Company tax return instructions 2012

To help you complete the company tax return for 1 July 2011 – 30 June 2012

For more information visit **www.ato.gov.au**

NAT 0669-6.2012

Australian Government
Australian Taxation Office

OUR COMMITMENT TO YOU

We are committed to providing you with accurate, consistent and clear information to help you understand your rights and entitlements and meet your obligations.

If you follow our information in this publication and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we must still apply the law correctly. If that means you owe us money, we must ask you to pay it but we will not charge you a penalty. Also, if you acted reasonably and in good faith we will not charge you interest.

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If you feel that this publication does not fully cover your circumstances, or you are unsure how it applies to you, you can seek further assistance from us.

We regularly revise our publications to take account of any changes to the law, so make sure that you have the latest information. If you are unsure, you can check for more recent information on our website at **www.ato.gov.au** or contact us.

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ABOUT THESE INSTRUCTIONS

The *Company tax return instructions 2012* will help you complete the *Company tax return 2012* (NAT 0656).

The instructions include:

- information about the schedules that companies might need to complete and attach to their tax returns
- details of record-keeping requirements
- instructions about how to complete each label on the company tax return.

Text with a green background applies to consolidated and multiple entry consolidated (MEC) groups.

When we refer to 'you' or 'your business' in these instructions, we are referring either to you as a business entity (the company) that conducts a business, or to you as the tax agent or public officer responsible for completing the tax return.

This publication is **not** a guide to income tax law. Ask for help from the Australian Taxation Office (ATO) or a recognised tax adviser if you feel that this publication does not fully cover your circumstances.

PUBLICATIONS AND SERVICES

To find out how to get a publication referred to in these instructions and for information about our other services, see the inside back cover.

INTRODUCTION

These instructions will help you complete the *Company tax return 2012* (NAT 0656), the tax return for all companies, including head companies of consolidated and MEC groups.

These instructions contain a number of abbreviations for names and technical terms. Each term is spelt out the first time it is used. A list of abbreviations is on page 108.

WHAT'S NEW?

International Dealings Schedule - replaces Schedule 25A and Thin Capitalisation schedule

The International Dealings Schedule 2012 (IDS) is used for taxpayers to report specific information on international dealings. The requirement to lodge the IDS is dependent on answers provided at specific questions in a Company, Partnership or Trust tax return. These trigger questions are identified on the tax return and in the instructions.

Features of the IDS include:

- The threshold for reporting details of international related party dealings is now $2m.
- The schedule has specific questions on internally recorded dealings with permanent establishments (branch operations).
- Superannuation funds are not required to complete the IDS.
- The IDS is available to lodge on a paper form or electronically.

For further information, go to **www.ato.gov.au** and search for IDS instructions, or email us at idsproject@ato.gov

Calculation statement

The calculation statement has been modified. The changes are structural in nature and based on the tax offset priority rules contained in the income tax law.

These changes are designed to improve the calculation statement by more clearly articulating the ordering of the tax offsets and when they can be claimed.

A list of offsets has been provided for each offset category to assist you in identifying which offsets belong to a particular category. This will help to ensure they have been applied in the correct order.

Research and development (R&D)

The *Tax Laws Amendment (Research and Development) Act 2011* received royal assent on 8 September 2011. As a result, the R&D tax concession has been replaced by the R&D tax incentive for years of income beginning on or after 1 July 2011. These instructions have been updated to reflect this new law for companies whose 2012 income year began on or after 1 July 2011.

If you are an early balancing company with a 2012 income year beginning prior to 1 July 2011, and wish to claim your expenditure under the R&D tax concession for the 2012 year, contact the ATO by email to **innovationtax@ato.gov.au** for further information.

Information on the R&D tax incentive is at **www.ato.gov.au/randdtaxincentive**

Gross foreign income

For consistency across all tax returns, a new "Gross Foreign Income" label has been added to the *Company tax return* – label **G** Item **8**.

Changes to car fringe benefits rules

Changes were announced in the 2011 Budget which are now law. Under these changes, the progressive statutory rates have been replaced with a single statutory rate of 20%, which applies regardless of the kilometres travelled.

No changes have been made to the operating cost of (or 'log book') method. You can still use the operating cost method so that the taxable value of your car fringe benefits will exclude any costs relating to the business use of the car.

The new flat statutory rate of 20% applies to all car fringe benefits after 7.30pm AEST on 10 May 2011, except where there is a 'pre-existing commitment' in place to provide a car.

All pre-existing commitments will remain under the old statutory rates unless there is a change that would amount to a 'new commitment'.

The general intent of the rules is to leave employers/ employees who have pre-existing commitments under the old arrangements.

For new commitments, transitional arrangements will apply, with the changes being phased in over four years as outlined in the table below.

STATUTORY RATE

Total kilometres travelled during the FBT year	From 10 May 2011	From 1 April 2012	From 1April 2013	From 1 April 2014
Less than 15,000	0.20	0.20	0.20	0.20
15,000 to 25,000	0.20	0.20	0.20	0.20
25,000 to 40,000	0.14	0.17	0.20	0.20
Over 40,000	0.10	0.13	0.17	0.20

Go to **www.ato.gov.au** and search for *Fringe benefits tax: a guide for employers*

SCHEDULES

- Complete only **one** copy of the appropriate schedule.
- Attach all completed schedules to the *Company tax return 2012* unless specified otherwise.
- If you lodge your tax return without all the required schedules, we may not consider it to have been lodged in the approved form. Unless you lodge all schedules by the due date, you may be charged a penalty for failure to lodge on time.
- Companies that were subsidiary members of consolidated or MEC groups during only part of the income year and that are lodging a company tax return for a period they were not a subsidiary member of any group (non-membership period) must complete all relevant schedules for the non-membership period if required by the following instructions. For information about reporting multiple non-membership periods during the year, see the Consolidation reference manual sheet C9-5-110.

DIVIDEND AND INTEREST SCHEDULE

Every company* must lodge a *Dividend and interest schedule 2012* (NAT 8030) showing:

- the names, addresses, dates of birth, gender and tax file numbers (TFNs) or Australian business numbers (ABNs), where quoted, of all shareholders (including employee shareholders in a consolidated or MEC group) to whom dividends, or deemed dividends, have been paid during the income year ended 30 June 2012, this includes the amount of dividend paid to each shareholder and any franking credits for that amount. There are separate labels for unfranked dividends that are and are not declared to be conduit foreign income.*

Do not include:

- dividends paid under a demerger unless the head entity of the demerger group elected under subsection 44(2) of the ITAA 1936 to treat those dividends as assessable income, or
- dividends paid by one member to another within a consolidated or MEC group.

- the names, addresses, dates of birth, gender and TFNs or ABNs, where quoted, of all investors, other than those investors in the business of providing business or consumer finance, to whom interest of $1 or more was paid or credited during the income year ended 30 June 2012, and the amount of interest paid or credited to each person.

Include interest paid or credited by a subsidiary member of a consolidated or MEC group to an investor outside the group.

Do not include interest paid by one member to another within a consolidated or MEC group.

If a subsidiary member of a consolidated or MEC group must lodge a company tax return for any non-membership periods during the year of income, that company must also lodge a schedule showing the above details for dividends or interest paid during the non-membership periods. For more information about reporting multiple non-membership periods during the year, see the Consolidation reference manual, sheet C9-5-110.

* **Annual investment income report**
If subregulation 56(1) of the Income Tax Regulations 1936 (ITR 1936) requires a company to lodge an annual investment income report containing the above details, the company does not need to lodge a dividend and interest schedule.

Lodging the schedule

You can lodge the schedule with the company tax return or under separate cover. However, you must lodge it by the due date for lodgment of the company tax return for companies whose income year ends on 30 June 2012. Companies with an approved substituted accounting period must lodge their schedule by 31 October 2012 or the due date for lodgment of their company tax return, whichever is later.

If you are lodging your schedule separately from your company tax return you will need to sign the schedule declaration.

CAPITAL ALLOWANCES SCHEDULE

Small business entities that choose to use the simplified depreciation rules do not need to complete a schedule. Otherwise, if your company has an amount greater than $100,000 at:

- **Expenses, X Depreciation expenses** item **6,** unless your company is no longer using the simplified depreciation rules this year, but is still claiming a deduction in respect of assets in a continuing small business pool, and the amount at **X** relates entirely to that pool, or
- **F Deduction for decline in value of depreciating assets** item **7**

complete a *Capital allowances schedule 2012* (NAT 3424) and attach it to the *Company tax return 2012*.

For more information, see *Capital allowances schedule instructions 2012* (NAT 4089).

Worksheets 1 and 2 in the *Guide to depreciating assets 2012* (NAT 1996) will help you complete the *Capital allowances schedule 2012*. **G**, **H**, **I**, **J** and **K** in worksheet 1 and **L**, **M**, **N**, **O**, **P** and **Q** in worksheet 2 correspond to labels in the *Capital allowances schedule 2012*.

If a subsidiary member of a consolidated or MEC group must lodge a company tax return for any non-membership periods during the year of income, that company may also need lodge a *Capital allowances schedule 2012* for the non-membership periods. For information about reporting multiple non-membership periods during the year, see the Consolidation reference manual, sheet C9-5-110.

CAPITAL GAINS TAX (CGT) SCHEDULE

Companies that have one or more CGT events during the income year must complete a *Capital gains tax (CGT) schedule 2012* and attach it to the *Company tax return 2012* if:

- a CGT event occurs in relation to a forestry managed investment scheme (FMIS) interest that is held other than as an initial participant, or
- total current year capital gains are greater than $10,000, or
- total current year capital losses are greater than $10,000.

The head company of a consolidated or MEC group must complete a *Capital gains tax (CGT) schedule 2012* if the total current year capital gains or the total current year capital losses that it makes (as head company of the consolidated or MEC group and while not a member of a consolidated or MEC group) are greater than $10,000.

If a subsidiary member of a consolidated or MEC group must lodge a company tax return for any non-membership periods during the year of income, that company may also need to lodge a *Capital gains tax (CGT) schedule 2012* for the non-membership periods. For information about reporting multiple non-membership periods during the year, see the Consolidation reference manual, sheet C9-5-110.

Go to **www.ato.gov.au** and search for *Guide to capital gains tax 2012* (NAT 4151). The publication will help you complete the CGT schedule. It includes:

- a capital gain or capital loss worksheet for calculating a capital gain or capital loss for each CGT event
- a CGT summary worksheet for calculating a net capital gain or net capital loss for the income year
- the CGT schedule.

LOSSES SCHEDULE

Complete and attach a *Losses schedule 2012* if your company does not need to submit a *Consolidated groups losses schedule 2012* and satisfies one or more of the following tests:

- it has total tax losses and net capital losses carried forward to later income years greater than $100,000
- it can only utilise a tax loss or net capital loss in the income year or a later income year if the same business test has been satisfied
- having passed the continuity of ownership test, it utilised tax losses and net capital losses totalling more than $100,000
- it has an unrealised net loss as defined in the provisions of Subdivision 165-CC of the ITAA 1997
- it is a life insurance company and has either a complying superannuation/FHSA class tax loss or a complying superannuation/FHSA net capital loss carried forward to later income years greater than $100,000
- it has a foreign loss component of tax losses deducted in the 2011–12 income year or carried forward to later income years
- it has an interest in a CFC that has current year CFC losses greater than $100,000
- it has an interest in a CFC that has deducted or carried forward a loss to later income years greater than $100,000.

If the company is required to complete a *Losses schedule 2012*, transfer the totals of the amounts at Part A of the losses schedule to **U** and **V** item **13** on the *Company tax return 2012*. For more information, see *Losses schedule instructions 2012* (NAT 4088).

If a company needs to complete a losses schedule under the above criteria, it may also need to complete a CGT schedule. For more information, see *Guide to capital gains tax 2012*.

If a subsidiary member of a consolidated or MEC group must lodge a company tax return for any non-membership periods during the year of income, that company may also need to lodge a *Losses schedule 2012* for the non-membership periods. For information about reporting multiple non-membership periods during the year, see the Consolidation reference manual, sheet C9-5-110.

CONSOLIDATED GROUPS LOSSES SCHEDULE

A head company of a consolidated group or MEC group must complete a *Consolidated groups losses schedule 2012* (NAT 7888) and lodge it with the *Company tax return 2012* if **any** of the following apply:

- the total of the group's tax losses and net capital losses carried forward to later income years is more than $100,000
- the total tax losses and net capital losses transferred from joining entities is more than $100,000
- the total of its utilised tax losses and net capital losses is greater than $100,000
- it has a foreign loss component of a tax loss deducted in the 2011–12 income year or carried forward to later income years
- it has an interest in a controlled foreign company (CFC) that has current year losses greater than $100,000
- it has an interest in a CFC that has deducted or carried forward a loss to later income years greater than $100,000
- it is a life insurance company, or is treated as a life insurance company under subdivision 713-L of the ITAA 1997, and the total of complying superannuation/FHSA class tax losses and complying superannuation/FHSA net capital losses carried forward to later income years is greater than $100,000.

Transfer the totals of tax losses carried forward and net capital losses carried forward in Part A of the *Consolidated groups losses schedule 2012* to **U** and **V** item **13 Losses information** on the *Company tax return 2012*.

For more information, see *Consolidated groups losses schedule instructions 2012* (NAT 7891).

If a head company needs to complete a *Consolidated groups losses schedule*, it might also need to complete a *Capital gains tax (CGT) schedule 2012* (NAT 3423). For more information, see *Guide to capital gains tax 2012* (NAT 4151).

NON-INDIVIDUAL PAYG PAYMENT SUMMARY SCHEDULE

Pay as you go (PAYG) withholding applies to several withholding events including:

- payments for a supply where no ABN is quoted
- payments arising from investments where no TFN or ABN is quoted
- certain payments to foreign residents described in the *Taxation Administration Regulations 1976* (Regulations 44A – 44D have foreign resident withholding provisions).

If the company has had an amount withheld from payments covered by PAYG withholding, the payer should have given the company a payment summary. A payer may issue a receipt, remittance advice or similar document in place of the approved form. If the company did not receive or has lost its copy of the payment summary, contact the payer responsible and request a signed photocopy of the payer's copy.

Complete a *Non-individual PAYG payment summary schedule 2012* (NAT 3422) if your company has an amount at:

- **Income, A Gross payments where ABN not quoted** item **6**
- **Income, B Gross payments subject to foreign resident withholding** item **6** (except where the amount is from partnership or trust distributions)
- **H2 Credit for tax withheld – foreign resident withholding** in the **Calculation statement**
- **H3 Credit for tax withheld where ABN is not quoted** in the **Calculation statement**

Income subject to foreign resident withholding that has been included in a distribution received by the company from a partnership or trust is declared at **Income**, **D Gross distribution from partnerships** item **6** or **Income**, **E Gross distribution from trusts** item **6**. However, a *Non-individual PAYG payment summary schedule 2012* is not required for these distributions because they do not have an associated payment summary.

Completing the *Non-individual PAYG payment summary schedule 2012*

Print the company's TFN and name in the appropriate boxes at the top of the schedule.

From each *PAYG payment summary – withholding where ABN not quoted* (NAT 3283) and PAYG withholding from foreign residents – payment summary, record on the *Non-individual PAYG payment summary schedule 2012*:

- the appropriate letter for your type of withholding – **F** for foreign resident withholding, or **N** for withholding where an ABN is not quoted
- payer's ABN (or withholding payer number)
- total tax withheld
- gross payment
- payer's name.

When you have copied the details from all the payment summaries to the schedule, attach the schedule to the company tax return.

Do **not** attach copies of any payment summary to the company tax return; keep them with the company's copy of the tax return. Keep a copy of the *Non-individual PAYG payment summary schedule 2012* with the company's tax records.

If a subsidiary member of a consolidated or MEC group must lodge a company tax return for any non-membership periods during the year of income, that company may also need to lodge a *Non-individual PAYG payment summary schedule 2012* for the non-membership periods. For information about reporting multiple non-membership periods during the year, see the Consolidation reference manual, sheet C9-5-110.

PERSONAL SERVICES INCOME SCHEDULE

If the company is receiving an individual's personal services income (PSI), complete item **14 Personal services income** on the company tax return. Also complete a *Personal services income schedule 2012* (NAT 3421) form and attach it to the tax return.

For more information on the PSI rules, see the instructions that accompany the PSI schedule.

If a subsidiary member of a consolidated or MEC group must lodge a company tax return for any non-membership periods during the year of income, that company may also need to lodge a *Personal services income schedule 2012* for the non-membership periods. For information about reporting multiple non-membership periods during the year, see the Consolidation reference manual, sheet C9-5-110.

Reportable tax position (RTP) schedule

Companies that have been notified in writing by the ATO that they must lodge a Reportable tax position (RTP) schedule must complete a RTP schedule and attach it to the *Company tax return 2012* unless the reportable tax position has been otherwise adequately disclosed to the Commissioner of Taxation prior to lodgment. Where you were notified of this requirement in writing, you must also select "yes" at Item **24** "Are you required to lodge a reportable tax position schedule?" on the *Company tax return 2012*.

RESEARCH AND DEVELOPMENT TAX INCENTIVE SCHEDULE

All companies claiming a tax offset under the R&D tax incentive must complete the *Research and development tax incentive schedule 2012* (NAT 73794) and attach it to the company tax return.

The schedule accompanies the *Research and development tax incentive schedule instructions 2012*. This publication, as well as an online calculator, is at **www.ato.gov.au/randdtaxincentive**. The online calculator is automated to self-calculate and provide guidance for correct completion of the schedule. A printed schedule provided by the calculator will be accepted for lodgment with an original tax return or an amendment request.

If a subsidiary member of a consolidated or MEC group must lodge a company tax return for any non-membership periods during the year of income, that company may also need to lodge a *Research and development tax incentive schedule 2012* for the non-membership periods. For information about reporting multiple non-membership periods during the year see the Consolidation reference manual, sheet C9-5-110.

How to lodge the R&D schedule

Lodge the *Research and development tax incentive schedule 2012* with the appropriate company tax return.

If you have requested an amendment

If your company has requested an amendment that includes changes to its R&D claim, you must complete an R&D schedule showing the amended figures. Send this schedule, with a letter requesting the amendment, to:

Australian Taxation Office
PO Box 3004
PENRITH NSW 2740

THIN CAPITALISATION RULES

If your company is subject to the thin capitalisation rules (refer to item **25** and **appendix 3**), you must complete and attach an *International dealings schedule 2012* to the company tax return.

International dealings schedule

Where the relevant information is reported in the company tax return you must complete and attach an *International dealings schedule 2012* (NAT 73345) to the company tax return.

If a subsidiary member of a consolidated or MEC group must lodge a company tax return for any non-membership periods during the year of income, that company may also need to lodge an *International dealings schedule 2012* for the non-membership periods. For information about reporting multiple non-membership periods during the year, see the Consolidation reference manual, sheet C9-5-110.

Go to **www.ato.gov.au** and search for *International dealings schedule instructions 2012*.

GENERAL INFORMATION

CONSOLIDATION – TAXING WHOLLY OWNED GROUPS AS SINGLE ENTITIES

The taxation of consolidated groups and MEC groups (that is, the taxing of wholly owned eligible companies, partnerships and trusts as if they are part of a single head company) was introduced on 1 July 2002. Consolidation may be an option for your business if the business structure includes a company that wholly owns one or more entities.

Go to **www.ato.gov.au** and search for *Consolidation reference manual* (NAT 6835); or go directly to **www.ato.gov.au/consolidation** for the reference manual and other relevant publications.

If you are lodging a company tax return as a head company for a consolidated or MEC group, print **X** in the box at **Z1 Consolidated head company** item **3**.

Printing **X** at **Z1** at item **3** on the return does not meet the requirement to notify the Commissioner that you have made a valid choice in writing to form a consolidated or MEC group.

Subsidiary member – non-membership period

If the company is a subsidiary member of a consolidated or MEC group and is lodging a tax return because it had a period during the income year when it was not a member of a consolidated group (a non-membership period), print **X** in the box at **Z2 Consolidated subsidiary member** item **3**.

If a subsidiary member of a consolidated or MEC group must lodge a company tax return for any non-membership periods during the year of income, the company must complete all relevant schedules for the non-membership periods.

For information about reporting multiple non-membership periods during the income year, see the *Consolidation reference manual*.

- If you completed **Z2**: Do **not** complete the part-year details at the top of page 1 of the tax return unless the company has an approved substituted accounting period. Even though the company will include only the income and deductions properly attributable to all of the periods of non-membership during the year, the tax return is still regarded as being for the whole of the income year – that is, from 1 July to 30, June or equivalent substituted accounting period, and is lodged at the usual time.
- Do **not** complete the **Final tax return** box on page 1 of the tax return if membership of the consolidated or MEC group is the only basis on which the company will not be required to lodge future returns.

Key elements of the consolidation regime

Choice to form a consolidated group or MEC group

To form a consolidated group, a group must consist of an Australian resident head company and at least one other Australian resident entity (a company, trust or partnership) wholly owned by the head company.

A consolidated group comes into existence when a head company of a consolidatable group makes a choice in writing that it is forming a consolidated group from a particular date.

To form a MEC group, there must be a potential MEC group consisting of two or more eligible tier-1 companies of a top company. A MEC group comes into existence when the relevant eligible tier-1 companies of a potential MEC group make a choice in writing that they are forming a MEC group from a particular date. The choice must also include the appointment of the provisional head company (PHC) of the group by the eligible tier-1 companies. See the *Consolidation reference manual* for more information on MEC groups.

The choice to consolidate is optional, but once made is irrevocable.

If a head company of a consolidated group chooses to consolidate on a specified date then, from that time, both the head company and all of its eligible wholly owned subsidiaries will be part of the consolidated group for income tax purposes. Similarly, where the eligible tier-1 companies of a potential MEC group choose to consolidate, all the eligible tier-1 companies and their eligible wholly owned subsidiaries will be part of the MEC group for income tax purposes.

The choice to consolidate must be made in writing no later than:

- the day on which the head company lodges its income tax return for the year in which the day specified in the choice occurs, or
- if a return is not required for that income year, the day it would otherwise have been due.

The period for making a choice in writing to consolidate cannot be changed. If the choice to consolidate is not made within the prescribed time, the group cannot be treated as consolidated for that income year. The Commissioner does not have the power to extend the time period for making the choice in writing. If more time is required to make a choice to consolidate, it is recommended that you approach the ATO and request an extension of time to lodge the relevant income tax return. The written choice to consolidate is not required to be given to the Commissioner. See the *Consolidation reference manual* for more information on making a choice in writing.

Notifying the Commissioner of your choice

In addition to making a choice in writing to form a group, the head company of a consolidated group or MEC group must notify the Commissioner of Taxation of its choice to consolidate using the appropriate approved form.

The appropriate notification must be lodged within the same time period as applies to making a choice to consolidate.

For a consolidated group, the head company needs to complete and lodge a *Notification of formation of an income tax consolidated group form* (NAT 6781). For a MEC group, the head company needs to complete and lodge a *Notification of formation of a multiple entry consolidated (MEC) group* form (NAT 7024).

Go to **www.ato.gov.au/consolidation** for information on completing the relevant notification forms.

If you cannot lodge your notification of formation within the required timeframe, you should contact the ATO to discuss an extension of time to lodge your income tax return.

Operating

- On consolidation, the head company of a consolidated or MEC group and all the subsidiary members are treated as a single entity for their income tax purposes – that is, each subsidiary member is treated as a part of the head company. The tax costs of assets of an entity joining a consolidated or MEC group (other than eligible tier-1 companies) which become assets of the head company under the single entity rule are reset in accordance with the tax cost setting rules.
- The consolidated or MEC group operates as a single entity for income tax purposes, with the head company lodging a single income tax return and then paying a single set of PAYG instalments for the group.
- A MEC group will have a provisional head company (PHC) during the course of the income year. The PHC at the end of the income year will be the head company for the whole income year or, where the MEC group came into existence during the income year, from the time the MEC group came into existence. If a PHC becomes ineligible to be the PHC, a choice to appoint a new PHC must be made in writing by all of the remaining eligible tier-1 companies and also notified to the Commissioner.
- A consequence of choosing to consolidate is that transactions that occur solely between members of the consolidated or MEC group will be disregarded for income tax purposes.

- If a subsidiary member of a consolidated or MEC group has a period or periods in its income year when it is not a subsidiary member (non-membership periods), it will need to lodge a tax return for that income year. However, the tax return will be based only on amounts properly attributable to the periods when the entity was not a subsidiary member of a consolidated or MEC group during the income year.
- The losses, franking credits, pre-commencement excess foreign income tax, conduit foreign income and attribution account surpluses of each subsidiary member can generally be transferred to, and used by, the head company of the consolidated or MEC group.
- Carry-forward losses, franking balances, pre-commencement excess foreign income tax and conduit foreign income transferred to the head company of the group remain with the head company when an entity leaves the group. Special rules apply regarding treatment of carry-forward losses transferred into the consolidated or MEC group.
- The consolidation regime does not affect a subsidiary member's obligations in relation to other taxes such as goods and services tax (GST), fringe benefits tax (FBT) and pay as you go (PAYG) withholding.
- Certain corporate unit trusts and public trading trusts can be the head company of a consolidated group.
- Where a consolidated or MEC group includes one or more subsidiary members that are life insurance companies, special consolidation rules apply to take into account the particular taxation treatment of life insurance companies. Go to **www.ato.gov.au** and search for the *Consolidation reference manual* for more details.

The head company of a consolidated or MEC group (or PHC where relevant) must, among other things:

- pay the group's PAYG instalments when it is issued with a consolidated instalment rate after the lodgment by the head company of its first group tax return
- determine, report and make any balancing adjustments to meet the group's annual income tax liabilities
- manage any ongoing income tax liabilities and supply income tax information to us when required
- notify us of any members that join or leave the group.

Consolidated and MEC groups – head company tax returns

The tax return disclosures are the head company's principal means of communicating its consolidated group tax data to us. They are also used by the Commissioner to calculate the head company's instalment rate. This data is useful in our role as administrator of Australia's tax system as we and the Government evaluate and monitor the tax system for the benefit of the community.

As a result, we expect that all tax return label disclosures will reflect correct, or materially correct, consolidated amounts at each label. Such amounts do not take account of transactions that occur between members of the consolidated or MEC group and give effect to the single entity principle. Correct or materially correct consolidated amounts at each label will retain the structural integrity of the disclosures to enable consistent monitoring and analysis of taxpayer data.

In addition, the concept of materiality applies to the tax return labels affected by consolidation. However, the amounts at **T** **Taxable income or loss** item **7** and those labels in the **Calculation statement** on page 10 of the tax return must be correct, not just materially correct.

In determining if the consolidated amounts are materially correct, we will be guided by the accounting standard on materiality; AASB 1031 *Materiality*.

We expect the completed consolidated tax return to be at least as relevant and as useful as other statutory financial reports.

It should be noted that we provided a concession (allowing aggregated data) for items **6**, **7** and **8** of the head company's 2005 consolidated company tax return. However, for later years, such as for the 2012 company tax return, correct or materially correct consolidated data for an Australian-resident group will be the only acceptable basis for making tax return disclosures label-by-label. Groups should have record-keeping, accounting and tax systems in place to ensure that materially correct consolidated data is available for the 2012 company tax return and for future years' tax returns.

2012 schedules

Given that consolidation is about taxing wholly owned groups as single entities, a head company of a consolidated or MEC group must complete only one of each required schedule. Each required schedule will contain the information for the consolidated or MEC group.

SIMPLIFIED IMPUTATION SYSTEM

Broadly, the simplified imputation system has the following effects on the company tax return:

- A company that is paid a franked or unfranked distribution must include:
  - the amount of the distribution at **Income**, **H** **Total dividends** item **6**
  - any attached franking credits at **J** **Franking credits** item **7** (if the shares are not held at risk as required under the holding period and related payments rules, or if there is other manipulation of the imputation system, the franking credit is not included in assessable income at **J** and there is no entitlement to a franking tax offset)
- The amount of franking credits included in assessable income is allowed as a tax offset and claimed at **C** **Non-refundable non-carry forward tax offsets** in the **Calculation statement**

- Where the company has a franking deficit tax (FDT) liability, it can claim an FDT offset against its income tax liability. Some special rules apply to life insurance companies to ensure that an FDT liability can only be offset against that part of the company's income tax liability that is attributable to shareholders. The amount of FDT liability that can be claimed as a tax offset is reduced in certain circumstances. See **Franking deficit tax offset** on page 81 and *Franking account tax return and instructions 2012* (NAT 1382) for more information on how to calculate this amount. There are also special rules that apply to late balancing entities that elect to determine their FDT on a 30 June basis. For more information, go to **www.ato.gov.au** and search for the following fact sheets – *Simplified imputation: franking deficit tax offset;* and *Simplified imputation: FDT offset for late balancers*.

Other features of the simplified imputation system include:

- the franking account operates on a tax-paid basis and is also a rolling-balance account
- the period for determining a corporate tax entity's FDT liability is aligned with its income year. However, certain late balancing entities can elect to have their liability determined on 30 June
- the franking period relates to the operation of the benchmark rule
- corporate tax entities can choose the extent to which they frank frankable distributions made within a franking period. This choice is subject to the benchmark rule, except for certain listed public companies
- the benchmark rule, while limiting streaming opportunities, provides some flexibility in allocating franking credits to frankable distributions. To comply with this rule, a corporate tax entity must ensure that all frankable distributions made within a franking period are franked to the same extent, which is the benchmark franking percentage. The benchmark franking percentage is equal to the franking percentage established for the first frankable distribution made in that franking period
- a breach of the benchmark rule will not invalidate the allocation made to the distribution. However, a penalty will be imposed on the corporate tax entity. The penalty is either:
  - an over-franking tax (OFT) if the franking percentage for the distribution exceeds the benchmark franking percentage, or
  - a franking debit to the franking account if the franking percentage for the distribution is less than the benchmark franking percentage
- the penalty is calculated by reference to the difference between the franking credits actually allocated and the benchmark franking percentage
- payment of OFT does not give rise to a franking credit in the franking account. If an entity is liable to pay OFT it must complete a *Franking account tax return 2012*
- under the disclosure rule, corporate tax entities must notify the Commissioner in the approved form if they have significantly varied their benchmark franking percentage between franking periods. This information is disclosed on the *Franking account tax return 2012*.

Franking account tax return

Corporate tax entities may be entitled to claim an FDT offset. In certain circumstances, the FDT offset reduction rule reduces the amount of FDT that can be offset against future income tax liabilities. See **Franking deficit tax offset** on page 81 for more information.

As a result of these rules, the *Franking account tax return 2012* requires you to complete **C Offsetable portion of current year FDT**.

Complete a franking account tax return for all Australian corporate tax entities (including head companies of consolidated or MEC groups, corporate limited partnerships, corporate unit trusts and public trading trusts) and New Zealand franking companies that have:

- a liability to pay FDT
- a liability to pay OFT, or
- an obligation to disclose information to the Commissioner in relation to their benchmark franking percentage.

Lodge the franking account tax return separately from your company tax return. If you lodge your franking account tax return at the time your company tax return is due, your franking account tax return may be late and an interest charge may apply to any outstanding tax amounts. Your franking account tax return is generally due one month after the end of your income year.

For more information on completing this tax return, see the *Franking account tax return and instructions 2012*.

COOPERATIVES – OPTION TO FRANK DIVIDENDS

Cooperative companies may frank distributions made to members from assessable income.

Cooperative companies that do not choose to frank distributions made to members are entitled to claim a deduction to the extent that a distribution of assessable income is not franked.

Go to **www.ato.gov.au** for more detailed information about simplified imputation, consolidation and the cooperatives measures.

DEBT AND EQUITY RULES

The debt and equity measures broadly operate to characterise certain interests as either debt or equity. For some tax law purposes, interests are treated in the same way as shares even though they are not shares in legal form. These interests are called 'non-share equity interests'. They include some income securities, some stapled securities and certain related party 'at call' loans. Go to **www.ato.gov.au** and search for the guide *Debt and equity tests: guide to the debt and equity tests* (NAT 4643). This guide provides an overview of the debt and equity rules and explains what a non-share equity interest is.

For an explanation of when and how the debt and equity measures apply to 'at call' loans made to a company, go to **www.ato.gov.au** and search for *Debt and equity tests: guide to 'at call' loans.*

For the purposes of the imputation system, non-share equity interests are generally treated in the same way as shares that are not debt interests. Non-share dividends on these types of interests may be franked or unfranked. Write the amount of non-share dividend, whether franked or unfranked, and any amount of franking credit attached to the non-share dividend, at the appropriate place on the tax return as if it were for a share.

You cannot claim a deduction for a non-share dividend.

CLUBS, SOCIETIES AND ASSOCIATIONS

Taxable clubs, associations, societies and organisations are generally treated as companies. Such companies can be either non-profit or other taxable companies depending on the company's constituent documents and purposes. Non-profit companies are subject to special tax rules, which are explained in the guide *Mutuality and taxable income* (NAT 73436), at **www.ato.gov.au**.

Non-profit companies that are resident and have taxable income of $416 or less do not have to lodge an income tax return, unless specifically requested.

Taxable non-profit organisations required to lodge an income tax return should go to **www.ato.gov.au** and search for *Guide to company tax return for non-profit organisations 2012.*

CORPORATE UNIT TRUSTS AND PUBLIC TRADING TRUSTS

Trustees of corporate unit trusts and public trading trusts are subject to the company tax arrangements and lodge company tax returns.

The trust loss legislation in Schedule 2F to the ITAA 1936 applies to these trusts.

Subdivision 713-C of the ITAA 1997 enables a corporate unit trust or public trading trust to be the head company of the consolidated group, if certain conditions are met. A corporate unit trust or public trading trust which is a head company of a consolidated group will be treated as a company for all income tax purposes including the treatment of losses.

TAXATION OF FINANCIAL ARRANGEMENTS (TOFA)

The key provisions of the TOFA rules are found in Division 230 of the ITAA 1997, which generally provides for:

- methods of taking into account gains and losses from financial arrangements, being accruals and realisation, fair value, foreign exchange retranslation, hedging, and reliance on financial reports and balancing adjustment
- the time when the gains and losses from financial arrangements will be brought to account.

Which entities are affected?

The TOFA rules will apply to the following entities:

- authorised deposit-taking institutions, securitisation vehicles and financial sector entities with an aggregated turnover of $20 million or more
- managed investment schemes or entities with a similar status under foreign law relating to corporate regulation with assets of $100 million or more
- any other entity (excluding individuals) which satisfies one or more of the following
  - an aggregated turnover of $100 million or more
  - assets of $300 million or more
  - financial assets of $100 million or more.

A company that does not meet these requirements can elect to have the TOFA rules apply to it.

The aggregated turnover tests may mean that the TOFA rules will apply to companies that do not meet the turnover thresholds in their own right. Aggregated turnover includes the annual turnover of any entity a company is connected with, or any affiliate of the company, including overseas entities.

WHEN WILL THE TOFA RULES AFFECT A COMPANY'S TAX RETURN?

The TOFA rules apply to all financial arrangements that the affected company starts to have during income years commencing on or after 1 July 2010. In addition, a company may have elected to have the TOFA rules apply to its financial arrangements for income years commencing on or after 1 July 2009.

Companies may have also separately made a transitional election to apply the TOFA rules to their existing financial arrangements.

Elections under the TOFA rules are irrevocable, and should be carefully considered before being made. For more information, go to **www.ato.gov.au** and search for *Making elections under the TOFA rules* and also *Guide to the taxation of financial arrangements (TOFA) rules* or go directly to **www.ato.gov.au/tofa**

FOREIGN EXCHANGE GAINS AND LOSSES

Under the foreign exchange (forex) measures contained in Division 775 and Subdivisions 960-C and 960-D of the ITAA 1997, forex gains and losses are generally brought to account as assessable income or allowable deductions, when realised. The forex measures cover both foreign currency denominated arrangements and, broadly, arrangements to be cash-settled in Australian currency with reference to a currency exchange rate. Forex gains and losses of a private or domestic nature, or in relation to exempt income or non-assessable non-exempt income, are generally not brought to account under the forex measures.

If a forex gain or loss is brought to account under the forex measures and under another provision of the tax law, it is generally assessable or deductible only under the forex measures. However, if a financial arrangement of a company is subject to the TOFA fules, forex gains and losses from the financial arrangement will generally be brought to account under those TOFA rules instead of the forex measures.

Additionally, forex gains and losses will generally not be assessable or deductible under the forex measures if they arise from certain acquisitions or disposals of capital assets, or acquisitions of depreciating assets, and the time between the acquisition or disposal and payment is no more than 12 months. Instead, any foreign exchange gain or loss is usually matched with or integrated into the tax treatment of the underlying asset.

The general translation rule requires all tax-relevant amounts to be expressed in Australian currency, regardless of whether there is an actual conversion of that foreign currency into Australian dollars.

For most companies, the forex measures and general translation rule have applied from 1 July 2003. However, companies with certain early substituted accounting periods have been subject to these provisions from the first day of their 2004–05 income year.

The tax consequences of gains or losses on existing foreign currency assets, rights and obligations that were acquired or assumed before the commencement date are to be determined under the law as it was before these measures came into effect, unless:

- the company has made a transitional election that brings these under the forex measures, or
- there is an extension of an existing loan that brings the arrangement within these measures – for example, an extension by a new contract, or a variation to an existing contract.

See Forex measures for more information about these measures and how to calculate your foreign exchange realisation gains and losses.

GENERAL VALUE SHIFTING REGIME

Broadly, value shifting describes transactions and other arrangements that reduce the value of an asset and (usually) increase the value of another asset.

The general value shifting regime (GVSR) consists of direct value shifting (DVS) and indirect value shifting (IVS) rules that primarily affect equity and loan interests in companies and trusts. There is also a DVS rule dealing with non-depreciating assets over which a right has been created. There are different consequences for particular interests according to whether the interest is held on capital account, or as a revenue asset or trading stock.

Where the rules apply to a value shift there may be a deemed gain (but not a loss), adjustments to adjustable values (for example, cost bases), or adjustments to losses or gains on realisation of assets.

There are *de minimis* exceptions and exclusions that will minimise the cost of complying with the GVSR, particularly for small business. Entities dealing at arm's length or on market value terms are generally excluded from the GVSR.

For more information, go to **www.ato.gov.au**

TRANS-TASMAN IMPUTATION

The Trans-Tasman imputation measure allows a New Zealand resident company to choose to enter the Australian imputation system. This allows a New Zealand company to maintain an Australian franking account and to attach Australian franking credits to frankable distributions it pays from one month after the company makes an election. Australian shareholders of New Zealand companies may benefit from the Australian franking credits attached to distributions made by a New Zealand company that has elected into the Trans-Tasman imputation measure (referred to as a 'New Zealand franking company').

For more information on the Trans-Tasman imputation measure, go to **www.ato.gov.au/businesses**, then on the left of the page, click 'Tax topics A–Z' then click on 'H–L' and go to 'International tax', then click on 'Trans-Tasman rules'.

INTERNATIONAL TAXATION – THE TAXATION TREATMENT OF CERTAIN FOREIGN HYBRID ENTITIES

Broadly, foreign hybrids are certain foreign limited partnerships, foreign hybrid companies such as limited liability companies in the United States of America and other similar entities that are taxed on a partnership basis in their country of formation – that is, the overseas jurisdiction taxes the members on their share of the entity's income. The entity itself is not taxed.

Under Division 830 of the ITAA 1997, foreign hybrids (as defined in section 830-5 of the ITAA 1997) are treated as partnerships, and not as companies, for Australian income tax purposes. Investors in these entities are treated for Australian tax purposes as having partnership interests. There are special rules in addition to those that normally apply to partnerships.

For more information about foreign hybrids, go to **www.ato.gov.au**

INFORMATION MATCHING

The ATO uses information-matching technology to verify the correctness of tax returns, so you should ensure that all information is fully and correctly declared on the company tax return.

If possible, the company tax return should fully itemise all investment income, rather than including the income in gross business income or profit and loss statements. Failure to do so could result in the company receiving an income discrepancy query letter from us.

Ensure that the company has not quoted an individual's TFN to a financial institution for any income it intends to declare in a company tax return, or vice versa.

In particular, we will check the following in the 2012 tax returns:

- distributions from partnerships and trusts, including unit trusts – see pages 22–6
- income and credits for withholding if an ABN has not been quoted against information provided to us by payers – see page 4

- total salary and wages paid against the PAYG withholding system – see page 58
- the amount of prior year losses claimed, which will be reconciled with the amounts of losses carried forward on tax returns of earlier years – see pages 46–50
- dividend and interest income – see page 26.

SMALL BUSINESS ENTITIES

A small business entity may be eligible for the following concessions:

- CGT 15-year asset exemption
- CGT 50% active asset reduction
- CGT retirement exemption
- CGT rollover provisions
- simplified depreciation rules – see pages 32–5
- deduction of certain prepaid business expenses immediately – see page 37
- simplified trading stock rules – see pages 51–2
- accounting for GST on a cash basis
- annual apportionment of GST input tax credits
- payment of GST by quarterly instalments
- FBT car parking exemption
- PAYG instalments based on GDP-adjusted notional tax.

Some of these concessions have specific eligibility conditions that must also be satisfied.

From the 2009–10 income year, a company can access the GDP-adjusted payment option to report and pay quarterly PAYG instalments if it is a small business entity.

For the 2008–09 income year, there was a transitional rule for companies. If you operated a company in that income year, you could access the GDP-adjusted payment option if:

- your base assessment instalment income was $2 million or less, or
- you were also eligible to pay your PAYG instalments annually.

Certain small business entities may also be eligible to claim the 25% entrepreneurs tax offset (ETO) – see pages 61–4.

> For more information about small business entity concessions, go to **www.ato.gov.au** and search for our publication *Concessions for small business entities* (NAT 71874); or go directly to **www.ato.gov.au/SBconcessions** or phone **13 28 66**.
>
> Also: go to **www.ato.gov.au/cgtsbconcessionstool** to use the CGT Small Business Concessions Tool to determine whether an entity is eligible for the capital gains tax concessions for small business.

Eligibility

The company will be a small business entity if it is carrying on a business and has an aggregated turnover of less than $2 million.

Broadly, aggregated turnover is the company's annual turnover plus the annual turnovers of any entities that are connected to or affiliated with it.

> For more information on eligibility, go to **www.ato.gov.au** and seach for *Am I eligible for the small business entity concessions?*

Eligibility must be reviewed each year.

Calculating turnover

Turnover includes all ordinary income that the company earned in the ordinary course of business for the income year. Some examples of amounts included and not included in ordinary income are in **table 1**.

TABLE 1: Ordinary income

Include these amounts	Do not include these amounts
■ revenue from sales of trading stock ■ fees for services provided ■ interest from business bank accounts ■ amounts received to replace something that would have had the character of business income – for example, a payment for loss of earnings.	■ GST the company has charged on a transaction ■ amounts borrowed for the business ■ proceeds from the sale of business capital assets ■ insurance proceeds for the loss or destruction of a business asset.

There are special rules for calculating the annual turnover if the company has retail fuel sales or business dealings with associates that are not at market value.

For more information about calculating turnover, go to **www.ato.gov.au** or phone **13 28 66**.

Aggregation rules

Special rules, called the aggregation rules, will determine who the company is connected to or affiliated with.

These rules prevent larger businesses from structuring or restructuring their affairs to take advantage of the small business entity concessions.

An entity that is connected with the company or that is its affiliate is referred to as a relevant entity.

When calculating the company's aggregated turnover, do **not** include:

- income from dealings between the company and a relevant entity
- income from dealings between any of the company's relevant entities
- income from a relevant entity when it was not the company's relevant entity.

For more information on the aggregation rules, see our publication *Concessions for small business entities*.

If the company is not connected or affiliated with any other entities and its business turnover is less than $2 million, then the company is a small business entity.

Business operated for only part of the year

If the company, or a relevant entity, carries on a business for only part of the income year, annual turnover must be worked out using a reasonable estimate of what the turnover would have been if the company, or relevant entity, had carried on a business for the whole of the income year.

Satisfying the aggregated turnover threshold

There are **three** ways to satisfy the $2 million aggregated turnover requirement, but most businesses will only need to consider the first method.

Previous year turnover

If the company's aggregated turnover for the previous income year was less than $2 million, it will be a small business entity for the current year. This is regardless of its estimated or actual aggregated turnover for the current year.

Estimate of current year turnover

If the company's estimated aggregated turnover for the current income year is less than $2 million, it will be a small business entity for the current year.

If you are estimating the company's turnover you need to assess whether it is more likely than not to have less than $2 million aggregated turnover as at the first day of the income year or, if it started a business part way through the year, as at the time the business started. You should estimate the company's turnover based on the conditions you are aware of at the beginning of the income year or, if the business was started part way through the year, at the time the business started. Companies that began carrying on a business in the current year need to make a reasonable estimate of what their turnover would have been had the business been carried on for the entire year.

This method cannot be used if the company's aggregated turnover in each of the previous two income years was $2 million or more.

Actual current year turnover

If the company's actual aggregated turnover is less than $2 million at the end of the income year, it will be a small business entity for that year.

This method is only needed if the first two tests cannot be met.

If the company is a small business entity by means of this third method only, it cannot use the GST and PAYG concessions for that income year because those particular concessions must have been chosen earlier in the income year.

Former simplified tax system taxpayers

There are transitional rules for former simplified tax system (STS) taxpayers that deal with the continued use of the STS accounting method (see page 21).

A special rule applies if the company is winding up a business this year that it previously carried on and it was an STS taxpayer in the income year it ceased business. For more information, see *Concessions for small business entities*.

STRATA TITLE BODIES CORPORATE

Strata title bodies corporate are treated as public companies under the tax law and must lodge a company tax return for any year in which non-mutual income is earned. For more information on this type of income, go to **www.ato.gov.au** and search for *Strata title body corporate instructions and tax return 2012* (NAT 4125).

The strata title body corporate will need to complete a company tax return if it:

- has net capital gains
- has losses brought forward from earlier income years claimed as a deduction
- has overseas transactions or interests, or
- needs to make an interposed entity election.

The company cannot complete its tax return using the *Strata title body corporate tax return*.

RECORD KEEPING REQUIREMENTS

Record keeping and retention

If you carry on a business, you must keep records that record and explain all transactions and other acts you engage in that are relevant for any taxation purpose. Subsection 262A(2) of the ITAA 1936 prescribes the records to be kept as including:

- any documents that are relevant for the purpose of ascertaining the person's income or expenditure
- documents containing particulars of any election, choice, estimate, determination or calculation made by the person for taxation purposes and, in the case of an estimate, determination or calculation, particulars showing the basis on which, and the method by which, the estimate, determination or calculation was made.

You must keep these records for your financial arrangements covered by the TOFA rules even if you are not carrying on a business in relation to those arrangements.

Generally, a company must keep all relevant records for five years after those records were prepared or obtained, or five years after the completion of the transactions or acts to which those records relate, whichever is the later, although this period may be extended in certain circumstances. Keep records in writing and in English; however, you can keep them in an electronic form or on microfiche as long as the records are in a form that we can access and understand to determine your taxation liability (see *Taxation Rulings TR 96/7 – Income tax: record keeping – section 262A – general principles and TR 2005/9 – Income tax: record keeping – electronic records*).

The company is not expected to duplicate records. If the records that the company normally keeps contain the information specified in these instructions, you do not need to prepare additional records.

For some items on the tax return, these instructions refer to specific record-keeping requirements. In general, the records specified related to instances where the required information may not be available in the normal company accounts. The record-keeping requirements in the instructions indicate the information that the company uses to calculate the correct amounts to declare on the tax return but they are not an exhaustive list of the records that a company maintains.

Prepare and keep the following documents:

- a statement of financial position
- a detailed operating statement
- livestock and produce accounts for primary producers
- notices and elections
- documents containing particulars of any estimate, determination or calculation made for the purpose of preparing the tax return, together with details of the basis and method used in arriving at the amounts on the tax return
- a statement describing and listing the accounting systems and records – for example, chart of accounts that are kept manually and electronically.

If an audit or review is conducted, we may request, and a company is expected to make readily available:

- a list and description of the main financial products (for example, bank overdrafts, bills, futures and swaps) that were used by the company to finance or manage its business activities during the income year
- for companies that have entered into transactions with associated entities overseas
  - an organisational chart of the company group structure
  - all documents, including worksheets, that explain the nature and terms of the transactions entered into.

The company will be liable to pay interest, in addition to the shortfall amount, if it does not declare the correct amount of taxable income or tax payable. Penalties may also apply. The company is also liable to penalties if it does not keep records, or keeps inadequate records, about business transactions or the items disclosed on the tax return. For guidelines on record-keeping obligations and remission of penalty for failure to keep or retain records, see *Law Administration Practice Statement PS LA 2005/2 – Penalty for failure to keep or retain records*.

Generally, the head company of a consolidated or MEC group must keep records that, among other things, document:

- the choice in writing to form a consolidated group or MEC group
- the process of forming the group
- entries and exits of subsidiary members into and out of the group
- events which result in an entity being no longer eligible to be a head company
- consolidation eliminations or adjustments to derive the income tax outcome for the head company of the group.

This would be in addition to those records usually retained to ascertain the income tax liability of the head company.

More information on the record-keeping and retention requirements of a consolidated or MEC group can be found in the *Consolidation reference manual* at **www.ato.gov.au/consolidation**

Recording the choice of superannuation fund

You must keep records to show that you have met your employer obligations about the choice of superannuation fund. For more information about the records you need to keep, go to **www.ato.gov.au/super**

Keeping records for capital gains tax

A company must keep records of everything that affects its capital gains and capital losses for at least five years after the relevant CGT events.

If a company carries forward a net capital loss, the company should generally keep records of the CGT event that resulted in the loss for five years from the year in which the loss was made or four years from the date of assessment for the income year in which the capital loss is fully applied against capital gains, whichever is the longer.

For more information on record keeping for capital gains tax, see the *Guide to capital gains tax 2012* and *Taxation Determination TD 2007/2 – Income Tax: should a taxpayer who has incurred a tax loss or made a net capital loss for an income year retain records relevant to the ascertainment of that loss only for the record retention period prescribed under the income tax law?* For more detailed information about keeping CGT asset register, see *Taxation Ruling TR 2002/10 – Income tax: capital gains tax: asset register*.

