Introduction for Indigenous small business

Record keeping

Keeping your business paperwork in order

Australian Government
Australian Taxation Office
GETTING STARTED

If you are running a small business, it is important to keep track of your business paperwork. This process is called record keeping, and it is important because it helps you understand the money coming in and going out (cash flow) of your business. Knowing this helps you to make good business decisions, which help to keep your business strong. It will also help you get your taxes right, whether you do them yourself or use a registered tax or BAS agent.
Terms we use

Some technical terms used in this brochure may be new to you. They appear in **bold** text and are explained in the list of ‘Definitions’ (see page 18).

Throughout this guide, you will find important notes (look for the 🔄 symbol) which will help you with key information.

You will also find ‘more information’ boxes (look for the ➔ symbol) which will show any further steps you may need to take, or extra information you may need to refer to.
What is record keeping?

Record keeping is what we call the process of keeping your business records in order. It is a key part of running a small business that helps you keep on top of everything, and makes it easier for you to do your taxes. This includes helping you claim **GST credits** and deductions for business expenses. You can read more about how record keeping helps you do this later in this brochure.

By giving you a clearer picture of your business finances, good records help you make the right business decisions and can make your business more successful. Good records are also a useful way to show others how your business is going – for example, if you decide to sell your business in the future, accurate records will help you show potential buyers how much your business is worth, and how successful it is.

When we talk about business records, we are referring to any paperwork that provides details about your transactions. An example of a common business record is a **tax invoice** – you might have to issue a **tax invoice** to a customer if they buy some of your goods and services. This **tax invoice** will hold information about how much money is coming into your business from this sale, including the **goods and services tax (GST)** amount that you collect. Other examples of business records include records of wages and purchases.
Good record keeping

There are a number of reasons why you should keep good records of your business transactions. Good record keeping helps you and your tax or BAS agent (if you use one) to:

- work out your taxes correctly
- claim tax deductions, which reduces income that is taxed (you can read more about deductions for business expenses on page 12)
- help you claim GST credits (you can read more about GST records on page 9)
- make it easier for you, banks or lenders to understand how your business is going
- help if you ever need to check back on a particular transaction or business period
- make future plans for your business.
Be your own success story

It might sometimes seem like a lot of work, but good record keeping can save you time and money in the future.

Poor record keeping, like throwing away important records, or not issuing customer tax invoices when you are meant to, is also one of the reasons why some small businesses fail. If you do not have the records that show how much you are spending on your business compared to how much money is coming in, you might end up spending more than you can afford.

As well as being important to your business success, there are some business records you have to keep by law – if you do not, you may have to pay a penalty.

You can read more about the business records you need to keep later in this brochure.

You must keep your business records for at least five years after they are prepared. Records can be paper or electronic (on computer) and must be in English.
Example – Good record keeping

Tracey’s Creative Photography is an ABN (Australian business number) and GST-registered photography studio that uses the cash basis of accounting. Tracey takes photographs of local musical artists and groups. One week, she does a promotional photo shoot in her studio for a band’s new album, and on the weekend takes live photos of the band performing. The next day, Monday morning, Tracey sets aside time to organise her business records, including:

- organising tax invoices for materials she has purchased, in date order
- checking purchases against her bank statements
- keeping track of her income and business expenses.

At the end of the month, Tracey is able to find her business information quickly and easily, so that she can enter her income and expenses into her accounting software. This information helps Tracey claim GST credits and complete her business activity statement (BAS) accurately and on time.

Keeping good records means she can see any profits, which she can use to help her business grow. One month she uses the money she has made to promote her business, designing new business cards and updating her business website. She continues to keep good records, including the records of her promotional expenses so that she can claim them as a tax deduction.
Get organised for success

Ways to keep your records

Many people record the information from their business transactions electronically on their computer – however, the choice of whether you use your computer, or do your recording on paper, is up to you.

If you decide to record your transactions electronically, you can use an electronic spreadsheet or a software accounting package. Software accounting packages will often come with instructions for how to do your record keeping. Choose a software package that meets your business needs and is approved by the Australian Taxation Office (ATO) because this will make record keeping and doing your taxes easier.

To see if a software package is ATO approved, search the product register at softwaredevelopers.ato.gov.au
Recording on paper might be easier if you are just starting out. If you decide to record your transactions on paper, we recommend you buy a cash book from a newsagent or a stationery shop.

Example – Ways to keep your records

Tracey used to keep paper records, using a cash book from a newsagent. This worked well for her, but since then she has taken a short course in accounting to help her manage her growing business, and now keeps her records electronically. She now uses accounting software approved by the ATO. It takes more time to set up at the beginning, but it has advantages like automatic calculations of earnings and profits.

Tracey also claims the cost of her record-keeping software as a business tax deduction in her tax return in the financial year she bought it.
Business records you need to keep

Income tax and business activity statement (BAS) records

There are several different kinds of records that all businesses must keep – these records help business owners do their BAS and income tax return, which includes claiming GST credits and deductions for business expenses. You may also need them for other tax purposes.

