PS LA 2003/8 - Practical approaches to low-cost business expenses

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Practical approaches to low-cost business expenses

This Practice Statement explains the threshold rule and the sampling rule taxpayers can apply to determine if their business expenses on low-cost items are to be treated as revenue expenditure.

This Practice Statement is an internal ATO document and an instruction to ATO staff.

Taxpayers can rely on this Practice Statement to provide them with protection from interest and penalties in the following way. If a statement turns out to be incorrect and taxpayers underpay their tax as a result, they will not have to pay a penalty, nor will they have to pay interest on the underpayment provided they reasonably relied on this Practice Statement in good faith. However, even if they do not have to pay a penalty or interest, taxpayers will have to pay the correct amount of tax provided the time limits under the law allow it.

1. General qualifications

This Practice Statement does not apply to taxpayers using the simplified depreciation rules for small business, as they can claim an immediate deduction for most depreciating assets costing less than the instant asset write-off threshold amount.

This Practice Statement does not apply to expenditure incurred on:

- establishing a business or business venture or building up a significant store or stockpile of assets
- assets held under lease, hire purchase or similar arrangement
- assets leased or hired to another entity
- assets included in an asset register
- any asset that forms part of a collection of assets, or
- trading stock or spare parts.

This Practice Statement also does not apply to component parts of composite assets (those items that would not normally be separate assets, such as scaffolding clamps).

2. Threshold rule

Expenditure of up to $100 to acquire an asset for business use can be treated as revenue expenditure. The threshold of $100 is inclusive of any goods and services tax included in the price of the item.

Some examples of low-cost items covered under the threshold rule include:

- office equipment – such as hand-held staplers, hole punches, manila folders, ring binders, geometry sets, stencils, calculators, tape dispensers, scissors, labelling machines and barcoding machines
- catering items – such as cutlery, crockery and table linen
- small tools – such as pliers, screwdrivers, hammers, secateurs, goggles and torches.

3. Sampling rule

Taxpayers with a low-value pool[1] may use the sampling rule to determine the proportion of the total purchases on low-cost assets that are revenue expenditure.

The sample remains valid for 3 years (including the income year in which the sampling takes place), provided the nature of the purchases does not change to the extent that the sampling becomes inaccurate. If the purchases change significantly or if the business has merged or demerged and the previous sample would no longer deliver reliable or consistent results, the taxpayer will need to take a new sample.

Statistical sampling will not be regarded as an alternative where the business' current systems result in reliable individual identification and accounting of low-cost items.

Eligibility

Purchases that cost less than $1,000 and are not excluded by the general qualifications are eligible for sampling.

There are 2 options to calculate the sample but, whichever is used, the sample must be representative of the total population from which it has been drawn. The sampling results must be statistically valid and result in objective, reliable and conservative estimates.

[1] Under Subdivision 40-E of the *Income Tax Assessment Act 1997*.

The sampling results can only be applied against eligible purchases. The revenue component is assessed for immediate deductibility under the general deduction provisions. The capital component that relates to depreciating assets is dealt with under the low-value pool provisions.

The threshold rule can be used to assist with the revenue or capital expenditure decision for the sample.

Option 1 – using a percentage

The first option is to extract a representative percentage sample from eligible purchases of an income year. From the sample, determine the percentage that is deemed to be revenue.

As a general rule, we consider a representative sample of 10% of eligible purchases as being sufficient. It may be appropriate to use a lower or higher percentage, depending on the total number of eligible purchases.

Example 1 – using a percentage

A business records $100,000 worth of revenue and capital purchases in an income year.

Individual items costing $1,000 or more (totalling $15,000) are excluded from the sampling. A further $50,000 worth of trading stock is also excluded, leaving $35,000 worth of eligible purchases.

Analysing 10% of the eligible purchases shows that revenue expenditure is 40%. By applying this to the $35,000 worth of eligible purchases, the business can claim an immediate deduction of $14,000 (40% of $35,000).

Option 2 – using a time period

The second option allows the taxpayer to choose a sample comprising all eligible purchases for a given period (for example, 2 months) in an income year that is representative of the capital and revenue purchases for the business. From the sample, determine the percentage that is deemed to be revenue.

Example 2 – using a time period

A business has purchases for an income year totalling $2.5 million. Of this amount, $300,000 relates to items that each cost $1,000 or more; and a further $1 million is trading stock. Neither of these are eligible purchases for the sampling rule, so the purchases that are eligible total $1.2 million.

The business identifies all eligible purchases for a representative 2-month period in that year. In that period, 35% of the eligible purchases are shown to be revenue items.

Applying the 35% for the 2-month sample period, the business can claim an immediate deduction of $420,000 (35% of $1.2 million).

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4. More information

For more information, see:

- Uniform capital allowance system for low-value pools
- Simpler depreciation rules for small business.

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Business line: Small Business

Amendment history

5 June 2025

Part	Comment
Throughout	Content checked for technical accuracy and currency. Updated in line with current ATO style and accessibility requirements.

28 November 2017

Part	Comment
Contact details	Updated.

31 July 2015

Part	Comment
All	Updated to new LAPS format and style.

11 September 2014

Part	Comment
Paragraph 16	Remove paragraph 21 to 23 and replace with paragraph 22 and 23.
Paragraph 22	Remove reference to Audit statistical sampling guidelines.
Diagrams at paragraphs 26 and 27	Remove reference to Audit statistical sampling guidelines.
Contact details	Updated.

19 June 2014

Part	Comment
Other references	Remove reference to Audit statistical sampling guidelines.

9 April 2014

Part	Comment
Contact details	Updated.

18 April 2013

Part	Comment
Paragraph 6	Omitted '$1,000' and substitute 'the instant asset write-off threshold amount'.

15 November 2012

Part	Comment
Generally	Update to current corporate publication style.
Paragraphs 26 and 27 and Other references	Update 'ATO's Statistical Sampling Guidelines' to 'Audit statistical sampling guidelines'.

7 December 2011

Part	Comment
Pages 6 and 7	Updated Tax Office to ATO within diagram.

15 September 2011

Part	Comment
Contact details	Updated.
Paragraph 6	Add a reference to using the simplified depreciation rules.
Paragraph 22	Updated name of Guide.

21 June 2010

Part	Comment
Contact details	Updated.

3 September 2007

Part	Comment
Paragraph 6	Include reference to small business entity (applicable from 1 July 2007).

29 September 2004

Part	Comment
Paragraph 3	Include reference to subsection 73B(14) of the ITAA 1936.

References

Legislative references	ITAA 1997 Subdiv 40-E
Other references	Simpler depreciation rules for small business Uniform capital allowance system for low-value pools

ATO references

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