengers.

If you are a third party collecting the levy on behalf of a service provider:

- include the amount charged to passengers in your assessable income in that income year
- you can claim an income tax deduction for the fee the service provider charged you in that income year.

The same rules apply to the service provider.

GST consequences of levies

Paying the levy doesn't attract GST. However, if the service provider or third party chooses to pass on the levy to passengers, it's treated as an increase in price for the supply of services. In that case, the on-charged amount will form part of the fare paid by a passenger and the GST to be remitted is calculated as 1/11th of the increased price.

The third party collecting the levy on behalf of a service provider may be entitled to a GST credit for the GST payable on the supply between the parties. This includes the GST on the increased price as a result of passing on the levy. This will depend on whether the supply is a creditable acquisition to the third party.

Pay as you go (PAYG) instalments

The transitional assistance and hardship payments and the passenger movement levies that are considered assessable income will also be instalment income for PAYG instalment purposes.

For licence holders who are paying PAYG instalments; if you pay using the:

- instalment rate method – you'll need to include this payment in your instalment income on your activity statement. If you've forgotten to put the payments in a previous activity statement, you can amend the instalment income for that statement prior to lodging your tax return.
- instalment amount method – you can continue to pay the normal amount. However, you should remember to set money aside to pay at the time of your tax return.

After you lodge your tax return, these payments will be included in the calculation of your next year's instalments. If the amount or rate is too high (as you won't be receiving any more payments) you can vary the instalment rate or amount you pay.

If you're not currently required to pay PAYG instalments, this payment may bring you into the instalments system after you lodge your tax return. If this occurs, we will let you know what your options are.

Labels to use in your tax return

Individuals should include the payments in the same label as previously used to declare income from holding a taxi licence (for example, **Item 15** Net income or loss from business or **Item 24 Label Y** Other income).

For companies, the payment should be included in **Label 6 Q** Assessable government industry payments.

For more information see Class Ruling CR 2017/15 *Income tax: assessability of payments from the Victorian Taxi Reform Hardship Fund*.

Fact sheets for licence holders

- NSW Transitional Assistance payments
- QLD Transitional Assistance payments

- VIC Transitional Assistance payments
- WA Transitional Assistance payments
- SA Transitional Assistance payments
- Perth metropolitan Voluntary Taxi Buyback Scheme payments
- Victorian taxi industry Fairness Fund payments

Need help?

- Phone us on **13 28 66**
- If you are experiencing difficulties or hardship in meeting your tax debts, refer to Help with paying

QC 52707

Motor vehicle expense records you need to keep

The records you need to keep for your business's motor vehicle expenses depend on how you calculate your claim.

Last updated 7 May 2025

The records you need to keep for your business's motor vehicle expenses depend on how you calculate your claim. You will generally need to keep:

- details of the kilometres travelled for business and private use
- receipts for fuel, oil, repairs, servicing and insurance cover
- loan or lease documents
- tax invoices
- registration papers
- details of how you calculated your claim.

If you are a sole trader or partnership using the logbook method, you will need to keep additional records.

Keep your records for 5 years.

QC 59384

Deductions for home-based business expenses

How to claim tax deductions for home-based business expenses if you operate some or all of your business from home.

Last updated 8 July 2025

What is a home-based business?

A home-based business is one where an area of your home is set aside and used exclusively as a place of business.

The types of expenses you can claim depend on how you operate your business out of your home and the business structure. You can only claim deductions for the business portion of your expenses.

If you do not have an area set aside and used exclusively as a place of business but you do some work from home, you may still be able to claim a deduction for some of your expenses relating to the area you use.

Be aware that you may have to pay capital gains tax (CGT) when you sell your home if you used part of your home for business purposes – remember to keep the right records to work out your deductions for CGT. If you are eligible, you may be able to reduce your CGT by applying the small business CGT concessions.

Remember, if your business is entitled to goods and services tax (GST) input tax credits, you must claim the deduction in your income tax return at the GST exclusive amount.

Home-based business expenses

If you operate some or all of your business from home, you may be able to claim tax deductions for the business portion of expenses.

These may include:

- running expenses (such as electricity, phone, decline in value of plant and equipment, furniture and furnishing repairs, cleaning)
- occupancy expenses (such as mortgage interest or rent, council rates, land taxes, house insurance premiums)
- the cost of motor vehicle trips between your home and other locations, if the travel is for business purposes.

For a summary of this content in poster format, download Home-based business expenses (PDF, 284KB).

Media: Claiming deductions home-based business expenses https://tv.ato.gov.au/ato-tv/media?v=bi9or7od7bgywi (**Duration:** 01:09)

Running expenses

Running expenses are the increased costs from using your home's facilities for your business.

You can claim running expenses if you run your business from home, such as in a separate study or a desk in a lounge room, even if it doesn't have the character of a 'place of business'.

Calculating your claim

There are several ways to work out your running expenses. You can use any method to calculate your running expenses, provided:

- it is reasonable in your circumstances
- you exclude your normal (private) living costs
- you have records to show how you calculated the business expense.

Actual cost method:

- where you can only claim based on receipts or other written evidence.

Fixed rate method:

- allows you to claim 70 cents for each hour you operate your business at home. This amount covers your deduction for energy expenses (electricity and gas), phone and internet usage, stationery, and computer consumables.

To use this method, you must keep a record of all the hours worked from home for the entire year, using a diary, spreadsheet, or similar document.

You can also claim a deduction for any other running expenses not covered by the rate, for example, cleaning your home office.

Floor area method:

- you can use the floor area method if you have an area of your home set aside as a 'place of business'. In addition to the floor area method, you can also claim a deduction for decline in value of the business-related portion of depreciating assets and equipment.

For more information, see Home-based business expenses – sole trader or partnership.

Depreciation (decline in value) of business assets

If you use the 70 cents an hour fixed rate method, you can separately claim a deduction for the decline in value of depreciating assets, such as laptops, mobile phones and office furniture.

If you use assets for both personal and business use, you need to apportion your business deprecation expenses from personal based on your pattern of use.

If you have an aggregated turnover of less than $10 million, you can choose to use the simplified depreciation rules. You may also be eligible for the $20,000 instant asset write-off in the 2023–24 and 2024–25 income year. Find out more at Simpler depreciation rules for small business.

Occupancy expenses

Occupancy expenses are expenses that you pay to own or rent your home.

You can only claim occupancy expenses if the area of your house set aside for your business has the character of a 'place of business' (including if most of your business is conducted online). Indicators that the area of your home that you've set aside is a place of business include:

- clearly identifiable as a place of business (such as a sign at the front of your house)
- not easily suitable or adaptable for private or domestic use
- used exclusively or almost exclusively for your business
- used regularly for business visits by your clients.

If you're eligible to claim occupancy expenses, you can also claim running expenses.

You usually calculate occupancy expenses based on the proportion of the floor area of your home that is a place of business and the proportion of the year it was used for business.

If you earn personal services income (PSI), you may not be able to deduct some occupancy expenses. To find out more, see Personal services income (PSI).

For more information, see Home-based business expenses – sole trader or partnership.

Records you need to keep

You need to keep complete and accurate records for at least 5 years to substantiate your claims for all of your home-based business expenses.

Type of business structure

Your business structure can affect the method you can use and the expenses you can claim, especially if your business is a company or trust.

Home-based business expenses – sole trader or partnership

How to claim occupancy and running expenses for the business use area of your home as a sole trader or partnership.

Home-based businesses expenses – company or trust

Home-based businesses run as a company or trust need a genuine, market-rate rental contract with the property owner.

Home-based business and CGT implications

If you use part of your home for business purposes, you may have to pay tax on any capital gain you make when you sell it.

QC 33864

Home-based business expenses – sole trader or partnership

How to claim occupancy and running expenses for the business use area of your home as a sole trader or partnership.

Last updated 3 July 2025

Determine if your home has a 'place of business'

You can claim both occupancy expenses and running expenses if you have an area of your home set aside as a ‘place of business’.

Signs that an area of your home has the character of a 'place of business' include:

- clearly identifiable as a place of business, for example, you have a sign identifying your business at the front of your house
- not readily suitable or adaptable for private or domestic purposes
- used exclusively or almost exclusively for carrying on your business
- used regularly for visits by your clients.

For example, a home hair salon business that is in the home but separate from the family living areas and has a dedicated entry for clients.

If you have an area of your home set aside as a place of business, you may have to pay tax on any capital gains you make when you sell your home. This applies even if you didn't claim a deduction for mortgage interest as an occupancy expense.

Occupancy expenses

Occupancy expenses are what you pay to own, rent or use your home.

They include:

- mortgage interest or rent
- council rates
- land taxes
- house insurance premiums.

You can only claim occupancy expenses if the area of your home set aside for your business has the character of a 'place of business'.

If you are eligible to claim occupancy expenses, you will also be able to claim running expenses.

However, if personal services income (PSI) rules apply to your business, you may not be able to claim occupancy expenses. You can use the PSI tool to work out whether you earned PSI, and if the PSI rules apply to that income.

Calculating occupancy expenses

You would usually calculate occupancy expenses based on the percentage of the floor area of your home that is a place of business and the proportion of the year it was used for business.

In some circumstances, you may not be able to work out the floor area of your home that is used for your business. We will accept an alternative method of working out how much of your home you use for business purposes, if the method you use is reasonable and based on accurate information.

Make sure you keep accurate records of how you worked out the occupancy expenses you claim as deductions.

If you're a sole trader with simple tax affairs, you can use the myDeductions tool in the ATO app to record your expenses.

Example: claiming occupancy expenses

Alex is a sole trader operating an auto electrical business from his home. He uses a workshop attached to his house to carry on his business. Alex installed signage on the workshop doors so that customers can easily identify his business. The workshop is used almost exclusively for his business and has the character of a 'place of business'.

Alex uses the PSI tool to work out that the PSI rules **do not** apply to his income.

Therefore, Alex can claim occupancy expenses.

Alex's workshop covers 10% of the floor area of his home and was used solely for business during the entire income year, so he can claim deductions for 10% of his occupancy expenses which include:

- mortgage interest
- house insurance premiums
- council rates.

Alex can also claim running expenses.

Running expenses

Running expenses are the additional costs of using your home for your business activities. You can claim these expenses if you run your business from home, even if you don't have an area of your home set aside as a 'place of business'.

They include:

- electricity charges for heating, cooling, lighting and to run electronic items used for work
- gas charges for heating
- mobile, home telephone and internet expenses
- stationery and computer consumables
- cleaning costs
- the decline in value (depreciation) and cost of repairs of
  - equipment, such as computers, tools and machinery
  - furniture, for example, chairs, desks and bookcases
  - furnishings, such as curtains, carpets, light fittings (you can only claim furnishings if you have a dedicated or separate room).

Calculating running expenses

To claim a deduction for running expenses, you need to work out the portion of the expense that relates to business use.

There are several ways to work out your running expenses. You can use any method to calculate your running expenses, provided:

- it's reasonable in your circumstances
- you exclude the percentage of costs for your private (normal) living costs
- you have records to show how you calculated the expense.

Your business use of the home area must be substantial and not incidental. For example, you can't claim electricity costs 24 hours per day simply because your fax machine is always on to receive business faxes.

If you're unsure of which method to use, you can calculate your expenses using each of these methods and choose the one that gives you the best result.

Fixed rate method

For the 2024–25 income year, the fixed rate is 70 cents per hour for each hour you work from home during the year. It covers the total of running expenses for usage of electricity, gas, internet, mobile and home telephone, as well as incidentals such as stationery and computer consumables, for the income year. This means you can't claim a separate deduction for any of these expenses.

The fixed rate method does not require you to have an area of your home set aside exclusively for business. It also allows you to separately claim the business-related portion of depreciating assets and equipment, including their repairs and maintenance costs.

If you choose to use the fixed rate method, you need to keep:

- a record of **all** hours worked from home for the entire income year (such as timesheets, roster or diary).
- evidence for each of the running expenses covered by the fixed rate method that you have incurred (for example, if you use your phone and electricity for your home-based business, keep one monthly or quarterly bill for each of these expenses)
- records of your personal and business-related use of your depreciating asset and other items not covered by the rate.

Example: using the fixed rate method as a sole trader

Harper is a sole trader who doesn't have a dedicated business premises. She travels to her clients' houses each day from home.

She does her bookkeeping in her dining room on a computer she purchased on 10 November 2024 that she only uses for her business.

Harper kept a detailed record of all hours she spent working from home for the period from 1 March 2025 to 30 June 2025. Harper calculates that she spent 480 hours this income year on her bookkeeping.

Harper claims:

- running expenses using the fixed rate of 70 cents an hour for 480 hours ($336)

- the cost of her computer, used only for her business under the simplified depreciation rules, because depreciation of computers is not covered by the fixed rate.

Harper can't claim:

- occupancy expenses, as she does not have a dedicated area for her business.

Floor area method

You can use the floor area method if you have an area of your home set aside as a 'place of business'.

The floor area method is often the most appropriate method to work out the business portion of running expenses, including:

- electricity
- gas
- cleaning.

To work out the percentage of your home that is a place of business, you divide the floor area set aside for business by the total floor area of the home. If that area was only a place of business for part of the year, you can only claim running expenses for the proportion of the year it was used for business.

If the business portion of your running expenses is calculated on anything other than the floor area (for example, on actual electricity use), you need to keep records which show how you worked out the amount you are claiming.

In addition to the floor area method, you can also claim a deduction for decline in value of the business-related portion of depreciating assets and equipment.

Example: sole trader using the floor area method

Ellen is a sole trader who runs an online business in the spare room (which is $10m^2$ and set aside exclusively for business) of her $560m^2$ home.

She spends $2,500 on electricity over the income year.

To work out how much she can claim as a deduction, she calculates the floor area of the spare room as a percentage of her entire home floor area and multiplies the result by the relevant expenditure:

> (Floor area for business use divided by the total floor area of home) x relevant expenditure
>
> $(10\text{m}^2 \div 560\text{m}^2) \times \$2,500 = \$44.64$

Ellen can claim $44.64 for the business portion of her annual electricity cost.

Actual cost method

You can use this method if you incur additional expenses running your business from home. You don't need to have an area set aside exclusively for business, but you do need to keep records which show the amount:

- you spend on expenses
- you spend on depreciating assets you buy and use
- of business-related use for your expenses and depreciating assets.

You must also keep all the receipts, bills and other documents which show the additional running expenses you incurred running your business from home.

This may include:

- heating, cooling and lighting
- phone and internet
- decline in value (depreciation) of assets.

To calculate the actual cost of your expenses, you need to work out the periods of time that you use an area in your home for business.

One way you may be able to do this is by keeping a diary for a representative 4-week period showing how you use your home area for business purposes. You can then apply that as a pattern of use for the whole year. However, don't forget to exclude periods when you were on holidays or not working because of illness.

If there's no regular pattern of how you use your home area for business, you must keep records of:

- each time you use the area during the year
- what the area was used for.

Heating, cooling and lighting

Work out the actual cost of your heating, cooling and lighting by using the:

- cost per unit of power used (your utility bill has this information)
- average units used per hour, which is the power consumption per kilowatt hour for each appliance, equipment or light used
- total annual hours used for business-related purposes by checking your record of hours worked or your diary.

Phone and internet

If you have a home telephone or mobile that you only use for your business, you can claim a deduction for all call, purchase and rental costs.

However, you can't claim for the cost of installing a home telephone as this is a capital expense. The same rule applies to installing your internet.

If you use your phone for both business and private calls, you can claim a deduction only for the business use portion of phone expenses. If you have an itemised phone bill, you can work out the business use portion of the costs by:

- counting the number of business calls you made and received and
- dividing it by the number of total calls made and received.

For internet expenses, you can claim the proportion of time or data you used your internet for business use.

If you don't have an itemised bill or a data breakdown, you can keep a diary for a representative 4-week period to work out your pattern of business calls or internet use throughout the year.

Example: working out the business use percentage of your bill

Cleo received a monthly bill for $200 from her phone provider. From her itemised bill, Cleo worked out that 160 of the 300 calls she made in March 2025 were directly related to her business.

Cleo worked out her business use percentage as 160 ÷ 300 = 0.53. She then applied this rate to her $200 bill ($200 × 0.53 = $106). Therefore, Cleo can claim $106 as a deduction.

Decline in value (depreciation) of assets

A depreciating asset is an asset that has a limited effective life and can reasonably be expected to decline in value over the time it is used.

For example:

- computers
- electrical tools
- photocopiers
- furnishings
- carpet and curtains.

If your business meets the eligibility criteria, you can immediately deduct the business portion of certain assets under the simplified depreciation rules. Otherwise, you may be able to claim a deduction for the decline in value of your depreciating assets under the general depreciation rules.

If you use the fixed rate method, you can separately claim a deduction for the decline in value of your depreciating assets (such as office furniture, computer equipment or laptops).

If you use the temporary shortcut method (for the 2019–20, 2020–21 or 2021–22 income years), you can't separately claim a deduction for the decline in value of depreciating assets or any other running expenses as they are included in the rate. When using this method, you must opt out of temporary full expensing for depreciating assets acquired after 6 October 2020.

Example: options for working out running expenses for a sole trader

Pam operates a business as a sole trader from her home. Her business is eligible to use simplified depreciation rules. She considers 2 different ways she can work out her deductions for her running expenses.

She bought a desk and chair on 1 July 2024 that she immediately uses only for work, has all her receipts and kept a record of all her hours worked from home.

Pam spends 30 hours a week (with 4 weeks of holidays a year) on her business and keeps all required records. She works out the business use portion of her home-based business expenses based on this established pattern of use.

Option 1 – running expenses using the actual cost method and simplified depreciation rules
Option 1 calculation

Option 1 calculation

Item	Cost	Deduction for this year
Decline in value of desk	Cost $880	$880
Decline in value of chair	Cost $266	$266
Electricity for 100W lamp	1c per hour for 30 hours a week for 48 weeks	$14.40
Electricity for 60W ceiling light	0.6c per hour for 30 hours a week for 48 weeks	$8.64
Electricity for computer	1c per hour for 30 hours a week	$14.40

	for 48 weeks	
Electricity for heating/cooling	9c per hour for 30 hours a week for 48 weeks	$129.60
Total deductible amount	-	**$1,313.04**

Using the actual cost method and simplified depreciation rules, Pam can claim $1,313.04 for the income year.

Option 2 – Running expenses using the revised fixed rate and simplified depreciation rules

Pam has the option of using the fixed rate method to calculate her business-related running expenses as she has a record of all hours worked from home for the entire income year and meets all the other record keeping requirements. Pam spent a total of 1,440 hours working from home.

As her business meets the eligibility criteria for the simplified depreciation rules, she can also claim the full cost of the desk and chair in the current year.
Option 2 calculation

Option 2 calculation

Item	Cost	Deduction for this year
Running expenses	70c per hour for 1,440 hours	$1,008
Decline in value of desk	Cost $880	$880
Decline in value of chair	Cost $266	$266
Total deductible	-	**$2,154**

amount		

Using the fixed rate method and simplified depreciation, Pam can claim $2,154 for the income year.

Apportionment for business purposes

If you use a depreciating asset only for business purposes, you can claim a full deduction for its decline in value. However, if you also use the asset for private purposes, you can only claim the business use percentage of the decline in value.

You can estimate your business use percentage based on a diary record of your business and private use of the asset for a representative 4-week period. Your diary record must show:

- what the asset was used for
- whether the use was for business or private purposes
- the period the asset was used for.

If you can claim a GST credit for a depreciating asset, you must first deduct the amount of the GST credit claim before working out the deduction for decline in value.

Example: partnership claiming running expenses

Vinh and Barbara are partners operating a business from their living room. They don't have an area of their home set aside exclusively for their business, so they can't claim occupancy expenses. However, they can claim running expenses associated with carrying on their home-based business, such as phone, internet, gas and electricity.

Vinh and Barbara have a separate phone line installed for their business. They can claim a deduction for their total phone rental and call expenses, but not for the installation.

They incur additional electricity and gas expenses from operating their business from home. They keep a diary for 4 weeks to work out their pattern of business use and then apply it for the entire year. They then use this pattern to work out the percentage of gas and electricity expenses they can claim. However, they can't claim gas and electricity expenses for times when others also use the living room.

