



Australian Government  
Australian Taxation Office

## Small business: Digital product expenses



**This general information will help you if you are a small business owner claiming deductions for the cost of digital products used in running your business.**

### Key points

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

### Expenses you can claim

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

There are two types of expenses you can claim:

- operating expenses
- capital expenses.

The type of expense determines when you claim your deduction.

#### Operating expenses

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

Examples include:

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

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

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

#### Capital expenses

Capital expenses are either:

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

Examples include:

- computers and computer accessories
- mobile phones and tablets
- connectivity boosters
- cameras
- point of sale machines
- in-house software
- cost of acquiring or developing a website.
- You generally claim capital expenses over time, reflecting the asset's depreciation (decline in value).

Your business may be eligible to claim an immediate or accelerated deduction for a capital expense using a tax depreciation incentive. For more information, see [ato.gov.au/depreciationincentives](https://ato.gov.au/depreciationincentives)

## Software expenses

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

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

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

### In-house software

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

Expenses for in-house software may be calculated in a few ways depending on the circumstances and your eligibility to use a tax depreciation incentive.

If the software is still in development and is not ready for use, you can use the software development pool rules.

For more information, see [ato.gov.au/in-housesoftware](https://ato.gov.au/in-housesoftware)

## Exclude private use

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

For more information, see [ato.gov.au/privateuseofassets](https://ato.gov.au/privateuseofassets)

## Records you need to keep

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

This includes:

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

For more information, see [ato.gov.au/recordkeeping](https://ato.gov.au/recordkeeping)

## Examples

### Software subscription

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

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

### Scanner and photocopier lease

On 1 November of the current financial year, Flowers R Best Pty Ltd entered a 12-month lease agreement for a scanner and photocopier. The monthly fee is \$100.

Flowers R Best Pty Ltd can claim the lease cost as an operating expense in its tax return for the current year.

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

### In-house software

#### Software development pool

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

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

- i** If you are registered for GST and can claim the full GST credit, you must exclude the GST amount of the asset when calculating your claim.

**i** **This is a general summary only.**

For more information, go to [ato.gov.au/digitalexperiences](https://ato.gov.au/digitalexperiences) or speak to a registered tax professional.