Keeping record of tax losses

If a company incurs tax losses, it may need to keep records longer than five years from the date on which the losses were incurred. Generally, tax losses incurred can be carried forward indefinitely, until they are applied by recoupment or, in very limited circumstances, transferred to another group company. When applied, the loss amount is a figure that leads to the calculation of the company's taxable income in that year. It is in the company's interest to keep records substantiating this year's losses until the amendment period for the assessment in which the losses are applied has lapsed (up to four years from the date of that assessment).

For more information on record keeping where losses are incurred, see *Taxation Determination TD 2007/2 – Income tax: should a taxpayer who has incurred a tax loss or made a net capital loss for an income year retain records relevant to the ascertainment of that loss only for the record retention period prescribed under income tax law?*.

Keeping records for overseas transactions and interests

Keep records of any overseas transactions in which the company is involved, or has an interest, during the income year.

The involvement can be direct or indirect – for example, through persons, trusts, companies or other entities. The interest can be vested or contingent, and includes a case where the company has direct or indirect control of:

- any income from sources outside Australia not disclosed elsewhere on the tax return, or
- any property, including money, situated outside Australia. If this is the case, keep a record of:
  - the location and nature of the property
  - the name and address of any partnership, trust, business, company or other entity in which the company has an interest
  - the nature of the interest.

If an overseas interest was created by exercising any power of appointment, or if the company had an ability to control or achieve control of overseas income or property, keep a record of:

- the location and nature of the property
- the name and address of any partnership, trust, business, company or other entity in which the company has an interest.

TAX RETURN

First company tax return

Apply for a TFN (tax file number) before lodging the company's first tax return to ensure that payments are credited to the correct account. You can apply for a TFN by completing an *Application for ABN registration for companies, partnerships, trusts and other organisations* (NAT 2939) (you can apply for both a TFN and an ABN on this application) or electronically at **www.abr.gov.au**. We cannot allocate a TFN until we receive the application.

If the company has applied for a TFN, but has not received notification of its TFN at the time of lodging its *Company tax return 2012*, include a copy of the application with the return, prominently highlighted with the words in block letters 'ATTENTION COPY ONLY – TFN NOT RECEIVED AT THE TIME OF LODGING 2012 RETURN'. If the company does not have a copy of the original application, contact us on **13 28 66** for advice.

If the company has not applied for a TFN, attach a completed application with its tax return. There may be delays in processing a tax return lodged without a TFN.

Lodging the tax return and schedules

Companies that derived assessable income in the 2011–12 income year must lodge a tax return for the 2011–12 income year. Companies that are carrying forward losses that exceed $1,000 to the 2012–13 income year must also lodge a tax return for the 2011–12 income year even if no assessable income has been derived in that income year. Non-profit companies that are resident and have taxable income of $416 or less do not have to lodge an income tax return, unless specifically requested. Keep records so that the information reported on the tax return can be verified at a later date, if required – see **Record-keeping requirements** on page 12.

The address for lodging the company tax return is on page 106.

The following are the schedules that are sent with the *Company tax return 2012*:

- *Capital gains tax (CGT) schedule 2012*
- *Capital allowances schedule 2012*
- *Consolidated groups losses schedule 2012*
- *Dividend and interest schedule 2012*
- *International dealings schedule 2012* (NAT 73345)
- *Interposed entity election or revocation 2012* (NAT 2788)
- *Losses schedule 2012*
- *Non-individual PAYG payment summary schedule 2012*
- *Personal services income schedule 2012*
- *Research and development tax incentive schedule 2012*
- any elections required by *Taxation Ruling IT 2624 – Income tax: company self assessment; elections and other notifications; additional (penalty) tax; false or misleading statement*.

If a schedule is lodged separately from the tax return you are required to sign and date the schedule.

Do not send other schedules or documents with the *Company tax return 2012*. Keep these with the company's tax records.

The date for lodgment of the company tax return (including any relevant schedules) is notified in a legislative instrument on the Federal Register of Legislative Instruments, at **www.frli.gov.au**

If you lodge your return without all the required schedules we may not consider it to have been lodged in the approved form. Unless all schedules are lodged by the due date, you may be charged a penalty for failing to lodge on time.

Do not attach the company's payment to the company tax return. The company can make payments by one of five methods. These are listed on page 106.

AMENDMENT UNDER SELF-ASSESSMENT

The taxable income or the amount shown for tax offsets or some credits can be altered after the lodgment of the company's tax return. The company can request an amendment to a tax assessment or lodge an objection disputing an assessment, generally up to four years following the assessment. The objection must state the full particulars of the issue in dispute. This is a basic guide only.

PRIVATE RULING BY THE COMMISSIONER OF TAXATION

A private ruling is a written expression of opinion by the Commissioner about the way in which tax laws and other specified laws administered by the Commissioner would apply to, or be administered in relation to, an entity in relation to a specified scheme.

An application for a private ruling must be made in the approved form and in accordance with Divisions 357 and 359 of Schedule 1 to the *Taxation Administration Act 1953*.

The required information and documentation that accompany a private ruling request must be sufficient for the Commissioner to make a private ruling; it should include:

- the entity to whom the ruling is to apply
- the facts describing the relevant scheme or circumstance
- relevant supporting documents, such as transaction documents
- issues and questions that relate to the provision to which the ruling relates
- your arguments and references on such questions.

The Commissioner may request additional information to make a ruling. The Commissioner will then consider the request and either issue or, in certain limited circumstances, refuse to issue a private ruling.

Publication

To further improve the administration of the private rulings system, we now publish all notices of private rulings for public record. These publications are at **www.ato.gov.au**

Private rulings are published in an edited form to safeguard taxpayer privacy.

Applicants are invited to provide a statement detailing any information they believe should be removed from the published version of their private ruling.

If the information the applicant wants removed is more than simply names and addresses, reasons why publication of this information will breach the applicant's privacy should be provided.

Before publication, applicants can comment on the edited version of their private ruling.

Review rights

Taxpayers can object to adverse private rulings or a failure to make a private ruling, in much the same way that they can object to assessments. They can also seek a review of adverse objection decisions on a private ruling by the Administrative Appeals Tribunal or a court. An explanation of review rights and how to exercise them is issued with the private ruling. An objection to a ruling can be lodged within the later of:

- 60 days after receipt of the ruling, or
- four years from the last day allowed for lodging a tax return for the last income year covered by the ruling.

A taxpayer cannot object to a private ruling if an assessment has occurred covering the same facts and issues. The taxpayer could, of course, object to the assessment.

Where a taxpayer has objected to a private ruling, the taxpayer cannot object to a later assessment about the same matter ruled on, unless the facts have changed.

Private rulings dealing with the ITAA 1936 continue to apply to the ITAA 1997, to the extent that the old law to which the ruling applies expresses the same ideas as the new law in the ITAA 1997.

When rulings are binding

A private ruling is binding on the Commissioner where it applies to an entity and the entity has relied on the ruling by acting (or omitting to act) in accordance with the private ruling. An entity can stop relying on a private ruling at any time (unless prevented by a time limit imposed by a taxation law) by acting (or omitting to act) in a way that is not in accordance with the private ruling, and can subsequently resume relying on the private ruling by acting accordingly. The Commissioner cannot withdraw a private ruling. However, the Commissioner can make a revised private ruling where the scheme to which a private ruling relates has not begun to be carried out and, where the private ruling relates to an income year or other accounting period and that period has not begun.

PAYMENT ARRANGEMENTS

Paying your tax debt

Income tax debts must be paid by the due date. For payment options, see page 106.

The tax payable by a company for an income year becomes due and payable on the statutory due date, which is the first day of the sixth month of the following income year – for example, for 30 June balancing companies the statutory due date is 1 December.

A general interest charge is levied on outstanding amounts from the due date for payment. The general interest charge rate for a particular quarter is calculated by adding 7 percentage points to the relevant monthly average yield of 90-day bank accepted bills. The general interest charge rate is updated quarterly.

For more information on the interest charge, phone **13 28 66.**

If you can't pay your tax debt when due?

To avoid action being taken to recover the debt, phone us on **13 11 42**. You are expected to organise your affairs to ensure that you pay your debts on time. However, we may allow you to pay your debts under a mutually agreed payment plan if you face genuine difficulty and have the capacity to eventually pay the debt. The interest charge will continue to accrue on any outstanding amounts of tax during any payment arrangement.

Approval for a payment arrangement is not given automatically. The company may need to provide details of its financial position, including a statement of its assets and liabilities and details of its income and expenditure. We will also want to know what steps the company has taken to obtain funds to pay its tax debt and the steps it is taking to meet future tax debts on time.

PENALTIES, SHORTFALL INTEREST CHARGES, GENERAL INTEREST CHARGES

Penalties

The circumstances in which the law imposes penalties on companies include:

- failing to lodge a tax return on time and in the approved form (which includes all applicable schedules)
- having a shortfall amount by understating a tax related liability or over-claiming a credit that is caused by:
  - making a statement which is false or misleading in a material particular, unless you took reasonable care in connection with the making of the statement
  - taking a position that is not reasonably arguable, and the shortfall amount is more than the greater of $10,000 or 1% of the income tax payable for the income year
- making a statement which is false or misleading in a material particular that does not result in a shortfall amount, unless you took reasonable care in connection with the making of the statement
- failing to provide a tax return from which the Commissioner can determine a liability
- obtaining, but for the relevant anti-avoidance provision, a scheme benefit
- failing to keep and produce proper records
- preventing access to premises and documents
- failing to retain or produce declarations.

Penalties may be applied to any statement which is false or misleading in a material particular whether you have a tax shortfall or not. This penalty will not apply where the company and its agent, if applicable, have taken reasonable care in connection with the making of the statement.

The Commissioner may remit all or a part of a penalty. If the Commissioner decides not to remit the penalty in full, he must give written notice to the company of the decision and the reasons for the decision.

Shortfall interest charges

Companies are liable for the shortfall interest charge where their income tax assessment is amended to increase their liability. Generally, the shortfall interest charge accrues on the increase in tax payable from the due date of the original assessment until the day before the assessment is amended.

Shortfall interest charge is calculated at a rate 4% lower than the general interest charge.

The Commissioner may remit all or a part of the shortfall interest charge when it is fair and reasonable to do so. Go to **www.ato.gov.au** for more information.

General interest charges

Companies are liable for the general interest charge where they have:

- not paid tax, penalty or certain other amounts by the due date for payment
- varied their PAYG instalment rate to less than 85% of the instalment rate that would have covered the company's actual liability for the year, or
- used an estimate of their benchmark tax that is less than 85% of their actual benchmark tax for the year.

The Commissioner may remit all or a part of a general interest charge. Go to **www.ato.gov.au** for more information or phone **13 28 66**.

COMPLETING THE COMPANY TAX RETURN

PAGE 1 OF THE TAX RETURN

IS A PAYMENT DUE?

Print **X** in the box if a payment is due now or at a later date.

IS A REFUND DUE?

Print **X** in the box if a refund is due.

TAX FILE NUMBER (TFN)

Write the TFN of the company in the boxes provided.

The head company of a consolidated or MEC group continues to use its existing TFN.

If the company has not previously been allocated a TFN, see **First company tax return** on page 14.

NAME OF COMPANY

When recording the name of the company entity:

- print the company name exactly as it appears on the company certificate of incorporation
- for subsequent tax returns, ensure that the company name is consistent from year to year unless the name changes.

If the company name is legally changed, notify us in writing of the change at the time the change is made. Print on the tax return the current company name as registered with the Australian Securities & Investments Commission (ASIC).

For a consolidated or MEC group, use the head company's name.

AUSTRALIAN BUSINESS NUMBER (ABN)

The ABN is a single, unique business identifier that will ultimately be used for all dealings with the Australian Government. It is also available to state, territory and local government regulatory bodies. Identification for taxation law purposes is only one of the objects of the ABN.

Write the ABN of the company in the boxes provided if the company is registered on the Australian Business Register (ABR). For a consolidated or MEC group, write the ABN of the head company.

It is important to use the correct ABN to avoid delays in processing the tax return.

We are authorised by the *A New Tax System (Australian Business Number) Act 1999* to collect certain information relating to your company. We may use business details supplied on your tax return to update your trading name, industry classification, status of business, wind-up date, public officer, email address and main business address on the ABR. We may also use postal address details from your tax return if we cannot contact you through your ABR postal address.

Where authorised by law, selected information on the ABR may be made publicly available and some may be passed to a wide range of Australian Government, state and local government agencies.

You can find details of agencies that regularly receive information from the ABR at **www.abr.gov.au** You can also phone us on **13 28 66** between 8.00am and 6.00pm Monday to Friday and ask for a list of the agencies to be sent to you.

These agencies may use ABR information for purposes authorised by their legislation or for carrying out other functions of their agency. Examples of possible uses include registration, reporting, compliance, validation and updating databases.

In addition to the publicly available information, these agencies can also access the:

- name of the company's associates, such as directors or public officer
- company's address for service of notices
- company's principal place of business
- company's email address
- Australian and New Zealand Standard Industrial Classification (ANZSIC) code for the business conducted by the company.

Previous name of company, current and previous postal address

Follow the instructions on the *Company tax return 2012* for the following items:

- previous name of the company
- current postal address
- postal address on previous tax return.

You should use C/- when 'care of' is part of an address. It is the only acceptable format. Using any other term will delay the processsing of the tax return.

BUSINESS ADDRESS OF MAIN BUSINESS

Print the street address of the main business. It is the place where most of the business decisions are made.

For a consolidated or MEC group, print the business address of the head company.

FINAL TAX RETURN

If there will be no requirement for the company to lodge tax returns in future years, print **X** in the **Yes** box at this item. Otherwise print **X** in the **No** box.

Subsidiary members of consolidated or MEC groups should not print **X** in the **Yes** box if membership of the consolidated or MEC group is the only basis on which the company will not be required to lodge future tax returns.

PAGE 2 OF THE TAX RETURN

ELECTRONIC FUNDS TRANSFER (EFT)

Direct Refund

Complete your account details, even if you provided them previously.

Complete the following:

- Bank State Branch (BSB) number. This six-digit number identifies the financial institution.
- Account number. This number should not have more than nine characters, and should not include spaces.
- Account name. In most cases, your account name should be what is shown on your account records. It should include spaces between each word and between initials. If your account name exceeds 32 characters, provide the first 32 characters only.

1 ULTIMATE AND IMMEDIATE HOLDING COMPANY NAME AND ABN OR COUNTRYCODE

Ultimate holding company name and ABN or country code

Print the name of the ultimate holding company in the group. This is the company that has ownership and controlling interest over the whole group of companies of which the company lodging the *Company tax return 2012* and the immediate holding company form part.

For a consolidated or MEC group, print the name of the ultimate holding company of the head company.

If the ultimate holding company is registered on the ABR, write the ABN of the ultimate holding company.

If it is resident in another country, give the code for that country. See **appendix 8** on pages 104–6.

Immediate holding company name and ABN

If the company has no immediate holding company, do not complete this item. Otherwise print the name of the immediate holding company. This is the company that has the largest share of the controlling interest in the operations of the company lodging the company tax return, and that is immediately above that company in the company group. If it is registered on the ABR, write the ABN of the immediate holding company.

For a consolidated or MEC group, print the name of the immediate holding company (if any) of the head company.

2 DESCRIPTION OF MAIN BUSINESS ACTIVITY

Describe as accurately as possible the business activity from which the company derived the most gross income – for example, beef cattle breeding, vegetable growing, clothing manufacturing, confectionery wholesaling, domestic appliance retailing, investing in shares and stocks, investing in residential property. Do not use general descriptions, such as farming, manufacturing, wholesaling, investing or company.

For a consolidated or MEC group, print the business activity from which the group derived the most gross income.

Industry code

Write at **B** the appropriate industry code for the company's main business. The code can be obtained by using the publication *Business industry codes 2012* (NAT 1827), available at **www.ato.gov.au**

Code the business activity as accurately as possible. The industry code is made up of five digits – for example, if the industry is 'dairy cattle farming', the code on the tax return is written as '01600'.

For a consolidated or MEC group, write the industry code for the business activity from which the group derived the most gross income.

An incorrect code may result in clients not receiving a necessary service or material from the ATO, or could lead to incorrect targeting of audits. The industry code provided is also used to publish industry benchmarks in *Taxation statistics*, at **www.ato.gov.au**

Our industry codes are a modified version of the ANZSIC, produced jointly by the Australian Bureau of Statistics and Statistics New Zealand.

It is important to use the correct industry code to avoid delays in processing the tax return.

Percentage of foreign shareholding

Examine the top 10 shareholders of the company at the end of the income year. From these top 10 shareholders, identify the foreign shareholders and aggregate their percentage of shareholding held in the company. Write this percentage in whole numbers at **A**. If this aggregate percentage is less than 10%, disregard this label.

For the purpose of this label, a foreign shareholder includes, but is not limited to, a shareholder:

- whose address in the share register is shown as being outside Australia
- that has directed that their dividends be paid at a place outside Australia
- that is a company not incorporated in Australia
- that is a company that does not have an Australian company number (ACN).

3 STATUS OF COMPANY

C1, C2 and C3

Print **X** in the box that shows the appropriate description.

Complete **C3** if the company is a non-resident company carrying on a business in Australia through a permanent establishment (PE).

D1 to D11

Print **X** in the box that shows the appropriate description.

A friendly society that carries on life insurance business must describe its status as **D10 Public**; otherwise its status is **D3 Non-profit**. For more information on friendly societies that carry on life insurance business, see **16 Life insurance companies and friendly societies only** on pages 66–7.

Only complete **one** of these labels. If more than one applies, select the one that appears first.

D7 Corporate unit trust applies only to trusts that are corporate unit trusts as defined in section 102J of the ITAA 1936. **D8 Public trading trust** applies only to trusts that are public trading trusts as defined in section 102R of the ITAA 1936.

Marking the incorrect box may result in clients not receiving a necessary service or material from the ATO, or could lead to incorrect targeting of audits.

E1 to E3

Print **X** in the box that shows the appropriate description. If more than one label applies, select the one that appears first. If none apply, leave the boxes blank.

Z1 and Z2

Print **X** in the box that shows the appropriate description. Only complete one of these labels.

- Select **Z1 Consolidated head company** if the company was a head company of a consolidated or MEC group at any time during the income year.
- Select **Z2 Consolidated subsidiary member** if **Z1** does not apply and the company was a subsidiary member of a consolidated or MEC group that had a period when it was not a member of the group (non-membership period) during the income year.

If neither applies, leave the boxes blank.

4 INTERPOSED ENTITY ELECTION STATUS

This item must be completed if **any** of the following apply:

- The company has previously made one or more interposed entity elections specifying a day in the income years from 1994–95 to 2010–11 in accordance with
  - section 272-85 of Schedule 2F to the ITAA 1936 and,
  - if applicable, item 23 or 23A of Schedule 1 to the *Taxation Laws Amendment (Trust Loss and Other Deductions) Act 1998*, and
  - at least one IEE has not been revoked, in accordance with subsections 272-85(5A) to (8), in an income year before the 2011–12 income year.
- The company is making one or more interposed entity elections specifying a day in the 2004–05 or later income years in accordance with section 272-85 of Schedule 2F to the ITAA 1936.
- The company is revoking, from a time in the 2011–12 income year, one or more previously made interposed entity elections in accordance with section 272-85 of Schedule 2F to the ITAA 1936.

Do not attach election forms for an interposed entity election made specifying an income year before the 2004–05 income year to the *Company tax return 2012*. Under section 272-85 of Schedule 2F to the ITAA 1936 a company cannot make an interposed entity election specifying a year earlier than 2004–05 in the *Company tax return 2012*.

Amendments to Schedule 2F to the ITAA 1936 as enacted in the *Tax Laws Amendment (2007 Measures No. 4) Act 2007* may affect the information that you complete at this item. The amendments apply to income years starting on or after 1 July 2007.

Changes to section 272-85 of Schedule 2F to the ITAA 1936 now allow an interposed entity election to be revoked in limited circumstances.

The company cannot revoke an interposed entity election unless the revocation is in respect of an income year that occurs during the period:

- starting on 1 July 2007 and finishing on 30 June 2009, or
- starting at the later of
  - the beginning of the income year specified in the election, and
  - the beginning of the income year in which the entity became a member of the family group,

and finishing at the end of the fourth income year after the income year referred to in the above two dot points.

The revocation must be made with the entity's return of income for the income year from which the revocation is to be effective.

For more details on these amendments, go to **ww.ato.gov.au** and search for the fact sheet *Family trusts – details of the amendments to increase flexibility for family trusts*.

Instructions on how to complete the *Interposed entity election or revocation 2012* are on the form itself.

If you are not using ELS, and an *Interposed entity election or revocation 2012* is being lodged with your *Company tax return 2012*, send your tax return and the *Interposed entity election or revocation 2012* to:

Australian Taxation Office
GPO Box 9845
IN YOUR CAPITAL CITY

If the company has previously made one or more elections specifying a day in an income year before the 2011–12 income year, write the earliest income year specified in the box at **L** unless the company is making one or more elections specifying a day in the 2004–05 or later income year.

If the company has previously made one or more elections specifying a day in an income year before the 2004–05 income year and took advantage of the one-off opportunity in *Law Administration Practice Statement PS LA 2004/1 (GA) – Lodgment opportunity for family trust and interposed entity elections* to specify an earlier year, write the earliest income year specified in the box at **L** unless the company is making one or more elections specifying a day in the 2004–05 or later income year.

If the company is making one or more interposed entity elections specifying a day in the 2004–05 or later income year, write the earliest income year specified in the box at **L** and complete an *Interposed entity election or revocation 2012* for each election specifying a day in the 2004–05 or later income year.

If the company has not made or is not making any interposed entity elections, do not complete this item.

Revocation

An interposed entity election can only be revoked by a company that satisfies all of the relevant conditions in subsection 272-85 of Schedule 2F to the ITAA 1936.

Print the code **R** in the box at this item if the interposed entity election made by the company is being revoked from a time in the 2011–12 income year. An *Interposed entity election or revocation 2012* must be completed and lodged with the *Company tax return 2012*.

EXAMPLE 1: New election – specifying the current year

The company has not previously made an interposed entity election. The company wants to make an interposed entity election specifying a day in the 2011–12 income year.

- Write **2012** in the box at **L**.
- Complete an *Interposed entity election or revocation 2012*, specifying a day in the 2011–12 income year, to provide details of the interposed entity election the company is making.

The completed form can be attached to the company's 2012 tax return.

EXAMPLE 2: New election – specifying an earlier year

The company has not previously made an interposed entity election. The company wants to make an interposed entity election specifying a day in the 2004–05 income year.

- Write **2005** in the box at **L**.
- Complete an *Interposed entity election or revocation 2012*, specifying a day in the 2004–05 income year, to provide details of the interposed entity election the company is making.

The completed form can be attached to the company's 2012 tax return.

EXAMPLE 3: One existing election

The company has previously made an interposed entity election specifying a day in the 1994–95 income year and is not making another interposed entity election.

- Write **1995** in the box at **L**.

The company does not need to complete an *Interposed entity election or revocation 2012*.

EXAMPLE 4: Multiple existing interposed entity elections

The company has previously made interposed entity elections specifying a day in the 1997–98 and 2005–06 income years respectively. It is not making another interposed entity election.

- Write **1998** in the box at **L**.

The company does not need to complete an *Interposed entity election or revocation 2012*.

EXAMPLE 5: Additional election – specifying a current year

The company has previously made an interposed entity election specifying a day in the 1996–97 income year and is making another interposed entity election specifying a day in the 2011–12 income year.

- Write **2012** in the box at **L**.
- An *Interposed entity election or revocation 2012* form must be completed, specifying a day in the 2011–12 income year, to provide details of the interposed entity election the company is making.

The completed form can be attached to the company's 2012 tax return.

EXAMPLE 6: Revoking an election

The company has previously made an interposed entity election specifying a day in the 2007–08 income year and is revoking the election from a day in the 2011–12 income year.

- Write **2008** in the box at **L**.
- Print **R** in the box at this item.
- Complete an *Interposed entity election or revocation 2012*, specifying the day in the 2011–12 income year.

The form must be lodged with the company's 2012 tax return.

An interposed entity election is taken to be revoked if the family trust election to which it relates is revoked.

Family trust distribution tax

A company may make an interposed entity election under section 272-85 of Schedule 2F to the ITAA 1936 to be included in the family group of an individual specified in a family trust election made by a trust under section 272-80 of Schedule 2F to the ITAA 1936.

A company that is wholly owned, directly or indirectly, by the relevant family may not need to make an interposed entity election to be included in the family group of the specified individual – see subsection 272-90(5) of Schedule 2F to the ITAA 1936.

A consequence of a company making an interposed entity election is that under section 271-30 of Schedule 2F to the ITAA 1936 the company pays a special tax, called family trust distribution tax (FTDT), at 46.5% on any conferral of present entitlement to, or distribution of, the company's income or capital to persons who are not members of the family group of the specified individual within the meaning of section 272-90 of Schedule 2F to the ITAA 1936. For this purpose, a company's distribution of income or capital has the meaning given in sections 272-50 and 272-60 of Schedule 2F to the ITAA 1936.

For income years commencing on or after 1 July 2007, the definition of 'family group' includes a former spouse, a former widow or widower, and a former step child.

From 1 July 2009 and later years 'spouse' includes another person (whether of the same sex or opposite sex) who:

- you were in relationship with that was registered under a prescribed state or territory law
- although not legally married to you, lived with you on a genuine domestic basis in a relationship as a couple.

Mail the *Family trust distribution tax payment advice*, available at **www.ato.gov.au**, with your FTDT payment to the appropriate address on page 107. Make cheques or money orders payable to the Deputy Commissioner of Taxation and print 'Not negotiable' across the cheque. Tender all cheques in Australian currency. Do not send cash by post.

5 TAXATION OF FINANCIAL ARRANGEMENTS (TOFA)

M Did you make a gain, loss or transitional balancing adjustment from a financial arrangement subject to the TOFA rules?

Print **X** in the appropriate box at **M**.

Print **X** in the **Yes** box only if during the 2011–12 income year the company:

- made an assessable gain or deductible loss under the TOFA rules (unless it was made only because the company held a qualifying security), or
- had an assessable or deductible amount from a transitional balancing adjustment as a result of making the transitional election for existing financial arrangements.

Print **X** in the **No** box if during the 2011–12 income year the company:

- satisfies both of the following:
  - did not make an assessable gain or deductible loss under the TOFA rules, and
  - did not have an assessable or deductible amount from a transitional balancing adjustment as a result of making the transitional election for existing financial arrangements, or
- had an assessable gain or deductible loss under the TOFA rules only because the company held a qualifying security to which the TOFA rules apply.

For further information on how the TOFA rules apply to companies, see General information on page 9; or go to **www.ato.gov.au** and search for *Guide to the taxation of financial arrangements (TOFA) rules*.

PAGE 3 OF THE TAX RETURN

6 CALCULATION OF TOTAL PROFIT OR LOSS

The **Income** and **Expenses** amounts to be written at item **6 Calculation of total profit or loss** are accounting system amounts and correspond to the amounts in the company's financial statements for the income year, except for the depreciation expenses of small business entities using the simplified depreciation rules – these are to be written as tax values at **X Depreciation expenses** item **6** (see **Small business entities** on page 11).

Gross income for accounting purposes may include exempt income, other non-assessable income and foreign source income. Total profit or loss may include extraordinary revenue or expenses, such as net domestic or foreign source gains or losses from events that are outside the ordinary operations of the company.

Adjustments to the accounting amounts for tax purposes are made at item **7** to determine taxable income or loss. In some cases, it is necessary to make a reconciliation adjustment at item **7** to add back or subtract the whole of an amount shown at item **6** and to include the amount for income tax purposes at a specific label at item **7** – for example, where a capital profit for accounting purposes is included at item **6**, it should be included in full at **Q Other income not included in assessable income** item **7**. The company's net capital gain for tax purposes should be written at **A Net capital gain** item **7**.

If GST is payable in relation to income, exclude the GST from the income derived. Deductions are reduced by the input tax credit entitlement. If the company is not registered nor required to be registered for GST purposes or is not entitled to claim input tax credits, its deductions are not adjusted for GST. The company claims the GST-inclusive amount incurred on outgoings. Special rules apply to GST adjustments.

If the company is eligible and is continuing to use the STS accounting method, see **Former STS taxpayers** below. Otherwise see **All companies** on the next page.

FORMER STS TAXPAYERS

Continued use of the STS accounting method

Although the STS has now ceased, a transitional provision allows for limited continued use of the STS accounting method.

A company may continue using the STS accounting method if it:

- was an STS taxpayer from the start of the first income year which began before 1 July 2005 until the end of the 2006–07 income year
- was using the STS accounting method for the 2005–06 and 2006–07 income years, and
- is a small business entity from the 2007–08 income year.

If the company meets these three requirements, it can continue using the STS accounting method until it chooses not to, or is no longer a small business entity.

The STS accounting method does not apply to income or deductions that receive specific treatment in income tax law – for example, net capital gains, dividends, depreciation expenses, bad debts and borrowing expenses.

In addition, if another provision of the tax law apportions or alters the assessability or deductibility of a particular type of ordinary income or general deduction, the timing rule in that provision overrides the STS accounting method – for example, double wool clips or prepayment of a business expense for a period greater than 12 months. Because of these specific provisions you may need to make adjustments at item **7**.

Amounts the company includes at item **6** should be based on the STS accounting method if that method is reflected in the company's accounts. If the company is continuing to use the STS accounting method and its accounts do not reflect the STS accounting method rules, you may need to make additional adjustments at item **7**.

If the company has stopped using the STS accounting method, business income and expenses that have not been accounted for (because they have not been received or paid) are accounted for in this income year. You may need to make additional reconciliation adjustments at item **7**.

For more information about the STS accounting method, go to **www.ato.gov.au** or phone **13 28 66**.

ALL COMPANIES

INCOME

Gross payments subject to foreign resident withholding

You only complete this label if the company is a non-resident. An Australian resident should not include an amount, such as, foreign sourced income, at this label.

Foreign resident withholding applies to payments made to foreign residents where the payment is:

- for promoting or organising casino gaming junket activities
- for entertainment or sports activities, or
- under contract for the construction, installation and upgrading of buildings, plant and fixtures, and for associated activities.

This withholding is not a final tax. A credit can be claimed at **H2 Credit for tax withheld – foreign resident withholding** in the **Calculation statement**.

Write at **B** the gross payments made to the company that were subject to foreign resident withholding. Gross payments include amounts of tax withheld, or that should have been withheld..

Do not include at this label amounts subject to foreign resident withholding that were distributed to the company from a partnership or trust. Include these at **D Gross distribution from partnerships** or **E Gross distribution from trusts**.

Do not include at this label amounts that are subject to a final withholding tax – for example, amounts subject to withholding tax under section 128B of the ITAA 1936. Include these amounts at **F Gross interest** or **H Total dividends** or **R Other gross income** in the **Calculation statement** and **Q Other income not included in assessable income** in the **Reconciliation to taxable income or loss**. A final withholding tax can not be claimed at **H2 Credit for tax withheld – foreign resident withholding** in the **Calculation statement**.

If an amount is written at **B**, complete and attach a *Non-individual PAYG payment summary schedule 2012*. For instructions on completing this schedule, see **Non-individual PAYG payment summary schedule** on page 4.

Any income included at **B** that is not assessable in Australia should also be included at **V Exempt income** item **7**.

Gross payments where ABN not quoted

Write at **A** the gross payments made to the company that were subject to withholding where an ABN was not quoted. Gross payments include amounts of tax withheld.

If you write an amount at **A**:

- complete a *Non-individual PAYG payment summary schedule 2012*. For instructions on completing this schedule, see **Non-individual PAYG payment summary schedule** on page 4.
- ensure that you write the corresponding amount of tax withheld at **H3 Credit for tax withheld where ABN is not quoted** in the **Calculation statement.**

Other sales of goods and services

Write at **C** the gross sales of trading stock including wool, produce and livestock – including the assessable value, for income tax purposes, of forced disposal, manufactured goods, goods taken ex-stock, livestock killed for rations or exchanged for other goods or services, and gross earnings from services.

Do not include at **C**:

- any payments where tax has been withheld for failure to quote an ABN (include these amounts at **A Gross payments where ABN not quoted**)
- any amounts subject to foreign resident withholding (include these amounts at **B Gross payments subject to foreign resident withholding**)
- sales of shares and land that are not held as trading stock for income tax purposes.

Gross distribution from partnerships

Write at **D** the gross distribution from all partnerships, including any share of franking credits attributable to dividends paid by an Australian company.

Include any amounts subject to foreign resident withholding in Australia that were distributed to the company from a partnership. Also include the company's share of credit from foreign resident withholding. A credit can be claimed for the company's share of credit from foreign resident withholding at **H2 Credit for tax withheld – foreign resident withholding** in the **Calculation statement.**

Even if the TOFA rules apply to the company, show at **D** all distributions from partnerships. This includes amounts from financial arrangements subject to the TOFA rules.

If what you show at **D** includes an amount which is brought to account under the TOFA rules, also print **X** in the **Yes** box at **M Taxation of financial arrangements (TOFA)** item **5.**

For more information, see *Guide to the taxation of financial arrangements (TOFA) rules* at **www.ato.gov.au/tofa**

Do not include at **D**:

- distributions from a corporate limited partnership (unless that distribution is attributable to profits made before it became a corporate limited partnership). Include these amounts at **H** **Total dividends** item **6**
- any amount referable to Australian franking credits received indirectly from a New Zealand company through a partnership. Include these amounts at **C** **Australian franking credits from a New Zealand company** item **7**.

Include any adjustment for taxation purposes at **B** **Other assessable income** item **7** or **X** **Other deductible expenses** item **7**.

Special rules apply if an entity is a partner in a partnership and joins a consolidated or MEC group part way through an income year. For more information, see the *Consolidation reference manual*, at **www.ato.gov.au**

Also include the company's share of franking credits included in the gross distribution from the partnership at **C** **Non-refundable non-carry forward tax offsets** in the **Calculation statement**.

However, the company is not entitled to a franking tax offset if the relevant interest is not held at risk as required under the holding period and related payments rules, if there is some other manipulation of the imputation system or if the gross distribution from the partnership is exempt income or non-assessable non-exempt income (other than because of certain provisions mentioned in section 207-110 of the ITAA 1997). Do **not** write the amount of franking credit attached to these distributions at **C** **Non-refundable non-carry forward tax offsets**. Instead, the company is entitled to a deduction under section 207-150 or section 207-95 of the ITAA 1997 equal to its share of the franking credit, and this is included at **X** **Other deductible expenses** item **7**.

If the amount at **D** is a loss, print **L** in the box at the right of the amount.

If the company received a distribution from a partnership that is a small business entity for the income year, it may be entitled to the ETO. For more information, see **11 Entrepreneurs tax offset** on pages 61–4.

To the extent that FTDT has been paid on income received by the company from partnerships, that amount is excluded from the assessable income of the company under section 271-105 of Schedule 2F to the ITAA 1936.

If the company's share of partnership income includes an amount received indirectly from a closely held trust on which trustee beneficiary non-disclosure tax (TBNT) has been paid, you do not need to include the amount in the company's assessable income.

Any losses or outgoings incurred in deriving an amount that is excluded from assessable income because FTDT or TBNT has been paid are not deductible. The company cannot claim a tax offset for any franking credits attributable to the whole or a part of a dividend that is excluded from assessable income under these provisions.

Record keeping

Keep a record of the following:

- full name of the partnership
- TFN of the partnership, if known
- amount of income
- deductible expenses relating to the amount of income that were not claimed in the partnership tax return but are claimed on the company tax return.

Include expenses incurred by the company as a partner at **S** **All other expenses** item **6**.

Add back non-deductible expenses at **W** **Non-deductible expenses** item **7**.

Gross distribution from trusts

Write at **E** the total amount of gross distributions received from trusts, including any share of franking credits attributable to dividends paid by an Australian company as advised by the trustee.

Include any amounts subject to foreign resident withholding in Australia that were distributed to the company from a trust. Also include the company's share of credit from foreign resident withholding. A credit can be claimed for the company's share of credit from foreign resident withholding at **H2** **Credit for tax withheld – foreign resident withholding** in the **Calculation statement**.

Even if the TOFA rules apply to the company, show at **E** all distributions from trusts. This includes amounts from financial arrangements subject to the TOFA rules.

If what you show at **E** includes an amount which is brought to account under the TOFA rules, also print **X** in the **Yes** box at **M** **Taxation of financial arrangements (TOFA)** item **5**.

For more information see *Guide to the taxation of financial arrangements (TOFA) rules* at **www.ato.gov.au/tofa**

Do not include at **E**:

- distributions from a public trading trust or corporate unit trust. Include these amounts at **H** **Total dividends** item **6**
- capital gains received from a trust. Include these at **A** **Net capital gain** item **7**. For information on how to include a capital gain received from a trust at **A** (for example, how to gross-up a capital gain from a trust) see *Guide to capital gains tax 2012*
- any amount referable to Australian franking credits received indirectly from a New Zealand company through a trust. Include these amounts at **C** **Australian franking credits from a New Zealand company** item **7**.

The amount at **E** cannot be a loss.

Also write the company's share of the franking credits included in the gross distribution from the trust at **C** **Non-refundable non-carry forward tax offsets** in the **Calculation statement**. However, if the relevant interest is not held at risk as required under the holding period and related payments rules, or there is some other manipulation of the imputation system, or if the gross distribution from the trust is exempt income or non-assessable non-exempt income (other than because of certain provisions mentioned in section 207-110 of the ITAA 1997), the company is not entitled to a franking tax offset. Do not write the amount of franking credit attached to these distributions at **C** **Non-refundable non-carry forward tax offsets**. Instead, the company is entitled to a deduction under section 207-150 or section 207-95 of the ITAA 1997, and this is included at **X** **Other deductible expenses** item **7**.

Include any part of a distribution in the gross amount – for example, a part of a distribution that is not taxable income. Write any adjustment for taxation purposes at item **7**. In the example mentioned, include that part of the distribution at **Q** **Other income not included in assessable income** item **7**, to ensure that the amount is not included in taxable income.

Special rules apply if an entity is a beneficiary or object of a trust and joins a consolidated or MEC group part way through an income year. For more information, see the *Consolidation reference manual*, at **www.ato.gov.au**

To the extent that FTDT has been paid on income or capital of a trust to which the company is presently entitled or which has been distributed to the company, that income or capital is excluded from the assessable income of the company under section 271-105 of Schedule 2F to the ITAA 1936.

If the company's share of trust income includes an amount received indirectly from a closely held trust on which TBNT has been paid, you do not need to include the amount in the company's assessable income.

Any losses or outgoings incurred in deriving an amount that is excluded from assessable income because FTDT or TBNT has been paid are not deductible. The company cannot claim a tax offset for any franking credits attributable to the whole or a part of a dividend that is excluded from assessable income under these provisions.

If the company received a distribution from a trust that is a small business entity for the income year, it may be entitled to the ETO. For more information see **11 Entrepreneurs tax offset** on pages 61–4.

In the CODE box, print the code from **table 2** that best describes the type of trust for the amount of income written at **E**. If this amount is from more than one type of trust, print the code that represents the trust for the greatest amount of income. Descriptions of the types of trusts listed in **table 2** are in **table 3**.

If the type of trust making the distribution is unknown, contact the trustee of that trust.

TABLE 2: Trust codes

Code	Type
D	Deceased estate
F	Fixed trust, other than a fixed unit trust or a public unit trust shown at **U**, **P** or **Q** of this table
H	Hybrid trust
S	Discretionary trust, where the main source of income of the trust is from service and/or management activities
T	Discretionary trust, where the main source of income of the trust is from trading activities
I	Discretionary trust, where the main source of income of the trust is from investment activities
M	Cash management unit trust
U	Fixed unit trust, other than a public trust described in **P** or **Q** of this table
P	Public unit trust (listed), other than a cash management unit trust
Q	Public unit trust (unlisted), other than a cash management unit trust

TABLE 3: Descriptions of trusts

Fixed trust
A trust in which persons have fixed entitlements (as defined in section 272-5 of Schedule 2F to the ITAA 1936) to all of the income and capital of the trust at all times during the income year.

Hybrid trust
A trust that is not a fixed trust but in which persons have fixed entitlements (as defined in section 272-5 of Schedule 2F to the ITAA 1936) to income or capital of the trust during the income year.

Discretionary trust
A trust that is neither a fixed trust nor a hybrid trust and under which persons benefit from income or capital of the trust upon the exercise of a discretion by persons, usually the trustee.

Fixed unit trust
A fixed trust in which interest in the income and capital of the trust are represented by units.

Public unit trust
A fixed unit trust that is a widely held unit trust (as defined in section 272-105 of Schedule 2F to the ITAA 1936) at all times during the income year.

Public unit trust – listed
A public unit trust in which any of its units were listed for quotation in the official list of a stock exchange in Australia or elsewhere during the income year.

Public unit trust – unlisted
A public unit trust in which none of its units were listed for quotation in the official list of a stock exchange in Australia or elsewhere during the income year.

Record keeping

Keep a record of the following:

- full name of the trust
- TFN of the trust, if known
- amount of income
- deductible expenses relating to the amount of income.

Include expenses incurred by the company as a beneficiary at **Expenses**, **S All other expenses** item **6**.

Add back non-deductible expenses at **W Non-deductible expenses** item **7**.

Forestry managed investment scheme income

DEFINITIONS

A company is an **initial participant** in an FMIS if:

- it obtained its forestry interest in the FMIS from the forestry manager of the scheme, and
- its payment to obtain the forestry interest in an FMIS results in the establishment of trees.

A company is a **subsequent participant** if it obtains an interest in a forestry managed investment scheme through secondary market trading. This means it acquired its interest other than as an initial participant, usually by purchasing that interest from an initial participant.

The **forestry manager** of an FMIS is the entity that manages, arranges or promotes the FMIS.

A **forestry interest** in an FMIS is a right to benefits produced by the FMIS (whether the right is actual, prospective or contingent, and whether it is enforceable or not).

The amount of the company's **total forestry scheme deductions** is the total of all the amounts that it can deduct or has deducted for each income year that it held its forestry interest. See **Forestry managed investment scheme deduction** on page 42 for more information on amounts that you can deduct.

The amount of the company's **incidental forestry scheme receipts** is the total of all the amounts that it received from the FMIS in each income year that it held its forestry interest, other than amounts received because of a CGT event, that is, a sale or a harvest.

Write at **X** the total income from the following activities for each FMIS in which the company holds a forestry interest.

PARTICIPANTS IN AN FMIS

For an initial participant

Thinning receipts

If the company received thinning proceeds from its forestry interest, include the actual amount received at **X**.

Sale and harvest receipts – forestry interest no longer held

If the company ceased holding its forestry interest as a result of a CGT event (because it sold its interest or it received harvest proceeds) include the market value of the forestry interest at the time of the CGT event at **X**.

Sale and harvest receipts – forestry interest still held

If a CGT event happened and the company still held its forestry interest (because it sold part of its interest or there was a partial harvest) include at **X** the amount by which the market value of the forestry interest was reduced as a result of the CGT event.

For a subsequent participant

Thinning receipts

If the company received thinning proceeds from its forestry interest, include the actual amount received at **X**.

Sale and harvest receipts – forestry interest no longer held

If the company ceased holding its forestry interest as a result of a CGT event (because it sold its interest or it received harvest proceeds) include at **X** the lesser of the following two amounts:

- the market value of the forestry interest at the time of the CGT event, or
- the amount (if any) by which the total forestry scheme deductions exceeded the incidental forestry scheme receipts.

Sale and harvest receipts – forestry interest still held

If a CGT event happened and the company still held its forestry interest (because it sold part of its interest or there was a partial harvest) work out the following two amounts:

- the market value of the forestry interest at the time of the CGT event, and
- the amount (if any) by which the total forestry scheme deductions exceeded the incidental forestry scheme receipts.

Use the lesser of the two amounts above in the following formula:

$$\text{amount worked out above} \times \frac{\text{the decrease (if any) in the market value of the forestry interest (as a result of the CGT event)}}{\text{the market value of the forestry interest just before the CGT event}}$$

Include at **X** the amount calculated using the formula.

To complete this item

Add up all the amounts you worked out for the company's FMIS income and write the total at **X**.

See **examples 7 and 8** for how to calculate the amount you show at **X**.

For more information on the CGT treatment of a company's forestry interest, see *Guide to capital gains tax 2012*.

EXAMPLE 7

Cedar Pty Ltd is a subsequent participant in an FMIS. It sold its forestry interest at the market value of $20,000. The sale of the forestry interest is a CGT event. The original cost base was $14,000.

In the time that the company held the forestry interest, it claimed $4,000 in deductions (its total forestry scheme deductions) for lease fees, annual management fees and the cost of felling that it paid to the forestry manager. In an earlier period, it received $1,500 from thinning proceeds (its incidental forestry scheme receipts).

Cedar Pty Ltd will need to include **$2,500** (that is, $4,000 minus $1,500) at **X**, because this amount is less than the market value of its forestry interest at the time of the CGT event.

EXAMPLE 8

Oakey Pty Ltd is a subsequent participant in an FMIS. It received harvest proceeds over two income years. It received the first harvest payment of $5,000 in the 2010–11 income year.

The market value of its forestry interest is $20,000 just before it received its payment for the first harvest (which is a CGT event). After it received this first harvest payment, the market value of its forestry interest was reduced to $15,000. Its original cost base was $14,000.

In the time that it has held its interest, Oakey Pty Ltd claimed $4,000 in deductions (its total forestry scheme deductions) for lease fees, annual management fees and the cost of felling that it paid to the forestry manager. In an earlier period, it received $1,500 from thinning proceeds (its incidental forestry scheme receipts).

Step 1 The market value of the forestry interest (at the time of the CGT event) is $20,000.

The amount by which the total forestry scheme deductions exceed the incidental forestry scheme receipts is $2,500 (that is, $4,000 minus $1,500).

The amount to use in step 2 is $2,500.

Step 2 Using the formula in the previous column:

$$\$2,500 \quad \text{x} \quad \frac{\$5,000}{\$20,000} = \$625$$

Step 3 The company will need to include **$625** at **X**.

Step 4 Oakey Pty Ltd will need to include the remainder from step 2 of **$1,875** (that is, $2,500 minus $625) at **X** in its 2012 tax return.

Gross interest

Write at **F** the total interest from all sources, including interest received from or credited by an associate. The amount at this label cannot be a loss.

Even if the TOFA rules apply to the company, show at **F** all interest received or credited to it. This includes interest from financial arrangements subject to the TOFA rules.

If what you show at **F** includes an amount which is brought to account under the TOFA rules, also print **X** in the **Yes** box at **M Taxation of financial arrangements (TOFA)** item **5**.

For more information, see *Guide to the taxation of financial arrangements (TOFA) rules* at **www.ato.gov.au/tofa**

Record keeping

Keep a record of the following:
- name and address of the borrower
- amount received or credited.

Gross rent and other leasing and hiring income

Write at **G** the company's total income from leasing and hiring activities. The amount at this label cannot be a loss.

Total dividends

Write at **H** total dividends, including all dividends and non-share dividends franked and unfranked, foreign source dividends (including New Zealand dividends and supplementary dividends, bonus shares), deemed dividends, and liquidators' and other company distributions. The amount at this label cannot be a loss.

Even if the TOFA rules apply to the company, show at **H** all unfranked dividends that were paid or credited to it from all sources. This includes unfranked dividends from financial arrangements subject to the TOFA rules.

If what you show at **H** includes an amount which is brought to account under the TOFA rules, also print **X** in the **Yes** box at **M Taxation of financial arrangements (TOFA)** item **5**.

For more information, see *Guide to the taxation of financial arrangements (TOFA) rules* at **www.ato.gov.au/tofa**

Do **not** include at **H**:
- a dividend received under a demerger unless the head entity of the demerger group has elected under subsection 44(2) of the ITAA 1936 that the dividend be treated as an assessable dividend
- any franking credits that were attached to dividends received from an Australian company; include these amounts at **J Franking credits** item **7**
- any Australian franking credits from a New Zealand franking company at item **6**; include them at **C Australian franking credits from a New Zealand company** item **7**.

All transactions that occur between members of a consolidated or MEC group, including distributions between group members, are not recognised for income tax purposes. Do not include at **H** distributions between members of the same consolidated or MEC group.

To the extent that FTDT has been paid on a dividend (including a non-share dividend) paid or credited to the company by another company that has made an interposed entity election, that amount is excluded from the assessable income of the company under section 271-105 of Schedule 2F to the ITAA 1936. Any losses or outgoings incurred in deriving an amount that is excluded from assessable income under section 271-105 of Schedule 2F to the ITAA 1936 are not deductible. The company cannot claim a tax offset for any franking credit attributable to the whole or a portion of a dividend that is excluded from assessable income under section 271-105 of Schedule 2F to the ITAA 1936.

Record keeping

Keep a record of the following for dividends and non-share dividends:

- name of the payer
- date received or credited
- franked amount
- unfranked amount
- franking credit allocated
- franking percentage
- gross amount
- type of distribution – for example, foreign source dividend, bonus shares, phasing-out dividend, liquidator's distribution.

Fringe benefit employee contributions

Write at **I** all payments that the company has received from recipients of fringe benefits.

Employee contributions form part of the employer's or associate's assessable income if employees make payments for fringe benefits that they have received.

If you are the head company of a consolidated or MEC group, include all fringe benefit employee contributions received by you or by an entity that was a subsidiary member of the group when the contribution was received.

Assessable government industry payments

Generally, government credits, grants, rebates, benefits, bounties and subsidies are assessable income in the hands of the recipient if they are received in, or in relation to, the carrying on of a business. This generally includes payments of a capital nature. However, payments relating to the commencement or cessation of a business may not be assessable income but may give rise to a capital gain.

Write at **Q** all assessable government industry payments, including:

- bounties
- cleaner fuels grants
- drought relief
- employee subsidies
- export incentive grants
- fuel grants under the energy grants credits scheme
- fuel tax credits
- industry assistance grants including grants relating to R&D
- producer rebate (wine equalisation tax)
- product stewardship for oil program benefit.

If this amount includes fuel tax credits or a fuel grant under the energy grants credits scheme, a cleaner fuels grant, or a product stewardship for oil program benefit, print **D** in the CODE box.

For more information on fuel schemes, phone **13 28 66**.

For more information, go to **www.ato.gov.au** and search for *Taxation Ruling TR 2006/3 – Income tax: government payments to industry to assist entities (including individuals) to continue, commence or cease business*.