Records that all businesses need to keep are:

- income and sales records
- expense or purchase records
- financial year-end records
- bank records.

Keep track of your income and sales records

Records of all sales transactions – for example, invoices, including tax invoices, receipt books, cash register tapes, and records of cash sales.

Search for ‘How to set out tax invoices and invoices’ on ato.gov.au for more information about how to correctly issue an invoice.
Keep track of your expense or purchase records

Records of all the things for the business that you spend money on (business expenses), including cash purchases. Records could include receipts, invoices, including tax invoices, cheque book receipts, credit card vouchers, and diaries to record small cash expenses.

If you use any business purchases for private purposes, you must have records that show how you worked out the amount of any private use – for example, if you want to claim a deduction for business phone calls on a phone you use for both business and private calls, you need to be able to show which calls were made for business purposes.

GST records and claiming GST credits

⚠️ If your business is registered for GST, the main GST records you will need are tax invoices from your suppliers.

If you are registered for GST, you can also generally claim a credit for any GST included in the price you pay for things for your business –this is called a GST credit (or input tax credit). You claim GST credits in your BAS.

Remember: if the total value of the purchase, including GST, is more than the current threshold amount, you will need a tax invoice to claim GST credits. You will also need to keep records to support claims for purchases below the threshold. You will also need to keep documents that record any adjustments – for example, a calculation you have made to decide how much you use an asset for business, and how much for private purposes.
For more information on GST, including claiming GST credits, read *GST Helping you understand your GST obligations* (NAT 74241) – it is available at ato.gov.au/indigenous

Keep track of your financial year-end records

Debtors and creditors lists, stocktakes, and capital gains tax (CGT) assets

These include lists of creditors (that you owe money to) or debtors (that owe you money), stocktake sheets, and capital gains tax records.

For more information about how CGT works, visit ato.gov.au/cgt

Depreciating assets

You may also need to keep worksheets to calculate the decreasing value of your assets, called ‘depreciating assets’. Depreciating assets include things such as computers, electric tools, furniture and motor vehicles that you use in your business. You can not generally claim tax deductions on the cost of buying these types of assets, but because the value of these types of assets decreases over time, you can claim tax deductions for their decline in value.
Motor vehicle records
If you use motor vehicles in your business, the types of records you need to keep include:

- receipts, invoices or similar documents for vehicle expenses
- a logbook of business-related trips for a continuous period of at least 12 weeks
- a record of the total kilometres you travelled during the logbook period, based on odometer readings
- odometer readings at the start and end of each income year you use the logbook method
- records showing how you calculated the business kilometres you travelled.

For more information about motor vehicle records and claiming GST credits, search for ‘GST and motor vehicles’ on ato.gov.au

Keep track of your bank records
Documents you receive from the bank, such as bank statements, loan documents and bank deposit books.
Deductions for business expenses

Keeping good records can help you claim tax deductions.

If you spend money to buy things you need for your business, you may be able to claim this money as a tax deduction, which can mean that you pay less tax.

Tax deductions are taken off your total income, and you only have to pay tax on the lower amount.

You can claim something as a tax deduction if you have:

1. already paid or committed to pay the money for it
2. bought it for your business
3. kept a record of buying it.

Some deductions you may be able to claim are:

- telephone expenses
- rent of the place you run your business
- hire of equipment
- tools
- superannuation payments
- fees for registered tax or BAS agents
- interest on borrowed money
- motor vehicle expenses
- repairs
- bank fees and charges
- transport and freight
- electricity and power.
Example – Keeping records to help you claim deductions

Tracey’s main asset is her camera, which she bought three years ago when she first started her business. It was a big purchase for her, and because the value of her camera has been declining since she bought it (because it is a ‘depreciating asset’) she is happy she can claim a tax deduction for its decline in value.

It is now time for Tracey to submit her tax return. As she has done in earlier years when filling out her tax return, Tracey calculates the tax deduction she can claim by using the ‘Decline in value calculator’ on ato.gov.au (type ‘Decline in value calculator’ into the search box). She makes sure she prints a copy of the report that the calculator generates for her records.
Keep track of records for your employees or contractors

You may also need to keep other records, depending on the type of business that you run – for example, if you have employees or contractors.

If you have employees or contractors, you will need to keep:

- tax file number (TFN) declaration forms or withholding declaration forms
- records of wages, allowances and other payments you make to them
- superannuation records, including payments you make and records that show you have met your superannuation responsibilities to your workers
- records of fringe benefits you provided (fringe benefits are non-cash benefits you provide to your employees, such as a car for private use)
- copies of any contracts you have with contractors
- statement by a supplier form completed by a contractor when they have not quoted an ABN to you.