They can also claim the ongoing cost of their internet connection, apportioned for any private use.

For more information, see:

- PCG 2023/1 *Claiming a deduction for additional running expenses incurred while working from home – ATO compliance approach*
- PS LA 2001/6 *Verification approaches for home office running expenses and electronic device expenses*
- TR 93/30 *Income tax: deductions for home office expenses*
- Motor vehicle expenses for a home-based business

QC 59276

Home-based businesses expenses – company or trust

Home-based businesses run as a company or trust need a genuine, market-rate rental contract with the property owner.

Last updated 7 May 2025

If you run your home-based business as a company or trust, your business should have a genuine, market-rate rental contract (or similar agreement) with the owner of the property. The agreement will determine which expenses the business pays for and can claim as a deduction.

If you have an area of your home set aside as a 'place of business', you may be able to claim both occupancy expenses and running expenses. Where you run your business from home and don't have an area specifically set aside for your business activities, you can still claim running expenses.

If personal services income (PSI) rules apply to your business, you may not be able to claim occupancy expenses. You can use the PSI tool to work out whether you earned PSI, and if the PSI rules apply to that income.

If there isn’t a genuine rental contract, there may be tax implications for the property owner and the business for providing benefits to them.

Implications when you are both the business owner and an employee

If you're both the business owner and also an employee of the business, and the business pays for or reimburses you for some of the expenses of running the business from home, you can't claim a deduction for the expenses in your individual income tax return.

The business will have to pay fringe benefits tax (FBT) if it pays or reimburses you for the expenses as an employee. Certain exemptions and concessions may apply to reduce the FBT liability. Additional records may need to be kept for FBT purposes.

Example: company with a rental contract

Gary is a music producer who runs his business – Gary's Tunes Pty Ltd – as a company from the home that he owns.

Gary's house has a dedicated studio space where he keeps his music recording and editing equipment and computer. He bought these using his company account and only uses them for the business.

Gary's Tunes Pty Ltd has a formal rental agreement with Gary to hire the studio for $500 per month. The rent covers use of the space and facilities, such as electricity. This is consistent with what it would cost the company to hire a similar studio elsewhere.

Gary's Tunes Pty Ltd claims tax deductions for:

- rent paid to Gary
- the full cost of the music equipment and computer as depreciating assets.

Gary must report the rental income that he receives from his company in his personal income tax return. He can claim a deduction for his expenses associated with making that income.

QC 59280

Home-based business and CGT implications

If you use part of your home for business purposes, you may have to pay tax on any capital gain you make when you sell it.

Last updated 3 February 2026

Home-based business and the main residence exemption

If you qualify for the main residence exemption, you don't pay tax on any capital gain when you sell your home and you ignore any capital loss.

Your eligibility for the main residence exemption may be impacted if you use any part of your home for income-producing purposes. You will only be entitled to a partial main residence exemption if the following apply:

- an area of your home is set aside and used exclusively as a place of business (you are running a home-based business)
- you are able to claim occupancy expenses
- aside from you running a home-based business, you satisfy the main residence exemption eligibility conditions.

In this case, the main residence exemption does not apply to any capital gain or capital loss referable to the portion of your home used in the home-based business. The amount of capital gain or capital loss not subject to the exemption is the same as the percentage for which you would have been able to claim a deduction for mortgage interest. This is generally worked out based on the percentage of the floor area of your home set aside for business.

Example: apportionment of occupancy expenses

Elena and Mathew bought their home 10 years ago. Since then, Elena has used 10% of the floor area exclusively to run a home-based business. Elena generally runs her business for the full year.

Elena is entitled to claim a deduction for occupancy expenses. Elena and Mathew don't have a mortgage, but if they did, she would be able to claim a deduction for mortgage interest. As Mathew isn't involved in the business, he is not entitled to a deduction.

Elena apportions her occupancy expenses on a floor area basis to work out her deduction. Elena uses 10% of the home's floor area to run a home-based business, so she claims a deduction for 10% of her occupancy expenses.

If Elena continues to use her home in the same manner, and assuming they meet all eligibility conditions for the main residence exemption, Elena will apply the main residence exemption to disregard 90% of any capital gain or capital loss she makes from selling her home.

Elena can't apply the main residence exemption to disregard the remaining 10% of any capital gain or capital loss. However, she can apply the capital gains tax (CGT) discount to reduce any remaining capital gain.

As Mathew hasn’t used the house for the purpose of producing assessable income, he would be entitled to apply the full main residence exemption to disregard all of any capital gain or loss he makes from them selling their home.

Example: full main residence exemption

Olga is the sole owner of her home, which she bought 10 years ago.

Olga runs a digital marketing business as a sole trader. From the time she purchased her home, Olga has performed most of her work from her home office, where she also stores some physical business records. When Olga needs to meet clients in person, she visits their business premises.

When Olga isn’t using her home office for work, she and her partner James use the space to study. They both store personal items in the home office.

Olga doesn’t have an area of her home set aside and exclusively for business. Therefore, she isn’t entitled to claim a deduction for mortgage interest or other occupancy expenses.

If Olga meets all eligibility criteria for the main residence exemption, she can disregard any capital gain or capital loss she makes when she sells her home.

Home-based business and the small business CGT concessions

In most cases, the mere running of a home-based business will not be sufficient to be meet the eligibility criteria to apply any of the small business CGT concessions to disregard, reduce or defer any capital gain you make from selling your home.

To apply the CGT concessions, you must meet the eligibility conditions, meaning that your home must be an active asset. As the active asset test must be applied to the asset as a whole, not just the portion used in business, in practice it will be rare that a property whose main use is private (as a home) will qualify.

Example: partial main residence exemption, ineligible for the small business CGT concessions

Harriet owns a 3 bedroom, 2 bathroom home.

Harriet is employed part-time as a teacher's assistant. She also runs a hairdressing salon as a sole trader.

Since buying the home, she converted a bathroom into a salon to use in her business. She lives in the remainder of the home.

The salon occupies 7% of the total floor area of the home. Harriet sees clients in the salon for approximately 8 hours per week. She occasionally performs business admin, for convenience, in the loungeroom.

In this case, Harriet has an area of her home, the salon, set aside and used exclusively for business. Aside from the salon space, she has not used the home to produce income. She is now considering selling her home.

As Harriet uses part of the home exclusively to produce assessable income, she is entitled to a deduction for any occupancy expenses she incurs, including mortgage interest, to the extent that they relate to the portion of the home used to produce income (7%).

Provided Harriet meets all other eligibility criteria, she will be entitled to a partial main residence exemption (93%) when she sells her home. As she could deduct 7% of her occupancy expenses, she will not be entitled to disregard all of the capital gain, and will instead have proceeds equal to 7% of the gain.

Harriet can then apply the CGT discount to reduce any remaining capital gain.

However, Harriet cannot apply the small business CGT concessions as the property is not an active asset. When applying the active asset test, the whole of the asset must be considered, not just the portion used in the business. As the business-related use of the home is incidental to its overall private use, the home wouldn't be considered an active asset.

Example: partial main residence, eligible for the 15-year exemption

In 1990, Sue and Rob bought a 2-storey building as joint tenants. The building is on a small block facing the local esplanade and has neighbouring shops on each side.

From the time Sue and Rob bought the property, they have used:

- the ground floor of the building solely to run a takeaway and convenience store
- the top floor of the building solely as their main residence.

The ground and top floors of the building comprise 50% of its total floor area each.

Sue and Rob run the takeaway and convenience store business in partnership with each other and employ a few casual employees at any one time.

Sue and Rob have owned the property and run the business from it continuously since the time they bought it.

Sue and Rob are both over 55 years old and are considering retirement. Their retirement plan involves them selling the property and buying a beachfront apartment in the local area.

Given all the circumstances, the property will qualify as an active asset. If they meet all eligibility conditions, Sue and Rob will each be able to apply the small business 15-year exemption to disregard any capital gain they make on selling the property.

If the 15-year exemption applies, their entire capital gain will be disregarded and they will not need to consider the main residence exemption.

Deductions for business travel expenses

You can claim a tax deduction for expenses you incur travelling for your business.

Last updated 1 July 2025

Expenses you can claim

As a business owner, the general rule is that you can claim deductions for expenses if you or your employee are travelling for business purposes.

Your business can claim a deduction for travel expenses related to your business, whether the travel is taken within a day, overnight, or for many nights.

Expenses you can claim include:

- airfares
- train, tram, bus, taxi, or ride-sourcing fares
- car hire fees and the costs you incur (such as fuel, tolls and car parking) when using a hire car for business purposes
- accommodation
- meals, if you are away overnight.

To claim expenses for overnight travel, you must have a permanent home elsewhere and your business must require you to stay away from home overnight.

If you are entitled to goods and services tax (GST) input tax credits, you must claim your deduction in your income tax return at the GST exclusive amount.

For a summary of this content in poster format, see Travel expenses (PDF, 362KB).

Expenses you can't claim

You can only claim the business portion of business travel expenses. You must exclude any private expenses, such as:

- a holiday or visit to family or friends that is combined with the business travel
- the expenses associated with you or your employee taking a family member on the trip
- souvenirs and gifts
- sightseeing and entertainment
- visas, passports or travel insurance
- travel expenses that arise because you are relocating or living away from home
- travel undertaken before you started running your business.

Claiming a tax deduction for motor vehicle expenses provides information about business motor vehicle expenses and travelling to and from your places of business.

Media: Business deductions – Travel expenses: Tax basics for small business
https://tv.ato.gov.au/ato-tv/media?v=bd1bdiubfw7bqp (**Duration:** 01:23)

How to claim employee travel expenses

If your employees travel for your business, the business must actually pay for the travel expense to be able to claim it as a deduction. The business can pay for the expense by:

- paying directly for the expense from the business account
- paying a travel allowance to the employee
- reimbursing the employee for their expenses.

Fringe benefits tax (FBT) may apply if your business pays for or reimburses your employees for their travel expenses. Certain exemptions and concessions may apply to reduce your FBT liability. For example, your business may not have an FBT liability if it reimburses an employee for their travel expenses to attend a work conference, which the employee would have been able to claim as an income tax deduction if you hadn't reimbursed them.

You will be liable for FBT if your employee extended their travel for private purposes and you reimburse the employee for these private costs. If your business provides benefits to your employees, you must keep records that show how you calculated the taxable value of the benefits and support any FBT exemptions or concessions you used. You may also need to obtain some records from the employee.

If you are the director of a company and the business pays for private portions of your travel expenses, there may also be Division 7A implications.

If you pay your employees a travel allowance or a living-away-from-home allowance, there are different considerations.

Travel diaries

A travel diary is:

- compulsory for sole traders and partners in a partnership to record overnight business travel expenses
- highly recommended for everyone else.

Sole traders and partners in a partnership

If you are a sole trader or a partner in a partnership and you travel for 6 or more consecutive nights, you **must** keep a travel diary or similar document before your travel ends, or as soon as possible afterwards. In your travel diary, record the detail of each business activity including:

- what the activity was
- the date and approximate time the business activity began
- how long the business activity lasted
- the name of the place where the business activity occurred.

Your travel diary can be in any format as long as it contains sufficient detail to justify what you are claiming.

Example 1: Rebecca

Rebecca owns a business as a sole trader landscape gardener. She is invited to exhibit at the Chelsea flower show in England. This involves six days of work representing her business at the show. After the show is finished, Rebecca spends some time sightseeing.

Rebecca's son James joins her on her trip. James is not involved in the business and spends the days exploring London while Rebecca is at the Chelsea flower show.

As Rebecca is travelling for more than six nights, she keeps the below travel diary.

Travel diary for May:

- Saturday 9 May – 10:00 am flight Q13 to London (via Dubai)
- Sunday 10 May – Arrive London 1.00pm local time. Bus to hotel in Chelsea 3:00 pm
- Monday 11 May – Rest day
- Tuesday 12 May – Chelsea flower show set-up day from 9:00 am
- Wednesday 13 May – Chelsea flower show day 1
- Thursday 14 May – Chelsea flower show day 2
- Friday 15 May – Chelsea flower show day 3
- Saturday 16 May – Chelsea flower show day 4
- Sunday 17 May – Chelsea flower show day 5, ends 5:00 pm
- Monday 18 May – Sightseeing in London
- Tuesday 19 May – Sightseeing day trip to Oxford
- Wednesday 20 May – Bus to airport. Flight home Q23 6:00 pm from London, arrive 10:00 pm local time.

This shows that Rebecca travelled for 12 days. She spent the majority of the time on business related activities and took the opportunity to do some sightseeing while in London for two extra days. Rebecca can only claim deductions for the business-related portion of her travel.

Rebecca can claim:

- the return airfare to London (which does not have to be separated out as the primary purpose of her travel is for business, the sightseeing was incidental)
- her bus fares to and from the airport
- the costs associated with working at the Chelsea flower show including the exhibitors fee and transport to and from the location from her hotel
- Rebecca's accommodation in Chelsea up to and including 17 May
- meals and incidental costs on the days she attended the Chelsea flower show.

Rebecca cannot claim:

- accommodation, meals or transport expenses on the days noted for sightseeing
- additional private costs from the whole of her time away (such as souvenirs)
- costs of visas, passports or travel insurance
- any of James' expenses (such as his airfares, the cost of his meals or the cost of an extra hotel room for James).

Example 2: Noah

Noah owns a business as a sole trader interior designer and decorator. He lives and works in Perth. A new customer has asked him to design and decorate her home in Broome. This will take two weeks to complete.

Noah flies to Broome on Sunday evening and returns to Perth two weeks later. On the weekend he does some sightseeing and catches up with friends. He keeps the following diary:

- Sunday: Fly to Broome (depart 4:00 pm, arrive 6:30 pm)
- Monday 2 September: Purchase decorating supplies 9:00 am – 10:30 am. Working at client's house 10:45 am – 4:00 pm
- Tuesday 3 – Friday 6 September: Working at client's house 7:30 am to 4:00 pm
- Saturday: Day trip to Horizontal Falls. Dinner with Pam and Geoff
- Sunday: Sightseeing around Broome
- Monday 9 – Friday 13 September: Working 7:30 am to 4:00 pm at client's house
- Saturday: return flight to Perth (depart 10:00 am, arrive 12:30 pm).

Noah can claim:

- his return airfare to Broome and taxi to his hotel and from hotel to airport
- accommodation in Broome for all nights (as the weekend in between was incidental and the primary purpose of travel was for business)
- costs of undertaking his work in Broome (such as hire of tools)
- meals and incidental costs of his work.

Noah cannot claim his private expenses, including:

- the cost of the sightseeing he does on the weekend
- the dinner he has with friends.

Companies and trusts

If your business is a company or a trust, we highly recommend you use a travel diary as it will help you work out the proportion of the travel that was for private purposes.

Records for business travel expenses

Keep records for 5 years to substantiate your business travel expenses, including:

- tax invoices
- boarding passes
- tickets
- travel diaries
- details of how you worked out the private portion of expenses.

If you're a sole trader with simple tax affairs, you can use the myDeductions tool in the ATO app to record your business-related expenses.

QC 44448

Deductions for digital product expenses

As a business owner, you can claim a tax deduction for the cost of digital products used in running your business.

Last updated 3 July 2025

About deductions for digital product expenses

- The type of expense – operating expense or capital expense – determines when you claim your deduction.
- Your business may be eligible to claim an immediate or accelerated deduction for a capital expense using a tax depreciation incentive.
- You can only claim deductions for the portion of your expenses that relate to running your business.
- You must keep records to prove your expenses and how you calculated your claim.

What expenses you can claim

As a business owner, you can claim a tax deduction for the cost of digital products used in running your business.

There are 2 types of expenses you can claim – operating expenses and capital expenses. The type of expense determines when you claim your deduction.

You must apportion your expenses between business and private use, only claiming a deduction for the business portion.

For a summary of this content in poster format, see Digital product expenses (PDF, 248KB).

Operating expenses

Operating expenses are the expenses you incur in the everyday running of your business.

Examples include:

- internet service provider fees
- software subscription fees – for example, accounting, cybersecurity, point of sale (POS), learning, job, client and inventory management software

- cost of running a website – for example, site maintenance that preserves its character
- file-sharing services
- cloud storage
- lease payments.

You claim most operating expenses as a tax deduction in the year you incur them.

Example: scanner and photocopier lease

On 1 November 2024, Flowers R Best Pty Ltd entered a 12-month lease agreement for a scanner and photocopier. The monthly fee is $100.

Flowers R Best Pty Ltd can claim the lease cost as an operating expense in its 2024–25 tax return.

It does not qualify as a capital expense because ownership of the assets sits with the entity leasing them to Flowers R Best.

Capital expenses

Capital expenses are either:

- the expense of a depreciating asset – including the amount you paid for the asset and the expense of transporting and installing it
- an expense associated with establishing, replacing, enlarging or improving your business.

Examples include:

- computers and computer accessories
- mobile phones and tablets
- connectivity boosters
- cameras
- Point of sale (POS) machines

- in-house software
- cost of acquiring or developing a website.

You generally claim capital expenses over time, reflecting the asset's depreciation (decline in value).

Your business may be eligible to claim an immediate deduction for a capital expense under the simplified depreciation rules.

Example: laptops hire purchase

B Co Pty Ltd has an aggregated turnover of $9.5 million. The company purchased multiple laptops on a hire-purchase agreement, for its staff to work away from the office. The total cost (excluding any interest component) was $19,500.

The laptops were purchased on 15 March 2025, delivered on 19 March 2025, and immediately issued to staff for business use.

The hirer of the assets is treated as the holder of the assets under the hire-purchase agreement and is entitled to claim a deduction for the depreciation of a capital expense.

B Co Pty Ltd can claim the full purchase price of the laptops ($19,500) in the 2024–25 income year under the instant asset write-off because:

- it is the holder of the laptops under the hire-purchase agreement
- its aggregated annual turnover is less than $10 million
- the laptops were purchased between 1 July 2023 to 30 June 2025
- the laptops were first installed ready for business use before 30 June 2025
- the cost of the laptops is less than the $20,000 limit.

B Co Pty Ltd can also claim the interest component as an operating expense.

Software expenses

You can claim some software costs as operating expenses in the year you incur them, including:

- software subscription fees
- the cost of commercial off-the-shelf software with an effective life of one year or less.

If the effective life is more than a year, you need to consider if it is in-house software.

Example: software subscription

Zoe's hair salon subscribes to a software as a service (SaaS) provider, which allows her to access software for up to 300 of her customers per month to book appointments online. It is a standardised, cloud-based service where no modifications to her IT infrastructure were required.

Zoe can claim the month-by-month fee for this service as an operating expense in the year she incurs them.

In-house software

In-house software is computer software, or the right to use computer software that you acquire, develop or have someone else develop for your business use, not for sale.

Deductions for in-house software may be claimed in a number of ways, depending on the circumstances and your eligibility to use a tax depreciation incentive, such as simplified depreciation rules.

If the software is still in development and is not ready for use, you can use the software development pool rules. Once you make the choice to allocate these expenses to a software development pool, you must allocate all later in-house software expenses to a pool.

Example: in-house software – software development pool

Nguyen is a sole trader who runs an interior design business. He set up a software development pool in 2022 when he started his business's website. In August 2022 he paid $1,500 to have customised software developed to create bookings and store client information.

Nguyen must allocate this expenditure ($1,500) to a software development pool and claim a deduction over the next 5 years in his tax returns.

Calculating your claim

When calculating your claim, you must apportion your expenses between business and private use, only claiming a deduction for the business portion.

If you are registered for goods and services tax (GST) and can claim the full GST credit, you must exclude the GST amount of the asset.

Records you need to keep

You must keep accurate records to substantiate your claims for digital product expenses. This includes:

- tax invoices
- loan or lease documents
- details of how you calculated your claim.

QC 69800

Deductions for salaries, wages and super contributions

How business owners can claim a tax deduction for employee salaries, wages and super contributions.

Last updated 17 April 2026

When you can claim a deduction

As a business owner, you can generally claim a tax deduction for:

- the salaries and wages you pay to employees
- super contributions you make on time to a complying super fund or retirement savings account for your employees and for certain contractors.

