Business Records And Tax - Reference

By John Bentley

Original Date: 2021-01-26

Introduction

This is a reference for small business record keeping and small business tax obligations in the Australian context.

It summarizes a set of key principles and rules (legal or conventional) drawn from the sources cited, chiefly the Australian Accounting Standards Board (AASB) and the Australian Tax Office (ATO), that I've judged sufficient for the operation of my Sole Trader small business. There is also be some applicability to Australian tax rules for individuals.

The motivation for writing was to inform the operation of a business recording software I created, "BusinessRecorder", that I use for my own purposes. This replaces the functionality of the ATO's eRecord 6 software. BusinessRecorder is not publicly available.

However, I hope this set of key principles and rules has some educative value if you are operating a small business.

Disclaimer

Original Date: 2021-01-26. Most of the information was compiled at or just before that date. This document has not been significantly updated or verified for currency since then.

I, John Bentley, am not an accountant and do not have formal business qualifications.

Moreover what I reference here is:

- A subset of all there is to know about AASB standards and ATO law;
- Liable to be out of date; and
- Is probably not sufficient for addressing your circumstances.

You should rely on your own verification of what the AASB and ATO say, as it applies to your circumstances; and/or you should seek advice from a qualified accountant.

Conventional Accounting Principles

Financial Statements

Overview

> **Financial statement** – a summary of a business's financial position for a given period [or a point in time, they should have added]. Financial statements can include a profit and loss, balance sheet and cash flow statement.

(business.gov.au 2020, "Key Financial Terms") https://www.business.gov.au/finance/accounting/key-financial-terms

> The objective of financial statements is to provide financial information about the reporting entity's assets, liabilities, equity, income and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the reporting entity and in assessing management's stewardship of the entity's economic resources.

(Australian Accounting Standards Board 2019, "Conceptual Framework for Financial Reporting", sec. 3.2) https://www.aasb.gov.au/admin/file/content105/c9/Conceptual_Framework_05-19.pdf

> Table 4.1—The elements of financial statements

Element	Definition or description
Asset	A present economic resource controlled by the entity as a result of past events. An economic resource is a right that has the potential to produce economic benefits.
Liability	A present obligation of the entity to transfer an economic resource as a result of past events.
Equity	The residual interest in the assets of the entity after deducting all its liabilities.
Income	Increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from holders of equity claims.
Expenses	Decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims.
-	Contributions from holders of equity claims, and distributions to them.
-	Exchanges of assets or liabilities that do not result in increases or decreases in equity.

(Australian Accounting Standards Board 2019, "Conceptual Framework for Financial Reporting", sec. 4.2) https://www.aasb.gov.au/admin/file/content105/c9/Conceptual_Framework_05-19.pdf

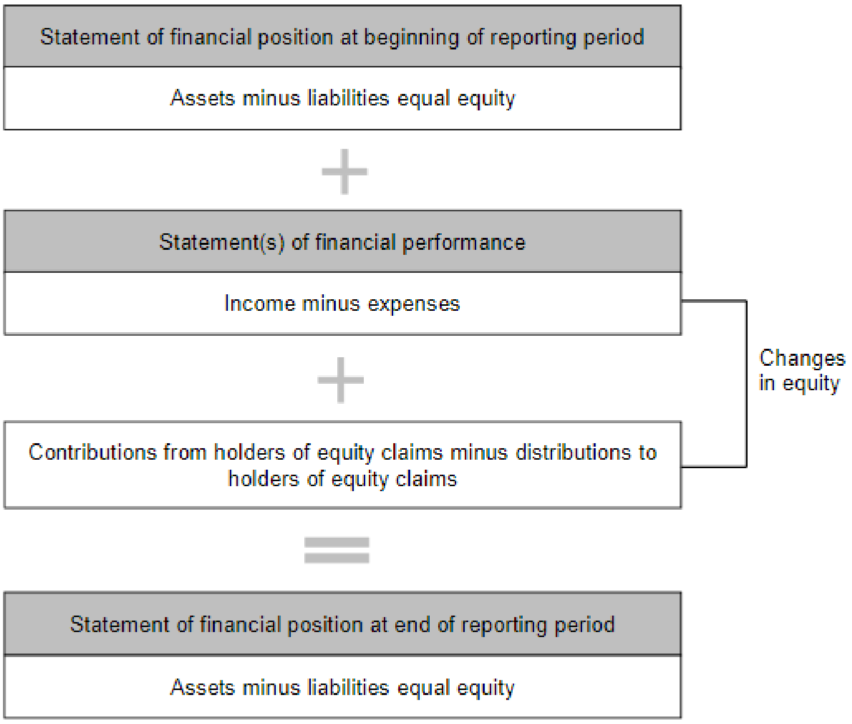
> 10. A complete set of financial statements comprises:
>
> - (a) a statement of financial position [aka "balance sheet"] as at the end of the period;
> - (b) a statement of profit or loss and other comprehensive income for the period [aka "Statement of financial performance"];

- (c) a statement of changes in equity for the period;
- (d) a statement of cash flows for the period;
- (e) notes, comprising significant accounting policies and other explanatory information;
- [two other kinds omitted]

(Australian Accounting Standards Board 2020, "0101 Presentation of Financial Statements", sec. 10)
https://www.aasb.gov.au/admin/file/content105/c9/AASB101_07-15_COMPmay19_01-20.pdf

The relationship between financial statements.

Diagram 5.1: How recognition links the elements of financial statements



(Australian Accounting Standards Board 2019, "Conceptual Framework for Financial Reporting", sec. 5.4)

Profit or Loss Statement [Statement of Financial Performance]

General

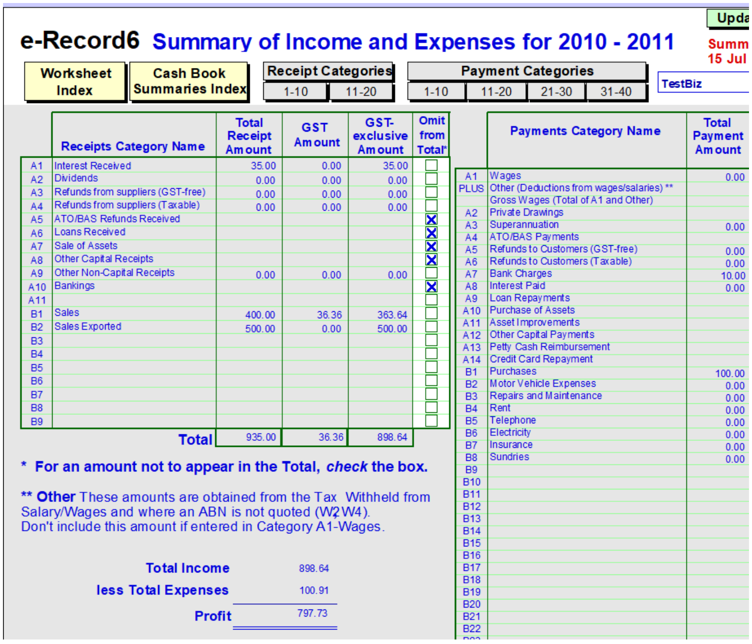
The "profit or loss statement" is variously referred to as a:

- "Statement(s) of financial performance". (Australian Accounting Standards Board 2019, "Conceptual Framework for Financial Reporting", sec. 3.3)
- "Summary of income and expenses" (The ATO's e-Record 6.0 software) or
- "Profit **and** loss statement" (business.gov.au 2020, "How to Set up a Profit and Loss Statement");
- "Statement of profit **or** loss" (Australian Accounting Standards Board 2020, "0101 Presentation of Financial Statements", sec. 10);

"Statement(s) of financial performance" (Australian Accounting Standards Board 2019, "Conceptual Framework for Financial Reporting", sec. 3.3) https://www.aasb.gov.au/admin/file/content105/c9/Conceptual_Framework_05-19.pdf

> 3.2 The objective of financial statements is to provide financial information about the reporting entity's assets, liabilities, equity, income and expenses ...
>
> 3.3 That information is provided:
>
> - (a) in the statement of financial position, by recognising assets, liabilities and equity;
> - (b) in **the statement(s) of financial performance**,9 by recognising income and expenses; and
> - (c) in other statements and notes ...
> - [footnote] 9. The Conceptual Framework does not specify whether the statement(s) of financial performance comprise(s) a single statement or two statements

"Summary of Income and Expenses" (The ATO's e-Record 6.0 software)



e-Record6 **Summary of Income and Expenses for 2010 - 2011**

Upda

Summ
15 Jul

Worksheet Index | Cash Book Summaries Index | Receipt Categories 1-10 11-20 | Payment Categories 1-10 11-20 21-30 31-40 | TestBiz

	Receipts Category Name	Total Receipt Amount	GST Amount	GST-exclusive Amount	Omit from Total*
A1	Interest Received	35.00	0.00	35.00	☐
A2	Dividends	0.00	0.00	0.00	☐
A3	Refunds from suppliers (GST-free)	0.00	0.00	0.00	☐
A4	Refunds from suppliers (Taxable)	0.00	0.00	0.00	☐
A5	ATO/BAS Refunds Received				☒
A6	Loans Received				☒
A7	Sale of Assets				☒
A8	Other Capital Receipts				☒
A9	Other Non-Capital Receipts	0.00	0.00	0.00	☐
A10	Bankings				☒
A11					☐
B1	Sales	400.00	36.36	363.64	☐
B2	Sales Exported	500.00	0.00	500.00	☐
B3					☐
B4					☐
B5					☐
B6					☐
B7					☐
B8					☐
B9					☐
	Total	935.00	36.36	898.64	

* For an amount not to appear in the Total, *check* the box.

** **Other** These amounts are obtained from the Tax Withheld from Salary/Wages and where an ABN is not quoted (W2 W4). Don't include this amount if entered in Category A1-Wages.

Total Income	898.64
less Total Expenses	100.91
Profit	797.73

	Payments Category Name	Total Payment Amount
A1	Wages	0.00
PLUS	Other (Deductions from wages/salaries) **	
	Gross Wages (Total of A1 and Other)	
A2	Private Drawings	
A3	Superannuation	0.00
A4	ATO/BAS Payments	
A5	Refunds to Customers (GST-free)	0.00
A6	Refunds to Customers (Taxable)	0.00
A7	Bank Charges	10.00
A8	Interest Paid	0.00
A9	Loan Repayments	
A10	Purchase of Assets	
A11	Asset Improvements	
A12	Other Capital Payments	
A13	Petty Cash Reimbursement	
A14	Credit Card Repayment	
B1	Purchases	100.00
B2	Motor Vehicle Expenses	0.00
B3	Repairs and Maintenance	0.00
B4	Rent	0.00
B5	Telephone	0.00
B6	Electricity	0.00
B7	Insurance	0.00
B8	Sundries	0.00
B9		
B10		
B11		
B12		
B13		
B14		
B15		
B16		
B17		
B18		
B19		
B20		
B21		
B22		

"Profit **and** loss statement". From (business.gov.au 2020, "How to Set up a Profit and Loss Statement") https://www.business.gov.au/Finance/Accounting/How-to-set-up-a-profit-and-loss-statement , note the title of the web page.

"Statement of profit **or** loss" (Australian Accounting Standards Board 2020, "0101 Presentation of Financial Statements", sec. 10), https://www.aasb.gov.au/admin/file/content105/c9/AASB101_07-15_COMPmay19_01-20.pdf ...

> 10 A complete set of financial statements comprises:
>
> - (a) a statement of financial position as at the end of the period;
> - (b) a **statement of profit or loss** and other comprehensive income for the period;
> - ...

> A profit and loss (or income) statement lists your sales and expenses. It tells you how much profit you're making, or how much you're losing. You usually complete a profit and loss statement every month, quarter or year.

(business.gov.au 2020, "How to Set up a Profit and Loss Statement")
https://www.business.gov.au/finance/accounting/how-to-set-up-a-profit-and-loss-statement

Profit or loss statement template: https://www.business.gov.au/-/media/Business-information/Business-plans/Profit-and-loss-statement-template-xls.ashx?sc_lang=en

(business.gov.au 2020, "How to Set up a Profit and Loss Statement")
https://www.business.gov.au/finance/accounting/how-to-set-up-a-profit-and-loss-statement

Income Tax Handling and Examples

See also

Definitions, Income Tax

The **tax expense** (from higher payment to the ATO, than refunds from the ATO) or **the tax income** (from higher refunds from the ATO, than payments to the ATO) is included in a profit or loss statement ...

Note from the tax handling definitions the meaning of "Tax expense" or "Tax Income" (which is not "Taxable income")

Tax expense ([or] tax income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

(Australian Accounting Standards Board 2020, "0112 Income Taxes", sec. 5)
https://www.aasb.gov.au/admin/file/content105/c9/AASB112_08-15_COMPmay19_01-20.pdf

... one of these totals, depending on whether the result is positive or negative, are included in the profit or loss statement ...

> This Standard requires an entity to account for the tax consequences of transactions and other events in the same way that it accounts for the transactions and other events themselves. Thus, for transactions and other events recognised in profit or loss, any related tax effects are also recognised in profit or loss.

(Australian Accounting Standards Board 2020, "0112 Income Taxes", under "Objective")
https://www.aasb.gov.au/admin/file/content105/c9/AASB112_08-15_COMPmay19_01-20.pdf

> The tax expense ([or Tax] income) related to profit or loss from ordinary activities shall be presented as part of profit or loss in the statement(s) of profit or loss and other comprehensive income.

(Australian Accounting Standards Board 2020, "0112 Income Taxes", sec. 77)
https://www.aasb.gov.au/admin/file/content105/c9/AASB112_08-15_COMPmay19_01-20.pdf

All this makes sense in that for a "profit" or "loss" to truly represent the most relevant "bottom line" of the business, it would need to take into account tax payments (or tax refunds). We want to know about how the business is doing after tax is taken into account.

... however, the **tax expense** or **tax income** is listed after the totalling "Profit before tax (or Tax loss)" (otherwise known as "Accounting profit"). That is, tax expense (or tax income) is excluded from the "Profit before tax (or Tax loss)" total.

XYZ Group – Statement of profit or loss for the year ended 31 December 20X7

(Illustrating the presentation of profit or loss and other comprehensive income in two statements and the classification of expenses within profit or loss by nature)

(in thousands of currency units)

	20X7	20X6
Revenue	390,000	355,000
Other income	20,667	11,300
Changes in inventories of finished goods and work in progress	(115,100)	(107,900)
Work performed by the entity and capitalised	16,000	15,000
Raw material and consumables used	(96,000)	(92,000)
Employee benefits expense	(45,000)	(43,000)
Depreciation and amortisation expense	(19,000)	(17,000)
Impairment of property, plant and equipment	(4,000)	–
Other expenses	(6,000)	(5,500)
Finance costs	(15,000)	(18,000)
Share of profit of associates[a]	35,100	30,100
Profit before tax	161,667	128,000
Income tax expense	(40,417)	(32,000)
Profit for the year from continuing operations	121,250	96,000
Loss for the year from discontinued operations	–	(30,500)
PROFIT FOR THE YEAR	121,250	65,500

The "Other comprehensive income statement", and some other parts, are omitted from the above.

(Australian Accounting Standards Board 2012, "0101 Presentation of Financial Statements - Implementation Guidance", "illustrating the presentation of profit or loss and other comprehensive income in two statements and the classification of expenses within profit or loss by nature", p11, B1032) https://www.aasb.gov.au/admin/file/content105/c9/IAS1_IG_1-12.pdf

A tax expense (reflecting net payment to the ATO, or that which you owe the ATO) can't itself count as a deduction and so can't be included as line item that contributes toward "Profit before tax (or Tax loss)", aka "Taxable profit", aka "Taxable Income" ...

> 25-5 Tax-related expenses
>
> (1) You can deduct expenditure you incur to the extent that it is for:
>
> - (a) managing your *tax affairs
> - ...
>
> (2) You cannot deduct under subsection (1):
>
> - (a) *tax; or
> - ...

*(Treasury, *Income Tax Assessment Act 1997*, part 2.5 "Rules about deductibility of particular kinds of amounts", sec. 25.5 "Tax-related expenses")* https://www.legislation.gov.au/Details/C2020C00222/Html/Volume_1#_Toc46411279

Similarly a tax income (resulting in net refunds from the ATO, or that which the ATO owes you) can't itself count as income that contributes toward "Profit before tax (or Tax loss)", aka "Taxable profit", aka "Taxable Income". Otherwise you'd be taxed twice on the same amount. Tax that has been overpaid to the ATO has already been has already been counted toward taxable income. If you, upon being refunded it, you counted it as taxable income - you'd be counting it twice.

> On the other conceptual hand you need your profit or loss statement to do all the necessary work to be able to determine your taxable income. So it make sense to have a specific total: "Profit before tax (or Tax loss)"; or "Taxable Profit (or Tax loss)". So that you can pay tax.

... therefore (on my reckoning) on a profit or loss statement we could distinguish and calculate "Profit (or loss)" simpliciter from "Profit before tax (or tax loss)" as follows.

Example: Profit before tax with Tax Expense. The typical example when a business is doing well.

Profit or Loss Statement for [Business name] for [Financial Year]

Sales	$ 50,000.00			
Interest Received	$ 100.00			
Total Income		$ 50,100.00		
Bank fees and charges	($ 200.00)			
Web hosting	($ 50.00)			
Business Name	($ 50.00)			
Total Expenses		($ 300.00)		
Profit before tax (or Tax loss)			$ 49,800.00	Positive, so the Taxable profit aka "Taxable Income".
Payments to the ATO	($ 7,000.00)			
Refunds from the ATO	$ 5,000.00			
Tax Income (or Tax Expense)			($ 2,000.00)	Negative, so a Tax Expense.
Profit (or Loss)			$ 47,800.00	

Example: Tax loss for the year

Profit or Loss Statement for [Business name] for [Financial Year]

Sales	$ 0.00			
Interest Received	$ 100.00			
Total Income		$ 100.00		
Bank fees and charges	($ 200.00)			
Web hosting	($ 50.00)			
Business Name	($ 50.00)			
Total Expenses		($ 300.00)		
Profit before tax (or Tax loss)			($ 200.00)	Negative, so a tax loss is made.
Payments to the ATO	($ 7,000.00)			
Refunds from the ATO	$ 5,000.00			
Tax Income (or Tax Expense)			($ 2,000.00)	Negative, so a Tax Expense.
Profit (or Loss)			($ 2,200.00)	

Example: Profit before tax with Tax Income. We had higher refunds from the ATO than payments to it

Profit or Loss Statement for [Business name] for [Financial Year]

Sales	$ 50,000.00			
Interest Received	$ 100.00			
Total Income		$ 50,100.00		
Bank fees and charges	($ 200.00)			
Web hosting	($ 50.00)			
Business Name	($ 50.00)			
Total Expenses		($ 300.00)		
Profit before tax (or Tax loss)			$ 49,800.00	Positive, so the Taxable profit aka "Taxable Income".
Payments to the ATO	($ 7,000.00)			
Refunds from the ATO	$ 10,000.00			
Tax Income (or Tax Expense)			$ 3,000.00	Positive, so a Tax Income.
Profit (or Loss)			$ 52,800.00	

\\Atlas\Users\John\Documents\Self\Means\Money\Knowledge\BusinessRecordsAndTax\ProfitOrLossStatementDemo.xlsx

Example from business.gov.au. This uses the "cost of sales" analysis of expenses method.

Profit & Loss for [Business name] as at [Financial Year]

PROFIT & LOSS	**July**	**August**	**September**	**Oc**
Sales				
less cost of goods sold				
More...				
Gross profit/net sales	$0	$0	$0	
Expenses				
Accountant fees				
Advertising & marketing				
Bank fees & charges				
Bank interest				
Credit card fees				
Utilities (electricity, gas, water)				
Telephone				
Lease/loan payments				
Rent & rates				
Motor vehicle expenses				
Repairs & maintenance				
Stationery & printing				
Insurance				
Superannuation				
Income tax				
Wages (including PAYG)				
More...				
Total expenses	$0	$0	$0	
NET PROFIT (Net Income)	**$0**	**$0**	**$0**	
Assumptions:				
All figures are GST inclusive.				

(business.gov.au 2020, "How to Set up a Profit and Loss Statement", under "Profit and loss statement template") *https://www.business.gov.au/-/media/Business-information/Business-plans/Profit-and-loss-statement-template-xls.ashx?sc_lang=en from https://www.business.gov.au/Finance/Accounting/How-to-set-up-a-profit-and-loss-statement*

Statement of Comprehensive Income

A "Statement of Comprehensive Income" combines "a statement of profit or loss" with "other comprehensive income".

> 81A The statement of profit or loss and other comprehensive income (statement of comprehensive income) shall present, in addition to the profit or loss and other comprehensive income sections:
>
> - (a) profit or loss;
> - (b) total other comprehensive income;
> - (c) comprehensive income for the period, being the total of profit or loss and other comprehensive income.
>
> If an entity presents a separate statement of profit or loss it does not present the profit or loss section in the statement presenting comprehensive income.

(Australian Accounting Standards Board 2020, "0101 Presentation of Financial Statements") *https://www.aasb.gov.au/admin/file/content105/c9/AASB101_07-15_COMPmay19_01-20.pdf*

A "statement of profit or loss" and "other comprehensive income" can be presented as separate statements.

> 10A An entity may present a single statement of profit or loss and other comprehensive income, with profit or loss and other comprehensive income presented in two sections. ... An entity may present the profit or loss section in a separate statement of profit or loss ...

(Australian Accounting Standards Board 2020, "0101 Presentation of Financial Statements") *https://www.aasb.gov.au/admin/file/content105/c9/AASB101_07-15_COMPmay19_01-20.pdf*

A "statement of comprehensive income" presents "total comprehensive income" ("a statement of profit or loss" and "other comprehensive income", however presented). Even "total comprehensive income", as with "a statement of profit or loss", excludes distributions to, and contributions from, owners.

> 7 The following terms are used in this Standard with the meanings specified: ...
>
> ***Total comprehensive income*** is the change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners.
>
> Total comprehensive income comprises all components of 'profit or loss' and of 'other comprehensive income'.

(Australian Accounting Standards Board 2020, "0101 Presentation of Financial Statements") *https://www.aasb.gov.au/admin/file/content105/c9/AASB101_07-15_COMPmay19_01-20.pdf*

"Other comprehensive income" seems to include a set of transaction types ("components") that are unlikely to apply to me. And therefore, for me, presenting only "a statement of profit or loss" seems right. That is, I can ignore having to present "a statement of comprehensive income".

For a list of "the components of other comprehensive income" see (Australian Accounting Standards Board 2020, "0101 Presentation of Financial Statements", Definitions, sec 7., "Other comprehensive Income") *https://www.aasb.gov.au/admin/file/content105/c9/AASB101_07-15_COMPmay19_01-20.pdf*

Balance Sheet [Statement of Financial Position]

General

> A balance sheet is a snapshot of your business on a particular date. It lists all of your business's assets and liabilities. You can then find out what your net assets are at that time.

(business.gov.au 2020, "How to Set up a Balance Sheet") *https://www.business.gov.au/finance/accounting/how-to-set-up-a-balance-sheet*

Balance sheets include cash.

See "Create your balance Sheet", "Current assets". Observe "Cash" and "Petty Cash".

(business.gov.au 2020, "How to Set up a Balance Sheet") *https://www.business.gov.au/finance/accounting/how-to-set-up-a-balance-sheet*

> An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position ...

(Australian Accounting Standards Board 2020, "0101 Presentation of Financial Statements", para. 60)
https://www.aasb.gov.au/admin/file/content105/c9/AASB101_07-15_COMPmay19_01-20.pdf

> 54. The statement of financial position shall include line items that present the following amounts:
>
> - (a) property, plant and equipment [asset];
> - (b) investment property [asset];
> - (c) intangible assets [asset];
> - (d) financial assets (excluding amounts shown under (e), (h) and (i)) [asset];
> - (e) investments accounted for using the equity method;
> - (f) biological assets within the scope of AASB141 Agriculture [asset];
> - (g) inventories [asset];
> - (h) trade and other receivables [asset];
> - (i) cash and cash equivalents [asset];
> - (j) the total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with AASB5 Non-current Assets Held for Sale and Discontinued Operations [asset];
> - (k) trade and other payables [liability];
> - (l) provisions [liability];
> - (m) financial liabilities (excluding amounts shown under (k) and (l)) [liability];
> - (n) liabilities and assets for current tax, as defined in AASB112 Income Taxes [liability & asset];
> - (o) deferred tax liabilities and deferred tax assets, as defined in AASB112 [liability & asset];
> - (p) liabilities included in disposal groups classified as held for sale in accordance withAASB5 [liability];
> - (q) non-controlling interests, presented within equity; and
> - (r) issued capital and reserves attributable to owners of the parent

(Australian Accounting Standards Board 2020, "0101 Presentation of Financial Statements", para. 54)
https://www.aasb.gov.au/admin/file/content105/c9/AASB101_07-15_COMPmay19_01-20.pdf

> 55. An entity shall present additional line items (including by disaggregating the line items listed in paragraph 54), headings and subtotals in the statement of financial position when such presentation is relevant to an understanding of the entity's financial position.

(Australian Accounting Standards Board 2020, "0101 Presentation of Financial Statements", para. 55)
https://www.aasb.gov.au/admin/file/content105/c9/AASB101_07-15_COMPmay19_01-20.pdf

Examples

Example from business.gov.au.

Balance Sheet for [Business Name]		
BALANCE SHEET	**[Year 1]**	**[Year 2]**
Current assets	**$300**	**$400**
Cash	$100	$250
Petty cash		
Accounts receivable		
Inventory	$200	$150
Pre-paid expenses		
More...		
Fixed assets	**$3,000**	**$2,000**
Leasehold		
Property & land		
Renovations/improvements		
Furniture & fitout		
Vehicles	$3,000	$2,000
Equipment/tools		
Computer equipment		
More...		
Total assets	$3,300	$2,400
Current/short-term liabilities	**$170**	**$170**
Credit cards payable		
Accounts payable	$50	$70
Interest payable		
Accrued wages		
Income tax	$120	$100
More...		
Long-term liabilities	**$300**	**$200**
Loans	$300	$200
Equipment finance		
More...		
Total liabilities	$470	$370
NET ASSETS (NET WORTH)	$2,830	$2,030
WORKING CAPITAL	$130	$230
Assumptions:		
All figures are GST inclusive.		

(business.gov.au 2020, "How to Set up a Balance Sheet", under "Balance sheet template") *https://www.business.gov.au/-/media/Business-information/Templates-and-tools/Balance-sheet-template.ashx?sc_lang=en from https://www.business.gov.au/finance/accounting/how-to-set-up-a-balance-sheet*

Example from Australian Accounting Standards Board.

