DEDUCTIONS FOR SMALL BUSINESS

Expenses you can claim in the income year you incur them

Working or operating expenses you incur for the everyday running of your business are called revenue expenses. Revenue expenses can include office stationery, rent of office premises, and salary or wages. You can generally claim a deduction for these expenses in the year you incur them.

You can claim a deduction for most expenses you incur for the everyday running of your business in the same income year you incur them. These include expenses you incur, such as:

- advertising/sponsorship expenses
- bad debts
- bank fees and charges
- business motor vehicle expenses
- business operating expenses
- business travel expenses
- clothing (corporate wardrobes and uniforms, occupation-specific clothing, protective clothing) expenses
- education, technical or professional qualification expenses
- electricity costs
- fringe benefits - the cost of any fringe benefit provided and fringe benefits tax on the benefit
- home office expenses where the home is used as business premises
- insurance premiums, including workers' compensation, fire, burglary, professional indemnity, public risk, motor vehicle, loss of profits
- interest on money you borrowed
    - for income tax
    - for employer super contributions
    - for late payment or lodgment of tax
    - to produce assessable income
    - to purchase income producing assets
- land tax on business premises
- legal expenses, such as those you incur to defend future income earning, borrow money, discharge a mortgage, or obtaining tax advice
- losses from a previous year
- luxury car lease expenses
- office stationery
- costs for operating a commercial website, such as site maintenance, content updating, internet service provider fees
- parking fees
- advertising or public relations costs
- phone expenses
- rates on business premises
- registered tax agent/accountant fees
- rent or lease of business premises
- repairs and maintenance of income producing property
- costs for replacing income producing property costing $300 or less
- salary, wages, bonuses or allowances paid
- subscription costs for business or professional journals, information services, newspapers and magazines
- costs for sunglasses, sunhats and sunscreen where your activities entail working outside
- super contributions
- tax preparation costs, such as income tax or GST
- tender costs, even if the tender is unsuccessful
- costs for trading stock, including delivery charges
- transport and freight expenses
- travel expenses related to relocating employees
- union dues and periodical subscription fees to trade, business or professional associations
- water rates on business premises.

Expenses you can claim over time

The cost of assets that have a longer life (usually longer than one income year) or that relate to establishing, replacing, enlarging or improving the structure of your business are called capital expenses.

These assets have a limited life expectancy (effective life) and can reasonably be expected to decline in value over the time you use them. They are called depreciating assets, and include:

- computers
- electrical tools
- furniture
- carpet and curtains
- motor vehicles
- plant and equipment.

Land and items of trading stock are not depreciating assets. However, improvements to land and fixtures on land, such as windmills and fences, may be depreciating assets.

Your business assets start to depreciate from the time you first use them, or install them ready for use, for any purpose, including a private purpose. However, you can only claim deductions for depreciation for the time you use the assets to produce assessable income.

Generally, you cannot claim the total cost of a capital asset in the income year you pay it. Instead, you can claim an amount for the decline in value of the asset each year over a number of years.

The amount you can claim will be less if you:

- only own the asset for part of a year
- only use the asset in part for business purposes; that is, if you only use it for 60% business purposes, you can only claim 60% of its total depreciation for that year
- owned the asset for some time before you started business. In this case, you must work out how much the asset depreciated before you started business and use the reduced value as your starting base value for the asset.

Expenses you can never claim

You can never claim:

- private or domestic expenses, such as childcare fees or clothes for your family
- expenses relating to income that is not taxable, such as money you earn from a hobby
- expenses that are specifically non-deductible under the tax law, such as parking fines.

(From ATO publication “Income and deductions for small business” (NAT 10710))