



Australian Government

Australian Taxation Office

# Business and professional items 2007

To help you prepare your schedule for  
individuals for 1 July 2006 – 30 June 2007



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## OUR COMMITMENT TO YOU

We are committed to providing you with advice and information you can rely on.

We make every effort to ensure that our advice and information is correct. If you follow advice in this publication and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we must still apply the law correctly. If that means you owe us money, we must ask you to pay it. However, we will not charge you a penalty or interest if you acted reasonably and in good faith.

If you make an honest mistake when you try to follow our advice and you owe us money as a result, we will not charge you a penalty. However, we will ask you to pay the money, and we may also charge you interest.

If correcting the mistake means we owe you money, we will pay it to you. We will also pay you any interest you are entitled to.

You are protected under GST law if you have acted on any GST advice in this publication. If you have relied on GST advice in this publication and that advice later changes, you will not have to pay any extra GST for the period up to the date of the change. Similarly, you will not have to pay any penalty or interest.

If you feel this publication does not fully cover your circumstances, please seek help from the Tax Office or a professional adviser.

**The information in this publication is current at May 2007.** We regularly revise our publications to take account of any changes to the law, so make sure that you have the latest information. If you are unsure, you can check for a more recent version on our website at [www.ato.gov.au](http://www.ato.gov.au) or contact us.

## HOW SELF-ASSESSMENT AFFECTS YOU

Self-assessment means the Tax Office uses the information you give on your tax return and any related schedules and forms to work out your refund or tax liability. We do not take any responsibility for checking the accuracy of the details you provide, although our system automatically checks the arithmetic.

Although we do not check the accuracy of your tax return at the time of processing, at a later date we may examine the details more thoroughly by reviewing specific parts, or by conducting an audit of your tax affairs. We also have a number of audit programs that are designed to continually check for missing, inaccurate or incomplete information.

## What are your responsibilities?

It is your responsibility to lodge a tax return that is signed, complete and correct. Even if someone else – including a tax agent – helps you to prepare your tax return and any related schedules, you are still legally responsible for the accuracy of your information.

## What if you lodge an incorrect tax return?

If you become aware that your tax return is incorrect, you must contact us straight away.

## Initiatives to complement self-assessment

There are a number of systems and entitlements that complement self-assessment, including:

- the private ruling system (see below)
- the amendment system (if you find you have left something out of your tax return)
- your entitlement to interest on early payment or over-payment of a tax debt.

## Do you need to ask for a private ruling?

If you are uncertain about how a tax law applies to your personal tax affairs, you can ask for a private ruling. To do this, complete a *Private ruling application form (non-tax professionals)* (NAT 13742-01.2007), or contact us.

Lodge your tax return by the due date, even if you are waiting for the response to your application. You may need to request an amendment to your tax return once you have received the private ruling.

We publish all private rulings on our website. (Before we publish we edit the text to remove information that would identify you.)

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## **ABOUT THESE INSTRUCTIONS**

*Business and professional items 2007* will help you fill in the *Business and professional items schedule for individuals 2007*, found at the back of this publication.

In these instructions, we provide information about:

- the simplified tax system (STS)
- personal services income (PSI)
- the types of business income you must show on the schedule, and
- the type of deductions you may be able to claim.

### **Who should use these instructions?**

Use these instructions if you are an individual who completed items **13**, **14** or **15** on your tax return (supplementary section). You may also need to use these instructions if you have a net loss from a business activity carried on in partnership with others.

### **Publications and services**

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

# INTRODUCTION

## WHO THIS SCHEDULE IS FOR

If you complete items **13**, **14** or **15** of your tax return (supplementary section), you must fill in the *Business and professional items schedule for individuals 2007* at the back of this publication and send it in with your tax return. These instructions will help you to fill in the schedule. If the business or professional items that apply to you are not filled in, your tax return will be sent back to you. We consider that your tax return has not been lodged until it is returned to us complete.

If your tax return and completed schedule are lodged late, you may be liable for a penalty. For information on the penalty for failing to lodge on time, see page 11 in *TaxPack 2007*.

If you have a net loss from a business activity carried on in partnership with others, you may need to complete items **P3** and **P9** of the schedule. See question **12** in *TaxPack 2007 supplement*. Do not include your partnership details at any other item on your schedule.

You will also need to complete the *Individual PAYG payment summary schedule 2007* at the back of this publication if you received any of the following:

- *Payment summary – voluntary agreement*
- *Payment summary – withholding where ABN not quoted*
- *Payment summary – labour hire and other specified payments*
- *Payment summary – foreign resident withholding.*

These instructions will help you fill in that schedule also.

## WHAT'S NEW

### Primary production and non-primary production deferred non-commercial business losses.

The total amount of deferred non-commercial business losses has been divided into two separate totals for primary production deferred non-commercial business losses and non-primary production deferred non-commercial business losses. Read **P9 Business loss activity details** on page 45 for more information.

### Project Pool Deduction Rate

The percentage in the calculation of the deduction rate for projects that started to operate on or after 10 May 2006 and contain only project amounts incurred on or after 10 May 2006 changed from 150% to 200%.

## HOW MANY HOURS DID IT TAKE YOU TO PREPARE AND COMPLETE THIS SCHEDULE?

The Tax Office is committed to reducing the costs involved in complying with your tax obligations. Your response to this item will help us monitor these costs as closely as possible.

Write the number of hours it took you to prepare and complete your *Business and professional items schedule for individuals 2007* at **S** in the *Taxpayer's signature* block on your schedule.

When completing this item consider the time, rounded up to the nearest hour, you spent:

- reading the instructions
- collecting the necessary information to complete this schedule
- making any necessary calculations
- completing the schedule, and
- putting the tax affairs of your business in order so the information can be handed to your tax agent.

Your answer should reflect the time your business spent preparing and completing your schedule and the time spent by your tax agent and any other person whose assistance you obtained.

If you are a tax agent preparing this schedule on behalf of your client, include your time and a reliable estimate of their time.

## RECORDS YOU NEED TO KEEP

You must keep records of most transactions in English for five years after you prepared or obtained them, or five years after you completed the transactions or acts to which they relate, whichever is the later. *Taxation Ruling TR 96/7 – Income tax: record keeping – section 262A – general principles* clarifies the record keeping obligations of small businesses, particularly for cash transactions. If you have losses, you should generally keep records for four years from the year of income when a tax loss is fully deducted or a net capital loss is fully applied.

The Tax Office is helping small business operators meet their record keeping obligations by reviewing their record keeping practices. These reviews start with a phone call or a brief visit to the business premises. The process is explained, you can ask questions and an interview is arranged for a later date.

Some of the more significant record keeping problems identified by the Tax Office are failure to:

- record cash income and expenditure
- account for personal drawings
- record goods for your own use
- separate private expenses from business expenses
- keep valid tax invoices for creditable acquisitions when registered for GST
- keep adequate stock records, and
- keep adequate records to substantiate motor vehicle claims.

For additional information, see *Record keeping for small business* (NAT 3029). To find out how to get this publication or to get a CD-ROM of our electronic record keeping package *e-Record*, see the inside back cover.

### Choice of superannuation fund

You must keep records that show you have met your choice of superannuation fund obligations. For further information about the records you need to keep, please visit our website [www.superchoice.gov.au](http://www.superchoice.gov.au) or phone our Super Choice Infoline (see the inside back cover).

## HOBBY OR BUSINESS?

It is important to determine whether you are carrying on a business or pursuing a hobby, sport or recreational activity that does not produce income.

In general, you are considered to carry on a business if the activity:

- has commenced
- has a significant commercial purpose or character
- has a purpose of profit as well as a prospect of profit
- is carried out in a manner that is characteristic of the industry
- is repeated, regular or continuous, and
- cannot be more accurately described as a hobby, recreation or sporting activity.

For additional information, see **Are you carrying on a business?** in the publication *Tax basics for small business* (NAT 1908). Primary producers should also see *Taxation Ruling TR 97/11 – Income tax: am I carrying on a business of primary production?*

### ! NOTE

When you have completed your *Business and professional items schedule for individuals 2007*, you will need to transfer:

- your **Net PSI** amount (if any) from **A** item **P1** on your schedule to **A** item **13** on page 9 of your tax return (supplementary section)
- your **NET INCOME OR LOSS FROM BUSINESS** amounts from **Y** and **Z** item **P8** on your schedule to **B** and **C** (respectively) item **14** on page 10 of your tax return (supplementary section).

## COMPLETING THE SCHEDULE

# S1 SIMPLIFIED TAX SYSTEM (STS) ELECTIONS

### Are you

- **eligible to enter or continue in the STS and want to do so, or**
- **exiting the STS?**

**NO**  Go to **P1 Personal services income (PSI)** on page 5.

**YES**  Read on.

### You need to know

The STS provides an alternative method of determining taxable income for eligible small businesses. The STS has two key elements:

- simplified capital allowances (depreciation) rules, and
- simplified trading stock rules.

In addition, the STS 12-month rule allows an immediate deduction for prepaid expenses where the payment is incurred for a period of service not exceeding 12 months AND the period of service ends in the next income year.

Entry into the STS is optional if you satisfy the eligibility tests.

### ! NOTE

When the STS began on 1 July 2001 an STS taxpayer was required to account for most business income when it was received, and most business expenses when they were paid. This is referred to as the STS accounting method.

From the first income year starting on or after 1 July 2005, you are no longer required to use the STS accounting method. You are now able to calculate your taxable income using the most appropriate method for your circumstances. However, if you were an STS taxpayer in an income year that started before 1 July 2005, then while you continue to be an STS taxpayer (from the first income year that starts on or after 1 July 2005), you can choose to continue using the STS accounting method.

If you choose not to continue using the STS accounting method, you will be able to calculate your taxable income using either:

- the accruals (earnings) method, that is, ordinary income is recognised when it is derived and general deductions are recognised when they are incurred, or
- the cash (receipts) method, that is, ordinary income is recognised when it is received and general deductions are recognised when they are paid or, alternatively, when they are incurred.

Where you choose not to continue using the STS accounting method, business income and expenses that have not been accounted for (because they have not been received or paid) will be accounted for in the year you change to the accruals or cash method.

If you choose to enter the STS, you must apply both the simplified capital allowances (depreciation) rules and the simplified trading stock rules, if they apply to you. As an STS taxpayer, if you have non-business income, such as salary and wages, you can also claim a deduction for depreciating assets used in earning your employment income under STS depreciation rules. The simplified capital allowances rules apply to your non-business income and deductions as well as to your business income and deductions. However, the STS capital allowances rules do not apply to depreciating assets used in rental properties.

If you choose to leave the STS, you cannot re-enter the STS until at least five years after the income year for which you were last an STS taxpayer. If you must leave the STS because you are no longer eligible, you can become an STS taxpayer again for an income year as soon as you are eligible.

See the note on page 5 regarding transitional arrangements about re-entering the STS.

➤ For more information about the STS:

- see *The simplified tax system – a guide for tax agents and small businesses* (NAT 6459)
- visit our website, or
- phone the Business Infoline (see the inside back cover).

If you want to enter the STS and are eligible to do so, you must complete **G**, **H** and **I** item **S1**. If you want to continue in the STS and are eligible to do so, you must complete **G**, **R** and **I** item **S1**.

If you are exiting the STS, you must complete **S** or **T** item **S1**. Go to **Exiting the STS** on page 5.

If you are not eligible to enter the STS or are eligible but do not want to enter the STS go to item **P1** on page 5.

### ! NOTE

If you are a partner in a partnership and the partnership is eligible and wants to enter the STS, the election to enter must be made at item **3** on the partnership's tax return. You do not complete item **S1**.

If you carry on a business separate to the partnership and you are eligible to enter the STS, you can also choose to enter the STS by completing item **S1**.

## ELIGIBILITY

To be eligible to be an STS taxpayer for an income year, a taxpayer must satisfy three tests. They must:

- carry on a business in that year
- have an STS average turnover for that year of less than \$1 million (including the turnover of any entities that they are 'grouped with'), and
- together with any grouped entities, hold depreciating assets with a total adjustable value at the end of the year of less than \$3 million.

## ! PROPOSED CHANGES TO THE STS

In the 2006 Federal Budget the government announced changes to the STS, which will apply from the start of the 2007–08 income year.

These proposed changes will increase the STS average turnover threshold to \$2 million and remove the \$3 million depreciating assets test from the STS eligibility requirements.

### Grouping rules

Special rules called the STS grouping rules will determine who the taxpayer is grouped with. These rules prevent larger businesses from structuring or restructuring their affairs to take advantage of the STS. For more information on the grouping rules, see *Taxation Ruling TR 2002/6 – Income tax: simplified tax system: eligibility – grouping rules (STS affiliate, control of non fixed trusts)* or phone the Business Infoline on **13 28 66**.

### TEST 1: Were you carrying on a business during the year?

If you carried on a business at any time during the year, you satisfy this test. Go to **Test 2**.

### TEST 2: Is your STS average turnover less than \$1 million?

You work out your STS average turnover for an income year either by looking back to actual turnover in previous years or by looking forward to estimated future turnover.

Before you can work out your STS average turnover you need to know your STS group turnover.

Your STS group turnover is the value of business supplies you make in the ordinary course of your business and the value of business supplies any businesses you are grouped with make in the ordinary course of their business. It does not include any business supplies made between you and businesses you are grouped with.

➤ For more information, phone the Business Infoline or see *Taxation Ruling TR 2002/11 – Income tax: Simplified Tax System eligibility – STS average turnover*.

### Look back method

Under the look back method, you calculate your STS average turnover using the average of your STS group turnovers of any three years out of the previous four income years (excluding the current year).

If you have been in business for fewer than three years, you will need to calculate your STS average turnover for the number of years you have been in business (excluding the current year).

If your business has operated for only part of any of those years, you must use a reasonable estimate of what your turnover would have been if you were in business for the full year.

Use worksheet 1 to assist you with your calculation.

## WORKSHEET 1

Income year	STS group turnover
2002–03	\$
2003–04	\$
2004–05	\$
2005–06	\$
Cross out the largest turnover amount if you have been in business for each of the four income years.	
Total of the three* years	\$
(divide by 3*)	
STS average turnover	\$
* or the number of years you have been in business if less than three years	

If your STS average turnover is less than \$1 million you satisfy this test. Go to **Test 3**. Otherwise read on.

### Look forward method

Under the look forward method you calculate your STS average turnover using a reasonable estimate of STS group turnovers for the current year and the following two years (ignoring any of those years for which you do not expect to be carrying on a business at any time in that year).

Alternatively, you can use your actual STS group turnover for the current year and a reasonable estimate of your STS group turnover for each of the following two income years (ignoring any of those years for which you do not expect to be carrying on a business at any time in that year).

If your business (or a grouped entity) has operated for only part of the current year, you must use a reasonable estimate of what your STS group turnover for this year would have been if you (or the grouped entity) had carried on a business throughout this year.

Use worksheet 2 to assist you with your calculation.

## WORKSHEET 2

Income year	STS group turnover
2006–07	\$
2007–08	\$
2008–09	\$
Total of the three* years	\$
(divide by 3*)	
STS average turnover	\$
* or the number of years you expect to be in business if less than three years (see above)	

If your STS average turnover is less than \$1 million you satisfy this test. Go to **Test 3**.

### TEST 3: Did you and any businesses you were grouped with have depreciating assets with a total adjustable value of less than \$3 million at 30 June 2007?

This test only includes depreciating assets for which a deduction has been allowed or is allowable under the STS or uniform capital allowances (UCA) rules.

Broadly, the adjustable value of a depreciating asset is its cost less its decline in value since it was first used, or installed ready for use for any purpose whether business or private. It is the value at the end of the income year that is relevant.

If the total adjustable value of your depreciating assets and those of entities you are grouped with for the 2006–07 income year was less than \$3 million at this time, you satisfy this test.

#### Did you satisfy all three eligibility tests?

**NO**  You are not eligible to enter or continue in the STS. If you were not in the STS in 2005–06, go to item **P1 Personal services income** in the next column. If you were in the STS in 2005–06 and are no longer eligible, you must exit the STS. Read on.

**YES**  Read on.

#### Completing this item

##### Entering the STS

If you want to enter the STS and are eligible to do so, complete **G**, **H** and **I** item **S1**.

Print **X** in the **YES** boxes at **G** and **H** item **S1**.

Print **X** in the **YES** box at **I** item **S1** if you are grouped with another entity for any year relevant to your calculation of STS average turnover; otherwise print **X** in the **NO** box.

##### Continuing in the STS

If you want to continue in the STS and are eligible to do so, complete **G**, **R** and **I** item **S1**.

Print **X** in the **YES** boxes at **G** and **R** item **S1**.

Print **X** in the **YES** box at **I** item **S1** if you are grouped with another entity for any year relevant to your calculation of STS average turnover; otherwise print **X** in the **NO** box.

##### Exiting the STS

If you satisfy all three eligibility tests but want to exit the STS, complete **S** item **S1**.

Print **X** in the **YES** box at **S** item **S1**. Leave all other boxes blank.

If you do not satisfy all three eligibility tests you must exit the STS by completing **T** item **S1**.

Print **X** in the **YES** box at **T** item **S1**. Leave all other boxes blank.

Generally, if you choose to leave the STS, you cannot re-enter the STS until at least five years after the income year for which you were last an STS taxpayer. See the note below for the exception.

However, if you must leave the STS because you are no longer eligible, you can become an STS taxpayer again for an income year as soon as you are eligible.

#### ! NOTE

There are transitional arrangements which provide that if you previously chose to exit the STS for an income year beginning before 1 July 2005, you will be able to re-enter the STS during the period of five years starting on 1 July 2005 (if you are eligible) without having to wait five years.

## P1 PERSONAL SERVICES INCOME (PSI)

#### STOP

You do not have to complete item **P1** if your PSI is gained as an employee. Item **P1** concerns sole traders only.

You also do not have to complete item **P1** if your PSI was received through a company, partnership or trust.

#### Did you receive personal services income?

**NO**  Print **X** in the **NO** box at **P1** item **P1** on your schedule. Go to **P2 Description of main business or professional activity** on page 10.

**YES**  Print **X** in the **YES** box at **P1** item **P1** on your schedule. Read on.

#### You need to know

PSI is income that is mainly a reward for an individual's personal efforts or skills.

Examples of PSI are:

- income of a professional practitioner in a sole practice
- income payable under a contract which is wholly or principally for the labour or services of a person
- income derived by a professional sportsperson or entertainer from the exercise of professional skills
- income derived by consultants from the exercise of personal expertise.

PSI does not include income that is mainly:

- for supplying or selling goods (for example, from retailing, wholesaling or manufacturing)
- generated by a significant income-producing asset (such as a bulldozer)
- for granting a right to use property (for example, the copyright to a computer program), or
- generated by a business structure (for example, a large accounting firm).

If you have earned PSI but not as an employee, you may not be able to claim certain deductions in relation to earning that income – for example, rent, mortgage interest, rates or land tax for your home, or payments to your spouse (or other associate) for support work such as secretarial duties. This depends on whether:

- you have a personal services business determination from the Commissioner stating that your PSI was from conducting a personal services business for the whole of the period you earned PSI, or
- you satisfied one of the four tests in part A below.

If you earned PSI as a sole trader, you need to read on and answer one or more of the questions in part A to determine whether deductions in relation to your PSI are affected by the PSI rules.

The PSI rules do not affect your legal, contractual or workplace arrangements – you won't be treated as an employee as a result of the rules.

## PART A

### Did you satisfy the results test?

If you earn PSI, you satisfy the results test in the income year if, in respect of at least 75% of this income, you can answer **YES** to **all** of the following three questions in relation to your work:

- Under your contract or arrangement, was the PSI paid to achieve a specified result or outcome?
- Did you have to provide the tools or equipment necessary (if any) to do your work? (If no tools or equipment were required, answer **YES**.)
- Were you liable for rectifying defects in your work?

We consider that you are paid to achieve a result under your contract when your contract requires the production of a specified result or outcome and payment is conditional upon that outcome being achieved. The essence of the contract is to achieve a result and not just do work as required.

**NO**  Print **X** in the **NO** box at **P** item **P1** on your schedule. Read on.

**YES**  Print **X** in the **YES** box at **P** item **P1** on your schedule. Go to **P2 Description of main business or professional activity** on page 10.

### Have you received a personal services business determination from the Commissioner that was in force for the whole of the period you earned PSI?

This is a notice from the Commissioner stating that you are conducting a personal services business. If you have a personal services business determination from the Commissioner, the PSI rules do not apply to your PSI and deductions.

**NO**  Print **X** in the **NO** box at **C** item **P1** on your schedule. Read on.

**YES**  Print **X** in the **YES** box at **C** item **P1** on your schedule. Go to **P2 Description of main business or professional activity** on page 10.

### Did you receive 80% or more of your PSI from one source?

If you don't satisfy the results test and 80% or more of your PSI in the income year came from one client and its associates, you cannot self-assess whether you satisfy the other personal services business tests. The PSI rules apply to you unless you get a determination from the Commissioner.

If you don't satisfy the results test, you can self-assess against the other tests only if less than 80% of your PSI came from each client.