Unrealised gains on revaluation of assets to fair value

Write at **J** the amount (if any) of any unrealised gains made on the revaluation of assets and liabilities to fair value that may arise as a result of the adoption of Australian equivalents to the international financial reporting standards.

- Include any unrealised gain on the revaluation of a financial arrangement to fair value assessable under the TOFA rules at **K** **Income from financial arrangements (TOFA)** item **6** instead of at **J**.
- Adjustments for tax purposes are made at item **7**.
- An unrealised gain that is not assessable income is included at **Q** **Other income not included in assessable income** item **7**.
- Any net capital gain for taxation purposes is written at **A** **Net capital gain** item **7**.
- Any net capital loss is included with any unapplied capital losses carried forward to later income years and is written at **V** **Net capital losses carried forward to later income years** item **13**.

INCOME FROM FINANCIAL ARRANGEMENTS (TOFA)

Show an amount at **K** only if the company has:

- financial arrangements to which the TOFA rules apply (see **Taxation of Financial Arrangements (TOFA)** on page 9), and
- made some assessable gains from its financial arrangements.

Write at **K** the total income from financial arrangements, except the following gains:

- accounting income from financial arrangements which is not recognised as an assessable TOFA gain for income tax purposes because the company has not made relevant TOFA tax-timing method elections – that is, fair value election, foreign exchange retranslation election, the election to rely on financial reports or hedging election
- amounts that have already been included at **D** **Gross distribution from partnership**
- amounts that have already been included at **E** **Gross distribution from trusts**
- amounts that have already been included at **F** **Gross interest**
- amounts that have already been included at **H** **Total dividends**.

If you show an amount at **K**, also print **X** in the **Yes** box at **M** **Taxation of financial arrangements (TOFA)** item **5**.

For more information, see *Guide to the taxation of financial arrangements (TOFA) rules* at **www.ato.gov.au/tofa**

Other gross income

Write at **R** other gross income, royalties, insurance recoveries, bad debt recoveries, life insurance premiums, subsidies and assessable non-government assistance from all sources and profit on sale of depreciating assets (including assets used in R&D activities subject to the R&D tax incentive).

Also include at **R** any extraordinary revenue – that is, revenue or gains from events outside the ordinary operations of the company and not of a recurring nature, including work-in-progress amounts assessable under section 15-50 of the ITAA 1997. An extraordinary gain that is not assessable income is included at **Q** **Other income not included in assessable income** item **7**.

This label excludes amounts included at **Income**, **B** to **J** item **6**.

Record keeping

Keep a record of the following:

- types of income – for example, sales, commissions
- amount derived for each type of income.

If various profit and loss account balances are combined when calculating **R**, keep a list of the names and amounts of those accounts.

Total income

Write at **S** the total of all income items written at **B** to **R** item **6**. If this amount is a loss, print **L** in the box at the right of the amount.

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EXPENSES

- Write all expense amounts from the company's financial statements at **B** to **S**, see relevant item names and labels.
- Write at **B** **Foreign resident withholding expenses** all expenses that directly relate to income subject to foreign resident withholding. Do not include these amounts at other **Expenses** labels.
- Input tax credit entitlements that arise in relation to outgoings are excluded from expenses, see **6 Calculation of total profit and loss** on page 21.
- Write non-deductible expenses incurred in deriving any exempt income at the appropriate expense labels. Add back these non-deductible expenses at **U** **Non-deductible exempt income expenditure** item **7**.
- Other expenses, to the extent that they are not deductible in the 2011–12 income year, which have been included at **A** to **S** item **6**, are added back at **W** **Non-deductible expenses** item **7**. This includes non-deductible expenses incurred in deriving any non assessable non-exempt income.
- Record prepaid expenses that appear in the company's financial statements at the relevant expense label. Where the amounts of those expenses differ from the amounts which are deductible for income tax purposes in the 2011–12 income year, make adjustments at **W** or **X** item **7**.
- For a company to claim a deduction for gifts and donations made to an organisation, the organisation must be a deductible gift recipient (DGR). DGRs are endorsed by the ATO or specifically named in the income tax law. All receipts issued for gifts by a DGR must include the name of the fund, authority or institution to which the gift has been made and the DGR's ABN, and must state that the receipt is for a gift. To check whether an organisation is a DGR, go to **www.abn.business.gov.au** or phone **1300 130 248**.
- The company may elect to spread a deduction for a gift over five income years or less where the gift is money, property gifted to the Cultural Gifts Program, certain heritage property or property valued by the ATO at more than $5,000.

Foreign resident withholding expenses

You only complete this label if the company is a non-resident. An Australian resident should not include expenses, such as expenses incurred in deriving foreign sourced income, at this label.

Write at **B** all expenses directly relating to gaining income subject to foreign resident withholding (shown at **Income**, **B** **Gross payments subject to foreign resident withholding**, **D** **Gross distribution from partnerships** or **E** **Gross distribution from trusts**, item **6**).

Any expenses written at **B** that directly relate to gaining income that is not assessable in Australia should also be written at **U** **Non-deductible exempt income expenditure** item **7**.

Cost of sales

Small business entities

Small business entities only need to account for changes in the value of their trading stock in limited circumstances – these are explained on page 51. If the company does not need to account for the change in value of closing stock, its closing stock value will equal its opening stock value. If the company needs to account for the change in value of closing stock, or chooses to do so, see **Closing stock** on pages 51–2 for information about how to calculate the closing stock value. For more information on calculating cost of sales, read below.

All companies

Write at **A** the cost of anything produced, manufactured, acquired or purchased for manufacture, sale or exchange in deriving the gross proceeds or earnings of the business. This includes freight inwards and may include some external labour costs, if these are included in the cost of sales account in the normal accounting procedure of the business.

If the cost of sales account is in credit at the end of the income year (that is, a negative expense) print **L** in the box at the right of the amount at **A**. Do **not** print brackets around this amount.

For more information on the circumstances in which packaging items held by a manufacturer, wholesaler or retailer are 'trading stock' as defined in section 70-10 of the ITAA 1997, see *Taxation Ruling TR 98/7 – Income tax: whether packaging items (ie, containers, labels, etc) held by a manufacturer, wholesaler or retailer are trading stock*.

Do not include input tax credit entitlements in cost of sales.

Contractor, sub-contractor and commission expenses

Write at **C** the expenditure incurred for labour and services provided under contract other than those in the nature of salaries and wages – for example:

- payments to self-employed people, such as consultants and contractors, this includes those who operate under a labour-hire arrangement or a voluntary agreement
- commissions paid to people not receiving a retainer
- agency fees – for example, advertising
- service fees – for example, plant service
- management fees
- consultants' fees.

Do **not** include the following at **C**:

- expenses for external labour that are incorporated into the amount written at **A** **Cost of sales** item **6**
- expenses for accounting or legal services. Include them at **S** **All other expenses** item **6**.

Record keeping

Keep a record of the following:

- name and address of the payee
- nature of the services provided
- the amount paid.

Superannuation expenses

Write at **D** the superannuation expenses incurred for the income year.

Employers are entitled to a deduction for contributions made to a complying superannuation, provident, benefit or retirement fund, or retirement savings account (RSA), if the contribution is to provide superannuation benefits for employees or to provide benefits to an employee's dependants on the employee's death. Superannuation benefits mean payments for superannuation member benefits or superannuation death benefits.

Provided certain conditions are met, employers can claim a deduction for superannuation contributions made in respect of a former employee within four months of the employee ceasing employment and at any time after the employee ceases employment for defined benefit interests. Previously, employers were restricted to a two-month time limit.

A deduction is allowable in the income year in which the contributions are made.

There is no limit on the amount of contributions that can be claimed as a deduction by an employer contributing to a complying superannuation fund or RSA in respect of employees under the age of 75 years. However, the employee may be subject to excess contributions tax if their concessional contributions in a financial year exceed $25,000. This tax is levied at the rate of 31.5% where the employee's concessional contributions in a financial year exceed their concessional contributions cap. A transitional arrangement allows a higher cap of $50,000 on concessional contributions for the 2011–12 income years for individuals aged 50 years or over on the last day of the income year.

If an employee has reached the age of 75 years, there is a restriction on the deduction that can be claimed for an employer contribution to a complying superannuation fund or RSA. For contributions made after the 28th day of the month following the employee's 75th birthday, the deduction claimable is limited to the amount of the contribution required under an industrial award, determination or notional agreement preserving State awards.

The adjustments for taxation purposes are included at **W** **Non-deductible expenses** item **7**.

No deduction is allowable if the fund is a non-complying fund.

In addition, contributions made to a non-complying fund do not count towards superannuation guarantee obligations. The superannuation guarantee charge is payable on the superannuation guarantee shortfall. As such, it is neither a superannuation contribution nor tax deductible.

Contributions made by employers to be offset against a superannuation guarantee charge liability are not deductible.

Contributions paid by an employer for employees to a non-complying superannuation fund may be fringe benefits and, as such, may be subject to tax under the *Fringe Benefits Tax Assessment Act 1986*.

Consolidated or MEC groups

The head company includes at **D** the employee superannuation expenses of all the members of the group.

The head company includes at **W** **Non-deductible expenses** item **7** any non-deductible employee superannuation expenses of all the members of the group.

Bad debts

Write at **E** the bad debts expense incurred for the income year.

- Include recovery of bad debts at **Income**, **R** **Other gross income** item **6**.
- A deduction for bad debts is not allowable under subsection 25-35(1) of the ITAA 1997 unless the debt that is bad has previously been included in assessable income, or is for money lent in the ordinary course of the business of lending money by a company carrying on that business.
- Do not include accounting provisions for doubtful debts at **E**. Include these at **Expenses**, **S** **All other expenses** item **6** and add them back at **W** **Non-deductible expenses** item **7**.

- Before a bad debt can be claimed, it **must** be bad and not merely doubtful. The deduction depends on the facts in each case and, where applicable, the action taken for recovery. For more information, see *Taxation Ruling TR 92/18 – Income tax: bad debts*.

A deduction can also be claimed for:

- partial debt write-offs where only part of a debt is bad and is written off
- losses incurred in debt-equity swaps for debt extinguished after 26 February 1992 if the provisions of sections 63E to 63F of the ITAA 1936 are satisfied. Under these provisions, a deduction may be allowable for the difference between the amount of the debt extinguished and the greater of the market value of the equity or the value at which the equity is recorded in the creditor's books at the time of issue. Generally, the market value of the equity is the price quoted on the stock exchange or, if the equity is not listed, the net asset backing of the equity.

A deduction for a bad debt or loss on a debt-equity swap is only allowable if the company claiming the deduction satisfies:

- a continuity of ownership test (or we consider it unreasonable to have to satisfy the test) – see Subdivision 165-C of the ITAA 1997
- the same business test (if the continuity of ownership test is not satisfied or it is not practicable to show that it is). For the operation of the same business test, see Subdivision 165-E of the ITAA 1997 and *Taxation Ruling TR 1999/9 – Income tax: the operation of sections 165-13 and 165-210, paragraph 165-35(b), section 165-126 and section 165-132*.

Where a debt was incurred in an income year prior to that in which it is written off as bad, the company must satisfy the continuity of ownership test at all times from the date on which the debt was incurred through to the end of the income year in which it writes off the debt.

Where a debt was both incurred and written off as bad in the same income year, the company must satisfy the continuity of ownership test at all times during that income year. A company cannot deduct a debt that is both incurred and written off as bad on the last day of the income year.

The continuity of ownership tests applicable to bad debts are subject to:

- the anti-avoidance provisions in Subdivision 165-D of the ITAA 1997 relating to arrangements designed to affect the beneficial ownership of shares or enjoyment of rights attaching to shares
- the anti-avoidance provisions in Subdivision 175-C of the ITAA 1997 relating to schemes designed to obtain tax benefits from unused bad debt deductions.

For widely held companies and eligible Division 166 companies, the continuity of ownership test in Subdivision 165-C may be modified by Subdivision 166-C of the ITAA 1997, which provides a simplified method for determining the company's ultimate majority ownership.

Deductions for bad debts may also be reduced by the commercial debt forgiveness provisions – see **appendix 1**.

Even if the TOFA rules apply to the company, show at **E** all of the company's bad debts. This includes amounts from financial arrangements subject to the TOFA rules.

If what you show at **E** includes an amount which is brought to account under the TOFA rules, also print **X** in the **Yes** box at **M** **Taxation of financial arrangements (TOFA)** item **5**.

For more information, see *Guide to the taxation of financial arrangements (TOFA) rules* at **www.ato.gov.au/tofa**

Record keeping

If the company writes off bad debts during the income year, keep a statement for all debtors in respect of which a write-off occurred, showing:

- their name and address
- the amount of the debt
- the reason why the debt is regarded as bad
- the income year that the amount was returned as income.

Special rules apply to determine if the head company of a consolidated or MEC group can deduct a bad debt that for a period has been owed to a member of a consolidated or MEC group and for another period has been owed to an entity that was not a member of that group – see Subdivisions 709-D and 719-I of the ITAA 1997.

Lease expenses within Australia

Write at **F** the expenditure incurred through both finance and operating leases on leasing assets, including motor vehicles and depreciating assets such as plant. However, do not include the expenditure at **F** if it is incurred under a hire-purchase agreement. Such expenses are referred to in **appendix 6**.

Do **not** include the cost of leasing real estate or the capital expenditure incurred to terminate a lease or licence. However, section 25-110 of the ITAA 1997 provides a five-year straight-line write-off for certain capital expenditure incurred to terminate an operating lease or licence if the expenditure is incurred in the course of carrying on a business or in connection with ceasing to carry on a business. Include the allowable deduction at **X** **Other deductible expenses** item **7**. See **worksheet 2** on pages 88–90 and **note 6** on page 91 of these instructions, and the details under **Change 3** in the fact sheet *Blackhole expenditure: business related expenses*, at **www.ato.gov.au**

Lease expenses overseas

Write at **I** the lease expenses incurred through both finance and operating leases on leasing depreciating assets, including motor vehicles. However, do not include the expenditure at **I** if it is incurred under a hire-purchase agreement. Such expenses are referred to in **appendix 6**.

Exclude the cost of leasing real estate, capital expenditure incurred to terminate a lease or licence, and expenditure on items other than depreciating assets leased from non-residents. For more information on capital expenditure incurred to terminate an operating lease or licence, see **Lease expenses within Australia** above.

Record keeping

If a deduction is claimed for the cost of leasing depreciating assets, keep a record of the following:

- a description of the items leased
- where applicable, the country from which the items were leased
- full particulars of the lease expenses for each item of property, including motor vehicles, showing
  - to whom the payments were made
  - where applicable, the country to which the payments were made
  - the terms of the payments, including details of any prepayments or deferred payments
  - if any assignment, defeasance or re-direction to pay the payments was entered into, full particulars of those arrangements, including to whom the payments were made
  - details of any use other than for producing assessable income
  - any documentation on or relating to the lease of the asset.

In certain cases, an amount of tax (withholding tax) is withheld from amounts paid or payable under equipment leases to non-residents and overseas branches of residents, and must be remitted to the ATO. If you have withheld amounts from payments to non-residents, you may need to lodge a *PAYG withholding from interest, dividend and royalty payments paid to non-residents – annual report* by 31 October 2012. For more information, phone **13 28 66**.

Rent expenses

Write at **H** the expenditure incurred as a tenant on rental of land and buildings used in the production of income.

Interest expenses within Australia

Write at **V** the interest expenses incurred on money borrowed from Australian sources.

Even if the TOFA rules apply to the company, show at **V** all interest incurred on money borrowed from Australian sources. This includes interest on financial arrangements subject to the TOFA rules.

If what you show at **V** includes an amount which is brought to account under the TOFA rules, also print **X** in the **Yes** box at **M** **Taxation of financial arrangements (TOFA)** item **5**.

For more information, see *Guide to the taxation of financial arrangements (TOFA) rules* at **www.ato.gov.au/tofa**

An amount of interest may not be an allowable deduction – for example, where the thin capitalisation provisions disallow an interest deduction. Include the amount of interest not allowable at **W** **Non-deductible expenses** item **7**.

For information on thin capitalisation, see **appendix 3**.

Distributions from a non-share equity interest are not deductible go to **www.ato.gov.au** and search for *Debt and equity tests: guide to the debt and equity tests* (NAT 4643) – it provides an overview of the debt and equity rules and explains what a non-share equity interest is.

Interest expenses overseas

Write at **J** the interest expenses incurred on money borrowed from overseas sources.

Even if the TOFA rules apply to the company, show at **J** all interest expenses incurred on money borrowed overseas. This includes interest on financial arrangements subject to the TOFA rules.

If what you show at **J** includes an amount which is brought to account under the TOFA rules, also print **X** in the **Yes** box at **M** **Taxation of financial arrangements (TOFA)** item **5**.

For more information, see *Guide to the taxation of financial arrangements (TOFA) rules* at **www.ato.gov.au/tofa**

An amount of tax (withholding tax) is generally withheld from interest paid or payable to non-residents and to overseas branches of residents, and must be remitted to the ATO. If you have withheld amounts from payments to non-residents you may need to lodge a *PAYG withholding from interest, dividend and royalty payments paid to non-residents – annual report* (NAT 7187) by 31 October 2012. For more information, phone **13 28 66**.

An amount of interest may not be an allowable deduction, for example, where the thin capitalisation provisions disallow an interest deduction. Include the amount of interest not allowable at **W** **Non-deductible expenses** item **7**.

For information on thin capitalisation, see **appendix 3**.

Distributions from a non-share equity interest are not deductible. *Debt and equity tests: guide to the debt and equity tests* at **www.ato.gov.au** is an overview of the debt and equity rules and explains what a non-share equity interest is.

Record keeping

If interest is paid to non-residents, keep a record of the following:

- names and addresses of recipients
- amount of interest paid or credited
- amount of withholding tax withheld and the date on which it was remitted to the ATO.

Royalty expenses within Australia

Write at **W** the royalty expenses paid during the income year to Australian residents.

Record keeping

Keep a record of the following:

- names and addresses of recipients
- amounts paid
- nature of the benefit derived – for example, a copy of the royalty agreement
- details of amounts withheld, where applicable, and the date on which they were remitted to the ATO.

Royalty expenses overseas

Write at **U** the royalty expenses incurred during the income year to non-residents.

An amount of tax (withholding tax) is generally withheld from royalties paid or payable to non-residents and overseas branches of residents, and must be remitted to the ATO. If you have withheld amounts from payments to non-residents, you may need to lodge a *PAYG withholding from interest, dividend and royalty payments paid to non-residents – annual report* by 31 October 2012. For more information, phone **13 28 66**.

Record keeping

Keep a record of the following:

- names and addresses of recipients
- amounts paid or credited
- nature of the benefit derived – for example, a copy of the royalty agreement
- details of tax withheld, where applicable, and the date on which it was remitted to the ATO.

Depreciation expenses

If the company is an eligible small business entity and has chosen to use the simplified depreciation rules, see **Small business entities** in the next column. Otherwise see **All other companies** following.

All other companies

Write at **X** **Depreciation expenses** the book depreciation expenses for depreciating assets. This amount does **not** include:

- profit on sale of depreciating assets, shown at **Income**, **R** **Other gross income** item **6**
- loss on sale of depreciating assets, shown at **Expenses**, **S** **All other expenses** item **6**.

If an amount is written at **X**, make reconciliation adjustments at item **7** even if the depreciation expense is the same amount as the deduction for decline in value.

For reconciliation purposes, split the amount written at **X** into R&D and non-R&D amounts when adding back at item **7**. Include non-R&D amounts at **W** **Non-deductible expenses** item **7** when adding back. Include R&D amounts at **D** **Accounting expenditure in item 6 subject to R&D tax incentive** item **7** when adding back.

Write the deduction for decline in value of most depreciating assets at **F** **Deduction for decline in value of depreciating assets** item **7**. If a depreciating asset is subject to the R&D tax incentive, this amount will form part of your notional R&D deduction. Eligible companies can claim this notional R&D deduction amount as an R&D tax offset. Refer to **22 Research and development tax incentive** on page 70 of these instructions and the Research and development tax incentive schedule 2012 instructions for further information.

If the company has included an amount greater than $100,000 at **X**, complete and attach a *Capital allowances schedule 2012* unless the company is a small business entity using the simplified depreciation rules. For more information, see *Capital allowances schedule instructions 2012*.

Our *Practice Statement PS LA 2003/8 – Taxation treatment of expenditure on low-cost items for taxpayers carrying on a business* provides guidance on two straightforward methods that taxpayers carrying on a business can use to help them determine whether expenditure incurred in acquiring certain low-cost assets is to be treated as revenue or capital expenditure.

Subject to certain qualifications, the two methods cover expenditure below a threshold and the use of statistical sampling to estimate total revenue expenditure on low-cost items. Under the threshold rule, low-cost items with a typically short life costing $100 or less are assumed to be revenue in nature and are immediately deductible. The sampling rule allows taxpayers with a low-value pool to use statistical sampling to determine the proportion of the total purchases on low-cost tangible assets that are revenue expenditure.

Small business entities

If the company is an eligible small business entity and has chosen to use the simplified depreciation rules, write at **X** **Depreciation expenses** the total depreciation deductions being claimed under the simplified depreciation rules and the uniform capital allowances (UCA) rules. The company does **not** need to complete a capital allowances schedule.

Small business entities can claim an immediate deduction for most depreciating assets costing less than $1,000 (excluding input tax credit entitlements) and pool most of their other depreciating assets. There are two small business pools:

- a general small business pool for depreciating assets with an effective life of less than 25 years
- a long life small business pool for depreciating assets with an effective life of 25 years or more.

Some depreciating assets are excluded from these simplified depreciation rules but a deduction may be available under the UCA or the R&D depreciating asset regime.

An eligible company choosing to use these simplified depreciation rules must use **both** the immediate write-off and the pooling method where applicable. It cannot choose to use one and not the other.

For more information about the small business entity depreciation rules, go to **www.ato.gov.au** or phone **13 28 66**.

Calculating depreciation deductions for small business entities

Use the following steps 1 to 5 to calculate the depreciation deductions **only** if the company is an eligible small business entity and has chosen to use the simplified depreciation rules.

If the company's profit and loss statement provides the amounts to complete **worksheet 1** on page 34, write these amounts in the worksheet. Otherwise, use steps 1 to 5 to calculate its depreciation deductions.

The amounts in the table must be tax and not accounting values.

Step 1 Low-cost assets

For each depreciating asset:

- the company started to hold this income year and used, or installed ready for use, for a taxable purpose such as for producing assessable income
- whose cost at the end of this year is less than $1,000 (excluding input tax credit entitlements)
- which qualifies for a deduction under the small business entity depreciation rules

work out the extent it is used for the purpose of producing assessable income (taxable purpose proportion). The deduction for each eligible asset is calculated as follows:

asset's adjustable value × its taxable purpose proportion

The adjustable value of an asset is its cost **less** its decline in value since it was first used, or installed ready for use, for any purpose, whether business or private. The adjustable value of an asset, at the time it was first used, or installed ready for use, for a taxable purpose, will be its cost unless the asset was previously used, or installed ready for use, by the company solely for non-taxable purposes – for example, for a tool set bought on 1 December at a cost of $800 (excluding input tax credit entitlements) and used for producing assessable income from that date at an estimated 70% of the time, the immediate deduction would be $800 × 70% = $560.

Add up these results and write the total at (a) in **worksheet 1** on page 34.

Do **not** include in this calculation amounts for depreciating assets that the company started to hold before starting to use the simplified depreciation rules and that cost less than $1,000. These assets are allocated to a small business pool (see step 2).

Step 2 Small business pool deductions

To calculate the deductions for both the general and long life small business pools, first calculate the opening pool balance of each pool.

For companies previously using the simplified depreciation rules, the opening pool balance of each small business pool is the closing pool balance for the previous income year, adjusted to reflect any changed business use of a pooled asset.

For companies which have not previously used the simplified depreciation rules, the opening pool balance is the sum of the taxable purpose proportions of the adjustable values of those depreciating assets that are used, or held for use, just before the start of the 2011–12 income year, and that are not excluded from the simplified depreciation rules.

Allocate each depreciating asset that the company holds at the start of the income year to the appropriate pool according to the asset's effective life. Only include the taxable purpose proportion of the adjustable value of each depreciating asset.

For example, for an asset with an adjustable value of $10,000 which is used only 50% for an income-producing purpose, add only $5,000 to the pool.

The company can choose not to allocate an asset to the long life small business pool if the asset was first used, or installed ready for use, for a taxable purpose before 1 July 2001. A company making this choice would depreciate such assets under the normal UCA rules.

Calculate the opening pool balance for each small business pool by adding the value of all depreciating assets allocated to the relevant pool.

Calculate the deduction for each small business pool and complete as follows:

General small business pool deduction:

Opening pool balance $ x 30%

Write the result at (b) in **worksheet 1**.

Long life small business pool deduction:

Opening pool balance $ x 5%

Write the result at (c) in **worksheet 1**.

If either pool balance (after taking into account additions and disposals but before calculating the deductions in steps 2 and 3) is below $1,000, the company calculates the deduction for the pool using step 5(b).

Step 3 Depreciating assets first used for a taxable purpose during the income year and cost addition amounts for assets already allocated to a pool

The company calculates the deduction at half the relevant pool rate for:

- depreciating assets that the company first used or installed ready for use for a taxable purpose during the year
- cost addition amounts during the year for assets already allocated to a pool. Cost addition amounts include the costs of capital improvements to assets and costs reasonably attributable to disposing of, or permanently ceasing to use, an asset (this may include advertising and commission costs or the cost of demolishing the asset).

The company calculates the deduction for the income year as follows:

- the taxable purpose proportion of the adjustable value of each depreciating asset first used for a taxable purpose this year multiplied by 15% for general pool assets or 2.5% for long-life pool assets, plus
- the taxable purpose proportion of the cost addition amounts multiplied by 15% for general pool assets or 2.5% for long-life pool assets.

Write the total deduction for general small business pool assets at (d) in **worksheet 1**.

Write the total deduction for long life small business pool assets at (e) in **worksheet 1**.

If either pool balance (after taking into account additions and disposals but before calculating the deductions in steps 2 and 3) is below $1,000, calculate the company's deduction for these assets using step 5(b).

Step 4 Other depreciating assets

Calculate the deduction for the decline in value of all the other depreciating assets of the company that are not included in steps 1 to 3. See *Guide to depreciating assets 2012* for information on how to calculate the decline in value of these assets.

Write the company's total deduction at (f) in **worksheet 1**.

Do not include at (f) in **worksheet 1** depreciating assets that qualify for a deduction under Subdivision 40-F or 40-G of the ITAA 1997 as water facilities or landcare operations in the company's primary production business and for which the company has chosen to claim a deduction under these subdivisions and not under the small business entity depreciation rules. Include these deductions at **N Landcare operations and deduction for decline in value of water facility** item **7**.

Step 5 Disposal of depreciating assets

Step 5a Low-cost assets

If the company has disposed of a low-cost asset for which it has claimed an immediate deduction in step 1 this year or in a previous year, it must include the taxable purpose proportion of the termination value at **B Other assessable income** item **7**. Termination value includes money received from the sale of an asset or insurance money received as the result of the loss or destruction of an asset – for example, for a low-cost asset used only 50% for an income-producing purpose that was sold for $200 (excluding GST) only $100 will be assessable and included as a reconciliation adjustment.

Step 5b Assets allocated to small business pools

If the company disposes of depreciating assets that have been allocated to either the general or long-life pool, the taxable purpose proportion of the termination value is deducted from the closing pool balance – for example, for a pooled depreciating asset used only 50% for an income-producing purpose which was sold for $3,000 (excluding GST) only $1,500 will be deducted from the closing pool balance.

If the balance of a pool (after taking into account any additions and disposals but before calculating the deductions in steps 2 and 3) is below $1,000 but greater than zero, the company can claim an immediate deduction for this amount.

Write this deduction against the appropriate pool at (b) or (c) in **worksheet 1**.

If the closing pool balance is less than zero, include the amount below zero in the company's assessable income at **B Other assessable income** item **7**. For more information about closing pool balances, see **Closing pool balance** on the next page.

If expenses are incurred in disposing of a depreciating asset, these expenses may be taken into account in step 3.

Step 5c Other depreciating assets

See *Guide to depreciating assets 2012* for information on how to calculate any balancing adjustment amounts on the disposal of other depreciating assets.

Include assessable balancing adjustment amounts at **B Other assessable income** item **7**. Include deductible balancing adjustment amounts at **X Other deductible expenses** item **7**. See **worksheet 2** on pages 88–90.

WORKSHEET 1: Depreciation deductions (small business entities only)

	Total	
Low-cost assets	$	(a)
General pool	$	(b)
Long-life pool	$	(c)
General pool (1/2 rate)	$	(d)
Long-life pool (1/2 rate)	$	(e)
Other assets	$	(f)
Depreciation expenses: add (a) to (f)	$	(g)

Transfer the amount at (g) to **X Depreciation expenses** item **6**

Transfer the amount at (a) to **A Deduction for low-cost assets (less than $1,000)** item **10**.

Transfer the total of the amounts at (b) and (d) to **B Deduction for general pool assets (less than 25 years)** item **10**.

Transfer the total of the amounts at (c) and (e) to **C Deduction for long life pool assets (25 years or more)** item **10**.

Closing pool balance

The closing balance of each small business pool for an income year is:

- the opening pool balance (see step 2), plus
- the taxable purpose proportion of the adjustable value of assets that were first used, or installed ready for use, for a taxable purpose during the year (see step 3), plus
- the taxable purpose proportion of any cost addition amounts for assets in the pool during the year (see step 3), less
- the taxable purpose proportion of the termination value of any pooled assets disposed of during the year (see step 5b), less
- the small business pool deduction (see step 2), less
- the deduction for assets first used by the taxpayer during the year (see step 3), less
- the deduction for any cost addition amounts for pooled assets during the year (see step 3).

If the company's closing pool balance is less than zero, see step 5b.

The closing pool balance for this year becomes the opening pool balance for the 2012–13 income year, except where an adjustment is made to reflect the changed business use of a pooled asset.

The company will need its opening pool balance to work out the pool deduction next year. Do not write the closing pool balance on the company's tax return.

Five-year restriction

If the company is a small business entity and has chosen to use these simplified depreciation rules but in a later year chooses to stop using this concession, the company **cannot** again choose to use the simplified depreciation rules until at least five years after the income year in which it chose to stop using the rules.

Motor vehicle expenses

Write at **Y** motor vehicle running expenses only. These expenses include fuel, repairs, registration fees and insurance premiums. They do not include the expenses shown at:

- **F Lease expenses within Australia** item **6**
- **I Lease expenses overseas** item **6**
- **V Interest expenses within Australia** item **6**
- **J Interest expenses overseas** item **6**
- **X Depreciation expenses** item **6**.

Repairs and maintenance

Write at **Z** the expenditure on repairs and maintenance of plant, machinery, implements and premises.

If the company has any item of a capital nature at **Z**, add it back at **W Non-deductible expenses** item **7**.

Provided it is not expenditure of a capital nature, the company may deduct the cost of repairs to property, plant, machinery or equipment used for producing assessable income or in carrying on a business for that purpose. Deductions for expenditure on repairs to property must be reduced to reflect the extent to which the property is not used for an income-producing purpose – for example, where the property is also used for private purposes, or in the production of exempt income.

If items are newly acquired, including by way of a legacy or gift, the cost of remedying defects in existence at the time of acquisition is generally of a capital nature. Expenditure incurred in making alterations, additions or improvements is of a capital nature and is not deductible when incurred. However, it may be subject to depreciation under the UCA or another capital allowance regime. For more information on deductions for repairs, see *Taxation Ruling TR 97/23 – Income tax: deductions for repairs*.

Unrealised losses on revaluation of assets to fair value

Write at **G** the amount of any unrealised loss made on the revaluation of assets and liabilities to fair value that may arise as a result of the adoption of Australian equivalents to the international financial reporting standards.

- Include any unrealised loss on the revaluation of a financial arrangement to fair value deductible under the TOFA rules at **L Expenses from financial arrangements (TOFA**) item **6** instead of at **G**.
- Adjustments for tax purposes are made at item **7**.
- An unrealised loss that is not deductible is added back at **W Non-deductible expenses** item **7**.
- Any net capital gain for taxation purposes is included at **A Net capital gain** item **7**.
- Any net capital loss is included with any unapplied capital losses carried forward to later income years and is written at **V Net capital losses carried forward to later income years** item **12**.

Expenses from financial arrangements (TOFA)

Show an amount at **L** only if the company has:

- financial arrangements to which the TOFA rules apply (see **Taxation of financial arrangements (TOFA)** on page 9), and
- made some losses from these financial arrangements.

Write at **L** the total expenses from your financial arrangements, except the following expenses:

- accounting expenses from financial arrangements which are not recognised as a TOFA loss for income tax purposes because the company has not made relevant TOFA tax-timing method elections (that is, fair value election, foreign exchange retranslation election, the election to rely on financial reports or hedging election)
- amounts that have already been included at **E Bad debts**
- amounts that have already been included at **V Interest expenses within Australia**
- amounts that have already been included at **J Interest expenses overseas**.

If you show an amount at **L**, also print **X** in the **Yes** box at **M Taxation of financial arrangements (TOFA)** item **5**.

For more information see *Guide to the taxation of financial arrangements (TOFA) rules* at **www.ato.gov.au/tofa**

All other expenses

Write at **S** the total of all other expenses including losses on the disposal of depreciating assets (including assets used in R&D activities subject to the R&D tax incentive).

Also include at **S** any extraordinary expenses – that is, expenses or losses from events outside the ordinary operations of the company and not of a recurring nature. An extraordinary loss that is not deductible is added back at **W** **Non-deductible expenses** item **7**.

This label excludes amounts included at **Expenses**, **B** to **G** item **6**.

Calculation of some deductions may be affected by the commercial debt forgiveness provisions, see **appendix 1**.

Total expenses

Write at **Q** the total of all expense items written at **B** to **S** item **6**.

If there is a negative amount at **A** **Cost of sales** that exceeds the total of the **Expenses** at **B** and **C** to **S**, print **L** in the box at the right of the amount at **Q**.

TOTAL PROFIT OR LOSS

Write the company's total profit or loss at **T**. Total profit or loss is the amount written at **Income**, **S** **Total income** less the amount written at **Expenses**, **Q** **Total expenses**. If this amount is a loss, print **L** in the box at the right of the amount at **T**.

PAGE 5 OF THE TAX RETURN

7 RECONCILIATION TO TAXABLE INCOME OR LOSS

The items under this heading are the adjustments for tax purposes to reconcile the amount at **T** **Total profit or loss** item **6** with **T** **Taxable income or loss** item **7**. **Worksheet 2** on pages 88–90 will assist with the calculations.

FORMER STS TAXPAYERS

If the company is eligible and is continuing to use the STS (simplified tax system) accounting method (see page 21), the following might apply.

You might need to make additional adjustments at item **7** if:

- the company is using the STS accounting method and the amounts the company has written at the **Income** and **Expenses** sections of item **6** **Calculation of total profit or loss** are not based on the STS accounting method, or
- the company stops using the STS accounting method.

These adjustments are explained in more detail below. **Worksheet 2** on pages 88–90 will help with the calculations.

Trade debtors and creditors as at 30 June 2012

If the company is eligible and has chosen to continue using the STS accounting method, and has included at any labels at **Income** item **6** amounts of ordinary income that have been derived but not received in the 2011–12 income year, (for example, trade debtors as at 30 June 2012), the amounts not received are not assessable this year.

Include these amounts at **Q** **Other income not included in assessable income** item **7**.

If the company is eligible and has chosen to continue using the STS accounting method and has included at any labels at **Expenses** item **6** amounts of general deductions, repairs or tax-related expenses that have been incurred but not paid in the 2011–12 income year, (for example, trade creditors as at 30 June 2012), the amounts not paid are not deductible this year.

Include these amounts at **W** **Non-deductible expenses** item **7**.

Ceasing to use the STS accounting method

You may need to make adjustments if the company has stopped using the STS accounting method and changed to an accruals accounting method this year.

If you have not included anywhere at **Income** item **6** amounts of ordinary income that the company derived but did not receive while using the STS accounting method (for example, trade debtors as at 30 June 2011), these amounts are assessable this year.

Include these amounts at **B** **Other assessable income** item **7**.

If you have not included anywhere at **Expenses** item **6** amounts of general deductions, repairs or tax-related expenses that the company incurred but not paid while using the STS accounting method, (for example, trade creditors as at 30 June 2011), these amounts are deductible this year.

Include these amounts at **X** **Other deductible expenses** item **7**.

Worksheet 2 on pages 88–90 will help with the calculations.

OTHER RECONCILIATION ADJUSTMENTS

Disposal of depreciating assets

If the company has disposed of depreciating assets during the income year, include the following amounts (if any) at **B** **Other assessable income** item **7**:

- the taxable purpose proportion of the termination value of low-cost assets disposed of, for which an immediate deduction has been claimed
- the amount below zero if the closing pool balance of a small business pool is less than zero
- assessable balancing adjustment amounts on the disposal of depreciating assets not subject to the small business entity depreciation rules.

Include at **X** **Other deductible expenses** item **7** any deductible balancing adjustment amounts on the disposal of depreciating assets not deducted under the small business entity depreciation rules.

Include at **Q** **Other income not included in assessable income** item **7** any profit on sale of depreciating assets included at Income, **R** **Other gross income** item **6**.

Include at **W** **Non-deductible expenses** item **7** any loss on sale of depreciating assets included at **Expenses**, **S** **All other expenses** item **6**. See **worksheet 2** on pages 88–90.

Prepaid expenses

Generally, prepaid expenses are deductible over the eligible service period or 10 years whichever is less.

Broadly, the eligible service period is the period during which the thing is to be done under the agreement in return for the expenditure.

Small business entities are entitled to an immediate deduction for prepaid expenses if the expenditure is incurred for a period of service not exceeding 12 months and the eligible service period ends on or before the last day of the next year of income (the 12-month rule). If the 12-month rule does not apply, apportion the deduction for the expenditure over the eligible service period or 10 years, whichever is less. The immediate deduction under the 12-month rule does not apply to expenditure incurred under a tax shelter agreement.

If you are an early balancer and on a date that was both before 1 July 2012 and falls within your 2011–12 income year you incurred expenditure under a forestry management agreement, you should phone the ATO on **13 28 66** for further assistance.

For more information, go to **www.ato.gov.au** and search for *Deductions for prepaid expenses* 2012 (NAT 4170). If the labels at **Expenses** item **6** include prepaid expenses that differ from the amounts allowable as deductions in the 2011–12 income year, include the reconciliation adjustment at **W** **Non-deductible expenses** item **7** or **X** **Other deductible expenses** item **7** as required. See **worksheet 2** on pages 88–90.

ALL COMPANIES

Did you have a CGT event during the year?

If the company had a CGT event (explained in more detail below) during the income year, or received a distribution of a capital gain from a trust, print **X** in the **Yes** box at **G** item **7**. Otherwise print **X** in the **No** box.

Did this CGT event relate to a forestry managed investment scheme interest that you held other than as an initial participant?

If yes, print **X** in the **Yes** box at **Z** item **7**. Otherwise print **X** in the **No** box.

CGT events are the different types of transactions or events that may result in a capital gain or capital loss. Many CGT events involve a CGT asset (for example, the disposal of a CGT asset) while other CGT events relate directly to capital receipts.

An Australian resident company makes a capital gain or capital loss if a CGT event happens to any of its worldwide CGT assets. Foreign residents are only subject to CGT if a CGT event happens to assets that have the necessary connection with Australia if the CGT event happens before 12 December 2006 or that are taxable Australian property if the CGT event happens on or after that date. For more information, see *Guide to capital gains tax 2012*.

If the company ceases to hold or to use a depreciating asset that was used for both taxable and non-taxable purposes, a CGT event may happen to the asset. A capital gain or capital loss may arise to the extent that the asset was used for a non-taxable purpose.

For more information about CGT events, see *Guide to capital gains tax 2012*.

The guide to CGT includes:

- a capital gain or capital loss worksheet for calculating a capital gain or capital loss for each CGT event
- a CGT summary worksheet for calculating the company's net capital gain or capital loss
- a CGT schedule.

The worksheets help in calculating a company's net capital gain or capital loss for the income year and completing the tax return labels that relate to CGT. Completion of the worksheets is not mandatory. Do not attach them to the company tax return – keep them with the company's tax records.

However, if the company has:

- a CGT event in relation to an FMIS interest that is held other than as an initial participant
- total current year capital gains are greater than $10,000, or
- total current year capital losses are greater than $10,000

complete a *CGT schedule* and attach it to the company tax return.

Transfers of assets between members of the same consolidated or MEC group are not recognised for the head company's income tax purposes.

ADD-BACK ITEMS

Add the following items to **T** **Total profit or loss** item **6** **Calculation of total profit or loss**.

Net capital gain

Write at **A** item **7** the company's net capital gain. If the company has used the CGT summary worksheet or CGT schedule this is the amount at:

- **G** at **part H** of the CGT summary worksheet, or
- **G** at **part H** of the CGT schedule.

The company's net capital gain is the total of the capital gains it made (gains that are not disregarded other than by one of the small business concessions listed below) reduced by current year capital losses (that are not disregarded), prior year unapplied net capital losses and, if applicable:

- CGT 50% active asset reduction
- CGT retirement exemption
- CGT rollover provisions.

A company is **not** eligible for the CGT discount.

For more information about CGT, see *Guide to capital gains tax 2012*.

For information regarding the small business concessions, go to **www.ato.gov.au** and search for *Capital gains tax (CGT) concessions for small business – overview*.

Include any net capital loss with any unapplied net capital losses carried forward to later income years and record it at **V Net capital losses carried forward to later income years** item **13**.

The company may need to complete either a *Consolidated Groups Losses schedule 2012* or a *Losses schedule 2012*. For more information, see *Consolidated groups losses schedule instructions 2012* or *Losses schedule instructions 2012*.

Non-deductible exempt income expenditure

Write at **U Non-deductible exempt income expenditure**, any expenditure incurred in deriving exempt income written at **V Exempt income** item **7**. Do not include expenditure incurred in deriving exempt income from RSAs and debt deductions allowed by section 25–90 of the ITAA 1997.

Franking credits

Write at **J Franking credits** the amount of franking credits attached to assessable distributions received from Australian corporate tax entities.

Do **not** include franking credits attached to:

- a distribution the company receives indirectly, through one or more partnerships or trusts (include these at **D Gross distribution from partnerships** item **6** or **E Gross distribution from trusts** item **6**)
- a distribution that is exempt income or non-assessable non-exempt income
- franked distributions received from a New Zealand franking company (include these at **C Australian franking credits from a New Zealand company**)
- a distribution where the shares are not held at risk as required under the holding period and related payments rules, or there is other manipulation of the imputation system. There is no entitlement to a franking tax offset in these circumstances.

Under the simplified imputation system a company must include in its assessable income the amount of franking credits attached to assessable franked distributions received.

The amount of franking credits attached to a distribution cannot exceed the maximum franking credits for the distribution. To work out the maximum franking credit, take the amount of the frankable distribution and multiply it by 30/70.

EXAMPLE 9

Bee Jay's Honey Pty Ltd received the following three payments for the income year:

- Company X paid Bee Jay's Honey a franked dividend of $700 with a $200 franking credit attached.
- Company Y paid Bee Jay's Honey a franked dividend of $7,000 purportedly with a $3,500 franking credit attached.
- Company Z paid Bee Jay's Honey a franked non-share dividend of $14,000 with a $6,000 franking credit attached.

Bee Jay's Honey will complete **J Franking credits** in the following way:

1	2	3	4	5
Co.	Amount of frankable distribution $	Franking credit attached to distribution received $	Maximum franking credit $	Allowable franking credit (lesser of columns 3 & 4) $
X	700	200	300	200
Y	7,000	3,500	3,000	3,000
Z	14,000	6,000	6,000	6,000

The amount recorded at **J** is the sum of all allowable franking credits for the income year.
In this example Bee Jay's Honey would record $9,200 ($200 + $3,000 + $6,000) at **J** as the amount of allowable franking credits for the income year. Bee Jay's Honey does not record $9,700, as declared on the distribution statements it received, at **J**. This is because the amount of franking credit allocated to the distribution received from company Y exceeded the maximum amount of franking credits that can be allocated to that distribution.

For most companies, the amount of franking credits included at **J Franking credits** is allowable as a tax offset and should be claimed at **C Non-refundable non-carry forward tax offsets** in the **Calculation statement**. If the company is a life insurance company or organisation entitled to claim a refund of excess franking credits, claim the refundable amount at **E Refundable tax offset** in the **Calculation statement**, not at **C Non-refundable non-carry forward tax offsets**.

Australian franking credits from a New Zealand company

Write at **C Australian franking credits from a New Zealand company** amounts of Australian franking credits from a New Zealand company that are included in assessable income because of a franked distribution paid to the company by a New Zealand company or because of its receipt indirectly through a partnership or trust. To work out whether the distribution is included in assessable income, see *Foreign income return form guide* (NAT 1840), at **www.ato.gov.au**

To calculate the amount to write at **C Australian franking credits from a New Zealand company**, the Australian franking credits received directly or indirectly from a New Zealand company must be reduced by the amount of a supplementary dividend or the company's share of a supplementary dividend if:

- the supplementary dividend is paid in connection with the franked distribution, and
- the company is entitled to a foreign income tax offset because of the inclusion of the distribution in assessable income.

If the shares or interests are not held at risk as required under the holding period and related payments rules, or there is other manipulation of the imputation system, do not include the Australian franking credit in assessable income at **C Australian franking credits from a New Zealand company** and there is no entitlement to a franking tax offset.

For most companies the amount of Australian franking credits included at **C Australian franking credits from a New Zealand company** is allowable as a tax offset and should be claimed at **C Non-refundable non-carry forward tax offsets** in the **Calculation statement.** If the company is a life insurance company or organisation entitled to claim a refund of excess franking credits, claim the refundable amount at **E Refundable tax offset** in the **Calculation statement**.

A dividend from a New Zealand franking company may also carry New Zealand imputation credits. An Australian resident cannot claim any New Zealand imputation credits.

TOFA income from financial arrangements not included in item 6

If the company has financial arrangements to which the TOFA rules apply, include at item **E TOFA income from financial arrangements not included in item 6**:

- assessable gains under the TOFA rules from financial arrangements which have not been shown at item **6**, and
- the company's assessable transitional balancing adjustment amount for the income year as a result of making the transitional election for existing financial arrangements.

If you show an amount at **E TOFA income from financial arrangements not included in item 6**, also print **X** in the **Yes** box at **M Taxation of financial arrangements (TOFA)** item **5**.

For more information, see *Guide to the taxation of financial arrangements (TOFA) rules* at **www.ato.gov.au/tofa**

Other assessable income

Write at **B Other assessable income** the total of the amounts that form part of assessable income if you have not included them as income at item **6** or at item **7** at **A Net capital gain**, **J Franking credits** or **C Australian franking credits from a New Zealand company**, for example, attributed foreign income of a CFC, and timing adjustments such as that which reconciles interest receivable to assessable interest income. For more examples of specific items, see the list of items in **worksheet 2** on pages 88–90.

The following items are shown at **B Other assessable income**:

- The excess of the company's foreign source income and attributed foreign income for taxation purposes over income from such sources shown in the accounts. Gross up foreign source income by the amount of foreign tax paid. Include any add-back or subtraction adjustment to expenses claimed against such income separately at **W Non-deductible expenses** item **7** or at **X Other deductible expenses** item **7**.
- Assessable foreign exchange gains to the extent that they have not been included at item **6** or at any other label of item **7**. See **Foreign exchange gains and losses** on page 9 for more information.
- Assessable balancing adjustment amounts for non-R&D assets.
- Assessable balancing adjustment amounts for assets used in R&D activities. If the asset has only been used for R&D activities, the amount to be included at this label is uplifted by one third (as per subsection 355-315(3) of the ITAA 1997). If the asset has been used partly for R&D activities, under subsection 40-292(5) of the ITAA 1997, the amount included and uplifted by one third is the proportion of the assessable balancing adjustment amount that relates to notional deductions claimed under the R&D tax incentive.
- Feedstock adjustments as a result of expenditure on goods, materials or energy used, and claimed as notional R&D deductions on R&D activities that produce marketable products supplied or applied to the company's own use.

  There are special transitional rules for assets used for both the R&D tax incentive and the R&D tax concession.

  For further information on transitional rules, assessable balancing adjustments for assets used in R&D activities and feedstock adjustments, refer to **www.ato.gov.au/randdtaxincentive** and the Research and development tax incentive schedule instructions 2012.

  If the company ceases to hold a depreciating asset, or permanently ceases using it (or ceases having it installed ready for use) for any purpose and expects (or has decided) never to use it again, a balancing adjustment event occurs.

  For assets subject to the small business entity depreciation rules, see **step 5 Disposal of depreciating assets** on pages 34–5.

For assets **not** subject to the small business entity depreciation rules, calculate a balancing adjustment amount to include in the company's assessable income or to claim as a deduction.

If the asset was used for both taxable and non-taxable purposes, reduce the balancing adjustment amount by the amount attributable to the non-taxable use. A capital gain or capital loss amount may arise attributable to that non-taxable use. For more information, see *Guide to depreciating assets 2012*.