Part I: Illustrative presentation of financial statements

XYZ Group – Statement of financial position as at 31 December 20X7
(in thousands of currency units)

	31 Dec 20X7	31 Dec 20X6
ASSETS		
Non-current assets		
Property, plant and equipment	350,700	360,020
Goodwill	80,800	91,200
Other intangible assets	227,470	227,470
Investments in associates	100,150	110,770
Investments in equity instruments	142,500	156,000
	901,620	945,460
Current assets		
Inventories	135,230	132,500
Trade receivables	91,600	110,800
Other current assets	25,650	12,540
Cash and cash equivalents	312,400	322,900
	564,880	578,740
Total assets	1,466,500	1,524,200

XYZ Group – Statement of financial position as at 31 December 20X7
(in thousands of currency units)

	31 Dec 20X7	31 Dec 20X6
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent		
Share capital	650,000	600,000
Retained earnings	243,500	161,700
Other components of equity	10,200	21,200
	903,700	782,900
Non-controlling interests	70,050	48,600
Total equity	973,750	831,500
Non-current liabilities		
Long-term borrowings	120,000	160,000
Deferred tax	28,800	26,040
Long-term provisions	28,850	52,240
Total non-current liabilities	177,650	238,280
Current liabilities		
Trade and other payables	115,100	187,620
Short-term borrowings	150,000	200,000
Current portion of long-term borrowings	10,000	20,000
Current tax payable	35,000	42,000
Short-term provisions	5,000	4,800
Total current liabilities	315,100	454,420
Total liabilities	492,750	692,700
Total equity and liabilities	1,466,500	1,524,200

(Australian Accounting Standards Board 2012, "0101 Presentation of Financial Statements - Implementation Guidance", under "Part I: Illustrative presentation of financial statements")
https://www.aasb.gov.au/admin/file/content105/c9/IAS1_IG_1-12.pdf

Cash Flow Statement [Statement of Cash Flows]

General

Definitions.

> [Definitions > Cash flow statement]()

> The statement of cash flows shall report cash flows during the period classified by operating, investing and financing activities.

(Australian Accounting Standards Board 2019, "0107 Statement of Cash Flows", para. 10) https://www.aasb.gov.au/admin/file/content105/c9/AASB107_08-15_COMPmar16_01-19.pdf

> **Cash flow from operations**
>
> This section contains the main cash-generating activities of your business. Generally speaking, any money earned or spent in the normal day-to-day running of your business will appear in the operations section of your cash flow statement. ...
>
> **Cash flow from financing**
>
> This section measures the flow of cash between your business and its owners and creditors. ...
>
> **Cash flow from investment**
>
> Investing activities listed in this section generally include purchases or sales of long-term assets, such as property, plant and equipment. The sale or purchase of investment securities would also be included here.

(Business Queensland 2012, "Understanding Cash Flow Statements") https://www.business.qld.gov.au/running-business/finances-cash-flow/managing-money/financial-statements-forecasts/cash-flow-statements

Be sure to report on the following:

> - Cash flows from **interest** and dividends received and paid shall each be disclosed separately. Each shall be classified in a consistent manner from period to period as either operating, investing or financing activities.

(Australian Accounting Standards Board 2019, "0107 Statement of Cash Flows", para. 31) https://www.aasb.gov.au/admin/file/content105/c9/AASB107_08-15_COMPmar16_01-19.pdf

> - Cash flows arising from **taxes on income** shall be separately disclosed and shall be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities.

(Australian Accounting Standards Board 2019, "0107 Statement of Cash Flows", para. 35) https://www.aasb.gov.au/admin/file/content105/c9/AASB107_08-15_COMPmar16_01-19.pdf

> - An entity shall disclose the components of cash and cash equivalents and shall present a reconciliation of the amounts in its statement of cash flows with the equivalent items reported in the statement of financial position [balance sheet].

(Australian Accounting Standards Board 2019, "0107 Statement of Cash Flows", para. 45)
https://www.aasb.gov.au/admin/file/content105/c9/AASB107_08-15_COMPmar16_01-19.pdf

Examples

Example from Australian Accounting Standards Board.

Direct method statement of cash flows (paragraph 18(a))

		20X2
Cash flows from operating activities		
Cash receipts from customers	30,150	
Cash paid to suppliers and employees	(27,600)	
Cash generated from operations	2,550	
Interest paid	(270)	
Income taxes paid	(900)	
Net cash from operating activities		1,380
Cash flows from investing activities		
Acquisition of subsidiary X, net of cash acquired (Note A)	(550)	
Purchase of property, plant and equipment (Note B)	(350)	
Proceeds from sale of equipment	20	
Interest received	200	
Dividends received	200	
Net cash used in investing activities		(480)
Cash flows from financing activities		
Proceeds from issue of share capital	250	
Proceeds from long-term borrowings	250	
Payment of lease liabilities	(90)	
Dividends paid[a]	(1,200)	
Net cash used in financing activities		(790)
Net increase in cash and cash equivalents		110
Cash and cash equivalents at beginning of period (Note C)		120
Cash and cash equivalents at end of period (Note C)		230

(a) This could also be shown as an operating cash flow.

(Australian Accounting Standards Board 2019, "0107 Statement of Cash Flows" under "Illustrative Examples", p17.)
https://www.aasb.gov.au/admin/file/content105/c9/AASB107_08-15_COMPmar16_01-19.pdf

Example from business.gov.au

Cash Flow for [Business name] in [Financial Year]			
CASH FLOW	**July**	**August**	**September**
OPENING BALANCE		$0	$0
Cash incoming			
Sales			
Asset sales			
Debtor receipts			
Loans			
Other income			
Total incoming	$0	$0	$0
Cash outgoing			
Purchases (Stock etc)			
Accountant fees			
Solicitor fees			
Advertising & marketing			
Bank fees & charges			
Interest paid			
Credit card fees			
Utilities (electricity, gas, water)			
Telephone			
Lease/loan payments			
Rent & rates			
Motor vehicle expenses			
Repairs & maintenance			
Stationery & printing			
Membership & affiliation fees			
Licensing			
Insurance			
Superannuation			
Income tax			
Wages (including PAYG)			
More...			
Total outgoing	$0	$0	$0
Monthly cash balance	**$0**	**$0**	**$0**
CLOSING BALANCE	**$0**	**$0**	**$0**
Assumptions:			
All figures are GST inclusive.			

(business.gov.au 2020, "How to Set up a Cash Flow Statement", under "Cash flow statement template")
https://www.business.gov.au/-/media/Business-information/Templates-and-tools/Cashflow-Template.ashx?sc_lang=en

Handling GST in Financial Statements

Profit or Loss Statement

> You'll also need to clearly state on your profit and loss statement whether your figures are GST inclusive or exclusive.

(business.gov.au 2020, "How to Set up a Profit and Loss Statement")
https://www.business.gov.au/finance/accounting/how-to-set-up-a-profit-and-loss-statement

On a profit or loss statement, for the Profit before tax [aka taxable income] (or Tax loss):

- (*Note) If you are not registered for GST then:
  - GST is included for expenses (where you have been charged GST); and
  - GST is not applicable for income.

Expenses may include a GST component that GST credits can't be claimed for. And so the whole expense, with any GST you were charged, is deductible.

> If you're not entitled to a GST credit, claim the full cost of the business purchase, including any GST, as a deduction.

(Australian Taxation Office 2019, "Effect of GST Credits on Income Tax Deductions") *https://www.ato.gov.au/Business/GST/Claiming-GST-credits/Effect-of-GST-credits-on-income-tax-deductions/*

Income does not have a GST component (i.e. you don't charge GST on sales). So GST is not applicable for income.

- If you are registered for GST then:
  - GST is excluded from expenses (where you have been charged GST); and

> What you can't claim
>
> - There are some expenses that are not deductible, such as:
> - ...
> - the GST component of a purchase if you can claim it as a GST credit on your business activity statement.
> - ...

(Australian Taxation Office 2019, "Business Tax Deductions") *https://www.ato.gov.au/Business/Income-and-deductions-for-business/Deductions/#whatyoucantclaim*

> If you can claim a deduction for a business purchase in your tax return, claim the amount of the purchase less any goods and services tax (GST) credit you're entitled to.

(Australian Taxation Office 2019, "Effect of GST Credits on Income Tax Deductions") *https://www.ato.gov.au/Business/GST/Claiming-GST-credits/Effect-of-GST-credits-on-income-tax-deductions/*

  - GST is excluded from assessable income (where you charged/collected GST).

The "Profit before tax" [aka "taxable income"] "equals assessable income minus deductions".

(Australian Taxation Office 2019, "Work out Taxable Income") *https://www.ato.gov.au/Business/Income-and-deductions-for-business/Work-out-taxable-income/* .

But, as a business, you exclude GST you have charged/collected on sales as part of your assessable income ...

> What to exclude from your business's assessable income
>
> Not all payments you receive are assessable income for income tax purposes. The following amounts are not assessable and don't need to be included as assessable income:
>
> - ...
> - GST you have collected
> - ...

(Australian Taxation Office 2019, "What to Exclude from Your Business's Assessable Income") *https://www.ato.gov.au/Business/Income-and-deductions-for-business/Assessable-income/What-income-to-exclude/*

Cash Flow Statement

On a cash flow statement all amounts are GST inclusive.

A cash flow statement is all about actual amounts that flow. So we include any GST component that flows.

Also the business.gov.au Cash flow statement template exemplifies with "All figures are GST inclusive".

(business.gov.au 2020, "How to Set up a Cash Flow Statement", under "Cash flow statement template") *https://www.business.gov.au/-/media/Business-information/Templates-and-tools/Cashflow-Template.ashx?sc_lang=en*

Balance Sheet

(*todo) On a balance sheet all amounts are GST inclusive.

The business.gov.au balance sheet exemplifies with "All figures are GST inclusive".

(business.gov.au 2020, "How to Set up a Balance Sheet", under "Balance sheet template") *https://www.business.gov.au/-/media/Business-information/Templates-and-tools/Balance-sheet-template.ashx?sc_lang=en* *from* *https://www.business.gov.au/finance/accounting/how-to-set-up-a-balance-sheet*

Assets under Australian Accounting Standards

Conceptual overview

In the matter of assets, whether tangible or intangible, one should use the accounting concepts and rules in Tax law (Treasury, **Income Tax Assessment Act 1997**) rather than the Australian Accounting Standards. See Capital allowance rules: rules about deductibility of capital expenditure. This section (in the document you are now reading) "Assets under Australian Accounting Standards" is therefore to be treated as giving one an orientation to merely one kind of standard, that might help with thinking about accounting for assets.

So it seems to me (that is, without being able to cite any explicit authority on the matter) the above applies given that the treatment of assets in (Treasury, **Income Tax Assessment Act 1997**, Division 40 Capital allowances) uses concepts and rules that a very different from the asset relevant Australian Accounting Standards (albeit working to achieve similar things ... essentially spreading the cost of depreciable assets over many years).

The asset relevant Australian Accounting Standards include (Australian Accounting Standards Board 2020, "0116 Property, Plant and Equipment") and (Australian Accounting Standards Board 2020, "0138 Intangible Assets").

For example we have:

- "Adjustable value" in ITAA97 V "Carrying amount" in AAS.

- "Effective life" in ITAA97 V "Useful life" in AAS.

Therefore it makes sense to work off one standard rather than both. And given that Tax law is overriding here (indeed, in my circumstance, the Australian Accounting Standards need not apply at all) it makes sense to choose ITAA97 over AAS, for assets.

Although not explicitly and clearly mentioned in (Australian Accounting Standards Board 2020, "0138 Intangible Assets") there seems to be a fundamental distinction between treating expenditure:

A. As **part of the cost of the intangible asset**, which is therefore reflected in the carrying amount in balance sheet and depreciated (for tangible assets with a finite useful life) or amortized (when an intangible asset acquires a finite useful life); with the depreciation or amortization in a period being recognized in profit or loss for that period; versus
B. As recognised immediately (in profit or loss) "**as an expense when it is incurred**" - or, to reference the same thing (somewhat misleadingly), "recognised as an expense" - without being added to the carrying amount of the intangible asset.

This is borne out:

- for A in virtue of the definitions (e.g. of Intangible Assets) and the rules referenced under Recognition in carrying amount and Recognition in profit or loss (e.g. of Intangible Assets) and
- for B in the rules referenced under this section, that use the phrase "as an expense when it is incurred" (e.g., Australian Accounting Standards Board 2020, "0138 Intangible Assets", para. 68) or "recognised as an expense" (e.g., Australian Accounting Standards Board 2020, "0138 Intangible Assets", para. 71).

(Australian Accounting Standards Board 2020, "0138 Intangible Assets")
https://www.aasb.gov.au/admin/file/content105/c9/AASB138_08-15_COMPmay19_01-20.pdf

Intangible assets and goodwill

Definitions

See Definitions > Intangible Assets.

When does the standard apply?

> 3. If another Standard prescribes the accounting for a specific type of intangible asset, an entity applies that Standard instead of this Standard. For example, this Standard does not apply to:
>
> - (a) intangible assets held by an entity for sale in the ordinary course of business (see AASB 102 *Inventories*) [*Emphasis original*]

(Australian Accounting Standards Board 2020, "0138 Intangible Assets", para. 3)
http://www.aasb.gov.au/admin/file/content105/c9/AASB136_08-15_COMPdec16_01-19.pdf

Recognizing an intangible asset

> 8. .. An **intangible asset** is an identifiable non-monetary asset without physical substance.
>
> ....
>
> 12. An asset is identifiable if it either:
>
> - (a) is separable, ie is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or
> - (b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.
>
> [Emphasis added]

(Australian Accounting Standards Board 2020, "0138 Intangible Assets", paras. 8, 12)
https://www.aasb.gov.au/admin/file/content105/c9/AASB138_08-15_COMPmay19_01-20.pdf

> 18. The recognition of an item as an intangible asset requires an entity to demonstrate that the item meets:
>
> - (a) the definition of an intangible asset (see paragraphs 8–17); and
> - (b) the recognition criteria (see paragraphs 21–23)
>
> This requirement applies to costs incurred initially to acquire or internally generate an intangible asset and those incurred subsequently to add to, replace part of, or service it. ...
>
> 21. An intangible asset shall be recognised if, and only if:
>
> - (a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
> - (b) the cost of the asset can be measured reliably.

(Australian Accounting Standards Board 2020, "0138 Intangible Assets")
https://www.aasb.gov.au/admin/file/content105/c9/AASB138_08-15_COMPmay19_01-20.pdf

Some items are not recognized as intangible assets in virtue of costs on the item not being able to be "distinguished from the cost of developing the business as a whole".

> 64. Expenditure on internally generated brands, mastheads, publishing titles, customer lists and items similar in substance cannot be distinguished from the cost of developing the business as a whole. Therefore, such items are not recognised as intangible assets.

(Australian Accounting Standards Board 2020, "0138 Intangible Assets")
https://www.aasb.gov.au/admin/file/content105/c9/AASB138_08-15_COMPmay19_01-20.pdf

Recognizing goodwill

> The definition of an intangible asset requires an intangible asset to be identifiable to distinguish it from goodwill. **Goodwill** recognised in a business combination is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised. The future economic benefits may result from synergy between the identifiable assets acquired or from assets that, individually, do not qualify for recognition in the financial statements. [Emphasis added]

(Australian Accounting Standards Board 2020, "0138 Intangible Assets", para. 11)
https://www.aasb.gov.au/admin/file/content105/c9/AASB138_08-15_COMPmay19_01-20.pdf

Useful Life

> 88. An entity shall assess whether the **useful life** of an intangible asset is **finite** or **indefinite** ... [Emphasis added]
>
> 91. The term 'indefinite' does not mean 'infinite'.

(Australian Accounting Standards Board 2020, "0138 Intangible Assets", para. 88)
https://www.aasb.gov.au/admin/file/content105/c9/AASB138_08-15_COMPmay19_01-20.pdf

Recognition in carrying amount

> 24 An intangible asset shall be measured initially at cost

(Australian Accounting Standards Board 2020, "0138 Intangible Assets")
https://www.aasb.gov.au/admin/file/content105/c9/AASB138_08-15_COMPmay19_01-20.pdf

> 72. An entity shall choose either the cost model in paragraph 74 or the revaluation model in paragraph 75 as its accounting policy. ...

(Australian Accounting Standards Board 2020, "0138 Intangible Assets")
https://www.aasb.gov.au/admin/file/content105/c9/AASB138_08-15_COMPmay19_01-20.pdf

> 74. [The cost model:] After initial recognition, an intangible asset shall be carried at its cost less any accumulated amortisation and any accumulated impairment losses.

(Australian Accounting Standards Board 2020, "0138 Intangible Assets")
https://www.aasb.gov.au/admin/file/content105/c9/AASB138_08-15_COMPmay19_01-20.pdf

Recognition in profit or loss

For intangible assets with a finite useful life the amortisation in a period is generally recognized in the profit or loss statement (for that period); in addition to any impairment loss.

> 97. The depreciable amount of **an intangible asset with a finite useful life** shall be allocated on a systematic basis over its useful life. ... The amortisation charge for each period shall be **recognised in profit or loss** unless this or another Standard permits or requires it to be included in the carrying amount of another asset. ...
>
> 99. Amortisation is usually **recognised in profit or loss** ...
>
> [Emphasis added]

(Australian Accounting Standards Board 2020, "0138 Intangible Assets")
https://www.aasb.gov.au/admin/file/content105/c9/AASB138_08-15_COMPmay19_01-20.pdf

An intangible asset with an indefinite useful life is not amortised. Rather, until it acquires a finite useful life, it is:

- held at its carrying amount;
- tested for impairment by comparing its recoverable amount with its carrying amount (the test occurs annually or whenever there is an indication the intangible asset may be impaired); and
- if it is impaired the impairment loss reduces the carrying amount and the impairment loss is recognised in profit or loss.

> 107. An intangible asset with an indefinite useful life shall not be amortised.
>
> 108. In accordance with AASB 136, an entity is required to test an intangible asset with an indefinite useful life for impairment by comparing its recoverable amount with its carrying amount
>
> - (a) annually, and
> - (b) whenever there is an indication that the intangible asset may be impaired.

(Australian Accounting Standards Board 2020, "0138 Intangible Assets")
https://www.aasb.gov.au/admin/file/content105/c9/AASB138_08-15_COMPmay19_01-20.pdf

> Example 4 An acquired broadcasting licence that expires in five years
>
> ... The licence may be renewed indefinitely at little cost ... The acquiring entity intends to renew the licence indefinitely and evidence supports its ability to do so.
>
> The broadcasting licence would be treated as having an indefinite useful life because it is expected to contribute to the entity's net cash inflows indefinitely. Therefore, the licence would not be amortised until its useful life is determined to be finite. The licence would be tested for impairment in accordance with AASB 136 annually and whenever there is an indication that it may be impaired.
>
> **Example 5 The broadcasting licence in Example 4**
>
> The licensing authority subsequently decides that it will no longer renew broadcasting licences, but rather will auction the licences. At the time the licensing authority's decision is made, the entity's broadcasting licence has three years until it expires. The entity expects that the licence will continue to contribute to net cash inflows until the licence expires.
>
> Because the broadcasting licence can no longer be renewed, its useful life is no longer indefinite. Thus, the acquired licence would be amortised over its remaining three-year useful life and immediately tested for impairment in accordance with AASB 136

(Australian Accounting Standards Board 2020, "0138 Intangible Assets", 26, under "Illustrative examples")
https://www.aasb.gov.au/admin/file/content105/c9/AASB138_08-15_COMPmay19_01-20.pdf

For what to do with an impairment loss see above: Impairment loss

Ongoing or maintenance payments for an intangible asset are "recognised as an expense when it is incurred" rather than added to the carrying amount.

> 68. Expenditure on an intangible item shall be **recognised as an expense when it is incurred** unless:
>
> - (a) it forms part of the cost of an intangible asset that meets the recognition criteria (see paragraphs 18–67); or
> - (b) the item is acquired in a business combination and cannot be recognised as an intangible asset. If this is the case, it forms part of the amount recognised as goodwill at the acquisition date (see AASB 3).

(Australian Accounting Standards Board 2020, "0138 Intangible Assets")
https://www.aasb.gov.au/admin/file/content105/c9/AASB138_08-15_COMPmay19_01-20.pdf

Note that "cost" is stipulated to be with respect to the initial payments only ...

> **Cost** is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset ***at the time of its acquisition or construction***, or, when applicable, the amount attributed to that asset ***when initially recognised*** in accordance with the specific requirements of other Australian Accounting Standards, eg AASB 2 Share-based Payment. [***Bold italics added]***

(Australian Accounting Standards Board 2020, "0138 Intangible Assets", para. 6) From
https://www.aasb.gov.au/admin/file/content105/c9/AASB138_08-15_COMPmay19_01-20.pdf

> 71 Expenditure on an intangible item that was initially **recognised as an expense** shall not be recognised as part of the cost of an intangible asset at a later date

(Australian Accounting Standards Board 2020, "0138 Intangible Assets")
https://www.aasb.gov.au/admin/file/content105/c9/AASB138_08-15_COMPmay19_01-20.pdf

> 10. ... If an item within the scope of this Standard does not meet the definition of an intangible asset, expenditure to acquire it or generate it internally **is recognised as an expense when it is incurred**. However, if the item is acquired in a business combination, it forms part of the goodwill recognised at the acquisition date (see paragraph 68). [Emphasis added]

(Australian Accounting Standards Board 2020, "0138 Intangible Assets")
https://www.aasb.gov.au/admin/file/content105/c9/AASB138_08-15_COMPmay19_01-20.pdf

Property, plant, and equipment

Definitions

See Definitions > Property, Plant and Equipment

Recognising property, plant and equipment

> 7. The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:
>
> - (a) it is probable that future economic benefits associated with the item will flow to the entity; and

- (b) the cost of the item can be measured reliably

(Australian Accounting Standards Board 2020, "0116 Property, Plant and Equipment")
https://www.aasb.gov.au/admin/file/content105/c9/AASB116_08-15_COMPmay19_01-20.pdf

Recognition in carrying amount

> 10. An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost

(Australian Accounting Standards Board 2020, "0116 Property, Plant and Equipment")
https://www.aasb.gov.au/admin/file/content105/c9/AASB116_08-15_COMPmay19_01-20.pdf

> 29. An entity shall choose either the cost model in paragraph 30 or the revaluation model in paragraph 31 as its accounting policy and shall apply that policy to an entire class of property, plant and equipment.

(Australian Accounting Standards Board 2020, "0116 Property, Plant and Equipment")
https://www.aasb.gov.au/admin/file/content105/c9/AASB116_08-15_COMPmay19_01-20.pdf

> 30. [The cost model:] After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses

(Australian Accounting Standards Board 2020, "0116 Property, Plant and Equipment")
https://www.aasb.gov.au/admin/file/content105/c9/AASB116_08-15_COMPmay19_01-20.pdf

Recognition in profit or loss

Both initial and some subsequent costs are recognized as being part of the costs of the property, plant or equipment.

> 10. An entity evaluates under this recognition principle all its property, plant and equipment costs at the time they are incurred. These costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it.

(Australian Accounting Standards Board 2020, "0116 Property, Plant and Equipment")
https://www.aasb.gov.au/admin/file/content105/c9/AASB116_08-15_COMPmay19_01-20.pdf

Subsequent costs on property, plant and equipment "are recognized in profit or loss as incurred" (and not recognized in the carrying amount) if the costs are day-to-day servicing of the item. Generally described as "repairs and maintenance".

> 12. Under the recognition principle in paragraph 7, an entity does not recognise in the carrying amount of an item of property, plant and equipment the costs of the day-to-day servicing of the item. Rather, these costs are recognised in profit or loss as incurred. Costs of day-to-day servicing are primarily the costs of labour and consumables, and may include the cost of ***small parts***. The purpose of these expenditures is often described as for the '***repairs and maintenance***' of the item of property, plant and equipment. [***Bold italics added***]

(Australian Accounting Standards Board 2020, "0116 Property, Plant and Equipment")
https://www.aasb.gov.au/admin/file/content105/c9/AASB116_08-15_COMPmay19_01-20.pdf

Subsequent costs on property, plant and equipment are recognized in the carrying amount if the cost entail the replacement of [major?] parts. The new part cost is added to the item's carrying amount and the carrying amount of the old part is subtracted from the item's carrying amount.

> 13. Parts of some items of property, plant and equipment may require replacement at regular intervals. For example, a furnace may require relining after a specified number of hours of use, or aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe. Items of property, plant and equipment may also be acquired to make a less frequently recurring replacement, such as replacing the interior walls of a building, or to make a nonrecurring replacement. Under the recognition principle in paragraph 7, an entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognised in accordance with the derecognition provisions of this Standard (see paragraphs 67–72).

(Australian Accounting Standards Board 2020, "0116 Property, Plant and Equipment")
https://www.aasb.gov.au/admin/file/content105/c9/AASB116_08-15_COMPmay19_01-20.pdf

Impairment loss

See Definitions > Intangible Assets

> An **impairment loss** is the amount by which the carrying amount of an asset exceeds its recoverable amount.

(Australian Accounting Standards Board 2020, "0138 Intangible Assets", para. 6) From
https://www.aasb.gov.au/admin/file/content105/c9/AASB138_08-15_COMPmay19_01-20.pdf

> An asset is impaired when its carrying amount exceeds its recoverable amount.

(Australian Accounting Standards Board 2019, "0136 Impairment of Assets", para. 8)
http://www.aasb.gov.au/admin/file/content105/c9/AASB136_08-15_COMPdec16_01-19.pdf

> 59. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss.

(Australian Accounting Standards Board 2019, "0136 Impairment of Assets", para. 59)
http://www.aasb.gov.au/admin/file/content105/c9/AASB136_08-15_COMPdec16_01-19.pdf

> 60. An impairment loss shall be recognised immediately in profit or loss.

The full quote entails some qualifications ...

> 60. An impairment loss shall be recognised immediately in profit or loss, unless the asset is carried at revalued amount in accordance with another Standard (for example, in accordance with the revaluation model in AASB 116). Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that other Standard.

(Australian Accounting Standards Board 2019, "0136 Impairment of Assets")
http://www.aasb.gov.au/admin/file/content105/c9/AASB136_08-15_COMPdec16_01-19.pdf

> 63. After the recognition of an impairment loss, the depreciation ([or] amortisation) charge for the asset shall be adjusted in future periods to allocate the asset's revised

> carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

(Australian Accounting Standards Board 2019, "0136 Impairment of Assets") http://www.aasb.gov.au/admin/file/content105/c9/AASB136_08-15_COMPdec16_01-19.pdf

Tax rules

Types of Tax

> Make sure you understand the different types of tax that could apply to your business. Some taxes are administered federally by the Australian Taxation Office (ATO) and others are stated based taxes.
>
> - Income tax for business
> - Capital gains tax (CGT)
> - Fringe benefits tax (FBT)
> - Pay as you go (PAYG) witholding
> - Pay as you go (PAYG) instalments
> - Goods and Services Tax (GST)
> - Fuel tax credits
> - Wine equalisation tax
> - Luxury car tax
> - Payroll tax
> - Land tax

(business.gov.au 2020, "Taxation for Your Business") https://www.business.gov.au/finance/taxation/taxation-for-your-business

Businesses, whether Sole Trader or Company (or some other structure), pay Income Tax, not only Goods and Services Tax.