Salary and wage expenses are a type of operating expense (sometimes called working or revenue expense).

If you're a sole trader, you can usually claim a deduction for your own super contributions in your personal tax return.

If you're thinking of hiring, or have already hired, someone to work in your business, understand your tax and super obligations when engaging a worker.

Labour costs for constructing or creating tangible and intangible capital assets can’t be claimed as an immediate tax deduction. Capital asset labour costs are considered capital in nature and may be claimed as part of your depreciation or capital works expenses.

Salaries and wages

As the business owner, the deductions you can claim depend on the type of business you operate.

Generally, to claim a deduction for payments you make to your workers, you must first comply with the PAYG withholding and reporting obligations for each payment.

You can remove tax deductibility of non-compliant payments if you complied with PAYG withholding and reporting obligations.

If your income includes personal services income (PSI), the amount you can claim as a deduction for payments you make to an associate may be limited.

Sole traders

If you operate as a sole trader, you are the business owner and not an employee of your business. This means you can't pay yourself a salary or wage. Any nominal payment of a salary or wage to you is considered a distribution of profit.

Partnership business

If you operate your business as a partnership, you can't pay yourself salary or wages. This is because you are a partner, not an employee. Any nominal payment of a salary or wages to a partner is considered a distribution of profit.

Company or trust

If you operate your business as a company or trust, your company or trust can generally claim a deduction for any salaries and wages paid to you or other workers.

Contractors

If you engage a contractor to complete a service for your business, you may be able to claim the amount you pay them as a deduction.

Super contributions for your workers

You can claim a deduction for super contributions you make on time to a complying super fund or retirement savings account for your employees and for certain contractors.

To work out which contractors this applies to, use How to work it out – employee or contractor.

The amount you can claim may be limited if your income includes PSI.

As a business owner, we understand how busy you are managing and growing your business as well as meeting your employer obligations.

Remember to plan for your own future. Super can make a positive difference to your lifestyle in retirement.

You may be able to claim a deduction (in your personal tax return) for your personal super contributions. You may also be eligible for government super contributions such as the super co-contribution or low-income super tax offset.

Visit Super for employers to work out how much super you must pay your employees.

To find out more about super contributions see:

- Personal super contributions
- Government super contributions

The new super guarantee charge

With the introduction of Payday Super, from 1 July 2026 you can claim a deduction for an amount of super guarantee charge that you pay.

You can't claim a deduction for any penalties or interest that accrues after an assessment of super guarantee charge. See The new super guarantee charge to learn more.

QC 33728

Deductions for repairs, maintenance and replacement expenses

Check what deductions your business can claim for repairs, maintenance, and replacement expenses.

Last updated 20 June 2024

You can claim a tax deduction for expenses relating to repairs, maintenance or replacement of machinery, tools or premises you use to produce business income, as long as the expenses are **not** capital expenses. A capital expense is money spent to purchase assets like plant and equipment.

What you can claim

You can claim expenses from allowable repairs, maintenance or replacement, including:

- painting
- conditioning gutters
- maintaining plumbing

- repairing electrical appliances
- mending leaks
- replacing broken parts of fences or broken glass in windows
- repairing machinery.

You don't have to own the property or item that is repaired in order to claim a deduction. A repair is one that restores the efficiency of function of the asset without changing its character, in order to maintain it in its original state. For example, you can fix defects or renew parts but you can't totally reconstruct something.

What you can't claim

You can't claim capital expenses, such as:

- substantial improvements to an item or property – for example, installing a new ceiling
- repairs made to machinery, tools or property immediately after you purchase or acquire them – this is because the price you paid reflects the item's condition.

You can generally claim a deduction for capital expenses under the:

- general depreciation provisions – for items
- capital works provisions – for property.

QC 33727

Deductions for other operating expenses

Operating expenses for the everyday running of businesses are generally deductible in the year you pay for them.

Last updated 13 November 2024

Operating expenses

Operating expenses are the expenses you have paid for (incurred), or have to pay for (incur), in the everyday running of your business. Examples include office stationery, renting premises and purchase of trading stock. These expenses are sometimes called working or revenue expenses.

You can generally claim a tax deduction for most operating expenses associated with running your business in the same income year you incur them. Ensure you keep accurate and complete records of these expenses as they occur.

You can only claim the business portion of these expenses if they relate to both business and private use, for example mobile phone calls.

General business operating expenses

Operating expenses that are common in business include:

- purchases of trading stock, including delivery charges
- advertising and sponsorship
- public relations
- legal expenses, such as those incurred defending future earnings, borrowing money, discharging a mortgage or obtaining tax advice
- tender costs, even if the tender is unsuccessful
- bad debts
- bank fees and charges
- annual fees charged by statutory bodies (for example, ASIC)
  - penalties and fines imposed by statutory bodies as a result of breaches of an Australian law are not deductible (for example, late payment fees are usually penalties)
- insurance premiums, including accident or disability, fire, burglary, professional indemnity, public risk, motor vehicle, loss of profits insurance, or workers compensation

- interest on money borrowed for
  - producing assessable income or purchasing income-producing assets
  - income tax obligations, employer super contributions, or late payment or lodgment of tax
- lease expenses
- stationery
- small-value mobile phone and tablet accessories
  - for example, protective covers and earphones
- costs for running a commercial website
  - for example, site maintenance and content updates
- internet service provider fees
- subscription fees for off-the-shelf software
- transport and freight
- waste removal and recycling
- parking fees (but not parking fines)
- small-value items costing $100 or less.

Other expenses (similar to those claimed by employees)

As a business owner, you are also able to claim deductions for some business expenses that are the same as those that can be claimed as a deduction by employees, including:

- union dues and subscription fees to trade, business or professional associations
- clothing expenses (corporate wardrobes or uniforms and occupation-specific and protective clothing)
- expenses relating to education and technical or professional qualification

- subscription costs for business or professional journals, information services, newspapers and magazines
- costs for sunglasses, sunhats and sunscreen when your business activities require outdoor work
- other items that protect you or your employees from a health or injury risk in your work environment
- gifts and donations to organisations that have a deductible gift recipient (DGR) status.

Operating expenses from employing people

Expenses associated with employing people including:

- salary, wages and super
- fringe benefits, including the cost of any fringe benefit provided and the associated fringe benefits tax
- protective clothing required for employees to carry out work activities
- allowances and reimbursements paid to employees who use their own mobile device for work purposes
- travel expenses for relocating employees
- losses due to misappropriation of money by an employee or agent, for example, fraud, theft or embezzlement.

Business premises operating expenses

Business premises operating expenses include:

- electricity
- landline phone calls and line rental
- mobile phone calls (prepaid or as part of a plan)
- internet service fees
- data plans

- cloud storage
- water
- renting or leasing business premises
- rates
- land tax.

If you incur expenses associated with setting up and using your Digital ID to access our online services in the course of running your business, such as phone and internet expenses, you may be able to claim tax deductions for the business portion of those expenses.

Tax-related operating expenses

Tax-related expenses include:

- registered tax agent and accountant fees
- tax-related expenses, such as
  - having a bookkeeper prepare your business records
  - preparing and lodging tax returns and activity statements
  - objecting to or appealing against your assessment
  - attending an ATO audit
  - obtaining tax advice about your business
  - credit card/charge card payment fee associated with paying a business tax liability, for example, GST liability.

Remember you need to keep records to substantiate your claims.

QC 33867

Deductions for depreciating assets and capital expenses

When businesses can claim tax deductions for depreciating assets and other capital expenses.

Last updated 29 May 2025

When to claim a deduction

If a depreciating asset is used in gaining your assessable income, generally you can claim deductions for its decline in value over time.

You can apply the general depreciation rules to calculate your deduction for most assets. If you are a small business entity, you can use the simplified depreciation rules.

If you do not use the simplified depreciation rules, you can calculate the decline in value of some low-cost and low-value assets by allocating them to a low-value pool and depreciating them at a set annual rate.

Ensure you keep accurate and complete records of all expenses you claim deductions for.

Depreciating assets

A depreciating asset:

- has a limited life expectancy (effective life)
- can reasonably be expected to decline in value (depreciate) over the time it is used.

Types of depreciating assets

Examples of assets that depreciate:

- machinery (machines and mechanical tools) and equipment, such as EFTPOS machines, welding machines, air purifiers, steam cleaners and laminators
- motor vehicles
- furniture, carpet and curtains
- computers and computer accessories, including keyboards
- landline phones and headsets
- mobile phones, tablets and styluses.

These assets can be ones you either:

- already personally own and bring into your business, or
- purchase in your business to produce assessable income.

For example, if you purchase a device to use a Digital ID, such as myID, and ATO online services while running your business, you can claim deductions for the business portion of those expenses.

For more, see our Guide to depreciating assets 2025.

Types of assets that do not depreciate

Examples of assets that do not depreciate include:

- land
- trading stock items
- most intangible assets (for example, trademarks as they are not intellectual property).

However, certain improvements to land and fixtures (for example fences) on land are depreciating assets.

When depreciation is already included

The amount you claim already includes depreciation if you:

- are a sole trader or eligible partnership, and
- use the cents per kilometre method to claim a deduction for the business expenses of running a car.

You can't claim depreciation of the car again separately.

Temporary tax depreciation incentives

Eligible businesses may be able to claim an immediate or accelerated deduction for the business portion of the cost of an asset that was first used or installed ready for use by you for a taxable purpose on or before 30 June 2026 using one of these temporary tax depreciation incentives:

- temporary full expensing
- instant asset write-off

For a high-level snapshot to help you work out how these incentives may apply, see Interaction of tax depreciation incentives.

Determining the effective life of depreciating assets

The decline in value of a depreciating asset is generally based on the asset's effective life. The effective life is broadly the period the asset can be used by anyone for income-producing purposes.

To determine the effective life of most depreciating assets, you can:

- use the Commissioner's effective life determinations
- make your own estimate.

If the Commissioner's effective life determination does not work for your circumstances, or there isn't one for your asset, you must make your own effective life estimate.

If you use the Commissioner's effective life determinations, they will not be challenged in any audit process. If you estimate the effective life, we may ask you to explain how you worked it out.

Claiming a deduction for decline in value

You can claim a deduction for depreciating assets decline in value each year over the effective life, unless you are eligible to claim a deduction using one of the temporary depreciation incentives.

If you are a small business entity that has elected to use the simplified depreciation rules, depreciating assets you cannot claim an immediate deduction for must be allocated to a small business depreciation pool.

The amount you can claim will generally be less if you:

- own the asset for less than one year
- only partly use the asset for business purposes – for example, if you use it for 60% business purposes and 40% private purposes, you can only claim 60% of its total decline in value
- own the asset for some time before you start the business – work out how much the asset has declined in value before you started using it in your business and then work out the amount you can claim.

There are exceptions to the general depreciation rules, such as those that apply to capital works (for example, building construction costs and building improvements).

For help calculating the deduction from a depreciating asset or claims you are entitled to for capital allowance and capital works purposes, use our Depreciation and capital allowances tool.

Example: depreciating asset initially used for a non-taxable purpose

Robyn purchased a laptop on 1 July 2024 for $4,000 and immediately used it wholly for private purposes.

She started a new business on 1 July 2025 and began using the laptop in her business. She only used it 50% for business purposes. Robyn does not elect to use simplified depreciation.

Her laptop started to decline in value from 1 July 2024 as that was the first day it was ready for use. She needs to work out the decline in value from that date.

Robyn can only claim a deduction for the decline in value from 1 July 2025 when she started using it for a taxable purpose and she can only claim a deduction for 50% of the decline in value for the business use.

She uses the prime cost method to work out the decline in value and adopts the Commissioner's effective life determination of 2 years.

The laptop's decline in value before she started using it in her business to produce assessable income in the 2025–26 income year is calculated as:

$4,000 × (365 days ÷ 365 days) × (100% ÷ 2 years) = $2,000

Robyn cannot claim a deduction for this amount.

The laptop's decline in value in the 2025–26 income year is $4,000 × (365 days ÷ 365 days) × (100% ÷ 2 years) = $2,000.

As she only partly uses the laptop for businesses purposes, she calculates her deduction for the 2025–26 income year by multiplying the decline in value for the year by her taxable use percentage (50%).

Her deduction for the laptop's decline in value is $2,000 × 50% = $1000.

Capital works construction expenses

You can claim a deduction over a number of years for construction expenses and other capital works used for producing income, including:

- new buildings or extensions, alterations or improvements to an existing building
- alterations and improvements to a leased building, including shop fit outs and leasehold improvements
- structural improvements such as sealed driveways, fences and retaining walls
- earthworks for environmental protection, such as embankments.

Website expenses

If you create or maintain a website for your business, you can claim the associated expenses as a deduction.

If eligible, you can claim an immediate deduction for the cost of acquiring or developing a website under the temporary tax depreciation incentives. If you are not eligible you claim a decline in value deduction for these costs over time. If you choose to allocate expenditure on your website to a software development pool, the expenses have an effective life of 5 years (if you incur them on or after 1 July 2015).

You can also claim a deduction for some ongoing expenses associated with running and maintaining your website in the year they occur, including:

- domain name registration fees
- server hosting expenses.

Refer to TR 2016/3 *Income tax: deductibility of expenditure on a commercial website*.

Software expenses

You can claim the cost of commercial off-the-shelf software as a deduction either:

- in the year you purchase it – if the software has an effective life of one year or less or you are eligible to claim an immediate deduction

using a depreciation incentive
- over several years – if the effective life is more than a year.

If you acquire software under a subscription, you can deduct this fee in the year you incur it.

Special rules apply to in-house software you acquire or develop for your business use.

Other capital expenses

You may be able to claim a tax deduction for expenses related to the cost of setting up or ceasing a business. This is commonly known as black-hole expenditure.

You can only claim a deduction for black-hole expenditure if all the following apply:

- You cannot claim a deduction for the expenses under another provision of the tax law.
- A deduction for the expense is not denied under another provision of the tax law.
- The business is, was or is proposed to be carried on for a taxable purpose.
- You claim a deduction for the cost of setting up or ceasing a business over 5 years If you meet additional criteria, you can claim an immediate deduction for eligible expenditure.

Taxpayers eligible for immediate deduction

If you meet the additional eligibility, you can claim an immediate deduction for eligible cost of setting up a business, rather than over 5 years. The eligible costs are certain professional advice and services and certain payments to Australian Government agencies.

You are eligible for the immediate deduction for these expenses if, in addition to the basic criteria above, you carried on a business in the income year and were either a small business entity or have an aggregated turnover of less than $50 million.

Alternatively, you are eligible for the immediate deduction in an income year if, in addition to the basic criteria above, you are not carrying on a business in the income year and are not connected with, or an affiliate of, an entity that carries on a business that is not a small business entity or has an aggregated turnover of more than $50 million.

You can deduct expenditure you incur for a business that used to be, or is proposed to be, carried on by another entity, such as a company you own, 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 you deriving assessable income from the business and the business that was carried on or is proposed to be carried on.

Professional advice and services

Advice and services from professionals, such as lawyers and accountants, that may be immediately deductible under these rules include:

- advice on a business structure
- setting up legal arrangements or business systems
- advice on business viability (including due diligence if a business is being purchased)
- development of a business plan.

You cannot claim the cost of acquiring assets used in the business under these rules.

Payments to Australian Government agencies

You may also be entitled to an immediate deduction for fees, taxes or charges paid to an Australian Government agency that relate to establishing the business or its operating structure. Examples include the costs associated with creating the entity that may operate the business (such as the fee for creating a company) and costs associated with transferring assets to the entity which is intended to carry on the proposed business (for example, the payment of stamp duty). It does not include expenditure relating to taxes of general application such as income tax.

Capital asset labour costs

Capital asset labour costs (such as salary, wages and other amounts for labour) are those incurred in the construction or creation of profit-generating:

- tangible assets – such as land, plant and property
- intangible assets – such as scientific or technical knowledge, design and implementation of new processes or systems, licenses, intellectual property, market knowledge and trademarks (including brand names and publishing titles).

Unlike other labour costs, which can generally be claimed as an immediate tax deduction because they're considered revenue in nature, labour costs incurred specifically in the construction or creation of capital assets are considered capital in nature.

This won't apply to labour costs for employees whose roles or functions might only have an incidental or insignificant role with creating or constructing your capital assets.

If your employees have mixed duties, you'll need to apportion your deduction between:

- immediately-deductible labour costs – not related to constructing or creating capital assets
- capital asset labour costs – which may instead form part of the cost of a depreciating asset or capital works and be claimed as depreciation or a capital works deduction.

To help you work out the tax treatment of labour costs where the employee performs a mix of functions and practical guidance about what records and information you'll need to keep, see Taxation Ruling TR 2023/2 *Income tax: application of paragraph 8 1(2)(a) of the Income Tax Assessment Act 1997 to labour costs related to the construction or creation of capital assets.*

Digital ID - claiming deductions for phone and internet expenses

Business tax deductions available for device and internet expenses related to using a Digital ID, such as myID.

QC 33866

Digital ID – claiming deductions for phone and internet expenses

Business tax deductions available for device and internet expenses related to using a Digital ID, such as myID.

Last updated 7 May 2025

If you incur expenses associated with setting up and using your Digital ID to access our online services in the course of running your business, you may be able to claim tax deductions for the business portion of those expenses.

Expenses you can claim as deductions

There are 2 types of expenses you can claim as deductions:

- capital expenses including the full cost or the decline in value of a mobile device (smartphone or tablet)
- operating expenses including internet service fees, data and mobile phone call expenses, allowances and reimbursements paid to employees who use their own mobile device for work purposes.

If you're an eligible business for the instant asset write-off, the full cost of the mobile device you purchase will be deductible if it is less than the instant asset write-off threshold.

You can only claim the business portion of the expenses if the mobile devices are used for both business and private uses.

If you are registered for GST, you can claim a credit for any GST included in the price of a mobile device or data purchased for use in your business. If you claim a credit for the GST, you must reduce the amount you claim as a deduction for the mobile device or data, by the amount of the GST credit for which you are entitled to claim.

Example 1: small business owner purchases mobile device

Angus is a sole trader and operates a landscaping business. As a small business owner, he isn't required to be registered for GST and is eligible to use the instant asset write-off.

During 2020–21, Angus purchases a tablet, keyboard and stylus for business use. The total cost is $1,200. Angus also enters into a contract for a mobile data plan for the device, which costs $75 a month. Angus uses the device to draw plans, produce quotes and invoices, send and receive emails, do all of his bookkeeping and manages his tax obligations.

From 1 March 2021, Angus also uses the device to set up a myID to access the Online services for business. Angus doesn't use his device or accessories for private purposes.

What Angus can claim as deductions

Angus claims a deduction of $900 ($75 a month × 12) for his mobile data plan in his tax return.

As each item, the tablet, keyboard and stylus, cost less than the instant asset write-off threshold, he can also claim the full amount of each as a deduction ($1,200) in his tax return for the first year he uses these items.

In his tax return for 2020–21, Angus claims a deduction of $2,100 ($900 + $1,200).

Example 2: asset used for business and private use

Joh is a sole trader and needs to upgrade his mobile phone which he uses his myID on to access ATO online services. He decides to upgrade his laptop at the same time.

Joh purchases a new laptop for $1,300 and a mobile phone for $1,100 on 1 February 2020. He continues to use his previous mobile plan with his new mobile phone, which costs $50 a month.

Joh only uses his new laptop for his business. Based on his itemised bills and other records he maintains during the income year for use of his old and new mobile phones, Joh works out that he used his phone 80% for business purposes for the entire year of income.

Joh is registered for GST and lodges a quarterly BAS.

What Joh can claim

The cost of Joh's laptop is less than the instant asset write-off threshold and he only uses it for his business. He claims the full cost of the laptop as a deduction in his 2019–20 tax return, less the GST credits he claimed in his March quarterly BAS.

The cost of Joh’s new phone is also less than the instant asset write-off threshold. But because Joh uses his phone for both business and private use, he apportions its purchase price and the cost of his monthly plan (after excluding the GST credits claimed) at 80% business use.