- If a company receives a distribution from a partnership or trust and that partnership or trust claimed a deduction in respect of a LIC capital gain amount, then the company must add back as income its share of the deduction claimed by the partnership or trust. There is an exception for life insurance companies. For more information, see **16 Life insurance companies and friendly societies only** on pages 66–7.
- Excessive deductions for capital allowances that are to be included in assessable income under the limited recourse debt rules contained in Division 243 of the ITAA 1997. This will occur where:
  - expenditure on property has been financed or re-financed wholly or partly by limited recourse debt
  - the limited recourse debt is terminated after 27 February 1998 but has not been paid in full by the debtor, and
  - because the debt has not been paid in full, the capital allowance deductions allowed for the expenditure exceed the deductions that would be allowable if the unpaid amount of the debt was not counted as capital expenditure of the debtor. Special rules apply in working out whether the debt has been fully paid. 'Limited recourse debt' is a debt where the rights of the creditor as against the debtor in the event of default in payment of the debt or of interest, are limited wholly or predominantly to the property that has been financed by the debt or is security for the debt, or rights in relation to such property. A debt is also limited recourse debt if, notwithstanding that there may be no specific conditions to that effect, it is reasonable to conclude that the creditor's rights as against the debtor are capable of being so limited. Limited recourse debt includes a notional loan under a hire-purchase or instalment sale agreement of goods to which Division 240 of the ITAA 1997 applies. Refer to section 243-20. The rules in section 243-75 apply where Division 243 of the ITAA 1997 and Division 245 of Schedule 2C to the ITAA 1936 (commercial debt forgiveness, see **appendix 1**) both apply to the same debt.
- Amounts assessable under Division 45 of the ITAA 1997. Broadly, if a taxpayer holds plant which has been used principally for leasing and some part of the lease period occurred on or after 22 February 1999, Division 45 and related amendments may apply from that date to include an amount in the assessable income of the taxpayer upon disposal of such plant, or an interest in the plant, or an interest in, or rights under, a lease of the plant – see section 45-5 of the ITAA 1997.

  Similar tax consequences arise for a partner in a partnership if the partnership holds plant which has been used principally for leasing and some part of the lease period occurred on or after 22 February 1999 – see section 45-10 of the ITAA 1997.

  A subsidiary member of a wholly owned company group is treated under Division 45 as if it had disposed of and immediately reacquired plant that it holds where:
  - more than 50% direct or indirect beneficial ownership in the shares of the subsidiary are acquired on or after 22 February 1999 by an entity or entities, none of which is a member of the wholly owned group
  - the plant has been used principally for leasing and some part of the lease period occurred on or after 22 February 1999
  - at that acquisition time, the plant's written-down value is less than the plant's market value
  - the main business of each acquiring entity is not the same as the main business of the wholly owned group immediately before the relevant acquisition – see section 45-15 of the ITAA 1997.

  Similar tax consequences arise if the subsidiary is a partner in a leasing partnership – see section 45-20 of the ITAA 1997.

  Each company in the wholly owned group may become jointly and severally liable for any outstanding amount of tax payable by the subsidiary (because of section 45-15 or 45-20) at the end of six months from the time such tax becomes due and payable by the subsidiary – see section 45-25 of the ITAA 1997.

Non-deductible expenses

Write at **W Non-deductible expenses** expense-related adjustments that are added back to the amount written at **T Total profit or loss** item **6** to reconcile with the amount written at **T Taxable income or loss** item **7**.

The amount written at **W Non-deductible expenses** excludes:

- any amount included at **U Non-deductible exempt income expenditure** item **7**
- any amount included at **D Accounting expenditure in item 6 subject to R&D tax incentive** item **7**.

Generally, **W Non-deductible expenses** includes the amounts that are an expense for accounting purposes but are not deductible for income tax purposes, including timing variations. Examples are:

- debt deductions disallowed under the thin capitalisation rules
- unrealised losses on revaluation of assets and liabilities to fair value under international financial reporting standards
- any expenses (including interest or amounts in the nature of interest) incurred in deriving non-assessable non-exempt income such as foreign income that is non-assessable non-exempt income under section 23AH of the ITAA 1936
- a non-share dividend, to the extent that it is an expense for accounting purposes and therefore taken into account in determining total profit and loss, but which is not deductible for income tax purposes.

For more examples of specific items, see **worksheet 2** on pages 88–90.

If a forex loss for accounting purposes, included in item **6**, exceeds the deductible forex loss, include the difference at **W Non-deductible expenses**. See **Foreign exchange gains and losses** on page 9 for more information.

If Australian and foreign source capital losses for accounting purposes are included at **Expenses**, **G Unrealised losses on revaluation of assets to fair value** or **S All other expenses** item **6**, also include them at **W Non-deductible expenses**. For Australian taxation purposes, include any net capital loss with any unapplied capital losses carried forward to later income years and write it at **V Net capital losses carried forward to later income years** item **13**.

Accounting expenditure in item 6 subject to R&D tax incentive

Write at **D Accounting expenditure in item 6 subject to R&D tax incentive**, the expense amounts included at the expenditure labels at item **6 Calculation of total profit or loss**, which relate to amounts that you are claiming as a notional R&D deduction under the R&D tax incentive provisions. Generally, these amounts include expenditure for accounting purposes on R&D activities, which are used in calculating the R&D tax offset, rather than being claimed as allowable deductions. Also include at **D Accounting expenditure in item 6 subject to R&D tax incentive** losses on disposal of assets used in R&D activities which are subject to the R&D tax incentive that were shown at **S All other expenses** item **6** and any book depreciation expenses for assets used in Research & Development activities which are subject to the R&D tax incentive that were included at **X Depreciation expenses** item **6** (any amounts not subject to the R&D tax incentive must be included at **W Non-deductible expenses** item **7**).

If no expense amounts relating to R&D deductions have been included at item **6** (for example, amounts are capitalised) print zero (**0**) at **D Accounting expenditure in item 6 subject to R&D tax incentive**.

The amount written at **D Accounting expenditure in item 6 subject to R&D tax incentive** on the company tax return must be the same as the amount written at **D Preliminary calculation – Add-back of research and development (R&D) accounting expenditure** on the *Research and development tax incentive schedule 2012*.

Subtotal

Write the sum of the amount transferred from **T Total profit or loss** item **6** and the add-back items at **A**, **U**, **J**, **C**, **E**, **B**, **W** and **D** item **7**.

SUBTRACTION ITEMS

Deduct the following items from the amount at **Subtotal**.

Section 46FA deduction for flow-on dividends

Write at **C Section 46FA deduction for flow-on dividends** any amounts claimed as a deduction during the 2011–12 income year that are deductible under section 46FA of the ITAA 1936.

This deduction is allowable in certain cases where a non-portfolio dividend that is not fully franked is on-paid by a resident company to its non-resident parent.

If a deduction is claimed under section 46FA, the claiming entity must maintain an unfranked non-portfolio dividend account under section 46FB of the ITAA 1936 and complete **L Balance of unfranked non-portfolio dividend account at year end** item **8**.

Deduction for decline in value of depreciating assets

If the company is not a small business entity using the simplified depreciation rules, write the deduction for decline in value of most depreciating assets for taxation purposes at **F Deduction for decline in value of depreciating assets**.

This amount is often different from the amount of depreciation calculated for accounting purposes written at **X Depreciation expenses** item **6** and added back at **W Non-deductible expenses** item **7**.

If the company has allocated depreciating assets to a low-value pool, include the deduction for decline in value of those assets at **F Deduction for decline in value of depreciating assets**.

If a depreciating asset is used in R&D activities, the notional decline in value amount will form part of your notional R&D deduction. Eligible companies can claim this notional R&D deduction amount in calculating the R&D tax offset. Refer to **22 Research and development tax incentive** on page 70 of these instructions and the Research and development tax incentive schedule 2012 instructions for further information. If a decline in value amount is included as a notional R&D deduction, add back at **D Accounting expenditure in item 6 subject to R&D tax incentive** item **7** any related depreciation expenses included at **X Depreciation expenses** item **6**.

If you have elected to use the hedging tax-timing method provided for in the TOFA rules and you have a gain or loss from a hedging financial arrangement used to hedge risks in relation to a depreciating asset, work out separately:

- the deduction for decline in value of depreciating assets (include this at **F** Deduction for decline in value of depreciating assets), and
- your gain or loss on the hedging financial arrangement; include this at either:
  - **E** TOFA income from financial arrangements not included in item 6, item **7** or
  - **W** TOFA deductions from financial arrangements not included in item 6 item **7**.

Include the decline in value of water facilities at **N Landcare operations and deduction for decline in value of water facility** item **7**.

For information about how to work out deductions for decline in value, see **appendix 6**.

If the company is a small business entity using the simplified depreciation rules, include deductions for depreciating assets at **X Depreciation expenses** item **6**.

If the company is not using the simplified depreciation rules, and is continuing to claim a deduction for any prior pool, this deduction should be included at **X Depreciation expenses** item **6**.

If the company has included an amount greater than $100,000 at **F Deduction for decline in value of depreciating assets**, complete and attach a *Capital allowances schedule 2012* unless the company is a small business entity using the simplified depreciation rules.

For more information, see *Capital allowances schedule instructions 2012*.

Practice Statement PS LA 2003/8 provides guidance on two straightforward methods that taxpayers carrying on a business can use to help them determine whether expenditure incurred to acquire certain low-cost assets is to be treated as revenue or capital expenditure.

Subject to certain qualifications, the two methods cover expenditure below a threshold and the use of statistical sampling to estimate total revenue expenditure on low-cost items. Under the threshold rule, low-cost items with a typically short life costing $100 or less are assumed to be revenue in nature and are immediately deductible. The sampling rule allows taxpayers with a low-value pool to use statistical sampling to determine the proportion of the total purchases of low-cost tangible assets that are revenue expenditure.

Small business and general business tax break

Write at **G Small business and general business tax break** the total amount of the company's deductions for the small business and general business tax break.

For more information on the investment allowance, see **appendix 6**.

Forestry managed investment scheme deduction

DEFINITIONS

The company is an **initial participant** in an FMIS if:

- it obtained its forestry interest in the FMIS from the forestry manager of the scheme, and
- its payment to obtain the forestry interest in an FMIS results in the establishment of trees.

The company is a **subsequent participant** if it obtains an interest in a forestry managed investment scheme through secondary market trading. This means it acquired its interest other than as an initial participant, usually by purchasing that interest from an initial participant in the scheme.

The **forestry manager** of an FMIS is the entity that manages, arranges or promotes the FMIS.

A **forestry interest** in an FMIS is a right to benefits produced by the FMIS (whether the right is actual, prospective or contingent, and whether it is enforceable or not).

The company may be able to claim a deduction at this item for payments made to an FMIS if:

- the company currently holds a forestry interest in an FMIS, or held a forestry interest in an FMIS during the income year, and
- the company paid an amount to a forestry manager of an FMIS under a formal agreement.

The company can only claim a deduction at this item if the forestry manager has advised you that the FMIS satisfies the 70% direct forestry expenditure rule in Division 394 of the ITAA 1997.

If the company is an initial participant, it cannot claim a deduction if it disposed of the forestry interest in an FMIS within four years after the end of the income year in which a payment was first made. However the deduction will be allowed if the disposal occurs because of circumstances outside the control of the company, provided the company could not have reasonably foreseen the disposal happening when it acquired the interest. Disposals that would generally be outside the company's control include compulsory acquisition, insolvency of the company or the scheme manager, or cancellation of the interest due to fire, flood or drought.

If the company is a subsequent participant, it cannot claim a deduction for the amount paid for acquiring the interest. The company can only claim a deduction for ongoing payments.

Initial participants can claim at this item **initial and ongoing payments** made under an FMIS that were made as an initial participant of the FMIS.

Subsequent participants can claim at this item **ongoing payments** made under an FMIS that were made as a subsequent participant of the FMIS.

Excluded payments

The company cannot claim a deduction at this item for any of the following payments:

- payments for borrowing money
- interest and payments in the nature of interest (such as a premium on repayment or redemption of a security, or a discount of a bill or bond)
- payments of stamp duty
- payments of GST
- payments that relate to transportation and handling of felled trees after the earliest of the:
  - sale of the trees
  - arrival of the trees at the mill door
  - arrival of the trees at the port
  - arrival of the trees at the place of processing (other than where processing happens in-field)
- payments that relate to processing
- payments that relate to stockpiling (other than in-field stockpiling).

Write at **U Forestry managed investment scheme deduction** the total amount of deductible payments made to an FMIS.

Non-deductible expenditure and the deductible payments made to an FMIS must also be included at **W** **Non-deductible expenses** item **7** to the extent that they have been included as an expense at item **6.**

Immediate deduction for capital expenditure

Companies in the mining, petroleum and quarrying industries should write at **E** **Immediate deduction for capital expenditure** the total amount of capital expenditure (other than on depreciating assets) claimed as an immediate deduction for:

- exploration and prospecting
- rehabilitation of mining or quarrying sites
- payment of petroleum resource rent tax.

For more information about these deductions, see *Guide to depreciating assets 2012*.

Deduction for project pool

Write at **H** **Deduction for project pool** the total amount of the company's deductions for project pools.

If a project is abandoned, sold or otherwise disposed of, the company can deduct the project pool value at that time. Include this deduction at **H**.

Include the expenditure allocated to the project pool for the income year at **W** **Non-deductible expenses** item **7** to the extent that it has been included as an expense at item **6**.

For more information about project pools, see **appendix 6**.

Capital works deductions

Write at **I** **Capital works deductions** the deduction claimed for capital expenditure on buildings, which includes eligible capital expenditure on extensions, alterations or improvements. Exclude capital expenditure for mining infrastructure buildings and timber milling buildings.

For more information on capital works deductions, see **appendix 2**. Commercial debt forgiveness provisions may affect the calculation of some deductions, see **appendix 1**.

Section 40-880 deduction

Write at **Z** **Section 40-880 deduction** the total of the company's deductions allowable under section 40-880 of the ITAA 1997.

The expenditure deductible under section 40-880 must be included at **W** **Non-deductible expenses** item **7** to the extent that it has been included as an expense at item **6**.

For information about section 40-880 deductions, see **appendix 6**.

Landcare operations and deduction for decline in value of water facility

Write at **N** **Landcare operations and deduction for decline in value of water facility** the company's total deductions for landcare operations expenses and for water facilities.

Do not include the deduction for the decline in value of water facilities at **F** **Deduction for decline in value of depreciating assets** item **7**.

The expenditure on landcare operations and water facilities must be included at **W** **Non-deductible expenses** item **7** to the extent that it has been included as an expense at item **6**.

For information about deductions for landcare operations and water facilities, see **appendix 6**.

Deduction for environmental protection expenses

Write at **O** **Deduction for environmental protection expenses** the amount of allowable expenditure on environmental protection activities.

The deductible expenditure on environmental protection activities must also be included at **W** **Non-deductible expenses** item **7** to the extent that it has been included as an expense at item **6**.

For information about deductions for expenditure on environmental protection activities, see **appendix 6**.

Offshore banking unit adjustment

Only use **P** **Offshore banking unit adjustment** if the company has been declared to be an offshore banking unit (OBU) by the Treasurer under subsection 128AE(2) of the ITAA 1936 – otherwise disregard **P** **Offshore banking unit adjustment**.

If you complete **P**, you are required to complete an *International dealings schedule 2012*. For more information, go to **www.ato.gov.au** and search for *International dealings schedule instructions 2012*.

Subject to certain exceptions, an OBU is effectively taxed at the rate of 10% on income derived from offshore banking (OB) activities. In calculating an OBU's total income for the year, include gross income from OB activities at **R** **Other gross income** item **6**.

Include total expenses from OB activities at **S** **All other expenses** item **6**.

You do not need to separate gross income or total expenses from OB activities into the various income and expenses categories that appear at item **6**. These categories only apply to income and expenses that do not relate to OB activities.

To get the effective 10% tax rate on OB activity income, section 121EG of the ITAA 1936 reduces the assessable income and allowable deductions from OB activities so that an OBU's taxable income includes only the 'eligible fraction', currently 10/30, of its net income from OB activities.

Calculation of the offshore banking unit adjustment

P **Offshore banking unit adjustment** ensures that the net income from OB activities is taxed at an effective tax rate of 10%. Write at **P** **Offshore banking unit adjustment** the difference between the OBU's net income from OB activities and the eligible fraction:

> **P** offshore banking unit adjustment =
> net OB income – (net OB income x eligible fraction)

When the amount written at **P** **Offshore banking unit adjustment** is deducted from the OBU's total profit, this results in only the eligible fraction being included at **T** **Taxable income or loss** item **7**. This is illustrated in the following examples.

EXAMPLE 10

An OBU has income and expenses from various activities as follows:

	Relating to OB activities $	Relating to non-OB activities $	Total activities $
Income			
Interest	200	400	600
Rent	–	500	500
Dividends	100	400	500
Total income	300	1,300	1,600
Expenses			
Rent expenses	–	600	600
Interest (within Australia)	200	300	500
Total expenses	200	900	1,100
Net profit	**100**	**400**	**500**

Complete item **6** as follows:

Income		$
Gross interest	F	400
Gross rent and other leasing and hiring income	G	500
Total dividends	H	400
Other gross income	R	300
Total income	S	1,600
Expenses		
Rent expenses	H	600
Interest expenses within Australia	V	300
All other expenses	S	200
Total expenses	Q	1,100
Total profit or loss	T	500

If this company was not an OBU, the amount of tax payable at 30% on a taxable income of $500 is $150. However, because the company is an OBU, it is entitled to an effective 10% tax rate on its net profit of $100 from OB activities. This is achieved by recording at **P** the untaxed portion of the net profit from OB activities – in this example, that is calculated as follows:

P	= net OB income – (net OB income x eligible fraction)
	= $100 – (100 x 10/30)
	= $67 (amount shown at item **7**)

As a result, the taxed portion is $33 and is the only part of the net profit from OB activities included at **T** **Taxable income or loss** item **7**.

Item **7** in this example contains the following entries:

Total profit or loss amount shown at **T** item **6**	$500
Less:	
Offshore banking unit adjustment at **P**	$67
Taxable income or loss at **T**	$433
The tax payable at 30% on a taxable income of $433 is $130, which is the same as the total of the tax payable on:	
Taxable non-OBU activity income of $400 at 30%	$120
Plus:	
Taxable OBU activity income of $100 at 10%	$10
Tax payable	$130

OBU LOSSES

Do not use **P** to record a loss from OBU activities.

If a loss is incurred, make the adjustment at **W** **Non-deductible expenses** item **7** to ensure that the company is taxed at the correct rate.

The adjustment is made by inserting the following amount at **W**:

net OB loss – (net OB loss x eligible fraction)

EXAMPLE 11

An OBU has income and expenses from various activities as follows:

	Relating to OB activities $	Relating to non-OB activities $	Total $
Gross income	200	1,300	1,500
Expenses	300	900	1,200
Net income	(100)	400	300

Although the company's net income is $300, its taxable income is actually $367. This is because only 10/30 (the eligible fraction) of the income and expenses from OB activities is taken into account in calculating an OBU's taxable income, that is:

Net income from non-OB activities	$400
Less:	
Loss from OB activities (100 x 10/30)	$(33)
Taxable income	$367
W = net OB loss – (net OB loss x eligible fraction)	
= $100 – (100 x 10/30)	
= $67	

In this example, the company tax return would show the following entries:

Item **6**	Total income **S**	$1,500
	Total expenses **Q**	$1,200
	Total profit or loss **T**	$300
Add:		
Item **7**	Non-deductible expenses **W**	$67
	Taxable income or loss **T**	$367

For more information on the taxation of OBUs, see Taxation Determinations TD 93/202 to 93/217, TD 93/241, TD 95/1 and TD 95/2.

Exempt income

Write at **V Exempt income** all income that is exempt from Australian tax.

Do not include at **V Exempt income** amounts that are not assessable income and not exempt income – for example, any foreign income amounts that are treated as non-assessable non-exempt income under section 23AH, 23AI, 23AJ, 23AK or 99B(2A) of the ITAA 1936. Include these amounts at **Q Other income not included in assessable income** item **7**.

Do not include at **V** income exempt under an RSA. Write exempt income from RSAs at **S Exempt income from RSAs** item **19**.

Other income not included in assessable income

Write at **Q Other income not included in assessable income** income-related adjustments that have to be subtracted from **T Total profit or loss** item **6** to reconcile with **T Taxable income or loss** item **7**. Do not include again amounts included at **C Section 46FA deductions for flow-on dividends** to **V Exempt income** item **7** here.

Generally, the amounts that are included at **Q Other income not included in assessable income** are income for accounting purposes, but not assessable for income tax purposes.

Write exempt income separately at **V Exempt income** item **7**.

Include the following items at **Q Other income not included in assessable income**:

- any excess of gross foreign source income, shown in the income labels at item **6**, over the amount that represents assessable income. In calculating the excess, include dividends and other amounts that are not assessable because of sections 23AH, 23AI, 23AJ, 23AK and 99B(2A) of the ITAA 1936. You must complete and attach an *International dealings schedule 2012* (NAT 73345) if the company received dividends or other amounts covered by any of these provisions
- any part of an unfranked distribution that is not assessable due to section 802-15 or 802-20 of the ITAA 1997 (these provisions are relevant to conduit foreign income)
- other amounts of non-assessable non-exempt income (do not include demerger dividends or other amounts not shown at item **6**)
- profits on disposal of assets used in R&D activities which are subject to the R&D tax incentive included at **R Other gross income** item **6**
- Australian and foreign source capital gains for accounting purposes that have been included at **J Unrealised gains on revaluation of assets to fair value** item **6** or **R Other gross income** item **6**. For Australian taxation purposes, include any net capital gain at **A Net capital gain** item **7**
- any excess of a forex gain for accounting purposes, included at item **6**, over the assessable forex gain. See **Foreign exchange gains and losses** on page 9 for more information on the forex measures.

For more examples of specific items, see **worksheet 2** on pages 88–90.

TOFA deductions from financial arrangements not included in item 6

If the company has financial arrangements to which the TOFA rules apply, include at item **W TOFA deductions from financial arrangements not included in item 6**:

- losses allowable under the TOFA rules from financial arrangements which have not been shown at item **6**, and
- the company's deductible transitional balancing adjustment for the income year as a result of making the transitional election for existing financial arrangements.

If you show an amount at **W TOFA deductions from financial arrangements not included in item 6**, also print **X** in the **Yes** box at **M Taxation of financial arrangements (TOFA)** item **5**.

For more information, see *Guide to the taxation of financial arrangements (TOFA) rules* at **www.ato.gov.au/tofa**

Other deductible expenses

Write at **X Other deductible expenses** expense-related adjustments that are subtracted from **T Total profit or loss** item **6** to reconcile with **T Taxable income or loss** item **7**. Do not include items included under **C** to **P** item **7** again here. Generally, **X Other deductible expenses** shows amounts, including timing differences, that are an allowable deduction for income tax purposes but are not shown in the accounts or specifically shown at **C** to **P** item **7**.

For examples of specific items to be included, see **worksheet 2** on pages 88–90.

If the company is a life insurance company, include at **X Other deductible expenses** the deduction it is entitled to if it receives a dividend from a LIC, which includes a LIC capital gain amount. For more information, see **16 Life insurance companies and friendly societies only** on pages 66–7. Other companies are not entitled to this deduction.

Show at **X Other deductible expenses** any capital expenditure you incurred under Subdivision 40-J of the ITAA 1997 for the establishment of trees in a carbon sink forest. Only costs incurred in establishing trees for the purpose of carbon sequestration are deductible.

Include at **X** **Other deductible expenses** deductible foreign exchange losses to the extent that they have not been included in item **6** or in any other label at item **7**. See **Foreign exchange gains and losses** on page 9 for more information on the forex measures.

Show at **X** **Other deductible expenses** balancing adjustment losses for assets used for both R&D and non-R&D activities. If the company is otherwise eligible for an R&D tax offset under section 355-100 of the ITAA 1997, the amount shown at **X** **Other deductible expenses** is calculated and uplifted under sections 40-292 or 40-293 of the ITAA 1997. If the company is not otherwise eligible for an R&D tax offset under section 355-100 of the ITAA 1997, the balancing adjustment losses for assets used on R&D and non-R&D activities, as calculated under section 40-285 of the ITAA 1997, is included at **X** **Other deductible expenses** item **7** and claimed at 100%.

Tax losses deducted

The company may need to complete either a *Consolidated groups losses schedule 2012* or a *Losses schedule 2012*. For more information, see **Consolidated Groups Losses Schedule** on page 3 or **Losses schedule** on page 3.

Include at **R** **Tax losses deducted** those tax losses of prior income years that are deducted in respect of the 2011–12 income year under section 36-17 of the ITAA 1997. This includes any deductions for a foreign loss component of a tax loss.

Foreign losses are no longer quarantined from domestic assessable income (or from assessable foreign income of a different class). Resident taxpayers are also no longer required to make an election to deduct domestic tax losses against assessable foreign income. Therefore, for the purposes of loss utilisation, no distinction is made in respect of the source of the assessable income, whether foreign or domestic. A taxpayer combines both foreign and domestic deductions. Where the combined deductions exceed assessable income and net exempt income from all sources, the excess is a tax loss and can potentially be deducted from assessable income of a future income year.

For more information about the treatment of foreign losses carried forward from earlier income years, see the *Consolidated groups losses schedule instructions 2012, Losses schedule instructions 2012, Foreign income return form guide and Guide to foreign income tax offset rules*.

Subject to various rules, prior year tax losses are deducted in respect of a later income year or years in the order in which they were incurred, to the extent that they have not already been deducted.

If no net exempt income

If the company has no net exempt income and has an excess of assessable income over total deductions (other than tax losses), the company may, subject to certain limitations, deduct from this excess assessable income as much of its tax loss as it chooses – see subsection 36-17(2) of the ITAA 1997. There is a limit to how much a company can choose to deduct – see subsection 36-17(5) of the ITAA 1997 outlined below.

If net exempt income

If the company has net exempt income and an excess of assessable income over total deductions (other than tax losses), the company must first deduct the tax loss from the net exempt income, then may deduct from the excess assessable income as much of the tax loss as the company chooses – see subsection 36-17(3) of the ITAA 1997. In making the choice to deduct a tax loss from the excess assessable income, a company must apply the rules in subsection 36-17(5) of the ITAA 1997 outlined below.

If the company has net exempt income and an excess of total deductions (other than tax losses) over assessable income, take away the excess deductions from the net exempt income and then deduct the tax loss from any net exempt income that remains – see subsection 36-17(4) of the ITAA 1997.

A company's net exempt income is calculated in accordance with section 36-20 of the ITAA 1997.

This amount is not necessarily the same as the amount shown at **V** **Exempt income** item **7**.

Limit to how much the company can choose

A company is required to determine whether it has excess franking offsets before making a choice in relation to how much of its prior year tax loss it wants to deduct. This is because subsection 36-17(5) of the ITAA 1997 prevents a company deducting an amount of a prior year tax loss if **either**:

- the company has excess franking offsets prior to deducting any tax loss
- the choice to deduct that particular amount of tax loss would give rise to excess franking offsets.

A company has excess franking offsets if the amount of franking tax offsets that the company is entitled to (ignoring any franking tax offsets that are subject to the refundable tax offset rules) exceeds the amount of income tax that the company would have to pay on its taxable income taking into account all tax offsets (including its foreign income tax offset) with the exception of the following:

- any franking tax offsets
- any tax offsets subject to the tax offset carry forward rules or the refundable tax offset rules
- any tax offset arising from an FDT liability.

For most companies, franking tax offsets are not subject to the refundable tax offset rules in Division 67 of the ITAA 1997. However, there is an exception for life insurance companies: franking tax offsets of a life insurance company are generally subject to the refundable tax offset rules to the extent that they relate to distributions on shares and other membership interests held on behalf of policy holders.

EXAMPLE 12

For the 2011–12 income year, Company A has:

- a tax loss of $150 from a previous income year
- assessable income of $200 (franked distribution of $70, franking credit of $30 and $100 of income from other sources)
- no allowable deductions
- no net exempt income.

The $30 franking credit generates a franking tax offset of $30. The $30 franking tax offset is not subject to the refundable tax offset rules in Division 67 of the ITAA 1997.

Company A would not have excess franking offsets for the year if the tax loss was disregarded. This is because the tax offset of $30 is less than $60, which is the amount of income tax that Company A would have to pay on the $200 taxable income if it did not have the tax loss and the franking tax offset. Consequently, Company A may choose to deduct some of its tax loss subject to the limitation that Company A cannot choose to deduct an amount of its loss that would result in its having an amount of excess franking offsets for the year.

If Company A were to consider deducting the full tax loss of $150, it would generate excess franking offsets of $15, calculated as follows:

	$	
Taxable income	50	(200 – 150)
Gross tax	15	(50 × 30%)
Non-refundable non-carry forward tax offsets	30	franking tax offset
Excess franking offsets	15	

Therefore, Company A cannot make this choice. The maximum amount of tax loss that Company A may deduct is $100, as this will not generate any excess franking offsets – that is:

	$	
Taxable income	100	(200 – 100)
Gross tax	30	(100 × 30%)
Non-refundable non-carry forward tax offsets	30	franking tax offset
Excess franking offsets	0	

To calculate the excess franking offsets, see **Excess franking offsets** on pages 55–6.

In the above example, in completing its income tax return, Company A would record $100 at **R Tax losses deducted** item **7** and would record $50 at **U Tax losses carried forward to later income years** item **13**.

Continuity of ownership

A company cannot deduct a tax loss of an earlier year unless:

- the company maintains continuity of ownership as prescribed under section 165-12 of the ITAA 1997 (the continuity of ownership test), or
- if the company fails to meet a condition of subsection 165-12(2), (3) or (4), or it is not practicable to show that it meets the conditions in those subsections, it satisfies the same business test (see below).

The following conditions apply to the continuity of ownership test:

- If tax losses are claimed in an income year ending after 21 September 1999, continuity of ownership must be maintained from the start of the loss year to the end of the income year (ownership test period).
- There must be individuals who maintained rights to more than 50% of the voting power in the company, and rights to more than 50% of the dividends and capital distributions of the company at all times during the ownership test period. If interposed entities hold interests in the company, individuals are treated as holding such voting power or rights indirectly. See sections 165-150 to 165-160 of the ITAA 1997.
- If tax losses are claimed in an income year ending after 21 September 1999, the company must meet the 'same share and interest' rule, except where the 'saving' rule applies – see section 165-165 and subsection 165-12(7) of the ITAA 1997.
- For widely held companies and eligible Division 166 companies, the continuity of ownership test in Division 165 may be modified by Division 166, which provides a simplified method for determining the company's ultimate majority ownership.

The continuity of ownership test is also subject to anti-avoidance provisions in Subdivision 165-D of the ITAA 1997, relating to arrangements designed to affect the beneficial ownership of shares or rights attaching to shares.

Same business test

If a company is unable to satisfy the continuity of ownership test, it must carry on the same business at all times during the income year as it carried on immediately before the test time. The test time is the latest time that the company can show that it has satisfied the continuity of ownership test, where such a time can be determined.

If the company is unable to determine when it has failed the continuity of ownership test, the test time for the same business test is if the company:

- was in existence throughout the loss year (the start of the loss year), or
- came into being during the loss year (the end of the loss year).

The same business test is **not** satisfied if the company derives assessable income from:

- a business of a kind that it did not carry on before the test time, **or**
- a transaction of a kind it did not enter into in the course of its business operations before the test time.

For more information on the same business test, see sections 165-13 and 165-210 of the ITAA 1997 and Taxation Ruling TR 1999/9.

Control

Additionally, a company may be prevented from deducting a tax loss where there has been a change in control as prescribed by subsection 165-15(1) of the ITAA 1997. However, this will only occur where the company also fails to satisfy the conditions relating to the carrying on of the same business in subsections 165-15(2) and (3).

Anti-avoidance provisions in Subdivisions 175-A and 175-B of the ITAA 1997 also prevent a company obtaining tax advantages from certain schemes relating to unused tax losses or deductions.

- Keep a record of tax losses and account for any adjustments, including those made by the ATO. Keep these records until the amendment period for the assessment in which the tax losses of the company were fully recouped has lapsed (up to four years from the date of that assessment).
- A prior year tax loss may be reduced by the commercial debt forgiveness provisions, see **appendix 1**.
- Do not include the film component of any tax loss (film loss) at **R Tax losses deducted**. For a film loss to be deductible, see Divisions 36 and 375 of the ITAA 1997. Film losses are only deducted from net exempt film income or net assessable film income for taxation purposes and are shown at either **W Non-deductible expenses** item **7** or **X Other deductible expenses** item **7**.
- Do not include pooled development fund (PDF) tax losses at **R Tax losses deducted** unless the PDF tax losses are deductible under Division 195 of the ITAA 1997.
- Capital losses may only be applied in accordance with Division 102 of the ITAA 1997.

Tax losses deducted – consolidated and MEC groups

The head company may need to complete a *Consolidated groups losses schedule 2012*. For more information, see **Consolidated groups losses Schedule** on page 3, or see the *Consolidated groups losses schedule instructions 2012*.

Write at **R** tax losses deducted during the year of income under section 36-17 of the ITAA 1997.

A head company may be entitled to deduct tax losses broadly comprising tax losses:

- made by it for prior income years (group tax losses)
- that were originally made by an entity before it became a member of the consolidated or MEC group and that were transferred to the head company of that group (transferred tax losses)

Group tax losses include tax losses with foreign loss components that have been generated by the consolidated or MEC group. Transferred tax losses include tax losses with foreign loss components that have been made outside the group and transferred into the group from an entity that joined the group.

Before using a 'group tax loss' or a 'transferred tax loss' a head company must satisfy the continuity of ownership test and control tests. If it does not, then it must satisfy the same business test.

For more information on the conditions applying to the continuity of ownership test, see *Consolidated groups losses schedule instructions 2012*.

For more information on the same business test, see sections 165-13 and 165-210 of the ITAA 1997 and Taxation Rulings TR 1999/9 and *TR 2007/2 – Income tax:* application of the same business test to consolidated and MEC groups, *principally, the interaction between section 165-210 and section 701-1 of the ITAA 1997 (as at 20 June 2007)*.

For consolidated groups, the operation of the continuity of ownership test for transferred tax losses is modified by Subdivision 707-B of the ITAA 1997. Firstly, the loss year is modified so that it starts from when the loss was transferred to the head company. However, subsection 707-140(2) of the ITAA 1997 provides that the head company is not prevented from using the loss for the income year in which the transfer occurs. Secondly, in determining whether a head company can use a loss transferred to it from a company as a result of passing the continuity of ownership and control tests, changes in ownership of a loss company before it joined the consolidated group are recognised – see section 707-210 of the ITAA 1997. For MEC groups, see Subdivision 719-F of the ITAA 1997 and the *Consolidation reference manual*.

Tax losses generated by a consolidated or MEC group (group losses) are effectively used before transferred tax losses – see paragraph 707-310(3)(b) of the ITAA 1997.

Concessional tax losses are used after group tax losses and are effectively used before other transferred tax losses – see subsections 707-350(2) and (4) of the *Income Tax (Transitional Provisions) Act 1997*.

All losses transferred to a head company for the first time from the entity that actually made them constitute a bundle of losses. Losses within the bundle are categorised by the sort of loss, such as a tax loss or net capital loss – see section 707-315 of the ITAA 1997.

There is no ordering rule for usage of losses within a bundle or between different bundles, regardless of their age.

Available fraction

Calculate an available fraction for each loss bundle. The available fraction limits the annual rate at which the bundle's losses may be recouped by the head company. However, for utilisation purposes, losses in one bundle may be subject to the available fraction for another loss bundle if the value and loss donor concession applies.

A foreign loss component is not subject to the available fraction method of utilisation while it is subject to the deduction limit in section 770-30 of the *Income Tax (Transitional Provisions) Act 1997*. This means that the available fraction does not apply to the foreign loss component of a tax loss in the first four years after commencement (including the commencement year). Instead, the deduction limit in section 770-30 applies. The commencement year is the first income year, or substituted accounting period, starting on or after 1 July 2008.

Also, in these first four years the head company applies the available fraction for each bundle to income or gains that have been reduced by deductions for all foreign loss components (both group and transferred) – see section 770-105 of the *Income Tax (Transitional Provisions) Act 1997*.

If losses are transferred for the first time, the available fraction is calculated like this:

$$\frac{\text{modified market value of the joining loss entity at the initial transfer time}}{\text{adjusted market value of the head company at the initial transfer time}}$$

The modified market value of a joining entity is the amount that would be the market value of the entity at the joining time if:

- the entity has no losses and the balance of its franking account is nil
- the subsidiary members of the group at the time are separate entities and not divisions or parts of the head company of the group
- the entity's market value did not include an amount attributable (directly or indirectly) to a membership interest in a member of the group (other than the entity) that is a corporate tax entity or an entity that transferred losses to the head company, **and**
- a trust (other than a corporate tax entity or a trust with losses) contributes to the joining entity's market value only to the extent attributable to fixed entitlements (at the joining time) to income or capital of the trust that is not attributable (directly or indirectly) to membership interests in another member of the group that is a corporate tax entity or a trust with losses.

See section 707-325 of the ITAA 1997.

An increase in the value of the loss entity is excluded from the entity's modified market value if the increase results from either:

- an injection of capital into the loss entity, its associate or, if the loss entity is a trust, an associate of the trustee, **or**
- a non-arm's length transaction that involved the loss entity, its associate or, if the loss entity is a trust, an associate of the trustee.

This integrity rule applies to events that occur in the four years before the loss entity joins the group – see subsections 707-325(2) and (4) of the ITAA 1997.

For more information, see *Taxation Ruling TR 2004/9 – Income tax: consolidation: what is meant by 'injection of capital' in section 707-325 of the ITAA 1997?*

The head company's adjusted market value at the initial transfer time is the amount that would be the market value at that time if:

- the head company did not have a loss of any sort for an income year ending before that time, **and**
- the balance of the head company's franking account was nil at that time.

See subsection 707-320(1) of the ITAA 1997. The value for the head company is worked out on the basis that subsidiary members of the consolidated or MEC group are part of the head company.

The Commissioner of Taxation has a statutory obligation to ensure compliance with the market valuation requirements of the consolidation regime and to form a view as to whether valuations undertaken are accurate.

For more information, go to **www.ato.gov.au** and search for our guide: Market valuation for tax purposes.

The available fraction is adjusted if certain events happen – for example, the consolidated or MEC group acquires a new loss entity or the sum of the available fractions in the group would otherwise exceed 1 – see subsection 707-320(2) of the ITAA 1997.

The use of transferred losses is apportioned if their available fraction applied for only part of the income year or when the available fraction changes during the income year – see section 707-335 of the ITAA 1997.

MEC groups also need to have regard to the rules in Subdivision 719-F of the ITAA 1997 (see sections 719-300 to 719-325).

Apply the available fraction using a three-step process as follows:

1. Work out the amount of each category of the group's income or gains as specified in column 2 of the table in subsection 707-310(3) of the ITAA 1997. This is the group's total income or gains for each category less relevant deductions, including deductions for group losses, concessional losses, and the foreign loss components of transferred tax losses (in the first four years after commencement). Do not include deductions for other transferred losses, whose use is limited by their available fraction.
2. Multiply each category amount by the bundle's available fraction. The result is taken to be the head company's only income or gains for that category.
3. On the basis of the step 2 assumption, work out a notional taxable income for each loss bundle.

This process enables the head company to determine the amount of transferred losses of each sort it can use from the loss bundle to determine its actual taxable income.

Tax losses must first be deducted against exempt income. A special rule provides that the head company, in working out its actual taxable income, can offset its transferred tax losses against assessable income provided they have been first utilised against a fraction of its total exempt income – see section 707-340 of the ITAA 1997.

Application of losses with a nil available fraction

A transferred loss with a nil available fraction can be used by the head company of a consolidated group in certain circumstances, with effect from 1 July 2002. In certain specified circumstances, the head company can apply the loss to reduce a net forgiven amount under the commercial debt forgiveness rules, reduce a capital allowance adjusted under the limited recourse debt rules, and reduce the capital gain that arises under CGT event L5 when the joining entity subsequently leaves the group.

See section 707-415 of the ITAA 1997.

Tax losses transferred in

Write at **S** **Tax losses transferred in (from or to a foreign bank branch or a PE of a foreign financial entity)** the amount of tax losses transferred to the company from group companies under Subdivision 170-A of the ITAA 1997.

A group company may transfer the whole or a part of a tax loss to another company where:

- both companies are members of the same wholly owned group, and
- one of the companies is:
  - an Australian branch of a foreign bank, or
  - an Australian PE of a foreign financial entity if the tax loss is for an income year commencing on or after 26 June 2005, and
- the other company is
  - the head company of a consolidated or MEC group, or
  - not a member of a consolidatable group, and
- further conditions in Subdivision 170-A of the ITAA 1997 are satisfied.

The tax loss transferred to the income company is deductible to the income company in accordance with the provisions of section 36-17 of the ITAA 1997 – for example, the tax loss transferred to the income company is first offset against the income company's net exempt income, then against its assessable income.

Tax losses transferred cannot be used to create a tax loss.

The Commissioner has power in certain circumstances to amend assessments to disallow a deduction for an amount of transferred tax loss despite section 170 of the ITAA 1936 – see section 170-70 of the ITAA 1997.

Tax losses transferred in – consolidated and MEC groups

Do not show tax losses transferred from subsidiary companies under Subdivision 707-A of the ITAA 1997. These losses should be shown in part A of the *Consolidated groups losses schedule 2012* at item **1** or item **2**.

Subtraction items subtotal

Write the sum of the amounts from **C** to **S** at **Subtraction items subtotal**.

Taxable income or loss

Write at **T** **Taxable income or loss** all assessable income less deductions that equals the amount at **T** **Total profit or loss** item **6** plus or minus the reconciliation adjustments at item **7** plus the amount shown at **Y** **R&D tax offset, if chosen** item **7**.

If the company has a taxable income of $1 or more, transfer the amount at **T** to **A** **Taxable or net income** in the **Calculation statement**.

The company's tax loss at **T** **Taxable income or loss** is the excess of its total deductions (except tax losses for earlier income years) over its total assessable income and net exempt income – see section 36-10 of the ITAA 1997. Print **L** in the box at the right of the amount. The company's net exempt income is calculated under section 36-20 of the ITAA 1997 and is not necessarily equal to the amount written at **V** **Exempt income** item **7**. Check that the amount at **B** **Other assessable income** item **7** includes the amount of net exempt income taken into account in calculating the company's tax loss. If the company has a tax loss at **T** **Taxable income or loss**, print zero (**0**) at **A** **Taxable or net income** in the **Calculation statement**.

If the company has excess franking offsets that can be converted under section 36-55 of the ITAA 1997 into a tax loss to be carried forward (see **Excess franking offsets** on pages 55–6), do not include at **T** **Taxable income or loss** the amount of that tax loss. However, that amount should be taken into account in calculating the company's tax loss at **U** **Tax losses carried forward to later income years** item **13** (see page 65). This means that a company may have a taxable income at **T** **Taxable income or loss** and a tax loss carried forward at item **13**. Alternatively, if the company's total deductions exceed total assessable income and net exempt income, it would show an amount at **T** **Taxable income or loss** that, disregarding section 36-55, would have been its tax loss for the income year.

PAGE 6 OF THE TAX RETURN

8 FINANCIAL AND OTHER INFORMATION

Functional currency translation rate

Complete **N** **Functional currency translation rate** item **8** if the company keeps its accounts solely or predominantly in a foreign currency (its applicable functional currency) and has elected to use that functional currency for its tax accounts which it then translates to Australian dollars (A$) to complete its tax return. If the company is using a functional currency, see the publication *Foreign exchange (forex): guide to functional currency rules*, at **www.ato.gov.au**

Do not complete **N** **Functional currency translation rate** if the company has elected to use a non-A$ functional currency only to calculate net income attributable to the activities of an overseas Permanent Establishment, Controlled Foreign Company, Offshore Banking Unit or Transferor Trust. For more information, go to **www.ato.gov.au** and search for *Foreign income return form guide.*

Write at **N** **Functional currency translation rate** the exchange rate employed to translate the net taxable income figure from the applicable functional currency into A$. The translation rate is the amount by which the functional currency amount must be divided in order to reflect an equivalent amount of A$ – that is, the number of non-A$ currency units that equal one A$, rounded to four significant figures.

If **N** **Functional currency translation rate** is completed, also complete **O** **Functional currency chosen**.

Functional currency chosen

Complete **O Functional currency chosen** if **N Functional currency translation rate** has been completed.

Print at **O Functional currency chosen** the functional currency code that corresponds to the functional currency chosen by the company. A list of the functional currency codes, derived from International Standard ISO 4217, that can be used at label **O**, is published in the *Guide to functional currency rules* at **www.ato.gov.au**

Show amounts calculated for tax purposes at **A Opening stock**, **S Purchases and other costs**, **B Closing stock**, **J Total debt** and **K Commercial debt forgiveness**.

Opening stock

Write at **A Opening stock** the total value of all trading stock on hand at the beginning of the income year or accounting period for which the company tax return is being prepared. The amount shown by the company at **A Opening stock** is the value for income tax purposes under section 70-40 of the ITAA 1997; or, for small business entities using the simplified trading stock rules, subsection 328-295(1) of the ITAA 1997. The opening value of an item of stock must equal its closing value in the previous income year. If a taxpayer did not have any trading stock in the previous year, the value of trading stock at the start of the year is zero. This might occur in the case of a new business or in the first year a taxpayer has trading stock.

Include motor vehicle floor plan stock and work in progress of manufactured goods.

Do **not** include any amount that represents opening stock of a business that commenced operations during the income year. Include this amount at **S Purchases and other costs** item **8**.

For consolidated and MEC groups, see the *Consolidation reference manual* for more information on trading stock held by entities that join the group.

Purchases and other costs

Write at **S Purchases and other costs** the cost of direct materials used for manufacture, sale or exchange in deriving the gross proceeds or earnings of the business. This amount includes freight inwards.

Former STS Taxpayers

If the company is eligible and continuing to use the STS accounting method, only write at **S Purchases and other costs** the costs that the company has paid. (See **Former STS taxpayers** on page 21.)

For information on GST and input tax credits, see **6 Calculation of total profit or loss** on page 21.

Closing stock

If the company is an eligible small business entity, see **Small business entities** below. Otherwise, see **All other companies** in the next column.

Small business entities

The company must account for changes in the value of its trading stock only if the difference between:

- the value of the company's stock on hand at the start of the income year as shown at **A Opening stock**, and
- a reasonable estimate of the value of the company's stock on hand at the end of the income year is more than $5,000.

For more information relating to 'reasonable estimate', phone us on **13 28 66**.

If the difference is not more than $5,000, the company can still choose to conduct a stocktake and account for changes in the value of trading stock.

If the difference between the value of the opening stock and a reasonable estimate of its closing stock is more than $5,000, the company must account for changes in the value of its trading stock. Go to step 2 if the difference is more than $5,000 or the company wishes to account for changes in the value – otherwise, go to step 1.

Step 1

If the difference referred to above is $5,000 or less and the company chooses not to account for this difference, the closing stock value written at **B Closing stock** is the same value that the company wrote for opening stock at **A** item **8**. Do **not** put the company's reasonable estimate at **B Closing stock**.

Print in the CODE box at **B Closing stock** the code from **table 4** that matches the code the company used to value closing stock in the previous year.

If this is the company's first year in business, the value of its closing stock will be zero. Print code **C** in the CODE box.

TABLE 4: Valuation method codes

Code	Valuation method
C	Cost
M	Market selling value
R	Replacement value

Step 2

If the difference referred to above is more than $5,000 or the company chooses to account for the difference in trading stock, the closing stock values must be brought to account under section 70-35 of the ITAA 1997. See the following instructions for **All other companies** for calculating the value of trading stock.

Include in closing stock value at **B Closing stock** the value of all stock on hand, regardless of whether the company has paid for the stock.

All other companies

Write at **B Closing stock** the total value of all trading stock on hand at the end of the income year or accounting period for which the company tax return is being prepared. The amount at **B Closing stock** is the value calculated for income tax purposes under section 70-45 of the ITAA 1997.

If the company is registered or required to be registered for GST, the value of closing stock should not include an amount equal to the input tax credit that the company has claimed or is entitled to claim. Input tax credits do not arise for some items of trading stock, such as shares.

Include floor plan stock and work in progress of manufactured goods.

Do **not** include any amount that represents closing stock of a business that ceased operations during the income year. Include this amount at **Income**, **R Other gross income** item **6**.

Print in the CODE box the code from **table 4** indicating the method used to value closing stock for income tax purposes. If more than one method is used, use the code applicable to the method representing the highest value.

Different methods of valuation may be used to value the same item of trading stock in different income years, and similar items may be valued using different methods in the same income year.

However, the opening value of an item in a particular income year must equal the closing value for that item in the previous income year. The company cannot reduce the value of stock on hand by creating reserves to offset future diminution of the value of stock, or any other factors. Keep records showing how each item was valued.

If incorrect trading stock information has been included on a tax return, advise us by submitting a full statement of the facts, accompanied by a reconciliation of the value of stock as returned for each income year with the values permissible under the law.

Companies engaged in manufacturing include the value of partly manufactured goods as part of their stock and materials on hand at the end of the income year.

For more information on the circumstances in which packaging items held by a manufacturer, wholesaler or retailer are 'trading stock' as defined in section 70-10 of the ITAA 1997, see *Taxation Ruling TR 98/7 – Income tax: whether packaging items (ie, containers, labels, etc) held by a manufacturer, wholesaler or retailer are trading stock* and *Taxation Ruling TR 98/8 – Income tax: whether materials and spare parts held by a taxpayer supplying services are trading stock*.

If the company was a subsidiary member of a consolidated or MEC group at the end of the income year and is completing a tax return because of any non-membership periods, write at **B** the value for trading stock on hand as at the end of the latest non-membership period. The amount at **B** is generally a tax-neutral value. This may not be the case if the company was a continuing majority-owned entity when it became a member of the group. For more information, see the *Consolidation reference manual*, available at **www.ato.gov.au**

Trading stock election

A company may elect to value an item of trading stock below the lowest value of cost, market selling value or replacement value because of obsolescence or any other special circumstances. The value that is elected must be reasonable.

For guidelines on trading stock valuations where obsolescence or other special circumstances exist, see *Taxation Ruling TR 93/23 – Income tax: valuation of trading stock subject to obsolescence or other special circumstances*.

If an election is made, print **X** in the **Yes** box at this item. Otherwise print **X** in the **No** box.

Include amounts taken from the company's financial statements at **C Trade debtors** to **H Total liabilities**, **R Shareholders' funds** and **N Loans to shareholders and their associates** as these amounts relate to accounting values – see item names and labels on pages 52–6.

Trade debtors

Write at **C Trade debtors** the total amounts owing to the company at year end for goods and services provided during the income year, that is, the gross amount of current trade debtors from the company's accounts. Also include this amount at **D All current assets** item **8**.

If the company was a subsidiary member of a consolidated or MEC group at the end of the income year and is completing a tax return because of any non-membership periods, write at **C Trade debtors** the relevant amount as at the end of the latest non-membership period.

All current assets

Write at **D All current assets** all current assets of the company, including cash on hand, short-term bills receivable, inventories and trade debtors as written at **C Trade debtors** item **8**.