For more information on what you need to do as an employer, visit ato.gov.au/employers
Getting help

Tools to make your life easier

There may be other records in addition to the records listed above that you will need to keep when you are running a business. You can use the record-keeping evaluation tool available on our website to help you work out the record-keeping needs for your business.


Tax or BAS agents

You may want to get a registered tax or BAS agent to help you with your tax.

It is important to choose a registered tax or BAS agent – using a registered agent means they are qualified and experienced with tax. Only a registered agent can legally charge you a fee.

You can check that your agent is registered by phoning the Tax Practitioners Board on 1300 362 829, or looking at the list on their website at [tpb.gov.au](http://tpb.gov.au)

Tip

If you use a registered tax agent, you still need to have all your records ready to give to them – this way, you can make the best use of your registered tax or BAS agent because they can help you claim the right business tax deductions.
More information

For more information:
- visit our website at
  - ato.gov.au/recordkeeping
  - ato.gov.au/business
  - ato.gov.au/indigenous

- refer to the brochures for Indigenous businesses listed below, available from ato.gov.au/indigenous. You can also use the NAT numbers to order them through our ATO Publications Ordering Service on ato.gov.au
  - Getting to know business tax (NAT 74244)
  - GST- Helping you understand your GST obligations (NAT 74241).

- phone us on the ATO business tax infoline on 13 28 66 between 8.00am and 6.00pm, Monday to Friday.
- visit one of our shopfronts
- speak to your tax or BAS agent.
If you are deaf or have a hearing or speech impairment, phone us through the National Relay Service (NRS) on the numbers listed below, and ask for the ATO number you need:

- TTY users, phone 13 36 77. For ATO 1800 free-call numbers, phone 1800 555 677.

- Speak and Listen users, phone 1300 555 727. For ATO 1800 free-call numbers, phone 1800 555 727.

- Internet relay users, connect to the NRS at relayservice.com.au

Follow the ATO:
- twitter.com/ato_gov_au
- facebook.com/ato.gov.au
- youtube.com/AusTaxOffice
Definitions

When we say:

- **Business activity statement (BAS)**, we mean the form you use to claim GST credits and let us know how much tax you need to pay, including GST and PAYG.

- **BAS agent**, we mean someone who is registered with the Tax Practitioners Board and provides BAS services like helping you prepare and lodge your BAS.

- **Capital gains tax (CGT)**, we mean the tax you pay on a capital gain. The most common way to make a capital gain (or capital loss) is by selling assets, such as motor vehicles, manufacturing machinery, office equipment, or land and buildings. If you buy or sell these types of assets, you will need to keep records of your transactions.

- **Cash basis of accounting**, we mean the most common way small businesses do their accounting. You can learn more about GST and accounting for it at [ato.gov.au/gst](http://ato.gov.au/gst)
Contractor, we mean someone who runs their own business and provides services to your business – they are different to an employee. It is important you make the correct decision about whether a worker is an employee or contractor. You will have different tax and super responsibilities depending on whether your worker is an employee or contractor. You can use the Employee/contractor decision tool to find out whether your worker is an employee or contractor for tax and super purposes at ato.gov.au/employeecontractor

Fringe benefits, we mean the goods or services (not money) you give to your employees or their families. They include things like:
- the private use of a work car or other work equipment – for example, a computer or phone
- paying private health insurance
- cheap loans, entertainment or goods.

If you give your employees fringe benefits, you must register for fringe benefits tax (FBT). You should then tell us you have made these payments using a FBT return. You send your FBT return to us after the end of the FBT year, which runs from 1 April to 31 March each year.
Good and services tax (GST), we mean a tax of 10% on most goods and services sold in Australia.

GST credits, we mean credits that if you are registered for GST, you can claim for any GST included in the price you pay for things in your business. They are also called input tax credits and you can claim them in your business activity statement (BAS).

Superannuation, which is also called super, we mean money set aside over your lifetime to provide for your retirement. For most people, super begins when you start work and your employer starts paying super for you. If you are an employer, it is likely you will have super responsibilities to your workers.

Tax invoice, we mean a document issued by a supplier that contains enough information for the following to be clearly identified:
- the supplier’s identity
- the supplier’s Australian business number (ABN)
- the date of the tax invoice
- a brief description of the items sold, including the quantity and the price it was sold at
- the GST amount (or a statement which says ‘The total price includes GST’)
- the purchaser’s identity or ABN (if the taxable sale is $1000 or more)
- the extent to which each supply referred to is a taxable supply
- that the document is intended to be a tax invoice.
Transactions, we mean the flows of money coming in to your business and money going out of your business.
Our commitment to you

We are committed to providing you with accurate, consistent and clear information to help you understand your rights and entitlements and meet your obligations. If you feel that this publication does not fully cover your circumstances, or you are unsure how it applies to you, you can seek further assistance from us.

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 more recent information on our website at ato.gov.au or contact us.

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