You should consider PSI obtained by merely putting your name with a labour hire firm, placement agency or similar organisation, as income from one client.

#### COMMISSION AGENTS

Special rules apply to commission agents. For more information, phone the Business Infoline (see the inside back cover).

**NO**  Print **X** in the **NO** box at **Q** item **P1** on your schedule. Read on.

**YES**  Print **X** in the **YES** box at **Q** item **P1** on your schedule. Go to part B on page 7.

### Did you satisfy the unrelated clients test?

You will satisfy the unrelated clients test in the income year if you can answer **YES** to the following question:

- Did you receive PSI from two or more clients who are not associated with each other or with you?

You must also provide the personal services work as a direct result of making offers to the public (for example, by advertising or word of mouth). Do not count clients obtained by merely registering with a labour hire firm, placement agency or similar organisation.

#### COMMISSION AGENTS

Special rules apply to commission agents. For more information, phone the Business Infoline (see the inside back cover).

**NO**  Read on.

**YES**  Print **X** in the box at **D1** item **P1** on your schedule. Read on.

### Did you satisfy the employment test?

You satisfy the employment test in the income year if you can answer **YES** to **either** of the following questions:

- Did you have one or more apprentices for at least half the income year?
- Did you have employees or did you engage subcontractors or entities who performed at least 20% (by market value) of the principal work?

Principal work is the main work that generates the PSI and does not usually include support work such as secretarial duties. You can count a spouse or family member who does principal work but not companies, partnerships or trusts associated with you.

**NO**  Read on.

**YES**  Print **X** in the box at **E1** item **P1** on your schedule. Read on.

### Did you satisfy the business premises test?

You satisfy the business premises test if you can answer **YES** to **all** of the following questions:

For the whole period during which you earned PSI, were your business premises:

- owned or leased by you
- mainly used by you for work earning your PSI (for example, more than 50% of the use)
- used exclusively by you
- physically separate from your private residence or the private residence of any of your associates, and
- physically separate from the business address of your clients or their associates?

**NO**  Read on.

**YES**  Print **X** in the box at **F1** item **P1** on your schedule. Read on.

If you printed **X** at **D1**, **E1** or **F1**, go to item **P2** on page 10. Otherwise read on.

## PART B

### STOP

Do not show in part B PSI amounts that were subject to foreign resident withholding. Show these at item **P8**.

### You need to know

You must complete part B of item **P1** if you received PSI and you did not:

- receive a personal services business determination in relation to your PSI
- satisfy the results test, or
- satisfy at least one of the other three personal services business tests (if less than 80% of your PSI came from each client).

PSI is divided into:

- income that was subject to a PAYG voluntary agreement to withhold tax
- income from which tax has been withheld because you did not quote your Australian business number (ABN) to one of your payers
- income received under a labour hire arrangement or from a specified payment
- other PSI.

### Goods and services tax

If you are registered or required to be registered for goods and services tax (GST), do not include any GST amounts in your assessable income. Your deductions should not include any amounts that relate to input tax credit entitlements.

### STS TAXPAYERS

If you have chosen to enter or continue in the STS at item **S1**, you must complete the income and deduction parts of item **P1** using the STS rules. For information about these rules, read **STS taxpayers** on page 13. If you are claiming STS depreciation, you also need to complete item **P10** on your schedule.

### YOU MAY NEED TO COMPLETE AN INDIVIDUAL PAYG PAYMENT SUMMARY SCHEDULE

If tax has been withheld from business income you should have received a payment summary.

You will need to complete the *Individual PAYG payment summary schedule 2007* before completing the rest of item **P1** if you received any of the following payment summaries:

- *Payment summary – voluntary agreement*
- *Payment summary – withholding where ABN not quoted*
- *Payment summary – labour hire and other specified payments.*

(There are two blank copies of the *Individual PAYG payment summary schedule 2007* at the back of this publication.)

A payer may issue a receipt, remittance advice or similar document in place of the *Payment summary – withholding where ABN not quoted*. This document must contain the same details as the payment summary and be signed by the payer.

If you received income from which tax was withheld and you did not receive or have lost your payment summary, contact your payer and ask for a copy.

## How to complete the *Individual PAYG payment summary schedule 2007*

**STEP 1** Write your tax file number (TFN) and name in the appropriate boxes at the top of the schedule.

**STEP 2 Nature of income** – Print **X** in the **Personal services income** box.

**STEP 3** For each payment summary, transfer the following information to the schedule:

- the type of withholding – look at your payment summary carefully to determine its type and complete the TYPE box, using the following key:
  - V** voluntary agreement
  - N** withholding where ABN not quoted
  - S** labour hire or other specified payments
- the payer's ABN or withholding payer number (WPN) and the payer's name in the appropriate boxes
- the total tax withheld in the **Tax withheld** box
- the gross payment in the **Gross payment** box.

**STEP 4** Check that you have recorded details from all relevant payment summaries on your payment summary schedule then attach the schedule to page 3 of your tax return.

Do not attach the payment summaries to your tax return. You must keep them for a period of five years.

Payers must report to the Tax Office details of payments where amounts of tax have been withheld. This information will be cross-checked with that on your tax return to ensure that you have declared the correct amount of income and the correct amount of tax withheld.

### YOU MAY NEED TWO PAYMENT SUMMARY SCHEDULES

If you have both PSI (item **P1**) and business income (item **P8**), you will need to complete an individual PAYG payment summary schedule for each type of income.

## INCOME

### PSI – VOLUNTARY AGREEMENT

**Did you receive any PSI that was subject to a PAYG voluntary agreement?**

**NO**  Go to **PSI – where Australian business number not quoted** in the next column.

**YES**  Read on.

The amount you show at **M** is the total income you received that was subject to a PAYG voluntary agreement, including amounts of tax withheld. You will be able to calculate this amount from your completed payment summary schedule.

### Completing this item

Add up all the **Gross payment** amounts on your completed payment summary schedule that have a **V** in the corresponding TYPE box. Write the total at **M** item **P1**. Do not show cents.

If you complete **M** item **P1** you must also complete **G** item **13** on page 9 of your tax return (supplementary section).

### PSI – WHERE AUSTRALIAN BUSINESS NUMBER NOT QUOTED

**Did you have any amounts of tax withheld from your PSI for failure to quote an Australian business number (ABN)?**

**NO**  Go to **PSI – labour hire or other specified payments** below.

**YES**  Read on.

The amount you show at **N** is your total PSI from which an amount has been withheld because you did not quote your ABN, including the amounts of tax withheld. You will be able to calculate this amount from your completed payment summary schedule.

### Completing this item

Add up all the **Gross payment** amounts on your completed payment summary schedule that have an **N** in the corresponding TYPE box. Write the total at **N** item **P1**. Do not show cents.

If you complete **N** item **P1** you must also complete **H** item **13** on page 9 of your tax return (supplementary section).

### PSI – LABOUR HIRE OR OTHER SPECIFIED PAYMENTS

**Did you receive any PSI under a labour hire arrangement or from a specified payment?**

Specified payments include:

- income from tutorial services provided for the Indigenous Tutorial Assistance Scheme of the Department of Education, Science and Training
- income from translation and interpretation services for the Translating and Interpreting Service of the Department of Immigration and Citizenship
- income as a performing artist in a promotional activity.

**NO**  Go to **PSI – other** on the next page.

**YES**  Read on.

### STOP

Do not include income received as an employee of a labour hire business. These amounts will appear on your *PAYG withholding payment summary – individual non-business* and should be shown at item **1** on page 2 of your tax return.

The amount you show at **O** is the total income you received from labour hire or other specified payments, including amounts of tax withheld. You will be able to calculate this amount from your completed payment summary schedule.

### Completing this item

Add up all the **Gross payment** amounts on your completed payment summary schedule that have an **S** in the corresponding TYPE box. Write the total at **O** item **P1**. Do not show cents.

If you complete **O** item **P1** you must also complete **J** item **13** on page 9 of your tax return (supplementary section).

### PSI – OTHER

#### Did you receive any other PSI?

**NO**  Go to **Deductions** below.

**YES**  Read on.

Work out the total amount of other PSI and write this amount at **J** item **P1**.

#### ! NOTE

If you are registered or required to be registered for GST, do not include any GST amounts in your assessable income.

### DEDUCTIONS

#### Limited deductions against PSI

The PSI rules affect the deductions you can claim against your PSI. They do not affect your legal, contractual or workplace arrangements – you won't be treated as an employee as a result of the PSI rules.

**➤** The information on this page is a guide only. You may need further information to determine whether a deduction is available in your circumstances. *Taxation Ruling TR 2003/10 – Income tax: deductions that relate to personal services income* explains the PSI deduction limitation rules. This ruling is available on our website or to find out how to get a printed copy, see the inside back cover.

#### What deductions you may be able to claim

Subject to specific exceptions, the general rule is that you may claim an amount that is incurred in gaining or producing your PSI if you could claim that amount if the income was payable to you as an employee.

The following are examples of items you may be able to claim a deduction for:

- premiums for workers' compensation, public liability and professional indemnity insurance
- bank and other account-keeping fees and charges
- tax-related expenses, such as the cost of preparing and lodging a tax return or business activity statement (BAS)
- registration or licensing fees
- expenses for advertising, tendering and quoting for work

- deduction for decline in value of depreciating assets
- STS depreciation
- running expenses for your home office such as heating and lighting for using a room in your house as a home office (not including rent, mortgage interest, rates or land taxes)
- salary and wages for an arm's length employee (not an associate)
- contributions to a complying superannuation fund on behalf of an arm's length employee (not an associate) up to the age-based deduction limit
- reasonable amounts paid to an associate for principal work
- contributions to a complying superannuation fund or retirement savings account up to the superannuation guarantee amount for an associate doing solely principal work.

Do not include any amount that was a superannuation contribution for yourself. Any deduction for your own superannuation contributions must be claimed at item **D13** on your tax return. See question **D13** in *TaxPack 2007 supplement*.

#### What you cannot claim

You cannot claim an amount for the following if it related to gaining your PSI:

- rent, mortgage interest, rates or land tax for your residence (or the residence of an associate)
- amounts paid to an associate for non-principal work
- contributions to a superannuation fund for an associate doing solely non-principal work.

### DEDUCTIONS FOR PAYMENTS TO ASSOCIATES FOR PRINCIPAL WORK

#### Do you have deductions for payments to associates for principal work?

**NO**  Go to **Total amount of other deductions against PSI** below.

**YES**  Read on.

Add up the total amount of payments made to associates for principal work. Write the total at **K** item **P1**.

### TOTAL AMOUNT OF OTHER DEDUCTIONS AGAINST PSI

#### Do you have other allowable deductions against your PSI?

**NO**  Go to **Net PSI** on the next page.

**YES**  Read on.

### You need to know

In completing this question you only include non-commercial business losses deferred from a prior year if they relate to an activity which is the same as, or similar to, your current year activity. See item **P9 Business loss activity details** on page 45 for an explanation of how the non-commercial business loss rules work.

Your non-commercial business loss deduction may be reduced if:

- you earned net exempt income in this income year, or
- you became bankrupt or were released from any debts by the operation of an Act relating to bankruptcy.

Phone the Business Infoline (see the inside back cover) for more information. For an explanation of net exempt income, see question **L1** in *TaxPack 2007*.

### Completing this item

Add up the total amount of all other expenses (including non-commercial business losses deferred from a prior year) that you can deduct from your PSI. Write the amount at **L** item **P1**.

Do not include amounts already recorded at **K** item **P1**.

#### ! NOTE

If you are registered or required to be registered for GST, your deductions should not include the amount that relates to input tax credit entitlements.

### NET PSI

#### Completing this item

To work out your net PSI go through the following steps:

**STEP 1** Add up the amounts shown at **M**, **N**, **O** and **J** item **P1**.

**STEP 2** Add up the amounts shown at **K** and **L** item **P1**.

**STEP 3** Take away the amount calculated at step 2 from the amount calculated at step 1. Write your answer at **A** item **P1**.

**STEP 4** Transfer the amount at **A** item **P1** to **A** item **13** on page 9 of your tax return (supplementary section).

If the amount is a loss, you must:

- print **L** in the **LOSS** box at the right of **A** item **P1**
- print **L** in the **LOSS** box at the right of **A** item **13** on your tax return (supplementary section).

### OTHER BUSINESS INCOME

Did you have any business income other than PSI?

**YES**  Go to item **P2 Description of main business or professional activity** in the next column.

**NO**  Read on.

### FINISHING YOUR SCHEDULE

If the only income you need to show on your schedule is personal services income, you now only need to complete:

- Item **P2 Description of main business or professional activity** (below)
- Item **P3 Number of business activities** (below)
- Item **P9 Business loss activity details** (if you had a loss) (on page 45), and
- Item **P10 STS depreciating assets** (if you are an STS taxpayer and have claimed STS depreciation) (on page 49).

#### ! CHECK THAT YOU HAVE...

- written your tax file number and your full name on page 1 of your *Business and professional items schedule for individuals 2007*
- transferred your net PSI amount from **A** item **P1** to **A** item **13** on your tax return (supplementary section). If this amount is a loss, check that you printed **L** in the **LOSS** box at the right of **A**.
- signed and dated your schedule and attached it to page 3 of your tax return
- completed and attached your *Individual PAYG payment summary schedule 2007* to page 3 of your tax return (if you received PSI that was subject to withholding).

## P2 DESCRIPTION OF MAIN BUSINESS OR PROFESSIONAL ACTIVITY

### Completing this item

Describe, as accurately as possible, the business or professional activity from which you derived the most gross income – for example, beef cattle breeder, vegetable grower, clothing manufacturer, confectionery wholesaler or electrical goods retailer. Do not use general descriptions such as farmer, manufacturer or wholesaler.

Print the description of your main business or professional activity at item **P2** on page 2 of your schedule.

## P3 NUMBER OF BUSINESS ACTIVITIES

### Completing this item

At **B** write the number of separate and distinct business activities you operated as a sole trader and in partnership during 2006–07. If you operated only one business activity, write **1**. The number of business activities you show at **B** should not be less than the number you show at item **P9 Business loss activity details**.

## P4 STATUS OF BUSINESS

### Completing this item

If you ceased your main business during 2006–07, print **X** at **C1** item **P4** on page 2 of your schedule.

If you commenced a new business during 2006–07, print **X** at **C2**.

If more than one option applies, select the first applicable option. If neither of them applies, leave the boxes blank.

## P5 BUSINESS NAME OF MAIN BUSINESS AND AUSTRALIAN BUSINESS NUMBER (ABN)

The business name of the main business activity should be consistent from year to year, except in the year of a name change or when it is no longer the main business.

The business name does not have to be a registered name.

If the business name is legally changed, advise us in writing at the time the change is made. The current business name should be shown on your tax return.

### Completing this item

Print the business name and ABN of your main business at item **P5** on page 2 of your schedule.

## P6 BUSINESS ADDRESS OF MAIN BUSINESS

### Completing this item

Print the street address of the place where most of your business operations are conducted at item **P6** on page 2 of your schedule.

Write the postcode of this address at **D** item **P6**.

## P7 DID YOU SELL ANY GOODS OR SERVICES USING THE INTERNET?

### You need to know

You must answer **YES** at this item if, in deriving income, one or more of the following applied:

- You used the internet to receive orders for goods and/or services. For example, you received orders by email or a web page form (rather than by conventional post, telephone or facsimile).
- You used the internet to receive payment for goods and/or services. For example, you received:
  - credit card or charge card details by email or

web page form (rather than by conventional post, telephone or facsimile), or

– digital cash.

- You used the internet to deliver goods and/or services. For example, you:

– used email, the world wide web or FTP (file transfer protocol) to deliver digitised music, news articles or software (rather than using conventional post to deliver software on a disk)

– used email in conjunction with a website to give advice and received a payment in connection with this advice

– advertised on the internet goods or services of other businesses for a fee, or

– hosted internet sites or provided access to the internet.

You must answer **NO** at this item if none of the above applied – for example, if you only used the internet to:

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

### Completing this item

If your answer is **YES**, print **X** in the **YES** box at **Q** item **P7** on page 2 of your schedule.

If your answer is **NO**, print **X** in the **NO** box at **Q**.

## P8 BUSINESS INCOME AND EXPENSES

This item has three sections:

- Income
- Expenses
- Reconciliation items.

The amounts to be included in the **Income** and **Expenses** sections of item **P8** are amounts derived from your accounting system or financial statements, except for:

- the values of opening and closing stock, which are to be shown at tax values as explained on pages 18–19, and
- depreciation expenses for STS taxpayers, which are to be shown at tax values as explained on page 25.

The income and expense amounts to be included at item **P8** should form part of your profit and loss statement and are the basis for calculating your net profit or loss. You should deal with any adjustments to these amounts for tax purposes in the **Reconciliation items** section of item **P8**.

### ! STS TAXPAYERS

If you have chosen to enter or continue in the STS at item **S1**, you must complete the income and expenses sections using the STS rules. See **STS taxpayers** on page 13.

## STOP

You show personal services income and related expenses at item **P1**, with one exception – personal services income subject to foreign resident withholding – which you show at this item.

## INCOME

The business income to be shown at item **P8** is divided into:

- income from which tax has been withheld because you did not quote your ABN to one of your payers
- gross payments subject to foreign resident withholding
- income that was subject to a PAYG voluntary agreement to withhold tax
- income received under a labour hire arrangement or from a specified payment
- assessable government industry payments, and
- other business income.

## STOP

Do not show the following types of income at item **P8**:

- gross interest – show the amount of income at item **10** on your tax return
- dividends and franking credits – show the amounts at item **11** on your tax return
- distributions from partnerships and trusts – show these at item **12** on your tax return (supplementary section)
- gross rental or similar income, such as agistment or hire fees – show the amount at item **20** on your tax return (supplementary section)
- net capital gains – show the amount at item **17** on your tax return (supplementary section)
- PSI shown at **P1**
- farm management withdrawals – show the amount at item **16** on your tax return (supplementary section)
- attributed foreign income – show the amount at item **18** on your tax return (supplementary section)
- foreign source income – show the amount at item **19** on your tax return (supplementary section).

## Goods and services tax

If you are registered or required to be registered for GST, the following apply:

- For income tax purposes, you should exclude GST from assessable income, exempt income and amounts received or receivable that you take into account in calculating income and deductions.
- You should reduce deductible losses and outgoings by the amount of input tax credit entitlement.
- In certain circumstances, for example, if there was a change in how much you used an asset for business purposes, an adjustment for GST purposes results in an amount being included in assessable income (if the adjustment is a GST decreasing adjustment) or being deductible (if the adjustment is a GST increasing adjustment).
- You should also exclude GST components under other specific rules including capital gains tax (cost base, reduced cost base, capital proceeds) and termination values.

If you are not registered or required to be registered for GST, you do not need to adjust your income and deductions for GST. You can claim the GST inclusive amount incurred on deductible outgoings.

## ! STS TAXPAYERS

From 1 July 2005, there is no longer a requirement for an STS taxpayer to use the STS accounting method (see the note on page 3).

However, if you were an STS taxpayer in an income year that started before 1 July 2005, then while you continue to be an STS taxpayer (from the first income year that starts on or after 1 July 2005), you can choose to continue using the STS accounting method.

The STS accounting method recognises most income only when it is received. This type of income is called ordinary income (for example, sales of goods and/or services, professional fees and commissions).

If you are registered or required to be registered for GST, income amounts should exclude GST payable.

A continuing STS taxpayer using the STS accounting method can claim deductions for the following expenses only when they are paid:

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

If you are registered or required to be registered for GST, expense amounts should exclude input tax credit entitlements.

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

In addition, if another provision of the tax law apportions or alters the assessability or deductibility of a particular type of ordinary income or general deduction, the timing rule in that provision overrides the received or paid rule for STS taxpayers (for example, double wool clips or prepayment of a business expense for a period greater than 12 months). Because of these specific provisions you may need to make adjustments in the **Reconciliation items** section of item **P8**.

For more information about the STS accounting method, visit our website or phone the Business Infoline (see inside back cover).

If you are continuing in the STS this year and have chosen to continue using the STS accounting method, you should base the amounts you include at item **P8** on the STS accounting method. If your accounting system or financial statements do not reflect the STS accounting rules, you may need to make additional reconciliation adjustments in the **Reconciliation items** section. For more information about these adjustments, see pages 36–43. In addition to the STS accounting method, there are specific STS rules for capital allowances as explained on page 25, and for trading stock as explained on pages 18–19.

If you are continuing in the STS this year and have chosen to discontinue using the STS accounting method, business income and expenses that have not been accounted for (because they have not been received or paid) will be accounted for in this year. You may need to make additional reconciliation adjustments in the **Reconciliation items** section. For more information about these adjustments, see pages 36–43.

## What you may need

- Primary production worksheet. If you are a primary producer you will need this worksheet to help you work out some of the amounts in this section. The worksheet is included in *Information for primary producers 2007* (NAT 1712–6.2007) To find out how to get this publication see the inside back cover. Complete the worksheet before proceeding.
- *Individual PAYG payment summary schedule 2007*

## Did you have amounts withheld from your business income – other than PSI included at item P1?

**NO**  Go to **Assessable government industry payments** on page 15.

**YES**  Read on.

If tax has been withheld from business income you should have received a payment summary.