If the company was a subsidiary member of a consolidated or MEC group at the end of the income year and is completing a tax return because of any non-membership periods, write at **D All current assets** the relevant amount as at the end of the latest non-membership period.

Total assets

Write at **E** **Total assets** all assets of the company, including fixed, tangible and intangible assets and all current assets as written at **D** **All current assets** item **8**.

> For a consolidated or MEC group include all the assets of the group as disclosed in the financial accounts and not the amounts that are calculated by way of the allocable cost amount.
>
> If the company was a subsidiary member of a consolidated or MEC group at the end of the income year and is completing a tax return because of any non-membership periods, write at **E** **Total assets** the relevant amount as at the end of the latest non-membership period.

Trade creditors

Write at **F** **Trade creditors** the total amounts owed by the company at year end for goods and services received during the income year – that is, current trade creditors. Also include this amount at **G** **All current liabilities** item **8**.

> If the company was a subsidiary member of a consolidated or MEC group at the end of the income year and is completing a tax return because of any non-membership periods, write at **F** **Trade creditors** the relevant amount as at the end of the latest non-membership period.

All current liabilities

Write at **G** **All current liabilities** the total obligations payable by the company within the coming year. Also include the amount written at **F** **Trade creditors** item **8**.

> If the company was a subsidiary member of a consolidated or MEC group at the end of the income year and is completing a tax return because of any non-membership periods, write at **G** **All current liabilities** the relevant amount as at the end of the latest non-membership period.

Total liabilities

Write at **H** **Total liabilities** all liabilities of the company, including other creditors and deferred liabilities such as loans secured by mortgage and long-term loans. Also include the amount shown at **G** **All current liabilities** item **8**.

> If the company was a subsidiary member of a consolidated or MEC group at the end of the income year and is completing a tax return because of any non-membership periods, write at **H** **Total liabilities** the relevant amount as at the end of the latest non-membership period.

Total debt

Write at **J** **Total debt** the average total debt of the company for the income year. Calculate the average total debt by adding the opening and closing balances of the total debt of the company for the income year, and dividing this sum by two.

The total debt of a company includes all financial instruments and arrangements that were used by the company to provide funds for their operations and investments. The instruments and arrangements that are shown at **J** **Total debt** include all loans, securities and instruments that give rise to deductible finance expenses, which include **any** of the following:

- interest, a payment in the nature of interest, or a payment in substitution for interest
- payments made for assignments of the right to interest
- a discount on a security in relation to a finance arrangement
- an amount that is taken under a tax law to be an amount of interest in respect of a lease, a hire-purchase arrangement or any other financial instrument specified by that law
- any application or processing fee in respect of a finance arrangement
- any finance expense in respect of a repurchase agreement or securities lending arrangement
- any other form of yield associated with a finance arrangement
- any such amount that, instead of being paid to a party to the arrangement, is dealt with in any way on behalf of that party.

Accordingly, there is no requirement that amounts included at **J** **Total debt** satisfy the definition of 'debt interest' for the purposes of Division 974 of the ITAA 1997 (the debt and equity rules).

For an overview of the debt and equity rules, go to **www.ato.gov.au** and search for *Debt and equity tests: guide to the debt and equity tests*.

> If the company was a subsidiary member of a consolidated or MEC group at the end of the income year and is completing a tax return because of any non-membership periods, write at **J** **Total debt** the relevant amount calculated as at the end of the latest non-membership period.

Commercial debt forgiveness

Write at **K** **Commercial debt forgiveness** the net amount of commercial debts owed by the company that were forgiven during the income year – see Division 245 of the ITAA 1997. Broadly, a debt is a commercial debt if any part of the interest payable on the debt is, or would be, an allowable deduction. A debt is forgiven if the company's obligation to pay the debt is released or waived or otherwise extinguished.

The net amount of commercial debts forgiven must be applied to reduce the company's deductible revenue losses, net capital losses, certain undeducted revenue or capital expenditure and the cost base of certain CGT assets, in that order.

For more information, see **appendix 1**.

Shareholders' funds

Write at **R** **Shareholders' funds** the net shareholders' funds as per the accounting records. The amount written at **E** **Total assets** item **8** less the amount written at **H** **Total liabilities** item **8** equals the amount shown at **R** **Shareholders' funds**.

If this amount is negative, print **L** in the box at the right of the amount.

If the company was a subsidiary member of a consolidated or MEC group at the end of the income year and is completing a tax return because of any non-membership periods, write at **R** **Shareholders' funds** the relevant amount as at the end of the latest non membership period.

Show at **J** to **L** and **Z** to **I** amounts calculated for tax purposes – see item names and labels below.

Franked dividends paid

Write at **J** **Franked dividends paid** the amount of fully franked dividends paid or credited during the income year, including non-share dividends or deemed dividends that are fully franked, and the franked deemed dividend component of any off-market share buy-back under section 159GZZZP of the ITAA 1936. If a partly franked dividend has been paid during the income year, include the franked portion at **J** **Franked dividends paid** and the unfranked portion at **K** **Unfranked dividends paid** item **8**.

Do not include dividends paid by one member to another within a consolidated or MEC group.

Record keeping

Keep a record of the following:

- dividends or non-share dividends paid
- recipients
- dates paid
- amounts paid.

Unfranked dividends paid

Write at **K** **Unfranked dividends paid** the amount of unfranked dividends paid or credited during the income year, including amounts deemed to be dividends by various sections of the ITAA 1936 and the ITAA 1997. Include unfranked non-share dividends, unfranked deemed dividends under Division 7A of Part III of the ITAA 1936, and the unfranked deemed dividend component of any off-market share buy-back under section 159GZZZP of the ITAA 1936.

Do not include:

- dividends paid by one member to another within a consolidated or MEC group
- a dividend paid under a demerger unless the head entity of the demerger group has elected under subsection 44(2) of the ITAA 1936 that it be treated as an assessable dividend.

Under Division 7A of Part III of the ITAA 1936, payments, loans and debts forgiven (unless they come within specified exclusions) by a private company to a shareholder or associates of a shareholder are treated as assessable dividends to the extent of the private company's distributable surplus as defined in Division 7A.

Commencing in the 2010-11 income year, the provision of a private company owned asset for the use by a shareholder (or associate of a shareholder) is to be treated as a payment. This includes provisions provided under a lease or licence arrangement.

A payment made in the 2011–12 income year by a private company to a shareholder (or associate of a shareholder) can be converted into a loan before the end of the private company's lodgment day that is defined to be the earlier of the due date for lodgment or the date of lodgment of the company's income tax return for the year in which the loan is made.

Loans, and payments converted to loans in the 2011–12 income year, made by a private company to a shareholder (or associate of a shareholder) that are not repaid, may be put on a commercial footing before the private company's lodgment day. This will prevent the loan from being treated as a deemed dividend.

For more information on Division 7A, go to **www.ato.gov.au**

Record keeping

Keep a record of the following:

- dividends or non-share dividends paid
- recipients
- dates paid
- amounts paid.

Franking account balance

Write at **M** **Franking account balance** the balance of the franking account at the end of the 2011–12 income year, unless it is a deficit balance.

If there is a deficit balance in the franking account at the end of the income year, the company must lodge a *Franking account tax return 2012* and pay FDT by the last day of the month following the end of the income year. If the company is a late balancing company that has elected to have its FDT liability determined on 30 June 2012, it must lodge its franking account tax return on or before 31 July 2012.

If the company is a PDF and its venture capital sub-account is in deficit at the end of the PDF's income year or immediately before it ceases to be a PDF, the company is liable to pay venture capital deficit tax. If the PDF has a liability to venture capital deficit tax, a *Venture capital deficit tax return 2012* (NAT 3309) must be lodged.

- Shareholder loans and other advances made by private companies that are deemed dividends are not frankable unless a section in the ITAA 1936 or ITAA 1997 provides that the dividend can be franked – for example, where the Commissioner exercises a limited power to permit the deemed dividend to be franked, or where the deemed dividend is paid in connection with a relationship breakdown.

- Deemed dividends may also arise when a shareholder (or associate of such shareholder) of a private company that has (or will have by a certain time) an unpaid present entitlement from a trust estate receives a payment or loan or has a debt forgiven in their favour by the trustee of the trust estate. However, this will not result in a debit to the franking account of the private company with the unpaid present entitlement.
- A company needs to determine whether its franking account needs adjustment, because these measures may affect imputation benefits available to shareholders, deny franking credits, or give rise to additional franking debits.

If you are a company that receives a R&D refundable tax offset, you should only include franking credits arising from either payments of PAYG instalments or income tax after all deferred franking debits have been utilised. For further information on how a R&D tax offset affects your franking account, refer to the *Franking account tax return and instructions 2012*.

Go to **www.ato.gov.au f**or more detailed information on the simplified imputation system.

If the company was a subsidiary member of a consolidated or MEC group at the end of the income year and is completing a tax return because of any non-membership periods, write at **M Franking account balance** its franking account balance as at the end of the latest non-membership period if it is a surplus balance. If there is a deficit balance at the end of any non-membership period, the company must lodge a franking account tax return and pay the FDT.

Balance of conduit foreign income

Write at **F Balance of conduit foreign income** the balance of conduit foreign income at the end of the income year.

Conduit foreign income is defined in Subdivision 802-A of the ITAA 1997 and includes certain foreign amounts received that are not taxable in Australia. Examples include income that is not assessable because of sections 23AJ and 23AH of the ITAA 1936, and capital gains disregarded under section 768-505 of the ITAA 1997.

Leave this label blank if the only conduit foreign income that the company receives is through distributions from other Australian companies and the company does not make any distributions of conduit foreign income.

If the balance of conduit foreign income is negative, print **L** in the box at the right of the amount at **F Balance of conduit foreign income**.

If the company was a subsidiary member of a consolidated or MEC group at the end of the income year and is completing a tax return because of any non-membership periods, write at **F Balance of conduit foreign income** its balance of conduit foreign income at the end of the latest non-membership period.

Go to **www.ato.gov.au** for more information on conduit foreign income.

Conduit foreign income distributed during the income year

Write at **G** the total amount of conduit foreign income the company distributed during the income year.

If the company is completing a tax return because of any non-membership periods, write at **G** the total amount of conduit foreign income the company distributed during all the non-membership periods in the income year.

Excess franking offsets

Write at **H Excess franking offsets** any excess franking offset calculated as follows:

Step 1 Calculate the amount of franking tax offsets that the company is entitled to. Franking tax offsets are available under Division 207 of the ITAA 1997 as a result of receiving a franked distribution, and Subdivision 210-H of the ITAA 1997 as a result of receiving a franked distribution franked with a venture capital credit. The amount of franking tax offset that a company is entitled to is equal to the share of franking credits included in distributions received from partnerships and trusts, the amount of franking credits included at **J Franking credits** item **7**, and the amount of franking credits included at **C Australian franking credits from a New Zealand company** item **7**.

Do **not** include any franking tax offsets that are subject to the refundable tax offset rules under Division 67 of the ITAA 1997 – for example, franking tax offsets of a life insurance company are generally subject to the refundable tax offset rules to the extent that they relate to distributions paid on shares and other membership interests held on behalf of policy holders. Do not include these amounts. Generally, the franking tax offsets of other companies are not subject to the refundable tax offset rules.

Step 2 Calculate the amount of income tax that would be payable, taking into account all tax offsets (including its foreign income tax offset) with the exception of the following tax offsets:

- any franking tax offsets
- any tax offsets subject to the tax offset carry forward rules or the refundable tax offset rules
- any tax offset arising from an FDT liability.

Step 3 Calculate the amount of excess franking offsets. If the amount of franking tax offsets from step 1 exceeds the amount of hypothetical tax calculated at step 2, the excess is the amount of excess franking offset which should be written at **H Excess franking offsets**.

Excess franking offsets can affect the choice a company can make in relation to how much of any prior year tax loss it can deduct this year. For more information, see **Tax losses deducted** on page 46.

If the company has excess franking offsets, it may convert the excess franking offsets into an amount of tax loss to carry forward to later income years. For more information, see **Tax losses carried forward to later income years** on page 65.

EXAMPLE 13

For the 2011–12 income year Veck Company Ltd has the following:

Total dividends	**H** item **6**	$280 Franked distribution
Franking credits	**J** item **7**	$120
Other deductible expenses	**X** item **7**	$100

The $120 franking tax offset is not subject to the refundable tax offset rules in Division 67 of the ITAA 1997. Veck Company Ltd has no net exempt income for the year and it does not have a tax loss for the year.

Veck Company Ltd would work out its excess franking offsets as follows:

Step 1 Calculate the amount of franking tax offsets it is entitled to. In this instance, Veck Company Ltd's franking tax offsets are not subject to the refundable tax offset rules, therefore it is entitled to franking tax offsets of $120. However, for the purposes of calculating the amount of excess franking offset, these offsets are ignored in step 2 below.

Step 2 Calculate the amount of income tax payable, ignoring franking tax offsets:

Taxable income	$300	($280 + $120 – $100)
Gross tax	$90	
Non-refundable non-carry forward tax offsets	nil	Veck Company Ltd is required to disregard the franking tax offset.
Tax payable	$90	

Step 3 The excess franking offsets amount is equal to $30 – that is, the amount left over after deducting the amount at step 2 from the amount at step 1.

Veck Company Ltd would record $30 at **H Excess franking offsets** item **8**.

Veck Company Ltd would now convert this amount of excess franking offsets into a tax loss by dividing the excess franking offsets amount ($30) by the corporate tax rate (30%) which results in a tax loss amount of $100. Veck Company Ltd would record the amount of this tax loss at **U Tax losses carried forward to later income years** item **13**

Balance of unfranked non-portfolio dividend account at year end

If a claim is made under section 46FA of the ITAA 1936, the claiming entity is required to maintain an unfranked non-portfolio dividend account under section 46FB of the ITAA 1936. Write at **L Balance of unfranked non-portfolio dividend account at year end** the balance of this account as at the last day of the income year.

Print in the CODE box **L Balance of unfranked non-portfolio dividend account at year end**:
- **Y** if any of the balance includes an amount that has also been counted towards the company's conduit foreign income for that income year
- **N** in any other circumstance.

Go to **www.ato.gov.au** for more information on conduit foreign income.

Loans to shareholders and their associates

Complete **N Loans to shareholders and their associates** only if:
- the company is a private company or a closely held corporate limited partnership
- the company or closely held corporate limited partnership has a loan to a shareholder or an associate of a shareholder that has a debit balance at the end of the income year, and
- the recipient of the loan was a natural person, partnership or trust.

Division 7A applies to closely held corporate limited partnerships. A closely held corporate limited partnership is a corporate limited partnership that has fewer than 50 members or an entity has, directly or indirectly and for the entity's own benefit, an entitlement to a 75% or greater share of the income or capital of the partnership.

For the purposes of completing **N** all references to shareholders include partners in a closely held corporate limited partnership.

Write at **N Loans to shareholders and their associates** the sum of all such loans that have a debit balance at the end of the income year. Write the sum in whole figures only.

Print the relevant code from **table 5** in the CODE box at **N**.

TABLE 5: Loan codes

A	All loans were made on or after 4 December 1997.
B	All loans were made before 4 December 1997.
M	Some loans were made before 4 December 1997 and some loans were made on or after 4 December 1997.

Under Division 7A of Part III of the ITAA 1936, loans by a private company or a closely held corporate limited partnership to a shareholder or associates of a shareholder (unless the loans come within specified exclusions) are treated as assessable dividends to the extent of the distributable surplus including realised and unrealised profit. Advances or loans to shareholders or associates may represent a distribution of profits and may be assessed to the recipient as unfranked dividends.

A loan made in the 2011–12 income year by a private company or closely held corporate limited partnership to a shareholder (or associate) may be repaid or put on a commercial footing, before the earlier of the due date for lodgment or the date of lodgment of the private company's or closely held corporate limited partnership's income tax return for the year in which the loan is made, in order to prevent the loan from being treated as a dividend.

For loans made in an earlier income year that have not been fully repaid by the end of the 2011–12 income year, a deemed dividend may arise if the Division 7A minimum yearly repayment has not been made to the company or the closely held corporate limited partnership by the end of the 2011–12 income year.

Intangible depreciating assets first deducted

If the company is using the small business entity simplified depreciation rules, do not include an amount at this label.

Write at **Z** **Intangible depreciating assets first deducted** the cost of all intangible depreciating assets for which the company is claiming a deduction for decline in value for the first time.

The following intangible assets are regarded as depreciating assets (as long as they are not trading stock):

- certain items of intellectual property (patents, registered designs, copyrights and licences of these)
- computer software (or a right to use computer software) that the company acquires, develops or has someone else develop for its use for the purposes for which it is designed (in-house software)
- mining, quarrying or prospecting rights and information
- spectrum licences
- datacasting transmitter licences
- certain indefeasible rights to use telecommunications cable systems (IRUs)
- certain telecommunications site access rights.

A depreciating asset that the company holds starts to decline in value from the time the company uses it (or installs it ready for use) for any purpose. However, the company can only claim a deduction for the decline in value to the extent it uses the asset for a taxable purpose, such as for producing assessable income.

If the company has allocated any intangible depreciating assets with a cost of less than $1,000 to a low-value pool for the income year, also include the cost of those assets at **Z** **Intangible depreciating assets first deducted**. Do not reduce the cost for estimated non-taxable use.

Expenditure on in-house software which has been allocated to a software development pool is not included at **Z** **Intangible depreciating assets first deducted**.

For more information on decline in value, cost, low-value pools, in-house software and software development pools, see *Guide to depreciating assets 2012*.

The head company of a consolidated or MEC group must also include the cost of intangible depreciating assets that a subsidiary member would have included at **Z** **Intangible depreciating assets first deducted** if it had not joined the consolidated or MEC group. However, the head company must not include the cost of depreciating assets at **Z** **Intangible depreciating assets first deducted** if the subsidiary member deducted their decline in value before becoming a member of the consolidated or MEC group.

For a company that was a subsidiary member of a consolidated or MEC group for part of the income year and is completing a tax return because of any non-membership periods, write at **Z** **Intangible depreciating assets first deducted** the cost of intangible depreciating assets first deducted during the non-membership periods. However, do not include the cost of depreciating assets where the head company of the consolidated or MEC group deducted its decline in value during any period that the subsidiary was a member of the group, and that period was before the non-membership period in which the subsidiary first deducted the decline in value.

Other depreciating assets first deducted

If the company is using the small business entity simplified depreciation rules, do not include an amount at this label.

A depreciating asset that the company holds starts to decline in value from the time the company uses it (or installs it ready for use) for any purpose. However, the company can only claim a deduction for the decline in value to the extent it uses the asset for a taxable purpose, such as for producing assessable income.

Write at **A** **Other depreciating assets first deducted** the cost of all depreciating assets (other than intangible depreciating assets) for which the company is claiming a deduction for the decline in value for the first time.

If the company has allocated any assets (other than intangible depreciating assets) with a cost of less than $1,000 to a low-value pool for the income year, also include the cost of those assets at **A** **Other depreciating assets first deducted**. Do not reduce the cost for estimated non-taxable use.

For information on decline in value, cost and low-value pools, see *Guide to depreciating assets 2012*.

The head company of a consolidated or MEC group must also include the cost of depreciating assets that a subsidiary member would have included at **A** **Other depreciating assets first deducted** if it had not joined the consolidated or MEC group. However, the head company must not include the cost of depreciating assets at **A** **Other depreciating assets first deducted** if the subsidiary member deducted its decline in value before becoming a member of the consolidated or MEC group.

For a company that was a subsidiary member of a consolidated or MEC group for part of the income year and is completing a tax return because of any non-membership periods, write at **A** **Other depreciating assets first deducted** the cost of depreciating assets first deducted during the non-membership periods. However, do not include the cost of depreciating assets where the head company of the consolidated or MEC group deducted its decline in value during any period the subsidiary was a member of the group, and that period was before the non-membership period in which the subsidiary first deducted the decline in value.

Termination value of intangible depreciating assets

If the company is using the small business entity simplified depreciation rules, do not include an amount at this label.

For information on intangible depreciating assets, see **Intangible depreciating assets first deducted** on the previous page.

Write at **P** **Termination value of intangible depreciating assets** the termination value of each balancing adjustment event occurring for intangible depreciating assets to which the UCA rules in Division 40 of the ITAA 1997 apply, including assets allocated to a low-value pool.

Do **not** write at **P** **Termination value of intangible depreciating assets** any termination value in relation to in-house software for which the company has allocated expenditure to a software development pool.

A balancing adjustment event occurs if the company stops holding or using a depreciating asset or decides not to use it in the future – for example, assets were sold, lost or destroyed.

Generally, the termination value is the amount the company received or is deemed to have received in relation to the balancing adjustment event. It also includes the market value of any non-cash benefits, such as goods and services, that the company receives for the asset.

For more information on balancing adjustment events, termination value, in-house software and software development pools, see *Guide to depreciating assets 2012*.

Termination value of other depreciating assets

If the company is using the small business entity simplified depreciation rules, do not include an amount at this label.

Write at **E** **Termination value of other depreciating assets** the termination value of each balancing adjustment event occurring for depreciating assets, including assets allocated to a low-value pool.

Do **not** include at **E** **Termination value of other depreciating assets** any termination value in relation to:

- assets allocated in a prior year to a general small business pool or long life small business pool
- intangible depreciating assets
- buildings or structures for which a deduction is available under the capital works provisions
- assets used in R&D activities that are subject to the R&D tax incentive
- assets falling within the provisions relating to investments in Australian films.

A balancing adjustment event occurs if the company stops holding or using a depreciating asset or decides not to use it in the future – for example, assets were sold, lost or destroyed.

Generally, the termination value is the amount the company received or is deemed to have received in relation to the balancing adjustment event. It also includes the market value of any non-cash benefits, such as goods and services, that the company received for the asset.

For more information on balancing adjustment events and termination value, see *Guide to depreciating assets 2012*.

Total salary and wage expenses

Write at **D** **Total salary and wage expenses** the total salary, wage and other labour costs incurred, including directors' remuneration, as per payment summaries.

These expenses include any salary and wage component of **A** **Cost of sales** item **6**, that is, allowances, bonuses, casual labour, retainers and commissions paid to people who received a retainer, and workers compensation paid through the payroll.

Also included are direct and indirect labour costs, directors' fees, holiday pay, locums, long service leave, lump sum payments, other employee benefits, overtime, payments under an incentive or profit sharing scheme, retiring allowances and sick pay. Any salary and wage paid by a private company to a current or former shareholder or director of the company, or to an associate of such a person, is included here and at **Q** **Payments to associated persons** item **8**.

However, do **not** include agency fees, contract payments, sub-contract payments, service fees, superannuation, reimbursements or allowances for travel, management fees, consultant fees, and wages or salaries reimbursed under a government program.

Print in the CODE box at **D** **Total salary and wage expenses** the code from **table 6** that matches the description of the expense component where salary and wage expenses have been wholly or predominantly reported at item **6**.

TABLE 6: Salary and wage expenses codes

Salary and wage expenses included in:	Code
Cost of sales	C
All other expenses	A
Cost of sales and **All other expenses**	B
Other than **Cost of sales** and/or **All other expenses**	O

Payments to associated persons

Write at **Q Payments to associated persons** the amounts, including salaries, wages, commissions, superannuation contributions, allowances and payments in consequence of retirement or termination of employment, paid by a private company to associated persons. An associated person is a current or former shareholder or director of the company, or an associate of such a person.

Also include the amounts of salaries and wages paid to associated persons at **D Total salary and wage expenses** item **8**.

Record keeping

Excessive remuneration paid to an associated person may not be deductible and could be treated as an unfranked dividend (see section 109 of the ITAA 1936). Records to establish the reasonableness of remuneration include:

- age, if under 18
- hours worked
- nature of duties performed
- other amounts paid – for example, retiring gratuities, bonuses and commissions
- total remuneration.

Gross foreign income

Write at **G** Gross Foreign Income assessable income derived by the company from foreign sources, grossed up by the amount of the foreign tax paid.

Net foreign income

Write at **R Net foreign income** assessable income derived by the company from foreign sources grossed up by the amount of the foreign tax, but net of expenses. This amount includes:

- foreign source capital gains, after offsetting any unapplied capital losses
- assessable dividends paid by a New Zealand company
- income attributable to a dividend from a New Zealand company received from a partnership or trust.

Do **not** write at **R Net foreign income**:

- attributed foreign income (such as attributed income from a CFC)
- any amount of Australian franking credits attached to franked distributions received from a New Zealand company. Include these amounts at **C Australian franking credits from a New Zealand company** item **7**.

If the amount at **R Net foreign income** is a loss, print **L** in the box at the right of the amount.

From the first income year starting on or after 1 July 2008, foreign losses are no longer quarantined from domestic assessable income (or from assessable foreign income of a different class). Existing foreign losses will be subject to transitional rules. See Subdivisions 770-A – Transitional foreign losses (common rules) and 770-B – Transitional foreign losses (special rules for consolidated groups) of the *Income Tax (Transitional Provisions) Act 1997*.

Foreign source capital gains are made by an Australian resident company if a CGT event happens to any of its overseas CGT assets unless the gains are excluded from assessable income.

Any foreign source capital gains made during the income year should be reported at this label – **R Net foreign income** and should also be included as part of the company's total capital gain which is reported at **A Net capital gain** item 7. For more information about CGT, see *Guide to capital gains tax 2012.*

Do **not** apply debt deductions other than those attributable to an overseas PE of the taxpayer against foreign source income for the purpose of calculating net foreign income or loss.

The company may need to complete either a *Consolidated groups losses schedule 2012* or a *Losses schedule 2012*. For more information, see **Consolidated Groups Losses Schedule** on page 3 or **Losses schedule** on page 3

Tax spared foreign income tax offsets

Write at **S Tax spared foreign income tax offset** the amount of foreign income tax offset relating to foreign tax forgone under an investment incentive scheme provided by a foreign government if that tax forgone is deemed to have been paid for the purposes of Australia's foreign income tax offset rules.

ATTRIBUTED FOREIGN INCOME

Listed country

Write at **B Listed country** the amount of attributed foreign income from controlled foreign entities in listed countries. Listed countries are listed in Part 1 of Schedule 10 to the ITR 1936.

Do not include amounts attributed from transferor trusts, see **Transferor trust** below.

Section 404 country

Write at **C Section 404 country** the amount of attributed foreign income from controlled foreign entities in section 404 countries. Section 404 countries are listed in Part 2 of Schedule 10 to the ITR 1936.

Do not include amounts attributed from transferor trusts, see **Transferor trust** below.

Unlisted country

Write at **U Unlisted country** the amount of attributed foreign income from controlled foreign entities in unlisted countries (excluding section 404 countries). Unlisted countries are countries that are not listed countries in Part 1 of Schedule 10 to the ITR 1936.

Do not include amounts attributed from section 404 countries or transferor trusts, see **Transferor trust**.

Transferor trust

Write at **V Transferor trust** the amount of attributed foreign income from transferor trusts.

For more information on the calculation of the amounts shown at **B Listed Country**, **C Section 404 country**, **U Unlisted Country** and **V Transferor Trust** item **8**, see *Foreign income return form guide* at **www.ato.gov.au**

Section 128F/128FA exempt interest paid

Write at **O Section 128F/128FA exempt interest paid** the total amount of interest paid to non-residents that is exempt from interest withholding tax under section 128F or section 128FA of the ITAA 1936.

Interest to financial institution exempt from withholding under a Double Tax Agreement (DTA)

Write at **I Interest to financial institution exempt from withholding under a DTA** the total amount of interest paid to Finnish, French, Japanese, New Zealand, Norwegian, South African, United Kingdom and United States financial institutions that is exempt from withholding tax because of Article 11 of a double tax agreement (DTA) with these countries.

DTA country

Complete **Y DTA country** if you have shown an amount at **I Interest to financial institution exempt from withholding under a DTA**.

Print at **Y DTA country** the applicable three-letter country code:

- **FIN** if the exempt interest payments were to Finnish financial institutions
- **FRA** if the exempt interest payments were to French financial institutions
- **GBR** if the exempt interest payments were to United Kingdom financial institutions
- **JPN** if the exempt interest payments were to Japanese financial institutions.
- **NOR** if the exempt interest payments were to Norwegian financial institutions
- **NZL** if the exempt interest payments were to New Zealand financial institutions
- **USA** if the exempt interest payments were to United States financial institutions
- **ZAF** if the exempt interest payments were to South African financial institutions.

Print the code for the country where the most exempt interest was paid if payments were made to financial institutions in more than one of these countries.

TAXATION OF FINANCIAL ARRANGEMENTS (TOFA)

Total TOFA gains

Write at **T Total TOFA gains** the total of all assessable TOFA gains from financial arrangements recognised at item **6** and item **7**.

In working out a company's Total TOFA gains ensure the company's assessable TOFA gains from financial arrangements included in any of the following is taken into account:

- **D Gross distribution from partnerships** item **6**
- **E Gross distribution from trusts** item **6**
- **F Gross interest** item **6**
- **H Total dividends** item **6**
- **K Income from financial arrangements (TOFA)** item **6**
- **E TOFA income from financial arrangements not included in item 6** item **7**.

Total TOFA losses

Write at **U Total TOFA losses** the total of all allowable TOFA losses from financial arrangements recognised at item **6** and item **7**.

In working out a company's Total TOFA losses, ensure the company's allowable TOFA losses from financial arrangements included in any of the following is taken into account:

- **D Gross distribution from partnerships** item **6**
- **E Bad debts** item **6**
- **H Rent expenses** item **6**
- **V Interest expenses within Australia** item **6**
- **J Interest expenses overseas** item **6**
- **L Expenses from financial arrangements (TOFA)** item **6**
- **W TOFA deductions from financial arrangements not included in item 6** item **7**.

TOFA transitional balancing adjustment

Write at **R TOFA transitional balancing adjustment** any assessable or deductible amount from the company's transitional balancing adjustment for the income year as a result of making the transitional election for existing financial arrangements.

If the transitional balancing adjustment is a deductible amount, print L in the code box at **R TOFA transitional balancing adjustment**.

TOFA gains from unrealised movements in the value of financial arrangements

Write at **S** **TOFA gains from unrealised movements in the value of financial arrangements** the total of all TOFA gains recognised at item **6** as a result of unrealised movements in the value of financial arrangements. A company may have TOFA gains from unrealised movements in the value of financial arrangements as a result of making certain TOFA rules tax-timing method elections.

For more information, see *Guide to the taxation of financial arrangements (TOFA) rules* at **www.ato.gov.au/tofa**

9 FORESTRY MANAGED INVESTMENT SCHEMES – RULING LABEL

Only complete this item if:

- the company is eligible to claim a deduction at **U** **Forestry managed investment scheme deduction** item **7** for contributions made to an FMIS during the income year, **and**
- the company is covered by a product ruling, or has been issued a private ruling, in relation to its interest in an FMIS.

To complete this item, if the company's interests in an FMIS are covered by a product ruling, then:

- print **PR** at **G** **Code**
- write the year of the product ruling at **H** **Year**
- write the product ruling number at **I** **Number** (do not include the year of the product ruling or the slash (/) at **I**).

Alternatively, if the company's interests in an FMIS are covered by a private ruling, to complete this item:

- print **AN** at **G** **Code**
- leave **H** **Year** blank
- write the authorisation number that was printed on the front page of your notice of private ruling at **I** **Number**.

10 SMALL BUSINESS ENTITY DEPRECIATING ASSETS

Only complete this item if the company is a small business entity using the simplified depreciation rules.

To complete this item use the amounts the company calculated for small business entity depreciation deductions at **X** **Depreciation expenses** item **6**.

Deduction for low-cost assets (less than $1,000)

Write at **A** the total amount the company claimed at item **6** relating to low-cost assets.

Deduction for general pool assets (less than 25 years)

Write at **B** the total amount the company claimed at item **6** relating to the general small business pool.

Deduction for long-life pool assets (25 years or more)

Write at **C** the total amount the company claimed at item **6** relating to the long-life small business pool.

Do **not** show at **A**, **B** or **C** the balance of any small business pool or the cost of assets transferred to a pool.

11 ENTREPRENEURS TAX OFFSET

Only complete this item if:

- the company is an eligible small business entity, or
- the company was assessable on income of a partnership and/or a trust that was an eligible small business entity for this income year.

Certain small business entities are eligible to receive the ETO. The ETO is available under Subdivision 61-J of the ITAA 1997.

In the 2011 Budget, the Government announced that it would abolish the entrepreneurs tax offset for the 2012–13 income year onwards.

Aimed at providing extra incentives and encouragement to small business growth, the ETO is a non-refundable tax offset which can be up to 25% of a small business's income tax liability in respect of their business income. The ETO cannot be transferred to other entities or carried forward to later income years.

The tax offset is available to:

- an individual or a company that is a small business entity
- a partner in a partnership that is a small business entity
- a trustee or beneficiary of a trust that is a small business entity, depending on who is liable for tax on the trust income.

The amount of the tax offset varies, depending on the small business entity's aggregated turnover. If the aggregated turnover is $50,000 or less, the taxpayer can claim a tax offset equal to 25% of their income tax liability attributable to their small business income. The tax offset begins to phase out when the aggregated turnover of the small business entity passes $50,000; it is reduced to zero when the aggregated turnover reaches $75,000.

A taxpayer may be eligible for more than one ETO for an income year – for example, if a company is an eligible small business entity and it is also a partner in a partnership that is an eligible small business entity, the company may be entitled to a tax offset in respect of its net business income and a tax offset in respect of its share of the net business income of the partnership. However, in this instance, the company's entitlement to the ETO may be affected by the rules concerning the calculation of aggregated turnover.

If the company has **more than one source** of net small business income, the details of each source and each ETO amount should be shown separately at this item.

You may need to provide an attachment to the return. See **If the company's income tax return is not lodged electronically** on page 63.

Small business entity aggregated turnover

Write at **D** the company's (small business entity) aggregated turnover. This is the company's annual business turnover, plus the annual business turnovers of its *affiliates* **and** any entities it is *connected with*. There are aggregation rules which determine who is an affiliate and when an entity is connected with you for the purpose of calculating your aggregated turnover. Certain amounts, such as income from dealings between the company and any entities that it is connected with, or that are its affiliates, are excluded from aggregated turnover.

In the earlier example, if the partnership is connected with the company, it is the company's turnover combined with the partnership's turnover that is relevant in determining the company's eligibility for the ETO in relation to its small business income. Correspondingly, it is the turnover of the partnership combined with the company's turnover that is relevant in determining the company's eligibility for the ETO in relation to its share of the partnership's net small business income.

If the company is not affiliated or connected with any other entities under the aggregation rules, the company's aggregated turnover will be equal to its annual business turnover.

If the company is claiming a tax offset in respect of a share of net small business income received from a partnership or trust, write at **D** the aggregated turnover of the partnership or trust. You will need to obtain the partnership's and/or trust's aggregated turnover and your share of the net small business income from the preparer of the partnership's and/or trust's tax return.

> STOP
> If the aggregated turnover in relation to an amount of net small business income is greater than or equal to $75,000, do not complete item **11** as the company is not entitled to an ETO in respect of that net small business income amount.

Small business entity turnover

This is the amount of total ordinary income earned in the income year in the ordinary course of carrying on a business.

It includes amounts such as payments for goods or services supplied, professional fees, commissions, interest received on amounts deposited in business banking accounts, and holding or security deposits forfeited by customers.

It excludes amounts such as GST you charged on a transaction, rental income where rental activities do not form an ordinary part of the business, amounts resulting from realisation of an investment (such as the proceeds from the sale of a capital asset used in the business), payments received under an insurance recovery and the principal component of a loan repayment.

In most cases, the company's small business entity turnover amount will be the same as its aggregated turnover. However, if any of the following circumstances apply you will need to make the following adjustments to calculate the small business entity turnover

- If you have included another entity's turnover in the company's aggregated turnover amount, you will need to:
  - exclude that entity's turnover, and
  - add back any income the company derived from its affiliates or connected entities.
- If the company operated a business for part of the year, you include only the company's actual turnover amount. You do not need to use the estimate of its full year turnover.
- If the company had retail fuel sales, you must add back those sales.

For more information on the entrepreneurs tax offset, go to **www.ato.gov.au** or phone **13 28 66**.

Net small business entity income

Step 1 Write at **E** the company's net small business income or its share of net small business income from a partnership or trust. The net small business income is the entity's small business entity turnover less the allowable deductions attributable to that turnover. There must be an amount of net small business income included in the company's assessable income before an entitlement to the tax offset arises.

The deductions attributable to the small business entity turnover are the allowable deductions that the entity can claim against its assessable income which specifically relate to that turnover.

When determining the allowable deductions attributable to an entity's small business entity turnover for the purpose of working out the net small business income:

- do not include:
  - tax losses from prior years
  - gifts or donations
  - costs of managing your tax affairs
- use a reasonable basis to apportion any small business pool deduction if the pool includes assets that are used partly for business and partly for other income-producing activities.

> STOP
> Do not complete item **11** if there is no amount of net small business income or the allowable deductions exceed the small business entity turnover.

Step 2 Print in the CODE box at **E** the code from **table 7** that describes the source of net small business income.

TABLE 7: Small business income source codes

Code	Type
P	share of net small business income from a partnership
T	share of net small business income from a trust
C	net small business income earned by the company

Entrepreneurs tax offset

Write at **F** the amount of ETO in respect of each source of net small business income calculated as follows:

Step 1 Work out the company's taxable income for the year.

Step 2 Work out 25% of the basic income tax liability* on that taxable income.

Step 3 Work out the small business percentage of the taxable income using the following formula:

$$\frac{\text{the company's net small business income** for the year} \times 100}{\text{the company's taxable income for the year}}$$

If the percentage that results is more than 100%, the small business percentage is 100%.

Step 4 If the aggregated turnover is \$50,000 or less, the tax offset is the step 2 amount multiplied by the small business percentage.

Step 5 If the aggregated turnover is more than \$50,000, work out the small business phase-out fraction using this formula:

$$\frac{\$75{,}000 - \text{the aggregated turnover for the year}}{\$25{,}000}$$

The tax offset in these circumstances is:

$$\text{step 2 amount} \times \text{small business percentage} \times \text{small business phase-out fraction}$$

The sum of the amounts shown at **F** is the company's total ETO and should be claimed at **C** **Non-refundable non-carry forward tax offsets** in the **Calculation statement.**

* Basic income tax liability: to work this out, multiply the company's taxable income by the applicable tax rate and take into account any special provisions that affect the calculation of the liability, but do not take into account any tax offsets.

** If you are working out a tax offset in respect of the company's share of net small business income received from a partnership or trust, use the company's share of net small business income from the partnership or trust in step 3. In steps 4 and 5, use the aggregated turnover of the partnership or trust.

If the company's income tax return is not lodged electronically

The labels at item **11** are repeatable fields in an electronic environment to cater for companies that are entitled to more than one ETO. If the company's return is not lodged electronically and it is entitled to more than one tax offset, attach a statement to the company's tax return giving details in the same format as item **11** for the second and subsequent sources of net small business income.

The entrepreneurs tax offset and PAYG

The ETO is not taken into consideration when determining the rate of PAYG instalments.

If an entity anticipates that it will be entitled to the tax offset on assessment, the entity may vary its instalments during the year. However, the entity may be liable to the general interest charge where a variation results in an underestimation of the instalments of more than 15%.

EXAMPLE 14

Elpin Pty Ltd is a small business entity and a partner in XYZ partnership for the year ended 30 June 2012. XYZ partnership is also a small business entity.

Elpin Pty Ltd has net small business income for the year of $40,000 from its business activities and taxable income for the year of $80,000 that includes a distribution of net small business income from XYZ partnership of $10,000.

Elpin Pty Ltd is not connected with XYZ partnership under the aggregation rules.

The aggregated turnover of each entity is $60,000. Therefore Elpin Pty Ltd is entitled to a tax offset in respect of its net small business income earned from its business activities and its share of net small business income received from XYZ partnership.

Tax offset in respect of business income:

Step 1 amount	=	$80,000 (that is, Elpin's taxable income)
Step 2 amount	=	25% of Elpin's basic income tax liability of $24,000*
	=	$6,000
Step 3 amount	=	$40,000 ÷ $80,000 × 100
	=	50% (that is, the small business percentage)

The step 4 amount is not relevant because the aggregated turnover is greater than $50,000.

Step 5 amount $= \dfrac{\$75{,}000 - \$60{,}000}{\$25{,}000}$

= 0.60 (or 60%)

Elpin Pty Ltd is entitled to a tax offset of $1,800 ($6,000 × 50% × 60%) in respect of its business income.

Tax offset in respect of Elpin's share of net small business income from XYZ partnership:

Step 1 amount	=	$80,000 (that is, Elpin's taxable income)
Step 2 amount	=	25% of Elpin's basic income tax liability of $24,000*
	=	$6,000
Step 3 amount	=	$10,000 ÷ $80,000 × 100
	=	12.5% (that is the small business percentage)

The step 4 amount is not relevant because the aggregated turnover is greater than $50,000.

Step 5 amount $= \dfrac{\$75{,}000 - \$60{,}000}{\$25{,}000}$

= 0.60 (or 60%)

Elpin Pty Ltd is entitled to a tax offset of $450 ($6,000 × 12.5% × 60%) in respect of its share of the partnership's net small business income.

* 30% company tax rate multiplied by $80,000

Elpin completes item **11** as shown below.

11 Entrepreneurs tax offset

Small business entity aggregated turnover	D	$	60,000 .00	
Net small business entity income	E	$	40,000 .00	CODE C
Entrepreneurs tax offset	F	$	1,800 .	

11 Entrepreneurs tax offset

Small business entity aggregated turnover	D	$	60,000 .00	
Net small business entity income	E	$	10,000 .00	CODE P
Entrepreneurs tax offset	F	$	450 .	

Elpin shows an ETO of $2,250 (the total of $450 and $1,800) at **C Non-refundable non-carry forward tax offsets** in the **Calculation statement** on its tax return.

PAGE 8 OF THE TAX RETURN

12 NATIONAL RENTAL AFFORDABILITY SCHEME TAX OFFSET

Write at **J** the company's entitlement to a tax offset under the National Rental Affordability Scheme (NRAS). Show cents.

The NRAS is designed to encourage large-scale investment in affordable housing. The NRAS offers incentives to providers of new dwellings on the condition that they are rented to low and moderate income households at 20% below market rates.

The refundable tax offset is available to approved participants in the NRAS scheme. In order to claim the tax offset in the 2011–12 income year, the NRAS certificate must relate to the NRAS year comprising the period 1 May 2011 to 30 April 2012.

For more information, see *National Rental Affordability Scheme – refundable tax offset and other taxation issues* at **www.ato.gov.au**

The NRAS tax offset is intended to be subject to the refundable tax offset rules and can be claimed at **E** **Refundable tax offsets** in the **Calculation statement**.

13 LOSSES INFORMATION

Any company that is a subsidiary member of a consolidated or MEC group at the end of the 2011–12 income year is not required to complete **U** and **V**. Other companies, including the head company of a consolidated or MEC group at the end of the 2011–12 income year, may need to complete **U** and **V**.

Tax losses carried forward to later income years

Write at **U** the unapplied (undeducted or not transferred) amount of tax losses, including the foreign loss component of a tax loss, incurred by the company and carried forward to a later income year under section 36-17 of the ITAA 1997.

Net exempt income (if any) must be taken into account in calculating the amount of tax losses carried forward to a later income year – see sections 36-10 and 36-17 of the ITAA 1997.

Tax losses carried forward may be affected by the commercial debt forgiveness provisions – see **appendix 1** on page 91.

Under sections 36-17 and 36-55 of the ITAA 1997, a company is:

- subject to certain limitations, able to choose the amount of prior year tax losses it wishes to deduct in a later year of income from the excess (if any) of its assessable income over total deductions (other than tax losses). Providing choice means that companies can choose not to deduct prior year losses in order to pay sufficient tax to be able to frank their distributions
- able, in certain circumstances, to convert excess franking offsets into a tax loss for the income year and carry forward the tax loss for consideration as a deduction in a later income year.

If the company has excess franking offsets at **H** **Excess franking offsets** item **8**, calculate the company's tax loss for the income year under the method statement in subsection 36-55(2) of the ITAA 1997 as follows:

Step 1 Work out the amount (if any) that would have been the company's tax loss for the year under section 36-10, 165-70, 175-35 or 701-30 of the ITAA 1997, disregarding any net exempt income.

Step 2 Divide the amount of excess franking offsets by the corporate tax rate.

Step 3 Add the result of steps 1 and 2.

Step 4 Take away the company's net exempt income (if any).

The result (if a positive amount) is the company's tax loss for the income year. Include this amount at **U** with any unapplied tax losses from prior income years.

If a company is required to complete a *Losses schedule 2012*, the amount of the tax losses shown at **U** **Total** at item **1 Tax losses carried forward to later income years** in part A of that schedule must be the same as the amount shown at **U** on the *Company tax return 2012*.

Do not include any net capital losses to be carried forward to later income years at **U**; write these separately at **V** **Net capital losses carried forward to later income years** item **13** on the *Company tax return 2012* and in the CGT schedule, if a CGT schedule is required.

If a head company of a consolidated or MEC group is required to complete a *Consolidated groups losses schedule 2012*, the amount of the tax losses shown at **U** **Total** at item **5 Tax losses carried forward to later income years** in part A of that schedule must also be the same as the amount shown at **U** on the company tax return.

If the company is a subsidiary member of a consolidated or MEC group at the end of the income year, **U** is not applicable.

Net capital losses carried forward to later income years

Write at **V** the total of any unapplied net capital losses from collectables and unapplied net capital losses from all other CGT assets and events. This information is calculated or transferred from:

- **V** in part **I** of the CGT summary worksheet, or
- **H** and **I** in part **I** of the CGT schedule, if a CGT schedule is required.

For more information, see *Guide to capital gains tax 2012*.

If the company is required to complete a *Losses schedule 2012*, the amount of the tax losses shown at **V** **Total** at item **2 Net capital losses carried forward to later income years** in part A of that schedule must also be the same as the amount shown at **V** on the company tax return.

If a head company of a consolidated or MEC group is required to complete a *Consolidated groups losses schedule 2012*, the amount of the net capital losses shown at **V** **Total** at item **10 Net capital losses carried forward to later income years** in part A of that schedule must also be the same as the amount shown at **V** on the company tax return.

If the company is a subsidiary member of a consolidated or MEC group at the end of the income year, **V** is not applicable.

14 PERSONAL SERVICES INCOME

Does your income include an individual's personal services income?

Print **X** in the **Yes** box at **N** if the company's income includes an individual's PSI. Otherwise print **X** in the **No** box.

If you printed **X** in the **Yes** box at **N**, complete and attach a Personal services income schedule to the company tax return.

PSI is income that is mainly a reward for an individual's personal efforts or skills (or would mainly be such a reward if it was derived by the individual).

A company may derive income which includes the PSI of one or more individuals.

Examples of PSI include:

- income for the services of a professional practitioner in a sole practice
- income derived under a contract which is wholly or principally for the labour or services of an individual
- income for the exercise of professional skills by a professional sportsperson or entertainer
- income for the exercise of personal expertise by a consultant.

PSI does not include income that is mainly:

- for supplying or selling goods – for example, from retailing, wholesaling or manufacturing
- generated by an income-producing asset – for example, from operating a bulldozer
- for granting a right to use property – for example, the copyright to a computer program, or
- generated by a business structure – for example, a large accounting firm.

There are special rules for the income tax treatment of PSI earned by contractors and consultants.

If the company receives an individual's PSI other than in the course of conducting a personal services business, and does not promptly pay it to the individual as salary or wages:

- the net amount of PSI is attributed to the individual and is not assessable to the company
- certain related expenses are not deductible under the special rules.

For more information, go to **www.ato.gov.au** and search for *Personal services income schedule 2012* (NAT 3421) instructions by the title or NAT number.

Include adjustments relating to non-deductible expenses at **W** **Non-deductible expenses** item **7** and adjustments relating to attributed PSI at **Q** **Other income not included in assessable income** item **7**.

See **worksheet 2** on pages 88–90 and **note 5** on page 91.

15 LICENSED CLUBS ONLY

Percentage of non-member income

Write at **A** the percentage, in whole figures, of total income attributable to non-members.

See the *Guide to company tax return for non-profit organisations 2012* for help with this item.

16 LIFE INSURANCE COMPANIES AND FRIENDLY SOCIETIES ONLY

A life insurance company is defined for tax purposes as a company registered under the *Life Insurance Act 1995* and includes:

- life insurance companies
- life reinsurance companies
- friendly societies carrying on life insurance business.

If a friendly society does not conduct life insurance business, write zero (**0**) at **B** to **F** item **16**.

Life insurance companies separate their taxable income into two classes (the ordinary class and the complying superannuation/FHSA class) and multiply the taxable income of each class by the appropriate tax rate to determine their gross tax. Where a life insurance company is an RSA provider and there is no-TFN contributions income, the tax rate is determined in accordance with section 29 of the *Income Tax Rates Act 1986.*

The taxable incomes of the complying superannuation/FHSA class and the ordinary class are worked out separately.

Tax losses of one class can only be applied to reduce future income of the same class.

The tax rates to assist with the calculation of the gross tax amount for life insurance companies are listed in **appendix 7**.

Life insurance companies, including friendly societies carrying on life insurance business, are entitled to a franking tax offset for franked dividends.

If franking tax offsets exceed the tax that would be payable after all other tax offsets are taken into account, life insurance companies may be entitled to a refund of the excess to the extent that it relates to distributions paid on shares and other membership interests held on behalf of policy holders. Claim the amount of the excess franking tax offset that is refundable at **E** **Refundable tax offsets** in the **Calculation statement**.

If a life insurance company receives a dividend from a listed investment company (LIC) which includes a LIC capital gain amount, the life insurance company is entitled to a deduction of 33 ⅓% of its share of the LIC capital gain amount if the shares in the listed investment company are complying superannuation/FHSA assets. The deduction should be included at **X** **Other deductible expenses** item **7**.

If a life insurance company's assessable income includes a distribution from a partnership or trust that claimed a deduction in respect of a LIC capital gain amount, the company must add back an amount as income in accordance with subsection 115-280(5) of the ITAA 1997. Include the amount added back at **B** **Other assessable income** item **7**.