Joh calculates the GST credit (rounded down to whole dollars) that he can claim in his March quarterly BAS as follows:

- computer – $1,300 × 1/11 = $118
- mobile phone – $1,100 × 1/11 = $100 × 80% = $80
- mobile phone plan –
  $50 × 3 months = $150 × 1/11 = $13.64 × 80% = $10
- total GST credit for March quarterly BAS = $118 + $80 + $10 = $208.

Total GST credit (rounded down to whole dollars) for September, December and June quarterly BAS for mobile phone plan = $10.

Joh calculates his deduction for his new computer, mobile phone and his monthly plan as follows:

Computer

= $1,300 − $118

= $1,182

Mobile phone

= ($1,100 − $100) × 80%

= $800

Monthly plan

= (($150 − $10) × 4 quarters) × 80%

= $448

Total deduction for mobile phone and plan =
$800 + $448 = $1,248.

In his 2019–20 tax return, Joh claims a deduction of $1,182 for his laptop and a deduction of $1,248 for his mobile phone expenses.

For more information see:

- Instant asset write-off for eligible businesses
- Claiming a tax deduction for other operating expenses
- Claiming a tax deduction for depreciating assets and other capital expenses
- Simpler depreciation for small business
- Claiming GST credits
- Effect of GST credits on income tax deductions
- Accessing online services with Digital ID and RAM

Employers purchasing mobile devices for employees

Employers who provide employees with new mobile devices and data plans so they can set up and use myID to access our online services for work purposes will be entitled to a deduction for these expenses.

Where the mobile device you provide is used primarily by your employee for work purposes, it will generally be exempt from fringe benefits tax. There's no need for you to track the employee's actual use of the mobile device as long as you make it clear to them the mobile device is to be used primarily for work.

If the mobile device you provide to your employee isn't going to be used primarily by your employee for work purposes, you may have fringe benefits tax obligations.

Example 3: medium-sized business provides employees with mobile devices on data plans

AXK Pty Ltd operates a medium-sized business with a turnover under $50 million, and 1,000 employees. Forty employees require access to Online services for business to carry out their duties.

On 3 February 2021, AXK Pty Ltd purchases 40 smartphones for these 40 employees. AXK Pty Ltd pays $385 (including GST) for each smartphone.

It also sets up plans for each smartphone to cover calls, internet access and data for $50 a month per smartphone (including GST).

AXK Pty Ltd also gives these 40 employees authorisation to access Online services for business through Relationship Authorisation Manager (RAM).

These employees will use their smartphones to:

- set up a myID
- log in to our online services using their myID
- make and receive work calls.

When AXK Pty Ltd issues the smartphones to its 40 employees, it makes it clear the smartphones are to be used primarily for work purposes. Therefore, AXK Pty Ltd's provision of the smartphones will be exempt from fringe benefits tax.

What AXK Pty Ltd can claim

In its business activity statement (BAS) for the quarter ended 28 February 2020, AXK Pty Ltd claims a credit of $1,400 (($385 × 1/11) × 40) for the GST paid on the purchase of the 40 phones. In that same BAS and in each one after that, for the duration of the phone plans, AXK Pty Ltd claims a credit for the monthly GST amount on the phone plans (($50 × 1/11) × 40 = $182 a month).

As the expense of each smartphone is less than the instant asset write-off threshold, AXK Pty Ltd claims a deduction for the full cost of each smartphone in the first year of use, less the amount of GST credits they already claimed in their BAS. AXK Pty Ltd's deduction for the smartphones in the 2020–21 year is $14,000 ($350 × 40).

AXK Pty Ltd also claims a deduction for the expense of the 40 monthly plans, reduced by the GST credits claimed in its BAS. AXK Pty Ltd's deduction for the plans in the 2020–21 year is $7,272 ($45.45 a month × 40 × 4 months).

In its 2020–21 tax return, AXK Pty Ltd claims a deduction $21,272.

For more information see:

- Claiming a tax deduction for depreciating assets and other capital expenses
- Claiming a tax deduction for other operating expenses
- Work-related items exempt from FBT
- Fringe benefits tax – a guide for employers
- Simpler depreciation for small business – instant asset write-off
- Claiming GST credits
- Effect of GST credits on income tax deductions

Employees who use their own mobile devices

If, as an employer, you pay allowances or reimbursements to your employees so they can use their own mobile device to set up and use a Digital ID such as myID, those expenses will also be deductible.

For more information see Claiming a tax deduction for other operating expenses.

QC 61910

Deductions for carbon sink forest expenses

Businesses can claim a deduction for expenses incurred establishing trees in a carbon sink forest.

Last updated 7 May 2025

Carbon sink forests are established for the primary and principal purpose of carbon sequestration. Carbon sequestration is the process by which trees absorb carbon dioxide from the atmosphere for greenhouse gas abatement.

If you're establishing or have acquired a carbon sink forest, you may be eligible to claim a deduction for expenditure incurred in establishing the trees.

Eligibility conditions

To be eligible to claim a deduction you need to meet the following conditions:

- You are carrying on a business.
- At the time, you hold the interest or rights in the land or trees that is most specific to the carbon sequestration activities.
- You use the land and the forest for the primary and principal purpose of carbon sequestration by the trees.
- Your purposes in using the land do not include felling the trees or using the trees for commercial horticulture.
- You or another entity incurred expenditure for establishing the trees in the income year or an earlier income year.
- You did not incur the expenditure under a managed investment scheme (MIS) or a forestry MIS.
- The trees you are establishing in the carbon sink forest
  - meet the requisite forestry characteristics
  - adhere to certain environmental and natural resource management guidelines.

See also:

- For 2018–19 and later income years – Income Tax Assessment (Environmental and Natural Resource Management in relation to the Establishment of Trees for the purposes of Carbon Sequestration) Guidelines 2018

- For 2017–18 and earlier income years – Environmental and Natural Resource Management Guidelines in relation to the establishment of trees for the purpose of carbon sequestration (01/12/2008)

What you can claim

You may be able to claim a deduction for the establishment expenditure, which is expenditure that is of a capital kind and cannot be claimed on a one-off basis. The establishment expenditure includes expenses incurred in:

- acquiring the trees or seeds
- raising tree seedlings in pots and potting mixtures
- grafting trees and germinating seedlings
- allowing seeds to germinate (whether by broadcasting, deliberate regeneration or planting seeds directly)
- preparing the area for planting (for example, ploughing, scarifying, contouring, top dressing, fertilising, weed spraying, stone removal and top soil enhancement)
- planting the trees or seeds
- surveying the planted area.

What you can't claim

You can't claim deductions for expenditure that is not part of the establishment expenditure. The excluded expenditure includes expenses related to:

- rights that allow you to access the land to establish the forest (for example forestry rights)
- the land, rather than the establishment of the trees (for example, expenditure related to purchasing the land for the establishment of the trees)
- draining swamps or low-lying land, or clearing land
- assets separate from the trees, such as

  - fencing
  - water facilities for the trees
  - roads within the forest
  - fire breaks
- establishing other plants for another purpose (for example, trees for felling or horticultural plants). However, you **can** deduct the expenses incurred in establishing the other plants if they are used for purposes associated with carbon sequestration, such as companion planting
- carbon credits to be traded in the future (for example carbon sequestration rights).

Next steps:

- Work out how much to deduct
- Claiming the deduction

Work out how much to deduct

You can deduct the expenditure at a rate of 7% per year for a period of 14 years and 105 days. The period starts from the first day of the income year in which the trees are established.

The trees are considered established when the tree seedlings are permanently planted in the ground. The tree seedlings can be either:

- grown in pots and then transplanted to the land
- deliberately regenerated on-site from natural seed sources.

The amount you can deduct is worked out as follows:

- Establishment expenditure × write-off rate (7% per year)

You apply this same formula for each of the first 14 years. For the 15th year (the 105 days) you deduct the remaining amount.

If you stop using the land for carbon sequestration within the 14 years and 105 days period, you work out your deduction for that final year based on the number of days when the land was being used for carbon sequestration.

Example: carbon sink forest deductions

Nativ established a carbon sink forest in September 2015. He worked out that the establishment expenses were $20,000.

The first year he can claim a deduction is the 2015–16 financial year. For the first year he can claim 7% of his establishment expenditure:

- $20,000 × 7% = $1,400

He can claim the same amount ($1,400) for the following 13 years, as long as he continues to use the land for carbon sequestration. In the 15th year he can claim the remaining amount, which is $20,000 − ($1,400 × 14) = $400.

Claiming the deduction

To claim a deduction for establishing the trees in a carbon sink forest you must complete the form *Notice of establishment of trees in a carbon sink forest* (NAT 72196).

The form must be completed either when you lodge your tax return or 5 months after the end of the income year, whichever comes first.

The completed form must include all the information we need to determine whether you are eligible to claim the deduction, including:

- the Australian business number (ABN) of your business
- the latitude and longitude of a central point and boundary points of the area occupied by the trees
- a description of the shape and size of the area occupied by the trees
- the species of trees established
- the estimated number of trees per hectare
- the details of how the establishment of the trees meets the environmental and natural resource management guidelines for carbon sequestration
- the expenditure of establishing the trees.

If you have acquired a carbon sink forest you may ask the previous rights or interest holder for information you need to claim your deduction.

For more information, see Notice of establishment of trees in a carbon sink forest.

QC 51613

Deductions for unrecoverable income (bad debts)

Information about income that cannot be recovered (or a 'bad debt') and how to write off a debt as bad.

Last updated 7 May 2025

What is bad debt

As a business owner, you may be able to claim a deduction for income that cannot be recovered from a customer or debtor. This unrecoverable income is also known as a 'bad debt'.

Income tax and bad debts

The accounting method you use to account for your assessable income affects whether you can claim a bad debt deduction:

- Accruals basis
- Cash basis

Accruals basis

If you account for your assessable income on an accruals basis, you may be required to include an amount you earn as assessable income in your tax return before you receive payment of that amount.

If you determine there is no or little likelihood that an amount included in your assessable income will be recovered from the debtor, you may be able to claim that amount as a tax deduction.

To claim a deduction for the assessable income that cannot be recovered, you need to write off the unpaid amount as a bad debt, see How to write off a debt as bad.

If you subsequently recover an amount that you wrote off as a bad debt and claimed as a tax deduction, the amount you recover must be included in your assessable income when you receive it.

Writing off a debt as bad is not the same as waiving or forgiving a debt. There are different tax consequences for debt forgiveness or waiver and there may also be tax consequences for the debtor.

Cash basis

If you account for your assessable income on a cash basis, you will not include an amount in your assessable income until it is received. Therefore, writing off, forgiving, or waiving a debt for an amount of unpaid income will have no income tax consequences for you.

How to write off a debt as bad

A bad debt deduction may be claimed where you account for your assessable income on an accruals basis.

To claim a bad debt deduction in an income year for an amount included in your assessable income that has not been recovered, you must do **all** of the following:

- Include the income in your tax return
- Determine the debt is bad
- Write off the debt

Include the income in your tax return

You can only claim a bad debt deduction for amounts you have included in your assessable income, either in your tax return for the year you claim the deduction or in an earlier income year.

Determine the debt is bad

You need to determine that the debt is bad at the time you propose to write it off. The debt must not be merely doubtful. There must be a debt owing to you and it is genuinely bad. This means it must be an amount that you have determined is unlikely to be recovered through any reasonable and commercial attempts.

Depending on your circumstances, this does not always mean you need to have commenced formal proceedings to recover the debt (see example below). There are many ways to demonstrate an amount is no longer recoverable, and what constitutes a reasonable attempt will depend on the circumstances. For example, you may provide evidence of communications seeking to obtain payment of the debt, including reminder notices issued and attempts to contact the debtor by phone/mail.

Write off the debt

You need to write off the debt as bad before you can claim it as a bad debt deduction. This means you must have made the decision to write off the debt and recorded that decision in writing before the end of the income year in which you claim a deduction. For example, you may have removed the debt from the customer's account and recognised a bad debt expense.

The debt must still be in existence, and not otherwise dealt with, when you write it off and claim a deduction. For example, you must not have waived or forgiven the debt, extinguished the liability in another way, or sold the debt.

If you are a company, before you deduct a bad debt, you must satisfy the continuity of ownership test. If you do not satisfy the continuity of ownership test, you can still deduct the bad debt if:

- For debts incurred **prior to 1 July 2015** which are written off as bad – you satisfy the same business test, as set out in Taxation Ruling TR 1999/9.
- For debts incurred **on or after 1 July 2015** which are written off as bad – you satisfy one of the tests relating to the continuity of business
  - the same business test, as set out in Taxation Ruling TR 1999/9, or
  - the similar business test, as set out in Law Companion Ruling LCR 2019/1.

There are also special bad debt deduction rules for:

- tax consolidated groups and multiple entry consolidated groups
- trusts (subject to certain exclusions, including for trusts that have made a family trust election)
- where the taxation of financial arrangement (TOFA) rules apply to you.

For more information, see:

- Law Companion Ruling 2019/1 *The business continuity test – carrying on a similar business*
- Taxation Ruling TR 1999/9 *Income tax: the operations of sections 165-13 and 165-210, paragraph 165-35(b), section 165-126 and section 165-132*
- Taxation Ruling TR 92/18 *Income tax: bad debts*
- Trust loss provisions
- Guide to taxation of financial arrangements (TOFA)

Other tax considerations

There are generally no other tax consequences merely because you write off a debt as bad.

Writing off a debt as bad is not the same as waiving or forgiving a debt or if the debt otherwise comes to an end. This applies whether or not you have previously chosen to write it off as bad.

There may be other tax (including CGT) consequences when a debt comes to an end, and there may also be tax consequences for the debtor.

GST and bad debts

If you account for goods and services tax (GST) on a non-cash (accruals) basis, you can claim a decreasing adjustment for a bad debt if:

- you made a taxable sale and have paid GST to the ATO for that sale

- you have not received the consideration, either in whole or in part, for the taxable sale, and
- you write the debt off as bad or the debt has been overdue for 12 months or more.

The ways to demonstrate that a debt is bad for income tax purposes also apply to when a debt is considered bad for GST purposes. Similar to income tax, you cannot write off a debt as bad if you have forgiven the debt or set it off against other liabilities.

You can make the decreasing adjustment for the tax period in which you:

- write off the debt, or
- become aware that the debt was overdue for 12 months or more.

If you claim a decreasing adjustment after writing off a debt as bad or where a debt was overdue for 12 months or more, and subsequently recover some or all of that debt, you will have an increasing adjustment in the tax period in which you recover the debt.

For more information, see:

- GSTR 2000/2 *Goods and services tax: adjustments for bad debts*
- Types of adjustments

Example: Writing off a bad debt

Landlord Pty Ltd owns a commercial property and leases it to Tenant Pty Ltd. The lease income is included in Landlord Pty Ltd's assessable income on an accruals basis (that is, when an invoice for rent due is issued to the tenant). Throughout the relevant period, there have not been any changes to the ownership structure of Landlord Pty Ltd.

On 15 March 2023, Landlord Pty Ltd issued an invoice to Tenant Pty Ltd for $15,000 for rent for the preceding 6 months. Under the accruals basis, Landlord Pty Ltd included this amount in its assessable income for the year ended 30 June 2023.

After the invoice issued, Tenant Pty Ltd vacated the property without notice, and the owners of the company were uncontactable. During the 2022–23 income year – despite numerous unsuccessful attempts to recover the unpaid invoice – Landlord Pty Ltd concluded that it was unlikely to be recovered. Landlord Pty Ltd has no security from Tenant Pty Ltd for the unpaid rent and determines that legal action to recover the amount would not be commercially viable.

Even though Landlord Pty Ltd has not commenced legal proceedings against Tenant Pty Ltd, the unpaid rental invoice can be considered a bad debt. If the debt is written off in the same income year as it became a bad debt (that is, before 30 June 2020), Landlord Pty Ltd can claim a deduction of $15,000 for the bad debt written off.

Landlord Pty Ltd is registered for GST and accounted for GST on the supply of the commercial premises in its March 2023 activity statement. Landlord Pty Ltd can claim a decreasing adjustment in the tax period that the bad debt is written off.

Note: Most individual investors who rent out a small number of residential properties account for their rental income on a cash basis. If you are such a taxpayer, writing-off any unpaid rent as a bad debt will have no tax consequences.

QC 64819

Small business skills and training boost

Check if you can claim a 20% bonus deduction on certain eligible training expenditure for your employees.

Last updated 7 May 2025

About the boost

Small businesses with an aggregated annual turnover of less than $50 million will be allowed an additional 20% tax deduction for external training courses delivered to employees by registered training providers.

The boost applies to eligible expenditure incurred from 7:30 pm AEDT on 29 March 2022 until 30 June 2024.

Eligibility

To access the small business skills and training boost, your business needs to meet the standard aggregated annual turnover rules (with an increased $50 million threshold).

The expenditure must be:

- for the provision of training to employees of your business, either in-person in Australia, or online
- charged, directly or indirectly, by a registered external training provider that is not you or an associate of yours
- already deductible for your business under taxation law
- incurred within a specified period (between 7:30 pm AEDT or by legal time in the ACT on 29 March 2022 and 30 June 2024).

Where the training is a component of a larger program or course of training, the enrolment or arrangement relating to the relevant expenditure must be made or entered into at or after 7:30 pm (by legal time in the ACT) on 29 March 2022.

Find out if you are eligible for the Small business technology investment boost.

What you can claim

The bonus deduction is available for expenditure for the provision of training to one or more employees of your business. The training provider must meet certain registration criteria for the bonus deduction.

You can check for registered providers at:

- training.gov.au
- teqsa.gov.au/national-register

Training expenses can include incidental costs related to the provision of training, provided they are charged by the registered training provider, such as the cost of books or equipment needed for the course.

If your business is registered for GST and the training is not GST-free, the bonus deduction is calculated on the GST exclusive amount plus any GST you cannot claim as a GST credit in carrying on your business.

Where deductions are to be claimed over time such as for capital deductions, the bonus deduction is calculated as 20% of the full amount of the eligible expenditure. It can be claimed upfront in the first income year in which the bonus deduction is available.

There may be fringe benefits tax (FBT) consequences associated with the expenditure you incur.

What you can't claim

You can't claim expenditure for:

- training of non-employee business owners such as sole traders, partners in a partnership or independent contractors
- costs added on an invoice by an intermediary on top of the cost of training, such as commissions or fees, as they are not charged directly or indirectly by the registered training provider.

Research and development tax incentive

If your business is entitled to a research and development (R&D) notional deduction under the R&D tax incentive program, you are only entitled to the notional R&D deduction and not a deduction under other taxation law. Your bonus deduction is still claimed based on what that other deduction would have been.

You can claim both the bonus deduction and the R&D notional deduction. The bonus deduction will not affect the amount of the R&D notional deduction. The R&D notional deduction amount is the actual expenditure amount, not the expenditure amount and the bonus deduction amount.

Not-for-profit organisations

A taxable not-for profit organisation can claim the boost in their company tax return if they meet the following requirements:

- eligibility (small business with an aggregated annual turnover of less than $50 million), and
- eligible expenditure.

A taxable not-for-profit is not exempt from income tax. You are required to lodge a tax return each year or notify a return not necessary.

When you can claim

You generally claim a deduction in the year the expenses are incurred. Under the delayed claim rule, you may have to claim a deduction for the eligible expense in your tax return for the income year in which you incurred it and claim the 20% bonus amount in a later year’s tax return. This generally depends on:

- when your income year runs, so whether your business is an early, normal or late balancer
- at what time during your income year you incur the expense.

Normal, early or late balancers

An entity's income year is usually the 12–month period ending on 30 June. We refer to these entities as 'normal balancers'. For example, their income year is 1 July 2023 to 30 June 2024.

When an entity is allowed to adopt a substituted accounting period (SAP):

- where the last day of its income year falls between 1 July and 30 November, the SAP is in lieu of the income year ending on the preceding 30 June – this is a late balancer
- where the last day of its income year falls between 1 December and 31 May, the period adopted is in lieu of the income year ending on the succeeding 30 June – this is an early balancer.