(business.gov.au 2020, "Income Tax for Business") https://www.business.gov.au/Finance/Taxation/Income-tax-for-business

Tax differences between a sole trader and a company

Tax differences between a sole trader and a company include (among other things):

- Tax free threshold: In 2019/2020 $18,200 for Sole Traders (individuals); none for companies.
- Tax Rate: sole traders pay tax at the individual income rate; the full company tax rate is 30%.
- Lodging Tax Returns: an individual tax return needs to be lodged each year if you operate as a sole trader business; a company tax return needs to be lodged each year if you operate with a company business structure.

(business.gov.au 2020, "Tax Differences between a Sole Trader and a Company") https://www.business.gov.au/Change-and-growth/Restructuring/Tax-differences-between-a-sole-trader-and-a-company

Income and deductions for business

Tax law overall rules

An amount is only included once in your assessable income.

> **6 25 Relationships among various rules about ordinary income**
>
> (1) Sometimes more than one rule includes an amount in your assessable income:
>
> - the same amount may be *ordinary income and may also be included in your assessable income by one or more provisions about assessable income; or
> - the same amount may be included in your assessable income by more than one provision about assessable income.
>
> For a summary list of the provisions about assessable income, see section 10 5.
>
> However, **the amount is included only once in your assessable income for an income year, and is then not included in your assessable income for any other income year. [Emphasis added]**

*(Treasury, *Income Tax Assessment Act 1997* Division 6 "Assessable income and exempt income", sec 6.25 "Relationships among various rules about ordinary income")*
https://www.legislation.gov.au/Details/C2020C00222/Html/Volume_1#_Toc46411169

An amount is only deducted once from your assessable income.

> 8-10 **No double deductions**
>
> If 2 [sic] or more provisions of this Act allow you deductions in respect of the same amount (whether for the same income year or different income years), you can deduct only under the provision that is most appropriate.

*(Treasury, *Income Tax Assessment Act 1997*, sec. 8.10, Part 1-3 Core Provisions, Division 8 Deductions)*
https://www.legislation.gov.au/Details/C2020C00208/Html/Volume_1#_Toc45691177

There is "ordinary income" and "statutory income". "Amounts that are not *ordinary income, but are included in your assessable income by provisions about assessable income, are called statutory income".

*(Treasury, *Income Tax Assessment Act 1997*, sec. 6.5 Income according to ordinary concepts (ordinary income), 6.10 Other assessable income (statutory income))*
https://www.legislation.gov.au/Details/C2020C00222/Html/Volume_1#_Toc46411597

"General deductions" are deductions you can make that aren't otherwise covered by "specific deductions". "Specific deductions" are those covered by a provision of the Income Tax Assessment Act 1997 (outside "Division 8 - Deductions" which defines "general" and "specific" deductions).

*(Treasury, *Income Tax Assessment Act 1997* Div. 8 - Deductions)*
https://www.legislation.gov.au/Details/C2020C00222/Html/Volume_1#_Toc46411597

A "specific deduction" provision that can be used for a business catch-all for cases that otherwise don't fit into a more specific provision, which also thereby prevents most cases falling back through to counting as a "general deduction", appears to be "section 25-40 Loss from profit-making undertaking or plan". That is, if you incur any business expense (a "loss") that is otherwise not covered by another section, and otherwise not specifically excluded, you can claim a deduction for it under this section.

> **25-40 Loss from profit-making undertaking or plan**
>
> (1) You can deduct a loss arising from the carrying on or carrying out of a profit-making undertaking or plan if any profit from that plan would have been included in your assessable income by section 15-15 (which is about profit-making undertakings and plans).
>
> When section does not apply
>
> (2) You cannot deduct a loss under subsection (1) if the loss arises in respect of the sale of property acquired on or after 20 September 1985.
>
> Note: If you sell property you acquired before 20 September 1985 for profit-making by sale, you may be able to deduct a loss on the sale: see section 52 of the Income Tax Assessment Act 1936.
>
> ...

*(Treasury, *Income Tax Assessment Act 1997*, sec. 25-40 Loss from profit-making undertaking or plan)*
https://www.legislation.gov.au/Details/C2020C00208/Html/Volume_1#_Toc45691290

"loss" here means expense rather than a tax loss for an entire year (rather than a profit)

A "loss" usually is a synonym for an expense and is distinct from a "tax loss". For example from (Australian Accounting Standards Board 2015, "Glossary of Defined Terms")
https://www.aasb.gov.au/admin/file/content102/c3/AASB_Glossary_30_September_2015.pdf

> **losses** Decreases in economic benefits and as such no different in nature from other expenses.
>
> **taxable profit ([or] tax loss)** The profit ([or] loss) for a period, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable ([or] recoverable).

Under (Treasury, **Income Tax Assessment Act 1997**, secs. 995-1 Definitions)
https://www.legislation.gov.au/Details/C2020C00271/Html/Volume_10#_Toc50384954

> tax loss means:
>
> (a) a tax loss worked out under section 36-10, 165-70, 175-35 or 701-30 of this Act (including such a tax loss as increased under section 415-15 or reduced under section 418-95); or
> ...

There is no definition given in ITAA97 for "loss".

Under (Treasury, **Income Tax Assessment Act 1997**, Div 36 - Tax losses of earlier income years)
https://www.legislation.gov.au/Details/C2020C00271/Html/Volume_1#_Toc51081781 ...

> 36-1 What this Division is about

> If you have more deductions for an income year than you have income, the difference is a tax loss.
>
> Note: You may be able to utilise the tax loss in that or a later income year.
> ...
>
> 36-10 How to calculate a tax loss for an income year
>
> - (1) Add up the amounts you can deduct for an income year (except *tax losses for earlier income years).
> - (2) Subtract your total assessable income.
> - (3) If you *derived *exempt income, also subtract your *net exempt income (worked out under section 36-20).
> - (4) Any amount remaining is your tax loss for the income year, which is called a loss year.

It's clear that "tax loss", under tax law, entails a summing of amounts for a year where you lost money overall rather than made a profit.

Sometimes "loss" is short for "tax loss". This is the case for "loss" in "Profit or Loss Statement". You either make a "profit" or "loss" for the period of the statement. From (Australian Accounting Standards Board 2015, "Glossary of Defined Terms") https://www.aasb.gov.au/admin/file/content102/c3/AASB_Glossary_30_September_2015.pdf ...

> **profit or loss** The total of income less expenses, excluding the components of other comprehensive income.

However, in "25-40 Loss from profit-making undertaking or planning" we ought interpret "loss" to mean expense rather than tax loss given that: there is separate division (36) that deals with "tax losses"; and that if in section 25-40 "loss" meant "tax loss" we'd expect the words "tax loss" to be used given "tax loss" is defined in the statute.

Therefore, in "25-40 Loss from profit-making undertaking or planning" we take "loss" to mean an expense rather than a tax loss.

Income

Overview

> If you are carrying on a business, most income you receive is assessable for income tax purposes. The total amount is referred to as **assessable income** (or total income). [Emphasis added]

(Australian Taxation Office 2019, "Assessable Income") https://www.ato.gov.au/Business/Income-and-deductions-for-business/Assessable-income/

What counts as a business's assessable income is expansive. See ...

(Australian Taxation Office 2020, "What to Include in Your Business's Assessable Income") https://www.ato.gov.au/Business/Income-and-deductions-for-business/Assessable-income/What-income-to-include/#Commissionsinvestmentearningsgratuities1

> Exempt income is not assessable income.

*(Treasury, *Income Tax Assessment Act 1997*, sec. 6.1, para. 3) https://www.legislation.gov.au/Details/C2020C00173*

> **Taxable income** equals assessable income minus deductions. [Emphasis added]

(Australian Taxation Office 2019, "Work out Taxable Income") https://www.ato.gov.au/Business/Income-and-deductions-for-business/Work-out-taxable-income/

> Income tax = (taxable income x rate) - tax offsets

*(Treasury, *Income Tax Assessment Act 1997*, sec. 4.10, para 3) https://www.legislation.gov.au/Details/C2020C00173*

Amounts not included as assessable income

As an individual ...

> **Other amounts that are not taxable**
>
> Generally, you don't have to declare:
>
> - rewards or gifts received on special occasions, such as cash birthday presents and gifts from relatives given out of love (however, gifts may be taxable if you receive them as part of a business-like activity or in relation to your income-earning activities as an employee or contractor)
> - prizes you won in ordinary lotteries, such as lotto draws and raffles
> - ...

(Australian Taxation Office 2020, "Amounts Not Included as Income") https://www.ato.gov.au/Individuals/Income-and-deductions/Income-you-must-declare/Amounts-not-included-as-income/

As a business ...

> **What to exclude from your business's assessable income**
>
> Not all payments you receive are assessable income for income tax purposes. The following amounts are not assessable and don't need to be included as assessable income:
>
> - earnings from a hobby
> - gifts or inheritance
> - prizes and awards not related to your business
> - betting and gambling wins (unless you operate a betting or gambling business)
> - **GST you have collected**
> - money you have borrowed
> - **money you contribute as the business owner**
> - certain types of disaster recovery grants to eligible small businesses.
>
> **[Emphasis added]**

(Australian Taxation Office 2019, "What to Exclude from Your Business's Assessable Income") https://www.ato.gov.au/Business/Income-and-deductions-for-business/Assessable-income/What-income-to-exclude/

If you are not registered for GST you will not have received, from sales, an amount with GST. That is, if you are not registered for GST there is no "GST you have collected".

Deductions

Deductions for capital V operational expenses

> The type of expense – operating expense or capital expense – determines when you can claim your deduction. Generally, you can claim:
>
> - operating expenses (such as office stationery and wages) in the year you incur them
> - capital expenses (such as machinery and equipment) over a longer period.

(Australian Taxation Office 2019, "Deductions"), "When you can claim your deduction", https://www.ato.gov.au/Business/Income-and-deductions-for-business/Deductions/#whenyoucanclaimyourdeduction

Capital gains tax CGT

Summary

Handle CGT as follows:

- For **trading stock** ignore CGT rules and use trading stock rules.
- For losses on **depreciating assets** ignore CGT rules. Gains or losses made on depreciating assets are treated as assessable income or claimed as deductions under capital allowance rules (unless capital allowance rules also don't apply, as for most intangible assets). See Depreciating Assets CGT Business Exemption
- For gains on **appreciating assets**:
  - that are exempt from CGT (e.g. payments of expenses to a government agency for a scheme established under law), ignore CGT rules and you don't include them in your assessable income. Exemptions include: personal use assets under $10,000; your main residence; your car; trading stock; payments of expenses to a government agency for a scheme established under law (presumably this would apply to business names). See Exemptions, Overview.
  - that are not exempt from CGT, CGT rules apply.

Overview

> Capital gains or losses can occur when you dispose of a business capital asset by way of sale, gift, transfer, destruction, surrender, or other means.

(Australian Taxation Office 2020, "What to Include in Your Business's Assessable Income"), Capital gains and losses, https://www.ato.gov.au/Business/Income-and-deductions-for-business/Assessable-income/What-income-to-include/#Capitalgainsandlosses

> Business capital assets are all assets your business owns. However, you can only generally make a capital gain or loss on particular assets, such as your business premises, land, goodwill, or rights or licences.

(Australian Taxation Office 2020, "What to Include in Your Business's Assessable Income"), Capital gains and losses, https://www.ato.gov.au/Business/Income-and-deductions-for-business/Assessable-income/What-income-to-include/#Capitalgainsandlosses

> You can't generally make a capital gain or loss on your trading stock.

(Australian Taxation Office 2020, "What to Include in Your Business's Assessable Income"), Capital gains and losses, https://www.ato.gov.au/Business/Income-and-deductions-for-business/Assessable-income/What-income-to-include/#Capitalgainsandlosses

> If you sell a capital asset, such as real estate or shares, you usually make a capital gain or a capital loss. This is the difference between what it cost you to acquire the asset and what you receive when you dispose of it.

(Australian Taxation Office 2020, "Capital Gains Tax") https://www.ato.gov.au/general/capital-gains-tax/

> You need to report capital gains and losses in your income tax return and pay tax on your capital gains. Although it's referred to as capital gains tax (CGT), this is actually part of your income tax, not a separate tax.
>
> When you make a capital gain, it is added to your assessable income and may significantly increase the tax you need to pay.

(Australian Taxation Office 2020, "Capital Gains Tax") https://www.ato.gov.au/general/capital-gains-tax/

CGT Asset

> 108-5 CGT assets
>
> (1) A CGT asset is:
>
> - (a) any kind of property; or
> - (b) a legal or equitable right that is not property.

*(Treasury, *Income Tax Assessment Act 1997*, sec. 108.5) https://www.legislation.gov.au/Details/C2020C00208/Html/Volume_3#_Toc45694271*

Exemptions

Overview

> Some capital gains are exempt (that is, you don't include them in your assessable income). Also, you must disregard some capital losses (that is, you can't use them to offset a capital gain and therefore reduce your assessable income).
>
> Exemptions include capital gains **or losses** for:
>
> - your main residence (but there are exceptions)
> - **your car** (we define a car as a motor vehicle designed to carry a load of less than one tonne and fewer than nine passengers), motorcycle or similar vehicle
> - **personal use items acquired for less than $10,000**
> - collectables acquired for $500 or less, or worth $500 or less when acquired
> - **depreciating assets used solely for taxable purposes, and trading stock**
> - ...
> - winnings or losses from gambling, a game or a competition with prizes
> - reimbursement or payment of your expenses under the following
>   - ...

> - **a scheme established by an Australian Government agency, a local government body or foreign government agency under an act or other legislative instrument** (in this context 'expenses' does not include a payment for the loss, destruction or transfer of an asset) ...
>
> - [**Emphasis added**]

(Australian Taxation Office 2019, "CGT Assets and Exemptions") https://www.ato.gov.au/General/Capital-gains-tax/CGT-assets-and-exemptions/

Collectables

> Collectables include the following items used or kept mainly for the personal use or enjoyment of you or your associates:
>
> - paintings, sculptures, drawings, engravings or photographs; reproductions of these items; or property of a similar description or use
>
> You disregard any capital gain or loss you make from a collectable if any of the following apply:
>
> - **you acquired the collectable for $500 or less**
> - ...
> - you acquired an interest in the collectable when it had a market value of $500 or less.

(Australian Taxation Office 2019, "CGT Assets and Exemptions") https://www.ato.gov.au/General/Capital-gains-tax/CGT-assets-and-exemptions/

Depreciating Assets CGT Business Exemption

> CGT doesn't apply to most depreciating assets you use solely for taxable purposes (such as business equipment or items in a rental property).
>
> Gains or losses made on these assets are treated as assessable income or claimed as deductions, unless the assets were part of a depreciation pool. However, if you've used a depreciating asset for a non-taxable purpose (for private purposes, for example), CGT may apply.

(Australian Taxation Office 2019, "CGT Assets and Exemptions"), Depreciating assets, https://www.ato.gov.au/General/Capital-gains-tax/CGT-assets-and-exemptions/#Depreciating_assets

Inherited dwellings

> 2. Did settlement of your contract to sell the dwelling happen within two years of the person dying (or did we allow you more time)? ... Yes: Dwelling is fully exempt.

(Australian Taxation Office 2020, "CGT Exemptions for Inherited Dwellings") https://www.ato.gov.au/General/Capital-gains-tax/Deceased-estates-and-inheritances/Inherited-dwellings/CGT-exemptions-for-inherited-dwellings/

Rollovers

> If your capital gains tax (CGT) asset is lost, destroyed or compulsorily acquired, you may receive money or another CGT asset (or both) as compensation. In this case, you can choose to: ... defer your liability to pay tax on any capital gain arising on the disposal.

(Australian Taxation Office 2020, "Involuntary Disposal of a CGT Asset") https://www.ato.gov.au/General/Capital-gains-tax/Selling-an-asset-and-other-CGT-events/Involuntary-disposal-of-a-CGT-asset/

Capital gain or loss for an asset

Acquisition Date

> When you inherit a CGT asset, the acquisition date is the date of death of the person who bequeathed it to you.

(Australian Taxation Office 2020, "Timing of Acquisition") https://www.ato.gov.au/General/Capital-gains-tax/Acquiring-assets-and-keeping-records/Timing-of-acquisition/

Capital gains tax events

> **Capital gains and losses – CGT events**
>
> The most common way to make a capital gain or loss is by selling an asset. This is called a CGT event.
>
> Examples of CGT events are when you:
>
> - sell or give an asset to someone
> - lose an asset or it is destroyed
> - ...

(business.gov.au 2020, "Capital Gains Tax for Business") https://www.business.gov.au/Finance/Taxation/Capital-gains-tax-for-business

Calculation

Overview

> For every capital gains tax (CGT) event that happens to your assets during the year, you need to work out your capital gain or loss [for each asset].

(Australian Taxation Office 2018, "Working out Your Capital Gain or Loss") https://www.ato.gov.au/General/Capital-gains-tax/Working-out-your-capital-gain-or-loss/

> Whatever you receive as a result of a capital gains tax (CGT) event are referred to as your ‘capital proceeds’.

(Australian Taxation Office 2020, "Capital Proceeds") https://www.ato.gov.au/General/Capital-gains-tax/Working-out-your-capital-gain-or-loss/Capital-proceeds/

> There are three methods to work out your capital gain. There is only one way to work out a capital loss.

(Australian Taxation Office 2018, "Working out Your Capital Gain or Loss") https://www.ato.gov.au/General/Capital-gains-tax/Working-out-your-capital-gain-or-loss/

Cost base and reduced cost base

> The cost base of a capital gains tax (CGT) asset is generally the cost of the asset when you bought it, plus certain other costs associated with acquiring, holding and disposing of the asset.

(Australian Taxation Office 2020, "Cost Base") https://www.ato.gov.au/General/Capital-gains-tax/Working-out-your-capital-gain-or-loss/Cost-base/

> The cost base of a capital gains tax (CGT) asset is made up of five elements:
>
> 1. Money paid or property given for the CGT asset
> 2. Incidental costs of acquiring the CGT asset or that relate to the CGT event
> 3. Costs of owning the CGT asset
> 4. Capital costs to increase or preserve the value of your asset or to install or move it
> 5. Capital costs of preserving or defending your title or rights to your CGT asset
>
> You add these elements together to work out your cost base.

(Australian Taxation Office 2018, "Elements of the Cost Base and Reduced Cost Base") https://www.ato.gov.au/General/Capital-gains-tax/Working-out-your-capital-gain-or-loss/Cost-base/Elements-of-the-cost-base-and-reduced-cost-base/

> The reduced cost base of a CGT asset has the same five elements as the cost base, except for the third element:
>
> - 3. Balancing adjustment amount, that is, any amount that is assessable because of a balancing adjustment for the asset or that would be assessable if certain balancing adjustment relief were not available

(Australian Taxation Office 2018, "Elements of the Cost Base and Reduced Cost Base") https://www.ato.gov.au/General/Capital-gains-tax/Working-out-your-capital-gain-or-loss/Cost-base/Elements-of-the-cost-base-and-reduced-cost-base/

It seems to be that for each of the cost base and reduced cost base you exclude previous tax deductions. The difference is that in the reduced cost base you also exclude "Costs of owning".

> **16 Cost base and reduced cost base**
>
> For the cost base, exclude all expenditure recouped or that has been deducted or can be deducted on assets ... For assets... in respect of incidental costs and costs of owning, exclude all expenditure recouped that have been claimed or can be claimed as a tax deduction. ...
>
> For the reduced cost base, exclude any expenditure that has been recouped, deducted, can be deducted or is a cost of owning.

(Australian Taxation Office 2020, "Capital Gain or Capital Loss Worksheet (Pdf)", 2, Note 16) https://www.ato.gov.au/uploadedFiles/Content/IND/Downloads/CGT-gain-or-loss-worksheet-2020.pdf

Capital Gain for an asset

> For most CGT events, your capital gain is the difference between your capital proceeds and the cost base of your CGT asset. (The cost base of a CGT asset is largely what you paid for it, together with some other costs associated with acquiring, holding and disposing of it.)

(Australian Taxation Office 2018, "Working out Your Capital Gain") https://www.ato.gov.au/general/capital-gains-tax/working-out-your-capital-gain-or-loss/working-out-your-capital-gain/

In practice only two methods are going to apply (the Index method is unlikely to be available to me):

- CGT Discount method. For assets held for 12 months or more.
- "Other" method. For assets held less than 12 months.

(Australian Taxation Office 2018, "Working out Your Capital Gain") https://www.ato.gov.au/general/capital-gains-tax/working-out-your-capital-gain-or-loss/working-out-your-capital-gain/

> **CGT discount method**
>
> How to do it: Subtract the cost base from the capital proceeds, deduct any capital losses, then reduce by the relevant discount percentage [50% for resident individuals].

(Australian Taxation Office 2018, "Working out Your Capital Gain") https://www.ato.gov.au/General/Capital-gains-tax/Working-out-your-capital-gain-or-loss/Working-out-your-capital-gain/

> **Other method**
>
> How to do it: Subtract the cost base (or the amount specified by the relevant CGT event) from the capital proceeds.

(Australian Taxation Office 2018, "Working out Your Capital Gain") https://www.ato.gov.au/General/Capital-gains-tax/Working-out-your-capital-gain-or-loss/Working-out-your-capital-gain/

The other method example. See ...

(Australian Taxation Office 2020, "The "other" Method of Calculating Your Capital Gain") https://www.ato.gov.au/general/capital-gains-tax/working-out-your-capital-gain-or-loss/working-out-your-capital-gain/the--other--method-of-calculating-your-capital-gain/

Capital Loss for an asset

> If you haven't made a capital gain, you may have made a capital loss. You need to know your reduced cost base before you can establish whether you have made a capital loss.
>
> If your reduced cost base is greater than the capital proceeds you received (or are entitled to receive) for your asset – that is, you've sold an asset for less than what it

> cost you – you have usually made a capital loss. The difference between the two amounts is your capital loss.

(Australian Taxation Office 2020, "Working out Your Capital Loss") https://www.ato.gov.au/General/Capital-gains-tax/Working-out-your-capital-gain-or-loss/Working-out-your-capital-loss/

Capital Gain or Capital Loss Worksheet (Pdf)

Capital Gain or Capital Loss Worksheet (Pdf) ...

(Australian Taxation Office 2020, "Capital Gain or Capital Loss Worksheet (Pdf)") https://www.ato.gov.au/uploadedFiles/Content/IND/Downloads/CGT-gain-or-loss-worksheet-2020.pdf

Net capital gains or losses for the year

Net capital gains for the year

> You must include any net capital gain you made during the income year in your assessable income.

(Australian Taxation Office 2020, "What to Include in Your Business's Assessable Income"), Caiptal gains and losses, Working out your capital gain or loss, https://www.ato.gov.au/Business/Income-and-deductions-for-business/Assessable-income/What-income-to-include/#Capitalgainsandlosses

> **Net capital gain**
>
> Your net capital gain is calculated using the following formula:
>
> A – B – C
>
> Where:
>
> A is your total capital gains for the year (including those distributed by a managed fund or trust)
>
> B is your total capital losses (including any net capital losses from previous years)
>
> C is any CGT discount [using the CGT discount method for an asset] and small business CGT concessions you're entitled to

(Australian Taxation Office 2018, "Working out Your Capital Gain or Loss") https://www.ato.gov.au/General/Capital-gains-tax/Working-out-your-capital-gain-or-loss/Working-out-your-net-capital-gain-or-loss/

Net capital loss for the year

> If you have a net capital loss (rather than a gain) at the end of the income year, you can't use it to reduce your assessable income in that year. However, you can carry it forward to offset future capital gains.

(Australian Taxation Office 2020, "What to Include in Your Business's Assessable Income"), Caiptal gains and losses, Working out your capital gain or loss, https://www.ato.gov.au/Business/Income-and-deductions-for-business/Assessable-income/What-income-to-include/#Capitalgainsandlosses

> There is no time limit on how long you can carry forward a net capital loss.

(Australian Taxation Office 2018, "Working out Your Capital Gain or Loss") https://www.ato.gov.au/General/Capital-gains-tax/Working-out-your-capital-gain-or-loss/Working-out-your-net-capital-gain-or-loss/#Netcapitalloss

> **Net capital loss**
>
> If your total capital losses for the year exceed your total capital gains, your net capital loss is calculated using the following formula:
>
> A – B
>
> Where:
>
> A is your total capital losses (including any net capital losses from previous years)
>
> B is your total capital gains for the year (including those distributed by a managed fund or trust)

(Australian Taxation Office 2018, "Working out Your Capital Gain or Loss") https://www.ato.gov.au/General/Capital-gains-tax/Working-out-your-capital-gain-or-loss/Working-out-your-net-capital-gain-or-loss/#Netcapitalloss

Small business CGT concessions

Overview

> In addition to the capital gains tax (CGT) exemptions and rollovers available more widely, there are four concessions that allow you to disregard or defer some or all of a capital gain from an active asset used in a small business:
>
> - **15-year exemption** – If your business has continuously owned an active asset for 15 years and you're aged 55 or over and are retiring or permanently incapacitated, you won't have an assessable capital gain when you sell the asset.
> - **50% active asset reduction** – You can reduce the capital gain on an active asset by 50% (in addition to the 50% CGT discount if you've owned it for 12 months or more).
> - **Retirement exemption** – Capital gains from the sale of active assets are exempt up to a lifetime limit of $500,000. If you're under 55, the exempt amount must be paid into a complying super fund or a retirement savings account.
> - **Rollover** – If you sell an active asset, you can defer all or part of a capital gain for two years, or longer if you acquire a replacement asset or incur expenditure on making capital improvements to an existing asset.

(Australian Taxation Office 2018, "Small Business CGT Concessions") https://www.ato.gov.au/General/Capital-gains-tax/Small-business-CGT-concessions/

Active Assets and the Active Asset Test

> To qualify for the four small business capital gains tax (CGT) concessions, you must satisfy the 'basic conditions' that are common to all the concessions.
>
> Most of the concessions also have further requirements that you must satisfy for the specific concession to apply.
>
> ...
>
> Step 1
>
> You must first satisfy one of the following:
>
> - you're a small business entity with an aggregated turnover of less than $2 million
> - ...
>
> Step 2
>
> The asset in question must satisfy the **active asset test**.
>
> ...

(Australian Taxation Office 2019, "Basic Conditions for the Small Business CGT Concessions") https://www.ato.gov.au/General/Capital-gains-tax/Small-business-CGT-concessions/Basic-conditions-for-the-small-business-CGT-concessions/

> **Active asset test**
>
> A CGT asset is an active asset if you own it and:
>
> - you use it or hold it ready for use in the course of carrying on a business (whether alone or in partnership)
> - it is an intangible asset (for example, goodwill) inherently connected with a business you carry on (whether alone or in partnership).
>
> The active asset test is satisfied if the asset was an active asset of yours:
>
> - for a total of at least 7½ years during the test period, if you've owned it for more than 15 years, or
> - for at least half of the test period, if you've owned it for 15 years or less.
>
> The test period:
>
> - begins when you acquired the asset, and
> - ends at the earlier of
>   - the CGT event, and
>   - when the business ceased, if the business in question ceased in the 12 months before the CGT event (or such longer time as the ATO allows).