The special rules in the income tax law that apply to life insurance companies will apply to the head company of a consolidated or MEC group if that group has one or more members that are life insurance companies.

Complying superannuation/FHSA class

Write at **B** the amount of taxable income of the complying superannuation/FHSA class.

If the company is a life insurance company that is not a member of a consolidated group and has complying superannuation/FHSA class tax losses carried forward to later income years or complying superannuation/FHSA net capital losses carried forward to later income years, complete a *Losses schedule 2012*. For more information, see *Losses schedule instructions 2012*.

The head company of a consolidated or MEC group that has one or more subsidiary members that are life insurance companies at any time during the income year is also taken to be a life insurance company for the purposes of applying the income tax law.

If the head company has tax losses of the complying superannuation/FHSA class or net capital losses from complying superannuation/FHSA assets carried forward to later income years, it may need to complete a *Consolidated groups losses schedule 2012*. For more information, see *Consolidated groups losses schedule instructions 2012*.

Net capital gain – complying superannuation/FHSA class

Write at **C** the amount of the net capital gain that accrued from the investment of complying superannuation/FHSA assets.

Net capital gain – ordinary class

Write at **D** the amount of the net capital gain that is included in the ordinary class of taxable income.

Assessable contributions

Write at **E** assessable contributions of complying superannuation funds that were transferred to the life insurance company under section 295-260 of the ITAA 1997 and are included in its assessable income under paragraph 320-15(1)(i).

Fees and charges

Write at **F** the amount of all fees and charges included in assessable income. This includes premium-based fees, establishment fees, time-based account fees, asset fees, switching fees, surrender penalties, buy–sell margins, exit fees and interest on overdue premiums. For more information on fees and charges, see *Taxation Ruling TR 2003/14 – Income tax: Life insurance companies: the actuarial determination of fees and charges*.

17 FIRST HOME SAVER ACCOUNT (FHSA) PROVIDERS ONLY

FHSA providers only (other than life insurance companies) are to complete **L** to **N**.

Amounts credited to FHSAs

Show at **L** the total earnings or other return credited to FHSAs for the year.

Fees and charges applied to FHSAs

Show at **M** the total amount of fees and charges paid from FHSAs.

Do not include the 15% tax liability as a fee or charge.

Net amounts credited to FHSAs

At **N**, show **L** MINUS **M**. This is the FHSA component of taxable income where the FHSA provider is an ADI.

1 For information on the applicable tax rate for FHSA providers, see **appendix 7**.
2 If you are completing the company tax return for the trustee of an FHSA trust, ensure that you print **X** in box **D11 FHSA Trust** item **3**.

18 POOLED DEVELOPMENT FUNDS

Small and medium sized enterprises income

Write at **G** the SME income component.

A PDF's SME income component is its SME assessable income, less deductions allowable to the PDF for the income year, whether those deductions relate to the SME assessable income or not. (Allowable deductions to a PDF are offset first against SME assessable income, then applied against unregulated investment income.)

SME assessable income is the **sum** of:

- non-CGT assessable income derived from an SME investment or derived from the disposal of an SME investment at a time when the company was a PDF, and
- the overall capital gain allocated to the SME assessable income class.

The overall capital gain allocated to the SME assessable income class is the amount of any ordinary capital gain that would otherwise arise from a CGT event at a time the company was a PDF in relation to an SME investment **less**:

- any ordinary capital loss for that class, **and**
- any overall capital loss from another class of assessable income, **and then**
- any prior year net capital losses.

Capital gains in one class of assessable income are first reduced by capital losses in that class and then by capital losses in another class. Prior-year capital losses are applied first against capital gains in the SME assessable income class.

Full-year PDF

For a company that is a PDF for the full income year, the SME income component is SME assessable income less deductions allowable to the PDF for the income year.

Part-year PDF

A company that becomes a PDF part way through the income year and is still a PDF at the end of the income year is taxed as a PDF from the day it became registered as a PDF to the end of the income year as if that period were an income year ('the PDF period'). The PDF component is the taxable income for the PDF period. (A company's 'PDF component' is its 'adjusted taxable income'.)

The SME income component of a part-year PDF is the company's SME assessable income less any deductions allowable to the company for the income year that relate to the PDF period.

Unregulated investment income

Write at **H** item **18** the unregulated investment component

Full-year PDFs

The unregulated investment component of a company that is a PDF for the full income year is worked out by deducting the company's SME income component from its taxable income for the year. The amount (if any) remaining is the company's unregulated investment component.

Part-year PDFs

The unregulated investment component of a part-year PDF is worked out by deducting the company's SME income component for the year of income from its adjusted taxable income.

19 RETIREMENT SAVINGS ACCOUNTS (RSAs) PROVIDERS ONLY

Only RSA providers are to complete **R** to **V**.

RSA providers other than life insurance companies work out the RSA component of their taxable income and apply the applicable rate to that component. For information on the tax rate, see **appendix 7**.

Gross income of RSAs

Write at **R** the gross income of the RSA provider that is not a life insurance company, or the total amount credited to the RSAs provided by a life insurance company.

This includes assessable contributions received by the RSA provider.

Assessable contributions of RSAs

Write at **W** all assessable contributions received by the RSA provider.

This includes contributions which may also constitute no-TFN contributions income received by the RSA provider.

No-TFN contributions income

Write at **U** the no-TFN contributions income of the RSA provider. If zero, write zero.

Total deductions from RSAs

Write at **T** the total deductions claimed against all income relating to gross income of RSAs.

Exempt income from RSAs

Write at **S** the amounts (other than contributions) credited to RSAs paying current pensions and annuities.

Income tax payable on no-TFN contributions income

Write at **X** the amount of further income tax payable on no-TFN contributions income written at **U** above. If zero, write zero. For the tax rate, see **appendix 7** .

Include the amount at **X** in label **B** **Gross tax**, in the **Calculation statement**.

For more information on the further tax on no-TFN contributions, go to **www.ato.gov.au** and search for 'No tax file number (TFN) contributions'. You can find an example of how to calculate the extra tax in the *Fund income tax return instructions 2012*.

Net taxable income from RSAs

Write at **V** the RSA component of the taxable income of the RSA provider that is not a life insurance company, or the amount to be included in the complying superannuation/FHSA class of the taxable income of a life insurance company that is referable to RSAs provided by the company.

20 LANDCARE AND WATER FACILITY TAX OFFSET

The company cannot choose a tax offset for expenditure incurred after the 2000–01 income year on landcare operations or water facilities. A company may have a landcare or water facility tax offset carried forward to this income year if its income tax liabilities and net exempt income for earlier years did not absorb all of the tax offset available to it from a previous year.

Landcare and water facility tax offset brought forward from prior years

Write at **K** the total of any landcare and water facility tax offsets carried forward and available for offset in this income year.

A company must first apply a carried-forward tax offset to reduce any unused net exempt income to nil for this year or for any earlier income year in which the company had a taxable income after the year in which the tax offset arose. Net exempt income is reduced by $1 for each 30 cents of the tax offset.

The company cannot apply a tax offset it has carried forward if Subdivision 165-A of the ITAA 1997 would prevent the company from deducting a tax loss for the current year.

Also claim the amount of landcare and water facility tax offset carried forward and available for offset in this year at **D** **Non-refundable carry forward tax offsets** in the **Calculation statement**.

21 FOREIGN INCOME TAX OFFSET

Write at **J** the allowable foreign income tax offset referable to the current year of income. Do not include any allowable pre-commencement excess foreign income tax.

Include the amount at **J** in label **C** **Non-refundable non-carry forward tax offsets** in the **Calculation statement**. Include at label **D** **Non-refundable carry forward tax offsets** in the **Calculation statement** any allowable pre-commencement excess foreign income tax that has not already been utilised, provided it has not already expired.

The company may be able to claim a foreign income tax offset where it has paid foreign income tax on an amount included in its assessable income.

The company's foreign income tax offset cannot exceed the lesser of:

- the foreign income tax paid, or
- its foreign income tax offset limit (the greater of $1,000 and the amount calculated under paragraph 770-75(2)(b) of the ITAA 1997).

The company is taken to have paid foreign income tax on an amount included in its assessable income where the foreign income tax has effectively been paid by someone else on its behalf under an arrangement with it or under the law relating to that tax – for example, foreign income tax paid by deduction or withholding, or by a trust (or partnership) in which the company is a beneficiary (or partner).

When determining whether a foreign income tax offset is allowable, the company must refer to and adhere to the provisions of Division 770 of the ITAA 1997.

The following are key points:

- You cannot claim a foreign income tax offset for amounts of attributed income included under section 459A of the ITAA 1936.
- You cannot claim a foreign income tax offset in certain circumstances where there has been a refund of foreign income tax or a receipt of any other benefit as a direct result of the payment of the foreign income tax.
- Subject to certain transitional provisions, you cannot carry-forward an amount of excess foreign income tax for use in a later income year.
- Transitional rules determine the amount of pre-commencement excess foreign income tax that can be used. Pre-commencement excess foreign income tax consists of certain excess foreign tax credits from the five years prior to commencement of the new rules.
- Foreign income tax includes foreign tax forgone on income by foreign countries under tax sparing arrangements where the tax sparing amounts are subject to Australia's tax treaty with the relevant country.
- The foreign income tax paid on the offshore banking income of an OBU is taken to be one-third (the current offshore banking eligible fraction) of the amount of foreign income tax actually paid (see subsection 121EG(3A) of the ITAA 1936). This rule does not apply where the OBU has had excessive use of non-OB money (see section 121EH of the ITAA 1936).

The foreign income tax offset rules described above also apply to the head company of a consolidated or MEC group. Where a subsidiary member paid foreign income tax on an amount included in the head company's assessable income, the head company is treated as having paid the foreign income tax and is eligible to claim a foreign income tax offset. Special transitional rules provide for the transfer of a joining entity's unused pre-commencement excess foreign income tax to the head company and conditions for utilising these amounts. See the Consolidation reference manual for additional information.

For more information on how to calculate the company's allowable foreign income tax offset, go to **www.ato.gov.au** and search for *Guide to foreign income tax offset rules* (NAT 72923).

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22 RESEARCH AND DEVELOPMENT TAX INCENTIVE

An eligible company will be entitled to an R&D tax offset if its total notional deductions for an income year are at least $20,000. If your total notional deductions are less than $20,000, you will only be able to obtain the R&D tax offset for:

- expenditure incurred to a Research Service Provider (RSP) for services within a research field for which the RSP is registered under the IR&D Act, where that RSP isn't an associate of the R&D entity
- expenditure incurred as a monetary contribution under the Co-operative Research Centre (CRC) program.

A notional deduction is an amount that a company can take into account in calculating its tax offset. The total of your notional deductions is multiplied by the relevant R&D tax offset percentage and shown at either **A** **Non-refundable R&D tax offset** or at **U** **Refundable R&D tax offset** in item **22** of the *Company tax return 2012*. Notional deduction amounts are shown in Part A of the *Research and development tax incentive schedule 2012*.

If you are claiming an R&D tax offset amount at **A** **Non refundable R&D tax offset** item **22** or at **U** **Refundable R&D tax offset** item **22**, you must complete and lodge a *Research and development tax incentive schedule 2012* with your *Company tax return 2012*.

For more information on eligible notional deduction amounts and calculating your entitlement to the R&D tax offsets, see the *Research and development tax incentive schedule instructions 2012* and the *Guide to the Research and development tax incentive* at **www.ato.gov.au/randdtaxincentive**

Non-refundable R&D tax offset

To claim a non-refundable R&D tax offset, an eligible company must:

- have an aggregated turnover of $20 million or more, or
- be controlled by an income tax-exempt entity.

The non-refundable R&D tax offset is equal to 40% of your total eligible notional deductions on R&D activities.

Any unused portion of the non-refundable R&D tax offset may be carried forward to future income years, subject to the tax offset carry-forward rules in Division 65 of the ITAA 1997.

A – Non-refundable R&D tax offset

The non-refundable R&D tax offset is shown on the *Company tax return 2012* at **A** item **22**, and is the amount calculated in Part E, item *5*, label **A** **Non-refundable R&D tax offset** on the *Research and development tax incentive schedule 2012*.

This amount is also included in your total at label **D** **Non-refundable carry forward tax offsets** in the **Calculation statement**.

Prior to completing label **C** item **22** and label **D** item **22** you will need to complete the *Company tax return 2012* **Calculation statement**, to work out your income, tax payable (and other offset amounts) before you will know how much can be applied.

Label C – Non-refundable R&D tax offset to be utilised in current year

Show at label **C** the amount of non-refundable R&D tax offset utilised in the current year. The non-refundable R&D tax offset can be utilised to reduce your tax payable to zero, but cannot go below zero – that is, not into a negative.

If the amount at label **T2** **Subtotal 1** in the **Calculation statement** is *more* than the amount at label **D** **Non-refundable carry forward tax offsets** in the **Calculation statement**, the amount at label **C**, item **22**, will be equal to the amount at label **A**, item **22** (refer to example 1 on the next page).

If the amount at label **T2** **Subtotal 1** in the **Calculation statement** is *less* than the amount at label **D** **Non-refundable carry forward tax offsets** in the **Calculation statement**, you will need to calculate an amount at label **C**, item **22**. Show at label **C**, item **22**, the amount of non-refundable R&D tax offset utilised to make label **T3** **Subtotal 2** in the **Calculation statement** (refer to example 2 on the next page).

Label D – Non-refundable R&D tax offset carried forward to next year

You must complete label **C**, item **22** and the **Calculation statement** prior to completing label **D**, item **22**.

Show at label **D** the amount calculated by taking the amount at label **C** item **22** away from the amount at label **A** item **22**.

EXAMPLE 1

Company XYZ has an amount at label **T2** **Subtotal 1** in the **Calculation statement** of $100,000. The amount at label **D** **Non-refundable carry forward tax offsets** in the **Calculation statement** was $60,000 from a non-refundable R&D tax offset of $60,000. The amount at label **C**, item **22**, will be equal to the amount at label **A**, item **22**. Label **D** item **22** is $0 as the entire non-refundable R&D tax offset has been applied against the amount at label **T2** **Subtotal 1** in the **Calculation statement** and there is no amount remaining to be carried forward and applied in a future income year.

In this example, the Calculation statement labels would show:

Subtotal 1 **T2** $ 100,000.00
(cannot be less than zero)

Non-refundable carry forward tax offsets **D** $ 60,000.00

Subtotal 2 **T3** $ 40,000.00

The item **22** Non-refundable R&D tax offset labels would be completed as follows:

Include amount at calculation statement label D – Non-refundable carry forward tax offsets

Non-refundable R&D tax offset **A** $ 60,000.00

Non-refundable R&D tax offset to be utilised in current year **C** $ 60,000.00

Non-refundable R&D tax offset carried forward to next year **D** $ 0.00
(**A** less **C**)

EXAMPLE 2

Company XYZ has an amount at label **T2** **Subtotal 1** in the **Calculation statement** of $60,000. The amount at label **D** **Non-refundable carry forward tax offsets** in the **Calculation statement** was $100,000 from a non-refundable R&D tax offset of $100,000. The amount at label **C**, item **22**, was $60,000 as this was the amount utilised to make label **T3** **Subtotal 2** in the **Calculation statement** zero. Label **D** item **22** is $40,000 as this is the amount remaining after applying the non-refundable R&D tax offset against the amount at label **T2** **Subtotal 1** in the **Calculation statement**.

In this example, the Calculation statement labels would show:

Subtotal 1 **T2** $ 60,000.00
(cannot be less than zero)

Non-refundable carry forward tax offsets **D** $ 100,000.00

Subtotal 2 **T3** $ 0.00

The item **22** Non-refundable R&D tax offset labels would be completed as follows:

Include amount at calculation statement label D – Non-refundable carry forward tax offsets

Non-refundable R&D tax offset **A** $ 100,000.00

Non-refundable R&D tax offset to be utilised in current year **C** $ 60,000.00

Non-refundable R&D tax offset carried forward to next year **D** $ 40,000.00
(**A** less **C**)

Refundable tax offset

To claim a refundable R&D tax offset, an eligible company must:

- have an aggregated turnover of less than $20 million, and
- not be controlled by an income tax exempt entity.

The refundable R&D tax offset is equal to 45% of your total eligible notional deductions on R&D activities.

Due to the refundable tax offset rules in Division 67 of the ITAA 1997, the refundable R&D tax offset directly reduces tax payable by a company. This includes income taxes, GST, FBT and withholding taxes. Where the amount of the refundable R&D tax offset exceeds the amount of tax that the company would otherwise have had to pay, then the excess is refundable.

Label U – Refundable R&D tax offset

Show at label **U** the amount calculated in Part E, item **4**, label **U** **Refundable R&D tax offset** of the *Research and development tax incentive schedule 2012*.

Include this amount in your total at label **E** **Refundable tax offsets** in the **Calculation statement**.

23 INTERNET TRADING

Print **X** in the **Yes** box at **Q** **Did you sell any goods or services using the internet?** item **23** if, in deriving income, the company used the internet to:

- receive orders for goods or services – for example, the company received orders by email or a web page form, rather than by conventional post, telephone or facsimile
- receive payment for goods or services – for example, the company received digital cash as
  - credit card or charge card details by email or web page form, rather than by conventional post, telephone or facsimile
- deliver goods or services – for example, the company
  - used email, the internet or file transfer protocol to deliver digitised music, news articles or software, rather than conventional post to deliver software on a disk
  - used email, in conjunction with a website, to give advice and received a payment in connection with this advice
  - advertised goods or services of other businesses for a fee on the internet
  - hosted websites
  - provided access to the internet.

Print **X** in the **No** box at **Q** if the company used the internet **only** to:

- advertise the company's goods or services
- give support to the company's customers
- buy the company's stock
- do the company's banking online.

24 REPORTABLE TAX POSITION

Only complete this item if you have been notified in writing by the Australian Taxation Office (ATO) that you are required to lodge a Reportable tax position schedule in 2012.

To complete this item:

At Item **24 "Are you required to lodge a reportable tax position schedule?"**, place **X** in the **Yes** box at label **B** if you have been notified in writing by the ATO that you are required to lodge a reportable tax position schedule in 2012.

ITEMS 25 TO 30 – OVERSEAS TRANSACTIONS OR INTERESTS/THIN CAPITALISATION/ FOREIGN SOURCE INCOME

These items must be answered even if you do not have any overseas transactions or interests.

Agents for non-residents

If a tax return that includes income or deductions from only the activities listed in **table 8** is lodged in accordance with the following sections of the ITAA 1936 and does not include income or deductions from any other source, print **X** in the **No** box at **X** item **25**, **Y** item **26** and **Z** item **27**. Do not complete an *International dealings schedule 2012*.

TABLE 8: ACTIVITIES CARRIED OUT BY AGENTS FOR NON-RESIDENTS

Industry type	Industry code	Section number
Overseas shipping	99020	129
Agents for non-resident insurer	99050	144
Agents for non-resident reinsurers	99050	148
Control of non-resident's money	99070	255

Dividends as the only international transactions

If dividends were paid to or received from a related overseas entity and those dividends were the only transactions with related overseas entities, print **X** in the **No** boxes at **X** item **25** and **Y** item **26** in respect of overseas transactions and do not complete an *International dealings schedule 2012*. Answer items **27**, **28**, **29** and **30** as required.

International dealings schedule

If you need to lodge an *International dealings schedule 2012*, see the instructions for that schedule at **www.ato.gov.au**

25 INTERNATIONAL RELATED PARTY DEALINGS/TRANSFER PRICING

Did you have any transactions or dealings with international related parties (irrespective of whether they were on revenue or capital account)?

Print **X** in the appropriate box at **X** item **25**.

International related parties are persons, including PEs, who are parties to international dealings that can be subject to section 136AD of the ITAA 1936 or the associated enterprises article of a relevant DTA. The term includes:

- any overseas entity or person who participates directly or indirectly in the company's management, control or capital
- any overseas entity or person in respect of which the company participates directly or indirectly in the management, control or capital
- any overseas entity or person in respect of which persons who participate directly or indirectly in its management, control or capital are the same persons who participate directly or indirectly in the company's management, control or capital.

Participates includes a right of participation, the exercise of which is contingent on an agreed event occurring. **Person** has the same meaning as in subsection 6(1) of the ITAA 1936 and section 995-1 of the ITAA 1997.

For more information as to the relevant degree of participation, see *Taxation Ruling IT 2514 – Income tax: Company Schedule 25A: Information return for companies that transact business with related overseas entities*.

The type of 'dealings or transactions' that will require the entity to print **Y** for yes at this question are dealings by the entity with related parties as above, such as an overseas holding company, overseas subsidiary, or a non-resident trust in which the entity has an interest. These dealings or transactions may be the provision or receipt of services, or transactions in which money or property has been sent out of Australia, or received in Australia from an overseas source during the income year. The dealings may also include transfer of tangible or intangible property, or the provision or receipt of loans or financial services.

If money or property is not actually sent out of Australia or received in Australia but accounting entries are made that have the effect of money or property being transferred, this is also taken to be an international transaction.

26

Was the aggregate amount of the transactions or dealings with international related parties (including the value of property transferred or the balance outstanding on any loans) greater than $2 million?

Print **X** in the appropriate box at **Y** item **26**.

The aggregate amount of the dealings is the total amount of all dealings, whether on revenue or capital account, and includes the balance of any loans or borrowings outstanding at the end of the income year with international related parties. Transactions must not be netted off against each other. Hence, a $600,000 purchase from and a $700,000 sale to a related party should be treated as totalling $1,300,000 not $100,000.

If the answer is **yes**, complete the *International dealings schedule 2012*.

27 OVERSEAS INTERESTS

Did you have overseas branch operations or a direct or indirect interest in a foreign trust, foreign company, controlled foreign entity or transferor trust?

Print **X** in the appropriate box at **Z** item **27**.

You must answer yes if the company derived a dividend or other amount that is treated as non-assessable non-exempt income under section 23AH, 23AI, 23AJ, 23AK or 99B(2A) of the ITAA 1936.

If the answer is **yes**, complete the *International dealings schedule 2012*.

The 'interests' in item **27** that will require the entity to complete the schedule are those where:

- the entity has an interest in a controlled foreign company (CFC) or trust (CFT)
- the entity has transferred property, at any time, including money or services, to a non-resident trust, or is able to influence the decisions relating to a non-resident trust, or
- the entity held a direct voting percentage of 10% or more in a foreign company and it had a CGT event happening to a share in the foreign company.

An interest in a CFC or CFT may be either direct or indirect, and has the same meaning as set out in Division 3 of Part X of the ITAA 1936. For the purposes of the CFC rules, do not trace interests through an Australian entity – for example, if your company has an interest in an Australian trust which owns a CFC, your company is not regarded as having a direct or indirect interest in the CFC, although your company must still include any attributable income to which it was presently entitled as its assessable income.

A company has an interest in a transferor trust if the company has ever made, or caused to be made, a transfer of property or services to a non-resident trust. 'Transfer', 'property' and 'services' are defined in section 102AAB of the ITAA 1936. Sections 102AAJ and 102AAK of the ITAA 1936 provide guidance in relation to whether there has been a transfer or deemed transfer of property or services to a non-resident trust.

28 THIN CAPITALISATION

Did the thin capitalisation provisions apply?

Print **X** in the appropriate box at **O** item **28**. If the answer is **yes**, complete and attach an *International dealings schedule 2012*.

For information on whether the thin capitalisation provisions apply, see **appendix 3** of this document.

29 FOREIGN SOURCE INCOME

Was the amount of foreign income tax paid greater than $100,000 OR was the amount of assessable foreign income greater than $500,000?

Print **X** in the appropriate box at **P** item **29**.

Assessable foreign income is all income sourced from overseas, and includes interest, dividends, attributable foreign income and foreign source capital gains.

30 TRANSACTIONS WITH SPECIFIED COUNTRIES

Did you directly or indirectly send to, or receive from, one of the countries specified in the instructions, any funds or property, OR

Do you have the ability or expectation, to control, whether directly or indirectly, the disposition of any funds, property, assets or investments located in, or located elsewhere but controlled or managed from one of those countries?

Print **X** in the appropriate box at **I** item **30**.

The specified countries are in **table 9**.

TABLE 9: SPECIFIED COUNTRIES

Andorra	Cook Islands	Liberia	Samoa
Anguilla	Curacao	Liechtenstein	San Marino
Antigua and Barbuda	Cyprus	Marshall Islands	Seychelles
Aruba	Dominica	Mauritius	St Kitts and Nevis
Bahamas	Gibraltar	Monaco	St Lucia
Bahrain	Grenada	Montserrat	St Vincent and the Grenadines
Belize	Guernsey	Nauru	Turks and Caicos Islands
Bermuda	Isle of Man	Niue	US Virgin Islands
British Virgin Islands	Jersey	Panama	Vanuatu
Cayman Islands	Labuan	Saint Martin (Dutch part)	

PAGE 10 OF THE TAX RETURN

CALCULATION STATEMENT

This statement works out the tax liability (if any) where there is a taxable or net income. It also takes into account amounts that reduce the tax liability. The final outcome is the net amount the company must pay or we will refund.

We use the information you provide at certain labels of the **Calculation statement** to calculate the Commissioner's instalment rate and the Commissioner's instalment amount for taxpayers under the PAYG instalment system for the next income year. Complete all labels as accurately as possible to ensure that the rate and instalment amounts we calculate result in a reliable estimate of your tax payable for the 2011–12 income year.

To work through the **Calculation statement** on the tax return, begin with the right-hand column. Three labels in the right-hand column, (**C** **Non-refundable, non-carry forward tax offsets,** **D** **Non-refundable carry forward tax offsets** and **E** **Refundable tax offsets**) will require you to provide the total for each category of offset. Refer to the description of each offset category for an explanation of which offsets are included under each category. Label **H** **Eligible credits**, in the right-hand column, will require certain labels in the left-hand column to be completed so that the total (or the reduced total where required) can be inserted at the appropriate label.

Labels **A**, **B** and **S** must be completed.

Priority of use of tax offsets

The first category of tax offsets to be applied against gross tax is **C** **Non-refundable non-carried forward tax offsets**. As the name of this category suggests, if the offsets are greater than the gross tax, the excess offsets cannot be used and are lost.

Should tax still be payable after applying this category of offsets, at **T2** **Subtotal 1**, the second category, **D** **Non-refundable carried forward tax offsets**, is applied against any remaining tax payable at label **T2**.

Any excess of offsets in this category may be carried forward to the next year (subject to the tax offset carry forward rules in Division 65 of the ITAA 1997). If tax is still payable after application of the Non-refundable carry forward tax offsets, **T3** **Subtotal 2**, the third category **E** **Refundable tax offsets** is applied against the tax remaining. Any excess of refundable tax offsets above the residual tax payable in **T3** becomes part of the credits available to you and is shown at **I** **Remainder of refundable tax offsets**.

However, if tax is still payable at **T4** **Subtotal 3** after applying tax offsets from the above three categories, **F** **Franking deficits tax offsets** are applied against this remaining tax to determine your tax payable amount. Any excess of **F** over the residual tax payable at **T4** may be carried forward to a later income year.

Calculating your **T5** TAX PAYABLE and **S** AMOUNT DUE OR REFUNDABLE

Step 1 Write the following amounts:

- if the amount at **T** **Taxable income or loss** item **7** is positive, write the amount at **A** **Taxable income.** Write zero at **A** if **T** item **7** is a loss
- the totals for the following labels (some of the labels have instructions to assist you in working out your totals. Refer to the particular labels in these instructions):
  - **C** **Non-refundable non-carry forward tax offsets**
  - **D** **Non-refundable carry forward tax offsets**
  - **E** **Refundable tax offsets**
  - **F** **Franking deficit tax offset**
  - **H7** **Other credits**
- from your records transfer the respective amounts to:
  - **M** **R&D recoupment tax**
  - **G** **Section 102AAM interest charge**
  - **H1** **Credit for interest on early payments – amount of interest**
  - **H2** **Credit for tax withheld – foreign resident withholding**
  - **H3** **Credit for tax withheld where ABN not quoted**
  - **H4** **Tax withheld from interest or investments**
  - **H5** **Credit for TFN amounts withheld from payments from closely held trusts**
  - **K** **PAYG instalments raised**
- for Retirement savings accounts (RSA) providers only:
  - write at **U** in item **19** the amount of no-TFN contributions income. If zero write 0.
  - write at **X** in item **19** the amount of tax payable on no-TFN contributions income – if zero, write (0).

Step 2 Work out the amount at **T1** by referring to **Appendix 7** for the tax rates. If any tax is payable (a positive amount of tax payable) on the amount at **A**, write sthis tax payable amount at **T1**.

Step 3 Work out the amount at **B** (refer to label instructions for more information) as follows:

- add labels **T1** and **M**
- for RSAs, add labels **T1**, **M** and the amount at label **X** **Income tax payable on no-TFN contributions income** item **19**
- write the result at **B**.

Step 4 Work out the amount at **T2** **Subtotal** (refer to label instructions and examples for more information) as follows:

- If the amount at **C** is less than the amount at **B** **Gross tax**:
  - take **C** away from **B**
  - write the result at **T2**
  - go to step 5
- If the amount at **C** is more than or equal to the amount at **B**:
  - write zero at **T2**, **T3** **Subtotal 2**, **T4** **Subtotal 3** and **T5** **Tax Payable**
  - the amount at **D** and **F** may be carried forward to a later income year (subject to the tax offset carry forward rules in Division 65 of the ITAA 1997)
  - copy the amount at **E** to **I** **Remainder of refundable tax offsets**
  - go to step 8.

Step 5 Work out the amount at **T3** (refer to label instructions and examples for more information) as follows:

- If the amount at **D** is less than the amount at **T2**:
  - take **D** away for **T2**
  - write the result at **T3**
  - go to step 6
- If the amount at **D** is more than or equal to the amount at **T2**:
  - write zero at **T3**, **T4** and **T5**
  - the difference between **T2** and **D** (subtract **T2** from **D**) may be carried forward to later income year (subject to the tax offset carry forward rules in Division 65 of the ITAA 1997)
  - the amount at **F** may be carried forward to a later income year
  - copy the amount at **E** to **I**
  - go to step 8

Step 6 Work out the amount at **T4** (refer to label instructions and examples for more information) as follows:

- If the amount at **E** is less than the amount at **T3**:
  - take **E** away from **T3**
  - write the result at **T4**
  - write zero at **I**
  - go to step 7
- If the amount at **E** is more than or equal to the amount at **T3**:
  - take **T3** away from **E** and write the result at **I**
  - write zero at **T4** and at **T5**
  - the amount at **F** may be carried forward to a later income year
  - go to step 8

Step 7 Work out the amount at **T5** (refer to label instructions and examples for more information) as follows:

- If the amount at **F** is less than the amount at **T4**:
  - take **F** away from **T4**
  - write the result at **T5**
  - go to step 8
- If the amount at **F** is more than or equal to the amount at **T4**:
  - write zero at **T5**
  - the result of taking **T4** away from **F**, may be carried forward to next year
  - go to step 8

Step 8 Work out the amount at **H** as follows:

- add from **H1** to **H7** and write the result at **H**
- go to step 9

Step 9 For the amount at **S**, add **T5** and **G**, and then subtract **H**, **I** and **K**.

- If the amount at **S** is positive, that amount is payable by you.
- If the amount at **S** is negative, that amount is refundable to you.

Taxable income

If the company is a resident company, taxable income equals assessable income derived from all sources **less** allowable deductions incurred in gaining that income.

If the company is a non-resident company, taxable income equals assessable income derived from sources within Australia, **plus** income that is included on some basis other than having an Australian source, **less** allowable deductions incurred in gaining that income.

Taxable income takes into account any concessions or adjustments allowable for income tax purposes.

Write at **A** the amount of taxable income of $1 or more. This is the amount written at **T** **Taxable income or loss** item **7**.

Print zero (**0**) at **A** if the company has no taxable income or has a loss amount written at **T** **Taxable income or loss** item **7** with **L** in the box at the right of the amount.

Public trading trusts and corporate unit trusts show net income at **A**.

Tax on taxable income

Write at **T1** the amount of tax payable before the allowance of any rebates, tax offsets, credits or FDT offsets. The tax rates applicable to companies are listed in **appendix 7**.

Label M – R&D recoupment tax

Show at label **M** the extra tax required on your recoupment as calculated under Subdivision 355-G of the ITAA 1997.

If you have claimed the R&D tax incentive at item **22** and you have received or become entitled to receive a government recoupment (such as a government grant or reimbursement) that relates to expenditure that you have claimed a notional deduction for under the R&D tax incentive, the income tax you are liable to pay on the recoupment will be increased. This is referred to as a clawback adjustment.

The amount to be shown at label **M** is 10% of both of the following:

- the R&D expenditure and decline in value for which you claimed a notional deduction in relation to the recoupment
- the expenditure and decline in value for which your affiliates and entities connected with you claimed a notional deduction in relation to the recoupment.

The clawback adjustment is capped so that the extra tax payable cannot exceed the amount of the grant you received.

For further information about how this amount is calculated, go to **www.ato.gov/randdtaxincentive** for our fact sheet *Research and development tax incentive – clawback adjustment*.

Gross tax

Write at **B** the total of amounts at **T1** and **M**.

If you are an RSA provider, write at **B** the total of amounts at **T1**, **M** and any further tax on no-TFN contributions recorded at item **19** label **X**. For more information on the further tax on no-TFN contributions, go to **www.ato.gov.au** and search for 'No tax file number (TFN) contributions'. You can find an example of how to calculate the extra tax in the *Fund income tax return instructions 2012*.

Non-refundable non-carry forward tax offsets

Write at **C** the total of actual rebates and tax offsets available (in dollars and cents) and not the amounts giving rise to those tax offsets.

The rebates and tax offsets shown at **C** are not refundable, nor are they carried forward. They are only offset against gross tax to reduce it to zero. If these tax offsets are greater than the gross tax, the excess tax offsets cannot be used and are lost.

Calculation statement

Please refer to the *Company tax return instructions 2012* on how to complete the calculation statement.

Taxable income **A** $ ___,___,___,___ .~~00~~

Tax on taxable income **T1** $ ___,___,___,___ . __

R&D recoupment tax **M** $ ___,___,___,___ . __

Gross tax **B** $ ___,___,___,___ . __
(**T1** *plus* **M**)

Non-refundable non-carry forward tax offsets **C** $ ___,___,___,___ . __

Subtotal 1 **T2** $ ___,___,___,___ . __
(cannot be less than zero)

Non-refundable carry forward tax offsets **D** $ ___,___,___,___ . __

Subtotal 2 **T3** $ ___,___,___,___ . __
(cannot be less than zero)

Refundable tax offsets **E** $ ___,___,___,___ . __

Subtotal 3 **T4** $ ___,___,___,___ . __
(cannot be less than zero)

Franking deficit tax offset **F** $ ___,___,___,___ . __

TAX PAYABLE **T5** $ ___,___,___,___ . __
(cannot be less than zero)

Section 102AAM interest charge
G $ ___,___,___,___ . __

Credit for interest on early payments – amount of interest
H1 $ ___,___,___ . __

Credit for tax withheld – foreign resident withholding
H2 $ ___,___,___ .~~00~~

Credit for tax withheld where ABN is not quoted
H3 $ ___,___,___ .~~00~~

Tax withheld from interest or investments
H4 $ ___,___,___ . __

Credit for TFN amounts withheld from payments from closely held trusts
H5 $ ___,___,___ . __

Other credits
H7 $ ___,___,___ . __

Eligible credits
H $ ___,___,___,___ . __
(*Add* **H1**, **H2**, **H3**, **H4**, **H5** *and* **H7**)

Remainder of refundable tax offsets
I $ ___,___,___,___ . __
(*unused amount from label* **E**)

PAYG instalments raised
K $ ___,___,___,___ . __

AMOUNT DUE OR REFUNDABLE
A positive amount at **S** is what you owe, while a negative amount is refundable to you.
S $ ___,___,___,___ . __
(**T5** *plus* **G** *less* **H** *less* **I** *less* **K**)

TAX OFFSETS TO BE SHOWN AT C INCLUDE:

Entrepreneurs tax offset (the amount at item **11** label F)	$
Allowable franking tax offsets for the income year. The amount claimed here should include the share of franking credits included in gross distributions from partnerships and gross distributions from trusts, the amount recorded at J **Franking credits** item **7** and the amount recorded at C **Australian franking credits from a New Zealand company** item **7**. If the shares or relevant interest are not held at risk as required under the holding period and related payments rules, or there is other manipulation of the imputation system, there is no entitlement to a franking tax offset	$
Tax offsets for bonuses and certain other amounts received under short-term life insurance policies taken out after 27 August 1982	$
Tax offsets for interest on certain government and semi-government securities	$
Tax offsets to approved resident lenders for infrastructure borrowings – see **appendix 5** on page 97.	$
Foreign income tax offset (the amount at item **21** label J). (Subject to some transitional rules). Refer to item **21 Foreign income tax offset** for more information.	$
TOTAL of all non-refundable non-carry forward tax offsets (write this amount at label C)	$

Do **not** show at C:
- any FDT offset: write this amount at F **Franking deficit tax offset**

Record keeping

Keep a record of the following:

for each type of tax offset:
- the amount claimed for each type

for franking tax offsets:
- the distribution statement, which contains the:
  - name of the payer
  - date the dividend was received or credited
  - franked amount of the dividend
  - unfranked amount of the dividend
  - franking credit allocated to the dividend
  - amount of franking credit tax offsets allowable for each franked dividend received
  - franking percentage of the dividend
- and other records to substantiate:
  - deductions relating to dividends
  - the type of distribution – for example, foreign source dividend, bonus shares, phasing-out dividend, liquidator's distribution
  - the dates on which shares, in respect of which dividends were received and tax offsets claimed, were acquired and disposed of

for short-term life insurance policies:
- a copy of the policy
- the amount of the bonus included in assessable income under section 26AH of the ITAA 1936

for interest on certain government and semi-government securities:
- a copy of the security documentation
- the amount of gross interest received or credited
- deductions solely referable to the gross interest.

Subtotal 1

Write at T2 the amount of tax payable after label C has been offset against label B **Gross tax**.

Label T2 cannot be less than zero.

Work out the amount at T2 as follows:
- If the amount at C is less than the amount at B:
  - take C away from B
  - write the result at T2
- If the amount at C is more than or equal to the amount at B:
  - write zero at T2, T3, T4 and T5
  - the amount at D and F may be carried forward to a later income year (subject to the tax offset carry forward rules in Division 65 of the ITAA 1997)
  - copy the total amount at E to I

EXAMPLE 15A

Dark Blue Co. Pty Ltd has the following amounts entered into its company tax return:

Taxable income	A	$10,000
Gross tax	B	$3,000
Non-refundable non-carry forward tax offset	C	$2,000
Subtotal 1	T2	$1,000
Subtotal 2	T3	$1,000
Subtotal 3	T4	$1,000
TAX PAYABLE	T5	$1,000
AMOUNT DUE OR REFUNDABLE	S	$1,000

Dark Blue Co. Pty Ltd has an entitlement of $2,000 of non-refundable non-carry forward tax offset to be used to offset against $3,000 gross tax.

- Tax payable has been reduced to $1,000.
- Labels T3, T4 and T5 should also show $1,000, indicating that no other offsets are available to be used.

EXAMPLE 15B

Light Blue Co. Pty Ltd has the following amounts entered into its company tax return:

Taxable income	**A**	$10,000
Gross tax	**B**	$3,000
Non-refundable non-carry forward tax offset	**C**	$4,000
Subtotal 1	**T2**	$0
Subtotal 2	**T3**	$0
Subtotal 3	**T4**	$0
TAX PAYABLE	**T5**	$0
AMOUNT DUE OR REFUNDABLE	**S**	$0

Light Blue Co. Pty Ltd has an entitlement of $4,000 of non-refundable non-carry forward tax offset to be used to offset against $3,000 gross tax.

- Tax payable has been reduced to $0.
- Light Blue Co. Pty Ltd will have $1,000 remaining that it will lose as tax payable has been reduced to $0.
- Labels **T3**, **T4** and **T5** should also show $0.

Non-refundable carry forward tax offsets

Write at **D** the total of actual tax offsets available (in dollars and cents) and not the amounts giving rise to those tax offsets.

The tax offsets shown at **D** are not refundable. They are only offset against gross tax to reduce it to zero, if there is any gross tax to be paid after **C** has been applied to gross tax. Any excess offsets can be carried forward to the next income year (subject to the tax offset carry forward rules in Division 65 of the ITAA 1997).

TAX OFFSETS TO BE SHOWN AT D INCLUDE:

Landcare and water facility tax offset brought forward from prior years (the amount at item **20** label **K**)	$
Non-refundable R&D tax offset (the amount at item **22** label **A**)	$
TOTAL of all non-refundable carry forward tax offsets (write this amount at label **D**)	$

Subtotal 2

Write at **T3** the amount of tax payable after label **D** has been offset against label **T2**.

Label **T3** cannot be less than zero.

Work out the amount at **T3** as follows:

- If the amount at **D** is less than the amount at **T2**:
  - take **D** away from **T2**
  - write the result at **T3**
- If the amount at **D** is more than or equal to the amount at **T2**:
  - write zero at **T3**, **T4** and **T5**
  - the difference between **T2** and **D** (subtract **T2** from **D**) may be carried forward to a later income year (subject to the tax offset carry forward rules in Division 65 of the ITAA 1997)
  - the amount at **F** may be carried forward to a later income year
  - copy the total amount at **E** to **I**

EXAMPLE 16A

Dark Green Co. Pty Ltd has the following amounts entered into its company tax return:

Taxable income	**A**	$20,000
Gross tax	**B**	$6,000
Non-refundable non-carry forward tax offset	**C**	$3,000
Subtotal 1	**T2**	$3,000
Non-refundable carry forward tax offset	**D**	$2,000
Subtotal 2	**T3**	$1,000
Subtotal 3	**T4**	$1,000
TAX PAYABLE	**T5**	$1,000
AMOUNT DUE OR REFUNDABLE	**S**	$1,000

Dark Green Co. Pty Ltd has an entitlement of $3,000 of non-refundable non-carry forward tax offset and $2,000 of non-refundable carry forward tax offset to be used to offset against $6,000 gross tax.

- Tax payable has been reduced to $1,000.
- Labels **T4** and **T5** should also show $1,000, indicating that no other offsets are available to be used.

EXAMPLE 16B

Light Green Co. Pty Ltd has the following amounts entered into its company tax return:

Taxable income	A	$20,000
Gross tax	B	$6,000
Non-refundable non-carry forward tax offset	C	$3,000
Subtotal 1	T2	$3,000
Non-refundable carry forward tax offset	D	$4,000
Subtotal 2	T3	$0
Subtotal 3	T4	$0
TAX PAYABLE	T5	$0
AMOUNT DUE OR REFUNDABLE	S	$0

Light Green Co. Pty Ltd has an entitlement of $3,000 of non-refundable non-carry forward tax offset and $4,000 of non-refundable carry forward tax offset to be used to offset its gross tax to $0.

- Light Green Co. Pty Ltd will have $1,000 remaining that can be carried over to the next income year (subject to the tax offset carry forward rules in Division 65 of the ITAA 1997), as tax payable has been reduced to $0.
- Labels **T4** and **T5** should also show $0.

Refundable tax offsets

Write at **E** the total of actual tax offsets available (in dollars and cents) and **not** the amounts giving rise to those tax offsets.

The tax offsets shown at **E** are refundable, although they must first be offset against gross tax to reduce it to zero, if there is any gross tax to be paid after **C** and **D** have been applied to gross tax. Any excess offsets should be recorded at label **I** and will be available as a refundable (credit) amount for the purpose of calculating the tax liability.

TAX OFFSETS TO BE SHOWN AT E INCLUDE:

R&D tax offset (the amount at item **22** label **U**)	$
Film tax offsets under Division 376 of the ITAA 1997	$
Franking tax offsets claimed by life insurance companies to the extent that they relate to distributions paid on shares and other membership interests held on behalf of policy holders	$
Franking credits claimed by endorsed income tax exempt entities and deductible gift recipients that are entitled to a refund of excess franking credits. These entities may complete the Application for refund of franking credits – Endorsed income tax exempt entities and deductible gift recipients (NAT 4131), rather than the company tax return to obtain a refund	$
No-TFN tax offset claimed by RSA providers. For more information on the no-TFN tax offset, go to **www.ato.gov.au** and search for 'No tax file number (TFN) contributions'. You can find an example of how to calculate the tax offset in the *Fund income tax return instructions 2012*.	$
NRAS tax offset (the amount at item **12** label **J**)	$
The tax offset available under subsection 713-545(5) of the ITAA 1997 where a life insurance company's subsidiary joins a consolidated or MEC group	$
TOTAL of all refundable tax offsets (write this amount at label **E**)	$

Record keeping

Keep a record of the following:

for each type of tax offset:

- the amount claimed for each type

for franking tax offsets:

- the distribution statement, which contains the:
  - name of the payer
  - date the dividend was received or credited
  - franked amount of the dividend
  - unfranked amount of the dividend
  - franking credit allocated to the dividend
  - amount of franking credit tax offsets allowable for each franked dividend received
  - franking percentage of the dividend
- and other records to substantiate:
  - deductions relating to dividends
  - the type of distribution – for example, foreign source dividend, bonus shares, phasing-out dividend, liquidator's distribution
  - the dates on which shares, in respect of which dividends were received and tax offsets claimed, were acquired and disposed of

Subtotal 3

Write at **T4** the amount of tax payable after label **E** has been offset against label **T4**.

Label **T4** cannot be less than zero.

Work out the amount at **T4** as follows:

- If the amount at **E** is less than the amount at **T3**:
  - take **E** away from **T3**
  - write the result at **T4**
  - write zero at **I**
- If the amount at **E** is more than or equal to the amount at **T3**:
  - Take **T3** away from **E** and write the result at **I**
  - write zero at **T4** and **T5**
  - the amount at **F** may be carried forward to a later income year

EXAMPLE 17A

Dark Orange Co. Pty Ltd has the following amounts entered into its company tax return:

Taxable income	**A**	$30,000
Gross tax	**B**	$9,000
Non-refundable non-carry forward tax offset	**C**	$3,000
Subtotal 1	**T2**	$6,000
Non-refundable carry forward tax offset	**D**	$3,000
Subtotal 2	**T3**	$3,000
Refundable tax offset	**E**	$2,000
Subtotal 3	**T4**	$1,000
TAX PAYABLE	**T5**	$1,000
AMOUNT DUE OR REFUNDABLE	**S**	$1,000

Dark Orange Co. Pty Ltd has an entitlement of $3,000 of non-refundable non-carry forward tax offset, $3,000 of non-refundable carry forward tax offset and $2,000 of refundable tax offset to be used to offset against $9,000 gross tax.

- Tax payable has been reduced to $1,000.
- Label **T5** should also show $1,000, indicating that no other offsets are available to be used.

EXAMPLE 17B

Light Orange Co. Pty Ltd has the following amounts entered into its company tax return:

Taxable income	**A**	$30,000
Gross tax	**B**	$9,000
Non-refundable non-carry forward tax offset	**C**	$3,000
Subtotal 1	**T2**	$6,000
Non-refundable carry forward tax offset	**D**	$3,000
Subtotal 2	**T3**	$3,000
Refundable tax offset	**E**	$4,000
Subtotal 3	**T4**	$0
TAX PAYABLE	**T5**	$0
Remainder of refundable tax offset	**I**	$1,000
AMOUNT DUE OR REFUNDABLE	**S**	-$1,000

Light Orange Co. Pty Ltd has an entitlement of $3,000 of non-refundable non-carry forward tax offset, $3,000 of non-refundable carry forward tax offset and $4,000 of refundable tax offset to be used to offset against $9,000 gross tax.

- Tax payable has been reduced to $0.
- Light Orange Co. Pty Ltd will have a $1,000 remaining (of refundable tax offset) that should be transferred to label **I**, as tax payable can **ONLY** be reduced to $0.
- It can then be used to reduce Amount Due or be refunded.
- Labels **T4** and **T5** should also show $0.

Franking deficit tax offset

Write this amount at **F**.

The tax offsets shown at **F** are not refundable – they are only offset against gross tax to reduce it to zero, if there is any gross tax to be paid after labels **C**, **D** and **E** have been applied to gross tax. Any excess of FDT offset can be carried forward to the next income year.

TAX OFFSETS TO BE SHOWN AT F INCLUDE:

Current year FDT offset	$
Prior year FDT offset	$
TOTAL of all FDT offsets (write this amount at label **F**)	$

Under the simplified imputation system, entities that have incurred an FDT liability may be allowed to offset the whole or part of this amount against an income tax liability. Some special rules apply to life insurance companies to ensure that an FDT liability can only be offset against that part of the company's income tax liability that is attributable to shareholders. Go to **www.ato.gov.au** for more information on calculating FDT offset for life insurance companies.

A corporate tax entity is entitled to apply an FDT offset to reduce its income tax liability for an income year if it satisfies the residency requirement and **at least one** of the following conditions:

- it incurred a liability to pay FDT in that year
- it carried forward an amount of FDT offset from a previous year, and not all the FDT offset could be applied against a previous income tax liability
- it incurred a liability to pay FDT in a previous year when it did not meet the residency requirement, and that liability has not been included in calculating an FDT offset.

Generally, an entity satisfies the residency requirement for an income year if it is an Australian resident for more than one half of the year, or it is a resident at all times during the year when it exists.

The FDT offset rules contain provisions that reduce the amount of FDT liability that an entity can use to offset against its income tax liability in certain circumstances. These provisions replace the franking additional tax penalty rules which operated under the former imputation system.

The FDT offset reduction will only apply for an income year in respect of franking debits in an entity's franking account arising under items **1**, **3**, **5** or **6** of the table in section 205-30 of the ITAA 1997, and if one of these items applies then any franking debit under item **2** of that table (relating to income tax refunds) will also be relevant. These debits usually arise as a result of having franked a distribution.

The amount of the FDT offset is reduced where the amount of the FDT liability, which is attributable to the franking debits for items **1**, **2**, **3**, **5** and **6**, is greater than 10% of the total amount of credits that arose in the franking account for the year. The amount of the reduction is equal to 30% of that part of the FDT liability attributable to those franking debits. For more information on the debits to the franking account that affect the amount of offset and how to calculate this amount, see *Franking account tax return and instructions 2012*.