The following special rules apply only to claiming the bonus deduction. The rules do not affect the existing general deduction under taxation law.

Normal balancers

For most businesses who are normal balancers, for eligible expenditure incurred between 7:30 pm AEDT 29 March 2022 and 30 June 2022, you:

- claim the 100% deduction for this period in your 2021–22 tax return
- claim the 20% bonus incurred in this period in your 2022–23 tax return.

For eligible expenditure incurred between 1 July 2022 and 30 June 2023 (2022–23 income year) you claim both the 100% deduction for the expenditure and the 20% bonus deduction in your 2022–23 tax return.

For eligible expenditure incurred between 1 July 2023 and 30 June 2024 (2023–24 income year) you claim both the 100% deduction for the expenditure and the 20% bonus deduction in your 2023–24 tax return.

Example: claiming the boost deduction as a normal balancer

B Co Pty Ltd (B Co) is a small business entity. It operates on an income year that begins on 1 July and ends on 30 June the following year (a normal balancer).

On 4 May 2022, B Co pays $1,000 (GST exclusive) for an employee to undertake training. The full $1,000 is deductible under the existing tax law as a business operating expense. As B Co meets all the criteria for the bonus deduction, the bonus deduction will be calculated as 20% of $1,000. That is, $200.

The cost of training ($1,000) should be claimed as a general deduction in B Co's 2022 tax return because this is the income year in which the expenditure is incurred.

As the training costs were incurred between 7:30 pm (by legal time in the ACT) on 29 March 2022 and the end of B Co's 2022–23 income year, the bonus deduction ($200) should be claimed in B Co's 2022–23 tax return. This is a result of the delayed claiming rules.

One year later, on 4 May 2023, B Co pays $3,000 (GST inclusive) for 3 new employees to undertake the same training. The full $3,000 is deductible as a business operating expense. Provided

B Co meets the other eligibility criteria for the boost, the bonus deduction is 20% of $3,000. That is $600.

The training cost ($3,000) will be claimed as a general deduction in B Co's 2022–23 tax return because this is the income year in which the expenditure is incurred. The bonus deduction ($600) should also be claimed in B Co's 2022–23 tax return.

Therefore, B Co will claim:

- 1,000 in its 2021–22 tax return
- $3,800 in its 2022–23 tax return. This is made up of the general deduction for the cost of training incurred on 4 May 2023 ($3,000), as well the bonus deductions for expenditure incurred on 4 May 2022 ($200) and 4 May 2023 ($600).

Late balancers

For late balancers who incur expenditure between 7:30 pm AEDT 29 March 2022 and the end of your 2021–22 income year, you:

- claim the 100% deduction for this period in your 2021–22 tax return
- claim the bonus 20% incurred in this period in your 2022–23 tax return.

For eligible expenditure incurred in your 2022–23 income year, you claim both the 100% deduction for the expenditure and the 20% bonus deduction in your 2022–23 tax return.

For eligible expenditure incurred between start of your 2023–24 income year and 30 June 2024, you claim both the 100% deduction for the expenditure and the 20% bonus deduction in your 2023–24 tax return.

Example: claiming the boost deduction as a late balancer

Green Gracey Pty Ltd (Green Gracey) is a small business entity that operates a café serving food and beverages. Green Gracey operates on an income year that begins on 1 August and ends on 31 July the following calendar year.

On 4 May 2022, Green Gracey pays $1,000 (GST exclusive) for its employees to undertake safe food handling training. The full

$1,000 is deductible as a business operating expense. Assuming other eligibility criteria for the bonus deduction are satisfied, the bonus deduction will be calculated as 20% of $1,000. That is, $200.

The cost of training ($1,000) should be claimed as a general deduction in Green Gracey's 2021–22 tax return because this is the income year in which the expenditure was incurred.

As the training costs were incurred between 29 March 2022 and the end of Green Gracey's 2021–22 income year (ending 31 July 2022), under the relevant special rules for initial bonus deductions, the bonus deduction ($200) should be claimed in Green Gracey's 2022–23 tax return. This results in a delayed claim, where a bonus deduction is claimed in the year following the year in which expenditure was incurred.

One year later, on 4 May 2023, Green Gracey pays $300 (GST exclusive) for 3 new employees to undertake the same safe food handling training. The full $300 is deductible as a business operating expense. The bonus deduction will be calculated as 20% of $300. That is, $60.

The cost of training ($300) should be claimed as a general deduction in Green Gracey's 2022–23 tax return because this is the income year in which the expenditure was incurred.

As the training costs were incurred in Green Gracey's 2022–23 income year (ending 31 July 2023), under the relevant special rules for initial bonus deductions, the bonus deduction ($60) should also be claimed in Green Gracey's 2022–23 tax return. This results in an outcome consistent with the general rule that deductions are claimed in year in which expenditure is incurred.

On 4 May 2024, Green Gracey pays $600 (GST exclusive) for three junior employees to undertake barista training. The full $600 is deductible as a business operating expense. Assuming the other eligibility criteria for the bonus deduction are satisfied, the bonus deduction will be calculated as 20% of $600. That is, $120.

The cost of training ($600) should be claimed as a general deduction in Green Gracey's 2023–24 tax return because this is the income year in which the expenditure was incurred.

Expenditure in the 2023–24 income year is covered by the later bonus deduction provision. As the costs were incurred in Green Gracey's 2023–24 income year and before 30 June 2024, the bonus deduction should be claimed in Green Gracey's 2023–24 tax return in accordance with the later bonus deduction provision. This results in an outcome consistent with the general rule that deductions are claimed in year in which expenditure is incurred.

Green Gracey will therefore claim the following amounts:

- $1,000 in its 2021–22 tax return. This is the general deduction for the cost of training incurred on 4 May 2022
- $560 in its 2022–23 tax return. This is made up of the general deduction for the cost of training incurred on 4 May 2023 ($300), as well as the bonus deductions for expenditure incurred on 4 May 2022 ($200) and 4 May 2023 ($60)
- $720 in its 2023–24 tax return. This is made up of the general deduction ($600) and the bonus deduction for the expenditure incurred on 4 May 2024 ($120).

Early balancers

For early balancers who incurred eligible expenditure between 7:30 pm AEDT 29 March 2022 and the end of your 2021–22 income year, you:

- claim the 100% deduction for this period in your 2021–22 tax return
- claim the 20% bonus incurred in this period in your 2023–24 tax return.

For eligible expenditure incurred in your:

- 2022–23 income year, you deduct the 100% deduction in your 2022–23 tax return and the 20% bonus deduction in your 2023–24 tax return
- 2023–24 income year, you deduct both the 100% deduction and the 20% bonus deduction in your 2023–24 tax return
- 2024–25 income year (up until 30 June 2024), you deduct both the 100% deduction and the 20% bonus deduction in your 2024–25 tax return.

Example: claiming the boost deduction as an early balancer

Cockablue Pets operates on an income year that begins on 1 January and ends on 31 December of the same calendar year (an early balancer). Its 2022–23 income year starts on 1 January 2022.

Cockablue Pets decide to expand their services to also offer dog grooming services. On 28 July 2022 they pay $14,000 (GST exclusive) for 2 of their employees to undertake specialised pet grooming training. The full $14,000 is deductible as a business operating expense. Assuming the other eligibility criteria for the bonus deduction are satisfied, the bonus deduction will be calculated as 20% of $14,000. That is, $2,800.

The cost of training ($14,000) should be claimed as a general deduction in Cockablue Pets' 2022–23 tax return because this is the income year in which the expenditure was incurred.

As the costs were incurred between 29 March 2022 and the end of Cockablue Pets' 2022–23 income year (ending 31 December 2022), the bonus deduction ($2,800) should be claimed in Cockablue Pets' 2023–24 tax return in accordance with the special rule for early balancers. This results in a delayed claim, where a bonus deduction is claimed in the year following the year in which the expenditure was incurred.

Cockablue Pets experiences a lot of demand for their new pet grooming services. In response to this demand, they hire 3 new employees in March 2023. The new employees have experience in animal care but no qualifications in pet grooming. Due to the demand for pet grooming services, On 10 April 2023, Cockablue Pets pays $21,000 (GST exclusive) for their new employees to also undertake the specialised pet grooming training. The full $21,000 is deductible as a business operating expense. Assuming the other eligibility criteria for the bonus deduction are satisfied, the bonus deduction will be calculated as 20% of $21,000. That is, $4,200.

The cost of training ($21,000) should be claimed as a general deduction in Cockablue Pets' 2023–24 tax return because this is the income year in which the expenditure was incurred.

The bonus deduction ($4,200) should also be claimed in their 2023–24 tax return. As the costs were incurred in Cockablue Pets' 2023–24 income year (ending 31 December 2023), the bonus deduction should be claimed in Cockablue Pets' 2023–24 tax return in accordance with the special rule for early balancers.

Cockablue Pets opens a new combined veterinary clinic and dog grooming location in March 2024. As a result, they hire 2 new junior employees who have limited experience in professional animal care but a desire to build a long-term career in the industry. On 8 April 2024 Cockablue Pets pays $6,000 (GST exclusive) for their new employees at the new clinic to undertake training in animal care. The full $6,000 is deductible as a business operating expense. Assuming the other eligibility criteria for the bonus deduction are satisfied, the bonus deduction will be calculated as 20% of $6,000. That is, $1,200.

The cost of training ($6,000) should be claimed as a general deduction in Cockablue Pets' 2024–25 tax return because this is the income year in which the expenditure was incurred.

Expenditure in the 2024–25 income year is covered by the later bonus deduction provision. As the costs were incurred in Cockablue Pets' 2024–25 income year and before 30 June 2024, the bonus deduction ($1,200) should be claimed in Cockablue Pets' 2024–25 tax return in accordance with the later bonus deduction provision. This results in an outcome consistent with the general rule that deductions are claimed in year in which expenditure is incurred.

This means that Cockablue Pets will claim the following amounts:

- $14,000 in its 2022–23 tax return. This is the general deduction for the cost of training incurred on 28 July 2022
- $28,000 in its 2023–24 tax return. This is made up of the general deduction for the cost of training incur red on 10 April 2023 ($21,000), as well as the bonus deductions for expenditures incurred on 28 July 2022 ($2,800) and 10 April 2023 ($4,200).
- $7,200 in its 2024–25 tax return. This is made up of the general deduction and the bonus deduction for the expenditure incurred on 8 April 2024.

Examples to calculate the value

The following examples will help you calculate the value of the boost as a bonus deduction or reimbursement.

Example: calculating the boost for external training

Cockablue Pets Pty Ltd is a small business entity that operates a veterinary centre. The business takes on a new employee to assist with jobs across the centre. The employee has some prior experience in animal studies and is keen to upskill to become a veterinary nurse.

The business pays $3,500 (GST exclusive) for the employee to undertake external training. The bonus deduction is calculated as 20% of 100% of the amount of expenditure that can be deducted under another provision of the taxation law. In this case, the full $3,500 is deductible as a business operating expense. Assuming the other eligibility criteria for the bonus deduction are satisfied, the bonus deduction is calculated as 20% of $3,500. That is, $700.

The business also pays $4,400 (GST inclusive) for 2 of its employees to attend an external training session. Cockablue Pets is registered for GST and entitled to claim $400 as a GST credit in their BAS. The eligible expenditure for the small business skills and training boost is the amount of expenditure less the GST amount claimed as an input tax credit ($4,000). The bonus deduction is calculated as 20% of $4,000, which is $800.

Example: calculating the boost for employee and owner

Fix-A-Pipe is a small business running plumbing services. The business pays $2,000 (GST exclusive) for the owner Terry and one of its employees to take some training courses. Terry's training course costs $800 and the employee's training course costs $1,200.

The bonus deduction is available to eligible small businesses that incur expenditure for training employees. As Terry is the owner of the business and not an employee, the business must apportion the training costs for calculating the bonus deduction. The bonus is calculated as 20% of $1,200, which is $240.

As part of the employee's training course, Fix-A-Pipe is also charged by the training provider for the cost of books and material and some practice equipment used in the course ($88 GST inclusive). Those incidental costs are also eligible expenditure for the bonus deduction as they're directly charged by the training provider.

Fix-A-Pipe is registered for GST and can claim 1/11 of $88 (being $8) as a GST input tax credit. Therefore, they will calculate the bonus as 20% of $80, which is $16.

Example: calculating the boost for a university course

D Co Pty Ltd is an accounting firm. It has been paying directly to a university since February 2021 for an employee to complete an accounting course. The employee enrolled in subjects on 1 February 2022 and 15 July 2022. Enrolments into courses or classes within the period of 29 March 2022 to 30 June 2024 will result in the expenditure on those courses being eligible for the bonus deduction, provided that the other criteria are met, including that the small business incurs the expenditure within the same period. The broader degree enrolment prior to 29 March 2022 does not preclude this outcome. Therefore, the expenditure incurred in relation to the employee's enrolment on 15 July 2022 is eligible for the bonus deduction, whereas the enrolment on 1 February 2022 is ineligible.

Example: reimbursement payment to employee

Bill is an employee of an IT company. His employer supports staff taking training courses of their selection and agrees to reimburse the payment to them. In January 2022, Bill enrols for term 1 in a TAFE Advanced developer course to further upskill his knowledge. He pays $500 (GST exclusive) for term 1 and is reimbursed by his employer the following month. In term 2 starting in April 2022, he pays $500 (GST exclusive) again and is again reimbursed by his employer the following month.

The payment for term 1 was incurred prior to 29 March 2022 so it is not eligible for the bonus deduction. The payment for term 2 was incurred between 29 March 2022 and 30 June 2024 and charged indirectly by the provider of the training through reimbursing the employee the tuition fees. Therefore, the expenditure is eligible for the bonus deduction, provided the other criteria are met. The bonus deduction is calculated as 20% of $500, which is $100.

How to claim the bonus deduction

To correctly claim the 20% bonus deduction in your tax return, see:

- Individual tax return instructions – Business and professional items schedule instructions 2024
- Partnership tax return and instructions 2024
- Company tax return and instructions 2024
- Trust tax return and instructions 2024
- Attribution managed investment trust tax return instructions 2024
- Self-managed superannuation fund annual return instructions 2024

QC 72899

Small business technology investment boost

Check if you can claim a 20% bonus deduction on technology expenditure to help digitise your small business.

Last updated 20 June 2024

About the boost

Small businesses with an aggregated annual turnover of less than $50 million will be allowed an additional 20% tax deduction to support their digital operations and digitise their operations.

The boost applies to eligible expenditure incurred between 7:30 pm AEDT on 29 March 2022 and 30 June 2023. The boost is for business expenses and depreciating assets and is capped at $100,000 of expenditure per income year. You can receive a maximum bonus deduction of $20,000 per income year.

Eligibility

To access the small business technology investment boost, your business needs to meet the standard aggregated annual turnover rules (with an increased $50 million threshold).

The expenditure must:

- already be deductible for your business under taxation law
- be incurred between 7:30 pm AEDT 29 March 2022 and 30 June 2023.

If the expenditure is on a depreciating asset, the asset must be first used or installed ready for use for a taxable purpose by 30 June 2023.

Find out if you are eligible for the Small business skills and training boost.

What you can claim

Eligible expenditure may include, but is not limited to, business expenditure on:

- digital enabling items – computer and telecommunications hardware and equipment, software, internet costs, systems and services that form and facilitate the use of computer networks
- digital media and marketing – audio and visual content that can be created, accessed, stored or viewed on digital devices, including web page design
- e-commerce – goods or services supporting digitally ordered or platform-enabled online transactions, portable payment devices, digital inventory management, subscriptions to cloud-based services and advice on digital operations or digitising operations, such as advice about digital tools to support business continuity and growth
- cyber security – cyber security systems, backup management and monitoring services.

Where the expense is partly for private purposes, the bonus deduction can only be applied to the business-related portion.

If your business is registered for GST and the expenditure is not GST-free, the bonus deduction is calculated on the GST-exclusive amount plus any GST you cannot claim as a GST credit incurred in carrying on your business.

There may be fringe benefits tax (FBT) consequences associated with the expenditure you incur. For more details, refer to Fringe benefits tax – a guide for employers.

Example: Telecommunications hardware and internet costs – smartphone

Callum is a sole trader. To ensure his business remains competitive, he is investing in digitising his business operations. On 1 November 2022, he purchased a smartphone for $1,500 and signed up to a business mobile data plan costing $70 per month. The plan bundles voice, text, messaging and data services for the single monthly fee. He immediately began using the smartphone to communicate with clients, access supplier websites to check stock availability and uses an application to generate and send invoices to clients.

Telecommunications hardware (including smartphones) and internet costs (including bundled mobile data plans) are examples of digital enabling items. As Callum incurred the expenditure on these items for the purpose of digitising his business operations, he is eligible to claim the bonus deduction.

Cap on the bonus deduction

An annual cap applies so that expenditure up to $100,000 is eligible for the bonus deduction, with the bonus deduction capped at $20,000 per year. The maximum bonus deduction a business can claim is $40,000 for the entire period.

However, different cap rules apply if your 2022–23 income year begins before 1 July 2022. As an 'early balancer' you can:

- claim a maximum bonus deduction of $20,000 for the period between 7:30 pm AEDT 29 March 2022 and the end of your 2022–23 income year
- then claim a maximum bonus deduction of $20,000 from the start of your 2023–24 income year to 30 June 2023.

Depreciating asset

The bonus deduction can also apply to expenditure on a depreciating asset. The asset must be first used or installed ready for use for a taxable purpose between 7:30 pm AEDT 29 March 2022 and 30 June 2023. This rule does not apply to expenses incurred in the development of in-house software allocated to a software development pool, consistent with current pooling rules.

Repair and improvement costs for depreciating assets are also eligible for the bonus deduction. This is provided they are incurred during the relevant time period.

A balancing adjustment event occurs when you dispose of a depreciating asset. If a balancing adjustment event occurs in the relevant period, you cannot claim the bonus deduction for that asset. That is unless the balancing adjustment event is an involuntary disposal (for example, the asset is lost or destroyed).

Small business entities may be able to deduct the cost of a depreciating asset under the simplified depreciation rules, in one income year. Alternatively, they can deduct the decline in value of the asset over its effective life if they choose not to use the simplified depreciation rules.

The bonus deduction is calculated as 20% of the expenditure on the eligible depreciating asset. This is if the expenditure occurs in the relevant period, and it is first used or installed ready for use for a taxable purpose before 1 July 2023. That is regardless of the depreciation method the business uses. If a business purchases a depreciating asset in the relevant period, the expenditure will be the cost of the asset.

Example: A Co temporary full expensing and bonus deduction for new laptops and server upgrade

A Co Pty Ltd (A Co) is a small business entity with an aggregated annual turnover of $28 million. On 15 July 2022, A Co purchase multiple laptops to allow employees to work from home. The total cost is $55,000 (GST inclusive). A Co is registered for GST and entitled to the GST input credit of $5,000.

The laptops are delivered on 19 July 2022 and immediately issued to staff entirely for business use. A Co retains ownership of the laptops. As the holder of the assets, A Co is entitled to claim a deduction for the depreciation of a capital expense.

A Co can claim the cost of the laptops excluding the GST amount ($50,000) as a deduction under temporary full expensing in its 2022–23 tax return if they meet relevant criteria. The bonus deduction is calculated as 20% of the cost of the assets, which is $10,000.

A Co previously purchased a new server on 20 August 2020 to support the business network and working from home. They have already claimed an immediate deduction for the depreciation of the asset. On 25 March 2023, they make an upgrade to the server which costs $9,900 (GST inclusive). A Co is able to claim a GST credit of $900. The cost of the upgrade can be claimed under temporary full expensing.

As the upgrade is incurred between 29 March 2022 and 30 June 2023, it is eligible for the bonus deduction. Therefore, A Co is also able to claim $1,800 bonus deduction (being 20% of $9,000).

Therefore, in its 2022–23 tax return, A Co claims:

- $59,000 temporary full expensing ($50,000 + $9,000)
- $11,800 bonus deduction (20% of $50,000 and 20% of $9,000).