You will need to complete the *Individual PAYG payment summary schedule 2007* before completing item **P8** if you received any of the following summaries:

- *Payment summary – voluntary agreement*
- *Payment summary – withholding where ABN not quoted*
- *Payment summary – labour hire and other specified payments*
- *Payment summary – foreign resident withholding.*

There are two blank copies of the *Individual PAYG payment summary schedule 2007* at the back of this publication.

A payer may issue a receipt, remittance or similar document in place of the *Payment summary – withholding where ABN not quoted*.

If you received income from which tax was withheld and you did not receive or have lost your payment summary, contact your payer and ask for a copy.

## How to complete the *Individual PAYG payment summary schedule 2007*

### ! REMEMBER

If you have both business income (item **P8**) and personal services income (item **P1**) you will need to complete an *Individual PAYG payment summary schedule 2007* for each type of income.

**STEP 1** Write your TFN and name in the appropriate boxes at the top of the schedule.

**STEP 2** **Nature of income** – Print **X** in the **Business income** box.

**STEP 3** For each payment summary, transfer the following information to the schedule:

- the type of withholding – look at your payment summary carefully to determine its type and complete the **TYPE** box, using the following key:
  - V** voluntary agreement
  - S** labour hire or other specified payments
  - N** withholding where ABN not quoted
  - F** foreign resident withholding

- the payer's ABN or withholding payer number (WPN) and the payer's name in the appropriate boxes
- the total tax withheld in the **Tax withheld** box
- the gross payment in the **Gross payment** box.

**STEP 4** Check that you have recorded details from all relevant payment summaries on your payment summary schedule then attach the schedule to page 3 of your tax return.

Do not attach the payment summaries to your tax return. You must keep them for a period of five years.

Payers must report to the Tax Office details of payments where amounts of tax have been withheld. This information will be cross-checked with that on your tax return to ensure that you have declared the correct amount of income and the correct amount of tax withheld.

### GROSS PAYMENTS WHERE AUSTRALIAN BUSINESS NUMBER (ABN) NOT QUOTED

**Did you have amounts of tax withheld for failure to quote an ABN?**

**NO**  Go to **Gross payments subject to foreign resident withholding** in the next column.

**YES**  Read on.

#### You need to know

The amounts you show at **C** and **D** are the total income you received from which your payers have withheld an amount because you did not quote your ABN. They include the amounts of tax withheld. You will be able to calculate these amounts from your completed payment summary schedule.

#### Completing this item

**STEP 1** Add up all the **Gross payment** amounts on your completed payment summary schedule that have an **N** in the TYPE box derived from primary production activities. Write the total at **C** item **P8** on page 2 of your schedule. Do not show cents.

**STEP 2** Add up all the **Gross payment** amounts on your completed payment summary schedule that have an **N** in the TYPE box derived from non-primary production activities. Write the total at **D**. Do not show cents.

**STEP 3** Add up the amounts you have written at **C** and **D** and write the total in the adjacent **Totals** box.

If you complete **C** or **D** item **P8** you must complete **W** item **14** on page 10 of your tax return (supplementary section).

### GROSS PAYMENTS SUBJECT TO FOREIGN RESIDENT WITHHOLDING

**Did you receive any payments that were subject to foreign resident withholding?**

**NO**  Go to **Gross payments – voluntary agreement** below.

**YES**  Read on.

#### You need to know

The amount you show at **B** is the total income you received from your payers which is subject to foreign resident withholding. It includes any amounts of tax withheld. You will be able to calculate this amount from your completed payment summary schedule.

#### Completing this item

**STEP 1** Add up all the **Gross payment** amounts on your completed payment summary schedule that have an **F** in the TYPE box derived from non-primary production activities. Write the total at **B** item **P8** on page 2 of your schedule. Do not show cents.

**STEP 2** Transfer the amount at **B** to the adjacent **Totals** box.

If you complete **B** item **P8** you must complete **E** item **14** on page 10 of your tax return (supplementary section).

#### ! NOTE

You will not have any primary production amounts at this item. Leave **A** blank.

### GROSS PAYMENTS – VOLUNTARY AGREEMENT

**Did you receive any income that was subject to a PAYG voluntary agreement?**

**NO**  Go to **Gross payments – labour hire or other specified payments** on page 15.

**YES**  Read on.

#### You need to know

The amounts you show at **E** and **F** are the total income you received that was subject to a voluntary agreement to withhold tax and include the tax withheld. You will be able to calculate this amount from your completed payment summary schedule.

### Completing this item

**STEP 1** Add up all the **Gross payment** amounts on your completed payment summary schedule that have a **V** in the TYPE box derived from primary production activities. Write the total at **E** item **P8** on page 2 of your schedule. Do not show cents.

**STEP 2** Add up all the **Gross payment** amounts on your completed payment summary schedule that have a **V** in the TYPE box derived from non-primary production activities. Write the total at **F**. Do not show cents.

**STEP 3** Add up the amounts you have written at **E** and **F** and write the total in the adjacent **Totals** box.

If you complete **E** or **F** item **P8** you must complete **D** item **14** on page 10 of your tax return (supplementary section).

### GROSS PAYMENTS – LABOUR HIRE OR OTHER SPECIFIED PAYMENTS

Did you receive:

- income under a labour hire arrangement, or
- a specified payment, including
  - income from tutorial services provided for the Indigenous Tutorial Assistance Scheme of the Department of Education, Science and Training
  - income from translation and interpretation services for the Translating and Interpreting Service of the Department of Immigration and Citizenship
  - income as a performing artist in a promotional activity?

**NO**  Go to **Assessable government industry payments** in the next column.

**YES**  Read on.

#### You need to know

The amount you show at **O** is the total income you received from labour hire or specified payments and includes the tax withheld. You will be able to calculate this amount from your completed payment summary schedule.

#### STOP

Do not include income received as an employee of a labour hire business. These amounts will appear on your *PAYG withholding payment summary – individual non-business* and should be shown at item **1** on your tax return.

### Completing this item

**STEP 1** Add up all the **Gross payment** amounts on your completed payment summary schedule that have an **S** in the TYPE box. These amounts are non-primary production income. Write the total at **O** item **P8** on page 2 of your schedule. Do not show cents.

**STEP 2** Transfer the amount at **O** to the adjacent **Totals** box.

If you complete **O** item **P8** you must complete **F** item **14** on page 10 of your tax return (supplementary section).

#### NOTE

You will not have any primary production amounts at this item. Leave **N** blank.

### ASSESSABLE GOVERNMENT INDUSTRY PAYMENTS

Did you receive assessable government industry assistance?

**NO**  Go to **Other business income** on page 16.

**YES**  Read on.

#### You need to know

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

Examples of assessable government industry assistance are:

- bounties
- cleaner fuel grants
- drought relief
- employee subsidies
- export incentive grants
- fuel grant under the energy grants credits scheme
- fuel tax credits
- industry restructuring and adjustment payments
- producer rebate (wine equalisation tax), and
- product stewardship (oil) benefit.

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

#### STOP

Do not show 'Medicare payments received by medical practices' at this item. Show them at **Other business income**.

## Completing this item

**STEP 1** Write your total primary production government industry payments received by each business at **G** item **P8** on page 2 of your schedule. Do not show cents.

### NOTE

If you have completed the **Gross income from primary production** worksheet in *Information for primary producers 2007*, include at **G** the amount at **PP11** on the worksheet.

**STEP 2** If your assessable primary production government industry payments include a fuel grant under the energy grants credits scheme or fuel tax credits, print **D** in the TYPE box at the right of the amount at **G**.

**STEP 3** Write your total non-primary production government industry payments received by each business at **H**. Do not show cents.

**STEP 4** If your assessable non-primary production government industry payments include a fuel grant under the energy grants credits scheme or fuel tax credits, print **D** in the TYPE box at the right of the amount at **H**.

**STEP 5** Add up the amounts you have written at **G** and **H** and write the total in the adjacent **Totals** box.

## OTHER BUSINESS INCOME

Did you receive any other business income?

**NO**  Go to **Total business income** in the next column.

**YES**  Read on.

### You need to know

Other business income includes:

- gross sales of trading stock
- gross sales from produce
- goods taken from stock for your own use
- value of livestock killed for rations
- value of livestock exchanged for other goods or services
- gross earnings from services
- taxi driver earnings (income you earned as a non-employee taxi driver if it is not shown at item **P1**)
- amounts received as recoupment of expenses
- bad debts recovered
- profit on sale of depreciating assets
- royalties
- insurance recoveries
- subsidies
- employee contributions for fringe benefits
- assessable non-government assistance from all sources, and
- foreign exchange (forex) gains – for more information about forex gains, visit our website or see question **22** in *TaxPack 2007 supplement*.

Your 'other business income' excludes amounts shown at **C**, **D**, **B**, **E**, **F**, **O**, **G** and **H** on your schedule.

If you are a primary producer, you must add the amounts shown at **PP1**, **PP2**, **PP6**, **PP7** and **PP10** on your **Gross income from primary production** worksheet. This worksheet is included in the publication *Information for primary producers 2007*. You must add the total to any other income from a business of primary production referred to above. You show the total of all other income from the business of primary production at **I** item **P8** on page 2 of your schedule.

## Completing this item

**STEP 1** Write your total amount of 'other' primary production business income or loss at **I** item **P8** on page 2 of your schedule. Do not show cents.

**STEP 2** If you made a loss, print **L** in the box at the right of the amount at **I**.

**STEP 3** Write your total amount of 'other' non-primary production business income or loss at **J**. Do not show cents.

**STEP 4** If you made a loss, print **L** in the box at the right of the amount at **J**.

**STEP 5** Add up your 'other' primary production and non-primary production business income or loss and write the total in the adjacent **Totals** box.

**STEP 6** If you made a loss, print **L** in the box at the right of the **Totals** box.

## TOTAL BUSINESS INCOME

### Completing this item

**STEP 1** Add up the primary production amounts shown at **C**, **E**, **G**, and **I** item **P8** on your schedule. Write the total at **TOTAL BUSINESS INCOME** in the Primary production column. Remember that **A** and **N** will be blank.

**STEP 2** If you made a loss, print **L** in the box at the right of the amount at **TOTAL BUSINESS INCOME** in the Primary production column.

**STEP 3** Add up the non-primary production amounts shown at **D**, **B**, **F**, **O**, **H** and **J** item **P8**. Write the total at **TOTAL BUSINESS INCOME** in the Non-primary production column.

**STEP 4** If you made a loss, print **L** in the box at the right of the amount at **TOTAL BUSINESS INCOME** in the Non-primary production column.

**STEP 5** Add up the amounts at **TOTAL BUSINESS INCOME** in the Primary production and Non-primary production columns and write the total in the adjacent **Totals** box. If you made a loss, print **L** in the box at the right of this amount.

## EXPENSES

### STOP

Do not include the following expense items on your schedule:

- non-business interest and dividend income expenses – claim deductible expenses at item **D7** on your tax return
- farm management deposits – take them into account as required at item **16** on your tax return (supplementary section)
- non-business rental expenses – claim deductible expenses at item **20** on your tax return (supplementary section)
- expenses and losses relating to foreign source income – take them into account as required at item **19** or, in the case of certain debt deductions, claim them at item **D15** on your tax return (supplementary section)
- expenses relating to your personal services income shown at item **P1** on your schedule
- low-value pool deduction where the pool contains assets used for work-related, self-education or rental purposes – read question **D6** in *TaxPack 2007*.

You need to complete all items that relate to your business or businesses. You can deduct business expenses if the expenses were necessary to carry on your business for the purpose of earning assessable income.

If you are a primary producer you will need a primary production worksheet to help you work out some of the amounts in this section. This worksheet is included in the publication *Information for primary producers 2007*. Complete the worksheet before proceeding.

### Goods and services tax

If you are registered or required to be registered for GST, exclude from the deductions any input tax credit entitlements that arise in relation to outgoing. If you pay GST by instalments and incurred a penalty for underestimating a varied GST instalment, you can claim a deduction for the penalty at item **D10** on your tax return. Do not show the penalty on your *Business and professional items schedule for individuals 2007*. For more information, see *TaxPack 2007*.

### RECORDS YOU NEED TO KEEP

You must keep your business expenses records for five years after you prepared or obtained them, or five years after you completed the transactions or acts to which they relate, whichever is the later.

### PREPAYMENTS OF \$1,000 OR MORE

If you made a prepayment of \$1,000 or more for something to be done (in whole or in part) in a future income year, the timing of your deduction may be affected by the rules relating to prepayments. Generally, you will need to apportion your deduction for prepaid business expenditure over the service period or 10 years, whichever is less. There are some exceptions under the 12-month rule for STS taxpayers and the special rules relating to plantation forestry managed agreements. For more information, see the publication *Deductions for prepaid expenses 2007* (NAT 4170-6.2007).

Where expenses shown at item **P8** include prepaid expenses that differ from the amounts allowable as deductions in the 2006-07 income year, make an expense reconciliation adjustment at **H** item **P8**.

### THIN CAPITALISATION

The thin capitalisation provisions apply to entities (including individuals) to reduce certain deductions (called 'debt deductions') for costs incurred in obtaining and servicing debt finance where the debt applicable to Australian operations exceeds the limits set out in Division 820 of the *Income Tax Assessment Act 1997* (ITAA 1997).

### Do the thin capitalisation provisions apply to you?

The thin capitalisation rules will apply to you if:

- you are an Australian resident and you, or any of your associate entities, are an Australian controller of a foreign entity or carry on business overseas at or through a permanent establishment, or
- you are a foreign resident and you carry on business in Australia at or through a permanent establishment or otherwise have Australian income-producing assets.

The thin capitalisation rules will not apply to you if:

- your debt deductions (combined with the debt deductions of your associate entities) do not exceed \$250,000 in the income year, or
- you are an Australian resident and the combined value of your and your associates' Australian assets is not less than 90% of the value of your and your associates' total assets.

If the thin capitalisation rules apply to you, you must complete the *Thin capitalisation schedule 2007* (NAT 6458-6.2007). The amount of any debt deductions you can claim may be reduced by these rules. For more information, see the *Thin capitalisation guide* (NAT 4461) which is available on our website.

Complete the thin capitalisation schedule and post it to:

**Australian Taxation Office**  
**PO Box 1365**  
**Albury NSW 2640**

## OPENING STOCK

Did you have trading stock on hand at the start of the year?

**NO**  Go to **Purchases and other costs** in the next column.

**YES**  Read on.

### You need to know

The opening value of an item of stock must equal its closing value in the previous year. The total value of all stock on hand at the start of the year is equal to the amount shown as closing stock on your 2006 schedule.

If you are a primary producer, you must add the value of your opening stock from your livestock account at **PP4** on your primary production worksheet to the value of your opening stock from your produce account at **PP9** on your primary production worksheet. The total of these amounts is the total value of your primary production opening stock.

Do not include any amounts representing opening stock of a business which commenced operations during the year. Include the purchase costs of these items in the relevant **Purchases and other costs** box.

### Completing this item

**STEP 1** Write the total value of your primary production opening stock at **Opening stock** in the Primary production column, item **P8** on page 3 of your schedule. Do not show cents.

**STEP 2** Write the total value of your non-primary production opening stock at **Opening stock** in the Non-primary production column. Do not show cents.

**STEP 3** Add up your primary production and non-primary production opening stock values and write the total at **K**.

## PURCHASES AND OTHER COSTS

Did you have purchases and other costs?

**NO**  Go to **Closing stock** on page 19.

**YES**  Read on.

### You need to know

This represents the direct cost of materials used for manufacture, sale or exchange in deriving the gross proceeds or earnings of the business. It includes inwards freight. It also includes the cost of stock acquired when starting or acquiring a business during the year. It may also include some costs for labour and services provided under contract if these are recorded in the cost of sales account in your business books of account. If so, do not also include this amount as **Contractor, sub-contractor and commission expenses**.

If you are a primary producer, you must include the value of your purchases from your livestock account at **PP5** on your primary production worksheet.

### Completing this item

**STEP 1** Work out the value of your primary production purchases and other costs directly related to trading stock. If you have more than one business, add up all your primary production purchases and costs.

**STEP 2** Write the total value of your primary production purchases and other costs directly related to trading stock at **Purchases and other costs** in the Primary production column, item **P8** on page 3 of your schedule. Do not show cents.

**STEP 3** Work out the value of your non-primary production purchases and other costs directly related to trading stock. If you have more than one business, add up all your non-primary production purchases and other costs.

**STEP 4** Write the total value of your non-primary production purchases and other costs directly related to trading stock at **Purchases and other costs** in the Non-primary production column. Do not show cents.

**STEP 5** Add up your primary production and non-primary production purchases and other costs directly related to trading stock and write the total at **L**.

### ! STS TAXPAYERS

If you are continuing in the STS this year and have chosen to continue using the STS accounting method, only show purchases and other costs that you have paid at **L**. (See **STS taxpayers** on the next page).

## CLOSING STOCK

### Did you have trading stock on hand at the end of the year?

**NO**  Go to **Cost of sales** on page 20.

**YES**  Read on.

If you have chosen to enter or continue in the STS at item **S1**, read on. Otherwise go to **Other businesses** in the next column.

## STS TAXPAYERS

### You need to know

You need to account for changes in the value of your trading stock only if there is a difference of more than \$5,000 between the value of all your stock on hand at the start of the income year and a reasonable estimate of the value of all your stock on hand at the end of the income year.

The value of your stock on hand at the start of the income year is the same value as the closing value shown on your schedule in the previous year. This may not necessarily reflect the actual value of your stock if you did not account for the change in value of your stock in the previous year. For more information on a reasonable estimate of the value of stock, see our publication *Simplified tax system: simplified trading stock rules* (NAT 4107), visit our website or phone the Business Infoline (see the inside back cover).

You can still choose to conduct a stocktake and account for changes in the value of trading stock, if you wish.

### Is the difference between the value of your opening stock and a reasonable estimate of your closing stock more than \$5,000?

**YES**  You must account for changes in the value of your trading stock. Go to step 2.

**NO**  If you choose not to account for changes in the value of your trading stock, go to step 1. Otherwise go to step 2.

### Completing this item

**STEP 1** If the difference referred to above is \$5,000 or less and you choose not to account for this difference, the closing stock values you put in both the Primary production and Non-primary production columns at item **P8** on page 3 of your schedule must be the same as the values you put at **Opening stock**. Do not put your reasonable estimate.

Add up your primary production and non-primary production closing stock values and write the total at **M**.

Write in the TYPE box at the right of **M** the code letter you used last year to value closing stock:

- C** cost
- M** market selling value
- R** replacement value.

If this is your first year in business the value of your closing stock will be zero. Write **C** in the TYPE box.

Go to **Cost of sales** on page 20.

**STEP 2** If the difference referred to above is more than \$5,000 or you choose to account for the difference in trading stock, the closing stock values must be brought to account under section 70-35 of the ITAA 1997. Read **Other businesses** below for information on how to complete this item.

You must include in your closing stock value at **M** item **P8** the value of all stock on hand, regardless of whether you have paid for the stock.

## OTHER BUSINESSES

### You need to know

This is the total value of all trading stock on hand at the end of the year. The amount that is shown at **Closing stock** is the total of the value of each item of trading stock calculated for tax purposes under section 70-45 of the ITAA 1997.

Trading stock is anything you have on hand which you produced, manufactured, acquired or purchased for the purpose of sale, manufacture or exchange. For example, trading stock includes livestock but not working animals (except those used by a primary producer), crops and timber when harvested and wool after it is removed from the sheep.

Manufacturers must include as trading stock partly manufactured goods and materials on hand. However, closing stock excludes any amount that represented closing stock of a business that ceased operations during the year. This amount is included in **Other business income** at **I** or **J** in the **Income** section of item **P8**. For more details about what constitutes trading stock, visit our website or phone the Business Infoline (see the inside back cover).

You can choose one of the following three methods to value your trading stock:

- cost
- market selling value
- replacement value.

You may elect to value an item of trading stock below the lowest value calculated by any of these methods because of obsolescence or other special circumstances.

The value you elect must be reasonable. Where you elect to value an item of trading stock below cost, market selling value and replacement value, you must complete item **P19** on your schedule.

You may use different methods to calculate each item of trading stock in different years or for different items in the same year. However, the opening value of each item in a particular year must be the same as the closing value for that item in the previous year.

If you are registered for GST, the value of closing stock should not include an amount equal to the input tax credit that would arise if you had acquired the item solely for business purposes at the end of the income year. Input tax credits do not arise for some items of trading stock, such as shares.

If you are a primary producer, you must add the value of your closing stock from your livestock account at **PP3** on your primary production worksheet to the value of your closing stock from your produce account at **PP8** on your primary production worksheet.

The total of these amounts is the total value of your primary production closing stock.

As the tax values of closing stock on hand are shown at **PP3** and at **PP8** on your primary production worksheet, you cannot reduce these values by accounting entries. Keep records showing how each item was valued.