There is an exception to the reduction rule for private companies with no previous income tax liability where certain conditions are met. The Commissioner also has discretion to allow the full FDT liability as an offset where the FDT liability arose due to events outside the entity's control.

To determine the amount of the FDT offset to which the company is entitled for the income year, use the following method:

These steps are modified in certain circumstances. See **Exclusions from the offset reduction rule** on page 83; and **Late balancing entities – special rules** on page 83 (for late balancing entities under section 205-70 of the *Income Tax (Transitional Provisions) Act 1997*).

Step 1 Work out the amount of FDT liability that the entity has incurred in the income year.

Step 2 Did any franking debits arise in the entity's franking account under items **1**, **3**, **5** or **6** of section 205-30 of the ITAA 1997 for that income year?

If **yes**, go to step 3.

If **no**, the FDT offset reduction does not apply. The amount of FDT liability from step 1 is the amount of the FDT offset that the entity is entitled to for the current income year. Go to step 5.

Step 3 Work out the amount of FDT liability attributable to franking debits under items **1**, **2**, **3**, **5** and **6** for that income year.

To do this add together the opening credit balance (if any) of the franking account and any franking credits that arose in the account for the income year. Take away from this amount the total of the franking debits under items **1**, **2**, **3**, **5** and **6**.

If there is an excess of franking credits over franking debits (or they are equal), the FDT offset reduction does not apply and the amount of FDT liability from step 1 is the amount of the FDT offset that the entity is entitled to for the current income year. Go to step 5.

If there is an excess of franking debits over franking credits, this is the amount of FDT liability attributable to items **1**, **2**, **3**, **5** and **6**. Go to step 4.

Step 4 If the excess of franking debits over franking credits worked out at step 3 is less than or equal to 10% of the total franking credits that arose in the franking account for the same year, the FDT offset reduction does not apply and the amount of FDT liability from step 1 is the amount of the FDT offset that the entity is entitled to for the current year. Go to step 5.

If that excess is greater than 10% of the total franking credits that arose in the franking account for that income year, the FDT offset reduction applies as follows:

- Work out 30% of that excess. This is the reduction amount. Reduce the amount of FDT liability for that income year from step 1 by the reduction amount. This is the amount of the FDT offset that the entity is entitled to for the current year. Go to step 5.

Step 5 For each previous income year for which the entity did not meet the residency requirement, repeat steps 1–4 for that income year to work out the amount of that previous year's FDT liability that is eligible to be claimed as an offset and that has not previously been claimed as an offset.

Add up the amounts covered by this step 5 for all the previous income years in which the entity did not meet the residency requirements. Go to step 6.

Step 6 For each previous income year for which the entity did meet the residency requirement and was entitled to an FDT offset, work out the amount of any excess FDT offset. This is the amount of FDT offset that exceeded the entity's hypothetical income tax liability for that previous year (worked out as if the entity did not have an FDT offset but did have all its other tax offsets). Go to step 7.

Step 7 Add up any FDT offset amounts from steps 2, 3 or 4 (these relate to an FDT liability incurred in the 2011–12 income year) and any offsettable portions of previous year FDT amounts from steps 5 and 6. This is the total amount of FDT offset the entity is entitled to for the current income year.

Reduction in FDT that can be offset

Steps 2 to 4 in the above method statement show that the amount of the FDT offset that you can claim may be reduced in some situations. This reduced amount should equal the amount you completed at **C** **Offsetable portion of current year FDT** in section B of the *Franking account tax return and instructions 2012*.

See also **Exclusions from the offset reduction rule** below.

EXAMPLE 18

In the 2011–12 income year Stripe Co. Ltd franked a distribution with franking credits of $13,000 (item 1 of section 205-30 of the ITAA 1997: debit to the franking account). The company's franking account showed that franking credits of $10,000 arose during the year. Stripe Co. Ltd's franking account has a $3,000 deficit at the end of the income year, resulting in the company incurring an FDT liability of this amount. As the franking deficit from the item 1 debit is greater than 10% of the total franking credits that arose during the year, the offset is reduced by 30% of that portion of the deficit. Therefore Stripe Co. Ltd will only be able to offset $2,100 of its FDT liability of $3,000 against its current or future income tax liabilities. The remaining $900 will not be offsettable at any time.

Exclusions from the offset reduction rule

Private companies with no previous income tax liability

For the 2004–05 and later income years, the FDT offset reduction rule will not apply if all the following conditions are met:

a the entity is a private company for the relevant year

b the company has not had an income tax liability for any income year before the relevant year

c if the company did not have the tax offset (but had all its other tax offsets) it would have had an income tax liability for the relevant year, and

d the amount of the liability referred to in paragraph (c) is at least 90% of the amount of the deficit in the company's franking account at the end of the relevant year.

Commissioner's discretion where deficit was outside the entity's control

The Commissioner has discretion to allow the full tax offset where an FDT liability arose due to circumstances that were outside the entity's control.

For more information on the application of these exclusions, go to **www.ato.gov.au** for our fact sheet *Simplified imputation: Franking deficit tax offset*. Entitlement to the full offset resulting from one of the exclusions mentioned above should have been noted by inserting the code **F**, **P** or **C** in the **Code** box in section A on the *Franking account tax return 2012.* If you did not do this, you will need to request an amendment to that return in order to receive the full offset.

Late balancing entities – special rules

There are special rules that apply to calculate the amount of an FDT offset for late balancing entities where the late balancing entity has made an election to have its FDT liability determined on 30 June, instead of at the end of its income year.

These rules ensure the 30% reduction works appropriately for these entities, including where the entity ceases to be a franking entity (or joins a consolidated or MEC group) between 30 June and the end of its income year. For more information on these special rules for late balancing entities, go to **www.ato.gov.au** for our fact sheet *Simplified imputation – FDT offset for late balancers*.

The amount completed at **E** **Franking deficit tax offset** in this return will not necessarily be the same as the amount shown at **C** **Offsetable portion of current year FDT** in section B of the *Franking account tax return 2012*. See *Franking account tax return and instructions 2012* for information on how to complete **C** **Offsetable portion of current year FDT**.

Tax payable

Write at **T5** the amount of tax payable after label **F** has been offset against label **T4**.

Work out the amount at **T5** as follows:

- If the amount at **F** is less than the amount at **T4**:
  - take **F** away from **T4**
  - write the result at **T5**
- If the amount at **F** is more than or equal to the amount at **T4**:
  - write zero at **T5**
  - the difference between **T4** and **F** (subtract **T4** from **F**) may be carried forward to a later income year

Label **T5** cannot be less than zero.

EXAMPLE 19A

Dark Red Co. Pty Ltd has the following amounts entered into its company tax return:

Taxable income	A	$40,000
Gross tax	B	$12,000
Non-refundable non-carry forward tax offset	C	$3,000
Subtotal 1	T2	$9,000
Non-refundable carry forward tax offset	D	$3,000
Subtotal 2	T3	$6,000
Refundable tax offset	E	$3,000
Subtotal 3	T4	$3,000
Franking deficit tax offset	F	$2,000
TAX PAYABLE	T5	$1,000
AMOUNT DUE OR REFUNDABLE	S	$1,000

Dark Red Co. Pty Ltd has an entitlement of $3,000 of non-refundable non-carry forward tax offset, $3,000 of non-refundable carry forward tax offset, $3,000 of refundable tax offset and $2,000 of franking deficit tax offset to be used to offset against $12,000 gross tax.

- Tax payable has been reduced to $1,000.

EXAMPLE 19B

Light Red Co. Pty Ltd has the following amounts entered into its company tax return:

Taxable income	A	$40,000
Gross tax	B	$12,000
Non-refundable non-carry forward tax offset	C	$3,000
Subtotal 1	T2	$9,000
Non-refundable carry forward tax offset	D	$3,000
Subtotal 2	T3	$6,000
Refundable tax offset	E	$3,000
Subtotal 3	T4	$3,000
Franking deficit tax offset	F	$4,000
TAX PAYABLE	T5	$0
AMOUNT DUE OR REFUNDABLE	S	$0

Light Red Co. Pty Ltd has an entitlement of $3,000 of non-refundable non-carry forward tax offset, $3,000 of non-refundable carry forward tax offset, $3,000 of refundable tax offset and $4,000 of franking deficit tax offset to be used to offset against $12,000 gross tax.

- Tax payable has been reduced to $0.
- Light Red Co. Pty Ltd will have a $1,000 remaining (of FDT offset) that can be carried over to the next income year, as tax payable has been reduced to $0.

Section 102AAM interest charge

Write at **G** any section 102AAM interest relating to a distribution received from a non-resident trust. Section 102AAM of the ITAA 1936 imposes an interest charge on certain distributions from non-resident trusts – see chapter 2, *Foreign income return form guide*, at **www.ato.gov.au**

Credit for interest on early payments – amount of interest

Write at **H1** only the calculated interest amount of 50 cents or more for early payment. Do not show actual payments.

The company may be entitled to interest if it makes an actual payment on account of certain amounts more than 14 days before the due date of payment. Amounts which may attract early payment interest include payments of:

- income tax
- shortfall interest charge
- interest payable under section 102AAM.

Amounts which are not directly paid but are reduced by the crediting or applying of an amount do not attract early payment interest. These amounts include:

- credit for instalments payable under the PAYG instalment regime
- credit for amounts withheld from withholding payments under the PAYG withholding regime
- an overpayment of other income tax liabilities
- a running balance account (RBA) surplus
- any other credit entitlement arising under a taxation law.

Early payment interest is also not payable on:

- any component of the payment that exceeds the amount due
- an amount for any period during which that amount also attracts interest on overpayment.

Calculate early payments interest from the date the early payment is made to the date the amount becomes due and payable. However, if an amount paid early on account of a tax liability is refunded before the due and payable date of the liability, interest does not accrue for the period after the date the amount is refunded.

Date of payment is the date:

- shown on the receipt for payment to the ATO
- the payment is posted to us, plus three days
- shown on the taxpayer's bank statement if payment is made through direct debit – that is, electronic funds transfer (EFT).

TABLE 10: Interest rates for calculation of early payment

Quarter	Interest rate (pa)
Jul–Sep 2011	5.00%
Oct–Dec 2011	4.86%
Jan–Mar 2012	4.62%
Apr–Jun 2012	4.37%

If the early payment extends over two or more interest periods, calculate the interest for the number of days in each period.

Calculate interest as follows:

$$\text{Interest} = \frac{\text{number of days}}{365^*} \times \text{amount of payment} \times \text{interest rate for period}$$

*366 for a leap year

Keep a record of the amount of early payments interest claimed. This interest is assessable income in the income year it is paid or credited against another liability.

Credit for tax withheld – foreign resident withholding

Only complete this label if the amount was withheld in Australia and remitted to the ATO.

Write at **H2** the total tax withheld from payments made to the company that were subject to foreign resident withholding. This includes any share of credits received by the company from a partnership or trust.

If an amount of tax withheld is shown at **H2**, ensure that you include the corresponding gross payment at **Income**, **B Gross payments subject to foreign resident withholding** item **6**, or the corresponding gross distribution from a partnership or trust at **Income**, **D** or **E** item **6**.

You only complete this label if the company is a non-resident. An Australian resident should not claim a foreign income tax offset (FITO) in respect of foreign tax paid on foreign source income, at this label.

Credit for tax withheld where ABN is not quoted

Write at **H3** the total tax withheld from payments made to the company that were subject to withholding where an ABN (Australian business number) was not quoted.

This amount equals the sum of the amounts shown in the relevant 'tax withheld' boxes on the *Non-individual PAYG payment summary schedule 2012*. For instructions on completing the schedule, see page 4.

Do **not** include any share of tax withheld from a partnership or trust distribution where an ABN was not quoted. This is shown at **H7 Other refundable credits**.

If an amount of tax withheld is reported at **H3**, declare the corresponding gross payment at **Income**, **A Gross payments where ABN not quoted** item **6**.

Tax withheld from interest or investments

Write at **H4** any amounts withheld from investment income by an investment body because the company did not provide a TFN (Tax file number) or ABN and that have not been refunded already to the company.

Record keeping

Keep the following details of credits for amounts withheld from investments:

- all documentation issued by the investment body detailing payments of income and any amounts withheld from those payments
- details of any amounts withheld from an income payment made to the company and subsequently refunded by the investment body.

Keep the following details of refund receipts:

- amount of refund
- date of refund
- investment reference number – for example, the bank account number of the investment relating to the refund.

Credit for TFN amounts withheld from payments from closely held trusts

Show at **H5** the total amounts withheld from payments where a TFN has not been provided to a trustee of a closely held trust.

If amounts have been withheld from distributions to the company under these rules, the company is required to receive a payment summary in the approved form from the trustee.

For more information regarding the TFN withholding rules for closely held trusts, see **www.ato.gov.au/trustsandtfnwithholding**

Other credits

Write at **H7**:

- the company's share of credit from a partnership or trust for tax withheld where an ABN was not quoted
- the company's share of credit for tax paid by a trustee on net income
- for RSA providers, interest on no-TFN tax offset. Write on a schedule of additional information the amount of interest on no-TFN tax offset that you included at **H7**. Attach the schedule to your tax return.

For more information on interest on no-TFN tax offset, go to **ato.gov.au** and search for 'No tax file number (TFN) contributions'. An online calculator is also available to assist you with the calculation of the interest. You can find an example of how to calculate the interest in the *Fund income tax return instructions 2012*.

Do not include at **H7** those credits included at item **21** label **J** **Foreign income tax offset** in the **Calculation statement**. Also, do not include at **H7** any amounts that relate to PAYG instalments. Include these at **K** **PAYG instalments raised**.

Eligible credits

Write at **H** the total of the amounts **H1**, **H2**, **H3**, **H4**, **H5** and **H7**.

Remainder of refundable tax offsets

Write at **I** the remaining amount (if any) of refundable tax offsets from **E**. This is the excess amount of **E** that was not able to be offset against **T3** which is available to be refunded to you.

PAYG instalments raised

Write at **K** the total of the company's PAYG instalments for the income year of the tax return, whether or not the instalments have actually been paid.

Include in **K** the total instalment amount either:

- the amounts pre-printed at **T7** on the company's quarterly activity statements or at **T5** on its annual instalment activity statement (if it used the instalment amounts worked out by us which it did not vary) or
- the amounts the company reported at **5A** on its activity statements, reduced by any credits it claimed at **5B** (if it did not use the instalment amounts worked out by us).

To ensure the company receives the correct amount of credit for its PAYG instalments, make sure all of its activity statements are lodged before its income tax return is lodged. Lodge any outstanding activity statements, even if the company has paid the instalments or had nothing to pay.

The company is entitled to a credit for its PAYG instalments even if it has not actually paid a particular instalment. However, the company will be liable for the general interest charge on any outstanding instalment for the period from the due date for the instalment until the date it is fully paid.

This label is only to be used for the quarterly or annual instalments raised during the financial year. The amount recorded at the label must not include 'wash up' or residual payments.

After the head company of a consolidated group or MEC group lodges its first income tax return, we calculate a consolidated instalment rate for the group based on the head company's income tax return. Once the head company of the consolidated group or MEC group obtains this consolidated instalment rate, the group is considered to be a mature group for PAYG instalment purposes ('mature group'). The head company of a mature group will be the only entity in the group that will be liable to pay PAYG instalments for the group's income year.

The head company of a mature group is entitled to claim a credit in its income tax return for the PAYG instalments it was liable to pay for the income year.

If the consolidated group or MEC group is a mature group for the entire income year, write at **K** the total amount of instalments payable by the head company of the consolidated group or MEC group for the income year.

During the 'formation period', each member of the consolidated group or MEC group must continue to calculate their instalment income as if they were not members of the consolidated group or MEC group and each will continue to be individually liable for their PAYG instalments. In this instance, special rules apply in determining the amount of PAYG instalment credit that the head company of a consolidated group or MEC group is entitled to claim in its income tax return. For more information, see *Treatment of PAYG instalments* in the *Consolidation Reference Manual* at **www.ato.gov.au**

When an entity (a 'joining entity') joins a mature group, the single entity rule ensures that the joining entity's PAYG instalment obligations will generally cease from the date of joining. For more information, see *Treatment of PAYG instalments* in the *Consolidation Reference Manual* at **www.ato.gov.au**

A joining entity may be required to lodge an income tax return for any non-membership periods during the income year in which it joins a consolidated group or MEC group. In the joining entity's income tax return for its non-membership periods, write at **K** the total of instalments payable by it. This sum is the total of the amounts included at label **5A** of all activity statements for the joining entity's non-membership periods.

Amount due or Refundable

Write at **S** the balance of tax payable (+) or refundable (–).

For the amount at **S**, add **T5** and **G**, and then subtract **H**, **I** and **K**.

- If the amount at **S** is positive, that amount is payable by you.
- If the amount at **S** is negative, that amount is refundable to you.

The amount at **S** does not take into account any interim or voluntary payments the company has made against its income tax liability for the year of this return. If the company has made such payments, take these into account in calculating the company's final payment, but do not show the amounts on this tax return.

Send the company's payment to the address on the pre-identified payment slip. If the company has not received one, see **Payment** on page 106.

Do not send the company's payment with the *Company tax return 2012*.

For the lodgment address, see page 106.

PAGE 11 OF THE TAX RETURN

TAX AGENT'S DECLARATION

If the tax agent is a partnership or a company, this declaration must be signed by a person authorised by that partnership or company to sign on its behalf. Print that person's name at this item also.

DECLARATION

Public officer's declaration

The public officer is responsible for doing all things required by the company under section 252 of the ITAA 1936 or the ITR 1936. In the case of default, the public officer is liable to the same penalties – for example, the public officer is responsible for lodging the company tax return. If the tax return is lodged late, the public officer may be liable for a failure to lodge on time penalty.

Include in the declaration a signature, date, name, title and telephone number for the public officer.

Hours taken to prepare and complete this tax return

We are committed to reducing the costs involved in complying with your taxation obligations. By completing **J** you will help us to monitor these costs as closely as possible. Your response to this question is voluntary.

When completing this question, consider the time, rounded up to the nearest hour, that your business spent:

- reading the instructions
- collecting the necessary information to complete this tax return
- making any necessary calculations
- actually completing this tax return and putting the tax affairs of your business in order so the information can be handed to your tax agent.

The answer should relate to the time both you and your tax agent spent in preparing and completing your tax return. This includes the time spent by any other person whose assistance was obtained in doing this, such as an employee.

If you are preparing this tax return on behalf of your client, consult with your client to obtain a reliable estimate.

WORKSHEET 2

OTHER RECONCILIATION ITEMS

This worksheet caters for those items that reconcile **T** **Total profit or loss** item **6** with **T** **Taxable income or loss** item **7**, other than those items specifically included in item **7**. This statement is not an exhaustive list. All references to accounts below are taken to mean the company's profit and loss account.

Additions to **T** **Total profit or loss** item **6** not covered by:

- **A** **Net capital gain**
- **U** **Non-deductible exempt income expenditure**
- **J** **Franking credits**
- **C** **Australian franking credits from a New Zealand company**
- **E** **TOFA income from financial arrangements not included in item 6**
- **D** **Accounting expenditure in item 6 subject to R&D tax incentive**

in item **7** are specified under **B** **Other assessable income** in the next column and **W** **Non-deductible expenses** on the next page. Write the total for income-related add-back items at **B** **Other assessable income** item **7** and the total for expense-related add-back items at **W** **Non-deductible expenses** item **7**.

Subtractions from **T** **Total profit or loss** item **6** not covered by:

- **C** **Section 46FA deduction** to **V** **Exempt income**
- **R** **Tax losses deducted**
- **S** **Tax losses transferred in**

in item **7** are specified under **Q** **Other income not included in assessable income** on the next page and **X** **Other deductible expenses** on page 90. Write the total for income-related subtraction items at **Q** and the total for expense-related subtraction items at **X**.

In some cases, a reconciliation adjustment at item **7** adds back or subtracts the whole of an amount shown at item **6** and a separate label at item **7** shows the amount for income tax purposes – for example, for companies not using the small business entity depreciation rules, depreciation as per the accounts is shown at item **6** and added back in full at **W** **Non-deductible expenses** item **7**. The deduction for the decline in value of depreciating assets is listed at **F** **Deduction for decline in value of depreciating assets** item **7**.

B OTHER ASSESSABLE INCOME

(assessable income not shown in accounts)

Adjustments to income derived:	
increase in interest	$
increase in dividends	$
increase in partnership distribution	$
increase in trust distribution	$
year-end sales cut-off adjustment	$
Assessable balancing adjustment amounts on depreciating assets, uplifted by the relevant portion	$
R&D feedstock adjustments	$
Attributed foreign income not included in accounts	$
Bad debts recovered not included in accounts	$
Benefits or prizes from investment-related lotteries not included in accounts	$
Foreign exchange taxable gains – see page 9	$
Grants received not included in accounts	$
Gross taxable foreign source income	$
Other assessable income not included in accounts (former STS taxpayers should see page 21)	$
Total	**$**

W NON-DEDUCTIBLE EXPENSES

Amortisation as per accounts (including goodwill)	$
Borrowing costs	$
Capital items written off as repairs	$
Depreciation expenses – **X** item **6** – see **note 5** on page 91 and **note 4** on page 91	$
Expenses to the extent to which they are not deductible:	
entertainment	$
legal expenses and consultants' fees	$
subscriptions and donations	$
bad debts	$
part of prepaid expenses not deductible this year – see **note 1(a)** on the next page	$
travel by spouse (of the same or opposite sex)	$
Expenses incurred in deriving non-assessable non-exempt income	$
Certain expenses relating to PSI that are not deductible – see **note 4** on page 91	$
Extraordinary loss per accounts	$
Finance lease interest	$
Foreign exchange accounting losses	$
Foreign tax paid or deemed paid	$
Debt deductions denied by thin capitalisation – see **appendix 3** on page 96	$
Loss on sale of depreciating assets included in accounts – see page 102 (exclude R&D assets, see **note 3** on the next page)	$
Loss on sale of other assets included in accounts	$
Luxury car lease payments – see page 102	$
Net adjustment to expenses claimed – decrease in consumable stores – see **note 2** on the next page	$
Net increase in provisions	$
Net increase in trading stock valuation for tax purposes	$
Non-share dividends	$
Offshore banking unit losses (20/30 of eligible deductions)	$
Other capital items included in accounts	$
Penalties and fines	$
Superannuation charged in accounts	$
Trust losses deducted from accounting income	$
Unrealised losses on revaluation of assets to fair value	$
Total	**$**

Q OTHER INCOME NOT INCLUDED IN ASSESSABLE INCOME

(income shown in the accounts that is not assessable)

Adjustments to income derived:	
decrease in interest	$
decrease in dividends	$
decrease in trust distribution	$
year-end sales cut-off adjustment	$
extraordinary profits per accounts	
foreign exchange accounting profits	
Foreign source income in the accounts that is not assessable income	$
Grants receivable	$
PSI included in the assessable income of an individual (attributed amount)	$
Profit on sale of depreciating assets included in accounts – see page 103	$
Profit on sale of other assets included in accounts (including assets used for R&D)	$
Unrealised gains on revaluation of assets to fair value	$
Other income amounts in the accounts that are not assessable income	S
Total	**$**

X **OTHER DEDUCTIBLE EXPENSES**

(deductible amounts not shown as expenses in the accounts)

Allowable superannuation fund payments	$
Capital expenditure for the establishment of trees in carbon sink forests	$
Deductible balancing adjustment amounts on depreciating assets, see **appendix 6** on page 98 – see **note 3** in the next column for R&D assets that are excluded	$
Deduction for certain capital expenditure incurred to terminate a lease or licence – see **note 6** on the next page	$
Foreign exchange taxable losses – see page 9	$
Interest charge	$
Hire-purchase agreements – interest component, see page 101	$
Luxury car leases – accrual amount – see page 102	$
Mains electricity connection to land used in carrying on a business – see page 101	$
Net adjustment to expenses claimed – increase in consumable stores – see **note 2** in the next column	$
Net decrease in provisions	$
Net decrease in trading stock valuation for tax purposes	$
Part of prepaid expenses deductible this year, but not included at any other label – see **note 1(b)** in the next column	$
Tax deductible borrowing costs	$
Telephone line connection to land used for primary production – see page 101	$
Other deductible items	$
Total	**$**

Note 1(a)

Insert the difference between the total amount of prepaid expenses incurred in the 2011–12 income year and the amount the company is entitled to claim as a deduction in this year. See *Deductions for prepaid expenses 2012* for a detailed explanation of how to calculate the company's deduction for the 2011–12 income year.

Note 1(b)

Insert the amount of prepaid expenditure that the company was not entitled to deduct in previous years, and which it is now entitled to deduct in the 2011–12 income year. See *Deductions for prepaid expenses 2012* for a detailed explanation of how the deduction for later years is calculated.

Note 2

Insert the difference between the value of consumable stores on hand at the end of the previous income year and the value of consumable stores on hand at the end of the current income year. The balance of these items determines whether they are add-backs or subtractions.

Note 3

W and **X** on **worksheet 2** do not include any amounts for R&D assets subject to the R&D tax incentive.

Generally, labels at item **7** require a split between amounts subject to the R&D tax incentive and other amounts – for example, book depreciation shown at **X** **Depreciation expenses** item **6** includes amounts in relation to assets used in R&D activities.

However, amounts subject to the R&D tax incentive are added back at **D** **Accounting expenditure in item 6 subject to R&D tax incentive** item **7** and not at **W** **Non-deductible expenses** item **7**, and the amount for decline in value of assets used in R&D activities is claimed as part of calculating an R&D tax offset in item **22**.

Similarly, disposal losses included at **S** **All other expenses** item **6** includes losses in relation to assets used in R&D activities, but amounts subject to the R&D tax incentive are added back at **D** **Accounting expenditure in item 6 subject to R&D tax concession** item **7**.

Any deductible balancing adjustment amount for assets used wholly in R&D activities is included as part of calculating an R&D tax offset at item **22**. Any deductible balancing adjustment amount where the assets have been used in R&D and non-R&D activities is included at **X** **Other deductible expenses** item **7**.

Additionally, disposal profits included at **R** **Other gross income** item **6** that are subject to the R&D tax incentive are uplifted by the relevant portion and included at **B** **Other assessable income** item **7**, but balancing profits for all assets are subtracted at **Q** **Other income not included in assessable income** item **7**.

For more information, see *Research and development tax incentive schedule instructions 2012*.

Note 4

If the company receives an individual's PSI other than in the course of conducting a personal services business, and does not promptly pay it to the individual as salary or wages:

- the net amount of PSI is attributed to the individual and is not assessable to the company
- certain related expenses are not deductible.

Expenses specifically denied include rent, mortgage interest, rates and land tax for the residence of individuals (or their associates – for example, spouse) whose efforts or skills mainly generate the PSI for the company, the costs of a second private use car and payments of salary or wages and superannuation for associates to the extent such payments relate to non-principal work.

The company is not entitled to a deduction for any net PSI loss that is attributed to the individual – see *Personal services income schedule instructions 2012* for more information.

Note 5

Only include depreciation expenses at **W Non-deductible expenses** item **7** if the company is not using the small business entity depreciation rules. However, do not include any pool deductions shown at **Expenses, X Depreciation expenses** item **6**.

Note 6

Section 25-110 of the ITAA 1997 provides a five-year straight-line write-off for certain capital expenditure incurred in terminating an operating lease or licence if the expenditure is incurred in the course of carrying on a business, or in connection with ceasing to carry on a business – see the details under Change 3 in the fact sheet *Blackhole expenditure: business related expenses* at **www.ato.gov.au**

If you have included an amount of capital expenditure incurred to terminate a lease or licence at any expense label in item **6**, include the amount at **W Non-deductible expenses** item **7**.

APPENDIXES

APPENDIX 1 COMMERCIAL DEBT FORGIVENESS

If a commercial debt owed by a company is forgiven during the income year, apply, in the following order, the net amount of debts forgiven to reduce the company's tax losses, net capital losses, certain undeducted revenue or capital expenditure, and the cost base of CGT assets.

A debt is a commercial debt if any part of the interest payable on the debt is or would be an allowable deduction, or would be a deduction if not for some specific exception provision. Similarly, where interest is not payable, the debt is still a commercial debt if interest had been charged and would have been so deductible. A commercial debt also includes a non-equity share issued by a company.

A debt is forgiven if the company's obligation to pay the debt is released or waived or otherwise extinguished. A debt is also forgiven:

- if it cannot be legally recovered because of a statute of limitations
- if an agreement is entered into under which the obligation to pay some or all of the debt will end without the debtor incurring any obligation (other than an insignificant obligation)
- if it is assigned by a creditor to an associate of the debtor
- in certain other circumstances.

Calculation of net forgiven amount

Calculate the net forgiven amount as follows:

1. Determine the value of the debt. In the general case, this is the lesser of:
   – the value of the debt at the time of forgiveness (assuming the company was solvent at that time and the time the debt was incurred), and
   – the value of the debt at the time of forgiveness (assuming solvency as above and no changes in market variables) plus any amounts that are allowable as deductions as a result of the debt forgiveness and that are attributable to market movements that occurred while the debt was held. Special rules apply in calculating the value of non-recourse debt and in respect of debt parking circumstances, see sections 245-60 and 245-61 of the ITAA 1997.
2. Calculate the gross forgiven amount of the debt by deducting from the value of the debt any amount of consideration provided in respect of the forgiveness. This consideration normally is the sum of the amounts of money the company is required to pay in respect of the forgiveness or, if property is required to be given, the market value of the property. Special rules apply in determining the consideration given for the forgiveness if a debt is forgiven in exchange for shares, or if there are debt parking circumstances, see section 245-65 of the ITAA 1997.

3 Reduce the gross forgiven amount by any amount:
   – that has been, is or will be included in the company's assessable income as a result of the forgiveness of the debt
   – by which a deduction otherwise allowable to the company has been or will be reduced as a result of the forgiven debt except for a reduction under Division 727 (indirect value shifting) of the ITAA 1997
   – by which the cost base to the company of any CGT asset has been or will be reduced, as a result of the forgiveness of the debt except for a reduction under Division 139 of the ITAA 1997 (former provisions dealing with value shifting through debt forgiveness).
4 For intra-group debt only (where the company and the creditor company are under common ownership throughout the term of the debt) the companies may enter into an agreement whereby the creditor company agrees to forgo its entitlement to a capital loss, or to a deduction for a bad debt, from forgiving the debt in that income year. If such an agreement is made, reduce the creditor's capital loss or the deduction otherwise allowable to the creditor, to the extent of the amount agreed on, up to the amount left after **3** above. For the company, reduce the amount remaining after **3** above by the same amount.
5 The balance remaining is the net forgiven amount of that debt. Add the net forgiven amount to the net forgiven amounts of other debts forgiven during the income year to arrive at the total net forgiven amount in respect of the income year.

Application of total net forgiven amount

Apply this total net forgiven amount to reduce the amount the company has in the following categories, in the order listed:
- tax losses
- net capital losses
- expenditure
- cost bases of certain CGT assets.

Within the relevant categories, the company may choose the relevant loss, item of expenditure or asset against which the total net forgiven amount is applied, provided it is applied to the maximum extent possible within that category. Once you have applied the total net forgiven amount against all the amounts in a category, apply any excess, in the above order, against the next category. If there is an excess remaining after applying the amount to the maximum extent possible against all categories, disregard this excess.

Tax losses

These are tax losses (including any deductions for foreign losses converted to tax losses under Subdivision 770-A of the *Income Tax (Transitional Provisions) Act 1997*) from earlier income years that are undeducted at the beginning of the forgiveness year.

Net capital losses

These are unapplied net capital losses that were made in income years before the forgiveness year and that could be applied in working out the debtor's net capital gain in the forgiveness year, assuming that the company had sufficient capital gains.

Expenditure

Deductible expenditure is limited to expenditure incurred before the forgiveness year that remains undeducted, but that, on conditions prevailing at the beginning of the forgiveness year, would be deductible in that year or future years.

The deductible expenditures are:
- expenditure deductible under the UCA
- expenditure incurred in borrowing money to produce assessable income
- expenditure on scientific research
- R&D expenditure deductible under Division 355 of the ITAA 1997
- expenditure on research and development activities
- advance revenue expenditure
- expenditure on acquiring a unit of industrial property to produce assessable income
- expenditure on Australian films
- expenditure on assessable income-producing buildings and other capital works.

There are two principal methods of reducing deductible expenditures:
- If the deduction is calculated as a percentage of a base amount (for example, deductions for decline in value of depreciating assets calculated under the prime cost method) make the reduction to the base amount. The effect is that deductions allowable in the forgiveness year and later years are reduced. Also, the total amount of deductions allowable is limited to the reduced base amount. The amount of the reduction is treated as if it had been a deduction when calculating any required balancing adjustment amount.
- If the deduction for a particular deductible expenditure is a percentage, fraction or portion of an amount worked out after taking into account any deductions for the deductible expenditure previously allowed to the company (for example, deductions for decline in value calculated under the diminishing value method) the forgiven amount is taken to have been allowed as a deduction before the forgiveness income year.

If, as a result of the recoupment of a particular deductible expenditure, a provision of the ITAA 1936 or the ITAA 1997 applies to disallow any deductions previously allowed to the company for the expenditure, the total net forgiven amount previously applied in the reduction of the recouped deductible expenditure is treated as assessable income in the year of recoupment.

Cost bases of certain CGT assets

Cost bases of certain CGT assets owned by the company at the beginning of the forgiveness year are the final category of amounts that may be reduced by the company's total net forgiven amount. Essentially, these are assets where a capital gain or capital loss might arise when a CGT event, such as a disposal, happens to them.

Assets whose cost bases are not subject to reduction include those for which a capital gain or capital loss will not arise or is unlikely to arise upon a CGT event happening to them – for example, CGT assets acquired before 20 September 1985, goodwill, trading stock or a personal use asset within the meaning of section 108-20 of the ITAA 1997. Also excluded are CGT assets whose cost is deductible, such as depreciating assets.

The company may choose the CGT assets whose cost bases are to be reduced and the extent of that reduction. However, the cost base of CGT assets that constitute investments in associates of the company must be reduced last. When a company chooses to apply an amount in reduction of the relevant cost bases of a particular CGT asset, then at any time from the beginning of the forgiveness income year each of the relevant cost bases (that is, the cost base or reduced cost base) is taken to be reduced accordingly.

Ordinarily, the reduction of a CGT asset's relevant cost base cannot exceed the amount that would have been the reduced cost base of the asset, calculated as if the asset was disposed of at market value on the first day of the forgiveness income year. However, a special rule applies – see subsection 245-190(3) of the ITAA 1997 – if an event occurred after the first day of the forgiveness year that would cause the reduced cost base of the asset to be reduced.

The reduction of the relevant cost base of a CGT asset affects the calculation of the amount of the capital gain or capital loss upon a CGT event happening to the nominated reducible asset because the relevant cost base that is taken into account in determining the capital gain or capital loss must reflect that reduction.

Where a commercial debt is owed by a member of a consolidated or MEC group to a non-group entity, the head company is treated as the debtor for its income tax purposes. If the debt is forgiven, the head company must calculate the net forgiven amount and apply this amount to its deductible revenue losses, deductible capital losses, deductible expenditure and the cost bases of CGT assets.

In certain circumstances the head company of a consolidated group can apply a transferred loss with a nil available fraction to reduce the total net forgiven amount under the commercial debt forgiveness rules.

Intra-group debts

One of the consequences of consolidation is that intra-group loans and intra-group dealings are not recognised for the group's income tax purposes. Where a debt owed by one consolidated or MEC group member to another is forgiven there will be no income tax consequences for the head company or the members.

APPENDIX 2 CAPITAL WORKS DEDUCTIONS

Division 43 of the ITAA 1997 provides for a system of deducting capital expenditure incurred in the construction of buildings and other capital works used to produce assessable income.

Capital works

You can deduct construction costs for the following capital works:

- buildings or extensions, alterations or improvements to a building
- structural improvements or extensions, alterations or improvements to structural improvements
- environmental protection earthworks – see **appendix 6** on page 98.

Deductions for construction costs and structural improvements must be based on actual costs incurred. If it is not possible to genuinely determine the actual costs, obtain an estimate by a quantity surveyor or other independent qualified person. The costs incurred by the company for the provision of this estimate are deductible as a tax-related expense, not as an expense in gaining or producing assessable income.

Different deduction rates apply (2.5% or 4%) depending on the date on which construction began, the type of capital works, and the manner of use.

Who can claim?

The company can claim a deduction under Division 43 for an income year **only** if it:

- owns, leases or holds part of a construction expenditure area of capital works ('your area')
- incurred the construction expenditure or is an assignee of the lessee or holder who incurred the expense, and
- uses 'your area' to produce assessable income or in some cases for carrying on R&D activities.

In calculating the company's deductions, identify 'your area' for each construction expenditure area of the capital works. Your area may comprise the whole of the construction area or part of it.

There are special rules that qualify the use of the capital works in relation to R&D activities. The R&D activities must be conducted in connection with a business carried on for the purposes of producing assessable income and be registered under section 27A of the *Industry Research and Development Act 1986* for an income year.

Lessee or holder of capital works

A lessee or holder can claim a deduction in respect of an area leased or held under a quasi-ownership right. To claim a deduction the lessee or holder must have:

- incurred the construction expenditure or be an assignee of the lessee or holder who incurred the expenditure
- continuously leased or held the capital works area itself, or leased or held the area that had been so held by previous lessees, holders or assignees since completion of construction, and
- used the area to produce assessable income, or in some cases for carrying on R&D activities.

If there is a lapse in the lease, the entitlement to the deduction reverts to the building owner.

Requirement for deductibility

The company can deduct an amount for capital works in an income year if:

- the capital works have a 'construction expenditure area'
- there is a 'pool of construction expenditure' for that area, and
- the company uses the area in the income year to produce assessable income or for carrying on R&D activities in the way set out in section 43-140 of the ITAA 1997.

No deduction until construction is complete

The company cannot claim a deduction for any period before the completion of construction of the capital works even though the company used them, or part of them, before completion. Additionally, the deduction cannot exceed the undeducted construction expenditure for your area.

Capital works are taken to have begun when the first step in the construction phase starts – for example, pouring foundations or sinking pilings for a building.

Establishing the deduction base

You can deduct expenditure for the construction of capital works if there is a construction expenditure area for the capital works. Whether there is a construction expenditure area for the capital works and how it is identified depends on the following factors:

- the type of expenditure incurred
- the time the capital works commenced
- the area of the capital works to be owned, leased or held by the entity that incurred the expenditure
- for capital works begun before 1 July 1997, the area of the capital works that was used in a particular manner, see section 43-90 of the ITAA 1997.

Construction expenditure

Expenses incurred on construction include:

- preliminary expenses, such as an architect's fees, engineering fees, foundation excavation expenses and costs of building permits
- costs of structural features that are an integral part of the income-producing building or income-producing structural improvements – for example, lift wells and atriums
- some portion of indirect costs.

In relation to an owner/builder entitled to a deduction under Division 43 of the ITAA 1997, the value of the owner/builder's contributions to the works (labour or expertise and any notional profit element) do not form part of construction expenditure.

See Taxation Ruling TR 97/25 and 97/25A *Addendum – Income tax: property development: deduction for capital expenditure on construction of income producing capital works, including buildings and structural improvements*.

Construction expenditure does not include expenditure on:

- acquiring land
- demolishing existing structures
- clearing, levelling, filling, draining or otherwise preparing the construction site before carrying out excavation work
- landscaping
- plant
- property or expenditure for which a deduction is allowable, or would be allowable if the property were for use for the purpose of producing assessable income, under another specified provision of the ITAA 1936 or the ITAA 1997.

Construction expenditure area

The construction of the capital works must be complete before the construction expenditure area is determined. A separate construction expenditure area is created each time an entity undertakes the construction of capital works.

For construction expenditure incurred before 1 July 1997, the capital works must have been constructed for a specified use at the time of completion, depending on the time when the capital works commenced. The first specified use construction time was 22 August 1979 – see section 43-90 and section 43-75(2) of the ITAA 1997.

Pool of construction expenditure

The pool of construction expenditure is the portion of the construction expenditure incurred by an entity on capital works, which is attributable to the construction expenditure area.

Deductible use

The company can only obtain a deduction under Division 43 if it uses your area in a way described in table 43-140 or 43-145 of Subdivision 43-D of the ITAA 1997.

Special rules about uses

Your area is taken to be used for a particular purpose or manner if:

- it is maintained ready for that use and is not used for another purpose, and its use has not been abandoned, or
- its use has temporarily ceased because of construction or repairs, or for seasonal or climatic conditions.

Your area is **not** accepted as being used to produce assessable income:

- if it is a building (other than a hotel or apartment building) used or for use wholly or mainly for exhibition or display in connection with the sale of all or part of any building, where construction began after 17 July 1985 but before 1 July 1997. If construction began after 30 June 1997, buildings that are used for display are eligible
- if it is a building (other than a hotel or apartment building) where construction began after 19 July 1982 and before 18 July 1985 and it is used wholly or mainly for:
  - or in association with, residential accommodation, and is not a hotel or apartment building, or
  - exhibition or display in connection with the sale of all or part of any building, or the lease of all or any part of any building for use wholly or mainly for, or in association with, residential accommodation and is not a hotel or apartment building or an extension, alteration or improvement to such a building
- to the extent that the company or an associate uses part of it for residential accommodation and it is not a hotel or apartment building, for exceptions to this rule, see subsection 43-170(2) of the ITAA 1997.

Your area is taken to be used wholly or mainly as, or in association with residential accommodation if it is:

- part of an individual's home, other than a hotel or apartment building
- a building (other than a hotel or apartment building) where construction began after 19 July 1982 and before 18 July 1985, and used as a hotel, motel or guest house.

Special rules for hotels and apartments are contained in section 43-180 of the ITAA 1997.

Calculation and rate of deduction

The company's entitlement to a deduction begins on the date the building is first used to produce assessable income after construction is completed. The first and last years of use may be apportioned. The entitlement to a deduction runs for either 25 or 40 years (the limitation period) depending on the rate of deduction applicable.

The legislation contains two calculation provisions:

- section 43-210 of the ITAA 1997 deals with the deduction for capital works that began after 26 February 1992
- section 43-215 of the ITAA 1997 deals with deductions for capital works that began before 27 February 1992.

Capital works begun before 27 February 1992 and used as described in table 43-140

Calculate the deduction separately for each part that meets the description of your area.

Multiply the company's construction expenditure by the applicable rate (either 4% if the capital works were begun after 21 August 1984 and before 16 September 1987 or 2.5% in any other case) and by the number of days in the income year for which the company owned, leased or held your area and used it in a relevant way. Divide that amount by the number of days in the year.

Apportion the amount if your area is used only partly to produce assessable income or for carrying on R&D activities.

The amount the company claims cannot exceed the undeducted construction expenditure.

Capital works begun after 26 February 1992

Calculate the deduction separately for each part of capital works that meets the description of your area.

There is a basic entitlement to a rate of 2.5% for parts used as described in table 43-140 – Current year use. The rate increases to 4% for parts used as described in table 43-145 – Use in the 4% manner.

Undeducted construction expenditure

The undeducted construction expenditure for your area is the part of the company's construction expenditure it has left to write off. It is used to work out:

- the number of years in which the company can deduct amounts for the company's construction expenditure
- the amount that the company can deduct under section 43-40 of the ITAA 1997 if your area or a part of it is destroyed.

Balancing deduction on destruction

If a building is destroyed or damaged during an income year, you can claim a deduction for the remaining amount of undeducted construction expenditure that has not yet been deducted, less any compensation received. If the destruction or demolition is voluntary, the entitlement to a deduction is unaffected.

You can claim the deduction in the income year in which the destruction occurs.

The deduction is reduced if the capital works are used in an income year only partly for the purpose of producing assessable income or for carrying on R&D activities.

For guidelines issued by the Commissioner on these measures, see Taxation Ruling TR 97/25 and 97/25A Addendum.

APPENDIX 3 THIN CAPITALISATION

The thin capitalisation provisions reduce certain deductions (called debt deductions) incurred in obtaining and servicing debt if the debt used to finance the Australian operations of a company exceeds the limits set out in Division 820 of the ITAA 1997. These rules ensure that entities fund their Australian operations with an appropriate amount of equity.

Do the thin capitalisation rules apply?

Australia's thin capitalisation rules apply to:

- Australian entities investing overseas and their associate entities
- foreign entities investing in Australia.

The thin capitalisation rules affect:

- Australian entities with certain overseas operations, and their associate entities
- Australian entities that are foreign controlled
- foreign entities with operations or investments in Australia that are claiming debt deductions.

The thin capitalisation rules may apply to a company if the company:

- is an Australian resident company and either
  - the company, or any of its associate entities, is an Australian controller of a foreign entity or carries on business overseas at or through a PE, or
  - the company is foreign controlled, either directly or indirectly
- is a foreign resident company and carries on business in Australia at or through a PE or otherwise has assets that produce assessable income in Australia.

Entities that are not affected by the rules

For any given income year, the following entities are not affected by the thin capitalisation rules:

- an entity that does not incur debt deductions for the income year
- an entity whose debt deductions, together with those of any associate entities, are $250,000 or less for the income year
- an Australian resident entity that is neither an inward investing entity nor an outward investor
- a foreign entity that has no investment or presence in Australia
- an outward investor that is not also foreign controlled and meets the assets threshold test (This is explained further in section 820-37.)

Certain special purpose entities are also excluded, where all of the following apply:

- the entity is established for the purposes of managing some or all of the economic risk associated with assets, liabilities or investments
- at least 50% of its assets are funded by debt interests
- the entity is an insolvency remote special purpose entity according to the criteria of an internationally recognised rating agency that are applicable to the entity's circumstances. That entity does not have to have been rated by a rating agency.

Where several large entities are taken to be a single, notional entity, any one of those entities can still meet this exception provided that all the entities taken together would meet the above conditions. The entity will only be exempted from the thin capitalisation rules for the period that it meets all of the above conditions.

For more information about thin capitalisation, see the *Guide to thin capitalisation* at **www.ato.gov.au**. This explains what certain terms mean for thin capitalisation purposes, such as control, associated entities, debt deductions, asset threshold test – for example, the rules regarding 'control' take into account both direct and indirect interests that the company holds in the other entity (or vice versa), and the direct and indirect interests that associate entities of the company hold in the other entity.

What if the thin capitalisation rules apply?

If the thin capitalisation rules apply, print **Y** for yes at item **28 Thin capitalisation**. In addition, complete the *International dealings schedule 2012*.

The International dealings schedule is available through the electronic lodgment service (ELS), or complete and lodge the paper schedule.

What if the thin capitalisation rules are breached?

If the thin capitalisation rules are breached, some of the company's debt deductions may be denied. Include the amount denied at **W** **Non-deductible expenses** item **7**.

APPENDIX 4 TAXATION TREATMENT OF POOLED DEVELOPMENT FUNDS AND INVESTORS

How pooled development funds (PDFs) are taxed

A PDF is a company that is registered as a PDF and provides development capital to small and medium sized companies. The PDF regime was closed to new applications for registration as a PDF from 21 June 2007.

If a company was registered as a PDF part way through an income year and is still a PDF at the end of the income year, it is taxed as a PDF for the period from the date of registration to the end of the income year as if that period were an income year. The taxable income in the pre-PDF period is taxed at the rate of 30%.

If a company ceases to be a PDF part way through an income year, it is taxed as an ordinary company for the whole year – that is, taxable income is taxed at the rate of 30%.

The SME income component of the PDF's taxable income is taxed at the rate of 15%. The SME component is the company's SME assessable income less any deductions allowable to the company for the year, whether they relate to SME assessable income or not. If the available deductions exceed the amount of SME assessable income, the excess may be applied against the unregulated investment component of the company's taxable income.

SME assessable income is income derived from, or from the disposal of, an SME investment and includes amounts that would otherwise be capital gains. An SME investment is not an unregulated investment which is an investment by way of a loan to, deposit with or debenture of a bank, or a deposit with an authorised money market dealer.

The unregulated investment component of the PDF's taxable income is worked out by deducting the company's SME income component from its taxable income for the year. The amount (if any) remaining is the company's unregulated investment component. The unregulated investment component is taxed at the rate of 25%.

Imputation

PDFs generate franking credits in the same way as other companies, mainly from the payment of income tax and from the receipt of franked distributions. The franking credit that arises is the tax paid (at the relevant rate applicable to the taxable income of PDFs, not at the company tax rate).

PDFs make franked distributions in the same manner as other companies.

The PDF obtains venture capital credits from the payment of income tax reasonably attributable to capital gains from venture capital investments – that is, SME investments made in accordance with the *Pooled Development Funds Act 1992*. If a PDF keeps a record of its venture capital sub-account, it can make distributions franked with venture capital credits.

If a PDF over-distributes venture capital credits during the income year, it incurs a liability to venture capital deficit tax.

Tax offset for franking credits

A PDF that receives a franked distribution must include the distribution and the franking credit attached to the distribution in its assessable income. The PDF is then entitled to a tax offset equal to the amount of franking credits included in its assessable income. This is the gross-up and tax offset rule.

Losses

Deductions for PDF tax losses are allowable only in an income year in which the company is a PDF throughout that income year.

PDF tax losses cannot be transferred to other companies in the same group.

Non-PDF tax losses incurred before the company became a PDF that are not recouped while the company is a PDF continue to be deductible after the company ceases to be a PDF.

Capital losses incurred while the company is a PDF are not deductible from capital gains accruing to the company after it ceases to be a PDF.

How PDF shareholders are taxed

Unfranked PDF distributions and the unfranked part of a franked distribution are exempt from tax.

The franked part of a PDF distribution is also exempt from income tax unless the shareholder elects to be taxed on it. The election is made by including the distribution (and franking credit) in assessable income. The election will apply to all franked PDF distributions derived during the income year. A corporate shareholder who receives a franked PDF distribution and who elects to include the distribution in assessable income will receive a franking credit equal to the franking credit attached to the distribution.

Special rules apply to PDF distributions franked with venture capital credits that are paid to complying superannuation funds, pooled superannuation trusts and like entities. Such entities are also entitled to a venture capital tax offset and the relevant part of the distribution is also exempt income.

The costs associated with borrowing to purchase PDF shares are not deductible to the extent the distributions are exempt from tax.

Non-resident PDF shareholders are exempt from withholding tax on PDF distributions.

PDF shares are not trading stock.