(Australian Taxation Office 2019, "Active Asset Test") https://www.ato.gov.au/general/capital-gains-tax/small-business-cgt-concessions/basic-conditions-for-the-small-business-cgt-concessions/active-asset-test/

Record keeping obligation for CGT Assets

> You must keep records of every transaction, event or circumstance that is relevant to your capital gains tax (CGT) asset. You will need these records when working out whether you've made a capital gain or loss from a CGT event.

(Australian Taxation Office 2020, "Record Keeping for CGT") https://www.ato.gov.au/General/Capital-gains-tax/Acquiring-assets-and-keeping-records/Record-keeping-for-CGT/

Capital allowance rules: rules about deductibility of capital expenditure

Summary

Capital allowance rules are about deductions and assessable income inclusions for capital expenditure (expenditure on assets).

Capital allowance rules are mostly about deductions for depreciating assets. But sometimes capital allowance rules apply to appreciating assets (?).

Capital allowance rules also tell you what to do when you sell or dispose of an asset. E.g. see "Simpler depreciation rules for small business", Later sale or disposal of asset.

Some assets are excluded from capital allowance rules (whether general or simpler rules for small business). E.g. Trading stock and some types of intangible assets. See Inclusions and exclusions from capital allowance rules.

Particular asset types have particular rules (e.g. "Capital Works": buildings and structural improvements).

Subject to periodic review of the applicable rules (the law) in my small business circumstance I'll be looking to apply one the following schemes, in priority order, to assets:

- The 2020-10 Budget's "temporary full expensing".
- Simplified depreciation rules, which includes "instant asset write off" and the "small business pool".
- General depreciation rules, probably entailing (what I call) Retained-copyright-software-copy-sales and so using the prime cost method with an effective life of 25 years.

In virtue of the 2020 October budget a small business can use "temporary full expensing". This will apply until 2022-06-30. This allows for the immediate deduction of the cost of eligible assets and asset improvements. For small and medium sized businesses this applies to new and second hand assets. For small and medium business there's no need to use "instant asset write off"

Otherwise as an eligible small business you'll use the "simpler deprecation" rules. You'll mostly use "instant asset write-off" or, if the need should arise where an asset is over the threshold (at least $1000 depending on the tax year), the "small business pool".

"Under the instant asset write-off, eligible businesses can claim an immediate deduction for the business portion of the cost of an asset in the year the asset is first used, or installed ready for use." See Instant asset write-off

Overview and names of this section

You are entitled to deductions, "allowances", for capital expenses. Capital expenses are expenses on assets. Capital allowances mostly apply to depreciating assets. By default these deductions are spread over multiple years according to depreciation rules (although in practice, for a small business buying assets beneath a threshold, the deductions can made for the full cost of the asset under "instant asset write-off" rules).

There are two areas in the Income Tax Assessment Act 1997 which contain most of the rules around deducting capital expenses: "Part 2.10 Capital allowances: rules about deductibility of capital expenditure"; and "Subdivision 328.D - Capital allowances for small business entities".

... "Part 2.10 Capital allowances: rules about deductibility of capital expenditure", in the Income Tax Assessment Act 1997, mostly "Division 40 - Capital allowances", stipulates both:

- the "rules about [the] deductibility of capital expenditure" (by default deductions are spread over the years according to depreciation rules); and
- the kinds of capital assets that are excluded under this part (namely land, trading stock, and most type of intangible assets are excluded).

... "Subdivision 328.D - Capital allowances for small business entities" has do with deduction pools and instant asset write off.

... the rules under either areas are referenced by various names:

- "Capital allowances: rules about deductibility of capital expenditure" (Treasury, **Income Tax Assessment Act 1997**, pt. 2.10 Capital allowances: rules about deductibility of capital expenditure) https://www.legislation.gov.au/Details/C2020C00222/Html/Volume_2#_Toc46411685
- A detailed website explanation called "Depreciation and capital expenses and allowances" (Australian Taxation Office 2020, "Depreciation and Capital Expenses and Allowances") https://www.ato.gov.au/Business/Depreciation-and-capital-expenses-and-allowances/
- A summary website explanation called "Claiming a tax deduction for depreciating assets and other capital expenses" (Australian Taxation Office 2020, "Claiming a Tax Deduction for Depreciating Assets and Other Capital Expenses") https://www.ato.gov.au/Business/Income-and-deductions-for-business/Deductions/Deductions-for-depreciating-assets-and-other-capital-expenses/
- The "Uniform capital allowance system" (The Parliament Of The Commonwealth Of Australia 2001, "New Business Tax System (Capital Allowances) Bill 2001 - Revised Explanatory Memorandum") https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22legislation%2Fems%2Fr1278_ems_0528db88-7118-4473-950b-4c90b9f6d90e%22;src1=sm1 . This is just a historical name to express how "over 37 separate capital allowance regimes in the income tax law" have been simplified and incorporated into (Treasury, **Income Tax Assessment Act 1997**) at "Division 40 - Capital allowances" and other areas of that Act.

... regardless of where the rules are stipulated there are two subsets of rules that go by the names: "simplified depreciation rules " (or "Simpler depreciation for small business"); and, when those don't apply, "General depreciation rules – capital allowances".

> *(Australian Taxation Office 2020, "Depreciation and Capital Expenses and Allowances")* https://www.ato.gov.au/Business/Depreciation-and-capital-expenses-and-allowances/General-depreciation-rules---capital-allowances/

... there are other names that hone in other subset rules. E.g. "Capital Works Deductions"

> *(Australian Taxation Office 2019, "Capital Works Deductions")* https://www.ato.gov.au/Business/Depreciation-and-capital-expenses-and-allowances/Capital-works-deductions/

I'll refer to the rules under this (word document) section as "Capital allowance rules: rules about deductibility of capital expenditure" or "Capital allowance rules" for short.

I mean this to reference to both: "Part 2.10 Capital allowances: rules about deductibility of capital expenditure", "Division 40 - Capital allowances"; and "Subdivision 328.D - Capital allowances for small business entities".

Capital allowances are mostly for deprecating assets but can be for non-depreciating assets too.

> Special rules apply to claiming deductions for the following capital expenses, **some of which involve depreciating assets ...**

> *(Australian Taxation Office 2018, "Other Capital Asset and Expense Deductions")* https://www.ato.gov.au/Business/Depreciation-and-capital-expenses-and-allowances/Other-capital-asset-and-expense-deductions/

Special capital allowance rules apply to particular asset types. Prominently:

- Capital works. That is, builds, structural improvements, shop fitouts, earthworks.
- "Other capital asset and expense deductions":
  - Setting up or ceasing a business
  - Project-related expenses
  - ....
  - In-house software development
  - Vehicles

> *(Australian Taxation Office 2019, "Capital Works Deductions")* https://www.ato.gov.au/Business/Depreciation-and-capital-expenses-and-allowances/Capital-works-deductions/
> *(Australian Taxation Office 2018, "Other Capital Asset and Expense Deductions")* https://www.ato.gov.au/Business/Depreciation-and-capital-expenses-and-allowances/Other-capital-asset-and-expense-deductions/

Capital expenditure definitions

> A capital expense is either:
>
> - the expense of a depreciating asset – this includes both the amount you paid for the asset and the expenses from transporting and installing it

> - an expense associated with establishing, replacing, enlarging or improving your business.

(Australian Taxation Office 2020, "Claiming a Tax Deduction for Depreciating Assets and Other Capital Expenses") https://www.ato.gov.au/Business/Income-and-deductions-for-business/Deductions/Deductions-for-depreciating-assets-and-other-capital-expenses/

> **Capital expenditure**
>
> Money spent on assets such as:
>
> - plant and equipment
> - goodwill
> - buildings
> - business names
> - patents
> - copyrights.

(Australian Taxation Office 2018, "Definitions"), " Capital expenditure", https://www.ato.gov.au/Definitions/#P163-12972

Inclusions and exclusions from capital allowance rules

"Part 2.10 Capital allowances: rules about deductibility of capital expenditure", in the Income Tax Assessment Act 1997, mostly "Division 40 - Capital allowances", stipulates the rules for stipulated kinds of depreciating assets and other assets.

*(Treasury, *Income Tax Assessment Act 1997*), See "40-25 Deducting amounts for depreciating assets" below*

"Division 40 - Capital allowances" allows deductions for stipulated kinds of depreciating assets.

> **40-25 Deducting amounts for depreciating assets**
>
> You deduct the decline in value
>
> (1) You can deduct an amount equal to the decline in value for an income year (as worked out under this Division) of a *depreciating asset that you *held for any time during the year.
>
> ...
>
> Note 2: Small business entities can choose to both deduct and work out the amount they can deduct under Division 328.
>
> ...

Depreciating asset definition, for the purposes of Income Tax Assessment Act 1997, "Division 40 - Capital allowances".

> 40-30 What a depreciating asset is
>
> (1) A depreciating asset is an asset that has a limited *effective life and can reasonably be expected to decline in value over the time it is used, except:

> - (a) land; or
> - (b) an item of *trading stock; or
> - (c) an intangible asset, unless it is mentioned in subsection (2).
>
> (2) These intangible assets are depreciating assets if they are not *trading stock:
>
> - (a) *mining, quarrying or prospecting rights;
> - (b) *mining, quarrying or prospecting information;
> - (c) items of *intellectual property [patents, registered designs, copyright];
> - (d) *in-house software;
> - (e) *IRUs [an indefeasible *right to use a telecommunications cable system];
> - (f) *spectrum licences;
> - (g) *datacasting transmitter licences;
> - (h) *telecommunications site access rights.

*(Treasury, *Income Tax Assessment Act 1997*, sec. 40.30 What a depreciating asset is, paras. 1 to 2)*
https://www.legislation.gov.au/Details/C2020C00222/Html/Volume_2#_Toc46411698

> intellectual property: an item of intellectual property consists of the rights (including equitable rights) that an entity has under a *Commonwealth law as:
>
> - (a) the patentee, or a licensee, of a patent; or
> - (b) the owner, or a licensee, of a registered design; or
> - (c) the owner, or a licensee, of a copyright;
>
> or of equivalent rights under a *foreign law.

*(Treasury, *Income Tax Assessment Act 1997*, Vol 10, Chap 6 The Dictionary, sec 995-1 Definitions)*
https://www.legislation.gov.au/Details/C2020C00271/Html/Volume_10#_Toc50384952

In-house software is (mainly) internal use software. That is, it is not software you (mainly) sell or licence to end users (outside the business):

> in-house software is computer software, or a *right to use computer software, that you acquire, develop or have another entity develop:
>
> - (a) that is mainly for you to use in performing the functions for which the software was developed; and
> - (b) for which you cannot deduct amounts under a provision of this Act outside Divisions 40 and 328.

*(Treasury, *Income Tax Assessment Act 1997*, Vol 10, Chap 6 The Dictionary, sec 995-1 Definitions)*
https://www.legislation.gov.au/Details/C2020C00271/Html/Volume_10#_Toc50384952

The simpler deprecation rules for small business, for deprecating assets under "Subdivision 328-D Capital allowances for small business entities", only apply in lieu of deprecating assets that would have otherwise been deductable under Division 40.

> **328-175 Calculations for depreciating assets**
>
> (1) You can choose to calculate your deductions and some amounts of assessable income under this Subdivision instead of under Division 40 for an income year for all the *depreciating assets that you *hold if: ...

*(Treasury, *Income Tax Assessment Act 1997*, Division 328 "Small business entities", Subdiv 328 D "Capital allowances for small business entities", 328.175 "Calculations for depreciating assets")*
https://www.legislation.gov.au/Details/C2020C00208/Html/Volume_7#_Toc45701016

Some intangible assets (e.g. a business name) are not regarded as depreciating assets for capital allowance purposes.

See the definition of a depreciating asset, above.

Capital Works

> Capital works used to produce income, including buildings and structural improvements, are written off over a longer period than other depreciating assets.

(Australian Taxation Office 2019, "Capital Works Deductions") https://www.ato.gov.au/Business/Depreciation-and-capital-expenses-and-allowances/Capital-works-deductions/

> The capital works deduction is available for:
>
> - buildings or extensions, alterations or improvements to a building
> - alterations and improvements to a leased building, including shop fitouts and leasehold improvements
> - structural improvements such as sealed driveways, fences and retaining walls
> - earthworks for environmental protection, such as embankments.

(Australian Taxation Office 2019, "Capital Works Deductions") https://www.ato.gov.au/Business/Depreciation-and-capital-expenses-and-allowances/Capital-works-deductions/

Capital works deductions exclude land.

> Note that the land itself can't be written off and its cost isn't deductible.

(Australian Taxation Office 2019, "Capital Works Deductions") https://www.ato.gov.au/Business/Depreciation-and-capital-expenses-and-allowances/Capital-works-deductions/

Simplified deprecation rules for small business

Overview

The simplified deprecation rules for small business are found, in law, at

*(Treasury, *Income Tax Assessment Act 1997*, Division 328 "Small business entities", Subdiv 328 D "Capital allowances for small business entities")* https://www.legislation.gov.au/Details/C2020C00271/Html/Volume_7#_Toc50377473

> You can choose to use the simplified depreciation rules if you have a small business with an aggregated turnover (the total normal income of your business and that of any associated businesses) of less than:
>
> - $10 million from 1 July 2016 onwards
> - $2 million for previous income years.
>
> Simplified depreciation rules for small businesses include:
>
> - an instant asset write-off for assets that cost less than the relevant threshold

- a general small business pool for assets that cost the same or more than the relevant threshold, which has simplified calculations to work out the depreciation deduction.

(Australian Taxation Office 2020, "Simpler Depreciation for Small Business") https://www.ato.gov.au/Business/Depreciation-and-capital-expenses-and-allowances/Simpler-depreciation-for-small-business/

If you are not registered for GST, you include the GST amount you paid on the asset in your depreciation calculations (and your instant asset write-off threshold is inclusive of any GST).

(Australian Taxation Office 2020, "Simpler Depreciation for Small Business") https://www.ato.gov.au/Business/Depreciation-and-capital-expenses-and-allowances/Simpler-depreciation-for-small-business/

For details about simplified depreciation rules see ...

(Australian Taxation Office 2020, "Simplified Depreciation - Rules and Calculations") https://www.ato.gov.au/Business/Depreciation-and-capital-expenses-and-allowances/In-detail/Depreciating-assets/Simplified-depreciation---rules-and-calculations/

Instant asset write-off

Overview

Under the instant asset write-off, eligible businesses can claim an immediate deduction for the business portion of the cost of an asset in the year the asset is first used, or installed ready for use.

Instant asset write-off can be used for:

- multiple assets as long as the cost of each individual asset is less than the relevant threshold.
- new and second-hand assets.

(Australian Taxation Office 2020, "Instant Asset Write-Off") https://www.ato.gov.au/Business/Depreciation-and-capital-expenses-and-allowances/Simpler-depreciation-for-small-business/Instant-asset-write-off/

Later sale or disposal of asset

If you use the instant asset write-off for an asset and then sell or dispose of that asset, you need to include the taxable purpose portion of the amount you received for the asset in your assessable income for that year.

(Australian Taxation Office 2020, "Instant Asset Write-Off") https://www.ato.gov.au/Business/Depreciation-and-capital-expenses-and-allowances/Simpler-depreciation-for-small-business/Instant-asset-write-off/

Thresholds

From 1 January 2021 the instant asset write-off will only be available for small businesses with an aggregated turnover of less than $10 million and the threshold will be $1,000.

(Australian Taxation Office 2020, "Instant Asset Write-Off") https://www.ato.gov.au/Business/Depreciation-and-capital-expenses-and-allowances/Simpler-depreciation-for-small-business/Instant-asset-write-off/

Otherwise see the table at https://www.ato.gov.au/Business/Depreciation-and-capital-expenses-and-allowances/Simpler-depreciation-for-small-business/Instant-asset-write-off/#Thresholds showing the thresholds are at least $1,000 from 2011-07-01.

(Australian Taxation Office 2020, "Instant Asset Write-Off", sec. "Thresholds") https://www.ato.gov.au/Business/Depreciation-and-capital-expenses-and-allowances/Simpler-depreciation-for-small-business/Instant-asset-write-off/

General deprecation rules

Definitions

See Definitions > Assets > Depreciating Assets (Tax Law - ITAA97)

Working out the decline in value

> You generally have the choice of two methods to work out the decline in value of a depreciating asset. These are:
>
> - the prime cost method or
> - the diminishing value method.
>
> Both these methods are based on a depreciating asset's effective life.

(Australian Taxation Office 2020, "Guide to Depreciating Assets 2020", 6) https://www.ato.gov.au/uploadedFiles/Content/IND/Downloads/guide-to-depreciating-assets-2020.pdf

> The diminishing value method ... produces a progressively smaller decline in the item's value over time. The prime cost method ... produces a consistent decline in the item's value over time.

(Australian Taxation Office 2020, "Guide to Depreciating Assets 2020", 6–7) https://www.ato.gov.au/uploadedFiles/Content/IND/Downloads/guide-to-depreciating-assets-2020.pdf

You must use the prime cost method for software sales (e.g. as a mobile app), given this counts as copyrighted intellectual property

> You cannot use the diminishing value method to work out the decline in value of:
>
> - in-house software
> - an item of intellectual property (except copyright in a film)

(Australian Taxation Office 2020, "Guide to Depreciating Assets 2020", 6) https://www.ato.gov.au/uploadedFiles/Content/IND/Downloads/guide-to-depreciating-assets-2020.pdf

> 40-75 Prime cost method
>
> You work out the decline in value of a *depreciating asset for an income year using the prime cost method in this way:

> where:
>
> $$asset's\ cost\ x\ \frac{days\ held}{365}\ x\ \frac{100\%}{asset's\ effective\ life}$$
>
> where:
>
> days held has the same meaning as in subsection 40-70(1).
>
> Example: Greg acquires an asset for $3,500 and first uses it on the 26th day of the income year. If the effective life of the asset is 3 1/3 years, the asset would decline in value in that year by:
>
> $$\$3{,}500\ x\ \frac{365-25}{365}\ x\ \frac{100\%}{3\frac{1}{3}} = \$987$$
>
> The asset's adjustable value at the end of the income year is:
>
> $$\$3{,}500 - \$978 = \$2{,}533$$

*(Treasury, *Income Tax Assessment Act 1997*, Div 40 - Capital allowances)*
https://www.legislation.gov.au/Details/C2020C00271/Html/Volume_2#_Toc51079713

In Excel the prime cost method formula is:

```
=AssetsCost*((365 - (OrdinalDayOfStartTime -1))/365)*(1/EffectiveLife)
```

\\Atals\Users\John\Documents\Sda\Code\Access\Apps\BusinessRecorder\Specs\Inputs\BusinessRecordsAndTaxReference\BusinessRecordsAndTax-DeclineInValueExamples.xlsx

Effective life of depreciating assets

In general you choose to work out the effective life of a depreciating asset as determined by the commissioner (recommended) or by yourself. That choice sticks to the asset.

> 40-95 Choice of determining effective life
>
> (1) You must choose either:
>
> - (a) to use an *effective life determined by the Commissioner for a *depreciating asset under section 40-100; or
> - (b) to work out the effective life of the asset yourself under section 40-105.
>
> ...
>
> (3) You must make the choice for the income year in which the asset's *start time occurs.
>
> Note: For rules about choices: see section 40-130.
>
> ...
>
> 40-130 Choices

> (1) A choice you can make under this Division about a *depreciating asset must be made:
>
> - (a) by the day you lodge your *income tax return for the income year to which the choice relates; or
> - (b) within a further time allowed by the Commissioner.
>
> (2) Your choice, once made, applies to that income year and all later income years.
>
> Exception: recalculating effective life
>
> (3) However, subsection (2) does not apply to a choice to recalculate the *effective life of a *depreciating asset under section 40-110.

*(Treasury, *Income Tax Assessment Act 1997*, Div 40 - Capital allowances)*
https://www.legislation.gov.au/Details/C2020C00271/Html/Volume_2#_Toc51079718

However, the effective life of (what I call) retained-copyright-software-copy-sale (e.g. a mobile app) is 25 years, in virtue of being an copyright intangible asset.

> 40-95 Choice of determining effective life
>
> (7) The effective life of an intangible *depreciating asset mentioned in this table is the period applicable to that asset under the table.

Effective life of certain intangible depreciating assets		
Item	For this asset:	The effective life is:
1	Standard patent	20 years
2	Innovation patent	8 years
3	Petty patent	6 years
4	Registered design	15 years
5	Copyright (except copyright in a *film)	The shorter of: (a) 25 years from when you acquire the copyright; or (b) the period until the copyright ends
6	A licence (except one relating to a copyright or *in-house software)	The term of the licence
7	A licence relating to a copyright (except copyright in a *film)	The shorter of: (a) 25 years from when you become the licensee; or (b) the period until the licence ends
8	*In-house software	5 years
...		

*(Treasury, *Income Tax Assessment Act 1997*, Div 40 - Capital allowances)*
https://www.legislation.gov.au/Details/C2020C00271/Html/Volume_2#_Toc51079718

Choosing between simplified and general depreciation rules

> If you choose to use the simplified depreciation rules, you must:
>
> - use them to work out deductions for all your depreciating assets except those specifically excluded
> - apply the entire set of rules, not just individual elements (such as the instant asset write-off) [That is, you must also use the small business pool for assets that cost the same or more than the relevant threshold].

(Australian Taxation Office 2020, "Simpler Depreciation for Small Business", sec. Small business pool) https://www.ato.gov.au/Business/Depreciation-and-capital-expenses-and-allowances/Simpler-depreciation-for-small-business/#Smallbusinesspool

> If you choose to stop using the simplified depreciation rules or become ineligible to use them, you must use the general depreciation rules. However, any assets in your small business pool will continue to be depreciated in the pool, even if you stop using the simplified depreciation rules.

(Australian Taxation Office 2020, "Simpler Depreciation for Small Business", sec. Small business pool) https://www.ato.gov.au/Business/Depreciation-and-capital-expenses-and-allowances/Simpler-depreciation-for-small-business/#Smallbusinesspool

Be careful not to switch from simplified to general depreciation rules given the 5 year waiting period to switch back to simplified depreciation rules.

> 328-175 Calculations for depreciating assets
>
> ...
>
> (10) If:
>
> - (a) you choose to use this Subdivision to deduct amounts for your *depreciating assets for an income year; and
> - (b) you do not choose to use this Subdivision for a later income year for which you satisfy the conditions to make this choice (see subsection (1));
>
> you cannot choose to use this Subdivision until at least 5 years after the first later income year for which you satisfied the conditions to make this choice but did not do

*(Treasury, *Income Tax Assessment Act 1997*, Division 328 "Small business entities", Subdiv 328 D "Capital allowances for small business entities")* https://www.legislation.gov.au/Details/C2020C00271/Html/Volume_7#_Toc50377477

Budget 2020-2021 (Given 2020-10)

"Temporary full expensing" will apply until 2022-06-30, allowing for the immediate deduction of the cost of eligible assets and asset improvements. For small and medium sized businesses this applies to new and second hand assets. For small and medium business there's no need to use "instant asset write off" (that might be useful for big business).

> **JobMaker Plan —temporary full expensing to support investment and jobs**
>
> ...

> The Government will support businesses with aggregated annual turnover of less than $5 billion by enabling them to deduct the full cost of eligible capital assets acquired from 7:30pm AEDT on 6 October 2020 (Budget night) and first used or installed by 30 June 2022. It will improve cash flow for qualifying businesses that purchase eligible assets and bring forward new investment to support the economic recovery.
>
> **Full expensing** in the year of first use will apply to new depreciable assets and the cost of improvements to existing eligible assets. For small and medium sized businesses (with aggregated annual turnover of less than $50million), full expensing also applies to second-hand assets.
>
> Businesses with aggregated annual turnover between $50 million and $500 million can still deduct the full cost of eligible second-hand assets costing less than $150,000 that are purchased by 31 December 2020 **under the enhanced instant asset write-off**. Businesses that hold assets eligible for the enhanced $150,000 instant asset write-off will have an extra six months, until 30 June 2021, to first use or install those assets. [Emphasis added]

(Treasury 2020, "Budget 2020-21: Budget Paper No. 2, Part 1: Receipt Measures", 20) https://budget.gov.au/2020-21/content/bp2/download/bp2_01_receipt.pdf

> The Government is introducing **temporary full expensing** of eligible depreciable assets for businesses with turnover up to $5 billion from 7:30pm (AEDT) on 6 October 2020 until 30 June 2022.

(Treasury 2020, "Budget 2020-21: Lower Taxes") https://budget.gov.au/2020-21/content/jobmaker.htm#five

> From 7:30pm (AEDT) on 6 October 2020 until 30 June 2022, businesses with turnover up to $5 billion will be able to deduct the full cost of eligible depreciable assets of any value in the year they are first used or installed ready for use. The cost of improvements made during this period to existing eligible depreciable assets can also be fully deducted.

(Treasury 2020, "Budget 2020-21, Fact Sheet, Lower Taxes") https://budget.gov.au/2020-21/content/factsheets/download/tax_fact-sheet.pdf

Disposal of (non-trading stock) assets

See Definitions > Assets > Depreciating Assets (Tax Law - ITAA97)

Included as part of your business's assessable income is a category of income the ATO calls "Income not part of everyday business activities". Among the several subcategories in that is "Disposal of non-trading stock assets":

> If you sell some of your business's non-trading stock assets, such as land, buildings, office furniture or equipment, include the following in your assessable income:
>
> - For depreciating assets (those that decline in value over time, such as motor vehicles and equipment) – include the amount you received minus the written-down value (that is, the adjustable value of the asset at the time you sell it).
> - For other capital assets (those that don't decline in value over time, such as land) – include the net capital gain you made through sale, gift or transfer.

(Australian Taxation Office 2020, "What to Include in Your Business's Assessable Income"), "Income not part of everyday business activities", https://www.ato.gov.au/Business/Income-and-deductions-for-business/Assessable-income/What-income-to-include/#Incomenotpartofeverydaybusinessactivitie

> If you use the instant asset write-off for an asset and then sell or dispose of that asset, you need to include the taxable purpose portion of the amount you received for the asset in your assessable income for that year.

Copied from Tax rules > Income and deductions for business > Deductions > Capital allowance rules: rules about deductibility of capital expenditure > Simplified deprecation rules for small business > Instant asset write-off > Later sale or disposal of asset
(Australian Taxation Office 2020, "Instant Asset Write-Off") https://www.ato.gov.au/Business/Depreciation-and-capital-expenses-and-allowances/Simpler-depreciation-for-small-business/Instant-asset-write-off/

> Business capital assets are all assets your business owns.

(Australian Taxation Office 2020, "What to Include in Your Business's Assessable Income"), Capital gains and losses, https://www.ato.gov.au/Business/Income-and-deductions-for-business/Assessable-income/What-income-to-include/#Capitalgainsandlosses

Trading Stock

Overview

> Trading stock is anything your business acquires, produces or manufactures, for the purpose of manufacturing, selling or exchanging. ...
>
> Trading stock does not include:
>
> - ...
> - stocks of spare parts held for repairs or maintenance to plant and equipment
> - goods owned by a lending business where the goods are used to earn income by hire or rental, rather than manufacture, sale or exchange, for example furniture, DVDs, catering equipment, tools, vehicles etc.
> - consumables used in manufacturing trading stock, such as cleaning agents or sandpaper.
>
> All businesses must account for the value of their trading stock at the end of each income year (closing stock) and at the start of the next income year (opening stock).