### Completing this item

**STEP 1** Work out the value of your primary production closing stock. If you have more than one business, add up all your primary production closing stock values.

**STEP 2** Write the total value of your primary production closing stock at **Closing stock** in the Primary production column, item **P8** on page 3 of your schedule. Do not show cents.

**STEP 3** Work out the value of your non-primary production closing stock. If you have more than one business, add up all your non-primary production closing stock values.

**STEP 4** Write the total value of your non-primary production closing stock at **Closing stock** in the Non-primary production column. Do not show cents.

**STEP 5** Add up your primary production and non-primary production closing stock values and write the total at **M**.

**STEP 6** From the list below, find the letter that matches the method you used to value closing stock. If more than one method was used, select the letter that applies to the largest value:

- C** cost
- M** market selling value
- R** replacement value.

**STEP 7** Print the letter in the TYPE box at the right of the amount at **M**.

## COST OF SALES

### Did you have any cost of sales?

**NO**  Go to **Foreign resident withholding expenses** on page 21.

**YES**  Read on.

### You need to know

Goods taken for your own use should not be accounted for as stock on hand at 30 June 2007. Include at **I** and **J** **Other business income** in the **Income** section of item **P8** on your schedule the value of:

- livestock killed for rations
- livestock exchanged for other goods or services, and
- goods taken for your own use.

Use worksheet 3 to work out your cost of sales.

### WORKSHEET 3: Cost of sales

		Primary production	Non-primary production
Stock at 1 July 2006	(a)	\$	\$
Purchases at cost	(b)	\$	\$
Freight inwards	(c)	\$	\$
Other – for example, labour and services	(d)	\$	\$
Add (a), (b), (c) and (d).	(e)	\$	\$
Stock at 30 June 2007	(f)	\$	\$
<b>Your cost of sales</b>			
Take away (f) from (e).		\$	\$

For further information on stock on hand at 1 July 2006, read **Opening stock** on page 18. For information on stock on hand at 30 June 2007, read **Closing stock** on page 19.

### Completing this item

**STEP 1** Write your total primary production cost of sales at **Cost of sales** in the Primary production column, item **P8** on page 3 of your schedule. Do not show cents.

**STEP 2** If the cost of sales in the Primary production column – after taking away (f) from (e) – is a negative amount, print **L** in the box at the right of this amount.

**STEP 3** Write your total non-primary production cost of sales at **Cost of sales** in the Non-primary production column. Do not show cents.

**STEP 4** If the cost of sales in the Non-primary production column – after taking (f) away from (e) – is a negative amount, print **L** in the box at the right of this amount.

**STEP 5** Add up your primary production and non-primary production cost of sales and write the total at **Cost of sales** in the Totals column.

**STEP 6** If your total cost of sales is a negative amount, print **L** in the box at the right of this amount.

### FOREIGN RESIDENT WITHHOLDING EXPENSES

**Did you have any expenses directly relating to income subject to foreign resident withholding?**

**NO**  Go to **Contractor, sub-contractor and commission expenses** in the next column.

**YES**  Read on.

#### Completing this item

**STEP 1** Write your total non-primary production foreign resident withholding expenses at **Foreign resident withholding expenses** in the Non-primary production column, item **P8** on page 3 of your schedule. Do not show cents.

**STEP 2** Transfer the amount you wrote at step 1 to the adjacent **Totals** box at **U**.

#### NOTE

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

### CONTRACTOR, SUB-CONTRACTOR AND COMMISSION EXPENSES

**Did you have any contractor, sub-contractor or commission expenses in your business?**

**NO**  Go to **Superannuation expenses** on page 22.

**YES**  Read on.

#### You need to know

These are expenses for labour and services provided under contract – other than salaries or wages – for example:

- payments to self-employed people such as consultants and contractors, including payments subject to a PAYG voluntary agreement to withhold and payments made under a labour hire arrangement
- commissions paid to people not receiving a retainer
- agency fees – for example, advertising
- service fees – for example, plant service
- management fees, and
- consultant fees.

Do not include the following at this item:

- expenses for external labour which have been included in the business cost of sales account
- expenses for accounting or legal services – include these at **All other expenses**.

#### Completing this item

**STEP 1** Write your total primary production contractor, sub-contractor and commission expenses at **Contractor, sub-contractor and commission expenses** in the Primary production column, item **P8** on page 3 of your schedule. Do not show cents.

**STEP 2** Write your total non-primary production contractor, sub-contractor and commission expenses at **Contractor, sub-contractor and commission expenses** in the Non-primary production column. Do not show cents.

**STEP 3** Add up your primary production and non-primary production contractor, sub-contractor and commission expenses and write the total at **F**.

## SUPERANNUATION EXPENSES

Did you make any superannuation contributions on behalf of eligible employees or their dependants as a business expense?

**NO**  Go to **Bad debts** in the next column.

**YES**  Read on.

### You need to know

Show superannuation expenses for the year of income. Do not include any amount that was a contribution for yourself. The deduction for your own superannuation contributions must be claimed at item **D13** on your tax return (supplementary section). See question **D13** in *TaxPack 2007 supplement*.

Employers are entitled to a deduction for contributions made to a complying superannuation, provident, benefit or retirement fund or retirement savings account (RSA) where the contribution is to provide superannuation benefits for eligible employees or to provide benefits to the employee's dependants on the employee's death. Superannuation benefits mean individual personal benefits, pensions or retiring allowances. A deduction is allowable in the income year in which the contributions are made.

Contributions made to a non-complying fund:

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

Under the superannuation guarantee an employer needs to provide a minimum level of superannuation for eligible employees or pay a tax called the superannuation guarantee charge to the Commissioner. The superannuation guarantee charge is not a superannuation contribution and is not tax deductible. Any late contribution that is used to reduce the amount of superannuation guarantee charge employers have to pay under the superannuation guarantee late payment offset measure is also not deductible.

Contributions paid by an employer for eligible employees to a non-complying superannuation fund are fringe benefits – other than where the contributions are made for an exempt visitor – and may be subject to tax under the *Fringe Benefits Tax Assessment Act 1986*.

The amount of contributions that can be claimed as a deduction by an employer contributing to a resident complying superannuation fund or RSA in respect of eligible employees is limited by the age of each relevant employee.

Where an employee has reached the age of 70, there is a further restriction on the deduction that can be claimed for an employer contribution to a complying superannuation fund or RSA.

For the 2006–07 income year the age-based limits are as follows:

**TABLE 1: Employee deduction limit**

Age in years	Deduction limit
under 35	\$15,260
35 to 49	\$42,385
50 and over*	\$105,113*

\* For contributions made after the 28th day of the month following the employee's 70th birthday, the deduction claimable is limited to the amount of the contribution required:

- (i) under a federal, state or territory award, or
- (ii) to meet the employer's superannuation guarantee obligation on salary or wages paid to the employee before the employee's 70th birthday.

The employee's age limit is determined at the end of the day on which the employer, or associate of the employer, made the last contribution for the income year for the benefit of the employee.

### Completing this item

**STEP 1** Write your total primary production superannuation contributions at **Superannuation expenses** in the Primary production column, item **P8** on page 3 of your schedule. Do not show cents.

**STEP 2** Write your total non-primary production superannuation contributions at **Superannuation expenses** in the Non-primary production column. Do not show cents.

**STEP 3** Add up your primary production and non-primary production superannuation contributions and write the total at **G**.

## BAD DEBTS

Did you write off any bad debts in your business?

**NO**  Go to **Lease expenses** on page 23.

**YES**  Read on.

## You need to know

Include income from the recovery of bad debts in **Other business income** at **I** or **J** in the **Income** section of item **P8**.

You are not allowed a deduction for bad debts unless you have previously included the amount in your assessable income or it is for money you lent in the ordinary course of a money-lending business carried on by you.

Do not include accounting provisions for doubtful debts at **I**. You show them in the **Expenses** section at **All other expenses**, then add them back at **H Expense reconciliation adjustments** in the **Reconciliation items** section.

Before you can claim a bad debt, it must be bad and not merely doubtful. The question of whether a debt is a bad debt will depend on the facts in each case and, where applicable, the action taken for recovery.

 For more information, see *Taxation Ruling TR 92/18 – Income tax: bad debts*.

You can claim a deduction for:

- Partial debt write-offs – where only part of a debt is bad and is written off, you may claim a deduction for the amount written off.
- Losses incurred in debt-for-equity swaps for debt written off after 26 February 1992 – where under an arrangement you discharge, release or otherwise extinguish the whole or part of a debt owed to you in return for equity in the debtor. You can claim a deduction for the difference between the amount of the debt and the greater of the market value of the equity at the time of issue or the value of the equity recorded in your books at the time of issue. The market value of the equity is the price quoted on the stock exchange or, if the equity is not listed, the net asset backing of the equity.

Where you are not in the business of lending money, the deduction is limited to the amount of the debt you have included in assessable income.

## Records you need to keep

Keep a statement for all debtors whose bad debts you wrote off during the year, showing:

- their name and address
- the amount of the debt
- the reason you regarded the debt as bad, and
- the year that you returned the amount as income.

## Completing this item

**STEP 1** Write your total primary production bad debts at **Bad debts** in the Primary production column, item **P8** on page 3 of your schedule. Do not show cents.

**STEP 2** Write your total non-primary production bad debts at **Bad debts** in the Non-primary production column. Do not show cents.

**STEP 3** Add up your primary production and non-primary production bad debts and write the total at **I**.

## LEASE EXPENSES

### Did you have lease expenses in your business?

**NO**  Go to **Rent expenses** on page 24.

**YES**  Read on.

### You need to know

This is expenditure incurred through both financial and operating leases on leasing assets such as motor vehicles and plant. Do not include the cost of leasing real estate (show this cost at **Rent expenses** on page 24) or capital expenditure incurred to terminate a lease or licence. However, a five-year straight-line write-off is allowed for certain capital expenditure incurred to terminate a lease or licence if the expenditure is incurred in the course of carrying on a business, or in connection with ceasing to carry on a business. See worksheet 6 on page 41 and note 3 on page 41 and the details under Change 3 in the fact sheet *Blackhole expenditure: business related expenses* (available on our website).

In some circumstances, lease expenses may be debt deductions for the purposes of the thin capitalisation rules. For more information on thin capitalisation, see page 17.

### NOTE

If you include an amount of lease expense which is not allowable as a deduction, such as amounts disallowed under the thin capitalisation rules, you will need to add back the amount at **H Expense reconciliation adjustments** in the **Reconciliation items** section on your schedule.

Expenses incurred under a hire purchase agreement are not lease expenses. Such expenses are dealt with at **H Expense reconciliation adjustments** in the **Reconciliation items** on your schedule.

Special rules apply to leased cars if the cost of the car exceeds the car limit that applies for the financial year in which the lease commences. The car limit for 2006–07 is \$57,009. If you lease a car that is subject to the special rules, the reconciliation between the lease expense and the tax treatment is carried out at **H Expense reconciliation adjustments** in the **Reconciliation items** section. For more information, see **Luxury car leasing** on page 39.

## Records you need to keep

List the assets leased and keep full details of leasing expenses for each item – including motor vehicles – and details of any private use. Leasing expenses of certain cars fall under the substantiation rules.

## Completing this item

**STEP 1** Write your total primary production lease expenses at **Lease expenses** in the Primary production column, item **P8** on page 3 of your schedule. Do not show cents.

**STEP 2** Write your total non-primary production lease expenses at **Lease expenses** in the Non-primary production column. Do not show cents.

**STEP 3** Add up your primary production and non-primary production lease expenses and write the total at **J**.

## RENT EXPENSES

**Did you have rent as a business expense?**

**NO**  Go to **Interest expenses within Australia** below.

**YES**  Read on.

### You need to know

This is expenditure you incurred as a tenant for rental of land and buildings used in the production of income. Include the cost of leasing real estate.

### Completing this item

**STEP 1** Write your total primary production rent expenses at **Rent expenses** in the Primary production column, item **P8** on page 3 of your schedule. Do not show cents.

**STEP 2** Write your total non-primary production rent expenses at **Rent expenses** in the Non-primary production column. Do not show cents.

**STEP 3** Add up your primary production and non-primary production rent expenses and write the total at **K**.

## INTEREST EXPENSES WITHIN AUSTRALIA

**Did you incur interest as a business expense on money borrowed within Australia?**

**NO**  Go to **Interest expenses overseas** in the next column.

**YES**  Read on.

### You need to know

Include interest you incurred on money borrowed within Australia to acquire income-producing assets used in your business, to finance business operations or to meet current business expenses.

Do not include interest incurred in deriving rental income. Claim this at item **20** on your tax return (supplementary section).

#### ! NOTE

If you include an amount of interest which is not allowable as a deduction, such as amounts denied by the thin capitalisation rules, you will need to add back the amount at **H Expense reconciliation adjustments** in the **Reconciliation items** section on your schedule. For more information on thin capitalisation, see page 17.

## Completing this item

**STEP 1** Write your total primary production interest expenses within Australia at **Interest expenses within Australia** in the Primary production column, item **P8** on page 3 of your schedule. Do not show cents.

**STEP 2** Write your total non-primary production interest expenses within Australia at **Interest expenses within Australia** in the Non-primary production column, item **P8** on your schedule. Do not show cents.

**STEP 3** Add up your primary production and non-primary production interest expenses within Australia and write the total at **Q**.

## INTEREST EXPENSES OVERSEAS

**Did you incur interest as a business expense on money borrowed overseas?**

**NO**  Go to **Depreciation expenses** on page 25.

**YES**  Read on.

### You need to know

Include any interest incurred on money borrowed from overseas sources to acquire income-producing assets used in your business, to finance business operations or to meet current business expenses.

Do not include interest incurred in deriving rental income. Claim this at item **20** on your tax return (supplementary section).

Generally, an amount of withholding tax is required to be withheld from interest paid or payable to non-residents and from interest derived by a resident through an overseas branch. These amounts must be sent to the Tax Office.

If you paid or credited any interest or amounts in the nature of interest to a non-resident of Australia or to a resident's overseas branch, you will need to provide additional information. Print SCHEDULE OF ADDITIONAL INFORMATION – ITEM 14 on the top of a separate piece of paper. Show the name and address of each recipient, total amounts paid or credited to each non-resident or overseas branch of a resident and the amount of tax withheld. If no tax was withheld, please state the reason for this. Include your name, address and TFN. Print **X** in the **YES** box at *Taxpayer's declaration* question **2a** on your tax return. Sign and attach the schedule to page 3 of your tax return.

**➤** For more information on the tax treatment of interest and dividends paid to non-residents, phone the Business Infoline (see the inside back cover).

#### ! NOTE

If you include an amount of interest which is not allowable as a deduction, such as amounts denied by the thin capitalisation rules, you will need to add back the amount at **H Expense reconciliation adjustments** in the **Reconciliation items** section on your schedule. For more information on thin capitalisation, see page 17.

**Completing this item**

**STEP 1** Write your total primary production overseas interest expenses at **Interest expenses overseas** in the Primary production column, item **P8** on page 3 of your schedule. Do not show cents.

**STEP 2** Write your total non-primary production overseas interest expenses at **Interest expenses overseas** in the Non-primary production column. Do not show cents.

**STEP 3** Add up your primary production and non-primary production overseas interest expenses and write the total at **R**.

**DEPRECIATION EXPENSES**

**Did you have depreciation as a business expense?**

**NO**  Go to **Motor vehicle expenses** on page 29.

**YES**  If you have chosen to enter or continue in the STS at item **S1**, read on. Otherwise go to **Other businesses** on page 28.

**STOP**

If you did not carry on a business in the income year, but in a prior year allocated assets to a general STS pool or long life STS pool, do not include the STS pool deductions at this question. Show such deductions at item **D15** on your tax return (supplementary section).

**STS TAXPAYERS**

**You need to know**

You show at **M Depreciation expenses** item **P8** the total depreciation deductions being claimed under the STS capital allowances (depreciation) rules and for the business use of other assets under the uniform capital allowances (UCA) rules. This includes your deduction under the STS capital allowances (depreciation) rules for depreciating assets used for work-related or self-education purposes. However this excludes any amount included at part B of item **P1**.

You do not need to complete a *Capital allowances schedule 2007*.

STS taxpayers can claim an immediate deduction for most depreciating assets costing less than \$1,000 (excluding input tax credit entitlements) and can pool most of their other depreciating assets. There are two STS pools:

- a general STS pool for depreciating assets with an effective life of less than 25 years
- a long life STS pool for depreciating assets with an effective life of 25 years or more.

Some depreciating assets are excluded from the STS rules but a deduction may be available under the UCA rules.

**➤** For more information about the STS capital allowances (depreciation) rules, see our publication *The simplified tax system – a guide for tax agents and small businesses*, visit our website or phone the Business Infoline (see the inside back cover).

**Calculating your depreciation deductions**

If your accounting system or financial statements provide you with the amounts to complete worksheet 4 on page 28, write these amounts in the worksheet. Otherwise, use calculations 1 to 5 below to calculate your depreciation deductions.

The amounts you write in worksheet 4 on page 28 must be tax values and not accounting values.

**Calculation 1: Low-cost assets**

A low-cost asset is an asset:

- whose cost at the end of the year was less than \$1,000 (excluding input tax credit entitlements), and
- that qualifies for a deduction under the STS capital allowances (depreciation) rules.

Work out the taxable purpose proportion of each depreciating low-cost asset you acquired in 2006–07 and used or held ready for use for the purpose of producing assessable income. You calculate the deduction for each eligible asset as follows:

$$\text{asset's adjustable value} \times \text{taxable purpose proportion}$$

Add up these results and write the total at (a) in worksheet 4 on page 28.

Do not include depreciating assets which cost less than \$1,000 (excluding input tax credit entitlements) that you acquired before entering the STS. You allocate these assets to the general STS pool (see calculation 2).

**NOTE**

The **adjustable value** of a depreciating low-cost asset, at the time you first used it (or held it ready for use) for a taxable purpose, will be its cost, unless you previously used or held the asset solely for private purposes. For example, for a tool set bought on 1 December at a cost of \$800 (excluding input tax credit entitlements) and used for producing assessable income from that date at an estimated 70% of the time, the immediate deduction would be  $\$800 \times 70\% = \$560$ .

## ! DEFINITIONS

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

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

**Cost addition amounts** include the cost of capital improvements to assets and costs reasonably attributable to disposing of or permanently ceasing to use an asset (this may include advertising and commission costs or the costs of demolishing the asset).

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

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

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

**Taxable purpose** includes the purpose of producing assessable income.

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

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

### Calculation 2: STS pool deductions

To calculate your deductions for both the general and long life STS pools you must first calculate the opening pool balance of each pool.

If you are entering the STS, allocate each depreciating asset you hold at the start of the income year to the appropriate pool according to the asset's effective life. Only include the taxable purpose proportion of the adjustable value of each depreciating asset. For example, for an asset with an adjustable value of \$10,000 that is used only 50% for an income-producing purpose, you will only add \$5,000 to the pool.

You can choose not to allocate an asset to your long life STS pool if you first used it or installed it ready for use for a taxable purpose before 1 July 2001.

You calculate the opening pool balance for each STS pool by adding the value of all depreciating assets allocated to the relevant pool.

If you are continuing in the STS, the opening pool balance of each STS pool is the closing pool balance for the 2005–06 income year, except where you make an adjustment to reflect the changed business use of a pooled asset.

Calculate your deduction for each STS pool as follows:

*General STS pool deduction:*

$$\text{opening pool balance (\$)} \times 30\%$$

*Long life STS pool deduction:*

$$\text{opening pool balance (\$)} \times 5\%$$

Where necessary make a reasonable apportionment for each STS pool deduction between primary production and non-primary production activities.

Write the result of your general STS pool deduction at (b) in worksheet 4.

Write the result of your long life STS pool deduction at (c) in worksheet 4.

If either pool balance is below \$1,000 (after taking into account additions and disposals but before working out the deductions in calculations 2 and 3), you work out the deduction for the pool using calculation 5(b).

### Calculation 3: Depreciating assets first used for a taxable purpose during 2006–07 and cost addition amounts for assets already allocated to a pool

You calculate your deduction at half the relevant pool rate for:

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

Calculate your deduction as follows:

- the taxable purpose proportion of the adjustable value of each depreciating asset first used for a taxable purpose this year multiplied by 15% (general STS pool assets) or 2.5% (long life pool assets), plus
- the taxable purpose proportion of the cost addition amounts multiplied by 15% (general STS pool assets) or 2.5% (long life pool assets).

Write the total deduction for general STS pool assets at (d) and the total deduction for long life STS pool assets at (e) in worksheet 4.

If either pool balance (after taking into account additions and disposals but before calculating the deductions in calculations 2 and 3) is below \$1,000, work out your deduction for these assets using calculation 5(b).

#### Calculation 4: Other depreciating assets

Work out your deduction for the decline in value of all your other depreciating assets that are not included in calculations 1 to 3.

➤ See the *Guide to depreciating assets 2007* for information on how to calculate the decline in value of these assets. To find out how to get this publication, see the inside back cover.

Write your total deduction for other depreciating assets at (f) in worksheet 4.