Example: B Co depreciation and bonus deduction for new laptops

B Co Pty Ltd (B Co) is a small business entity with an aggregated annual turnover of $45 million. On 15 July 2022, B Co purchase multiple laptops to allow staff to work from home. The total cost is $132,000 (GST inclusive). B Co is registered for GST and entitled to the GST input credit.

The laptops are delivered on 19 July 2022 and immediately issued to staff entirely for business use. B Co retains ownership of the laptops. As the holder of the assets, B Co is entitled to claim deductions for the depreciation of the laptops. B Co has made the choice to opt out of temporary full expensing and instead will claim depreciation deductions for the laptops over their effective life.

In its 2022–23 tax return, B Co can claim a depreciation deduction for the decline in value of the laptops between 19 July 2022 and 30 June 2023. As the cost of assets ($120,000 excluding GST) exceeds the cap of expenditure eligible for the small business technology investment boost ($100,000 for the 2022–23 income year), it can only claim the maximum $20,000 bonus deduction in its 2022–23 tax return, being 20% of $100,000.

Depreciation deductions that B Co may be able to claim in 2022–23 and later income years are not altered by the bonus deduction.

What you can't claim

You can't claim the following expenses towards the boost:

- salary and wages
- capital works costs
- financing costs
- training or education costs (these may be eligible for the Small business skills and training boost)
- expenses that form part of your trading stock costs.

Research and development tax incentive

If your business is entitled to a research and development (R&D) notional deduction under the R&D tax incentive program, you are only entitled to the notional R&D deduction and not a deduction under other taxation law. Your bonus deduction is still claimed based on what that other deduction would have been.

You can claim both the bonus deduction and the R&D notional deduction. The bonus deduction will not affect the amount of the R&D notional deduction. The R&D notional deduction amount is the actual expenditure amount, not the expenditure amount and the bonus deduction amount.

Not-for-profit organisations

A taxable not-for-profit organisation can claim the boost in their company tax return if they meet both of the following requirements:

- eligibility (small business with an aggregated annual turnover of less than $50 million)
- eligible expenditure.

A taxable not-for-profit is not exempt from income tax. You are required to lodge a tax return each year or notify a return not necessary.

When you can claim

You generally claim a deduction in the year the expenses are incurred. Under the delayed claim rule, you may have to claim a deduction for the eligible expense in your tax return for the income year in which you incurred it and claim the 20% bonus amount in a later year's tax return. This generally depends on:

- when your income year runs, so whether your business is an early, normal or late balancer
- at what time during your income year you incur the expense.

Normal, early or late balancers

An entity's income year is usually the 12-month period ending on 30 June. We refer to these entities as 'normal balancers'. For example, their income year is 1 July 2022 to 30 June 2023.

When an entity is allowed to adopt a substituted accounting period (SAP) and where the last day of its income year falls between:

- 1 July and 30 November, the SAP is in lieu of the income year ending on the preceding 30 June – this is a 'late balancer'
- 1 December and 31 May the period adopted is in lieu of the income year ending on the succeeding 30 June – this is an 'early balancer'.

The following special rules apply only to claiming the bonus deduction. The rules do not affect the existing general deduction under taxation law.

Normal balancers

For most businesses who are normal balancers, for eligible expenditure incurred between 7:30 pm AEDT 29 March 2022 and 30 June 2022, you:

- claim the 100% deduction for this period in your 2021–22 tax return
- claim the 20% bonus incurred in this period in your 2022–23 tax return.

For eligible expenditure incurred between 1 July 2022 and 30 June 2023 you claim both the 100% deduction for the expenditure and the 20% bonus deduction in your 2022–23 tax return.

Example: claiming the boost deduction as a normal balancer

C Co Pty Ltd is a small business entity with an annual aggregated turnover of $2 million in the 2021–22 income year. Its 2021–22 income year ran from 1 July 2021 to 30 June 2022 (normal balancer). On 23 April 2022, C Co paid $2,200 (including GST) for commercial off-the-shelf cybersecurity software with an effective life of one year.

C Co is registered for GST so can claim the input tax credit of $200 (being 1/11 of $2,200). This amount is excluded when calculating the bonus deduction for the small business technology investment boost.

In its 2021–22 tax return, C Co can claim a deduction for $2,000 as the software is a business operating expense. It can also claim a bonus deduction of $400 (20% of $2,000) in its 2022–23 tax return.

On 23 May 2023, C Co purchased another software product that cost $1,650 (GST inclusive). C Co can claim an input tax credit of $150.

In its 2022–23 tax return, C Co can claim a deduction of $1,500 as a general business operating expense and a bonus deduction of $300 (20% of $1,500).

Late balancers

For late balancers who incur expenditure between 7:30 pm AEDT 29 March 2022 and the end of your 2021–22 income year, you:

- claim the 100% deduction for this period in your 2021–22 tax return
- claim the bonus 20% incurred in this period in your 2022–23 tax return.

For eligible expenditure incurred between start of your 2022–23 income year and 30 June 2023 you claim both the 100% deduction for the expenditure and the 20% bonus deduction in your 2022–23 tax return.

Example: claiming the boost deduction as a late balancer

D Co Pty Ltd is a small business entity in the 2021–22 and 2022–23 income years. It has a substituted accounting period of 1 August to 31 July (late balancer). On 23 April 2022, D Co set up an annual $2,200 subscription (GST inclusive) to a cloud service to store client and sales data. D Co can claim an input tax credit of $200. In its 2021–22 tax return, D Co can claim a deduction for

$2,000 as the cloud subscription is a business operating expense. It can also claim a bonus deduction of $400 (20% × $2,000) in its 2022–23 tax return.

D Co renews the subscription on 23 April 2023 at the discounted price of $1,870 (including GST). D Co can claim an input tax credit of $170. Therefore, in its 2022–23 tax return D Co can claim a deduction for $1,700 and a bonus deduction of $340 (20% × $1,700).

In summary, D Co can claim a deduction for $2,000 in its 2021–22 tax return and $2,440 in its 2022–23 tax return, comprising a general deduction of $1,700 and 2 bonus deductions that equal $740 ($400 relating to eligible expenditure in the 2021–22 income year and $340 relating to eligible expenditure in the 2022–23 income year).

Early balancers

For early balancers who incur expenditure between 7:30 pm AEDT 29 March 2022 and the end of your 2021–22 income year, you:

- claim the 100% deduction for this period in your 2021–22 tax return
- claim the 20% bonus incurred in this period in your 2023–24 tax return.

For eligible expenditure incurred in your 2022–23 income year, you claim the 100% deduction for the expenditure in your 2022–23 tax return and the 20% bonus deduction in your 2023–24 tax return.

For eligible expenditure incurred between the start of your 2023–24 income year and 30 June 2023 you claim both the 100% deduction for the expenditure and the 20% bonus deduction in your 2023–24 tax return.

Example: claiming the boost deduction as an early balancer

E Co Pty Ltd is a small business entity in its 2022–23 and 2023–24 income years and has a substituted accounting period of 1 January to 31 December. From January 2022, E Co pays monthly software subscription fees of $5,000 (GST-exclusive). These fees are incurred on the first day of each month.

E Co’s software subscription fees for its 2022–23 income year (the period 1 January 2022 to 31 December 2022) are $60,000 ($5,000 × 12 months). This amount is a business operating expense and is deductible in E Co’s 2022–23 tax return.

The software subscription fees incurred after 29 March 2022 will also be eligible expenditure for the purposes of the small business technology investment boost for E Co's 2022–23 income year. The eligible expenditure is $45,000 ($5,000 × 9 months from April – December 2022). However, because of the delayed claim rule the bonus deduction of $9,000 (20% of $45,000) will be claimed in E Co’s 2023–24 tax return.

E Co will also claim 12 months worth of the software subscription fees in relation to the 2023–24 income year as a business operating expense in its 2023–24 tax return ($60,000). However, only $30,000 will be eligible expenditure for the purposes of the small business technology investment boost ($5,000 × 6 months from January – June 2023). Accordingly, E Co will claim a bonus deduction of $6,000 (20% of $30,000) in its 2023–24 tax return.

In total, E Co claimed:

- $60,000 in its 2022–23 tax return
- $75,000 in its 2023–24 tax return, comprising of a general deduction of $60,000 and 2 bonus deductions that equal to $15,000 ($9,000 related to eligible expenditure in the 2022–23 income year and $6,000 related to eligible expenditure in the 2023–24 income year).

How to claim the bonus deduction

To correctly claim the 20% bonus deduction in your tax return, see:

- 2023 Individual tax return instructions – Business and professional items
- 2023 Partnership tax return instructions
- 2023 Company tax return instructions
- 2023 Trust tax return instructions
- 2023 AMIT tax return instructions

- 2023 CCIV tax return instructions
- 2023 Self-managed superannuation fund annual return instructions

Early balancers – how to claim

If you have a substituted accounting period and you are an early balancer, you'll need to claim the bonus deduction in your 2023–24 return. If you are using the 2023 form, see the 2023 tax return instructions linked above.

If you are using the 2024 form, choose from the following options:

- **Individuals** – claim the bonus deduction in the Business and professional items schedule at item **P8 Expense reconciliation adjustments** – label **H**. Use **Worksheet 4 – Reconciliation statement** to work out your total expense reconciliation adjustment at item **P8** – label **H**. In Worksheet 4, enter the bonus deduction amounts to the primary production or non-primary production columns at row **t**.
- **Partnership** – claim the bonus deduction at item **5 Expense reconciliation adjustments** – label **B**.
- **Company** – claim the bonus deduction at item **7 Reconciliation to taxable income or loss** – label **X Other deductible expenses**.
- Trust – claim the bonus deduction at item **5 Expense reconciliation adjustments** – label **B**.
- **Attribution Managed Investment Trust** – claim at the **Other deduction** label of the AMIT Schedule an amount equal to 20% of the eligible expenditure to account for your bonus deduction.
- **Attribution Corporate Collective Investment Vehicle sub-fund** – claim at your ordinary deduction label an amount equal to 20% of the eligible expenditure to account for your bonus deduction.
- **Self-managed superannuation fund** – claim at your ordinary deduction label an amount equal to 20% of the eligible expenditure to account for your bonus deduction.

QC 72900

Small business energy incentive

Small businesses can receive a 20% bonus deduction on expenditure to improve energy efficiency.

Last updated 7 May 2025

About the energy incentive

The small business energy incentive is designed to help businesses improve energy efficiency and save on energy bills.

Businesses with an aggregated annual turnover of less than $50 million will have access to a bonus 20% tax deduction for the cost of eligible assets and improvements that support more efficient use of energy.

The incentive applies to eligible expenditure on assets between 1 July 2023 and 30 June 2024 (the 'bonus period').

The incentive also applies to eligible expenditure on improvements to existing assets incurred during the bonus period.

Up to $100,000 of total expenditure will be eligible for the incentive, with the maximum bonus tax deduction being $20,000.

The bonus deduction is separate and additional to other deductions you would ordinarily claim under taxation law.

Eligibility

The following must be met to access the small business energy incentive:

- Your business needs to meet the standard aggregated annual turnover rules (with an increased $50 million threshold).
- The expenditure being claimed must be deductible to your business under other provisions in the taxation law.
- For expenditure on eligible assets during the bonus period the asset must be both:
  - first used or installed ready for use for any purpose, and

  - used or installed ready for use for a taxable purpose.

- For most entities, this means that if you first use or install an asset for any purpose before 1 July 2023, you cannot claim a bonus deduction for the cost of the asset. This is the case even if you do not use the asset for a taxable purpose until the bonus period.
- For improvements to existing assets, the expenditure must be incurred during the bonus period.

Find out if you are eligible for other bonus deductions at Small business skills and training boost.

What you can claim

The bonus deduction is available for eligible expenditure on depreciating assets and improvements to assets that increase the energy efficiency of your business.

Depreciating asset

The bonus deduction applies to expenditure on a depreciating asset that is both first used or installed ready for use for any purpose, and installed ready for use for a taxable purpose, between 1 July 2023 and 30 June 2024.

A depreciating asset may be eligible for the bonus deduction if it uses electricity and when one or more of the following apply:

- there is a new reasonably comparable asset that uses a fossil fuel available in the market
- the asset is more energy efficient than the asset it is replacing
- if it is not a replacement, it is more energy efficient than a new reasonably comparable asset available in the market.

Available in the market means that you could have readily purchased the comparable asset either locally or on the internet in the same time period.

A depreciating asset may also be eligible if it is an energy storage, time-shifting or monitoring asset, or an asset that improves the energy efficiency of another asset.

A depreciating asset can be a second-hand asset but the comparable asset must be available in the market as new.

Expenditure eligible for the bonus deduction may include, but is not limited to, expenditure on:

- electrifying equipment (for example, installing a reverse cycle air conditioner in place of a gas heater)
- upgrading to more energy efficient appliances and equipment (for example, energy efficient refrigeration systems)
- installing time-shifting devices which allow electrical appliances to operate at off-peak times
- replacing a diesel engine with an electric motor
- installing a Virtual Power Plant enabled battery system.

Where the expenditure is partly for private purposes, the bonus deduction is worked out with reference to the business-related portion of that expenditure.

If your business is registered for GST and the expenditure is not GST-free, the bonus deduction is calculated on the amount of expenditure less the GST amount claimable as an input tax credit.

Example: Claiming the bonus deduction for an eligible depreciating asset

A Co Pty Ltd (A Co) is a small business entity. On 30 October 2023, A Co purchases and installs a refrigeration system at a cost of $1,100 (GST inclusive) to replace an old refrigeration system. A Co is registered for GST and entitled to a GST credit of $100.

Using the electricity consumption information provided by the manufacturer, A Co compares the electricity consumption information of the new refrigeration system to the old one. The rate of energy consumption for the new refrigeration system is lower compared to the old system.

The expenditure on the new refrigeration system is an eligible depreciating asset as it is more energy efficient than the asset it is replacing. A Co can therefore claim a bonus deduction of $200 (20% of $1,000).

Depreciation deductions that A Co can claim for the cost of purchasing the new refrigeration system are not altered by the bonus deduction.

Improvements

In addition to newly acquired depreciating assets, improvements to existing depreciating assets may also be eligible for the bonus deduction. Expenditure on eligible improvements needs to be incurred between 1 July 2023 and 30 June 2024 to be eligible.

An improvement to a depreciating asset is eligible if it:

- enables the asset to only use electricity, or energy that is generated from a renewable source, instead of a fossil fuel
- enables the asset to be more energy efficient, provided that asset only uses electricity, or energy generated from a renewable source
- facilitates the storage, time-shifting or usage monitoring of electricity, or energy generated from a renewable source (for example, a battery that stores electricity).

Example: Claiming the bonus deduction for an improvement to an eligible depreciating asset

B Co Pty Ltd (B Co) is a small business entity. On 15 July 2023, B Co purchases and installs ten variable speed drives that it fits to existing electric motors that it owns and uses in its business for a cost of $55,000 (GST inclusive). B Co is registered for GST and entitled to a GST credit of $5,000. The variable speed drives enable each motor to run more efficiently.

The expenditure on each variable speed drive is an eligible improvement to a depreciating asset. B Co can therefore claim a bonus deduction of $10,000 (20% of $50,000 expense, less the GST credits).

Depreciation deductions that B Co can claim for the cost of the existing electric motors ($50,000) are not altered by the bonus deduction. B Co Pty Ltd (B Co) is a small business entity. On

15 July 2023, B Co purchases and installs ten variable speed drives that it fits to existing electric motors that it owns and uses in its business for a cost of $50,000. The variable speed drives enable each motor to run more efficiently.

The expenditure on each variable speed drive is an eligible improvement to a depreciating asset. B Co can therefore claim a bonus deduction of $10,000 (20 per cent of $50,000).

Depreciation deductions that B Co can claim for the cost of the existing electric motors ($50,000) are not altered by the bonus deduction.

Cap on the bonus deduction

The maximum amount of expenditure eligible for the energy incentive is $100,000. This means that the bonus deduction is capped at $20,000 per entity.

Energy efficiency

You can use any reasonable basis to determine if an asset is more energy efficient than another asset. For example, you can refer to the electricity consumption information provided by the manufacturer to compare assets.

You can also check out energy.gov.au for advice on energy saving opportunities. Energy ratings are one of the tools you can use for comparing the energy efficiency of appliances. The Energy Rating Calculator includes a star rating to compare different models – the more stars a product has, the greater the energy efficiency rating.

We will generally accept any reasonable basis for this including an assumption that that a new asset will be more energy efficient than a very old asset (for example, one manufactured before energy efficiency ratings were in place).

Record keeping

In line with general record keeping requirements for taxpayers, you should keep records that confirm the expenditure claimed and explain how you compared different assets when upgrading or making improvements. Any electronic records must be in a form we can access.

Depreciation and the instant asset write-off

If your business has an aggregated annual turnover of less than $10 million, you may be eligible to claim both the instant asset write-off and the energy incentive in the 2023–24 income year.

The bonus deduction is equal to 20% of eligible expenditure. This means regardless of the method of deduction you use (that is whether immediate or over time), the deduction is calculated based on the expenditure incurred on the eligible asset or improvement.

What you can't claim

You can’t claim the bonus deduction for:

- assets and expenditure on assets that can use a fossil fuel (except if that use is merely incidental such as where an asset uses an oil-based lubricant)
- assets and expenditure on assets which have the sole or predominant purpose of generating electricity (such as solar panels)
- capital works
- motor vehicles (including hybrid and electric vehicles) and expenditure on motor vehicles
- expenditure allocated to software development pools
- financing costs, including interest and borrowing expenses.

You cannot claim the bonus deduction if a balancing adjustment event occurs to the asset during the bonus period, unless the event is an involuntary disposal (for example, the asset is lost or destroyed).

Research and development tax incentive

If your business is entitled to a research and development (R&D) notional deduction under the R&D tax incentive program, you are only entitled to the notional R&D deduction and not a deduction under other taxation law. Your bonus deduction is still claimed based on what that other deduction would have been.

You can claim both the bonus deduction and the R&D notional deduction. The bonus deduction will not affect the amount of the R&D notional deduction. The R&D notional deduction amount is the actual expenditure amount, not the expenditure amount and the bonus deduction amount.

When you can claim

You generally claim a deduction in the income year the expenses are incurred.

For depreciating assets first used or installed ready for use during the bonus period, you must claim the bonus deduction in the income year in which the asset is first used or installed ready for use, which must also be the income year the asset is used for a taxable purpose.

For improvements made to existing assets, you must claim the bonus deduction in the income year in which the expenditure on the improvement is incurred.

An entity with a substituted accounting period may claim the bonus deduction across more than one income year, provided the eligible asset was first used or installed ready for use, or the improvement cost was incurred, during the bonus period.

The maximum amount you can claim as a bonus deduction under the energy incentive is $20,000. If you can claim the bonus deduction across more than one income year, then the maximum amount of the bonus deduction you can claim in a subsequent income year is reduced by any amount claimed in the previous income year. This ensures that the $20,000 cap on bonus deductions applies equally to businesses with normal accounting periods and with substituted accounting periods.

How to claim the energy incentive

To correctly claim the bonus deduction in your tax return, see:

- 2024 Individual tax return instructions – Business and professional items
- 2024 Partnership tax return instructions
- 2024 Company tax return instructions
- 2024 Trust tax return instructions
- 2024 AMIT tax return instructions

- [2024 CCIV tax return instructions]
- [2024 Self-managed superannuation fund annual return instructions]

QC 102640

Work out your business taxable income

Calculate your business's taxable income using a calculation of business profit or loss and applying adjustments.

Last updated 7 May 2025

The formula to work out your taxable income is Assessable income minus Deductions.

To work out your taxable income, use your business operating profit or loss as a starting point. You then make income or expense reconciliation adjustments to reconcile your business operating profit or loss with your business taxable income.

After you have worked out your taxable income (taking into account income and deductions from business and non-business), we will work out your tax liability. We then apply your concessions, rebates and offsets.

If you only have income and deductions for your business, it is a good idea to reconcile your taxable business income at the end of each financial year with the income you have submitted in your activity statements for that year.

Some common examples of reconciliations include CGT, prepaid expenses and different rates of depreciation for tax purposes (rather than accounting rules).