(Australian Taxation Office 2019, "Accounting for Trading Stock") https://www.ato.gov.au/Business/Income-and-deductions-for-business/Accounting-for-trading-stock/

> You are required to undertake a stocktake as close as possible to the end of each income year.
>
> An increase in your trading stock's value over the year is counted as assessable income, while a decrease is considered an allowable deduction.

(Australian Taxation Office 2019, "Valuing Trading Stock") https://www.ato.gov.au/Business/Income-and-deductions-for-business/Accounting-for-trading-stock/Valuing-trading-stock/

In addition to recognizing changes in trading stock you hold you also recognize: as an expense the cost to buy trading stock; and as income the receipts upon sale of trading stock. While you have the trading stock it is also an asset.

> **How to do inventory accounting**
>
> When you buy an inventory item, it is recorded as a cost and an asset. It's an asset because you can sell it.
>
> When you sell that item, it is recorded as income. You also remove it from your list of assets.

(www.xero.com n.d., "Inventory Accounting | A Complete Guide to Inventory | Small Business Guides") https://www.xero.com/au/resources/small-business-guides/business-management/guide-to-inventory/inventory-accounting/

Trading stock sales are included as assessable income. Trading stock purchases are included as deductions. Then you adjust for the stocktake differences.

> Subdivision 70-D—Assessable income arising from disposals of trading stock and certain other assets ...
>
> 70-80 Why the rules in this Subdivision are necessary
>
> (1) When you dispose of an item of your trading stock in the ordinary course of business, **what you get for it is included in your assessable income** (under section 6-5) as ordinary income. ....
>
> Subdivision 70-B—Acquiring trading stock
>
> [Out of order] 70-25 Cost of trading stock is not a capital outgoing
>
> An **outgoing you incur** in connection with acquiring an item of *trading stock is not an outgoing of capital or of a capital nature.
>
> Note: This means that paragraph 8-1(2)(a) does not prevent the outgoing from being **a general deduction** under section 8-1. ...
>
> **Subdivision 70-C—Accounting for trading stock you hold at the start or end of the income year**
>
> 70-35 You include the value of your trading stock in working out your assessable income and deductions
>
> - (1) If you carry on a *business, you compare:
> - (a) the *value of all your *trading stock on hand at the start of the income year; and
> - (b) the *value of all your trading stock on hand at the end of the income year.
>
> Note: You may not need to do this stocktaking if you are a small business entity: see Division 328.
>
> (2) Your assessable income includes any excess of the *value at the *end* of the income year over the value at the *start* of the income year.
>
> (3) On the other hand, you can deduct any excess of the *value at the *start* of the income year over the value at the *end* of the income year. ....
>
> **70-45 Value of trading stock at end of income year**
>
> (1) You must elect to value each item of *trading stock on hand at the end of an income year at:
>
> - (a) its *cost; or
> - (b) its market selling value; or
> - (c) its replacement value.

> Note: An item's market selling value at a particular time may not be the same as its market value. ...
>
> **70-50 Valuation if trading stock obsolete etc.**
>
> You may elect to value an item of your *trading stock below all the values in section 70-45 if:
>
> - (a) that is warranted because of obsolescence or any other special circumstances relating to that item; and
> - (b) the value you elect is reasonable.
>
> [**Blue bold added**; *Italics* original; **Black Bold** original]

*(Treasury, *Income Tax Assessment Act 1997*, pt. 2.25:Trading stock)*
https://www.legislation.gov.au/Details/C2020C00222/Html/Volume_3#_Toc46412282

> The ITAA [(Treasury, **Income Tax Assessment Act 1997**)] provides a mechanism for taxing proceeds from the sale of trading stock and the cost of goods sold.
>
> Subdivision 70-D includes proceeds from the disposal of trading stock in the ordinary course of a taxpayer's business in its assessable income.
>
> Subdivision 70-B provides a deduction under section 8-1 to a taxpayer who incurs an outgoing incurred to acquire trading stock. ...
>
> Subdivision 70-C requires a taxpayer to make a tax adjustment for differences between their opening and closing stock values. A taxpayer's assessable income includes the excess of the value of their trading stock on hand at year end compared to the value of their trading stock at the beginning of the year of income. Conversely, a taxpayer can claim a deduction for the excess between the value of their trading stock at the beginning of the year of income and the value of their trading stock at the end of the year of income ....
>
> [Out of order] Section 70-50 of the ITAA allows a taxpayer to value an item of trading stock below its cost, market selling value or replacement value if the revised value is reasonable and is warranted because of obsolescence or "any other special circumstance".
>
> Example
>
> On Time Pty Ltd is an importer and retailer of Swiss watches. It had 1,000 watches on hand at the end of the previous year of income at an average cost of $1,100 each (GST exclusive). On Time Pty Ltd purchases a further 5,000 watches during the year at a cost of $7.7million (GST inclusive). It sells 4,750 watches for proceeds of $11 million (inclusive of GST). On Time Pty Ltd carries out a stock take at year end and finds that it has only 1,225 watches on hand at a cost of $1.2m (GST exclusive). Twenty watches that had an original cost of $25,000 (GST exclusive) are now superceded by newer models. On Time Pty Ltd estimates that market selling value of these watches at $10,000 (GST exclusive).
>
> On Time Pty Ltd's taxable income is calculated as follows:

[Description]	**[Amount]**	**[ITAA 97]**
Sales	11,000,000	Sec. 70-80 (1)
Purchases	(7,000,000)	Sec. 70-15 (2)
Closing stock Less Opening stock	100,000	Sec. 70-40 (2) $1,100,000 Opening stock Sec. 70-40 $1,200,000 Closing stock valued at cost Sec. 70-45 (1)
Stock write-down	(15,000)	Sec. 70-45 (1) (b) or Sec. 70-50

	4,085,000	

(Aitken 2010, "Tax Treatment of Trading Stock") *https://www.tved.net.au/index.cfm?SimpleDisplay=PaperDisplay.cfm&PaperDisplay=https://www.tved.net.au/PublicPapers/December_2010,_Sound_Education_in_Taxation,_Tax_Treatment_of_Trading_Stock.html*

Calculation

> Conducting a stocktake usually involves physically counting your stock and valuing each item, using one of three methods:
>
> - The **cost price method** includes all costs associated with bringing the stock to its current condition and location. This may include the cost price plus freight, insurance, customs and excise duties, and delivery charges.
> - The **market selling value method** uses the current value of stock if it is sold in the normal course of business.
> - The **replacement value method** uses the cost to obtain an almost identical item that is available in the market on the last day of the income year.
>
> You can choose a different method each year for different items of stock.
>
> The closing value for an item of trading stock at the end of one income year automatically becomes its opening value at the beginning of the next income year.
>
> If you are entitled to GST credits you generally exclude the GST component when calculating your trading stock's value.

(Australian Taxation Office 2019, "Valuing Trading Stock") *https://www.ato.gov.au/Business/Income-and-deductions-for-business/Accounting-for-trading-stock/Valuing-trading-stock/*

You can use "simpler trading stock rules" if you are a small business and the value of your trading stock does not change by more than $5000. In this case, you can ignore doing a detailed stock take; and you can ignore reporting an increase in assessable income or a deduction.

> If you're a small business with an aggregated turnover of less than $10 million a year, and you estimate that the value of your trading stock changed by no more than $5,000 in the year, you don't have to:
>
> - conduct a formal stocktake
> - account for the changes in your trading stock's value.
>
> Your estimate will be considered reasonable if either:
>
> - you maintain a constant level of stock each year and have a reasonable idea of the value of your stock on hand
> - your stock levels fluctuate but you can make an estimate, based on your records, of the stock you have purchased.
>
> If the difference in your trading stock's value during the year varied by more than $5,000, use the general trading stock rules.

> Example .... as the difference is no more than $5,000, he doesn't need to do a stocktake or include the increase in value of his stock in his assessable income

(Australian Taxation Office 2020, "Overview of Simpler Trading Stock Rules for Small Businesses") https://www.ato.gov.au/Business/Income-and-deductions-for-business/Accounting-for-trading-stock/Simpler-trading-stock-rules/

Pay as you go (PAYG) instalments

> When your business and investment income reaches a certain amount, you'll pay your income tax in instalments. These payments are usually quarterly. PAYG instalments help you to avoid a large tax bill after you lodge your income tax return.

(business.gov.au 2020, "Pay as You Go (PAYG) Instalments") https://business.gov.au/Finance/Taxation/Pay-as-you-go-PAYG-instalments

> Your instalment income is all the ordinary income you earned from your business and investment activities for the quarter (excluding GST). Make sure you include your gross income (not your net income, taxable income or income reduced by any deductions).

(Australian Taxation Office 2020, "PAYG Instalments - How to Complete Your Activity Statement"), "Filling in the PAYG instalment rate (option 2) fields", "PAYG instalment income – T1" https://www.ato.gov.au/Business/Business-activity-statements-(BAS)/In-detail/Instructions/PAYG-instalments---how-to-complete-your-activity-statement/?anchor=T1#T1

> We work out whether you need to pay PAYG instalments based on information you reported in your latest tax return.
>
> The following tables outline reasons why you may have entered PAYG instalments.

Table: Individuals and trusts	
Reason	Entry threshold
Instalment income from your latest tax return	$4,000 or more
Tax payable on your latest notice of assessment	$1,000 or more
Estimated (notional) tax	$500 or more

(business.gov.au 2020, "Pay as You Go (PAYG) Instalments") "Starting PAYG instalments", "Why you have entered PAYG instalments", https://www.ato.gov.au/General/PAYG-instalments/#WhyyouhaveenteredthePAYGinstalmentssyst1

> PAYG instalments are different to PAYG withholding. With PAYG withholding, employers collect tax from the payments they make to employees and contractors and send it to the ATO. This helps those people meet their own income tax liabilities.

(business.gov.au 2020, "Pay as You Go (PAYG) Instalments") https://www.ato.gov.au/General/PAYG-instalments/

> T7 (ATO instalment amount) on your activity statement or instalment notice shows the instalment amount worked out by us or your most recent varied amount.
>
> If you don't want to change the amount, and:

> - you don't have any other obligations that require a business activity statement, just pay the amount – **you don't need to lodge the activity statement/instalment notice** [Emphasis added]

(Australian Taxation Office 2020, "PAYG Instalments - How to Complete Your Activity Statement") *https://www.ato.gov.au/Business/Business-activity-statements-(BAS)/In-detail/Instructions/PAYG-instalments---how-to-complete-your-activity-statement/?anchor=T1#ATOinstalmentamountT7*

> It's important you lodge your [business] activity statements and pay all your PAYG instalments **before** you lodge your tax return to make sure the instalments you paid throughout the year are taken into account in your tax assessment. [Emphasis original]

(Australian Taxation Office 2020, "PAYG Instalments - How to Complete Your Activity Statement") *https://www.ato.gov.au/Business/Business-activity-statements-(BAS)/In-detail/Instructions/PAYG-instalments---how-to-complete-your-activity-statement/*

> **Instalment amount (option 1)**
>
> Paying by instalment amount is the simplest option as you don't need to make any calculations. You just pay the amount that we have worked out for you based on information you reported in your most recent tax return.

(Australian Taxation Office 2019, "PAYG Instalments") *https://www.ato.gov.au/Business/Business-activity-statements-(BAS)/PAYG-instalments/*

Contractor V Employee

For tax and working condition entitlement purposes (e.g. sick leave, holiday pay, super and work cover) you can be classified either as an "employee" or "contractor".

The essential difference between being a contractor and employee:

> If you're a contractor, you're self-employed and you're running your own business. If you're an employee, you're working in another person's business.
>
> Whether you're a contractor or an employee could change for each job you do.
>
> If the business you work for incorrectly classifies you as a contractor, when you should really be treated as an employee, you could be missing out on things like sick leave, holiday pay, super and work cover.

(Australian Taxation Office 2016, "Working") *https://www.ato.gov.au/Individuals/Working/*

A business is legally required to treat you as an employee unless you are genuinely a contractor, in the relevant sense. You can be an employee even if you sign a contract. What matters is the " true working relationship".

It is illegal to wrongly treat employees as contractors.

> **Employees treated as contractors**

> It's against the law for a business to incorrectly treat their employees as contractors. Businesses that do this are illegally lowering their labour costs by:
>
> - not meeting their tax and super obligations
> - denying workers their employee entitlements.
>
> Businesses that behave this way can often undercut their competitors and obtain an unfair competitive advantage.

(Australian Taxation Office 2019, "Employees Treated as Contractors") https://www.ato.gov.au/Business/Employee-or-contractor/Employees-treated-as-contractors/

> Often a business that is asking workers to wrongly apply for an ABN simply doesn't understand the differences between contractors and employees. They might not know that they risk penalties for failing to treat their workers as employees. Some employers use this as a deliberate tactic to try and avoid their responsibilities.

(Australian Taxation Office 2015, "What to Do If You're Unsure") https://www.ato.gov.au/Individuals/Working/Employee-or-contractor---what-s-the-difference/what-to-do-if-you-re-unsure/

Determining the difference:

> Whether you're a contractor or employee is determined by the terms and conditions in your working arrangement – what you agreed to and how it will be done. A business can't just decide to treat you as a contractor.

(Australian Taxation Office 2015, "Common Myths") https://www.ato.gov.au/Individuals/Working/Employee-or-contractor---what-s-the-difference/common-myths/

> The main differences between working as an employee and working as a contractor [See link]

(Australian Taxation Office 2015, "Employee or Contractor - What's the Difference") https://www.ato.gov.au/Individuals/Working/Employee-or-contractor---what-s-the-difference/

Having signed a contract is not sufficient to make you a "contractor" for these purposes.

What matters is the "true working relationship"

> You have a contract
>
> If you're legally an employee, entering into a contract with the business you work for specifying you're a contractor makes no difference to the **true working relationship** and will not:
>
> - override the real employment relationship or change you into a contractor
> - change the tax and super obligations the business is required to meet on your behalf.
>
> If the business you work for should be treating you as an employee, you don't have to wait until the arrangement ends to make the change. [Emphasis added]

(Australian Taxation Office 2015, "Common Myths") https://www.ato.gov.au/Individuals/Working/Employee-or-contractor---what-s-the-difference/common-myths/

You can be an employee even though have a contract. See above and as follows.

> What if the job you've been offered is described as contracting, but it looks more like being an employee?
>
> Or, what if you have been a contractor, but the job has changed and now you think you might be an employee? ...
>
> **If you've signed a contract**, consider whether you need to re-negotiate the terms and conditions. [Emphasis added'

(Australian Taxation Office 2015, "What to Do If You're Unsure") https://www.ato.gov.au/Individuals/Working/Employee-or-contractor---what-s-the-difference/what-to-do-if-you-re-unsure/

You can't be a contractor just because you, or the business, want to stipulate you are a "contractor".

> **You want to be a contractor**
>
> Just because you want to be a contractor doesn't mean the business you are working for can engage you as a contractor. It's not just about what you want – it's the working arrangement you agree to that makes the difference.
>
> If you should be classified as an employee but the business you work for treats you as a contractor, they can face penalties and charges for not meeting their employer tax and super obligations.
>
> **The business decides you're a contractor**
>
> Many employers don't understand the differences between being a contractor or an employee, and can get the working arrangement wrong.
>
> Whether you're a contractor or employee is determined by the terms and conditions in your working arrangement – what you agreed to and how it will be done. A business can't just decide to treat you as a contractor.

(Australian Taxation Office 2015, "Common Myths") https://www.ato.gov.au/Individuals/Working/Employee-or-contractor---what-s-the-difference/common-myths/

Taxable payments annual report (TPAR)

> The TPAR tells us about payments that are made to contractors for providing services. Some government entities also need to report the grants they have paid in a TPAR.
>
> Contractors can include subcontractors, consultants and independent contractors. They can be operating as sole traders (individuals), companies, partnerships or trusts. ...
>
> Even if you are not registered for GST, you'll still need to check if you need to lodge a TPAR. All businesses have a GST turnover, regardless of whether or not they are registered for GST.

(Australian Taxation Office 2019, "Taxable Payments Annual Report") https://www.ato.gov.au/Business/Reports-and-returns/Taxable-payments-annual-report/

> Payments made to employees are not included in your TPAR.

(Australian Taxation Office 2019, "IT Services") https://www.ato.gov.au/Business/Reports-and-returns/Taxable-payments-annual-report/Work-out-if-you-need-to-report/IT-services/

You only need to make a Taxable payments annual report (TPAR) if you: engage a contractor **on your behalf**; and they are working under an Australian Business Number (ABN)

> If you're running a business providing information technology (IT) services (even if it's only part of the services you provide), you must lodge a Taxable payments annual report (TPAR) for each financial year that you:
>
> - have an Australian business number (ABN), and
> - make any payments to contractors for IT services they **provide on your behalf**.
>
> Payments made to employees are not included in your TPAR. [Emphasis added]/

(Australian Taxation Office 2019, "IT Services") https://www.ato.gov.au/Business/Reports-and-returns/Taxable-payments-annual-report/Work-out-if-you-need-to-report/IT-services/

> ... if you make payments to other contractors for computer system design and related services, you need to report this information to us.
>
> Contractors can include subcontractors, consultants and independent contractors **working under an Australian Business Number (ABN).** [Emphasis added].

(Jenkins 2019, "New Reporting for Businesses Providing Computer System Design and Related Servcies")

Without doubt I do not need to make a TPAR just because someone provides web hosting to me.

> Examples of activities that are not IT services include: ...
>
> * providing data processing services or computer data storage and retrieval services (we consider this to be 'data processing, **web hosting** and electronic information storage services') [Emphasis added]

(Australian Taxation Office 2019, "IT Services") https://www.ato.gov.au/Business/Reports-and-returns/Taxable-payments-annual-report/Work-out-if-you-need-to-report/IT-services/

Personal Services Income

> Personal services income (PSI) is income produced, mainly from your personal skills or efforts as an individual.

(business.gov.au 2020, "Personal Services Income") https://business.gov.au/finance/taxation/personal-services-income

> **When PSI rules apply**
>
> If the rules apply, it will affect:
>
> - the tax deductions you can claim for PS
> - how you report PSI
>
> All other income you earn follows normal tax rules.

(business.gov.au 2020, "Personal Services Income") https://business.gov.au/finance/taxation/personal-services-income

> When working out if your income is PSI, you need to look at the income received from each separate contract or invoice.
>
> If more than **50%** of the income received for a contract/invoice was for your labour, skills or expertise, then **all** income received is PSI.
>
> If **50%** or less of the income received for a contract/invoice was for your labour, skills or expertise, then **none** of the income received is PSI.
>
> Salary and wages as an employee and some other types of income will not be affected by the PSI rules.
>
> You don't earn PSI if your income is:
>
> - from selling or supplying finished goods, even if you made them
> - from an income-producing asset, such as renting a vehicle or machinery
> - from licencing your intellectual property, such as a patent [Emphasis Original]
>
> ... Susan is a management consultant operating as a sole trader.
>
> ... Contract 2: Susan provided management software for a client. She charged $10,000 in total. This included $8,000 to cover the cost of the software licence. Since $2,000 (20% of the contract) is for her skills and expertise, this is not PSI. Susan cannot report PSI for this contract.

(business.gov.au 2020, "Personal Services Income") https://business.gov.au/finance/taxation/personal-services-income

> **Claiming deductions when receiving PSI**
>
> When personal services income (PSI) rules apply, there are limitations for deductions that can be claimed against this income. In general, an individual who earns PSI is treated as though they are in the same position as an employee.
>
> This means, your business may claim deductions against PSI received if:
>
> - the expenses are incurred in producing the income
> - you (as an individual who earns the income) would be entitled to the deduction.
>
> This applies to all PSI, whether it is earned as a sole trader or through a company, partnership or trust.
>
> [Emphasis original]

(Australian Taxation Office 2017, "Claiming Deductions When Receiving PSI") https://www.ato.gov.au/business/personal-services-income/in-detail/claiming-deductions-when-receiving-psi/

> **Deductions that can't be claimed against PSI**
>
> When the PSI rules apply, you cannot claim deductions against the PSI for:

> - rent, mortgage interest, rates and land tax
> - payments to associates for non-principal work
> - super contributions for associates' non-principal work
>
> [Emphasis original]

(Australian Taxation Office 2017, "Deductions That Can't Be Claimed against PSI") https://www.ato.gov.au/business/personal-services-income/in-detail/claiming-deductions-when-receiving-psi/?anchor=DeductionsthatcantbeclaimedagainstthePSI#DeductionsthatcantbeclaimedagainstthePSI

Goods and services tax (GST)

Overview

> Goods and services tax (GST) is a tax of 10% on most goods, services and other items sold or consumed in Australia. If your business is registered for GST, you have to collect this extra money (one-eleventh of the sale price) from your customers. You pay this to the Australian Taxation Office (ATO) when it's due.

(business.gov.au 2020, "Register for Goods and Services Tax (GST)") https://www.business.gov.au/Registrations/Register-for-taxes/Register-for-goods-and-services-tax-GST

GST calculations given a sale price (inc. GST):

Sale Price (inc. GST)	GST		Price (exc. GST)	
$ 100.00	$ 9.09	=A2*(1/11)	$ 90.91	=A2*(10/11)
$ 110.00	$ 10.00	=A3*(1/11)	$ 100.00	=A3*(10/11)

\\Atlas\Users\John\Documents\Sda\Code\Access\Apps\BusinessRecorder\Specs\Inputs\Gst\GstCalculationDemo.xlsx
(Australian Government & ASIC n.d., "GST Calculator - Moneysmart.Gov.Au")
https://moneysmart.gov.au/income-tax/gst-calculator

If you are registered for GST you will do the following activities:

> - work out whether your sales are taxable (that is, subject to GST, and not exempted because they are GST-free or input-taxed) and include GST in the price of your taxable sales
> - issue tax invoices for your taxable sales and obtain tax invoices for your business purchases
> - claim GST credits for GST included in the price of your business purchases
> - account for GST on either a cash or non-cash basis and put aside the GST you collected so you can pay it to us when due
> - lodge activity statements [Business Activity Statements (BAS)] or annual returns to report your sales and purchases, and pay GST to us or receive a GST refund.

(Australian Taxation Office 2018, "How GST Works") https://www.ato.gov.au/Business/GST/How-GST-works/

When registering for GST (or being required to) what is the tax consequence for the period prior to registration?

(On my reading) switching to GST registration allows for a "clean break with the past". That is, for periods prior to GST registration (unless you apply for an have GST Registration backdating approved):

- There is no GST payable on your sales.
- You can't claim GST credits on purchases.
- You aren't required to report GST.
- You don't not need to amend income tax returns.

And given the GST registration date can be part way through a GST reporting period (generally part way through a quarter):

- Your first GST reporting period (generally quarter) is that within which your GST registration date falls; and
- Even within that GST reporting period (e.g. quarter), for the period before your GST registration, you do not report GST on sales, nor claim GST credits.

The ATO uses a backdating GST registration example chiefly to show the four year limit under which backdating can generally apply. However, it also shows tax consequences for the period prior to the backdating. I take it the same tax consequences apply to a prior period where you just register normally (without backdating registration).

> GST ceases to be payable for those supplies and GST credits do not arise for those acquisitions made before the date you are required to be registered. ...
>
> Example: Backdating GST registration [Heading original]
>
> ...
>
> The earliest we can backdate Jack's GST registration to is 26 November 2014.
>
> Jack's first tax period will be from 26 November to 31 December 2014.
>
> For the periods before [in effect GST registration] 26 November 2014:
>
> - Jack won't need to lodge GST returns
> - there is no GST payable on sales
> - Jack is not able to claim GST credits on any purchases or fuel tax credits
> - Jack does not need to amend income tax returns for transactions prior to 26 November 2014. [Emphasis added]
>
> For the periods from 26 November 2014, Jack will need to lodge GST returns.
>
> Jack may also need to amend his income tax returns to reduce his assessable income for the GST payable and decrease his deductions by the GST credits.

(Australian Taxation Office 2020, "Guide to Self Assessment for Indirect Taxes")
https://www.ato.gov.au/business/business-activity-statements-(bas)/in-detail/guide-to-self-assessment-for-indirect-taxes/?page=6#H18

Determining whether GST is to be included in your sales (whether you sales are taxable)

Making a determination about whether GST can be include in your sale entails establishing two conditions:

- A general condition applies (e.g. you are registered for GST; made for a payment of some kind; connected with Australia; etc); and
- Some particular condition applies to the sale (e.g. It is not a GST-Free sale, as for "most basic food"; it is not an "input-taxed sale", as with financial supply).

The general conditions:

> If you are registered for GST – or required to be – the goods and services you sell in Australia are generally taxable unless they are GST-free or input-taxed.
>
> To be a taxable sale (that is, a sale that has GST in the price), a sale must be:
>
> - for payment of some kind
> - made in the course of operating your business
> - connected with Australia.

(Australian Taxation Office 2017, "Taxable Sales") https://www.ato.gov.au/business/gst/when-to-charge-gst-(and-when-not-to)/taxable-sales/

Determining whether GST credits can be claimed for purchases

> **When you can claim a GST credit**
>
> You must be registered for GST to claim GST credits.
>
> You can claim a credit for any GST included in the price you pay for things you use in your business. This is called an input tax credit, or a GST credit.
>
> You claim GST credits in your business activity statement. [Emphasis Original]

(Australian Taxation Office 2018, "When You Can Claim a GST Credit") https://www.ato.gov.au/Business/GST/Claiming-GST-credits/When-you-can-claim-a-GST-credit/

> **When you cannot claim a GST credit**
>
> You cannot claim a goods and services tax (GST) credit:
>
> - if you are not registered for GST
> - for purchases that do not have GST in the price, including
>   - where the sale to you is GST-free (such as basic foods)
>   - where the sale to you is input-taxed (such as residential accommodation, bank fees and loan interest)
>   - purchases from a supplier that is not registered or required to be registered for GST (and therefore cannot charge GST)
> - for wages you pay to staff (there is no GST on wages)

> - if you do not have a valid tax invoice for purchases that cost more than A$82.50 (including GST) when you lodge your activity statement, however, there are specific circumstances where GST credits can be claimed without a tax invoice.
>
> You also cannot claim GST credits for some purchases (even if GST is included in the price), including:
>
> - to the extent that a purchase is for a private or domestic purpose
> - to the extent that a purchase is for making an input-taxed supply (such as those associated with providing residential accommodation)
> - for real property purchased under the margin scheme
> - for some purchases that you cannot claim as an income tax deduction (such as entertainment expenses)
> - for the part of the purchase price of a car that is over the car limit amount for the relevant financial year
> - where the time limit for claiming a GST credit for the purchase has ended.