Do not include at (f) in the worksheet depreciating assets which qualify for a deduction under Subdivision 40-F or 40-G of the ITAA 1997 as water facilities or landcare operations in your primary production business and for which you have chosen to claim a deduction under those Subdivisions and not the STS rules. Show these deductions at **W Landcare operations and business deduction for decline in value of water facility** item **P8 Reconciliation items**.

#### Calculation 5: Disposal of depreciating assets

##### (a) Low-cost assets

If you have disposed of a low-cost asset for which you have claimed an immediate deduction in calculation 1 this year or in a prior year, include the taxable purpose proportion of the termination value in the **Reconciliation items** section of item **P8**. For example, for a low-cost asset used only 50% for an income-producing purpose which was sold for \$200 (excluding GST), only \$100 will be assessable and included as a reconciliation adjustment.

##### (b) Assets allocated to STS pools

Where you dispose of depreciating assets that have been allocated to either the general or long life STS pools, you deduct the taxable purpose proportion of the termination value from the closing pool balance. For example, for a pooled depreciating asset used only 50% for an income-producing purpose which was sold for \$3,000 (excluding GST), only \$1,500 will be deducted from the closing pool balance. If the balance of a pool is below \$1,000 but greater than zero (after taking into account any additions and disposals but before calculating the deductions in calculations 2 and 3) you can claim an immediate deduction for this amount. Write this deduction against the appropriate pool at (b) or (c) in worksheet 4.

If the closing pool balance is less than zero, you include the amount below zero in your assessable income in the **Reconciliation items** section of item **P8**. For more information about closing pool balances, see below.

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

##### (c) Other depreciating assets

➤ See the *Guide to depreciating assets 2007* for information on how to calculate any balancing adjustment amounts on the disposal of other depreciating assets.

Balancing adjustment amounts are included in the **Reconciliation items** section of item **P8**. See **What are income reconciliation adjustments?** and **What are expense reconciliation adjustments?** on page 37.

#### Closing pool balance

The closing balance of each STS pool for an income year is:

- the opening pool balance (see calculation 2), *plus*
- the taxable purpose proportion of the adjustable value of assets that were first used or installed ready for use for a taxable purpose during the year (see calculation 3), *plus*
- the taxable purpose proportion of any cost addition amounts for assets in the pool during the year (see calculation 3), *less*
- the taxable purpose proportion of the termination value of any pooled assets disposed of during the year [see calculation 5(b)], *less*
- the STS pool deduction (see calculation 2), *less*
- the deduction for assets first used by you during the year (see calculation 3), *less*
- the deduction for any cost addition amounts for pooled assets during the year (see calculation 3).

If your closing pool balance is less than zero, see calculation 5(b).

The closing pool balance for this year becomes the opening pool balance for the 2007–08 income year except where you made an adjustment to reflect the changed business use of a pooled asset.

You will need your opening pool balance to work out the pool deduction next year. Do not write your closing pool balance on your tax return (supplementary section).

**WORKSHEET 4: Depreciation deductions for STS**

	Primary production (\$)	Non-primary production (\$)	Total (\$)
Low-cost assets			(a)
General pool			(b)
Long life pool			(c)
General pool (1/2 rate)			(d)
Long life pool (1/2 rate)			(e)
Other assets			(f)
Depreciation expenses Add (a), (b), (c), (d), (e) and (f).			(g)

**Completing this item**

**STEP 1** Write your total primary production depreciation deductions at **Depreciation expenses** in the Primary production column, item **P8** on page 3 of your schedule. Do not show cents.

**STEP 2** Write your total non-primary production depreciation deductions at **Depreciation expenses** in the Non-primary production column. Do not show cents.

**NOTE**

Do not show any amount included at part B of item **P1**.

**STEP 3** Transfer the amount at (g) in worksheet 4 to **M Depreciation expenses**. Do not show cents.

**STEP 4** Transfer the amount at (a) in worksheet 4 to **A** item **P10 STS depreciating assets** on page 4 of your schedule. Do not show cents.

**STEP 5** Add up the amounts at (b) and (d) in worksheet 4 and write the total at **B** item **P10**. Do not show cents.

**STEP 6** Add up the amounts at (c) and (e) in worksheet 4 and write the total at **C** item **P10**. Do not show cents.

**STEP 7** Go to **Motor vehicle expenses** on page 29.

**OTHER BUSINESSES****You need to know**

You show at **M Depreciation expenses** item **P8** the depreciation claimed in your books of account other than for those assets allocated in a prior year to a general STS pool or a long life STS pool. For assets allocated to such a pool, include here the amount of the pool deduction to be claimed for tax purposes. For information about STS capital allowances (depreciation) deductions, see page 25.

The depreciation amount shown at **M** should not include profit or loss on the sale of depreciating assets. You should include profits on the sale of depreciating assets in **Other business income** at **I** or **J** in the **Income** section of item **P8** on your schedule. You should include losses on the sale of depreciating assets at **P All other expenses** in the **Expenses** section.

Accounting or book depreciation may differ from the deduction for the decline in value of depreciating assets.

You carry out the reconciliation between accounting depreciation and the deduction for decline in value at **H Expense reconciliation adjustments** in the **Reconciliation items** section of item **P8**.

**▶** You can use the decline in value calculator on our website to calculate the decline in value of these assets or see the *Guide to depreciating assets 2007* for more information on how to calculate decline in value.

**! IS EXPENDITURE REVENUE OR CAPITAL IN NATURE?**

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

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

A deduction for expenditure incurred on low-cost assets calculated in accordance with this Practice Statement will be accepted by the Tax Office.

**Completing this item**

**STEP 1** Write your total primary production depreciation expenses at **Depreciation expenses** in the Primary production column, item **P8** on page 3 of your schedule. Do not show cents.

**STEP 2** Write your total non-primary production depreciation expenses at **Depreciation expenses** in the Non-primary production column. Do not show cents.

**STEP 3** Add up your primary production and non-primary production depreciation expenses and write the total at **M**.

**Is the amount at M greater than \$15,000?**

**NO**  Go to step 4.

**YES**  You will need to complete and attach a *Capital allowances schedule 2007* unless you:

- have chosen to enter or continue in the STS at item **S1**, or
- are exiting the STS at item **S1** or have previously exited the STS, and the amount at **M** relates entirely to STS depreciating assets.

 For more information, see the *Capital allowances schedule instructions 2007* (NAT 4089–6.2007).

**STEP 4** If you are exiting the STS or have previously exited the STS, and are continuing to claim a deduction in respect of a prior STS pool at **M Depreciation expenses**, print in the CODE box at **M** the appropriate code from table 2.

In all other cases leave the CODE box blank.

**TABLE 2**

Type of depreciation expense	Code
The amount at <b>M</b> relates entirely to STS depreciating assets. Do not complete a <i>Capital allowances schedule 2007</i> .	<b>S</b>
The amount at <b>M</b> relates to both STS depreciating assets and to UCA items. You will need to complete and attach a <i>Capital allowances schedule 2007</i> if the total amount at <b>M</b> exceeds \$15,000.	<b>M</b>

**MOTOR VEHICLE EXPENSES**

**Did you have motor vehicle expenses in your business?**

**NO**  Go to **Repairs and maintenance** on page 30.

**YES**  Read on.

**You need to know**

Questions **D1** and **D2** in *TaxPack 2007* tell you more about the expenses you can claim.

Do not include depreciation, finance leasing charges or interest paid. You should include these at **M Depreciation expenses**, **J Lease expenses**, **Q Interest expenses within Australia** or **R Interest expenses overseas** item **P8** on your schedule.

**Completing this item**

**STEP 1** Write your total primary production motor vehicle expenses at **Motor vehicle expenses** in the Primary production column, item **P8** on page 3 of your schedule. Do not show cents.

**STEP 2** Write your total non-primary production motor vehicle expenses at **Motor vehicle expenses** in the Non-primary production column. Do not show cents.

**STEP 3** Add up your primary production and non-primary production motor vehicle expenses and write the total at **N** item **P8** on your schedule.

**STEP 4** If you worked out the amount you are claiming for motor vehicle expenses using one of the four methods described in question **D1** in *TaxPack 2007*, find the code letter that identifies the method you used and print it in the TYPE box at the right of the amount at **N**.

If you are claiming motor vehicle expenses other than for a car – see question **D2** in *TaxPack 2007* – print the code letter **N** in the TYPE box at the right of the amount at **N**.

If you have more than one code, print the code that applies to the largest claim.

## REPAIRS AND MAINTENANCE

Did you have repairs and maintenance as a business expense?

**NO**  Go to **All other expenses** in the next column.

**YES**  Read on.

### You need to know

This is expenditure shown in your accounts for repairs and maintenance of premises, plant, machinery, implements, utensils, rolling stock or articles associated with the production of income. Any non-deductible expenditure, such as items of a capital nature or amounts relating to private use of an item, included at this question, should also be included at **H Expense reconciliation adjustments** in the **Reconciliation items** section item **P8** on your schedule. The following information on deductions for repairs will assist you to work out whether you need to make an expense reconciliation adjustment.

### Repairs

You may deduct the cost of repairs – not being expenditure of a capital nature – to premises and depreciating assets such as plant, machinery or equipment used solely for producing assessable income, or in carrying on a business for that purpose.

Expenditure on repairs to property used partially for business or income-producing purposes – for example, where the property is also used for private purposes or in the production of exempt income – is deductible only to the extent that is reasonable, taking account of such use.

Where items are newly acquired, including by way of a legacy or gift, the cost of repairs to defects in existence at the time of acquisition is generally of a capital nature.

Expenditure incurred in making alterations, additions or improvements is of a capital nature and is not deductible.

**➤** For further information on deductions for repairs, see *Taxation Ruling TR 97/23 – Income tax: deductions for repairs*.

### Records you need to keep

To support your claim for the cost of repairs, you must keep full details, including source documents, of the nature and cost of repairs to each item.

### Completing this item

**STEP 1** Write your total primary production repairs and maintenance expenses at **Repairs and maintenance** in the Primary production column, item **P8** on page 3 of your schedule. Do not show cents.

**STEP 2** Write your total non-primary production repairs and maintenance expenses at **Repairs and maintenance** in the Non-primary production column. Do not show cents.

**STEP 3** Add up your primary production and non-primary production repairs and maintenance expenses and write the total at **O**.

## ALL OTHER EXPENSES

Did you have any other business expenses?

**NO**  Go to **Total expenses** on page 31.

**YES**  Read on.

### You need to know

This is the total of all other expenses which you incurred in deriving your profit or loss and which you have not already shown elsewhere at item **P8**. Other expenses include wages, accounting and professional fees, advertising, office supplies, foreign exchange (forex) losses and any loss on the sale of a depreciating asset as shown in your accounts.

**➤** For more information about forex losses, visit our website or see question **D15** in *TaxPack 2007 supplement*.

You should also include capital and other non-deductible items (including debt deductions denied by thin capitalisation rules) shown here at **H Expense reconciliation adjustments** in the **Reconciliation items** section of item **P8** on your schedule. See **Income and expense reconciliation adjustments** on page 36 for more information.

For more information on thin capitalisation, see page 17.

### Home office expenses

If part of your home was specifically set aside as your place of business and used solely for the purpose of conducting your business affairs and you had no other place from where they were mainly carried on, the following expenses are partly deductible:

- occupancy expenses – including rent, mortgage interest, rates, and house and contents insurance
- running expenses – including electricity, cleaning, depreciation, leasing charges and repairs to furniture and furnishings in the office.

In most cases, you can apportion expenses on a floor area basis and, if the area of your home was a place of business for only part of the year, on a time basis.

Where you used part of your home as a home office but it did not qualify as a place of business, only the additional running expenses you incurred may be deductible.

**➤** For further details, see *Taxation Ruling TR 93/30 – Income tax: deductions for home office expenses* and *Law Administration Practice Statement PS LA 2001/6 – Home office expenses: diaries of use and calculation of home office expenses*.

## Records you need to keep

You should keep records to show how you have calculated your home office expenses. The Tax Office may ask you for these at a later date.

### Completing this item

**STEP 1** Write your total 'other' primary production expenses at **All other expenses** in the Primary production column, item **P8** on page 3 of your schedule. Do not show cents.

**STEP 2** Write your total 'other' non-primary production expenses at **All other expenses** in the Non-primary production column.

**STEP 3** Add up your 'other' primary production and 'other' non-primary production expenses and write the total at **P** item **P8** on your schedule.

## TOTAL EXPENSES

### Completing this item

**STEP 1** Add up all the expenses you have written in the Primary production column, from **Cost of sales** down to and including **All other expenses**. Write the total at **S** item **P8** on page 3 of your schedule. Do not show cents.

**STEP 2** If your total of primary production expenses is a negative amount, print **L** in the box at the right of the amount at **S**.

**STEP 3** Add up all the expenses you have written in the Non-primary production column, from **Cost of sales** down to and including **All other expenses**. Write the total at **T**. Do not show cents.

**STEP 4** If your total of non-primary production expenses is a negative amount, print **L** in the box at the right of the amount at **T**.

**STEP 5** Add up your primary production and non-primary production expenses. Write the total at **TOTAL EXPENSES** in the Totals column.

**STEP 6** If your total expenses is a negative amount, print **L** in the box at the right of this amount.

## RECONCILIATION ITEMS

Consider the items on pages 31–6 to see whether you qualify for a deduction.

Any adjustments to your income and expense amounts are dealt with at **Income and expense reconciliation adjustments** on page 36.

## DEDUCTION FOR ENVIRONMENTAL PROTECTION EXPENSES

### Did you have a business expense for environmental protection activities?

**NO**  Go to **Section 40-880 deduction** on page 32.

**YES**  Read on.

### You need to know

Show here the amount of allowable expenditure on environmental protection activities (EPA).

You can deduct expenditure to the extent that you incur it for the sole or dominant purpose of carrying on EPA. EPA are activities undertaken to prevent, fight or remedy pollution, or to treat, clean up, remove or store waste from your earning activity. Your earning activity is one you carried on, carry on or propose to carry on for the purpose of:

- producing assessable income (other than a net capital gain)
- exploration or prospecting, or
- mining site rehabilitation.

You may also claim a deduction for cleaning up a site on which a predecessor carried on substantially the same business activity.

The deduction is not available for:

- EPA bonds and security deposits
- expenditure for acquiring land
- expenditure for constructing or altering buildings, structures or structural improvements, or
- expenditure to the extent that you can deduct an amount for it under another provision.

Accordingly, expenditure which forms part of the cost of a depreciating asset is not deductible as expenditure on EPA if a deduction is available for the decline in value of the asset. See the *Guide to depreciating assets 2007* for information on the deduction for decline in value.

Expenditure incurred on or after 19 August 1992 on certain earthworks constructed as a result of carrying out EPA can be written off at the rate of 2.5% per annum under the provisions for capital works expenditure.

Expenditure on an environmental assessment of a project is not deductible as expenditure on EPA. If it is capital expenditure directly connected with a project, it could be a project amount for which a deduction would be available

over the project life – see **Business deduction for project pool** on page 33. An example would be a study to determine the quantity and type of pollutants which will be produced from a process used in a proposed business.

If the deduction arises from a non-arm's length transaction and the expenditure is more than the market value of what it was for, the amount of the expenditure is instead taken to be that market value.

Any recoupment of the expenditure would be assessable income.

### Completing this item

**STEP 1** Write your total primary production EPA expenses at **Deduction for environmental protection expenses** in the Primary production column, item **P8** on page 3 of your schedule. Do not show cents.

**STEP 2** Write your total non-primary production EPA expenses at **Deduction for environmental protection expenses** in the Non-primary production column. Do not show cents.

**STEP 3** Add up your primary production and non-primary production EPA expenses and write the total at .

## SECTION 40-880 DEDUCTION

### Can you deduct business-related costs under section 40-880?

**NO**  Go to **Business deduction for project pool** on page 33.

**YES**  Read on.

### You need to know

Section 40-880 provides a five-year write-off for certain capital expenditure incurred by you in relation to a past, present or prospective business if the expenditure is not already taken into account or not denied a deduction by another provision.

For expenditure incurred before 1 July 2005, there are seven specific types of business-related capital expenditure for which you may be able to claim a deduction. For expenditure incurred on or after 1 July 2005, the law has been changed so that a deduction can now also be claimed for capital expenditure:

- in relation to your business
- in relation to a business that used to be carried on – such as capital expenses incurred in order to cease the business
- in relation to a business proposed to be carried on – such as the costs of feasibility studies, market research or setting up the business entity
- as a shareholder, beneficiary or partner to liquidate or deregister a company or to wind up a trust or partnership – the company, trust or partnership must have carried on a business.

If you incur expenditure in relation to your existing business, a business that you used to carry on or a business that you propose to carry on, the expenditure is deductible to the extent the business is, was or is proposed to be carried on for a taxable purpose.

You cannot deduct expenditure in relation to an existing business that is carried on by another entity. However, you can deduct expenditure you incur in relation to a business that used to, or is proposed to, be carried on by another entity. The expenditure is only deductible to the extent that:

- the business was, or is proposed to be, carried on for a taxable purpose, and
- the expenditure is in connection with the business that was or is proposed to be carried on and with your deriving assessable income from the business.

Generally, you can deduct 20% of the expenditure in the year you incur it and in each of the following four years. However, for some pre- and post-business expenditure you may have to defer your claim for a deduction because the non-commercial rules apply.

For example, if you were carrying on a business during the year but your relevant capital expenditure relates to a new business that did not commence before 30 June 2007, you generally cannot claim a deduction for the expenses incurred on or after 1 July 2005 until the business activity commences. If you incur such expenditure in these circumstances you should not claim the deductible amount (20%) but note it in your business or taxation records and claim all the amounts deferred for this item in the year the business commences.

### NOTE

The deduction cannot be claimed for capital expenditure to the extent to which it:

- can be deducted under another provision
- forms part of the cost of a depreciating asset you hold, used to hold or will hold
- forms part of the cost of land
- relates to a lease or other legal or equitable right
- would be taken into account in working out an assessable profit or deductible loss
- would be taken into account in working out a capital gain or a capital loss
- would be specifically not deductible under the income tax laws if the expenditure was not capital expenditure
- is specifically not deductible under the income tax laws for a reason other than the expenditure is capital expenditure
- is of a private or domestic nature
- is incurred in relation to gaining or producing exempt income or non-assessable non-exempt income
- is excluded from the cost or cost base of an asset because, under special rules in the UCA or capital gains tax regimes respectively, the cost or cost base of the asset was taken to be the market value
- is a return of or on capital or is a return of a non-assessable amount (for example, repayments of loan principal).

Claim the amount deductible under section 40-880 here if you carried on a business as an individual at any time during the year. If you stopped carrying on a business as an individual in an income year that ended before 1 July 2005 and you have not fully claimed your five-year write-off under section 40-880, claim the amount deductible this year at item **D15** on your tax return (supplementary section).

If you have incurred relevant capital expenses on or after 1 July 2005 and the expenses relate to a business that ceased in a previous income year and you carried on the business as a sole trader or through a partnership, claim the expenses here. If you carried on the business through a company or trust, you claim the amount deductible (20%) at item **D15** on your tax return (supplementary section).

You must show any recoupment of the expenditure as assessable income, either at **Other business income** or as part of your **Income reconciliation adjustments** in the **Reconciliation items** section of item **P8** on your schedule.

**Completing this item**

**STEP 1** Write your deduction for primary production business-related costs at **Section 40-880 deduction** in the Primary production column, item **P8** on page 3 of your schedule. Do not show cents.

**STEP 2** Write your deduction for non-primary production business-related costs at **Section 40-880 deduction** in the Non-primary production column. Do not show cents.

**STEP 3** Add up your primary production and non-primary production deductions for business-related costs and write the total at **A**.

**BUSINESS DEDUCTION FOR PROJECT POOL**

**Did you have capital expenditure directly connected with a business project?**

**NO**  Go to **Landcare operations and business deduction for decline in value of water facility** on page 35.

**YES**  Read on.

**You need to know**

Certain capital expenditure you incurred after 30 June 2001 which is directly connected with a project you carry on or propose to carry on for a taxable purpose can be allocated to a project pool and written off over the life of the project. Each project has a separate project pool. The project must be of sufficient substance and be sufficiently identified that it can be shown that the capital expenditure said to be a 'project amount' is directly connected with the project.

A project is carried on if it involves a continuity of activity and active participation. Merely holding a passive investment such as a rental property would not be regarded as carrying on a project.

Such capital expenditure, known as a project amount, is expenditure incurred on:

- creating or upgrading community infrastructure for a community associated with the project – this expenditure must be paid (not just incurred) to be a project amount
- site preparation for depreciating assets (other than to drain swamp or low-lying land or to clear land for horticultural plants and grapevines)
- feasibility studies for the project
- environmental assessments for the project
- obtaining information associated with the project
- seeking to obtain a right to intellectual property, or
- ornamental trees or shrubs.

Project amounts also include mining capital expenditure and expenditure on certain facilities used to transport minerals or quarry materials. For more information on these project amounts, see the *Guide to depreciating assets 2007*.