Example: reconciliation of costs

Sharma has a small physiotherapy business, which she has been running for many years and she has a regular client base.

In May 2019, she negotiated a discount on an 18-month insurance policy, covering the period from June 2019 to November 2020, and paid for it up front. She uses a cash accounting system for her record keeping so she included the total insurance policy expense of $3,600 as an accounting expense in May 2019. Her accounting profit for running her business for 2018–19 was $60,000, which included the entire insurance policy expense.

However, for tax purposes, the insurance policy expense can't be deducted in total in the one year. It must be apportioned over the life of the policy. Sharma must reconcile her accounting profit with the tax law and add back the portion of the expense that she didn't use in the 2018–19 year. She does this by adding back $3,400 to her accounting profit. So, for tax purposes, her business taxable income is $63,400.

In 2019–20, she subtracts $2,400 from her accounting profit to take into account, for tax purposes, the pre-paid insurance policy expense. In 2020–21, she reconciles the balance of $1,000.

For more information, see Income Tax Assessment Act 1997 section 4-15 *How to work out your taxable income*.

QC 51611

Accounting for business trading stock

Explains what trading stock is and that livestock is also trading stock.

Last updated 9 July 2021

Trading stock is anything your business acquires, produces or manufactures, for the purpose of manufacturing, selling or exchanging. Livestock is also trading stock.

Trading stock does not include:

- standing or growing crops, timber or fruit – these only become trading stock when they are harvested, felled or picked
- stocks of spare parts held for repairs or maintenance to plant and equipment
- goods owned by a lending business where the goods are used to earn income by hire or rental, rather than manufacture, sale or exchange, for example furniture, DVDs, catering equipment, tools, vehicles etc.
- consumables used in manufacturing trading stock, such as cleaning agents or sandpaper.

All businesses must account for the value of their trading stock at the end of each income year (closing stock) and at the start of the next income year (opening stock).

Valuing trading stock

Check what is considered as trading stock and work out if your trading stock's value is increasing.

Simplified trading stock rules

If a business's trading stock's value has changed by no more than $5,000 you may not have to conduct a formal stocktake.

General trading stock rules

Find out when general trading stock rules apply to you.

Using trading stock for private purposes

You must account for any business trading stock that you've taken for private use.

Using assets for private purposes

Work out how your business should correctly account for private use of assets, such as horses and racing cars.

QC 44440

Valuing trading stock

Check what is considered as trading stock and work out if your trading stock's value is increasing.

Last updated 7 May 2025

You are required to undertake a stocktake as close as possible to the end of each income year.

An increase in your trading stock's value over the year is counted as assessable income, while a decrease is considered an allowable deduction.

Conducting a stocktake usually involves physically counting your stock and valuing each item, using one of three methods:

- The **cost price method** includes all costs associated with bringing the stock to its current condition and location. This may include the cost price plus freight, insurance, customs and excise duties, and delivery charges.
- The **market selling value method** uses the current value of stock if it is sold in the normal course of business.
- The **replacement value method** uses the cost to obtain an almost identical item that is available in the market on the last day of the income year.

You can choose a different method each year for different items of stock.

The closing value for an item of trading stock at the end of one income year automatically becomes its opening value at the beginning of the next income year.

If you are entitled to GST credits you generally exclude the GST component when calculating your trading stock's value.

For more information, see:

- Simpler trading stock rules for small businesses
- General trading stock rules
- Using stock for private purposes
- IT 2670 *Income tax: meaning of 'trading stock on hand'*

QC 44444

Simplified trading stock rules

If a business's trading stock's value has changed by no more than $5,000 you may not have to conduct a formal stocktake.

Last updated 20 June 2025

When you can use these rules

You can use the simplified trading stock rules if:

- either
  - you are a small business with an aggregated turnover of less than $10 million a year or
  - you would be a small business except your aggregated turnover is $10 million or more but less than $50 million – for income years starting on or after 1 July 2021, and

- you estimate that the value of your trading stock changed by $5,000 or less in the year.

If you use the simplified rules, you don't have to:

- conduct a formal stocktake
- account for the changes in your trading stock's value.

Estimating stock value

Your estimate will be considered reasonable if either:

- you maintain a constant level of stock each year and have a reasonable idea of the value of your stock on hand
- your stock levels fluctuate but you can make an estimate, based on your records, of the stock you have purchased.

You must:

- undertake your estimate in good faith following a rational process
- be able to explain and prove your process to us if requested.

In making your estimate consider:

- the type of trading stock you hold (for example, a large range but few items or a small range of many items)
- where and how your stock is stored (for example, one location or several locations)
- how you value stock items (for example, cost price, market selling value or replacement value method)
- the quantity and value of your stock on hand in previous income years
- whether the value of your stock varies from previous income years or during the income year
- how you record your sales and purchases and how accurate those records are
- your inventory systems and how accurate they are
- information from any stocktakes you have undertaken

- significant changes to the type and quantity of stock you hold.

You still claim a deduction for trading stock in the same way you claim your other expenses. If you are claiming your deductions for your other expenses when you pay for them – rather than when the expense is incurred – you must do the same for your trading stock claims.

Example: Trading stock estimate

Colin is an electrician. He always has a small number of items in his van and workshop that are trading stock. At the end of the previous income year he valued his trading stock at $6,800.

Colin's business hasn't changed during this income year. He estimates that the **quantity of trading stock** he holds at the start and end of the year is similar. However, he knows that the **cost of most items** has increased by around 15% during the year.

He multiplies the value at the start of the year ($6,800) by 1.15, which gives an end of year estimate of $7,820.

The difference between the value of the opening trading stock ($6,800) and the closing trading stock ($7,820) is less than $5,000. This means Colin doesn't need to:

- do a stocktake
- account for the change in his trading stock value when working out his assessable income.

Opening value of stock

The value of your stock on hand at the start of the income year is the **same as** the value you included in your return at the end of the previous year.

If you didn't have any trading stock in the previous year, the value of your stock on hand at the start of the year is zero ($0). This is likely if you:

- started a new business in the year
- have an existing business but this is the first year you have trading stock.

If you choose not to account for the change in the value of your trading stock (under the simplified trading stock rules), the value at the end of the year is considered to be the same as it was at the start of the year.

Change in value of stock

If the difference in your trading stock's value during the year varied by more than $5,000, use the general trading stock rules.

Under the general trading stock rules, an increase in your trading stock's value over the year is assessable income, while a decrease is an allowable deduction.

There are other rules for when you use trading stock for private purposes.

Example: value of trading stock changes

Joel runs a knitwear store and the value of his opening stock for 2024–25 is recorded as $5,600.

If Joel makes a reasonable estimate that the value of his closing stock at the end of 2024–25 is:

- $8,000 – as the difference is no more than $5,000, he doesn't need to do a stocktake or include the increase in value of his stock in his assessable income
- $12,000 – as the difference between the opening stock ($5,600) and his reasonable estimate of the closing stock ($12,000) is greater than $5,000, Joel must do a stocktake and include the increase in value of his stock in his assessable income for 2024–25.

Choosing to do a stocktake

You can choose to do a stocktake. You might make this choice if the:

- value of your stock is increasing and you prefer to increase your assessable income in small increments over a number of years. The alternative would be to make one large adjustment when the increase in stock value reaches the $5,000 threshold.

- value of your stock has decreased and you prefer to reduce your assessable income immediately.

If you choose to do a stocktake:

- apply the general trading stock rules
- include the change in value of trading stock in your assessable income, even if the change is $5,000 or less.

QC 44443

General trading stock rules

Find out when general trading stock rules apply to you.

Last updated 7 May 2025

When these rules apply

The general trading stock rules apply to you if the value of your trading stock changes by:

- more than $5,000
- $5,000 or less but you choose to do a stocktake and account for the change in value.

You can choose to do a stocktake and use the general trading stock rules even if you are eligible to use the simplified trading stock rules.

Under the general trading stock rules, you must do an end-of-year stocktake and record the value of all trading stock you have on hand at **both**:

- the beginning of the income year
- the end of the income year.

Value of stock

The value of stock at the end of an income year is usually the same as its value at the start of the next income year, however if, for some reason, the value of closing stock is:

- **more** than that of opening stock, you must include the difference as part of your assessable income
- **less** than that of opening stock, you can reduce your assessable income by the difference.

An increase in your trading stock's value over the year is assessable income, while a decrease is an allowable deduction.

If your business started trading during the income year, include the total value of stock on hand at the end of that year in your assessable income.

Holding an asset as trading stock

If you start holding a capital gains tax (CGT) asset that you already own (such as land) as trading stock for your business, there may be CGT implications.

Under the trading stock rules, you can choose to start holding the trading stock at either its original cost or its market value. If you choose market value, CGT event K4 will happen. This means that you may make a capital gain or loss.

For more information, see:

- Capital gains tax
- Types of CGT events
- Land as trading stock

Using trading stock for private purposes

You must account for any business trading stock that you've taken for private use.

Last updated 7 May 2025

If you take an item for your private use, you need to:

- account for it as if you had sold it
- include the value of the item in your business's assessable income.

There are 2 ways you can value this stock. You can either:

- keep records of the value of goods you take from your trading stock for your own private use and report that amount. Our Law Administration Practice Statement explains how to value goods based on your circumstances – see PS LA 2004/3 (GA) *Trading stock: valuation of goods taken from trading stock for private use by sole traders or partners in a partnership*
- use the amounts we provide (and update annually) as estimates of the value of goods you have taken. These are available in Taxation Determination TD 2024/8 *Income tax: value of goods taken from stock for private use for the 2024–25 income year*.

Example: recording the value of goods taken for private use

John runs a grocery store. At the end of each week, he takes food from his grocery store for his wife and 3 children.

John records the value of these goods and reports the amount as income in his business accounts. His records include:

- the date
- a description of what was taken
- the reason stock was taken

- the cost or market value of the item (excluding GST).

QC 44442

Using assets for private purposes

Work out how your business should correctly account for private use of assets, such as horses and racing cars.

Last updated 7 May 2025

Small businesses and privately owned and wealthy groups sometimes purchase assets such as boats, horses or racing cars. If these assets are used to earn business income, you can generally claim deductions for them. If you use the assets for a mix of business and private use, you must only claim the portion related to your business.

We have found that when the assets are used partly for the business and partly for private purposes some businesses make common mistakes when accounting for that use. It's important to make sure all your assets are accounted for correctly, including where they are used for private purposes.

Avoid mistakes

To get your tax right for the use of your assets:

- only claim deductions against your business income for expenses associated with the business use of your assets. You need to work out the portion spent on private use and exclude this from your calculation
- make sure you meet your tax obligations, including private company benefits and fringe benefits tax (FBT), which may apply when you provide benefits to your employees, shareholders or associates

- review your treatment of these assets each year, as your circumstances may change. If you have started using an asset for private purposes, you need to start apportioning your expenses accordingly
- keep proper records for your business that can explain all transactions, including payments to and receipts from employees, shareholders and associates
- let your tax professional know how you're using your assets so they can correctly apportion the relevant income and deductions.

If you're unsure about accounting for your assets, speak with your tax professional or engage with us for advice.

Common mistakes

Some of the common mistakes we have identified include:

- Claiming deductions for private assets
- Incorrectly apportioning deductions
- Giving rise to a deemed dividend
- Creating an FBT liability

Claiming deductions for private assets

You can't claim a deduction against your business income for expenses associated with an asset that has been used entirely for private purposes.

Example 1: Claiming deductions

A tavern operator purchased a boat for two million dollars and claimed it was purchased by the company with the intention of offering boat charters to patrons of the tavern.

The business claimed large deductions for expenses associated with chartering and maintaining the boat, however they also reported minimal income.

This attracted our attention and when a review was conducted we discovered that the:

- tavern was sold soon after the boat was purchased
- boat was never insured to legally operate as a commercial vessel and didn’t meet specifications required to gain the appropriate insurance cover
- boat was used as a home office for the director and for other private purposes.

We determined the boat was not used in the business, but rather for the private use of the director. The deductions were disallowed and the client was required to pay the tax shortfall, with interest and penalties.

Incorrectly apportioning deductions

If your expenses are for both business and private use, you can only claim a deduction for the business-related portion. You need to work out the percentage that relates to your business use.

Example 2: Apportioning deductions

A director claimed an aircraft was purchased by their business for the purpose of expanding into regional areas of the state and to provide chartered flights to the public.

Over several financial years, the company’s accountant claimed ongoing large deductions for expenses associated with the cost of hiring out the plane. However, there was minimal or no income generated by business activities linked to the aircraft.

The tax outcomes related to this asset attracted our attention and we conducted a review. The review found that the:

- relationship couldn’t be established between use of the aircraft and expansion of the business
- company stopped offering chartered flights soon after the aircraft was purchased as it didn’t meet legal requirements to operate commercially
- aircraft was predominately unavailable for hire to the public
- majority of flight hours were undertaken by the director and were of a private nature.

We determined the overall use of the aircraft was a private pursuit, with limited periods of business use through chartered flights. The company's tax returns were amended to reduce the amount of deductions claimed, by apportioning and removing the private component of the expenses. The company was required to pay the tax shortfall and interest as well as penalties.

Giving rise to a deemed dividend

A deemed dividend may arise when you purchase an asset through your company and it's used for private purposes by a shareholder or their associate.

Both the company and recipient of the dividend must record these on their tax returns.

For more information, see:

- Private company benefits – Division 7A
- Income tax return for business

Example 3: Private company benefits – Division 7A deemed dividend

A director who operated a consulting business claimed they personally competed in a racing network. The company purchased vehicles and claimed over a million dollars in deductions for racing activities over several financial years. They stated the vehicles and activities were used for advertising and to further their business income.

This behaviour attracted our attention and we conducted a review of the business. The review found:

- there were some vehicle and racing expenses associated with running the business; however, the scale of these expenses was disproportionate in comparison to business income
- the company's business plan, client base and use of the vehicles were not sufficient to justify that the racing costs were an expense incurred to build a client base

- the vehicles were owned by the company but stored and used privately by the director

We determined the company was claiming deductions for a private pursuit and not for the purpose of furthering the consulting business.

As a result, the deductions claimed for racing expenses were disallowed and the company had to pay the tax shortfall, as well as interest and penalties.

The private use of the racing vehicles was treated as a deemed dividend on the basis that the company had provided assets for the personal benefit of the director who was a shareholder. The director was required to include the deemed dividend in their assessable income. Their personal tax returns were amended and they had to pay the tax shortfall, interest and penalties.

Creating an FBT liability

An FBT liability may arise when a business purchases an asset that is used by an employee or associate of an employee for personal purposes.

Both the business and the employee must report these correctly.

Example 4: FBT liability

A property company claimed deductions for a boat on the basis that it was used for marketing the company. Large deductions were claimed relating to running the boat. This attracted our attention and we conducted a review.

We discovered the boat was used by the director and other employees for private trips, and to host parties for people who had paid to attend the company's property seminars.

When looking at the overall business activities, we determined the director had purchased the boat primarily for their own private use. As a result, we disallowed the deductions and the private use of the boat was a fringe benefit for the employees of the company. The company had to lodge an FBT return and pay the resulting FBT liability, as well as the income tax shortfall, interest and penalties.

If you made a mistake

Before you lodge your tax return make sure you have correctly apportioned expenditure for your assets and considered the application of private company benefits and FBT provisions.

If you realise you've made a mistake, you will need to amend or lodge an income tax or fringe benefits tax return to correct your mistake.

You can also contact us or speak with your tax professional to correct these mistakes.

For more information, see:

- What attracts our attention
- Privately owned and wealthy groups

QC 58118

Registered emissions units

Income tax treatment of registered emissions units, and basic principles of how an REU is taxed.

Last updated 14 February 2024

What are registered emissions units

A registered emissions unit (REU) is a unit for which there is an entry in a Registry account in the Australian National Registry of Emissions Units, within the meaning of the *Australian National Registry of Emissions Units Act 2011*.

There are 3 types of REUs:

- a Kyoto unit

- an Australian carbon credit unit (ACCU)
- a safeguard mechanism credit unit.

Basic tax treatment of REUs

Holders of REUs are taxed on their REUs exclusively under Division 420 of the *Income Tax Assessment Act 1997* and the normal rules, such as CGT, don't apply to them. Other carbon credits and emissions units, however, are taxed under the general rules about income and deductions, including CGT.

1. You can deduct certain costs related to becoming the holder of an REU in the year you start to hold it.
2. You must account for changes in the value of REUs you hold over the course of the year if you hold any at either the beginning or end of an income year. This may require you to include an amount in your assessable income or may entitle you to claim a deduction.
3. Any proceeds you receive from the disposal of REUs are assessable income. You can deduct costs you incur for ceasing to hold REUs in the year of disposal.

Special rules

The basic tax treatment for REU's is varied in the following circumstances:

- You acquire or dispose of REUs in a non-arm's length transaction, or in a transaction with an associate, for an amount other than their market value:
  - where the disposal of an REU occurs for a purpose other than for gaining assessable income (for example, offsetting your personal carbon footprint)
  - upon the death of the holder of the REU
  - where you are an eligible individual primary producer and the REU is an eligible ACCU
  - where the REU becomes or ceases to be taxable in Australia.

Who is the holder of an REU?

You are the holder of an REU if you are the entity in whose registry account there is an entry for that unit.

If an entity holds an REU on behalf of another entity (as their nominee), the entity on whose behalf the unit is held, is taken to hold the unit, not the nominee.

You hold the unit from the date it is registered in your name.

Basic treatment – claiming deductions for the cost of acquiring REUs

The holder of an REU, other than an ACCU issued to you by the clean energy regulator, can claim a deduction for the costs of acquiring the REU.

If you become the holder of an REU because you are issued an ACCU by the Clean Energy Regulator, you

- can deduct expenses associated with preparing or lodging an application for a certificate of entitlement or offsets report with the clean energy regulator.
- may be able to deduct other expenses in relation to the eligible offset project that gave rise to the credits under general deduction provisions if you meet the criteria for claiming deductions for the project under the general taxation rules.

Example: accounting for registered emissions units in the first year of holding units

Annie purchases REUs on 1 July 2023 for $10,000. This is the point from which she first holds these REUs.

Annie is entitled to a deduction for the cost of acquiring the REUs in the 2023–24 income year.

Accounting for the change in the value of REUs you hold over the income year

You must include in your tax return the change in value of REUs you hold over the income year. If the value of the REUs you hold at the end of the year is:

- **more** than the value of the REUs you held at the beginning of that year, you must include the difference as part of your assessable income.
- **less** than the value of the REUs you held at the beginning of that year, you may claim a deduction equal to that difference.

There are also special rules for working out the value of REUs you hold at the beginning and end of an income year.

How to work out the value of REUs you held at the start of an income year

The value of the REUs you hold at the start of an income year is the same as the value of the REUs you held at the end of the previous income year.

If you held no REUs at the end of the prior income year, the value of REUs you hold at the beginning of the year is nil.

Example: working out the value of a registered emissions unit at the start of an income year

At the end of the 2023–24 income year, Annie works out she held REUs with a value of $10,000. The value of these REUs she holds at the start of the 2024–25 income year is $10,000.

How to work out the value of REUs you held at the end of an income year

The value of an REU you hold at the end of an income year is worked out using one of three methods:

- FIFO (first-in first-out) cost method
- Actual cost method
- Market value method.

In the first income year that you hold REUs you must choose one of these methods before you lodge your income tax return. If you do not choose the actual cost or market value method, the FIFO cost method will apply.

Once a choice is made it can't be revoked and you must continue to use this method for at least the 3 income years following the first income year in which you made the choice.

To work out if you are eligible to change your choice of method see Changing your method for valuing registered emissions units.

Cost of an REU

The cost of an REU, depends on whether it is an ACCU issued to you by the clean energy regulator or you purchased an existing REU from its holder.

The cost of an ACCU issued to you by the Clean Energy Regulator is its market value immediately after you begin to hold the unit.

- The cost of other REUs you acquire, is the total of the expenditure that you incurred in becoming the holder of the unit that you can claim a deduction for.

FIFO cost method

The FIFO cost method requires you to work out the value of the REUs you hold by summing up the cost of the REUs you hold at the end of the income year, assuming that you disposed of any REUs in the same order in which you acquired them.