(Australian Taxation Office 2019, "When You Cannot Claim a GST Credit")
https://www.ato.gov.au/Business/GST/Claiming-GST-credits/When-you-cannot-claim-a-GST-credit/

GST-free and Input Taxed Supplies

So called "GST-free" and "Input Taxed Supplies" are exempt from GST. So you can't charge GST for these kind of sales nor claim a GST credit for these kinds of purchases. Bank interest received and Bank account fees are financial supplies, so an input taxed supply, and therefore exempt from GST.

Supplies exempt from GST include "GST-free supplies" and "Input taxed supplies" ...

> **Chapter 3—The exemptions**
>
> **Part 3-1—Supplies that are not taxable supplies**
>
> Division 38—GST-free supplies
>
> ....
>
> Division 40—Input taxed supplies

(Treasury, *A New Tax System (Goods and Services Tax) Regulations 2019 - Legislative Instrument**)*
https://www.legislation.gov.au/Details/F2020C00849

The legislative lynch pin for what counts as a "GST-free" and "input tax supplies" ....

> 9-30 Supplies that are GST-free or input taxed
>
> *GST-free*
>
> (1) A supply is GST-free if:
>
> - (a) it is GST-free under Division 38 or under a provision of another Act; or
> - (b) it is a supply of a right to receive a supply that would be GST-free under paragraph (a).

> *Input taxed*
>
> (2) A supply is input taxed if:
>
> - (a) it is input taxed under Division 40 or under a provision of another Act; or
> - (b) it is a supply of a right to receive a supply that would be input taxed under paragraph (a)

(Treasury, *A New Tax System (Goods and Services Tax) Act 1999**)*
https://www.legislation.gov.au/Details/C2020C00285/Html/Volume_1#_Toc51757907

Input taxed supplies include "financial supplies" ....

> **Division 40—Input taxed supplies**
>
> ...
>
> **40-1 What this Division is about**
>
> This Division provides for the supplies that are input taxed. If a supply is input taxed, then:
>
> - no GST is payable on the supply;
> - there is no entitlement to an input tax credit for anything acquired or imported to make the supply (see sections 11-15 and 15-10).
>
> For the basic rules about supplies that are input taxed, see sections 9-30 and 9-80 [9-80 The value of taxable supplies that are partly GST-free or input taxed]
>
> **Subdivision 40-A—Financial supplies**
>
> 40-5 Financial supplies
>
> - (1) A *financial supply is input taxed.
> - (2) Financial supply has the meaning given by the regulations.
>
> Subdivision 40-B—Residential rent
>
> ... [Etc]

(Treasury, *A New Tax System (Goods and Services Tax) Act 1999**)*
https://www.legislation.gov.au/Details/C2020C00285/Html/Volume_1#_Toc51758138

The meaning of financial supplies includes bank account interest received and bank account fees paid ....

> **Chapter 3—The exemptions**
>
> **Part 3-1—Supplies that are not taxable supplies**
>
> Division 38—GST-free supplies
>
> ....
>
> Division 40—Input taxed supplies
>
> 40-5.01 Object of Subdivision 40-A
>
> The object of this Subdivision is to identify supplies that are financial supplies.

> ....
>
> 40-5.09 What supplies are financial supplies
>
> (3) For the purposes of subsections (1) and (2), the interest is an interest in or under a matter mentioned in an item in the following table.

Financial supplies	
Item	An interest in or under ...
1	An account made available by an Australian ADI in the course of: (a) its banking business within the meaning of the *Banking Act 1959*; or (b) its State banking business
2	...
...	...

(Treasury, *A New Tax System (Goods and Services Tax) Regulations 2019 - Legislative Instrument**)*
[*https://www.legislation.gov.au/Details/F2020C00849*](https://www.legislation.gov.au/Details/F2020C00849)

> ....
>
> **Schedule 2—Examples of financial supply**
>
> Note: See section 40-5.11.
>
> 1 Examples for item 1 of the table in subsection 40-5.09(3) (accounts)
>
> A supply mentioned, or a supply of something mentioned, in the following table that relates to the matter mentioned in item 1 of the table in subsection 40-5.09(3), or to an incidental financial supply, is an example of a supply of an interest in or under that matter, or of an incidental financial supply

Accounts	
Item	Examples
1	Opening, keeping, operating, maintaining and closing of cheque, debit card, deposit and savings accounts for account holders
2	Cash collection, handling and sorting for account holders by account providers
3	ATM, electronic and telephone operation of accounts
4	Supply of standard cheque and deposit books for account holders
5	Supply of debit and smart cards
6	Cashing cheques and payment order
...	....

(Treasury, *A New Tax System (Goods and Services Tax) Regulations 2019 - Legislative Instrument**)*
[*https://www.legislation.gov.au/Details/F2020C00849/Html/Text#_Toc51671244*](https://www.legislation.gov.au/Details/F2020C00849/Html/Text#_Toc51671244)

> GST applies to all food and beverages consumed on the premises that supplied them, and to hot food supplied as take-away.

(Australian Taxation Office 2017, "GST and Food") https://www.ato.gov.au/print-publications/gst-and-food/?=top_10_publications

Handling GST in Financial Statements

See Conventional Accounting Principles > Financial Statements > Handling GST in Financial Statements

GST reporting on your Business Activity Statement (BAS)

Reporting period

Generally you (with GST turnover is less than $20 million) report GST quarterly.

> Your GST reporting and payment cycle will be one of the following:
>
> - Monthly – if your GST turnover is $20 million or more.
> - **Quarterly – if your GST turnover is less than $20 million – and we have not told you that you must report monthly.**
> - Annually – if you are voluntarily registered for GST. That is, you are registered for GST; and your GST turnover is under $75,000 ($150,000 for not-for-profit bodies).
>
> Depending on your circumstances, you can change the cycle you use to report and pay GST. This may happen when your GST turnover changes or if you choose to report and pay using a different cycle. [Emphasis added]

(Australian Taxation Office 2018, "When and How to Report and Pay GST") https://www.ato.gov.au/Business/GST/Lodging-your-BAS-or-annual-GST-return/Options-for-reporting-and-paying-GST/

GST reporting method

There are three GST reporting methods:

- Simpler BAS
- GST Instalment method: pay GST instalments quarterly and report annually.
- Full reporting method.

(Australian Taxation Office 2019, "GST Reporting Methods") https://www.ato.gov.au/Business/Business-activity-statements-(BAS)/Goods-and-services-tax-(GST)/GST-reporting-methods/

> If your GST turnover is less than $10 million ... you generally report GST using the default Simpler BAS reporting method.

(Australian Taxation Office 2019, "GST Reporting Methods") https://www.ato.gov.au/Business/Business-activity-statements-(BAS)/Goods-and-services-tax-(GST)/GST-reporting-methods/

> [Under the Simpler BAS reporting method ...] On your monthly or quarterly BAS, or your annual GST return, you must report the following GST information:
>
> - G1 Total sales
> - 1A GST on sales
> - 1B GST on purchases.

(Australian Taxation Office 2019, "GST Reporting Methods") https://www.ato.gov.au/Business/Business-activity-statements-(BAS)/Goods-and-services-tax-(GST)/GST-reporting-methods/

Under the Simpler BAS reporting method on the Business Activity Statement (BAS) you choose "Option 1: Calculate GST and report quarterly", but leave blank the irrelevant fields (e.g. G2 Export sales; G3 Other GST-free sales; G10 Capital purchases; G11 non-capital purchases).

> if you lodge a paper BAS or annual GST return, the sections where information is no longer needed can be left blank.

(Australian Taxation Office 2019, "GST Reporting Methods") https://www.ato.gov.au/Business/Business-activity-statements-(BAS)/Goods-and-services-tax-(GST)/GST-reporting-methods/

> [Under the Full reporting method ...] On your monthly or quarterly BAS, you must report the following GST information:
>
> - G1 Total sales
> - G2 Export sales
> - G3 Other GST-free sales
> - G10 Capital purchases
> - G11 Non-capital purchases
> - 1A GST on sales
> - 1B GST on purchases.

(Australian Taxation Office 2019, "GST Reporting Methods") https://www.ato.gov.au/Business/Business-activity-statements-(BAS)/Goods-and-services-tax-(GST)/GST-reporting-methods/

Completing your BAS [for GST] method

For reporting GST on your BAS; ensure your accounting software in effect totals GST as demonstrated on the "GST calculation worksheet for BAS" even when operating under:

- The GST reporting method: Simpler BAS; and given that under Simpler BAS "you don't need to complete a GST calculation worksheet"; and
- The complete your BAS [for GST] method: accounts method (thereby relying on your accounting software).

Under Simpler BAS you don't need to complete a GST calculation worksheet ...

> Simpler BAS is the default reporting method for small businesses with a GST turnover of less than $10 million:
>
> - you don't need to complete a GST calculation worksheet

(Australian Taxation Office 2019, "GST Reporting Methods") https://www.ato.gov.au/Business/Business-activity-statements-(BAS)/Goods-and-services-tax-(GST)/GST-reporting-methods/

However, there are two "complete your BAS [for GST]" methods to use, that are quite distinct from "the GST reporting methods [Simpler BAS, GST Instalment method, and Full reporting method] and the "accounting basis":

> There are two steps to consider before completing your BAS.
>
> - Choose a method to complete your BAS
> - Identify your accounting basis
>
> ...
>
> Only choose a method if you need to complete a full BAS:
>
> - Calculation worksheet method
> - Accounts method
>
> Depending on the method you use, you won't need to complete all of the GST labels.
>
> **Calculation worksheet method**
>
> ... The calculation worksheet method is a step-by-step way of calculating the GST on your sales, purchases and importations using our GST calculation worksheet.
>
> ... You'll need to complete up to 20 labels on the calculation worksheet to calculate the amounts to be reported at 1A (GST on sales) and 1B (GST on purchases) on your BAS. If you use this method, the amounts you report must include GST.
>
> **Accounts method**
>
> The accounts method is a way of completing your BAS directly from your accounting records. To use this method, your records must be able to do all of the following: [proper addition steps omitted] ...
>
> Add up the relevant GST amounts at the end of each reporting period and report them at the appropriate labels on your BAS.
>
> The amounts you report on your BAS at G1 (total sales) can be GST-inclusive or GST-exclusive. You need to indicate amounts that include GST by marking either Yes or No with an 'X' in the box under G1.
>
> G1 is the only label where you choose to report GST-exclusive or GST-inclusive amounts. Once you make a choice to report either a GST-exclusive or GST-inclusive amounts, then you also need to complete all other GST labels according to your choice.

(Australian Taxation Office 2019, "Completing Your BAS for GST") *https://www.ato.gov.au/Business/GST/In-detail/Managing-GST-in-your-business/Reporting,-paying-and-activity-statements/Completing-your-BAS-for-GST/*

Even when choosing the Accounts Method, and so relying on your accounting software, the Interactive GST calculation worksheet for BAS (pdf) is great for modelling how the software should work.

(Australian Taxation Office 2019, "Interactive GST Calculation Worksheet for BAS")
https://www.ato.gov.au/Calculators-and-tools/GST-for-BAS/
\\Atlas\\John\Documents\Sda\Code\Access\Apps\BusinessRecorder\Specs\Inputs\Bas\GstCalculationWorksheetForBas.pdf

Business Activity Statement (BAS)

> Your business may need to complete business activity statements (BAS) to report on taxes and make payments.
>
> Your BAS helps you to report on taxes like:
>
> - goods and services tax (GST)
> - pay as you go (PAYG) withholding
> - PAYG instalments
> - fringe benefits tax (FBT) instalments
> - luxury car tax
> - wine equalisation tax

(business.gov.au 2020, "Business Activity Statement") https://business.gov.au/finance/taxation/what-is-an-activity-statement

Download a sample BAS A – Quarterly business activity statement. NAT 4189 (pdf)

> This sample document is for taxpayers with a quarterly goods and services tax (GST), pay as you go (PAYG) tax withheld and PAYG income tax instalment obligations. Typical users include sole traders and companies.

(Australian Taxation Office 2020, "Consolidated List of Approved Forms by Tax Topic, Business Activity Statements (BAS)") https://www.ato.gov.au/Forms/Consolidated-list-of-approved-forms-by-tax-topic/?page=2
\\Atlas\Users\John\Documents\Sda\Code\Access\Apps\BusinessRecorder\Flotsam\Bas\BasA-QuarterlyBusinessActivityStatement-Nat4189-03.2014.pdf

Invoices and Receipts

Invoices

Regular (Non Tax) Invoices

> **Regular invoices.** If you run a business that is not registered for goods and services tax (GST), your invoices won't include a tax component. These are called regular invoices. They should not include the words 'tax invoice'.

(business.gov.au 2020, "Invoicing and Payments Explained") https://www.business.gov.au/Finance/Payments-and-invoicing/Invoicing-and-payments-explained

For "Tax Invoices", that show the GST amount, the requirements are specified as in the link.

(Australian Taxation Office 2019, "Tax Invoices") https://www.ato.gov.au/Business/GST/Tax-invoices/

Recipient-created tax invoices

> In most cases, tax invoices are issued by a supplier. However, in special cases, you, as the purchaser or recipient of the goods or services, may issue a tax invoice for your purchases. This is known as a recipient-created tax invoice (RCTI). ...
>
> You can issue an RCTI if:
>
> - you and the supplier are both registered for GST
> - you and the supplier agree in writing that you may issue an RCTI and they will not issue a tax invoice
> - the agreement is current and effective when you issue the RCTI
> - the goods or services being sold under the agreement are of the type that we have determined can be invoiced using an RCTI.

(Australian Taxation Office 2019, "Tax Invoices") https://www.ato.gov.au/Business/GST/Tax-invoices/#RCTI_1

Proof of Purchase and Receipts

There are many kinds of proof of purchase, of which a receipt is the most common. A customer bank statement can count as a proof of purchase.

> Besides receipts, there are other proof of purchase types. These can be proof that:
>
> - you give to your customers, or
> - customers use to prove they purchased goods or services from you.
>
> Your customers may use their receipt or proof of purchase when seeking a refund, repair or replacement on a good or service you provided. Examples of proof of purchase include:
>
> - **a credit or debit card statement** [Emphasis Added]
> - a lay-by agreement
> - a receipt or reference number given for phone or internet payments
> - a warranty card showing the supplier's or manufacturer's details, date and amount of the purchase
> - a serial or production number linked to the purchase on the supplier's or manufacturer's database
> - a copy or photograph of the receipt

(business.gov.au 2020, "Receipts and Proof of Purchase") https://www.business.gov.au/finance/payments-and-invoicing/receipts-and-proof-of-purchase

You are generally obliged to, and in any case it is good practice to, provide a receipt to your customer.

> You must always give your customers a receipt or proof of purchase for anything over $75. A customer can ask for a receipt for any purchases under $75. If they do, you must provide them with a receipt within 7 days of their request.
>
> It's generally good practice to offer a receipt to your customers at the time of purchase, regardless of the total amount.

(business.gov.au 2020, "Receipts and Proof of Purchase") https://www.business.gov.au/finance/payments-and-invoicing/receipts-and-proof-of-purchase

(On my reading of things) A Tax Invoice is not a (proof of purchase) Receipt, although they may be combined (as when Bunnings provides you with a "Sale Tax Invoice" from the cash register, after you've bought a rake).

The ACCC speaks of a receipt coming as a GST tax invoice:

> A receipt can come in the form of a:
>
> - a GST tax invoice or
> - a cash register or hand written receipt.

(Australian Competition and Consumer Commission 2012, "Receipts & Proof of Purchase") https://www.accc.gov.au/consumers/prices-surcharges-receipts/receipts-proof-of-purchase

However, that "Tax Invoice" and "Receipt" are distinct (and often issued separately) seems to be conventional, for the reasons given:

> ... While the information on a tax invoice and a receipt may be similar, a tax invoice is not a receipt.
>
> An invoice is a request for payment for a sale of goods or services provided by the seller to the customer. It includes prices, credits, discounts, taxes and total due.
>
> A receipt, on the other hand, is documentation that payment has been made to finalize a sale. ...
>
> While invoices are used to request payment from customers, receipts are used to prove that the customer paid for an item.

(FreshBooks n.d., "What Is a Tax Invoice?") https://www.freshbooks.com/hub/invoicing/tax-invoices

The form of a receipt ...

> Any receipt or proof of purchase you give your customers must include:
>
> - your business name and Australian business number (ABN) or Australian company number (ACN)
> - the date of supply
> - details on the product or service
> - the price

(business.gov.au 2020, "Receipts and Proof of Purchase") https://www.business.gov.au/finance/payments-and-invoicing/receipts-and-proof-of-purchase

Distinguishing between Invoices and Receipts

An invoice and receipt may be combined in the same document where the sale and hand over of money occur on the same day. But they may also be issued as individual documents, having regard for their respective functions. And where a receipt is issued after an invoice it cannot, technically, count also as an invoice.

A business: issues a separate invoice (showing an amount due); some days pass and the customer pays the amount owed; and the business issues an itemized receipt that references a previously issued invoice.

The receipt might repeat the items found on the prior invoice to which the receipt refers. This doesn't seem to automatically make the receipt an invoice. Indeed that would be to create confusion. If such are receipt became an invoice there would be two tax invoices for the same sale.

Two invoices for the same sale are a problem.

For business cash flows generally a business can choose between two accounting methods:

- "Cash basis accounting" (aka "cash accounting"); versus
- "Non-cash basis accounting" (aka "accrual accounting").

And if you (as a business) choose to use accrual accounting https://www.business.gov.au/finance/accounting/choosing-between-cash-and-accrual-accounting

> ...., you record expenses and sales when they take place, instead of when cash changes hands. This way of accounting shows the amounts you owe to people and the amounts owing to you.
>
> For example, if you're a builder and send an invoice for a project you've completed, you record the sale in your books even though you haven't been paid yet.

The builder issues an Invoice on 2020-06-29. The customer pays it on 2020-07-06. The builder gives the customer an itemized receipt on the same day, 2020-07-06. Under accrual accounting when "The Invoice" was issued determines which financial year the builder counts her income. If it is the first document the income occurs in FY2019/2020. If it is the second document the income occurs in FY2020/2021. If "all itemized receipts are invoices" then the first issued document would have to be regarded as superseded. That would, in effect, render accrual accounting no different from cash accounting.

But accrual accounting is different from cash accounting precisely because it is allows that some businesses may finalize a sale and then some days later receive a payment for that sale (and may wish to account accordingly). And that it is "The Invoice" which formally captures, among other things, the date of sale; and it is the receipt that captures the date of the hand over of money for the sale.

Based on (Bentley 2020, "Macca's, Why? Shouldn't I Be Spending Aussie Dollars in Your Restaurants, Rather than Chinese Yuan? (Comment On)") https://www.reddit.com/r/australia/comments/kkrafe/maccas_why_shouldnt_i_be_spending_aussie_dollars/gh7a0ef/

Implications of specific transaction types

Gifts Received

Both as an individual and as a business gifts received are generally excluded from assessable income.

As an individual:

> **Amounts not included as income**
>
> You might have received amounts which aren't included as income in your tax return. ...
>
> **Other amounts that are not taxable**
>
> Generally, you don't have to declare:

> - rewards or gifts received on special occasions, such as cash birthday presents and gifts from relatives given out of love (however, gifts may be taxable if you receive them as part of a business-like activity or in relation to your income-earning activities as an employee or contractor)

(Australian Taxation Office 2020, "Amounts Not Included as Income") https://www.ato.gov.au/individuals/income-and-deductions/income-you-must-declare/amounts-not-included-as-income/#OtherAmounts

As a business:

> Not all payments you receive are assessable income for income tax purposes. The following amounts are not assessable and don't need to be included as assessable income:
>
> - ...
> - gifts or inheritance
> - ...

(Australian Taxation Office 2019, "What to Exclude from Your Business's Assessable Income") https://www.ato.gov.au/Business/Income-and-deductions-for-business/Assessable-income/What-income-to-exclude/

Contributions from Owner and Distributions to Owner

Contributions from Owner and Distributions to Owner are otherwise known (e.g. in Australian Taxation Office 2010, **E-Record 6.1**) as "Bankings" and "Private Drawings" respectively. We could also speak of "Private contributions" and "Private Withdrawals" respectively.

(*Note) Contributions from owner are not counted toward your assessable income.

> Not all payments you receive are assessable income for income tax purposes. The following amounts are not assessable and don't need to be included as assessable income:
>
> - earnings from a hobby
> - gifts or inheritance
> - prizes and awards not related to your business
> - betting and gambling wins (unless you operate a betting or gambling business)
> - GST you have collected
> - money you have borrowed
> - **money you contribute as the business owner**
> - ...
>
> [Emphasis added]

(Australian Taxation Office 2019, "What to Exclude from Your Business's Assessable Income") https://www.ato.gov.au/Business/Income-and-deductions-for-business/Assessable-income/What-income-to-exclude/

(*Note) Distributions to owner are not counted as a deduction.

> **What you can't claim**
>
> There are some expenses that are not deductible, such as:
>
> - private or domestic expenses, such as childcare fees or clothes for your family

... It take it that, indirectly, establishes you shouldn't and couldn't claim as a business deduction a withdrawal from your business account into your personal account given it is from the personal account a range of private and domestic expenses are then drawn.

(Australian Taxation Office 2019, "Business Tax Deductions") https://www.ato.gov.au/Business/Income-and-deductions-for-business/Deductions/

(*Note) Contributions from owner and distributions to owner are not subject to GST.

> A deposit to or withdrawal from the account is not consideration for the provision of an interest in the account and therefore not subject to GST.

(Australian Taxation Office 2019, "3.1. When I Deposit or Withdraw Money Do I Have to Pay GST?") https://www.ato.gov.au/Business/GST/In-detail/GST-issues-registers/Financial-services---questions-and-answers/?anchor=a3_1#a3_1

(*Note) Contributions from owner and distributions to owner are not listed in the profit or loss statement.

Profit or Loss Statement [Statement of Finanical Performance] > General

Bank Interest Received

Bank interest received is assessable income, both as an individual and as a business.

As an individual:

> Generally, you need to declare investment income ...
>
> If you're an Australian resident and you receive interest, you must declare it as income. Interest income includes:
>
> - interest earned from financial institution accounts and term deposits

(Australian Taxation Office 2020, "Investment Income") https://www.ato.gov.au/individuals/income-and-deductions/income-you-must-declare/investment-income/

As a business:

> **Cash income**
>
> If your business receives cash payments for goods or services, you must declare them as assessable income. Include:
>
> - bank interest, dividends, franking credits, etc.

(Australian Taxation Office 2020, "What to Include in Your Business's Assessable Income") https://www.ato.gov.au/Business/Income-and-deductions-for-business/Assessable-income/What-income-to-include/

Bank interest received is not subject to GST and as it counts as financial supply and is therefore "No GST - Input-Taxed Supply".

> Interest paid to, or received from, a bank is not subject to GST if it is the consideration for the provision ... of an interest in or under a bank account ... under items 1 and 2 respectively in the table in subsection 40-5.09(3) of the GST Regulations.

Item 1 in those GST regulations include...

> An account made available by an Australian ADI in the course of:
>
> - (a) its banking business within the meaning of the Banking Act 1959; or
> - (b) its State banking business

(Australian Taxation Office 2019, "Financial Services - Questions and Answers"), "Banking", " 3.2. Is interest paid to, or received from, a bank subject to GST?" https://www.ato.gov.au/Business/GST/In-detail/GST-issues-registers/Financial-services---questions-and-answers/?anchor=a3_2#a3_2
See also Tax Rules > Goods and services tax (GST) > GST-free and Input Taxed Supplies

Bank Account Fee

Bank account fees are not subject to subject to GST. It counts as financial supply and is therefore "No GST - Input-Taxed Supply".

> 3.3. Are account keeping fees subject to GST?
>
> ...
>
> No. Account keeping fees are not subject to GST. An account keeping fee is related to operating a bank account or credit account and is a financial supply under items 1 and 2 respectively in the table in subsection 40-5.09(3) of the GST Regulations.

(Australian Taxation Office 2019, "3.3. Are Account Keeping Fees Subject to GST?") https://www.ato.gov.au/business/gst/in-detail/gst-issues-registers/financial-services---questions-and-answers/?anchor=Are_account_keeping_fees_subject_to_GST
See also Tax Rules > Goods and services tax (GST) > GST-free and Input Taxed Supplies

Repairs and Maintenance

(*Note) "**Repairs and maintenance**" on tangible assets are excluded from the first or second element of cost. "Repairs and maintenance" are "an expense when it is incurred" (to use Australian Accounting Standards phrasing, see Assets under Australian Accounting Standards > Conceptual overview) or, in other words, immediately deductible as operational expense rather than depreciated as a capital expense. "Repairs and maintenance" do not apply to intangible assets.

Repairs and maintenance are excluded from the first or second elements of cost of a tangible asset.

Repairs are deductible under (Treasury, **Income Tax Assessment Act 1997**, sec. 25.10).
https://www.legislation.gov.au/Details/C2020C00271/Html/Volume_1#_Toc51081331

> 25-10 Repairs
>
> (1) You can deduct expenditure you incur for repairs to premises (or part of premises) or a *depreciating asset that you held or used solely for the *purpose of producing assessable income.
>
> ...
>
> (3) You cannot deduct capital expenditure under this section.

Maintenance is deductible under (Treasury, **Income Tax Assessment Act 1997**, sec. 8.1).
https://www.legislation.gov.au/Details/C2020C00271/Html/Volume_1#_Toc51081342

> 8-1 General deductions
>
> (1) You can deduct from your assessable income any loss or outgoing to the extent that:
>
> - (a) it is incurred in gaining or producing your assessable income; or
> - (b) it is necessarily incurred in carrying on a *business for the purpose of gaining or producing your assessable income.
>
> ...
>
> (2) However, you cannot deduct a loss or outgoing under this section to the extent that:
>
> - (a) it is a loss or outgoing of capital, or of a capital nature; or
> - (b) it is a loss or outgoing of a private or domestic nature; or
> - (c) it is incurred in relation to gaining or producing your *exempt income or your *non-assessable non-exempt income; or
> - (d) a provision of this Act prevents you from deducting it.
>
> ...
>
> (3) A loss or outgoing that you can deduct under this section is called a general deduction.
>
> ...

This is made explicit in (Australian Taxation Office 1997, "TR 97/23 - Income Tax: Deductions for Repairs")
https://www.ato.gov.au/General/Capital-gains-tax/Acquiring-assets-and-keeping-records/Timing-of-acquisition/

For repairs ...

> This Ruling explains the circumstances in which expenditure incurred by a taxpayer for repairs is an allowable deduction under section 25-10 of the Income Tax Assessment Act 1997 ('the ITAA 1997') ...
>
> 13. The word 'repairs' has its ordinary meaning. It ordinarily means the remedying or making good of defects in, damage to, or deterioration of, property to be repaired (being defects, damage or deterioration in a mechanical and physical sense) and contemplates the continued existence of the property.

For maintenance ...

> 20. Some kinds of maintenance work are 'repairs' in terms of section 25-10, for example, painting plant or business premises to rectify existing deterioration and to prevent further deterioration. Other kinds of maintenance work, such as oiling, brushing or cleaning something that is otherwise in good working condition and only requires attention to prevent the possibility of its going wrong in the future, are not 'repairs' in terms of the section . Expenditure on the latter kind of maintenance work may be an allowable deduction under section 8-1.