The expenditure must not be otherwise deductible or form part of the cost of a depreciating asset. If the expenditure incurred arises from a non-arm's length dealing and is more than the market value of what it was for, the amount of the expenditure is taken to be that market value.

Project amounts are allocated to a 'project pool'. Your deduction for project amounts allocated to a project pool is spread over the 'project life'. The project life is the period from when the project starts to operate until when it stops operating. The period must be limited by something inherent in the project. A deduction for project amounts would be available over that limited project life (or an earlier abandonment, sale or other disposal). If there is no limited project life, no deduction is available under these rules.

A deduction is available starting from the income year if you started to operate a project in that year to gain or produce assessable income. The deduction is worked out on the value of the project pool at the end of the income year. For projects that started to operate on or after 10 May 2006, the calculation of the deduction has changed. You cannot use the higher rate if you abandon, sell or otherwise dispose of an existing project and then restart it on or after 10 May 2006 just so deductions can be calculated using the higher rate.

## P8

Use worksheet 5A or 5B to work out your deduction. For projects which started to operate on or after 10 May 2006 the calculation is as follows:

### WORKSHEET 5A: Project pool deduction for projects which started on or after 10 May 2006

Value of project pool at 30 June 2007. This is the closing pool value for the 2005–06 income year (if any) plus the sum of the project amounts you allocated to the pool in 2006–07.	(a)	\$
Your estimate of the life of the project (in years)	(b)	years
Divide (a) by (b).	(c)	\$
Multiply (c) by 200% – this is your 2006–07 deduction for project pool.	(d)	\$
<b>Note:</b> Your deduction at (d) must not be more than the amount at (a). If a project operated in 2006–07 for purposes other than earning assessable business income, you must reduce your deduction at (d) by a reasonable amount for the extent to which the project operated for such purposes.		

### WORKSHEET 5B: Project pool deduction for projects which started before 10 May 2006

Value of project pool at 30 June 2007. This is the closing pool value for the 2005–06 income year (if any) plus the sum of the project amounts you allocated to the pool in 2006–07.	(a)	\$
Your estimate of the life of the project (in years)	(b)	years
Divide (a) by (b).	(c)	\$
Multiply (c) by 150% – this is your 2006–07 deduction for project pool.	(d)	\$
<b>Note:</b> Your deduction at (d) must not be more than the amount at (a). If a project operated in 2006–07 for purposes other than earning assessable business income, you must reduce your deduction at (d) by a reasonable amount for the extent to which the project operated for such purposes.		

The pool value can be subject to adjustments. An adjustment could happen under specific rules that apply to transactions conducted in foreign currency (the foreign exchange, or forex, rules). If during the income year you met an obligation to pay foreign currency incurred as a project amount which you allocated to a project pool, you might have derived a gain or incurred a loss under these rules. For more information about the forex rules, visit our website.

#### ! CLOSING POOL VALUE FOR 2006–07

This is (a) minus (d) in worksheets 5A and 5B. You will need the closing pool value for 2006–07 to work out your deduction for the project pool next year.

Any recoupment of the expenditure must be shown as assessable income either at **Other business income** or as part of your **Income reconciliation adjustments** in the **Reconciliation items** section of item **P8** on your schedule.

#### Where a project was abandoned, sold or otherwise disposed of in 2006–07

In this case – whether or not the project had begun to operate – you can claim a deduction for the 2005–06 closing pool value (if any) plus any project amounts allocated to the pool in the 2006–07 year. You must show any proceeds from the abandonment, sale or disposal of the project as assessable income either at **Other business income** or as part of your **Income reconciliation adjustments** in the **Reconciliation items** section of your schedule.

#### Completing this item

**STEP 1** Write your total primary production project pool business deduction at **Business deduction for project pool** in the Primary production column, item **P8** on page 3 of your schedule. Do not show cents.

**STEP 2** Write your total non-primary production project pool business deduction at **Business deduction for project pool** in the Non-primary production column. Do not show cents.

**STEP 3** Add up your primary production and non-primary production project pool business deductions and write the total at **L**.

#### Is the amount at **L** greater than \$1,000?

**NO**  Go to **Landcare operations and business deduction for decline in value of water facility** on page 35.

**YES**  You will need to complete and attach a *Capital allowances schedule 2007* (unless you are an STS taxpayer).

 For more information, see the *Capital allowances schedule instructions 2007*. This publication is available on our website or to find out how to get a printed copy, see the inside back cover.

## LANDCARE OPERATIONS AND BUSINESS DEDUCTION FOR DECLINE IN VALUE OF WATER FACILITY

### Did you have landcare operations and/or water conservation/conveying expenses?

**NO**  Go to **Income and expense reconciliation adjustments** on page 36.

**YES**  Read on.

#### You need to know

#### Landcare operations expenses

You can claim a deduction for capital expenditure you incur on a landcare operation for land in Australia in the year it is incurred.

Unless you are a rural land irrigation water provider, the deduction is available to the extent you use the land for either:

- a primary production business, or
- in the case of rural land, a business for the purpose of producing assessable income from the use of that land – except a business of mining or quarrying.

You may claim the deduction even if you are only a lessee of the land.

Rural land irrigation water providers can claim a deduction for certain expenditure they incur. A rural land irrigation water provider is an entity whose business is primarily and principally supplying water to entities for use in primary production businesses on land in Australia or businesses (except mining or quarrying businesses) using rural land in Australia. The supply of water by using a motor vehicle is excluded.

If you are a rural land irrigation water provider, you can claim a deduction for capital expenditure you incurred supplying water to a landcare operation on:

- land in Australia being used for primary production businesses, or
- rural land in Australia being used for a taxable purpose (except a business of mining or quarrying)

Your deduction is reduced by a reasonable amount to reflect an entity's use of the land for other than a taxable purpose after you incurred the expenditure.

A landcare operation is one of the following:

- erecting fences to separate different land classes in accordance with an approved land management plan
- erecting fences primarily and principally to keep animals out of areas affected by land degradation in order to prevent or limit further damage and assist in reclaiming the areas
- constructing a levee or similar improvements
- constructing drainage works – other than the draining of swamps or low-lying land – primarily and principally to control salinity or assist in drainage control

- an operation primarily and principally for eradicating or exterminating animal pests from the land
- an operation primarily and principally for eradicating, exterminating or destroying plant growth detrimental to the land
- an operation primarily and principally for preventing or combating land degradation other than by the use of fences, or
- an extension, alteration or addition to any of the assets described in the first four dot points or an extension of an operation described in the fifth to seventh dot points.

A landcare operation also includes expenditure for:

- a repair of a capital nature to an asset which is deductible under a landcare operation
- constructing a structural improvement that is reasonably incidental to levees or drainage works deductible under a landcare operation
- a repair of a capital nature, or an alteration, addition or extension to a structural improvement that is reasonably incidental to levees (or similar improvements) or drainage works deductible under a landcare operation.

An example of a structural improvement that may be reasonably incidental to drainage works is a fence constructed to prevent livestock entering a drain that was constructed to control salinity.

No deduction is available if the capital expenditure is on plant unless it is on certain fences, dams or other structural improvements. Where a levee is constructed primarily and principally for water conservation, it would be a water facility and no deduction would be allowable under these rules. Its decline in value would need to be worked out under the rules for water facilities. See **Water conservation and conveyance facilities**.

You may need to show any recoupment of the expenditure as assessable income either at **Other business income** in the **Income** section of item **P8** on your schedule or as part of your **Income reconciliation adjustments** in the **Reconciliation items** section of item **P8**. Phone the Business Infoline (see the inside back cover).

These deductions are not available to a partnership. Expenses for landcare operations incurred by a partnership are allocated to each partner who can then claim the relevant deduction in respect of their share of the expenditure.

#### Water conservation and conveyance facilities

You can claim a deduction for the decline in value of a water facility. A water facility includes plant or a structural improvement, or an alteration, addition or extension to plant or a structural improvement, that is primarily or principally for the purpose of conserving or conveying water. The expenditure must be incurred primarily and principally for conserving or conveying water for use in a primary production business on land in Australia.

'Water facility' includes dams, tank stands, bores, wells, irrigation channels pipes, pumps, water towers and windmills. Water facility also includes certain other expenditure incurred on or after 1 July 2004 for:

- a repair of a capital nature to plant or a structural improvement that is primarily or principally for the purpose of conserving or conveying water – for example, if you purchase a pump that needs substantial work done to it before it can be used in your business, the cost of repairing the pump may be treated as a water facility
- a structural improvement, or an alteration, addition or extension to a structural improvement, that is reasonably incidental to conserving or conveying water
- a repair of a capital nature to a structural improvement that is reasonably incidental to conserving or conveying water.

Examples of structural improvements that are reasonably incidental to conserving or conveying water include a bridge over an irrigation channel, a culvert (a length of pipe or multiple pipes that are laid under a road to allow the flow of water in a channel to pass under the road), or a fence preventing livestock entering an irrigation channel.

A deduction for the decline in value of a water facility can be claimed in equal instalments over three years.

Unless you are an irrigation water provider, the expenditure must be incurred primarily and principally for conserving or conveying water for use in a primary production business you conduct on land in Australia. You may claim the deduction even when you do not own the land. Therefore, if you are a lessee carrying on a business of primary production on the land, you can still claim the deduction. Your deduction is reduced where the facility is not wholly used for either:

- carrying on a primary production business on land in Australia, or
- a taxable purpose – for example, producing assessable income.

Irrigation water providers are entitled to a deduction for water facilities expenditure incurred on or after 1 July 2004. An irrigation water provider is an entity whose business is primarily and principally the supply of water to entities for use in primary production businesses on land in Australia. The supply of water by using a motor vehicle is excluded.

If you are an irrigation water provider, you must incur the expenditure primarily and principally for the purpose of conserving or conveying water for use in primary production businesses conducted by other entities on land in Australia – being entities supplied with water by you. The deduction is reduced if the facility is not used wholly for a taxable purpose. Any recoupment of the expenditure may be assessable income. Phone the Business Infoline (see the inside back cover).

These deductions are not available to a partnership. Costs incurred by a partnership for facilities to conserve or convey water are allocated to each partner who can then claim the relevant deduction in respect of their share of the expenditure.

### ! STS TAXPAYERS

The amount you show at **W** must not include any amount relating to a depreciating asset used in your primary production business if you have chosen to claim a deduction for it under the STS capital allowances (depreciation) rules.

### Completing this item

**STEP 1** Write your total deductions for primary production landcare operations expenses and for water facilities at **Landcare operations and business deduction for decline in value of water facility** in the Primary production column, item **P8** on page 3 of your schedule. Do not show cents.

**STEP 2** Write your total deduction for non-primary production landcare operations expenses and water facilities at **Landcare operations and business deduction for decline in value of water facility** in the Non-primary production column. Do not show cents.

**STEP 3** Add up your primary production and non-primary production deductions for landcare operations and water facilities and write the total at **W**.

### INCOME AND EXPENSE RECONCILIATION ADJUSTMENTS

#### Do you need to make any income or expense reconciliation adjustments?

**NO**  Go to **Net income or loss from business this year** on page 44.

**YES**  Read on.

#### You need to know

You may need to make income reconciliation adjustments or expense reconciliation adjustments. These adjustments reconcile your business operating profit or loss with your business taxable income.

Do not complete any income reconciliation adjustments or expense reconciliation adjustments if all the amounts you have written at **C Gross payments where Australian business number not quoted to W Landcare operations and business deduction for decline in value of water facility**, item **P8** on your schedule, are assessable income or allowable tax deductions for income tax purposes.

If you have included amounts such as exempt income or non-deductible expenses or have not included amounts which are assessable income or expenditure that is deductible, you must work out your reconciliation adjustments.

Worksheet 6 on page 41 will assist you with your calculations.

**What are income reconciliation adjustments?**

Income reconciliation adjustments include:

- **income add backs** – income not shown in the accounts which is assessable income for tax purposes, such as:
  - assessable balancing adjustment amounts on disposal of depreciating assets, and
  - other assessable income not included in the profit and loss statement
- **income subtractions** – income shown in the accounts which is not assessable income, such as:
  - profit on sale of depreciating assets, and
  - other income that is not assessable for income tax purposes – for example, gross exempt income.

Your income reconciliation adjustment is:

your total income add backs	–	your total income subtractions
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Use worksheet 6 on page 41 to work out your income reconciliation adjustments for your primary and non-primary production businesses. The amount you write at **X Income reconciliation adjustments** item **P8** on your schedule is the total of your primary production and non-primary production income adjustments.

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

**What are expense reconciliation adjustments?**

Expense reconciliation adjustments include:

- **expense add backs** – expenses shown in the accounts which are not tax deductible, including timing deductions, such as:
  - prepaid expenses not deductible in this year
  - depreciation
  - loss on sale of a depreciating asset, and
  - other items not allowable as a deduction – for example, capital expenditure, additions to provisions and reserves, income tax expense, expenses relating to exempt income, debt deduction denied by the thin capitalisation rules, other non-deductible expenses (for more information on thin capitalisation, see page 17 and for PSI deductions see page 9).
- **expense subtractions** – items not shown as expenses which are deductible for tax purposes, such as:
  - prepaid expenses deductible this year but not included elsewhere
  - deduction for decline in value of depreciating assets
  - deductible balancing adjustment amounts on disposal of depreciating assets, and
  - other items deductible for tax purposes.

Your expense reconciliation adjustment is:

your total expense add backs	–	your total expense subtractions
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Use worksheet 6 on page 41 to work out your expense reconciliation adjustments for your primary and non-primary production businesses. The amount you write at **H Expense reconciliation adjustments** item **P8** on your schedule is the total of your primary production and non-primary production expense adjustments.

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

## SPECIFIC RECONCILIATION ADJUSTMENTS

On pages 39–40 there are examples of specific reconciliation adjustments that may apply to you.

If you have chosen to enter or continue in the STS at item **S1**, read **STS taxpayers** below first. Otherwise go to page 39.

### STS TAXPAYERS

If you are eligible to continue in the STS and have chosen to do so at item **S1**, you may need to make additional adjustments (see STS taxpayers on page 13).

Make adjustments in this section of item **P8** on your schedule if you:

- are continuing in the STS this year, have chosen to continue using the STS accounting method and the amounts you have shown at the **Income** and **Expense** sections of item **P8** are not based on the STS accounting method
- are continuing in the STS this year and are changing from using the STS accounting method, or
- you have disposed of depreciating assets during the year.

These adjustments are explained in more detail below.

Worksheet 6 on page 41 will assist you with your calculations.

#### Trade debtors and creditors as at 30 June 2007

If you are continuing in the STS this year, have chosen to continue using the STS accounting method and have included at item **P8** amounts of ordinary income that have been derived but not received in 2006–07, the amounts not received are not assessable under the STS rules this year – for example, trade debtors.

These amounts form part of your **Income reconciliation adjustments** at **X** item **P8**. Include these amounts at (f) on worksheet 6 on page 41.

If you are continuing in the STS this year, have chosen to continue using the STS accounting method and have included at item **P8** amounts for general deductions, repairs and tax-related expenses that have been incurred but not paid in 2006–07, the amounts not paid are not deductible under the STS rules this year – for example, trade creditors.

These amounts form part of your **Expense reconciliation adjustments** at **H** item **P8**. Include these amounts at (n) on worksheet 6 on page 41.

#### Adjustment when changing from the STS accounting method

If you are continuing in the STS this year and have chosen to discontinue using the STS accounting method read on.

If you have not included under **Income** at item **P8** amounts of ordinary income that were derived but not received while using the STS accounting method, these amounts are assessable this year.

Include these amounts at (b) on worksheet 6 on page 41.

If you have not included under **Expenses** at item **P8** amounts of general deductions, repairs or tax-related expenses that were incurred but not paid while using the STS accounting method, these amounts are deductible this year.

Include these amounts (other than tax-related expenses) at (t) on worksheet 6 on page 41. Show your deduction for tax-related expenses at **D10** on your tax return.

#### Disposal of depreciating assets

If you disposed of any depreciating assets during the income year, the following amounts (if any) form part of your **Income reconciliation adjustments** at **X** item **P8**:

- the taxable purpose proportion of the termination value of low-cost assets disposed of for which an immediate deduction has been claimed
- if the closing pool balance of an STS pool is less than zero, the amount below zero, and
- assessable balancing adjustment amounts on the disposal of depreciating assets not allocated to STS pools.

See the **Definitions** box on page 26 for an explanation of these terms.

Include the amounts at (b) on worksheet 6 on page 41.

Any deductible balancing adjustment amounts on the disposal of depreciating assets that you have not allocated to STS pools form part of your **Expense reconciliation adjustments** at **H** item **P8**. Include these amounts at (q) on worksheet 6 on page 41.

 For more information on assessable balancing adjustment amounts and deductible balancing adjustment amounts, see the *Guide to depreciating assets 2007*.

Read the information on pages 39–40 to determine if you need to make any further reconciliation adjustments.

## Exiting the STS this year

If you have exited the STS and have amounts of ordinary income that you derived but did not receive while you were in the STS, these amounts are assessable in this year – for example, debtors at 30 June 2006.

Include these amounts at (b) on worksheet 6 on page 41, unless you have already included them as income at item **P8**.

Similarly, if you have exited the STS and have amounts of general deductions (including repairs and tax-related expenses) that you incurred but did not pay while you were in the STS, these amounts are deductible this year – for example, creditors as at 30 June 2006.

Include these amounts (other than tax-related expenses) at (t) on worksheet 6, unless you have already included them as deductions at item **P8**. Show your deduction for tax-related expenses at **D10** on your tax return.

## Prepaid expenses

Special rules may affect the timing of deductions for prepaid expenditure. Under these rules you may need to apportion certain prepaid expenses over more than one income year. You must make an expense reconciliation adjustment to add back that part of the expense that is not deductible in the year it is incurred. Show the adjustment at (k) on worksheet 6.

If you had a prepaid expense in a prior year which is to be apportioned over the service period and you are entitled to a deduction for part of the expense this year but have not included it elsewhere, show the adjustment as an expense subtraction at (s) on worksheet 6.

➤ For further information about the prepayment rules, see the publication *Deductions for prepaid expenses 2007*.

## Deduction for decline in value (non-STs taxpayers only)

A deduction for a decline in value of a depreciating asset calculated under income tax law may differ from the accounting or book calculation of depreciation. Different rules regarding such things as effective life, the calculation of balancing adjustment amounts and the treatment of debt forgiveness amounts can produce a discrepancy between the two calculations.

Under income tax law you can deduct an amount equal to the decline in value of a depreciating asset in the 2006–07 income year if you held the depreciating asset for any time during the year and used it (or installed it ready for use) for a taxable purpose, such as for producing assessable income.

The deduction is reduced to the extent you do not use the asset for a taxable purpose.

➤ To help you calculate your deduction for decline in value, see the *Guide to depreciating assets 2007*, which also provides explanations of relevant terms. The guide also explains the option to allocate to a low-value pool depreciating assets that cost less than \$1,000 (excluding input tax credit entitlements) and depreciating assets that have an opening adjustable value of less than \$1,000.

If you choose to use the low-value pool method to calculate the decline in value of low-cost or low-value depreciating assets and the pool contains assets used for work-related, self-education or rental purposes, read question **D6** in *TaxPack 2007*. Do not include the deduction at item **P8** on your schedule. If none of the depreciating assets in the pool is used for any of those purposes, include the amount of your low-value pool deduction at (r) on worksheet 6. Where necessary, make a reasonable apportionment between primary production and non-primary production activities.

You should also include the deduction for decline in value of depreciating assets not allocated to a pool at (r) on worksheet 6.

You should also add back the depreciation charged in your accounts and shown at **M** **Depreciation expenses** in the **Expenses** section of item **P8** as an expense reconciliation adjustment. Include the amount at (h) on worksheet 6. The amount at (h) should not include any STS pool deductions which you have claimed at **M**.

## Luxury car leasing

A leased car, either new or second-hand, is a luxury car if its cost exceeds the car limit that applies for the financial year in which the lease commences. The car limit for 2006–07 is \$57,009.

Luxury car leases entered into after 7.30pm (by legal time in the ACT) on 20 August 1996 (other than genuine short-term hire arrangements) are treated as a notional sale and loan transaction.

The cost or value of the car specified in the lease (or the market value if the parties were not dealing at arm's length in connection with the lease) is taken to be the cost of the car for the lessee and the amount loaned by the lessor to the lessee to buy the car.

In relation to the notional loan, the actual lease payments are divided into notional principal and finance charge components. That part of the finance charge component for the notional loan applicable for the particular period (the accrual amount) is deductible to the lessee subject to any reduction required under the thin capitalisation rules.

The amount forms part of your **Expense reconciliation adjustments** at **H** item **P8** on your schedule. Include the amount at (p) on worksheet 6.

In relation to the notional sale, the lessee is treated as the holder of the luxury car and may be entitled to claim a deduction for the decline in value of the car. If the lessee is an STS taxpayer for the income year in which the lease is entered into, the lessee allocates the car to their general STS pool.

For the purpose of calculating the deduction, the cost of the car is limited to the car limit for the financial year in which the lease is granted.