Actual cost method

The actual cost method for working out the value of the REUs you held at the end of the income year requires you to identify and add up the cost of all the units you actually hold at the end of the income year.

Market value method

The market value method for working out the value of the REUs you held at the end of the income year requires you to work out the market value of all the REUs you held at the end of the income year.

Example: accounting for registered emissions units in the first year of holding units

Annie acquires REUs on 31 July 2023 for $10,000. This is the first time she holds any REUs. She is still holding these REUs on 30 June 2024.

As Annie holds REUs at the end of the income year, she must work out the change in the value of her REUs between the beginning of the income year to the end of the income year to work out whether she needs to include an amount in her assessable income or whether she can claim a deduction in her tax return.

As Annie didn't hold any REUs at the beginning of the income year the value of her REUs at the beginning of the income year is nil. She makes the choice to work out the value of these units at the end of the income year using the FIFO cost method.

On 30 June 2024 the value of the REUs Annie holds is $10,000.

When completing her tax return for the 2023–24 income year, Annie claims a deduction of $10,000 for the cost of acquiring the REUs and includes $10,000 in her assessable income. This is the increase in the value of the REUs she holds at the end of the 2023–24 income year compared to the start of the year.

Changing your method for valuing REUs

You can only change your choice of valuation method for an income year if you have used the same method for at least the 4 most recent income years and subject to the following limitations:

- You can't choose to use the actual cost method for the current income year if you used the FIFO cost method for the most recent income year in which you held REUs at the end of the income year.
- The choice must be made before you lodge your income tax return for the income year for which you are changing your choice.

Example: changing method of accounting for registered emissions units

Miran acquires REUs in the 2022–23 income year and accounts for his REUs using the FIFO method. In the 2023–2024 income year Miran wants to switch from the FIFO method to the actual cost method to account for his units. Miran is not able to switch methods because:

he has not used the FIFO method for the 4 previous income years even if he could change methods, he can't choose the actual cost method as the FIFO cost method was used in the previous income year.

In the 2026–27 income year, Miran will be eligible to change his choice of method but may only choose to change to the market value method.

Disposing of REUs

The amount you are entitled to receive because you ceased to hold an REU is included in your assessable income in the income year in which you ceased to hold the unit.

Example: disposal of registered emissions units

Annie decides to sell all the REUs she holds. She sells them in an arm's length transaction to an unrelated party on 1 April 2025 for their market value of $12,000.

As Annie has sold her REUs for $12,000 she will need to include this amount as assessable income in her 2024–2025 income tax return.

Worked example: accounting for REUs from purchase to disposal

2022–23 income year:

- Ren purchases REUs from an unrelated party and is registered as their holder on 3 February 2023 for $22,000.
- Ren is entitled to a deduction for $22,000 on becoming the holder in the 2022–23 income year.
- Ren chooses to use the market value method to account for the value of his REUs during the first year of holding these units (the 2022–23 income year).
- The market value of the REUs at the end of the 2022–23 income year is $25,000 which is included in Ren's assessable income for the 2022–23 income year.

2023–24 income year:

- Ren does not sell any of his REUs in the 2023–24 income year and the market value of the REUs decrease to $20,000 on 30 June 2024.
- As Ren holds no other REUs Ren claims the $5,000 decrease in market value as a deduction in his 2023–24 tax return.

2024–25 income year:

- In the 2024–25 income year Ren sells his REUs to a carbon service provider for their market value of $21,000. Ren includes the $21,000 as assessable income in his 2024–25 tax return.
- As Ren holds no other REUs, at the end of the 2024–25 income year the value of REUs Ren holds at the end of the income year is nil. Ren is entitled to a deduction of $20,000 in the 2024–25 income year. This being the decrease in the value of the REUs he held from the beginning to end of the income year.

Modified tax treatment of REUs

The basic tax treatment of REUs is modified in 5 circumstances:

- non arm's length transactions, or transactions between associates, not at market value
- disposal of REUs for a purpose other than gaining assessable income
- death of the holder
- eligible ACCUs held by eligible individual primary producers
- REUs become or cease to be taxable in Australia.

Non arm's length transactions or transactions between associates not at market value

If the transfer of an REU was not for market value consideration, the transaction is treated for tax purposes as if the REU was sold for market value if the transferor and the transferee either:

- didn't deal with each other at arm's length, or
- are associates.

This means for the purpose of working out the amount they are entitled to deduct or to be included in the assessable income of the buyer and seller respectively:

- the buyer is treated as having paid the seller the market value of the REUs to acquire them and
- the seller is treated as having received their market value from the buyer to acquire them.

Example: Effect of a non-arm's length transaction: paying over market value

Yash acquires REUs on 1 January 2024 for their market value of $50,000. Yash then immediately sells them to an associate, Jade Farms Pty Ltd for $100,000.

As the REUs were sold for above market value to an associate, the non-arm's length transactions with associates rule applies. Yash is treated as having sold the REUs for $50,000 and Jade Farms is treated as having purchased them for $50,000.

Yash will include $50,000 in his assessable income as a result of the disposal of the REUs and Jade Farms Pty Ltd may only claim a $50,000 deduction for the purchase of the units.

The cost of the units will also be $50,000 for the purposes of working out the value of the units using the FIFO method or actual cost method at the end of the 2023–24 income year.

Example: Effect of a non-arm's length transaction paying under market value

Deepak acquires REUs on 1 November 2023 for their market value of $100,000. Deepak then immediately sells them to an associate, Garnet Valley Pty Ltd for $50,000.

As the REUs were sold for below market value to an associate, the non-arm's length transactions and transactions with associate rule applies. Deepak is treated as having sold the REUs for $100,000 and Garnet Valley is treated as having purchased them for $100,000.

Deepak will include $100,000 in his assessable income as a result of the disposal of the REUs and Garnet Valley Pty Ltd will be able to claim a $100,000 deduction for the purchase of the units.

The cost of the units will also be $100,000 for the purposes of working out the value of the units using the FIFO method or actual cost method at the end of the 2023–24 income year.

Disposal of REUs for a purpose other than for gaining assessable income

If you cease to hold a REU and you disposed of it for a purpose other than gaining assessable income, you are required to include in your assessable income for that year an amount equal to any deductions claimed for:

- the cost incurred in becoming the holder of the REU
- the cost incurred in ceasing to hold the REU.

This doesn't apply in cases where you ceased to hold the units where the non-arm's length rule applies.

If the disposal is a result of a transfer, the entity who acquired the unit is treated as if they had acquired it for the disposer's cost to acquire it. That is the amount the disposer needs to include in their assessable income. If you are the disposer, you must inform the acquirer of this amount.

This rule will not apply where the disposal occurs because the registered emissions unit holder has died.

Example: Acquiring an REU to offset emissions from your personal residence

Minh acquires and surrenders REUs to offset the carbon footprint of their home in the 2022–23 income, by instructing the issuer to cancel the REU.

Minh purchased the REUs for $5,000. Minh is entitled to claim a deduction of $5,000 for the cost of the REUs in the 2022–23 income year.

As Minh has disposed of the units for no consideration, no amount is included in their assessable income under the basic disposal rule. However, as Minh has disposed of the units for a private reason and not in the course of gaining assessable income, $5,000, the amount Minh was entitled to claim as a deduction on their acquisition, is included in Minh's assessable income in the 2022–23 income year.

Death of the holder

A disposal of an REU may occur due to the death of the holder. On the death of the holder an amount is included in their assessable income equal to the deductions claimed by the holder for:

- the costs they incurred in becoming the holder of the REU (other than the costs of eligible offsets projects that are deductible under general deduction provisions)
- the costs they are entitled to deduct in ceasing to be the holder the REU.

There are also specific rules for the person who acquires the unit from the deceased. If the unit passes to:

- the deceased's legal personal representative (LPR)
  - the LPR is treated as having acquired the REU for the amount included in the deceased's assessable income on their death. When the deceased's LPR then passes the unit to a beneficiary, the LPR is treated as disposing of the unit for this amount.
- the deceased's beneficiary, whether directly or indirectly (for example, through the deceased's LPR) the beneficiary is treated as acquiring the unit for the amount included in the deceased's assessable income on their death.

Example: Transfer of REUs due to the death of a holder

Ronaldo is the holder of REUs. The cost of the REUs was $1,000 which Ronaldo claimed as a deduction in the year he became the holder of those units, the 2021–22 income year. He also included their value at the end of the income year, $1,000, in his assessable income for the 2021–22 income year

On 1 January 2023 Ronaldo dies. $1,000 is included in Ronaldo's assessable income for the 2022–23 income year (the same value as the deduction he previously claimed). As there is also a reduction in the balance of the REUs held by Ronaldo from the start of the 2022–23 income year ($1,000) to the end of the income year (nil), a $1,000 deduction would also be allowable in Ronaldo's 2022–23 tax return. Upon grant of probate, Franklin becomes LPR, and the units transfer to Franklin as LPR.

Franklin, as LPR is taken to have acquired the REUs for the same amount included in Ronaldo's assessable income in the 2022–23 income year on his death, that is $1,000.

Franklin distributes all the REUs to Ronaldo's beneficiary, Wilma. Franklin as LPR is taken to have disposed of the REUs for the amount included in Ronaldo's assessable income on his death, that is, $1,000.

Wilma is treated as acquiring the REUs for $1,000 (the amount included in Ronaldo's assessable income on his death).

Eligible ACCUs held by eligible individual primary producers

If you are an eligible individual primary producer, you will receive concessional tax treatment for any:

- eligible ACCUs you start to hold on or after 1 July 2022 because of an eligible offsets project associated with your primary production business
- income attributable to eligible ACCUs you receive from a partnership or trust that carries on a primary production business
- eligible ACCUs or eligible income you received from a qualifying arrangement with a carbon service provider.

For more information visit Taxation of Australian carbon credit units for primary producers.

REUs become or cease to be taxable in Australia

Changes to an entity’s tax residency status means there will be tax consequences for their registered emissions units. Whether becoming or ceasing to be an Australian resident for tax purposes, registered emissions units will need to be accounted for in the entity’s tax return for the year that the change occurs. Entity’s that are Australian residents for tax purposes will pay income tax on their registered emissions.

Transferring REUs to your Australian Registry account

If you have Kyoto or Australian carbon credit units that you transfer from your foreign account to your Australian Registry account (or a nominee's Registry account) how you account for them will be different depending on whether the units were held as either trading stock or a revenue asset or held otherwise (such as on capital account).

Where the units were trading stock or a revenue asset, you will be treated as if just before the transfer, you had sold the units to someone else for their *cost* and you had immediately bought the REUs back for the same amount. As a result:

- their cost will be included in your assessable income and
- a corresponding deduction is allowable for the deemed cost of acquiring the units.

Where the units were not trading stock or a revenue asset, you will be treated as if just before the transfer, you had sold the unit to someone else for its market value just before the transfer, and you had immediately bought the REUs back for the same amount. This means at this time:

- you will have a CGT event and need to calculate whether you have made a capital gain or loss for which you are taken to have received their market value, and
- are entitled to deduction for their market value.

REUs becoming taxable in Australia

In some cases, an entity may acquire registered emissions units while they are a foreign resident for tax purposes and not subject to income tax in Australia. When the entity becomes an Australian resident for tax purposes, the units are treated as if they had been acquired for market value and the entity starts holding the REUs at the time immediately after the entity became an Australian resident for tax purposes.

The cost of the REU is its market value at the date the entity became an Australian resident for tax purposes.

Example: Units becoming taxable in Australia - Foreign Resident becoming an Australian resident for tax purposes

Jaya is a resident of New Zealand for tax purposes. They hold 10,000 REUs on the New Zealand Emissions Trading Register.

Jaya decides to move to Sydney and becomes an Australian resident for tax purposes. They transfer their REUs from the New Zealand Emissions Trading Register to the Australian National Registry of Emissions Units.

Before the transfer occurs, Jaya is treated as having sold their REUs to someone else for their market value. The REUs are then treated as being bought back by Jaya in Australia for their market value.

Jaya will be able to claim the market value of these REUs as a deduction under Division 420.

REUs ceasing to be taxable in Australia

An entity may be an Australian resident for tax purposes when it acquires an REU but later becomes a foreign resident for income tax purposes and is no longer subject to Australian income tax on their REUs.

In these circumstances the entity is treated as having sold its REUs for their market value just before they cease to be a resident in Australia and no longer subject to Australian income tax. The market value of the REU is assessable income for the entity in this year. As the entity is no longer an Australian resident for tax purposes, any future changes in the value of their REUs at the start and end of the subsequent income years is ignored, unless the entity becomes an Australian resident for tax purposes again.

Example: Units ceasing to be taxable in Australia – an Australian resident for tax purposes becoming a foreign

resident

Cheng is an Australian resident for tax purposes in the 2022–23 income year. They hold 20,000 REUs.

Cheng decides to relocate to Auckland, New Zealand and becomes a New Zealand resident for tax purposes and ceases to be subject to Australian income tax on their REUs. As part of the move the 20,000 REUs are transferred from the Australian National Registry of Emissions Units to the New Zealand Emissions Trading Register.

The REUs are treated as having been sold for market value just before Cheng ceased to be an Australian resident for tax purposes.

The market value of the REUs is included as assessable income in Cheng's income tax return for the 2022–23 income year.

QC 101209

Business losses

How to carry forward business losses or offset them against other income.

Last updated 7 May 2025

Watch:

Media: Did you know you can claim a business loss as a deduction https://tv.ato.gov.au/ato-tv/media?v=bi9or7odhsw8it (**Duration:** 01:10)

Business loss

If your business makes a tax loss in a current year, you can generally carry forward that loss and claim a deduction for your business in a future year. However, you may be able to offset current year losses if you're a sole trader or an individual partner in a partnership and meet certain conditions.

You can’t claim a deduction if:

- it is not a tax loss – for example, there are some deductions you can't use to create or increase a tax loss, such as donations or gifts and personal super contributions
- the loss is related to illegal business activities.

Your business structure affects whether you:

- can offset and claim the loss in the current year
- need to carry forward the loss and claim a deduction for it in a later year.

For example, if you are a:

- sole trader or an individual partner in a partnership – you may be able to either
  - offset your business losses against other types of assessable income for the same income year
  - defer the loss or carry it forward and offset it when you next make a profit
- company – you may be able to carry forward a tax loss for as long as you want and choose the year you want to claim the deduction.

If your business has made more than one tax loss in a year you will need to consider each tax loss separately.

The rules for record keeping still apply for business losses. You need to keep records for five years for most transactions. However, if you fully deduct a tax loss in a single income year, you only need to keep records for four years from that income year.

See our definitions for explanations of tax and super terms.

For information on how to claim tax losses from previous years visit Claiming business tax losses from previous years.

Loss carry back tax offset

If you are an eligible corporate entity and made a tax loss in the 2019–20, 2020–21, 2021–22 or 2022–23 income years, you may be able to carry back your tax loss and claim a refundable tax offset in your 2020–21, 2021–22 and 2022–23 company tax returns. This is an alternative to carrying the tax loss forward to a future year.

Offsetting current year losses

Sole traders or individual partners in a partnership may be able to claim business losses by offsetting them.

Claiming business tax losses from previous years

Your business structure will affect how you can claim business tax losses.

Income from illegal activities: losses and outgoings

You can't claim income tax deductions for income earned through illegal activity.

QC 33708

Offsetting current year business losses

Sole traders or individual partners in a partnership may be able to claim business losses by offsetting them.

Last updated 7 May 2025

If you're a sole trader or an individual partner in a partnership, and you meet at least **one** of the non-commercial losses requirements, you can offset your business losses against other assessable income (such as salary or investment income) in the same income year.

Non-commercial loss requirements

The non-commercial business loss requirements are:

- your business is a primary production business or a professional arts business and you make less than $40,000 from other sources (excluding net capital gains) in an income year
- your individual income is less than $250,000 (disregarding any assessable amount that you may have released through the First Home Super Saver Scheme) and either
  - your assessable business income is at least $20,000 in the income year
  - your business has produced a profit in three out of the past five years (including the current year)
  - your business uses, or has an interest in, real property worth at least $500,000, and that property is used on a continuing basis in a business activity (this excludes your private residence and adjacent land)
  - your business uses certain other assets (excluding motor vehicles) worth at least $100,000 on a continuing basis.
- you have been granted a Commissioner's discretion allowing you to offset the loss.

Checking business expenses

When calculating a business loss for the current year, make sure you have accurately calculated the expenses you have incurred before you confirm a loss. Check that:

- your expenses are related to your business activity
- you have correctly apportioned your expenses between business and private use
- you haven't claimed any private expenses
- you have correctly claimed your expenses and haven't accidentally overstated them.

If you don't meet any of the non-commercial business loss requirements, you can defer the loss or carry it forward to future years.

For more information, see:

- Non-commercial losses, to work out if you offset or defer the loss
- Losses, to work out what is a tax loss and how to claim a tax loss
- Assessable income for business

QC 33729

Claiming business tax losses from previous years

Your business structure will affect how you can claim business tax losses.

Last updated 7 May 2025

If your business has made tax losses in previous years but you haven't offset all those losses in a current year, you can still carry forward these losses and claim a deduction for them in a later year as long as you meet all the requirements.

Effect of your business structure

Your business structure will affect how you can claim business tax losses from the current year or previous years. If you are:

- a sole trader or an individual partner in a partnership, check if you can offset your current business losses against other income in the same income year under the non-commercial business loss rules (you may also be able to offset business losses carried forward from previous years in the current income year).
- operating your business through a trust, losses must be carried forward by the trust indefinitely until they are offset against future net income (they cannot be distributed to the trust's beneficiaries)
- operating through a company, you can generally choose the year in which you would like to claim a deduction for a carried forward tax

loss.

Multiple losses across multiple years

Remember to consider each tax loss separately if you are looking at more than one tax loss across multiple years.

If you carry forward a prior year business loss to the current year or a future year, make sure you have correctly applied your past business losses before you lodge your tax return. Check that:

- you have accurately reconciled carried forward losses from a prior year to a later year (errors can occur when poor record keeping of losses accumulate)
- you haven't mis-characterised expenses such as capital expenditure and CGT losses as normal business expenses
- if your business is a specific entity, such as a private company, that you have considered the relevant tests linked to same or similar business tests when applying prior year losses to a current year, where the business activity has sufficiently changed.

QC 33873

Income from illegal activities: losses and outgoings

You can't claim income tax deductions for income earned through illegal activity.

Last updated 7 May 2025

The income tax law allows deductions against your assessable income for losses and outgoings incurred in carrying on a business. Generally, deductions will be allowed if there is a sufficient link between the loss or outgoing and the business income where the amount is not of a private or capital nature.

However, if your business activities are illegal – that is, you have been convicted of an **indictable offence** in respect of them – you cannot claim a deduction for a loss or outgoing to the extent it was incurred in the furtherance of – or directly relating to – those activities.

Similarly, such losses and outgoings do not form part of the cost base or reduced cost base of a capital gains tax asset. You will not be able to claim a capital loss or reduced capital gain as a result of such expenditure.

This applies to expenditure incurred on or after 30 April 2005.

Definition of illegal business activities

Indictable offences are offences that are punishable by imprisonment for at least one year and include offences such as drug trafficking, tax evasion, extortion, illegal gambling, people smuggling, forgery, and piracy.

Not all indictable offences will have taxation ramifications. Only illegal activity that directly relates to the earning of taxable income will be affected by this legislative change.

This legislation only applies to offences against an Australian law – that is, any Commonwealth, State or Territory law.

Lawful expenditure

If you are conducting a lawful business, but are convicted of an illegal offence while carrying on the business, only the expenditure that is incurred directly, or in the furtherance of, the illegal activity will be denied.

Expenditure that is incurred in undertaking the underlying lawful activity, and that would have been incurred regardless of the illegal activity, will continue to be deductible. This is because the expenditure cannot be said to further or be directly related to the illegal activity.

We may amend an assessment – at any time within 4 years – after the taxpayer is convicted of a relevant offence.

QC 18612

Our commitment to you

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

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

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

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