That repairs are not counted as part of the cost of an asset is made clear in the following example from (Australian Taxation Office 2020, "Guide to Depreciating Assets 2020", 15) https://www.ato.gov.au/business/income-and-deductions-for-business/deductions/

> Example: Expenditure not of a capital nature and deductible outside UCA
>
> Carolyn uses a motor vehicle for her business. As a result of Carolyn's use of the vehicle, she needs to replace the tyres. The cost of replacing the tyres is not included in the second element of the vehicle's cost because it would ordinarily be deductible under the repair provisions.

Given that example for repair we can infer the same applies to maintenance.

The Australian Accounting Standards also distinguishes "repairs and maintenance" from the carrying amount on property, plant and equipment an stipulates that repairs and maintenance are an expense "as incurred" ...

> 12. Under the recognition principle in paragraph 7, an entity does not recognise in the carrying amount of an item of property, plant and equipment the costs of the day-to-day servicing of the item. Rather, these costs are recognised in profit or loss as incurred. Costs of day-to-day servicing are primarily the costs of labour and consumables, and may include the cost of ***small parts***. The purpose of these expenditures is often described as for the '***repairs and maintenance***' of the item of property, plant and equipment. [***Bold italics added***]

(Australian Accounting Standards Board 2020, "0116 Property, Plant and Equipment") *https://www.aasb.gov.au/admin/file/content105/c9/AASB116_08-15_COMPmay19_01-20.pdf*

Capital/Asset Disposal Sales

See Capital allowance rules: rules about deductibility of capital expenditure and Disposal of (non-trading stock) assets

> Sales of business assets such as office equipment and motor vehicles are usually [GST] taxable sales. GST also applies to business assets you trade in or otherwise dispose of by transferring ownership.

(Australian Taxation Office 2017, "Taxable Sales") https://www.ato.gov.au/business/gst/when-to-charge-gst-(and-when-not-to)/taxable-sales/

Retained-copyright-software-copy-sales

A retained-copyright-software-copy-sale (e.g. selling a mobile app for general public use) is regarded as an "intangible asset" rather than "inventory".

Software could be sold:

- as an inherent part of a hardware sale;
- as a bespoke solution for a particular client;
- as a transfer of the copyright and source code to another party (e.g. a software publisher); or
- as copies to end-users while retaining copyright and source code (e.g. as when publishing an app on Google Play). Let's call the last "retained-copyright-software-copy-sale".

On the face if it, it seems like retained-copyright-software-copy-sale could be regarded as having to be accounted for under the inventory standard rather than the intangible asset standard. For if the inventory standard applies that must be applied rather than the intangible asset standard (Australian Accounting Standards Board 2020, "0138 Intangible Assets", para. 3); and it seems to fit the definition of inventory as something "held for sale" ...

> 6. ... Inventories are assets:
>
> - (a) held for sale in the ordinary course of business;
> - (b) in the process of production for such sale; or
> - (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

(Australian Accounting Standards Board 2020, "0102 Inventories") *http://www.aasb.gov.au/admin/file/content105/c9/AASB102_07-15_COMPdec16_01-19.pdf*

However, under the "Intangible Assets" standard there are several places that suggest the "Intangible assets" standard should be applied rather than the "Inventory" standard:

> 4. When the software is not an integral part of the related hardware, computer software is treated as an intangible asset.

(Australian Accounting Standards Board 2020, "0138 Intangible Assets")
http://www.aasb.gov.au/admin/file/content105/c9/AASB136_08-15_COMPdec16_01-19.pdf

> 9. Entities frequently expend resources, or incur liabilities, on the acquisition, development, maintenance or enhancement **of intangible resources** such as scientific or technical knowledge, design and implementation of new processes or systems, licences, intellectual property, market knowledge and trademarks (including brand names and publishing titles). Common examples of items encompassed by these broad headings are **computer software**, patents, **copyrights**, motion picture films, customer lists, mortgage servicing rights, fishing licences [Emphasis added].

(Australian Accounting Standards Board 2020, "0138 Intangible Assets")
http://www.aasb.gov.au/admin/file/content105/c9/AASB136_08-15_COMPdec16_01-19.pdf

The above is consistent with the software used in retained-copyright-software-copy-sales counting as an intangible asset that is, nevertheless, regarded as inventory.

However, there's specific mention of internally developed computer software that would seem to make it count as something to be treated under the "intangible asset" standard.

> 62. An entity's costing systems can often measure reliably the cost of generating an intangible asset internally, such as salary and other expenditure incurred in securing copyrights or licences or developing computer software.
>
> [That is contrasted with those items with costs that can't be measured reliability and are to be therefore excluded from recognition as intangible assets:]
>
> 64. Expenditure on internally generated brands, mastheads, publishing titles, customer lists and items similar in substance cannot be distinguished from the cost of developing the business as a whole. Therefore, such items are not recognised as intangible assets.

(Australian Accounting Standards Board 2020, "0138 Intangible Assets")
http://www.aasb.gov.au/admin/file/content105/c9/AASB136_08-15_COMPdec16_01-19.pdf

Most convincingly, the "Illustrative Examples" in (Australian Accounting Standards Board 2020, "0138 Intangible Assets", 26) include examples of patents, copyright, and licences (among other things) that are be treated under the "Intangible Asset" standard even though they entail things "held for sale". And although computer software (of the type retained-copyright-software-copy-sales) would get it's own category for accounting purposes it is also something sold under a copyright. That is, if the "Intangible Asset" standard applies, rather than the Inventory standard, for copyright then it would follow this entails retained-copyright-software-copy-sales.

See also (Bentley 2020, "Copyright and Licences - Notes")
\\Atlas\Users\John\Documents\Self\Means\Money\Knowledge\CopyrightAndLicences\CopyrightAndLicencesNotes.docx

For tax law purposes a (what I call) retained-copyright-software-copy-sale is an intangible asset that is intellectual property in virtue of its copyright. This has the following consequences:

- It is therefore subject to (Treasury, **Income Tax Assessment Act 1997**) capital allowance rules. That is, whether through: the 2020-10 Budget "temporary full expensing"; simplified depreciation rules under " and "Subdivision 328.D - Capital allowances for small business entities"; or general depreciation rules under "Division 40 - Capital allowances". See Capital allowance rules: rules about deductibility of capital expenditure

- And so, if we were operating under general depreciation rules (rather than temporary full expensing or simplified depreciation rules), the effective life is therefore 25 years. See Capital allowance rules: rules about deductibility of capital expenditure > General deprecation rules > Effective life of depreciating assets

Business Name

(*Note) A business name payment (whether initial or renewal) will be regarded as:

- not recognized as an intangible asset; but
- an expense when it is incurred (rather than amortized as "part of the cost of the intangible asset") under section 25-40 "Loss from profit-making undertaking or plan" (Treasury, *Income Tax Assessment Act 1997*).
- therefore (if it ever became necessary to distinguish) payments made with respect to it are an "operational" rather than a "capital" expense.

Is it an intangible asset?

A business name would seem to fit the definition of an intangible asset:

> 8. .. An **intangible asset** is an identifiable non-monetary asset without physical substance.

(Australian Accounting Standards Board 2020, "0138 Intangible Assets", paras. 8, 12)
https://www.aasb.gov.au/admin/file/content105/c9/AASB138_08-15_COMPmay19_01-20.pdf

However, it would also seem to fail the "recognition criteria" in that future economic benefits are not attributable to the asset itself, nor the asset as part of a sub-group of assets (where the sub-group of assets are not just the group of remaining assets comprising what would be goodwill after a business combination), rather than the business as a whole (that which would comprise goodwill after a business combination). In this way it seems to be like a "brand" which is expressly excluded from being accounted for under the intangible asset standard ...

> 64. Expenditure on internally generated brands, mastheads, publishing titles, customer lists and items similar in substance cannot be distinguished from the cost of developing the business as a whole. Therefore, such items are not recognised as intangible assets.

(Australian Accounting Standards Board 2020, "0138 Intangible Assets")
https://www.aasb.gov.au/admin/file/content105/c9/AASB138_08-15_COMPmay19_01-20.pdf

It would seem, then, that a business name ought not be recognized as an intangible asset.

[Indefinite useful life, if it was an intangible asset].

As an incidental matter, if a business name ought be recognized as an intangible asset it would have an indefinite useful life.

> 94. ... If the contractual or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost. ...

Although ambiguous that might imply if the renewal can occur indefinitely then the useful life should also be regarded as indefinite. That ambiguity is removed in the "Illustrative Examples" (p26), "Example 4 An acquired broadcasting licence that expires in five years". For useful life purposes a business name would seem to be most like a renewable "licence" (although, as we shall subsequently see, unlike a " datacasting transmitter licences" in that a business name is excluded from (Treasury, **Income Tax Assessment Act 1997**, Division 40 Capital Allowances)).

> The broadcasting licence is renewable every 10 years if the entity provides at least an average level of service to its customers and complies with the relevant legislative requirements. The licence may be renewed indefinitely at little cost and has been renewed twice before the most recent acquisition. The acquiring entity intends to renew the licence indefinitely and evidence supports its ability to do so. Historically, there has been no compelling challenge to the licence renewal. The technology used in broadcasting is not expected to be replaced by another technology at any time in the foreseeable future. Therefore, the licence is expected to contribute to the entity's net cash inflows indefinitely.
>
> The broadcasting licence would be treated as having an indefinite useful life because it is expected to contribute to the entity's net cash inflows indefinitely. Therefore, the licence would not be amortised until its useful life is determined to be finite.

(Australian Accounting Standards Board 2020, "0138 Intangible Assets")
https://www.aasb.gov.au/admin/file/content105/c9/AASB138_08-15_COMPmay19_01-20.pdf

Expense when incurred V carried as an asset?

More importantly even if a business name ought be recognized as an intangible asset under AASB "0138 Intangible Assets" a business name would be excluded from being regarded as depreciating capital item (under "Division 40 Capital allowances", Treasury, **Income Tax Assessment Act 1997**), whether the business name had an indefinite useful life or a finite useful life, given that is not an intangible asset mentioned in subsection 2 of (Treasury, *Income Tax Assessment Act 1997*, sec. 40.30 What a depreciating asset is, paras. 1 to 2).

> 40-30 What a depreciating asset is
>
> (1) A depreciating asset is an asset that has a limited *effective life and can reasonably be expected to decline in value over the time it is used, except:
>
> - (a) land; or
> - (b) an item of *trading stock; or
> - (c) an intangible asset, unless it is mentioned in subsection (2).
>
> (2) These intangible assets are depreciating assets if they are not *trading stock:
>
> - (a) *mining, quarrying or prospecting rights;
> - (b) *mining, quarrying or prospecting information;
> - (c) items of *intellectual property [patents, registered designs, copyright];
> - (d) *in-house software;
> - (e) *IRUs [an indefeasible *right to use a telecommunications cable system];
> - (f) *spectrum licences;
> - (g) *datacasting transmitter licences;
> - (h) *telecommunications site access rights.

*(Treasury, *Income Tax Assessment Act 1997*, sec. 40.30 What a depreciating asset is, paras. 1 to 2)*
https://www.legislation.gov.au/Details/C2020C00222/Html/Volume_2#_Toc46411698

The legislation would not count a business name as "intellectual property" ...

> intellectual property: an item of intellectual property consists of the rights (including equitable rights) that an entity has under a *Commonwealth law as:
>
> - (a) the patentee, or a licensee, of a patent; or
> - (b) the owner, or a licensee, of a registered design; or
> - (c) the owner, or a licensee, of a copyright;
>
> or of equivalent rights under a *foreign law.

*(Treasury, *Income Tax Assessment Act 1997*, Vol 10, Chap 6 The Dictionary, sec 995-1 Definitions)* *https://www.legislation.gov.au/Details/C2020C00222/Html/Volume_10#_Toc46417930*

That is, a business name, on the assumption it is an intangible asset, is nevertheless excluded from Division 40 "Capital allowances" rules (under "Division 40 Capital allowances", Treasury, **Income Tax Assessment Act 1997**).

Therefore, for tax purposes, a business name expense will fall under the broad provision in (Treasury, **Income Tax Assessment Act 1997**), section 25-40 "Loss from profit-making undertaking or plan". For an explanation of why "loss" here means expense rather than a tax loss for an entire year (rather than a profit) see (Bentley 2022, "Business Records and Tax - Reference") Tax law overall rules . Therefore, business name expenses (so it would seem) can and ought be accounted for "an expense when it is incurred".

Capital V Operational expenditure

Informally (at least) the ATO distinguishes between "operating" and "capital" expenses ...

> The type of expense – operating expense or capital expense – determines when you can claim your deduction. Generally, you can claim:
>
> - operating expenses (such as office stationery and wages) in the year you incur them
> - capital expenses (such as machinery and equipment) over a longer period.

(Australian Taxation Office 2019, "Deductions"), "When you can claim your deduction", *https://www.ato.gov.au/Business/Income-and-deductions-for-business/Deductions/#whenyoucanclaimyourdeduction*

In one official place (at least) a business name is listed as "capital expenditure" on an "asset".

> **Capital expenditure**
>
> Money spent on assets such as:
>
> - plant and equipment
> - goodwill
> - buildings
> - business names
> - patents
> - copyrights.

(Australian Taxation Office 2018, "Definitions"), " Capital expenditure", https://www.ato.gov.au/Definitions/#P163-12972

However, given in the preceding sections we've seen that: a business name ought not be recognized as an intangible asset (under, Australian Accounting Standards Board 2020, "0138 Intangible Assets"); and even if that was an error, and it ought be recognized as an intangible asset, then it is to be excluded from (Treasury, **Income Tax Assessment Act 1997**, Div. 40 Capital allowances), whether it has an indefinite or finite useful life. Therefore for all practical purposes it seems right to regard it as an "operational" rather than "capital" expense, should that distinction become necessary.

Perhaps, even, the ATO has made a mistake to list the business name as a "capital expenditure" in (Australian Taxation Office 2018, "Definitions"), " Capital expenditure", https://www.ato.gov.au/Definitions/#P163-12972.

Exported Sales

> Exports of goods and services from Australia are generally "GST-free". That is, they are a particular kind of "GST-Free"

> Exported goods are GST-free if they are exported from Australia within 60 days of one of the following, whichever occurs first:
>
> - the supplier receives any payment for the goods
> - the supplier issues an invoice for the goods.
>
> ...
>
> Other exports generally include supplies of things other than goods for consumption outside Australia, such as services, various rights, and other professional services.
>
> Broadly, a supply of a service is GST-free if the recipient of the service is outside Australia.

(Australian Taxation Office 2019, "GST-Free Sales") https://www.ato.gov.au/Business/GST/When-to-charge-GST-(and-when-not-to)/GST-free-sales/#exports

Imported Services and Digital Products

Generally ...

> Australian goods and services tax (GST) generally applies to sales of imported services and digital products to Australian consumers.
>
> Examples of imported services and digital products include online supplies of software, digital trade journal/magazine subscriptions, website design or publishing services and legal, accounting or similar consultancy services.

(Australian Taxation Office 2017, "GST on Imported Services and Digital Products for Australian Businesses") https://www.ato.gov.au/Business/International-tax-for-business/In-detail/GST-on-imported-services-and-digital-products-for-Australian-businesses/

However, ...

> GST does not apply to your business purchases of imported services and digital products if you are a business registered for GST in Australia

(Australian Taxation Office 2017, "GST on Imported Services and Digital Products for Australian Businesses") https://www.ato.gov.au/Business/International-tax-for-business/In-detail/GST-on-imported-services-and-digital-products-for-Australian-businesses/

When GST on the import does not apply there are the following possibilities:

- The supplier does not charge GST. You need to request that the supplier does not charge you GST and provide them with some details ...

  > For overseas suppliers not to charge GST, they are required to obtain:
  >
  > - your Australian business number (ABN), and
  > - a statement that you are registered for GST
  >
  > Example – Australian business registered for GST

> Kev's Karate is an Australian business registered for GST. The business makes an online purchase of an electronic version of a computer protection program from an overseas supplier 'Computer B Safe'. Computer B Safe is registered for Australian GST. The computer protection program is for business use.
>
> The price listed for this product on Computer B Safe's website is $200 plus additional taxes that may apply (for example, GST). Kev's Karate is making a business purchase, provides their ABN and tells the supplier they are registered for GST. Therefore, Computer B Safe does not charge Kev's Karate Australian GST on the purchase.

(Australian Taxation Office 2018, "Information for Business Purchasers")
https://www.ato.gov.au/business/international-tax-for-business/gst-on-imported-services-and-digital-products/information-for-business-purchasers/

- The supplier incorrectly charged GST, you request a refund, and the refund was given. In this case there's nothing further to do.

> **Incorrectly charged GST**
>
> You should not be charged GST on purchases of imported services and digital products if you provide your ABN and state you are registered for GST.
>
> If GST has been incorrectly charged you should seek a refund from the supplier.

(Australian Taxation Office 2018, "Information for Business Purchasers")
https://www.ato.gov.au/business/international-tax-for-business/gst-on-imported-services-and-digital-products/information-for-business-purchasers/

- The supplier incorrectly charged GST, you request a refund, and the refund was not given. You can then claim a GST credit through your BAS, if the supplier has given you a valid Tax Invoice (with their ABN), among other conditions.

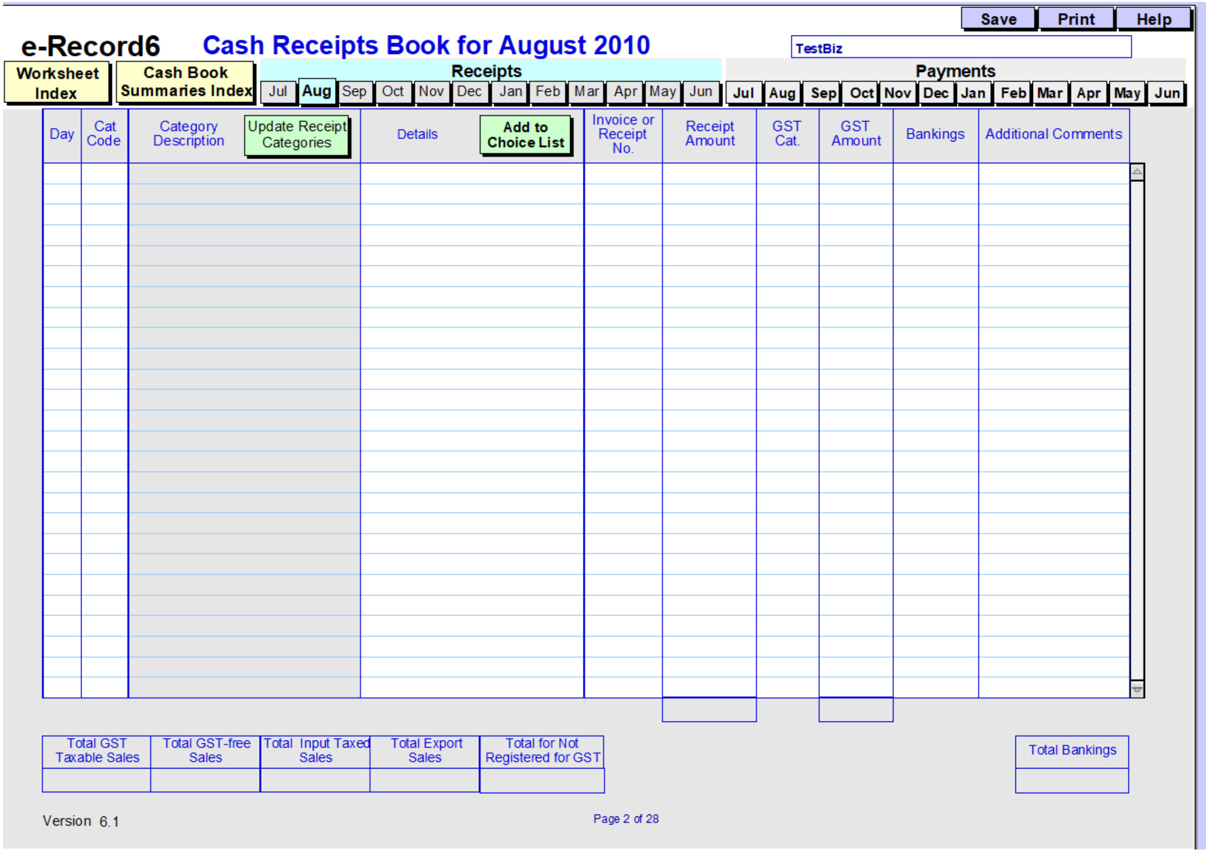
> **Incorrectly charged GST**
>
> If you are incorrectly charged GST on a business purchase of imported services and digital products, you must ask the supplier for a refund.
>
> If you are unable to get a refund, you may be entitled to a GST credit on your next business activity statement if:
>
> - ...
> - the purchase price included GST
> - ...
> - you have a valid tax invoice from the supplier (showing the supplier's ABN for purchases more than A$82.50)
> - ....
>
> **Overseas supplier without an ABN**
>
> Overseas businesses registered in our new Simplified GST system for non-residents are not given an ABN. Instead, we give them an ATO Reference number (ARN).
>
> If they have an ARN, they can't issue a tax invoice to you. This means if you are incorrectly charged GST on a business purchase of imported services and digital products made by a supplier with an ARN you will not be entitled to a GST credit and need to ask the supplier for a refund of the GST.

> Although these businesses can't issue tax invoices, they can issue standard business invoices or receipts that may include their ARN.

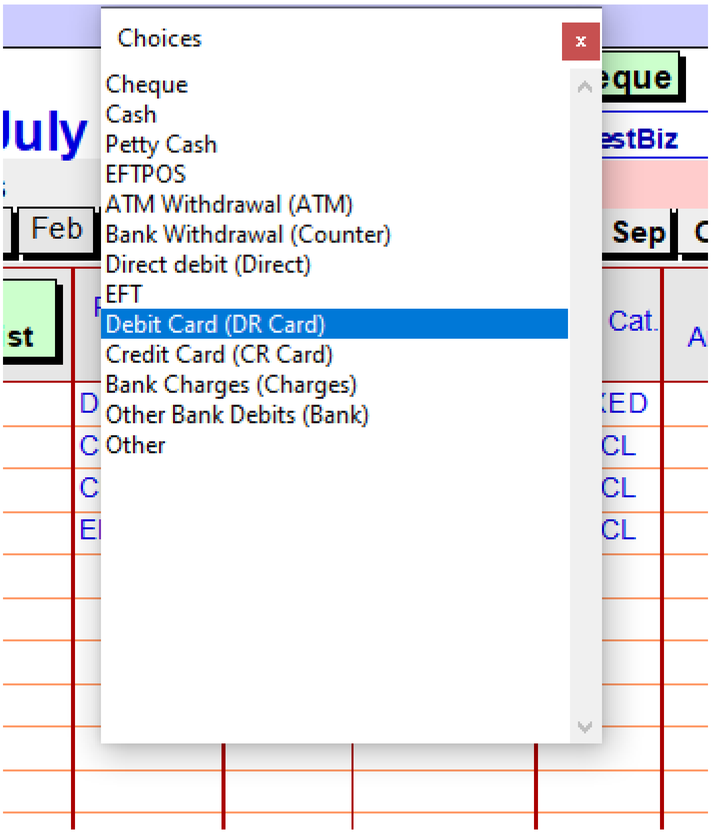
(Australian Taxation Office 2017, "GST on Imported Services and Digital Products for Australian Businesses") https://www.ato.gov.au/Business/International-tax-for-business/In-detail/GST-on-imported-services-and-digital-products-for-Australian-businesses/

ATO's eRecord 6

Cashbook



Cashbook Payments, Payment Methods



Cashbook Receipt and Payment Categories

Print | Help

e-Record6 Receipt Categories for 2010-2011

Worksheet Index

e-Record Pre-set Categories

Below are Receipt Categories that have been pre-determined for you. If a GST Category is present it will automatically be filled in the Cash Book when the Receipt Description is selected.

Code	Description	GST Cat
A1	Interest Received	
A2	Dividends	EXCL
A3	Refunds from suppliers (GST-free)	FREE
A4	Refunds from suppliers (Taxable)	TAXED
A5	ATO/BAS Refunds Received	EXCL
A6	Loans Received	EXCL
A7	Sale of Assets	
A8	Other Capital Receipts	
A9	Other Non-Capital Receipts	
A10	Bankings	EXCL

Customised Categories

Below you can enter a total of 9 receipt categories or change existing categories to suit your business. Enter or change the details in the description column and then select a GST category (if desired). If a GST Category is present it will automatically be filled in the Cash Book when the Receipt Description is selected.

Code	Description	GST Cat
B1	Sales	TAXED
B2	Sales Exported	EXPORT
B3		
B4		
B5		
B6		
B7		
B8		
B9		

Update Receipt Categories | Cancel

Print | Help

e-Record6 Payment Categories for 2010-2011

Worksheet Index

e-Record Pre-set Categories

Below are Payment Categories that have been pre-determined for you. If a GST Category is present it will automatically be filled in the Cash Book (or the Reconciliation of Daily Sales) when the Payment Description is selected.

Code	Description	GST Cat
A1	Wages	EXCL
A2	Private Drawings	EXCL
A3	Superannuation	EXCL
A4	ATO/BAS Payments	EXCL
A5	Refunds to Customers (GST-free)	FREE
A6	Refunds to Customers (Taxable)	TAXED
A7	Bank Charges	
A8	Interest Paid	
A9	Loan Repayments	
A10	Purchase of Assets	
A11	Asset Improvements	
A12	Other Capital Payments	
A13	Petty Cash Reimbursement	EXCL
A14	Credit Card Repayment	EXCL
A15	Private Use*	EXCL

*Special Category- cannot be selected in the Cash Book or Reconciliation of Daily Sales. Used for Payment Category summary purposes only.