➤ For more information on deductions for the decline in value of leased luxury cars, see the *Guide to depreciating assets 2007*.

In summary, the lessee is entitled to deductions equal to:

- the accrual amount, and
- the decline in value of the luxury car, based on the applicable car limit, unless the car is allocated to the general STS pool.

You reduce both deductions to reflect any use of the car for other than a taxable purpose.

Where you allocate the car to the general STS pool with the cost based on the applicable car limit, see page 26 to calculate the deduction under the STS depreciation rules.

If you have included the lease expense at **J Lease expenses** in the **Expenses** section of item **P8** in your schedule, the amount should also form part of your **Expense reconciliation adjustments** at **H** item **P8**. Include the amount at (i) on worksheet 6. Include the deduction for the accrual amount at (p).

If the lease terminates or is not extended or renewed and the lessee does not actually acquire the car from the lessor, the lessee is treated under the rules as disposing of the car by way of sale to the lessor. This constitutes a balancing adjustment event. If the car is not subject to the STS rules, any assessable or deductible balancing adjustment amount for the lessee must be determined. If the car has been allocated to the lessee's general STS pool, see calculation 5 for STS taxpayers on page 27.

### Hire purchase agreements

Hire purchase and instalment sale agreements of goods are treated as a sale of the property by the financier (or hire purchase company) to the hirer (or instalment purchaser).

The sale is treated as being financed by a loan from the financier to the hirer at a sale price of either their agreed cost or value or the property's arm's length value.

The periodic hire purchase (or instalment) payments are treated as payments of principal and interest under the notional loan. The interest component is deductible to the hirer, subject to any reduction required under the thin capitalisation rules. This amount forms part of the **Expense reconciliation adjustments** at **H** item **P8** on your schedule. Include the amount at (t) on worksheet 6.

In relation to the notional sale, the hirer of a depreciating asset is treated as the holder of the asset and either allocates the asset to the appropriate STS pool if they are an STS taxpayer for the income year, or may be entitled to claim a deduction for the decline in value of the depreciating asset. The cost of the asset for this purpose is taken to be the agreed cost or value, or the arm's length value if the dealing is not at arm's length.

If you have included hire purchase charges as an expense in item **P8** on your schedule, the amount should also form part of your **Expense reconciliation adjustments** at **H** item **P8**. Include the amount at (n) on worksheet 6.

### Termination of a limited recourse debt

Excessive deductions for capital allowances are included in assessable income under the limited recourse debt rules contained in Division 243 of the ITAA 1997. This will occur where:

- expenditure on property has been financed or re-financed wholly or partly by the limited recourse debt
- the limited recourse debt is terminated after 27 February 1998 but has not been paid in full by the debtor, and
- because the debt has not been paid in full, the capital allowance deductions allowed for the expenditure exceed the deductions that would be allowable if the unpaid amount of the debt was not counted as capital expenditure of the debtor. Special rules apply in working out whether the debt has been fully paid.

A limited recourse debt is a debt where the rights of the creditor as against the debtor in the event of default in payment of the debt or of interest are limited wholly or predominantly to the property which has been financed by the debt or is security for the debt, or rights in relation to such property. A debt is also a limited recourse debt if, notwithstanding that there may be no specific conditions to that effect, it is reasonable to conclude that the creditor's rights as against the debtor's are capable of being so limited.

A limited recourse debt includes a notional loan under a hire purchase or instalment sale agreement of goods to which Division 240 of the ITAA 1997 applies. See section 243-20.

The amount that is included within assessable income as a result of these provisions forms part of your **Income reconciliation adjustments** at **X** item **P8** on your schedule. Include the amount at (b) on worksheet 6.

**WORKSHEET 6: Reconciliation statement**

Reconcile your primary production and non-primary production items separately.

INCOME RECONCILIATION ADJUSTMENTS		Primary production	Non-primary production
<b>Additions</b>	Assessable balancing adjustment amounts on disposal of depreciating assets (a)	\$ <input type="text"/>	\$ <input type="text"/>
	Assessable business income not included in the profit and loss statement (b)	\$ <input type="text"/>	\$ <input type="text"/>
	Subtotal: add (a) and (b). (c)	\$ <input type="text"/>	\$ <input type="text"/>
<b>Subtractions</b>	Net exempt income – gross exempt income less expenses relating to that exempt income (d)	\$ <input type="text"/>	\$ <input type="text"/>
	Profit on sale of depreciating assets included in accounts (e)	\$ <input type="text"/>	\$ <input type="text"/>
	Other non-assessable income included in the profit and loss statement (f)	\$ <input type="text"/>	\$ <input type="text"/>
	Subtotal: add (d), (e) and (f). (g)	\$ <input type="text"/>	\$ <input type="text"/>
<b>Income reconciliation adjustments: (c) minus (g)</b>		\$ <input type="text"/>	\$ <input type="text"/>

EXPENSE RECONCILIATION ADJUSTMENTS		Primary production	Non-primary production
<b>Additions</b>	Depreciation charged in accounts (h)	\$ <input type="text"/>	\$ <input type="text"/>
	Lease payments for luxury cars (i)	\$ <input type="text"/>	\$ <input type="text"/>
	Loss on sale of depreciating assets included in accounts (j)	\$ <input type="text"/>	\$ <input type="text"/>
	Part of prepaid expenses not deductible this year (k)	\$ <input type="text"/>	\$ <input type="text"/>
	Items not allowable as deductions:		
	– capital expenditure (l)	\$ <input type="text"/>	\$ <input type="text"/>
	– additions to provisions and reserves (m)	\$ <input type="text"/>	\$ <input type="text"/>
	– other non-deductible items, including income tax (n)	\$ <input type="text"/>	\$ <input type="text"/>
Subtotal: add (h), (i), (j), (k), (l), (m) and (n). (o)	\$ <input type="text"/>	\$ <input type="text"/>	
<b>Subtractions</b>	Accrual amount deduction for lessee of luxury cars (p)	\$ <input type="text"/>	\$ <input type="text"/>
	Deductible balancing adjustment amounts on disposal of depreciating assets (q)	\$ <input type="text"/>	\$ <input type="text"/>
	Deduction for decline in value of depreciating assets (non-STs taxpayers only) (r)	\$ <input type="text"/>	\$ <input type="text"/>
	Part of prepaid expenses deductible this year but not included elsewhere (s)	\$ <input type="text"/>	\$ <input type="text"/>
	Other items deductible for tax purposes not included in the profit and loss statement (t)	\$ <input type="text"/>	\$ <input type="text"/>
	Subtotal: add (p), (q), (r), (s) and (t). (u)	\$ <input type="text"/>	\$ <input type="text"/>
<b>Expense reconciliation adjustments: (o) minus (u)</b>		\$ <input type="text"/>	\$ <input type="text"/>

**Note 1** Only include amounts at (h) if you are not an STS taxpayer. However, exclude any STS pool deductions which you have included at **M** item **P8** because you have exited the STS.

**Note 2** See the *Guide to depreciating assets 2007* for an explanation of depreciating assets.

**Note 3** If you have included an amount of capital expenditure incurred to terminate a lease or licence at **J** **Lease expenses** item **P8**, make a reconciliation adjustment at **H** **Expense reconciliation adjustments** item **5** by including the amount of capital expenditure as an expense add back and taking away that part of the expense which is allowed as a tax deduction.

### Completing this item

**STEP 1** Complete worksheet 6 using the explanations provided on pages 37–40. This will give you your total income and expense reconciliation amounts (primary and non-primary production) that you need for your schedule.

**STEP 2** Transfer the totals in the yellow rows on the worksheet to the appropriate boxes on page 3 of your schedule. Do not show cents.

**STEP 3** If any of the reconciliation adjustment amounts is negative, print **L** in the box at the right of the amount.

**STEP 4** Add up your primary production and non-primary production **Income reconciliation adjustments** and write the total at **X**.

**STEP 5** Add up your primary production and non-primary production **Expense reconciliation adjustments** and write the total at **H**.

**STEP 6** If the total income reconciliation adjustment amount is negative, print **L** in the box at the right of the amount at **X**. If the total expense reconciliation adjustment amount is negative, print **L** in the box at the right of **H**.

#### NOTE

Do not include in the amount at (t) on worksheet 6:

- environmental protection expenditure
- section 40-880 deductions
- business deductions for project pools, or
- deductions for landcare operations and water facilities.

Reconciliation adjustments for these amounts are shown separately at **V**, **A**, **L** and **W** on your schedule.

**WORKSHEET 7: Working out your net income or loss from primary production business this year**

Write your primary production total business income shown in the Primary production column at <b>TOTAL BUSINESS INCOME</b> item P8.	(a)	\$	
Write your primary production total business expenses shown at <b>S</b> item P8.	(b)	\$	
Add up the amounts of any deductions for primary production environmental protection expenses, section 40-880 expenditure, project pool and landcare operations and water facilities and write the total at (c).	(c)	\$	
Add the amount at (b) to the amount at (c).	(d)	\$	
Take the amount at (d) from the amount at (a).	(e)	\$	
Write your primary production income reconciliation adjustment (if any).	(f)	\$	
Write your primary production expense reconciliation adjustment (if any).	(g)	\$	
<b>Your net income or loss from your primary production business</b> – add (e), (f) and (g).	(h)	\$	

**! NOTE**

If the amount at (d) is more than the amount at (a), the amount at (e) is a loss. If it is, or if you have a negative amount at (f) or (g), the examples below will help you to work out your loss from primary production business.

**WORKSHEET 8: Working out your net income or loss from non-primary production business this year**

Write your non-primary production total business income shown in the Non-primary production column at <b>TOTAL BUSINESS INCOME</b> item P8.	(i)	\$	
Write your non-primary production total business expenses shown at <b>T</b> item P8.	(j)	\$	
Add up the amounts of any deductions for non-primary production environmental protection expenses, section 40-880 expenditure, project pool, landcare operations and write the total at (k).	(k)	\$	
Add the amount at (j) to the amount at (k).	(l)	\$	
Take away the amount at (l) from the amount at (i).	(m)	\$	
Write your non-primary production income reconciliation adjustment (if any).	(n)	\$	
Write your non-primary production expense reconciliation adjustment (if any).	(o)	\$	
<b>Your net income or loss from your non-primary production business</b> – add (m), (n) and (o).	(p)	\$	

**! NOTE**

If the amount at (l) is more than the amount at (i), the amount at (m) is a loss. If it is, or if you have a negative amount at (n) or (o), the examples below will help you to work out your loss from non-primary production business.

**EXAMPLES**

- If the amount at (e) is a \$5,000 loss, the amount at (f) is \$12,000 income, and the amount at (g) is a \$1,000 loss, the net income from the primary production business at (h) is \$6,000.
- If the amount at (e) is \$5,000 profit, the amount at (f) is \$2,000 income and the amount at (g) is an \$8,000 loss, the loss from the primary production business at (h) is \$1,000.

- If the amount at (m) is a \$5,000 loss, the amount at (n) is a \$4,000 loss and the amount at (o) is a \$1,000 loss, the loss from the non-primary production business at (p) is \$10,000.

## NET INCOME OR LOSS FROM BUSINESS THIS YEAR

Use worksheets 7 and 8 on page 43 to work out your net income or loss from your primary and non-primary production businesses this year, not including any non-commercial business losses deferred from a prior year.

### Completing this item

**STEP 1** Transfer the amount at (h) on worksheet 7 to **B** item **P8** on page 3 of your schedule. Do not show cents. If the amount is a loss, print **L** in the box at the right of this amount.

**STEP 2** Transfer the amount at (p) on worksheet 8 to **C** item **P8** on page 3 of your schedule. Do not show cents. If the amount is a loss, print **L** in the box at the right of this amount.

**STEP 3** Add **B** and **C** and write the total in the adjacent **Totals** column. The amount shown should not include any non-commercial business losses deferred from a prior year (which are shown at **D** or **E** – see **Deferred non-commercial business losses from a prior year** in the next column).

If you made a loss from your business, print **L** in the box at the right of this amount.

If the amount at **B** or **C** includes details from more than one business activity, and any one of these activities resulted in a net loss, you also need to complete items **P3** and **P9** on your schedule.

## DEFERRED NON-COMMERCIAL BUSINESS LOSSES FROM A PRIOR YEAR

### Do you have any deferred non-commercial business losses from a prior year?

**NO**  Go to **Net income or loss from business**, including losses deferred from a prior year on page 45.

**YES**  Read on.

### You need to know

A deferred non-commercial business loss is a loss you incurred in a prior year which you were unable to claim against other income.

#### ! NOTE

The non-commercial business loss may be reduced if:

- you earned net exempt income in this income year, or
- you became bankrupt or were released from any debts by the operation of an Act relating to bankruptcy.

For an explanation of net exempt income, see question **L1** in *TaxPack 2007*.

For more information phone the Business Infoline (see the inside back cover).

### Completing this item

**STEP 1** At **D** item **P8** on page 3 of your schedule write the amount of any primary production losses you deferred in a prior year from activities that are the same or similar to your current year activity. Do not show cents.

**STEP 2** At **E** write the amount of any non-primary production losses you deferred in a prior year from activities that are the same or similar to your current year activity. Do not show cents.

**STEP 3** Add up your primary and non-primary production deferred non-commercial business losses. Write the total at **Deferred non-commercial business losses from a prior year** in the **Totals** column.

## NET INCOME OR LOSS FROM BUSINESS

This amount takes into account losses deferred from a prior year.

### Completing this item

**STEP 1** If you have **net income** from primary production business this year at **B**, take away from it the amount of your deferred non-commercial primary production business losses from a prior year shown at **D**. Write the answer at **Y** **Net income or loss from business** item **P8** on page 3 of your schedule.

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

If you have a loss from primary production business this year at **B**, add it to the amount of your deferred non-commercial primary production business losses from a prior year shown at **D**. Write the total at **Y** **Net income or loss from business** item **P8** on your schedule and print **L** in the box at the right of the amount.

### ! NOTE

If you have printed **L** in the box at the right of the amount at **Y**, you also need to complete items **P3** and **P9** on your schedule.

**STEP 2** If you have **net income** from non-primary production business this year at **C**, take away from it the amount of your deferred non-commercial non-primary production business losses from a prior year shown at **E**. Write the answer at **Z** **Net income or loss from business** item **P8** on page 3 of your schedule.

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

If you have a loss from non-primary production business this year at **C**, add it to the amount of your deferred non-commercial non-primary production business losses from a prior year shown at **E**. Write the total at **Z** **Net income or loss from business** item **P8** on your schedule and print **L** in the box at the right of the amount.

### ! NOTE

If you have printed **L** in the box at the right of the amount at **Z**, you also need to complete items **P3** and **P9** on your schedule.

**STEP 3** Add up the amounts shown at **Y** and **Z**.

Write the answer at **Net income or loss from business** in the **Totals** column. If the total is negative, print **L** in the box at the right of the amount.

**STEP 4** Transfer the amounts at **Y** and **Z** on your schedule to **B** and **C** (respectively) item **14** on your tax return (supplementary section).

## P9 BUSINESS LOSS ACTIVITY DETAILS

Did you have a loss from a business activity you carried on either as a sole trader or in partnership?

**NO**  If you are an STS taxpayer, go to **P10 STS depreciating assets** on page 49. Otherwise, go to **Other business and professional items** on page 49.

**YES**  Read on.

### ! IMPORTANT

You must read all the information in this question and complete **Activity 1** and (if necessary) **Activity 2** and **Activity 3**, before you complete item **15** on your tax return (supplementary section).

### You need to know

Rules relating to non-commercial business losses have applied since 1 July 2000. Under the rules, you can use a 2006–07 loss from a business activity you conduct either as a sole trader or in partnership in calculating your 2006–07 taxable income only if it meets one of these conditions:

- an **exception** (see below) applies
- one of the **four tests** (see page 46) is satisfied
- if none of the four tests is satisfied, the Commissioner has exercised his discretion, or ruled that it will be exercised, to allow you to claim the loss.

You cannot claim losses arising from activities you conduct that are a private recreational pursuit or hobby or if there is no likelihood of profit.

### ! IMPORTANT

Keep records of each of the net losses deferred for your separate business activities.

### The exceptions

If you operate a **primary production** business or a **professional arts** business and your assessable income for 2006–07 (except any net capital gain) from other sources that do not relate to that activity is less than \$40,000, you may claim your business loss this year.

A professional arts business is a business you carry on as an author of a literary, dramatic, musical or artistic work as a performing artist, or as a production associate.

### ! NOTE

Your assessable income excludes any GST on a taxable supply you make. You must be registered or required to be registered for GST to make a taxable supply.

## The four tests

You will not have to defer your loss from your business activity if the activity satisfies at least one of the following four tests:

- there is at least \$20,000 of assessable income from the business activity for this income year
- the business activity has produced a profit for tax purposes in three out of the past five years, (including the current year)
- the value of real property assets (excluding any private dwelling) used on a continuing basis in carrying on the business activity is at least \$500,000
- the value of certain other assets (except cars, motorcycles and similar vehicles) used on a continuing basis in carrying on the business activity is at least \$100,000.

### NOTE

Special rules apply for these four tests if you are undertaking a business activity in partnership. See *Non-commercial losses: partnerships – fact sheet* (NAT 3385), available on our website, or phone the Business Infoline (see the inside back cover).

## The Commissioner's discretion

In limited circumstances, the Commissioner can exercise his discretion to allow a loss from a business activity to be claimed in the year it arises, even though none of the four tests are satisfied, provided that either:

- the business activity has been affected by special circumstances outside the control of the operators of the business – for example, natural disasters – where the activity would have satisfied one of the four tests but for these special circumstances, or
- the business activity, because of its nature, has a lead time and, for this reason, does not satisfy any of the four tests, but there is an objective expectation that it will eventually do so within a period that is commercially viable for the industry concerned. 'Commercial viability' is measured against independent industry standards.

**You must apply in writing for advice on whether the Commissioner will exercise this discretion.** To do this, complete the *Application for a private ruling on the exercise of the Commissioner's discretion for non-commercial business loss* (NAT 5806). For more details about these rules, phone the Business Infoline for assistance (see the inside back cover).

## Deferring your loss

**If you are unable to claim your loss this year because of these rules, you must defer the loss.**

**This deferred loss is not disallowed.** Instead, you take it into account for the next income year in which you carry on this business activity, or one of a similar kind.

The deferred loss is a deduction when calculating any net profit or loss from the activity in that future year.

Whether any overall loss can be taken into account in your calculation of taxable income for that future year will depend on the application of the non-commercial business loss deferral rules in that year.

If you are unable to claim your loss against other income this year because of these rules, you must defer your loss by showing the amount at item **15** on your tax return (supplementary section). The amount shown at item **15** cannot be used to reduce your 2006–07 taxable income.

Make sure you complete **Activity 1** below and **Activity 2 and Activity 3** on page 48 before you complete item **15** on your tax return (supplementary section).

### What you may need

If you are a partner in a partnership, you will need the following details for each business activity that you, as a partner, were involved in:

- the amount of assessable income earned by the partnership for the activity
- the share of partnership assessable income, real property and certain other assets, attributable to partners who are not individuals
- your share of income or loss from the partnership of the activity.

## ACTIVITY 1

### DESCRIPTION OF ACTIVITY

#### Completing this item

Describe the business activity from which you made the largest loss and print this at **D** item **P9** on page 4 of your schedule. If your business activity is the result of an investment in a tax effective arrangement, print the name of the project at **D**.

### PARTNERSHIP OR SOLE TRADER

#### Completing this item

At **F** item **P9** print either **P** in the box at **Partnership** (loss from a business activity carried on in partnership with others) or **S** in the box at **Sole trader** (loss from a business activity carried on as a sole trader), as appropriate.

## TYPE OF LOSS

Select the most appropriate code from the following list and write it at **G** item **P9** on page 4 of your schedule.

- 1 Your assessable income from the business activity for this income year is at least \$20,000.
- 2 The business activity has produced a profit for tax purposes in three out of the past five years (including the current year).
- 3 The value of real property assets or interests in real property (excluding any private dwelling) used on a continuing basis in carrying on the business activity is at least \$500,000.
- 4 The value of certain other assets (except cars, motor cycles or similar vehicles) used on a continuing basis in carrying on the business activity is at least \$100,000.
- 5 The Tax Office has advised you in writing that the Commissioner will exercise his discretion to allow you to claim a loss in relation to that business activity for this income year. This is where the Commissioner has issued a product ruling or a private binding ruling allowing losses to be claimed from an activity you participate in.
- 6 The loss is from a business activity you operated that is a professional arts business and your assessable income (excluding any net capital gain) from sources not related to that activity is less than \$40,000. (A professional arts business is a business you carry on as an author of a literary, dramatic, musical or artistic work, as a performing artist, or as a production associate.)
- 7 The loss is from a business activity you operated that is a primary production business and your assessable income (excluding any net capital gain) from sources not related to that activity is less than \$40,000.
- 8 None of the above codes applies and you must defer your loss. Complete item **15** on your tax return (supplementary section).

 For more information, see *Taxation Ruling 2001/14 – Income tax: Division 35: non-commercial business losses*.

### USING LOSS CODE 5

Some business activities may be covered by a product ruling or private ruling that does not relate to the current income year. Use loss code **5** only if you have advice in writing that the Commissioner's discretion will be exercised for 2006–07. If you have applied for a private binding ruling about the exercise of the Commissioner's discretion for 2006–07 but have not yet received the ruling, you should use loss code **8** unless another code applies.

### USING LOSS CODE 8

If you print code **8** at **G**, **M** or **S** item **P9** you must defer your loss. You must also complete item **15** on your tax return (supplementary section).

### ELECTRONIC LODGMENTS

For some tax returns lodged electronically:

- where there is a loss from a partnership from a passive investment – for example, from a rental property – you will need to use code **0** at **G** item **P9**
- where you have correctly shown the relevant loss code but an electronic edit prevents you from lodging your tax return electronically, phone the Business Infoline for assistance (see the inside back cover).

### Did you use loss code 5 at **G** item **P9**?

**NO**  Go to **Deferred non-commercial business loss from a prior year** below.

**YES**  If you used code **5** at **G** you must complete **Reference for code 5** at **C** item **P9** on page 4 of your schedule. Read on.

### REFERENCE FOR CODE 5

#### Completing this item

If your business activity is covered by a product ruling that includes advice that the Commissioner will exercise his discretion to allow a loss from that business activity:

- print **PR** at **C** in the **code** section of **Reference for code 5**, item **P9** on page 4 of your schedule
- write the year of the product ruling at **Y** in the **year** section
- write the product ruling number at **A** in the number section (do not include the **year** of the product ruling or the **slash /** at **A**).

Alternatively, if your business activity is covered by a private ruling that includes advice that the Commissioner will exercise his discretion to allow a loss from that business activity:

- print **AN** at **C** in the **code** section of **Reference for code 5**, item **P9** on page 4 of your schedule
- leave **Y** blank in the year section
- write the **authorisation number** which was printed on the front page of your notice of private ruling at **A** in the number section.

### STOP

You must provide one of these numbers if you used loss code **5** at **G** **Type of loss**. Using an invalid ruling or authorisation number, one which does not apply to you or one which does not apply for the 2006–07 income year, may result in an understatement of your tax payable. Penalties and interest may apply.

### DEFERRED NON-COMMERCIAL BUSINESS LOSS FROM A PRIOR YEAR

#### Completing this item

Write the amount of your deferred non-commercial business loss from a prior year for the business activity at **H** item **P9** on page 4 of your schedule. Do not show cents.

**NET LOSS**

**Completing this item**

Write your net loss from the business activity for 2006–07 at **I** item **P9** on page 4 of your schedule. Do not show cents. For partners in a partnership this would be your share of the net loss from the business activity and includes any deferred non-commercial business losses from the prior year claimed at **X** or **Y** item **12** on your tax return (supplementary section).

The example below will help you work out **P9**.

**ACTIVITY 2 AND ACTIVITY 3**

Fill out details for the second and third largest losses (if applicable) in the same way you have done for **Activity 1**.

**NOTE**

If you made a loss from more than three business activities, determine whether you need to defer the loss for each additional business activity. You will need the total amount of your deferred non-commercial business losses to complete item **15** on your tax return (supplementary section).

**EXAMPLE**

The following example shows how to fill in **P8** and **P9** on your schedule and how the amounts link to your tax return (supplementary section).

In 2006 Kieren had to defer his non-commercial business loss of \$6,000 from his beef cattle primary production business activity. He also had to defer his non-commercial business loss of \$3,000 from his retail business activity. Because he operated the same activities in the 2007 income year he can claim the \$6,000 business loss from the beef cattle primary production business activity as a deduction in relation to calculating any net profit or loss from that business activity for this income year; and the \$3,000 business loss from the retail non-primary production business activity as a deduction in relation to calculating any net profit or loss from that business activity for this income year. Kieren would show the amount of \$6,000 as a deduction at **D** item **P8**, and the amount of \$3,000 as a deduction at **E** item **P8** and \$9,000 at the Totals on his *Business and professional items schedule for individuals 2007*.

**P8 Business income and expenses**

	Primary production	Non-primary production	Totals
Deferred non-commercial business losses from a prior year	<b>D</b> 00,000,000.00	<b>E</b> 00,000,000.00	00,000,000.00

This year, Kieren made a loss of \$4,000 from the beef cattle primary production business. After taking into account his deferred non-commercial primary production business loss of \$6,000 from the prior year, he made a net loss of \$10,000. He did not satisfy any of the non-commercial business loss criteria that allow a business loss to be used to reduce other income so he must defer the \$10,000 net loss this year.

Kieren would show the \$6,000 deferred non-commercial business loss from the prior year at **H** item **P9** and the net loss of \$10,000 at **I** item **P9** on his *Business and professional items schedule for individuals 2007*. As the loss is to be deferred he would show loss code **8** at **G** item **P9** in the **Type of loss** box. See **Type of loss** on page 47 for a description of the loss codes.

**P9 Business loss activity details** Show details of up to three business activities in which you made a net loss this year. List them in order of size of loss – greatest first. If you are completing this item because you have deferred non-commercial business losses, you must also complete item **15** on your tax return.

**ACTIVITY 1**

Description of activity **D** **B E E F** **C A T T L E**

Tax Office use only **E** [ ] [ ] [ ] [ ] **F** Partnership  Sole trader **S**

Type of loss **G** **8** Reference for code 5 **C** [ ] **Y** [ ] [ ] [ ] / **A** [ ] [ ] [ ] [ ]

Deferred non-commercial business loss from a prior year **H** 00,000,000.00 Net loss **I** 00,000,000.00



## P11 TRADE DEBTORS

Did you have any trade debtors?

**NO**  Go to item **P12 Trade creditors** below.

**YES**  Read on.

### You need to know

This is the total amount owing to the business at the end of the year for goods and services provided during the income year, that is, current trade and other debtors.

### Completing this item

**STEP 1** Work out the total amount owing from trade and other debtors. If you have more than one business, add up all trade and other debtor amounts.

**STEP 2** Write the total at **E** item **P11** on page 4 of your schedule. Do not show cents.

## P12 TRADE CREDITORS

Did you have any trade creditors?

**NO**  Go to item **P13 Total salary and wage expenses** in the next column.

**YES**  Read on.

### You need to know

This is the total amount owed by the business at the end of the year for goods and services received during the income year, that is, current trade and other creditors.

### Completing this item

**STEP 1** Work out the total amount owing to trade and other creditors. If you have more than one business, add up all trade and other creditor amounts.

**STEP 2** Write the total at **F** item **P12** on page 4 of your schedule. Do not show cents.

## P13 TOTAL SALARY AND WAGE EXPENSES

Did you pay salary and wages as a business expense?

**NO**  Go to item **P14 Payments to associated persons** on page 51.

**YES**  Read on.

### You need to know

Salary, wages and other labour costs actually paid or payable to persons employed in your business – excluding those forming part of capital expenditure or paid for private domestic assistance – usually are deductible. However, you cannot be an employee of your business. Payments to you of salary – we deem these payments to be an allocation of profits – are not allowable deductions in calculating your income or loss.

Include any salary and wage component of **Cost of sales** such as allowances, bonuses, casual labour, retainers and commissions paid to people who received a retainer, and worker's compensation paid through the payroll.

Also include direct and indirect labour, holiday pay, locums, long service leave, lump sum payments, other employee benefits, overtime, payments under an incentive or profit sharing scheme, retiring allowances and sick pay. Include any salary or wages paid to relatives and other related entities both here and at **H** item **P14** on your schedule. Exclude agency fees, contract payments, sub-contract payments, service fees, superannuation, management fees and consultant fees.

### Completing this item

**STEP 1** Add up total salary and wage expenses from each business.

**STEP 2** Write the total at **G** item **P13** on page 4 of your schedule. Do not show cents.

**STEP 3** Select from the following list the letter that matches the description of the expense component where the salary and wage expenses have been wholly or predominantly reported:

- C** All included in the expense component **Cost of sales**
- A** All included in the expense component **All other expenses**
- B** Included in the expense component of both **Cost of sales** and **All other expenses**
- O** Included in expense components other than **Cost of sales** and/or **All other expenses**.

**STEP 4** Print the appropriate letter in the TYPE box at the right of the amount at **G**.

## P14 PAYMENTS TO ASSOCIATED PERSONS

Did you make any payments to associated persons as a business expense?

**NO**  Go to item **P15 Intangible depreciating assets first deducted** in the next column.

**YES**  Read on.

### You need to know

These are amounts, including salary, wages, commissions or allowances paid to your relatives. It also includes superannuation contributions paid for the benefit of your relatives.

You must also include amounts of salary or wages paid to your relatives and partnerships in which your relative is a partner at **G** item **P13** on your schedule.

You need to keep the following records:

- full name of relative or related partnership
- age, if under 18 years old
- relationship
- nature of duties performed
- hours worked
- total remuneration
- salary or wages claimed as deductions, and
- other amounts paid – for example, retiring gratuities, bonuses and commissions.

Excessive or unreasonable payments to your relative or a partnership in which your relative is a partner may not be deductible. The PSI rules (see item **P1**) also limit deductions for payments to associates.

### Completing this item

**STEP 1** Add up payments made to relatives and related partnerships from each business.

**STEP 2** Write the total at **H** item **P14** on page 4 of your schedule. Do not show cents.

## P15 INTANGIBLE DEPRECIATING ASSETS FIRST DEDUCTED

 **STS TAXPAYERS** – do not complete this item.

Did you start to deduct the decline in value of any intangible depreciating assets?

**NO**  Go to item **P16 Other depreciating assets first deducted** on page 52.

**YES**  Read on.

### You need to know

The following intangible assets are regarded as depreciating assets (as long as they are not trading stock):

- certain items of intellectual property
- computer software (or a right to use computer software) that you acquire, develop or have someone else develop for your use for the purposes for which it is designed (in-house software)
- mining, quarrying or prospecting rights and information
- spectrum licences, and
- datacasting transmitter licences.

A depreciating asset that you hold starts to decline in value from the time you use it or install it ready for use for any purpose, including a private purpose. However, you can only claim a deduction for the decline in value to the extent that you use the asset for a taxable purpose, such as for producing assessable income.

At item **P15** you need to show the cost of all intangible depreciating assets for which you are claiming a business deduction for decline in value for the first time. If you have allocated any intangible depreciating assets with a cost of less than \$1,000 to a low-value pool for the income year, you also need to include the cost of those assets at item **P15**. Do not reduce the cost for estimated non-taxable use.

Expenditure on in-house software that you allocated to a software development pool is not shown at item **P15**.

 For more information on decline in value, cost, low-value pools, in-house software and software development pools, see the *Guide to depreciating assets 2007*.

### Completing this item

**STEP 1** Add up the costs.

**STEP 2** Write the total at **I** item **P15** on page 4 of your schedule. Do not show cents.

Is the amount at **I** greater than \$75,000?

**NO**  Go to **P16 Other depreciating assets first deducted**.

**YES**  You need to complete and attach a *Capital allowances schedule 2007*. For more information, see the *Capital allowances schedule instructions 2007*.

## P16 OTHER DEPRECIATING ASSETS FIRST DEDUCTED

 STS TAXPAYERS – do not complete this item.

Did you start to hold any other depreciating assets in 2006–07 for which you can claim a deduction for decline in value?

**NO**  Go to item **P17 Termination value of intangible depreciating assets** in the next column.

**YES**  Read on.

### You need to know

A depreciating asset that you hold starts to decline in value from the time you use it or install it ready for use for any purpose, including a private purpose. However, you can only claim a deduction for the decline in value to the extent you use the asset for a taxable purpose, such as for producing assessable income.

At item **P16** you need to include the cost of all depreciating assets (other than intangible depreciating assets) for which you are claiming a business deduction for the decline in value for the first time.

If you have allocated any depreciating assets with a cost of less than \$1,000 to a low-value pool for the income year, you also need to include the cost of those assets at item **P16**. Do not reduce the cost for estimated non-taxable use.

 For more information on decline in value, cost and low-value pools, see the *Guide to depreciating assets 2007*.

### Completing this item

**STEP 1** Add up the costs.

**STEP 2** Write the total at **J** item **P16** on page 4 of your schedule. Do not show cents.

Is the amount at **J** greater than \$75,000?

**NO**  Go to **P17 Termination value of intangible depreciating assets** in the next column.

**YES**  You need to complete and attach a *Capital allowances schedule 2007*. For more information, see the *Capital allowances schedule instructions 2007*.

## P17 TERMINATION VALUE OF INTANGIBLE DEPRECIATING ASSETS

 STS TAXPAYERS – do not complete this item.

Did you stop holding or using any intangible depreciating assets in 2006–07?

**NO**  Go to item **P18 Termination value of other depreciating assets** on page 53.

**YES**  Read on.

### You need to know

 Do not show at this question any consideration you received during the income year in relation to in-house software for which you have allocated expenditure to a software development pool.

For more information on termination value, in-house software and software development pools, see the *Guide to depreciating assets 2007*.

See item **P15** on page 51 for more information about intangible depreciating assets.

Include the termination values for intangible depreciating assets – including intangible assets allocated to a low-value pool – that you stopped holding or using during the year (for example, assets sold, lost or destroyed).

Generally, the termination value is the amount you received or are deemed to have received in relation to the asset that you stopped holding or using. It includes the market value of any non-cash benefits such as goods and services you receive for the asset.

### Completing this item

**STEP 1** Add up any amounts you received or are deemed to have received for all intangible depreciating assets that you stopped holding or using in your business, other than:

- assets allocated to a general STS pool or a long-life STS pool in a prior year
- low-cost assets for which an immediate deduction has been allowed under the STS rules
- in-house software for which you allocated expenditure to a software development pool, and
- assets falling within the provisions relating to investments in Australian films.

**STEP 2** Write the total at **D** item **P17** on page 4 of your schedule. Do not show cents.

## P18 TERMINATION VALUE OF OTHER DEPRECIATING ASSETS

 STS TAXPAYERS – do not complete this item.

### Did you stop holding or using any other depreciating assets in 2006–07?

**NO**  Go to item **P19 Trading stock election** in the next column.

**YES**  Read on.

#### You need to know

At item **P18** you include the termination values for other depreciating assets – including assets allocated to a low-value pool – that you stopped holding or using during the income year (for example, assets sold, lost or destroyed).

Generally, the termination value is the amount you received or are deemed to have received in relation to the asset that you stopped holding or using. It includes the market value of any non-cash benefits such as goods and services you received for the asset.

 For more information on termination value, see the *Guide to depreciating assets 2007*.

#### Completing this item

**STEP 1** Add up the amounts you received or are deemed to have received for all depreciating assets that you stopped holding or using in your business other than:

- intangible depreciating assets
- assets allocated to a general STS pool or a long-life STS pool in a prior year
- low-cost assets for which an immediate deduction has been allowed under the STS rules
- buildings or structures for which a deduction is available under the capital works provisions, and
- assets falling within the provisions relating to investments in Australian films.

**STEP 2** Write the total at **K** item **P18** on page 4 of your schedule. Do not show cents.

## P19 TRADING STOCK ELECTION

### Have you made a trading stock election?

**NO**  Go to **Check that you have...** below.

**YES**  Read on.

#### You need to know

If you have valued trading stock on hand at the end of the year of income at an amount that is less than the lowest amount available using one of the valuation methods at **Closing stock** on pages 19–20, you must notify the Commissioner.

#### Completing this item

If you must notify the Commissioner about your trading stock election, print **Y** at **P** item **P19** on page 4 of your schedule. Otherwise leave **P** blank.

#### CHECK THAT YOU HAVE ...

- written your tax file number and your full name on page 1 of your *Business and professional items schedule for individuals 2007*
- written the correct amount on your schedule for each item that applies to you
- correctly transferred the amount at **A** **Net PSI** item **P1** on your *Business and professional items schedule for individuals 2007* to **A** item **13** on page 9 of your tax return (supplementary section)
- correctly transferred the amounts at **Y** and **Z** **NET INCOME OR LOSS FROM BUSINESS** item **P8** on your *Business and professional items schedule for individuals 2007* to **B** and **C** (respectively) item **14** on page 10 of your tax return (supplementary section)
- signed and dated your *Business and professional items schedule for individuals 2007* and attached it to page 3 of your tax return
- completed and attached the *Individual PAYG payment summary schedule 2007* to page 3 of your tax return, if you received business income that was subject to withholding
- kept your records to prove your claims, where required.



# MORE INFORMATION

## INTERNET

- For general tax information and to download publications and rulings, visit [www.ato.gov.au](http://www.ato.gov.au)

## PUBLICATIONS

Publications referred to in this guide are:

- *Application for a private ruling on the exercise of the Commissioner's discretion for non-commercial business loss* (NAT 5806)
- *Blackhole expenditure: business related expenses* (available on our website)
- *Capital allowances schedule instructions 2007* (NAT 4089-6.2007)
- *Deductions for prepaid expenses 2007* (NAT 4170-6.2007)
- *Fringe Benefits Tax Assessment Act 1986*
- *Guide to capital gains tax 2007* (NAT 4151-6.2007)
- *Guide to depreciating assets 2007* (NAT 1996-6.2007)
- *Information for primary producers 2007* (NAT 1712-6.2007)
- *Law Administration Practice Statement PS LA 2001/6 – Home office expenses: diaries of use and calculation of home office expenses*
- *Law Administration Practice Statement PS LA 2003/8 – Taxation treatment of expenditure on low cost items for taxpayers carrying on a business*
- *Non-commercial losses: overview – fact sheet* (NAT 3379)
- *Non-commercial losses: partnerships – fact sheet* (NAT 3385)
- *Private ruling application form (non-tax professionals)* (NAT 13742)
- *Private ruling application form (tax professionals)* (NAT 13043)
- *Record keeping for small business* (NAT 3029)
- *Simplified tax system: simplified trading stock rules* (NAT 4107)
- *Tax basics for small business* (NAT 1908)
- *Taxation Ruling TR 92/18 – Income tax: bad debts*
- *Taxation Ruling TR 93/30 – Income tax: deductions for home office expenses*
- *Taxation Ruling TR 96/7 – Income tax: record keeping – section 262A – general principles*
- *Taxation Ruling TR 97/11 – Income tax: am I carrying on a business of primary production?*
- *Taxation Ruling TR 97/23 – Income tax: deductions for repairs*
- *Taxation Ruling TR 2001/14 – Income tax: Division 35: non-commercial business losses*
- *Taxation Ruling TR 2002/6 – Income tax: Simplified Tax System eligibility – grouping rules (STS affiliate, control of non-fixed trusts)*
- *Taxation Ruling TR 2002/11 – Income tax: Simplified Tax System eligibility – STS average turnover*
- *Taxation Ruling TR 2003/10 – Income tax: deductions that relate to personal services income*
- *Taxation Ruling TR 2006/3 – Income tax: government payments to industry to assist entities (including individuals) to continue, commence or cease business*
- *TaxPack 2007* (NAT 0976-6.2007)
- *TaxPack 2007 supplement* (NAT 2677-6.2007)
- *Taxpayers' charter – what you need to know* (NAT 2548)
- *The simplified tax system – a guide for tax agents and small businesses* (NAT 6459)
- *Thin capitalisation guide* (NAT 4461)
- *Thin capitalisation schedule 2007* (NAT 6458-6.2007)

To get any publication referred to in this guide:

- visit our website at [www.ato.gov.au/publications](http://www.ato.gov.au/publications)
- phone our Publications Distribution Service on **1300 720 092**, or
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## INFOLINES

We can offer a more personalised service if you provide your tax file number (TFN) when you phone us.

- **Business** **13 28 66**  
General business tax enquiries including GST rulings, Australian business number (ABN), pay as you go (PAYG) instalments, business deductions, activity statements (including lodgment and payment), accounts and business registration (including ABN and TFN), dividend and royalty withholding tax
- **Personal tax** **13 28 61**  
Individual income tax and general personal tax enquiries
- **Superannuation** **13 10 20**
- **Super Choice** **13 28 64**  
Information about choice of superannuation funds and the role of the employer
- **Tax agents** **13 72 86**
- **Fax** **13 28 60**  
To get information about business, tax reform, superannuation, excise duty, fuel schemes, not for profit or personal tax sent to your fax machine, phone **13 28 60** and follow the instructions.

## OTHER SERVICES

- **Translating and Interpreting Service** **13 14 50**  
If you do not speak English well and want to talk to a tax officer, phone the Translating and Interpreting Service for help with your call.
- **Hearing or speech impairment**  
If you are deaf or have a hearing or speech impairment, you can phone the Tax Office through the **National Relay Service**:
  - If you are a TTY or modem user phone **13 36 77** and ask for the number you want. For 1800 free call numbers, phone **1800 555 677** and ask for the number you want.
  - If you are a Voice-only (speak and listen) user phone **1300 555 727** and ask for the number you want. For 1800 free call numbers, phone **1800 555 727** and ask for the number you want.
- **e-Record**  
A free, electronic record-keeping software product. Visit [www.ato.gov.au](http://www.ato.gov.au) to download e-Record or phone **1300 139 051** to order a CD.

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