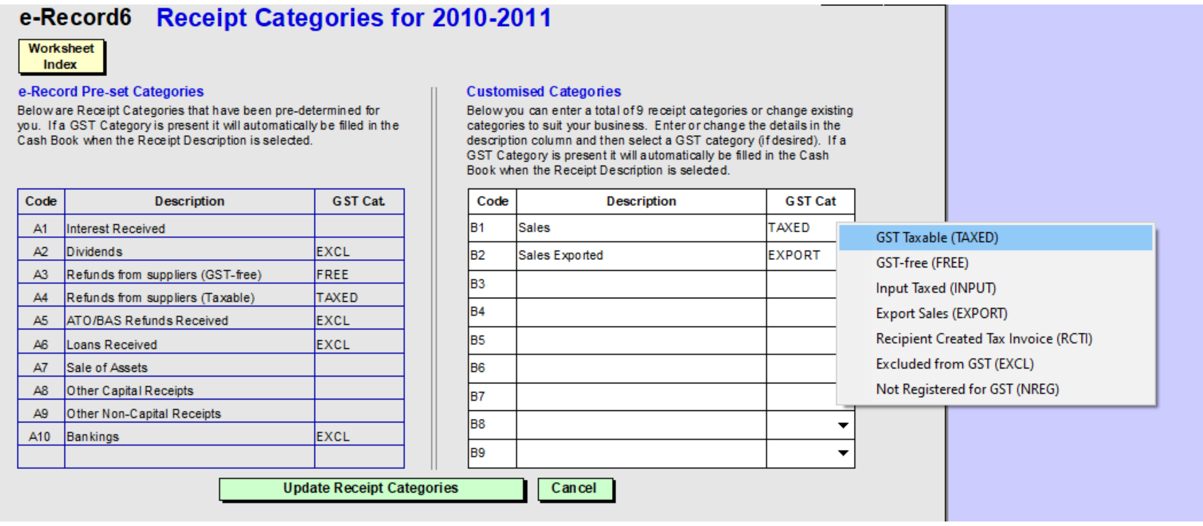
Customised Categories

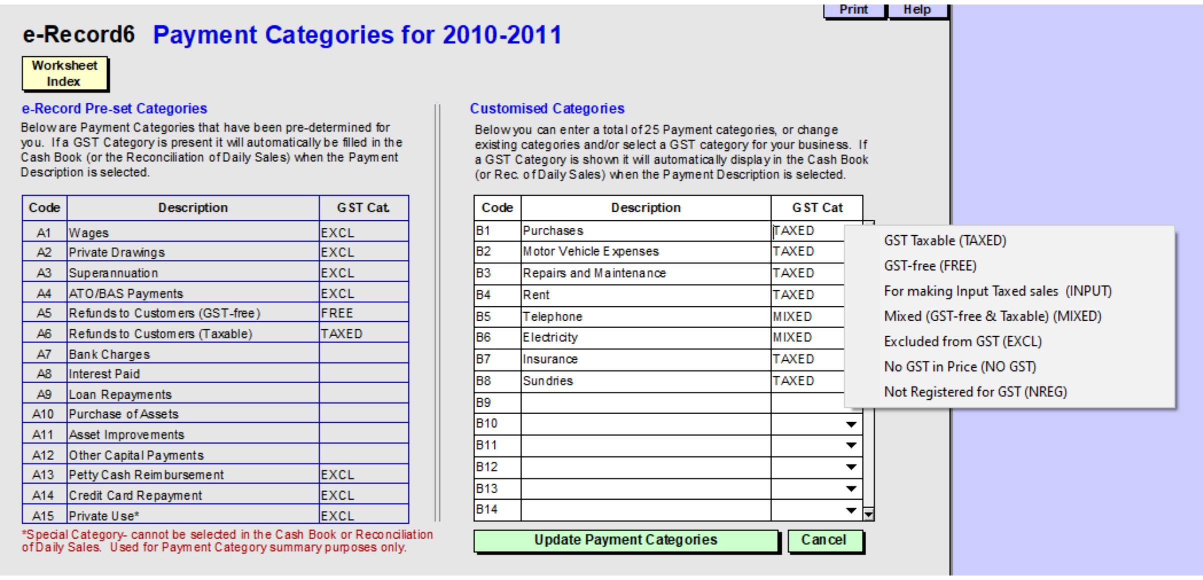
Below you can enter a total of 25 Payment categories, or change existing categories and/or select a GST category for your business. If a GST Category is shown it will automatically display in the Cash Book (or Rec. of Daily Sales) when the Payment Description is selected.

Code	Description	GST Cat
B1	Purchases	TAXED
B2	Motor Vehicle Expenses	TAXED
B3	Repairs and Maintenance	TAXED
B4	Rent	TAXED
B5	Telephone	MIXED
B6	Electricity	MIXED
B7	Insurance	TAXED
B8	Sundries	TAXED
B9		
B10		
B11		
B12		
B13		
B14		

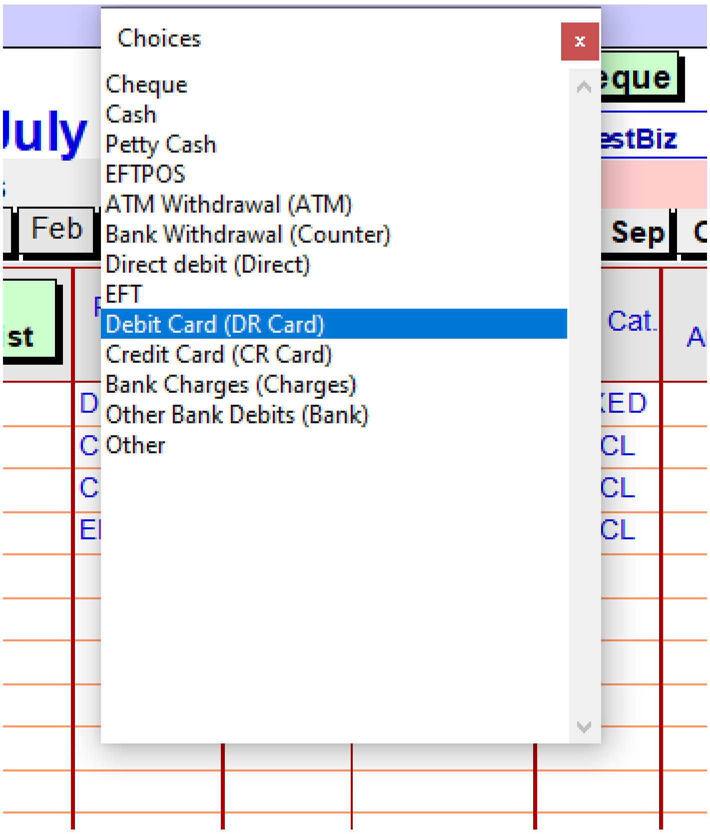
Update Payment Categories | Cancel

Cashbook Receipt and Payment Category GST Tax codes





Cashbook Payments, Payment Methods



Definitions

General

Amortisation: The systematic allocation of the depreciable amount of an intangible asset over its useful life.

(Australian Accounting Standards Board 2015, "Glossary of Defined Terms")
https://www.aasb.gov.au/admin/file/content102/c3/AASB_Glossary_30_September_2015.pdf

Cash flows: Inflows and outflows of cash and cash equivalents.

(Australian Accounting Standards Board 2015, "Glossary of Defined Terms")
https://www.aasb.gov.au/admin/file/content102/c3/AASB_Glossary_30_September_2015.pdf

Cash inflow: an inflow of cash and cash equivalents.

My Decisions, Cashbook

Cash outflow: an outflow of cash and cash equivalents.

My Decisions, Cashbook

depreciation (amortisation)1: The systematic allocation of the depreciable amount of an asset over its useful life.

1 In the case of an intangible asset, the term 'amortisation' is generally used instead of 'depreciation'. The two terms have the same meaning.

(Australian Accounting Standards Board 2015, "Glossary of Defined Terms")
https://www.aasb.gov.au/admin/file/content102/c3/AASB_Glossary_30_September_2015.pdf

Equity: The residual interest in the assets of the entity after deducting all its liabilities.

(Australian Accounting Standards Board 2015, "Glossary of Defined Terms")
https://www.aasb.gov.au/admin/file/content102/c3/AASB_Glossary_30_September_2015.pdf

Expenses: Decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

(Australian Accounting Standards Board 2015, "Glossary of Defined Terms")
https://www.aasb.gov.au/admin/file/content102/c3/AASB_Glossary_30_September_2015.pdf

Income: Increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.

(Australian Accounting Standards Board 2015, "Glossary of Defined Terms")
https://www.aasb.gov.au/admin/file/content102/c3/AASB_Glossary_30_September_2015.pdf

Liability: A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits

(Australian Accounting Standards Board 2015, "Glossary of Defined Terms")
https://www.aasb.gov.au/admin/file/content102/c3/AASB_Glossary_30_September_2015.pdf

Losses: Decreases in economic benefits and as such no different in nature from other expenses.

(Australian Accounting Standards Board 2015, "Glossary of Defined Terms")
https://www.aasb.gov.au/admin/file/content102/c3/AASB_Glossary_30_September_2015.pdf

profit or loss The total of income less expenses, excluding the components of other comprehensive income.

(Australian Accounting Standards Board 2015, "Glossary of Defined Terms")
https://www.aasb.gov.au/admin/file/content102/c3/AASB_Glossary_30_September_2015.pdf

Revenue [1]: The gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants.

Revenue [2]: Income arising in the course of an entity's ordinary activities.

(Australian Accounting Standards Board 2015, "Glossary of Defined Terms")
https://www.aasb.gov.au/admin/file/content102/c3/AASB_Glossary_30_September_2015.pdf

Income Tax

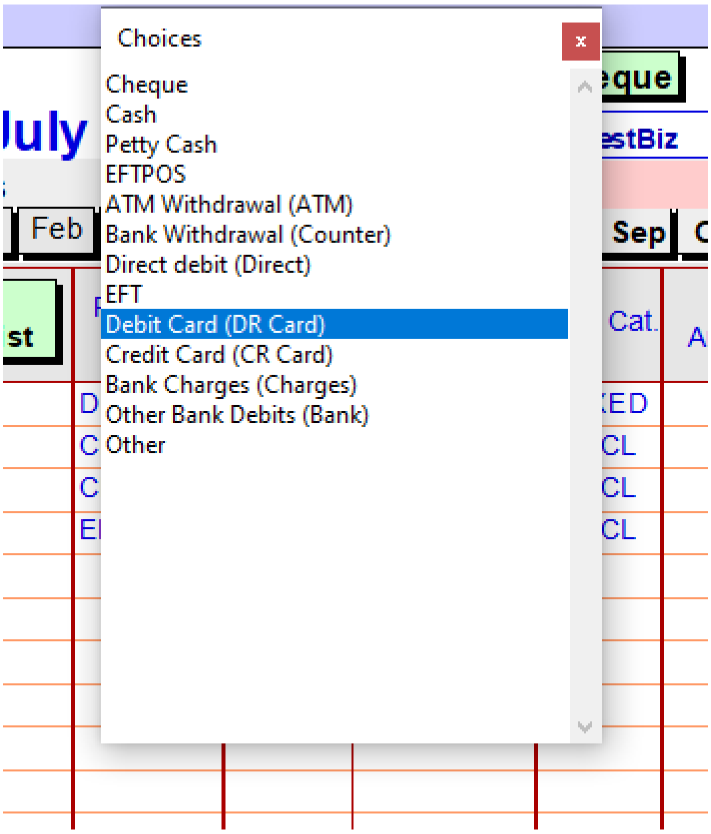
See also Tax rules > Income and deductions for business > Income > Overview.

- **Accounting profit** is profit or loss for a period before deducting tax expense.
- [*Note] **Taxable profit [aka "Profit before tax"; aka "Taxable income"] ([or] tax loss)** is the profit ([or] loss) for a period, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable ([or] recoverable).
- [*Note] **Tax expense ([or] tax income)** is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.
- [*Note] **Current tax** is the amount of income taxes payable ([or] recoverable) in respect of the taxable profit ([or] tax loss) for a period.
- **Deferred tax liabilities** are the amounts of income taxes payable in future periods in respect of taxable temporary differences.
- **Deferred tax assets** are the amounts of income taxes recoverable in future periods in respect of:
  - (a) deductible temporary differences;
  - (b) the carryforward of unused tax losses; and
  - (c) the carryforward of unused tax credits.

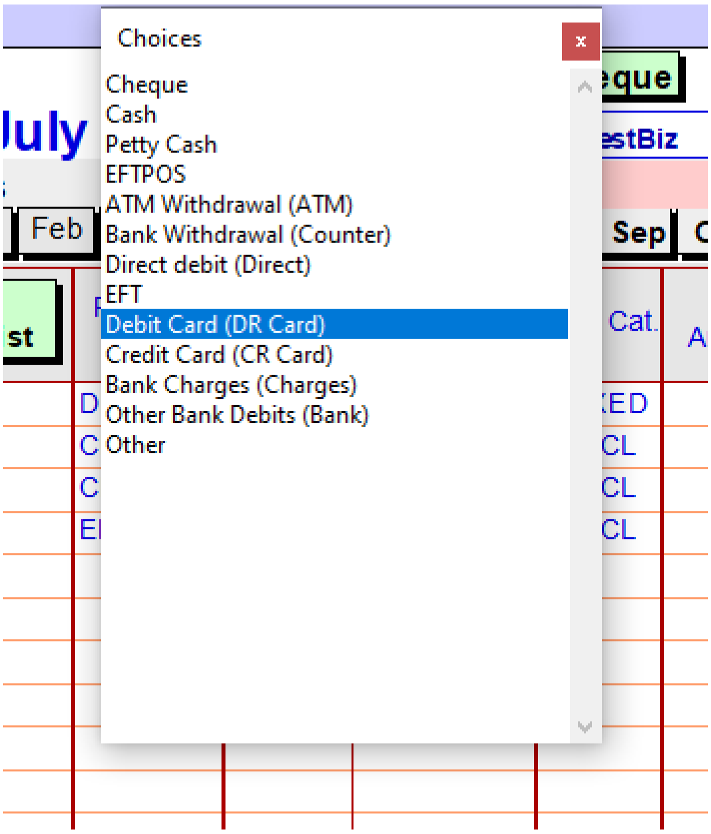
(Australian Accounting Standards Board 2020, "0112 Income Taxes", sec. 5)
https://www.aasb.gov.au/admin/file/content105/c9/AASB112_08-15_COMPmay19_01-20.pdf

(*Note) In particular a **Tax loss (better called "Tax loss for the year")** is a total negative amount for the year (or other period), where total deductions exceed total assessable income.

> "Tax loss" does not reference: particular deductions or some arbitrary set of deductions. Instead these are just referenced as a "loss" or "losses" respectively. See the definition of "loss" under Cashbook Payments, Payment Methods



Definitions, General; nor the a total "loss" on a profit or loss statement that takes into account Tax expense ([or] tax income). See the definition of "loss" in "profit or loss" under Cashbook Payments, Payment Methods



Definitions, General

Rather, "Tax loss" means:

> tax loss means:
>
> - (a) a tax loss worked out under section **36-10**, 165-70, 175-35 or 701-30 of this Act (including such a tax loss as increased under section 415-15 or reduced under section 418-95); or [Emphasis added]
> - ...

(Treasury, *Income Tax Assessment Act 1997*, Vol. 10, Ch 6, ..., Sec. 995-1 Definitions)
https://www.legislation.gov.au/Details/C2020C00222/Html/Volume_10#_Toc46417930

> [So, for example ...]
>
> **36-10 How to calculate a tax loss for an income year**
>
> - (1) Add up the amounts you can deduct for an income year (except *tax losses for earlier income years).
> - (2) Subtract your total assessable income.
> - (3) If you *derived *exempt income, also subtract your *net exempt income (worked out under section 36-20).
> - (4) Any amount remaining is your **tax loss** for the income year, which is called a loss year. [Emphasis added]

*(Treasury, *Income Tax Assessment Act 1997*, Sec 26.10 How to calculate a tax loss for an income year)*

Cash flow statement

> - **Cash** comprises cash on hand and demand deposits.
> - **Cash equivalents** are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
> - **Cash flows** are inflows and outflows of cash and cash equivalents.
> - **Operating activities** are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities.
> - **Investing activities** are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.
> - **Financing activities** are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

(Australian Accounting Standards Board 2019, "0107 Statement of Cash Flows", para. 6)
https://www.aasb.gov.au/admin/file/content105/c9/AASB107_08-15_COMPmar16_01-19.pdf

Assets

Intangible Assets (Australian Accounting Standards)

In conceptual order:

> An **asset** is a resource:
>
> - (a) controlled by an entity as a result of past events; and

- (b) from which future economic benefits are expected to flow to the entity.

(Australian Accounting Standards Board 2020, "0138 Intangible Assets", para. 6) From https://www.aasb.gov.au/admin/file/content105/c9/AASB138_08-15_COMPmay19_01-20.pdf

An **intangible asset** is an identifiable non-monetary asset without physical substance.

Useful life is:

- (a) the period over which an asset is expected to be available for use by an entity; or
- (b) the number of production or similar units expected to be obtained from the asset by an entity.

The **residual value** of an intangible asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (See AASB 13 Fair Value Measurement.)

Cost is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction, or, when applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Australian Accounting Standards, eg AASB 2 Share-based Payment.

Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

Amortisation is the systematic allocation of the depreciable amount of an intangible asset over its useful life.

(Australian Accounting Standards Board 2020, "0138 Intangible Assets", para. 6) From https://www.aasb.gov.au/admin/file/content105/c9/AASB138_08-15_COMPmay19_01-20.pdf

Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

(Australian Accounting Standards Board 2019, "0136 Impairment of Assets", para. 6) http://www.aasb.gov.au/admin/file/content105/c9/AASB136_08-15_COMPdec16_01-19.pdf

Estimating the **value in use** of an asset involves the following steps:

- (a) estimating the future cash inflows and outflows to be derived from ***continuing use*** of the asset ***and*** from its ***ultimate disposal***; and
- (b) applying the appropriate discount rate to those future cash flows. ***[Emphasis added]***

(Australian Accounting Standards Board 2019, "0136 Impairment of Assets", para. 31) http://www.aasb.gov.au/admin/file/content105/c9/AASB136_08-15_COMPdec16_01-19.pdf

> The **recoverable amount** of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use.

(Australian Accounting Standards Board 2019, "0136 Impairment of Assets", para. 6)
http://www.aasb.gov.au/admin/file/content105/c9/AASB136_08-15_COMPdec16_01-19.pdf

> **Carrying amount** is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated amortisation and accumulated impairment losses thereon.
>
> An **impairment loss** is the amount by which the carrying amount of an asset exceeds its recoverable amount.

(Australian Accounting Standards Board 2020, "0138 Intangible Assets", para. 6) From
https://www.aasb.gov.au/admin/file/content105/c9/AASB138_08-15_COMPmay19_01-20.pdf

Property, Plant and Equipment (Australian Accounting Standards)

The definitions are substantially the same as for Intangible Assets. Some differences:

["Depreciation", for tangible assets, rather than "amortisation", for intangible assets, is used]

> **Property, plant and equipment** are tangible items that:
>
> - (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
> - (b) are expected to be used during more than one period.

(Australian Accounting Standards Board 2020, "0116 Property, Plant and Equipment", para. 6)
https://www.aasb.gov.au/admin/file/content105/c9/AASB116_08-15_COMPmay19_01-20.pdf

Note also

> Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset ***at the time of its acquisition or construction*** or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Australian Accounting Standards, eg AASB 2 Share-based Payment. [***Bold italics added***]

(Australian Accounting Standards Board 2020, "0116 Property, Plant and Equipment", para. 6)
https://www.aasb.gov.au/admin/file/content105/c9/AASB116_08-15_COMPmay19_01-20.pdf

Depreciating Assets (Tax Law - ITAA97)

There is an ATO "Depreciation and capital allowance tool" that displays the following sort of result for a (capital) asset purchased at $80 with an effective life of 3 years:

Decline in value over the effective life

Income year	Opening adjustable value	Decline in value	Taxable use	Deductible decline in value	Adjustable value at end of year
2020 - 2021	$80.00	$26.67	100%	$26.67	$53.33
2021 - 2022	$53.33	$26.67	100%	$26.67	$26.66
2022 - 2023	$26.66	$26.66	100%	$26.66	$0.00

(Australian Taxation Office n.d., "Calculators and Tools - Depreciation and Capital Allowances Tool - Assets")
https://www.ato.gov.au/Calculators-and-tools/Host/?anchor=DCA&anchor=DCA#DCA/questions/assets

In conceptual order:

The definition of a **depreciating asset** is referenced at Inclusions and exclusions from capital allowance rules.

> 40-175 Cost. The **cost** of a *depreciating asset you *hold consists of 2 elements... [Emphasis added]

*(Treasury, *Income Tax Assessment Act 1997*, Div 40 Capital allowances)*
https://www.legislation.gov.au/Details/C2020C00271/Html/Volume_2#_Toc51079734

> 40-180 **First element of cost**
>
> (1) The first element is worked out as at the time when you began to *hold the *depreciating asset (except for …) It is:
>
> - (a) if an item in that table applies—the amount specified in that item; or
> - (b) otherwise—***the amount you are taken to have paid to hold the asset*** under section 40-185.
>
> (3) The first element of *cost ***includes an amount you paid or are taken to have paid in relation to starting to *hold*** the *depreciating asset if that amount is directly connected with holding the asset. ...
>
> [Emphasis added]

*(Treasury, *Income Tax Assessment Act 1997*, Div 40 Capital allowances)*
https://www.legislation.gov.au/Details/C2020C00271/Html/Volume_2#_Toc51079735

> 40-190 **Second element of cost**

> (1) The second element is worked out after you start to *hold the *depreciating asset.
>
> (2) The second element is:
>
> - (a) the amount you are taken to have paid under section 40-185 for each economic benefit that has contributed to bringing the asset to its present condition and location from time to time since you started to *hold the asset; and
> - (b) expenditure you incur that is reasonably attributable to a *balancing adjustment event occurring for the asset.
>
> Example 1: Andrew adds a new tray and canopy to his ute. The materials and labour that go into the addition are economic benefits that Andrew received and that contribute to the ute's present condition.
>
> The payments he makes for those economic benefits are included in the second element of the ute's cost.
>
> Example 2: Leonie needed to replace one of her old depreciating assets that was fixed to her land with a new, more efficient one. Leonie paid a contractor a fee to demolish and remove the old asset. This resulted in a balancing adjustment event occurring for the old asset, and the fee forms part of the second element of the cost of the old asset that was demolished.

*(Treasury, *Income Tax Assessment Act 1997*, Div 40 Capital allowances)*
https://www.legislation.gov.au/Details/C2020C00271/Html/Volume_2#_Toc51079737

> EXAMPLE: First and second elements of cost, ignoring any GST impact
>
> Terry wants to buy a vehicle for his business and the vehicle is not available in Australia. He locates a company in the United States from which he would be able to purchase the vehicle. He travels to the United States for the sole purpose of buying the vehicle and incurs travel costs of $5,000. Terry purchases the vehicle for $45,000. The first element of cost is $50,000. This amount includes the purchase cost of the vehicle and the travel costs. The travel costs would be included in the first element of cost of the vehicle because they are directly connected with Terry starting to hold the vehicle. If Terry installs an alarm in the vehicle two months later at a cost of $1,500, that amount will be included in the second element of cost of the vehicle as the cost was incurred after he began to hold the vehicle.

(Australian Taxation Office 2020, "Guide to Depreciating Assets 2020", 15)
https://www.ato.gov.au/uploadedFiles/Content/IND/Downloads/guide-to-depreciating-assets-2020.pdf

"Repairs and maintenance" do not apply to intangible assets.

> 12. In its context in section 25-10, the word 'repairs' relates to work done to 'premises (or part of premises), plant, machinery, tools or articles'. The word 'repairs' appeared in a similar context in the old law. While the things specified in the section cover a wide range of property, they do not extend to all classes of property, e.g., intangible property.

(Australian Taxation Office 1997, "TR 97/23 - Income Tax: Deductions for Repairs", 23)
https://www.ato.gov.au/General/Capital-gains-tax/Acquiring-assets-and-keeping-records/Timing-of-acquisition/

> 40-85 Meaning of adjustable value and opening adjustable value of a depreciating asset
>
> (1) The **adjustable value** of a *depreciating asset at a particular time is:
>
> - (a) if you have not yet used it or had it *installed ready for use for any purpose—its *cost; or

> - (b) for a time in the income year in which you first use it, or have it installed ready for use, for any purpose—its cost less its decline in value up to that time; or
> - (c) for a time in a later income year—the sum of its *opening adjustable value for that year and any amount included in the second element of its cost for that year up to that time, less its **decline in value** for that year up to that time. ...
>
> (2) The **opening adjustable value** of a *depreciating asset for an income year is its *adjustable value to you at the end of the previous income year.
>
> ...[Emphasis added]

*(Treasury, *Income Tax Assessment Act 1997*, Division 40 - Capital Allowances, Sec 40.85)*
https://www.legislation.gov.au/Details/C2020C00271/Html/Volume_2#_Toc51079716

> 40-60 When a depreciating asset starts to decline in value
>
> (1) A *depreciating asset you *hold starts to decline in value from when its *start time occurs.
>
> (2) The **start time** of a *depreciating asset is when you first use it, or have it *installed ready for use, for any purpose. [Emphasis original]

*(Treasury, *Income Tax Assessment Act 1997*, Division 40 - Capital Allowances)*
https://www.legislation.gov.au/Details/C2020C00271/Html/Volume_2#_Toc51079709

> **Decline in value**: Deductions for the cost of a depreciating asset are based on the decline in value. For most depreciating assets, you have the choice of two methods to work out the decline in value of a depreciating asset: the prime cost method or the diminishing value method;

(Australian Taxation Office 2020, "Guide to Depreciating Assets 2020", 40)
https://www.ato.gov.au/uploadedFiles/Content/IND/Downloads/guide-to-depreciating-assets-2020.pdf

> 40-10 Simplified outline of this Division
>
> ...
>
> Broadly, the **effective life** of a depreciating asset is the period it can be used to produce income. [Emphasis original]

*(Treasury, *Income Tax Assessment Act 1997*, Division 40 - Capital Allowances)*
https://www.legislation.gov.au/Details/C2020C00271/Html/Volume_2#_Toc51079693

> 40-295 Meaning of balancing adjustment event
>
> (1) A **balancing adjustment event** occurs for a *depreciating asset if:
>
> - (a) you stop *holding the asset; or
> - (b) you stop using it, or having it *installed ready for use, for any purpose and you expect never to use it, or have it installed ready for use, again; or
> - (c) you have not used it and:
> - (i) if you have had it installed ready for use—you stop having it so installed; and

> - (ii) you decide never to use it.
>
> Note: A balancing adjustment event occurs under paragraph 40-295(1)(a) when you start holding a depreciating asset as trading stock.
>
> [Emphasis original]

*(Treasury, *Income Tax Assessment Act 1997*, Division 40 - Capital Allowances)*
https://www.legislation.gov.au/Details/C2020C00271/Html/Volume_2#_Toc51079757

> 40-300 Meaning of termination value
>
> (1) The **termination value** of a *depreciating asset is worked out as at the time when the *balancing adjustment event occurs. It is:
>
> - (a) if an item in the table in subsection (2) applies—the amount specified in that item; or
> - (b) otherwise—the amount you are taken to have received under section 40-305 for the asset.
>
> [Emphasis original]

*(Treasury, *Income Tax Assessment Act 1997*, Division 40 - Capital Allowances)*
https://www.legislation.gov.au/Details/C2020C00271/Html/Volume_2#_Toc51079758

> **Balancing adjustment amount**: The balancing adjustment amount is the difference between the termination value and the adjustable value of a depreciating asset at the time of a balancing adjustment event.
>
> If an asset's termination value is greater than its adjustable value, the difference is generally an assessable balancing adjustment amount.
>
> If the termination value is less than the adjustable value, the difference is generally a deductible balancing adjustment amount.

(Australian Taxation Office 2020, "Guide to Depreciating Assets 2020", 40)
https://www.ato.gov.au/uploadedFiles/Content/IND/Downloads/guide-to-depreciating-assets-2020.pdf

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