Income from selling shares in a company that is a PDF at the time of sale is exempt from income tax. Any capital gains or capital losses from the disposal of PDF shares are disregarded.

APPENDIX 5 INFRASTRUCTURE BORROWINGS

The previous infrastructure borrowings tax concession, which was introduced in 1992 to facilitate private sector investment in certain public infrastructure projects, was closed to new projects with effect from 14 February 1997. The provisions relating to the concession are contained in Division 16L of Part III of the ITAA 1936 and chapter 3 of the *Development Allowance Authority Act 1992*.

The concession provides that the lender's interest and amounts in the nature of interest on the infrastructure borrowings are exempt. Alternatively, the lender may choose to be assessed on those amounts and claim a tax offset of 30%. The borrower's interest and amounts in the nature of interest on the infrastructure borrowings are not deductible. In addition, any profit or loss on the disposal of an infrastructure borrowings instrument is neither assessable nor deductible.

The replacement land transport facilities borrowings tax offset in Division 396 of the ITAA 1997 is a more restricted concession. The concession is in the form of a tax offset on the taxable interest of a resident lender to an approved infrastructure project. The offset is calculated by applying the general company tax rate to the lender's assessable interest, but may be subject to an upper limit set by the Minister for Infrastructure and Transport.

If the lender's interest is subject to a tax offset, the project borrower cannot claim a deduction for a comparable amount of interest.

APPENDIX 6 UNIFORM CAPITAL ALLOWANCES

The following concepts relevant to the UCA system are referred to in this appendix:

- balancing adjustment amounts
- deduction for decline in value of depreciating assets
- deduction for environmental protection expenses
- deduction for project pool
- electricity connections and telephone lines
- hire-purchase agreements
- landcare operations and decline in value of water facility
- loss on the sale of a depreciating asset
- luxury car leases
- profit on the sale of a depreciating asset
- section 40-880 deduction
- the TOFA rules and UCA.

For more information on any of these topics, see *Guide to depreciating assets 2012*.

SMALL BUSINESS ENTITIES

Eligible small business entities that choose to use the simplified depreciation rules calculate deductions for most of their depreciating assets under the specific small business entity depreciation rules, see page 32.

Balancing adjustment amounts

If the company ceases to hold or to use a depreciating asset, a balancing adjustment event occurs. Calculate a balancing adjustment amount to include in the company's assessable income or to claim as a deduction.

Include the assessable balancing adjustment amount for all assets at **B** **Other assessable income** item **7**. (Assessable balancing adjustment amounts for assets used in R&D activities are required to be uplifted prior to being included at **B** **Other assessable income** item **7**. See the instructions to **B** **Other assessable income** item **7** on page 39 for further information.)

Include the deductible balancing adjustment amount for non-R&D assets at **X** **Other deductible expenses** item **7**.

Balancing adjustment loss amounts for assets used only for R&D activities subject to the R&D tax incentive are taken into account in part **A** of the *Research and development tax incentive schedule 2012* and also as part of calculating an R&D tax offset amount at item **22**.

Balancing adjustment losses for assets used on R&D and non-R&D activities are uplifted under sections 40-292 or 40-293 of the ITAA 1997 and included at **X** **Other deductible expenses** item **7**, if the company is otherwise eligible for an R&D tax offset under section 355-100 of the ITAA 1997. If the company is not otherwise eligible for an R&D tax offset under section 355-100 of the ITAA 1997, the balancing adjustment losses for assets used on R&D and non-R&D activities, as calculated under section 40-285 of the ITAA 1997, is included at **X** **Other deductible expenses** item **7** and claimed at 100%.

If the asset was used for both taxable and non-taxable purposes, reduce the balancing adjustment amount by the amount attributable to the non-taxable use. A capital gain or capital loss may arise in respect of the amount attributable to that non-taxable use. This capital gain or capital loss is included in calculating the net capital gain or net capital loss for the income year.

Include any profit or loss on the sale of a depreciating asset that has been included in the accounts of the company at either **R** **Other gross income** item **6** or **S** **All other expenses** item **6** – see **Profit on the sale of a depreciating asset** or **Loss on the sale of a depreciating asset** on page 102.

If you have elected to use the hedging tax-timing method provided for in the TOFA rules and you have a gain or loss from a hedging financial arrangement used to hedge risks in relation to a depreciating asset, work out separately:

- the balancing adjustment assessable or deductible amount (include this at either **B** **Other assessable income** item **7** or **X** **Other deductible expenses** item **7** as appropriate), and
- the gain or loss on the hedging financial arrangement under the TOFA rules that has not yet been assessed or deducted (include this at **E** **TOFA income from financial arrangements not included in item 6** item **7** or **W** **TOFA deductions from financial arrangements not included in item 6** item **7** as appropriate).

If a balancing adjustment event occurred to a depreciating asset of the company during the income year, you may also need to include an amount at **P** **Termination value of intangible depreciating assets** item **8** or at **E** **Termination value of other depreciating assets** item **8**.

Deduction for decline in value of depreciating assets

The decline in value of a depreciating asset is generally worked out using either the prime cost or diminishing value method. Both methods are based on the effective life of an asset. For most depreciating assets, the company can choose whether to self-assess the effective life or adopt the Commissioner's determination that can be found in *Taxation Ruling TR 2011/2 – Income tax: effective life of depreciating assets (applicable from 1 July 2011)*.

The company can deduct an amount equal to the decline in value for an income year of a depreciating asset for the period that it holds the asset during that year. However, the deduction is reduced to the extent the company uses the asset or has it installed ready for use other than for a taxable purpose.

The decline in value of a depreciating asset costing $300 or less is its cost (but only to the extent the asset is used for a taxable purpose) if the asset satisfies **all** of the following requirements:

- It is used predominantly for the purpose of producing assessable income that is not income from carrying on a business.

- It is not part of a set of assets acquired in the same income year that costs more than $300.
- It is not one of any number of substantially identical items acquired in the same income year that together cost more than $300.

Certain assets that cost less than $1,000 or that have an opening adjustable value of less than $1,000 can be allocated to a low-value pool to calculate the decline in value. Assets eligible for the immediate deduction cannot be allocated to a low-value pool.

To work out the deduction for decline in value of most depreciating assets use worksheets 1 and 2 in the *Guide to depreciating assets 2012*.

Deduction for the small business and general business tax break

The small business and general business tax break in the form of an investment allowance is available for expenditure on eligible new tangible depreciating assets. The tax break provides the following deductions for:

- **small business entities**
  - An additional tax deduction of 50% of the cost of eligible new tangible depreciating assets is available where the business
    - committed to invest in the asset between 13 December 2008 and 31 December 2009 inclusive, and
    - first used the asset, or installed it ready for use, or (in the case of new investment in an existing asset) brought the asset to its modified or improved state, on or before 31 December 2010
- **other business entities**
  - An additional tax deduction of 30% of the cost of eligible new tangible depreciating assets is available where the business
    - committed to invest in the asset between 13 December 2008 and 30 June 2009 inclusive, and
    - first used the asset, or installed it ready for use, or (in the case of new investment in an existing asset) brought the asset to its modified or improved state, on or before 30 June 2010
  - An additional tax deduction of 10% of the cost of eligible new tangible depreciating assets is available where the business
    - committed to invest in the asset between 13 December 2008 and 30 June 2009 inclusive, and
    - first used the asset, or installed it ready for use, or (in the case of new investment in an existing asset) brought the asset to its modified or improved state, between 1 July 2010 and 31 December 2010
  - An additional tax deduction of 10% of the cost of eligible new tangible depreciating assets is available where the business
    - committed to invest in the asset between 1 July 2009 and 31 December 2009 inclusive, and
    - first used the asset, or installed it ready for use, or (in the case of new investment in an existing asset) brought the asset to its modified or improved state, on or before 31 December 2010.

Generally, a business ‘commits’ to investing when:

- it enters into a contract under which the asset is held
- it starts to construct the asset, or
- it starts to hold the asset in some other way.

The tax break applies to new tangible depreciating assets for which a deduction is available under Subdivision 40-B of the ITAA 1997 and certain new investments in existing assets.

Cars will not be disqualified from the tax break merely because you use the 12% method.

Land and trading stock are excluded from the definition of depreciating assets, and will not qualify for the deduction.

The cost of an eligible new tangible asset includes amounts included in the first element of cost (worked out under Subdivision 40-C of the ITAA 1997), and amounts included in the second element of cost under paragraph 40-190(2)(a) of the ITAA 1997. New expenditure on existing assets may also qualify.

It must be reasonable to conclude that the assets will be used principally in Australia for the principal purpose of carrying on a business.

Small businesses can claim the deduction for eligible assets costing $1,000 or more. For other businesses, a minimum expenditure threshold of $10,000 applies.

In order to meet the relevant threshold, a taxpayer can aggregate their investment in a set of assets, or in a group of assets where the assets in the group are identical or substantially identical.

Where assets are held jointly, a taxpayer can take into account the other business interests in the asset when determining whether the investment threshold test is satisfied. However, the taxpayer will only be able to claim the tax break on their interest in the asset.

Where a taxpayer has met the investment threshold for an asset, they can claim the additional investment in the assets as part of the tax break.

The tax break is on top of the usual capital allowance deduction you are able to claim for the asset.

Provided all of the eligibility criteria are satisfied, the deduction is claimable in the income year in which the asset is first used, or installed ready for use.

For further information, go to **www.ato.gov.au** and enter ‘small business and general business tax break’ in the ‘Search for’ box at the top of the page.

Deduction for environmental protection expenses

The company can deduct expenditure to the extent that it incurs it for the sole or dominant purpose of carrying on environmental protection activities (EPA). EPA are activities undertaken to prevent, fight or remedy pollution or to treat, clean up, remove or store waste from the company's earning activity. The company's earning activity is one it carried on, carries on or proposes to carry on for the purpose of:

- producing assessable income (other than a net capital gain)
- exploration or prospecting, or
- mining site rehabilitation.

The company may also claim a deduction for cleaning up a site on which a predecessor carried on substantially the same business activity.

The deduction is not available for:

- EPA bonds and security deposits
- expenditure for acquiring land
- expenditure for constructing or altering buildings, structures or structural improvements
- expenditure to the extent that the company can deduct an amount for it under another provision.

Expenditure that forms part of the cost of a depreciating asset is not expenditure on EPA.

Expenditure incurred on or after 19 August 1992 on certain earthworks constructed as a result of carrying out EPA can be written off at the rate of 2.5% a year under the provisions for capital works expenditure.

Expenditure on an environmental impact assessment of a project of the company is not deductible as expenditure on EPA. If it is capital expenditure directly connected with a project, it could be a project amount for which a deduction would be available over the life of the project – see **Deduction for project pools** below.

If the deduction arises from a non-arm's length transaction and the expenditure is more than the market value of what it was for, the amount of the expenditure is taken instead to be that market value.

Any recoupment of the expenditure is assessable income.

Deduction for project pools

Certain capital expenditure incurred after 30 June 2001 that is directly connected with a project carried on or proposed to be carried on for a taxable purpose can be allocated to a project pool and written off over the project life. Each project has a separate project pool.

The project must be of sufficient substance and be sufficiently identified that it can be shown that the capital expenditure said to be a 'project amount' is directly connected with the project.

A project is carried on if it involves a continuity of activity and active participation. Merely holding a passive investment such as a rental property would not be regarded as carrying on a project.

For further guidance, see *Taxation Ruling TR 2005/4 – Income tax: capital allowances – project pools – core issues*.

The capital expenditure, known as a project amount, must be expenditure incurred:

- to create or upgrade community infrastructure for a community associated with the project, this expenditure must be paid (not just incurred) to be regarded as a project amount
- for site preparation for depreciating assets (other than in draining swamp or low-lying land or in clearing land for horticultural plants including grapevines)
- for feasibility studies for the project
- for environmental assessments for the project
- to obtain information associated with the project
- in seeking to obtain a right to intellectual property
- for ornamental trees or shrubs.

Project amounts also include mining capital expenditure and transport capital expenditure.

The expenditure must not otherwise be deductible or form part of the cost of a depreciating asset.

If the expenditure incurred arises from a non-arm's length dealing and is more than the market value of what it was for, the amount of the expenditure is taken to be that market value.

The deduction for project amounts allocated to a project pool commences when the project starts to operate.

If your project pool contains only project amounts incurred on or after 10 May 2006 and the project starts to operate on or after that date, your deduction is calculated as follows:

$$\frac{\text{pool value} \times 200\%}{\text{DV project pool life}}$$

In some circumstances, a post 9 May 2006 project may be taken to have started to operate before 10 May 2006. This would occur, for example, if the company abandoned a project and then restarted it on or after 10 May 2006 in an attempt to enable it to claim deductions in accordance with the above formula.

For other project pools, the deduction is calculated using the following formula:

$$\frac{\text{pool value} \times 150\%}{\text{DV project pool life}}$$

The 'DV project pool life' is the project life or, if that life has been recalculated, the most recently recalculated project life. The project life is determined by estimating how long (in years and fractions of years) it will be from when the project starts to operate until it stops operating. Generally, a project starts to operate when the activities that will produce assessable income start. The project life is estimated from the company's perspective, having regard to factors which are outside the company's control. For more information, see Taxation Ruling TR 2005/4.

The 'pool value' for an income year at a particular time is broadly the sum of the project amounts allocated to the pool up to the end of that year less the sum of the deductions the company has claimed for the project pool in previous years or could have claimed had the project operated wholly for a taxable purpose.

The pool value can be subject to adjustments.

If the company is or becomes entitled to a GST input tax credit for expenditure allocated to a project pool, the pool value is reduced by the amount of the credit. Certain increasing or decreasing adjustments in relation to expenditure allocated to a project pool will also require an adjustment to the pool value.

If during any income year commencing after 30 June 2003 the company ceased to have an obligation to pay foreign currency and the obligation was incurred as a project amount allocated to a project pool, a foreign currency gain or loss (referred to as a forex realisation gain or loss) may have arisen under the forex provisions. If the amount was incurred after 30 June 2003 (or earlier, if so elected) and became due for payment within 12 months after it was incurred, then (unless elected otherwise, see below) the pool value for the income year in which the amount was incurred is increased by any forex realisation loss and decreased by any forex realisation gain. However, if a forex realisation gain exceeds the pool value, the pool value is reduced to zero and the excess gain is assessable income. If the company elected that this treatment should not apply, any forex realisation gain will be assessable and any forex realisation loss will be deductible.

The deduction for a project pool cannot be more than the amount of the pool value for that income year.

There is no need to apportion the deduction if the project starts to operate during the income year or for project amounts incurred during the year. However, the deduction is reduced to the extent to which the project is operated for other than a taxable purpose during the income year.

If the project is abandoned, sold or otherwise disposed of, the company can deduct the sum of the closing pool value of the prior income year (if any) plus any project amounts allocated to the pool during the income year, after allowing for any necessary pool value adjustments. A project is abandoned if it stops operating and will not operate again.

Any amount received for the abandonment, sale or other disposal of a project is assessable.

If an amount of expenditure allocated to a project pool is recouped or if the company derives a capital amount in relation to a project amount or something on which a project amount was expended, the amount must be included in assessable income.

If any receipt arises from a non-arm's length dealing and the amount is less than the market value of what it was for, the amount received is taken to be that market value.

Electricity connections and telephone lines

A deduction can be claimed by the company over 10 years for capital expenditure incurred in connecting:

- mains electricity to land on which a business is carried on or in upgrading an existing connection to that land, or
- a telephone line to land being used to carry on a primary production business.

Include the deduction at **X Other deductible expenses** item **7**. If you have included the expenditure as an expense at item **6 Calculation of total profit or loss**, also include the expenditure at **W Non-deductible expenses** item **7**.

Include any recoupment of the expenditure in assessable income at **B Other assessable income** item **7** if you have not included it at **R Other gross income** item **6**.

Hire-purchase agreements

Hire-purchase and instalment sale agreements of goods are treated as a sale of the property by the financier (or hire-purchase company) to the hirer (or instalment purchaser).

The sale is treated as being financed by a loan from the financier to the hirer at a sale price of either their agreed cost or value or the property's arm's length value. The periodic hire-purchase (or instalment) payments are treated as payments of principal and interest under the notional loan. The hirer can deduct the interest component subject to any reduction required under the thin capitalisation rules.

In relation to the notional sale, the hirer of a depreciating asset is treated as the holder of the asset and is entitled to claim a deduction for the decline in value. The cost of the asset for this purpose is generally taken to be the agreed cost or value, or the arm's length value if the dealing is not at arm's length.

If the company has included hire-purchase charges at any label at item **6 Calculation of total profit or loss**, include the amount at **W Non-deductible expenses** item **7**.

Include the deduction for the decline in value of the goods at **F Deduction for decline in value of depreciating assets** item **7**. Include the interest component at **X Other deductible expenses** item **7**.

Landcare operations and decline in value of water facility

Landcare operations

The company can claim a deduction in the year it incurs capital expenditure on a landcare operation for land in Australia.

Unless the company is a rural land irrigation water provider, the deduction is available to the extent the company uses the land for either:

- a primary production business, or
- in the case of rural land, carrying on a business for a taxable purpose from the use of that land, except a business of mining or quarrying.

The company may claim the deduction even if it is only a lessee of the land.

The deduction is also available to rural land irrigation water providers, that is, to entities whose business is primarily and principally the supply of water (other than by using a motor vehicle) to entities for use in primary production businesses on land in Australia or to businesses (other than mining or quarrying businesses) using rural land in Australia.

If the company is a rural land irrigation water provider, it can claim a deduction for capital expenditure it incurs on a landcare operation for:

- land in Australia that other entities (being entities supplied with water by the company) use at the time for carrying on primary production businesses, or
- rural land in Australia that other entities (being entities supplied with water by the company) use at the time for carrying on businesses for a taxable purpose from the use of that land (except a business of mining or quarrying).

A rural land irrigation water provider's deduction is reduced by a reasonable amount to reflect an entity's use of the land for other than a taxable purpose after the water provider incurred the expenditure.

A landcare operation is one of the following operations:

- eradicating or exterminating animal pests from the land
- eradicating, exterminating or destroying plant growth detrimental to the land
- preventing or combating land degradation other than by erecting fences
- erecting fences to keep out animals from areas affected by land degradation to prevent or limit further damage and to help reclaim the areas
- erecting fences to separate different land classes in accordance with an approved land management plan
- constructing a levee or similar improvement
- constructing drainage works (other than the draining of swamps or low-lying areas) to control salinity or assist in drainage control
- an alteration, addition, extension, or repair of a capital nature to an asset described in the fourth to seventh dot points, or an extension of an operation described in the first three dot points
- a structural improvement, or an alteration, addition, extension or repair of a capital nature to a structural improvement, that is reasonably incidental to levees or drainage works deductible under a landcare operation.

You cannot claim a deduction if the capital expenditure is on plant unless it is on certain fences, dams or other structural improvements.

In each case, apart from the construction of a levee, the operation must be carried out primarily and principally for the purpose stated. This is to ensure that the deduction for landcare operation expenditure and the three-year write-off for facilities to conserve or convey water cannot both be claimed for the same item of expenditure. If a levee is constructed primarily and principally for water conservation, it would be a water facility and not deductible under the rules for landcare operations. The decline in value would need to be worked out under the water conservation provisions – see **Water facilities** below.

Any recoupment of the expenditure would be assessable income.

Water facilities

You can claim a deduction for the decline in value of a water facility in equal instalments over three years.

A water facility is plant or a structural improvement that is primarily or principally for the purpose of conserving or conveying water, or a structural improvement that is reasonably incidental to conserving or conveying water. It also includes a repair of a capital nature, or an alteration, addition or extension, to that plant or structural improvement. Examples of water facilities include dams, tanks, tank stands, bores, wells, irrigation channels or similar improvements, pipes, pumps, water towers, and windmills.

Unless the company is an irrigation water provider, the expenditure must be incurred by the company primarily and principally for conserving or conveying water for use in its primary production business on land in Australia. The company may claim the deduction even if it is only a lessee of the land.

The deduction is reduced if the facility is not wholly used for either:

- carrying on a primary production business on land in Australia, or
- a taxable purpose.

The deduction for water facilities is also available to irrigation water providers, that is, to entities whose business is primarily and principally the supply (other than by using a motor vehicle) of water to other entities for use in a primary production business on land in Australia.

If the company is an irrigation water provider, it must incur the expenditure on the water facility primarily and principally for conserving or conveying water for use in primary production businesses conducted by other entities on land in Australia, being entities supplied with water by the company. The company's deduction is reduced if the water facility is not wholly used for a taxable purpose.

Loss on the sale of a depreciating asset

Any such loss included in the accounts will differ from the balancing adjustment amount taken into account for taxation purposes.

If the accounts show a loss on the sale of a depreciating asset under **S All other expenses** item **6**, include that amount at **W Non-deductible expenses** item **7** except to the extent it relates to assets used in R&D activities, which are shown at **D Accounting expenditure in item 6 subject to R&D tax incentive** item **7**. Also see **Balancing adjustment amounts** on page 98.

Luxury car leases

Luxury car leasing arrangements (other than genuine short-term hiring agreements or a hire-purchase agreement) are treated as notional sale and loan transactions.

A leased car, either new or second hand, is a luxury car if its cost exceeds the car limit that applies for the income year in which the lease commences. The car limit for 2011–12 is $57,466.

The cost or value of the car specified in the lease (or the market value if the parties were not dealing at arm's length in connection with the lease) is taken to be both the cost of the car for the lessee and the amount loaned by the lessor to the lessee to buy the car.

In relation to the notional loan, the actual lease payments are divided into notional principal and finance charge components. That part of the finance charge component for the notional loan applicable for the particular period (the accrual amount) is deductible to the lessee subject to any reduction required under the thin capitalisation rules.

In relation to the notional sale, the lessee is treated as the holder of the luxury car and is entitled to claim a deduction for the decline in value of the car.

For the purpose of calculating the deduction, the cost of the car is limited to the car limit for the income year in which the lease is granted. For more information on deductions for the decline in value of leased luxury cars, see *Guide to depreciating assets 2012*.

In summary, the lessee is entitled to deductions equal to:
- the accrual amount, and
- the decline in value of the luxury car, based on the applicable car limit.

Both deductions are reduced to reflect any use of the car for other than a taxable purpose.

If the company has included the lease expenses at **F Lease expenses within Australia** item **6** or **I Lease expenses overseas** item **6**, include the amount at **W Non-deductible expenses** item **7**.

Include the deduction for decline in value of the luxury car at **F Deduction for decline in value of depreciating assets** item **7**. Include the accrual amount at **X Other deductible expenses** item **7**.

If the lease terminates or is not extended or renewed and the lessee does not actually acquire the car from the lessor, the lessee is treated under the rules as disposing of the car by way of sale to the lessor. This constitutes a balancing adjustment event and any assessable or deductible balancing adjustment amount for the lessee must be determined.

Profit on the sale of a depreciating asset

Any such profit included in the accounts will differ from the balancing adjustment amount taken into account for taxation purposes.

If the accounts show a profit on the sale of a depreciating asset under **R Other gross income** item **6**, include that amount at **Q Other income not included in assessable income** item **7**. Also see **Balancing adjustment amounts** on page 98.

The TOFA rules and UCA

The TOFA rules contain interaction provisions which may modify the cost and termination value of a depreciating asset acquired by a company to which the TOFA rules apply. This will be the case where the consideration (or a substantial proportion of it) is deferred for greater than 12 months after delivery.

For more information, see *Guide to the taxation of financial arrangements (TOFA) rules* at **www.ato.gov.au/tofa**

Section 40-880 deduction

Section 40-880 of the ITAA 1997 provides a five-year write-off for certain business-related capital expenditure provided that no other provision either takes the expenditure into account or denies a deduction.

The company may be able to claim a deduction for capital expenditure that it incurs after 30 June 2005:
- in relation to its business
- in relation to a business that had been carried on, such as capital expenses incurred in order to cease the business
- in relation to a business proposed to be carried on, such as the costs of feasibility studies, market research or setting up the business entity
- to liquidate or deregister a company of which the company was a member, wind up a partnership of which the company was a partner, or wind up a trust of which the company was a beneficiary, where the relevant company, partnership or trust previously carried on a business.

If the company incurs expenditure in relation to its existing business or a business that it had carried on or proposes to carry on, the expenditure is deductible to the extent the business is, was, or is proposed to be, carried on for a taxable purpose.

The company cannot deduct expenditure in relation to an existing business that is carried on by another entity. However, it can deduct expenditure that it incurs in relation to a business that had been, or is proposed to be, carried on by another entity. The expenditure is only deductible to the extent that:
- the business was, or is proposed to be, carried on for a taxable purpose, and
- the expenditure is in connection with the business that was, or is proposed to be, carried on and with the company deriving assessable income from the business.

The deduction cannot be claimed by the company for capital expenditure to the extent to which it:
- can be deducted under another provision
- forms part of the cost of a depreciating asset the company holds, held or will hold
- forms part of the cost of land
- relates to a lease or other legal or equitable right
- would be taken into account in working out an assessable profit or deductible loss
- would be taken into account in working out a capital gain or a capital loss
- would be specifically not deductible under the income tax laws if the expenditure was not capital expenditure
- is specifically not deductible under the income tax laws for a reason other than the expenditure is capital expenditure
- is incurred in relation to gaining or producing exempt income or non-assessable non-exempt income
- is excluded from the cost or cost base of an asset because, under special rules in the UCA or CGT regimes respectively, the cost or cost base of the asset was taken to be the market value

- is a return of or on capital (for example, dividends paid by companies) or a return of a non-assessable amount (for example, repayments of loan principal).

The company deducts 20% of the expenditure in the year it is incurred and in each of the following four years.

APPENDIX 7 COMPANY TAX RATE

The following rates of tax apply to companies for the 2011–12 income year.

TABLE 11: Company tax rates

	Rate %
Companies generally	30
■ including corporate limited partnerships, strata title bodies corporate, trustees of corporate unit trusts and public trading trusts	
Life insurance companies	
■ ordinary class of taxable income	30
■ complying superannuation/FHSA class of taxable income	15
– further tax on no-TFN contributions income (where a RSA provider)	31.5
Retirement savings accounts providers other than life insurance companies	
■ the RSA component of taxable income	15
– further tax on no-TFN contributions income	31.5
■ the FHSA component (if any) of taxable income	15
■ the standard component of taxable income	rate applicable to institution
FHSA providers that are ADIs (other than RSA providers)	
■ the FHSA component of taxable income	15
■ the standard component of taxable income	rate applicable to institution
Trustees of FHSA trusts	
■ taxable income	15
PDFs	
For tax rates where a company commences to be, or ceases to be, a PDF during the income year – see **appendix 4**.	
■ SME income component	15
■ unregulated investment component	25
■ other	30
Credit unions	
■ small credit unions, under $50,000	30
■ medium credit unions, $50,000–$149,999	45
■ large credit unions, $150,000 and over	30

Small credit unions are taxed on all their taxable income, but note the treatment of mutual interest.

Interest derived by small credit unions that are also approved credit unions, being interest paid to the credit union by its members (not being companies) in respect of loans made to those members, is exempt from tax.

Credit unions with a notional taxable income of at least $50,000, but less than $150,000, are taxed on their taxable income in excess of $49,999.

Credit unions with a notional taxable income of $150,000 or more are taxed on all of their taxable income.

Notional taxable income of a credit union is its taxable income if section 23G of the ITAA 1936 did not apply and Division 9 of Part III of the ITAA 1936 had not been enacted.

Non-profit companies

Non-profit companies with a taxable income of between $417 and $915 are taxed on their taxable income in excess of $416.

Non-profit companies with a taxable income above $915 are taxed on all of their taxable income.

Taxable income	Rate %
$0–$416	nil
$417–$915	55
$916 and above	30

APPENDIX 8 FOREIGN AND OTHER JURISDICTIONS CODES

Note: Guernsey, Jersey and Isle of Man each have a separate country code

Country	Code
Afghanistan	AFG
Åland Islands	ALA
Albania	ALB
Algeria	DZA
American Samoa	ASM
Andorra	AND
Angola	AGO
Anguilla	AIA
Antarctica	ATA
Antigua and Barbuda	ATG
Argentina	ARG
Armenia	ARM
Aruba	ABW
Austria	AUT
Azerbaijan	AZE
Bahamas	BHS
Bahrain	BHR
Bangladesh	BGD
Barbados	BRB
Belarus	BLR
Belgium	BEL
Belize	BLZ
Benin	BEN
Bermuda	BMU
Bhutan	BTN
Bolivia	BOL
Bosnia and Herzegovina	BIH
Botswana	BWA
Bouvet Island	BVT
Brazil	BRA
British Indian Ocean Territory	IOT
British Virgin Islands	VGB
Brunei Darussalam	BRN
Bulgaria	BGR
Burkina Faso	BFA

Country	Code
Burundi	BDI
Cambodia	KHM
Cameroon	CMR
Canada	CAN
Cape Verde	CPV
Cayman Islands	CYM
Central African Republic	CAF
Chad	TCD
Chile	CHL
China	CHN
Christmas Island	CXR
Cocos (Keeling) Islands	CCK
Colombia	COL
Comoros	COM
Congo, Democratic Republic of (was Zaire)	COD
Congo, People's Republic of	COG
Cook Islands	COK
Costa Rica	CRI
Côte D'Ivoire (Ivory Coast)	CIV
Croatia (Hrvatska)	HRV
Cuba	CUB
Curacao	CUW
Cyprus	CYP
Czech Republic	CZE
Denmark	DNK
Djibouti	DJI
Dominica	DMA
Dominican Republic	DOM
East Timor (Timor-Leste)	TLS
Ecuador	ECU
Egypt	EGY
El Salvador	SLV
Equatorial Guinea	GNQ
Eritrea	ERI
Estonia	EST
Ethiopia	ETH
Falkland Islands (Malvinas)	FLK
Faroe Islands	FRO
Fiji	FJI
Finland	FIN
France	FRA
French Guiana	GUF
French Polynesia	PYF
French Southern Territories	ATF
Gabon	GAB
Gambia	GMB
Georgia	GEO
Germany	DEU
Ghana	GHA
Gibraltar	GIB
Greece	GRC
Greenland	GRL
Grenada	GRD
Guadeloupe	GLP
Guam	GUM
Guatemala	GTM
Guernsey	GGY
Guinea	GIN
Guinea-Bissau	GNB
Guyana	GUY
Haiti	HTI
Heard and McDonald Islands	HMD
Holy See (Vatican City State)	VAT
Honduras	HND
Hong Kong	HKG
Hrvatska (Croatia)	HRV
Hungary	HUN
Iceland	ISL
India	IND

Country	Code
Indonesia	IDN
Iran	IRN
Iraq	IRQ
Ireland	IRL
Isle of Man, The	IMN
Israel	ISR
Italy	ITA
Ivory Coast (Côte D'Ivoire)	CIV
Jamaica	JAM
Japan	JPN
Jersey	JEY
Jordan	JOR
Kazakhstan	KAZ
Kenya	KEN
Kiribati	KIR
Korea, Democratic People's Republic of (North Korea)	PRK
Korea, Republic of (South Korea)	KOR
Kuwait	KWT
Kyrgyzstan	KGZ
Laos	LAO
Latvia	LVA
Lebanon	LBN
Lesotho	LSO
Liberia	LBR
Libya	LBY
Liechtenstein	LIE
Lithuania	LTU
Luxembourg	LUX
Macau	MAC
Macedonia, The Former Yugoslav Republic of	MKD
Madagascar	MDG
Malawi	MWI
Malaysia	MYS
Maldives	MDV
Mali	MLI
Malta	MLT
Marshall Islands	MHL
Martinique	MTQ
Mauritania	MRT
Mauritius	MUS
Mayotte	MYT
Mexico	MEX
Micronesia, Federated States of	FSM
Moldova	MDA
Monaco	MCO
Mongolia	MNG
Montenegro	MNE
Montserrat	MSR
Morocco	MAR
Mozambique	MOZ
Myanmar (Burma)	MMR
Namibia	NAM
Nauru	NRU
Nepal	NPL
Netherlands (includes the islands Bonaire, Saint Eustatius and Saba)	NLD
New Caledonia	NCL
New Zealand	NZL
Nicaragua	NIC
Niger	NER
Nigeria	NGA
Niue	NIU
Norfolk Island	NFK
Northern Mariana Islands	MNP
North Korea	PRK
Norway	NOR
Oman	OMN
Pakistan	PAK

Country	Code
Palau	PLW
Palestinian Territory, Occupied	PSE
Panama	PAN
Papua New Guinea	PNG
Paraguay	PRY
Peru	PER
Philippines	PHL
Pitcairn Island	PCN
Poland	POL
Portugal	PRT
Puerto Rico	PRI
Qatar	QAT
Réunion	REU
Romania	ROU
Russian Federation	RUS
Rwanda	RWA
Saint Barthélémy	BLM
Saint Helena	SHN
Saint Kitts and Nevis	KNA
Saint Lucia	LCA
Saint Martin (Dutch part)	SXM
Saint Martin (French part)	MAF
Saint Pierre and Miquelon	SPM
Saint Vincent and The Grenadines	VCT
Samoa	WSM
San Marino	SMR
Sao Tome and Principe	STP
Saudi Arabia	SAU
Senegal	SEN
Serbia	SRB
Seychelles	SYC
Sierra Leone	SLE
Singapore	SGP
Slovakia (Slovak Republic)	SVK
Slovenia	SVN
Solomon Islands	SLB
Somalia	SOM
South Africa	ZAF
South Georgia and the South Sandwich Islands	SGS
South Korea	KOR
South Sudan	SSD
Spain	ESP
Sri Lanka	LKA
Sudan	SDN
Suriname	SUR
Svalbard and Jan Mayen Islands	SJM
Swaziland	SWZ
Sweden	SWE
Switzerland	CHE
Syria	SYR
Taiwan	TWN
Tajikistan	TJK
Tanzania, United Republic of	TZA
Thailand	THA
Timor-Leste (East Timor)	TLS
Togo	TGO
Tokelau	TKL
Tonga	TON
Trinidad and Tobago	TTO
Tunisia	TUN
Turkey	TUR
Turkmenistan	TKM
Turks and Caicos Islands	TCA
Tuvalu	TUV
Uganda	UGA
Ukraine	UKR
United Arab Emirates	ARE
United Kingdom	GBR
United States	USA

Country	Code
United States Minor Outlying Islands	UMI
United States Virgin Islands	VIR
Uruguay	URY
Uzbekistan	UZB
Vanuatu	VUT
Vatican City State (Holy See)	VAT
Venezuela	VEN
Vietnam	VNM
Wallis and Futuna Islands	WLF
Western Sahara	ESH
Yemen	YEM
Zambia	ZMB
Zimbabwe	ZWE

LODGMENT

The postal address for lodgment of the company tax return is below. See page 2 for a list of the schedules that you can lodge with your *Company tax return 2012*.

Australian Taxation Office
GPO Box 9845
IN YOUR CAPITAL CITY

The address must appear as shown above.

Do not post payments to this address. For payment information, see **Payment** below.

If you wish to write to the ATO, send your correspondence to:

Australian Taxation Office
PO Box 9990
PENRITH NSW 2740

PAYMENT

HOW TO PAY

We offer you a range of convenient payment options, both in Australia and overseas.

Your payment needs to reach us on or before its due date. Check your financial institution's processing deadlines to avoid making a late payment.

BPAY®

Make a payment directly from your cheque or savings account to us using your financial institution's phone or internet banking service.

Details you need

Biller code: 75556
Reference: Your EFT code

BPAY payments made out of hours, on a weekend or on a public holiday will not reach us until the next working day.

® Registered to BPAY Pty Ltd ABN 69 079 137 518

CREDIT CARD

Credit card payments can be made online or by phone. To make a credit card payment you will need:

- a current Visa, MasterCard or American Express card
- your EFT code or PRN.

A card payment fee applies to transactions made using the credit card payment service.

To make credit card payments online or for further information go to **www.ato.gov.au/howtopay**

To make credit card payments by phone call **1300 898 089**.

DIRECT CREDIT

Transfer your payment to us online from your cheque or savings account.

Details you need:

Bank:	Reserve Bank of Australia
BSB:	093 003
Account number:	316 385
Account name:	ATO direct credit account
Reference:	Your EFT code

Direct credit payments made out of hours, on a weekend or public holiday will not reach us until the next working day.

DIRECT DEBIT

Have your payment automatically deducted from a cheque or savings account.

Details you need:

- For a verbal direct debit payment arrangement after the due date, phone us on **13 11 42**.
- For all other direct debit requests, complete the *Direct debit request* (NAT 2284) form and return it to us.

To access the form:

- go to **www.ato.gov.au/howtopay**
- phone **1800 802 308**, 8.00am to 6.00pm, Monday to Friday
- email **eft-information@ato.gov.au**

Allow at least seven (7) working days for your direct debit to be activated to ensure your payment reaches us on or before its due date.

MAIL

Mail your cheque or money order to us.

Cheques and money orders should be for amounts in Australian dollars and payable to the 'Deputy Commissioner of Taxation'. Cheques should be crossed 'Not Negotiable' and must not be post-dated.

You should also include your payment slip or a note that states your:

- full name
- address and telephone number
- account identifier – tax file number (TFN), Australian business number (ABN), client identification number
- payment type – BAS payment, income tax, HELP

Mail your payment and payment slip or note to:

NSW, ACT or QLD residents –

Australian Taxation Office
Locked Bag 1793
PENRITH NSW 1793

WA, SA, NT, TAS or VIC residents –

Australian Taxation Office
Locked Bag 1936
ALBURY NSW 1936

Do not use pins, staples, paper clips or adhesive tape.

Do not send cash.

Allow sufficient time for your payment to reach us on or before the due date.

AUSTRALIA POST

If you have a preprinted payment slip with a barcode, you can pay in person at any Australia Post outlet.

A $3,000 limit applies to cash payments. EFTPOS payments are subject to daily withdrawal limits.

Cheques and money orders should be for amounts in Australian dollars and payable to 'Deputy Commissioner of Taxation'. Cheques should be crossed 'Not Negotiable' and must not be post-dated.

What is my electronic funds transfer (EFT) code?

Your EFT code is the reference number. It is printed directly above the barcode on your payment slip.

If you pay using BPAY® or direct credit you will need this number.

If you need more information

- phone **1800 815 886** between 8.00am and 5.00pm, Monday to Friday
- email **payment@ato.gov.au**

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ABBREVIATIONS

A$	Australian dollars
ABN	Australian business number
ABR	Australian Business Register
ACN	Australian company number
ACT	Australian Capital Territory
ADI	Authorised Deposit-taking Institution
AGAAP	Australian Generally Accepted Accounting Principles
ANZSIC	Australian and New Zealand Standard Industrial Classification
CFC	controlled foreign company
CGT	capital gains tax
Commissioner	Commissioner of Taxation
DGR	deductible gift recipient
DTA	double tax agreement
DVS	direct value shifting
EFT	electronic funds transfer
ELS	electronic lodgment service
EPA	environmental protection activities
ETO	entrepreneurs tax offset
FaHCSIA	Department of Families, Housing, Community Services and Indigenous Affairs
FBT	fringe benefits tax
FDT	franking deficit tax
FHSA	First Home Saver Account
FMIS	forestry managed investment scheme
forex	foreign exchange
FTDT	family trust distribution tax
GDP	gross domestic product
GST	goods and services tax
GVSR	general value shifting regime
IRUs	indefeasible rights to use telecommunications cable systems
ITAA	Income Tax Assessment Act
IVS	indirect value shifting
LIC	listed investment company
MEC	multiple entry consolidated
NRAS	National rental affordability scheme
OB	offshore banking
OBU	offshore banking unit
OFT	over-franking tax
PAYG	pay as you go
PDF	pooled development fund
PE	permanent establishment
PHC	provisional head company
PSI	personal services income
PST	pooled superannuation trust
R&D	research and development
RBA	running balance account
RSA	retirement savings account
SME	small and medium enterprises
STS	simplified tax system
TBNT	trustee beneficiary non-disclosure tax
TFN	tax file number
UCA	uniform capital allowances

TAXATION DETERMINATIONS, TAXATION RULINGS AND PRACTICE STATEMENTS

IT 2624 – *Income tax: company self assessment; elections and other notifications; additional (penalty) tax; false or misleading statement*

Taxation determinations

TD 93/202 – *Income tax: Offshore Banking Units (OBU) – can an OBU use offshore banking (OB) money (ie money that is not non-OB money) for purposes other than OB activities and replace those funds at a later date?*

TD 93/203 – *Income tax: Offshore Banking Units (OBU) – does share capital subscribed by a resident owner to its subsidiary, before that subsidiary becomes registered as an OBU, constitute 'OBU resident-owner money'?*

TD 93/204 – *Income tax: Offshore Banking Units (OBU) – where a non-resident has an Australian branch and an Australian subsidiary, and the subsidiary is registered as an OBU, does any share capital subscribed in the subsidiary by the parent fall within the definition of 'non-OB money'?*

TD 93/205 – *Income tax: Offshore Banking Units (OBU) – does trading in, or entering into commodity derivatives such as commodity futures, forwards, options and swaps constitute offshore banking (OB) activity for the purposes of section 121D?*

TD 93/206 – *Income tax: Offshore Banking Units (OBU) – if an OBU carries on a business of trading in shares or debt instruments, such that the trading is an offshore banking (OB) activity for the purposes of subsection 121D(1), are dividends and interest derived from holding the shares or debt instruments assessable OB income?*

TD 93/207 – *Income tax: Offshore Banking Units (OBU) – if an OBU acts as funds manager for a trust with offshore investors and an Australian trustee, does the funds management role fall within the definition of an investment activity under subsection 121D(6)?*

TD 93/208 – *Income tax: Offshore Banking Units (OBU) – does the definition of advisory activity in subsection 121D(7) encompass the provision of financial knowledge and information to an offshore person?*

TD 93/209 – *Income tax: Offshore Banking Units – does the definition of advisory activity in subsection 121D(7) encompass: advising offshore parties on offshore infrastructure financing; and advising lessors or lessees on leasing transactions, where both lessor and lessee are offshore persons and the leased asset is not located in Australia?*

TD 93/210 – *Income tax: Offshore Banking Units (OBU) – does the definition of advisory activity in section 121D(7) encompass advising an offshore debt investor or offshore borrower in an offshore leveraged lease which has an Australian end-user?*

TD 93/211 – *Income tax: Offshore Banking Units (OBU) – where an OBU provides the services of its employees to a non-resident subsidiary to assist the subsidiary in advising offshore clients on offshore financial matters, can fees charged by the OBU to the subsidiary qualify as assessable OB income?*

TD 93/212 – *Income tax: Offshore Banking Units (OBU) – are salaries and other operating expenses that are paid from non-OB money taken into account for purposes of the 'purity test' in section 121EH where the expenses are incurred in undertaking OB activities?*

TD 93/213 – *Income tax: Offshore Banking Units (OBU) – if an OBU earns fee income for completing an assignment (say advisory activities) on a success only basis, are expenses incurred on unsuccessful deals exclusive offshore banking (OB) deductions or general OB deductions?*

TD 93/214 – *Income tax: Offshore Banking Units (OBU) – must an OBU enter details of expenditure that it intends to claim as allowable offshore banking (OB) deductions or allowable non-OB deductions in its relevant books of account at the time of incurring that expenditure?*

TD 93/215 – *Income tax: Offshore Banking Units (OBU) – where an institution that is registered as an OBU lends money to another institution that is registered as an OBU, how do the counterparties know whether the loan qualifies as an offshore banking (OB) activity?*

TD 93/216 – *Income tax: Offshore Banking Units (OBU) – is an OBU entitled to concessional tax treatment for income derived on a success only basis from offshore banking (OB) advisory activities which were entered into prior to the entity being registered as an OBU?*

TD 93/217 – *Income tax: Offshore Banking Units (OBU) – what is the effect of funding an offshore banking (OB) activity with both OB and non-OB money?*

TD 93/241 – *Income tax: Offshore banking units – if an OBU sells down or disposes of its interest in a loan which originally qualified as an OB activity, does any fee receivable constitute assessable OB income?*

TD 95/1 – *Income tax: Offshore Banking Units (OBU): what is the effect of converting a profit from offshore banking (OB) activities denominated in a foreign currency into Australian currency in an arm's length transaction with a separate Australian counterparty or with another division of the entity of which the OBU forms part?*

TD 95/2 – *Income tax: Offshore Banking Units (OBU): can foreign currency denominated assets and receivables generated from offshore banking (OB) activities be hedged into Australian dollars (AUD) and if so, would the AUD received from the forward sale constitute non-OB money?*

TD 2004/4 – *Income tax: is a dividend paid before 1 July 1987 an unfranked dividend for the purposes of section 705-50 of the* Income Tax Assessment Act 1997?

TD 2007/2 – *Income tax: should a taxpayer who has incurred a tax loss or made a net capital loss for an income year retain records relevant to the ascertainment of that loss only for the record retention period prescribed under income tax law?*

Taxation rulings

TR 92/18 – *Income tax: bad debts*

TR 93/23 – *Income tax: valuation of trading stock subject to obsolescence or other special circumstances*

TR 96/7 – *Income tax: record keeping – section 262A – general principles*

TR 97/23 – *Income tax: deductions for repairs*

TR 97/25 and TR 97/25A – Addendum
– *Income tax: property development: deduction for capital expenditure on construction of income producing capital works, including buildings and structural improvements*

TR 98/7 – *Income tax: whether packaging items (ie, containers, labels, etc) held by a manufacturer, wholesaler or retailer are trading stock*

TR 98/8 – *Income tax: whether materials and spare parts held by a taxpayer supplying services are trading stock*

TR 1999/9 – *Income tax: the operation of sections 165-13 and 165-210, paragraph 165-35(b), section 165-126 and section 165-132*

TR 2002/10 – *Income tax: capital gains tax: asset register*

TR 2003/14 – *Income tax: life insurance companies: the actuarial determination of fees and charges*

TR 2004/9 – *Income tax: consolidation: what is meant by 'injection of capital' in section 707-325 of the ITAA 1997?*

TR 2005/4 – *Income tax: capital allowances – project pools – core issues*

TR 2005/9 – *Income tax: record keeping – electronic records*

TR 2006/3 – *Income tax: government payments to industry to assist entities (including individuals) to continue, commence or cease business*

TR 2009/4 – *Income tax: effective life of depreciating assets (applicable from 1 July 2009)*

TR 2007/2 – *Income tax: application of the same business test to consolidated and MEC groups – principally, the interaction between section 165-210 and section 701-1 of the ITAA 1997 (As at 20 June 2007)*

Law administration practice statements

PS LA 2003/8 – *Taxation treatment of expenditure on low-cost items for taxpayers carrying on a business*

PS LA 2004/1 (GA) – *Lodgment opportunity for family trust and interposed entity elections*

PS LA 2005/2 – *Penalty for failure to keep or retain records*

PUBLICATIONS

Publications you may need to refer to when completing the company tax return are listed below. Go to **www.ato.gov.au** and search by title or NAT number.

Am I eligible for the small business entity concessions?

A New Tax System (Australian Business Number) Act 1999

Application for ABN registration for companies, partnerships, trusts and other organisations (NAT 2939)

Application for refund of franking credits – endorsed income tax exempt entities and deductible gift recipients (NAT 4131)

Blackhole expenditure: business related expenses

Business industry codes 2012 (NAT 1827)

Capital allowances schedule 2012 (NAT 3424)

Capital allowances schedule instructions 2012 (NAT 4089)

Capital allowances: copyright in a film and certain licences relating to copyright in a film

Capital gains tax (CGT) schedule 2012 (NAT 3423)

Company tax return 2012 (NAT 0656)

Concessions for small business entities (NAT 71874)

Consolidated groups losses schedule 2012 (NAT 7888)

Consolidated groups losses schedule instructions 2012 (NAT 7891)

Consolidation and market valuation (NAT 7803)

Consolidation reference manual (NAT 6835)

Debt and equity tests: guide to 'at call' loans between connected entities

Debt and equity tests: guide to the debt and equity tests (NAT 4643)

Deductions for prepaid expenses 2012 (NAT 4170)

Development Allowance Authority Act 1992

Direct debit request (NAT 2284)

Dividend and interest schedule 2012 (NAT 8030)

Family trusts – details of amendments

Family trust distribution tax payment advice

Federal Register of Legislative Instruments (also at **www.frli.gov.au**)

Film Licensed Investment Company Act 2005

First Home Saver Accounts Act 2008

First home saver accounts – common questions (NAT 72404)

First Home Saver Accounts (Consequential Amendments) Act 2008

First home saver accounts – what you need to know (NAT 72406)

Foreign exchange (forex): guide to functional currency rules

Foreign income return form guide 2011–12 (NAT 1840)

Franking account tax return and instructions 2012 (NAT 1382)

Fringe Benefits Tax Assessment Act 1986

Fringe benefits tax: a guide for employers (NAT 1054)

General value shifting regime: overview of provisions (NAT 8366)

Guide to capital gains tax 2012 (NAT 4151)

Guide to capital gains tax concessions for small business (NAT 8384)

Guide to company tax return for non-profit organisations 2012

Guide to depreciating assets 2012 (NAT 1996)

Guide to foreign income tax offset rules (NAT 72923)

Guide to functional currency rules

Guide to the Research and development tax incentive

Guide to thin capitalisation (NAT 4461)

Income Tax Assessment Act 1936

Income Tax Assessment Act 1997

Income Tax (First Home Saver Accounts Misuse Tax) Act 2008

Income Tax (Transitional Provisions) Act 1997

Industry, Research and Development Act 1986

International dealings schedule (NAT 73345)

International dealings schedule instructions (NAT 73959)

Interposed entity election or revocation 2012 (NAT 2788)

Life Insurance Act 1995

Losses schedule instructions 2012 (NAT 4088)

Market valuation for tax purposes

Mutuality and taxable income (NAT 73436)

National Rental Affordability Scheme (Consequential Amendments) Act 2008

Non-individual PAYG payment summary schedule 2012 (NAT 3422)

PAYG withholding from interest, dividend and royalty payments paid to non-residents – annual report (NAT 7187)

Personal services income schedule 2012 (NAT 3421)

Pooled Development Funds Act 1992

Private ruling application form (non-tax professionals) (NAT 13742)

Private ruling application form (tax professionals) (NAT 13043)

Research and development tax incentive schedule instructions 2012 (NAT 6709)

Shortfall Interest Charge (Imposition) Act 2005

Simplified imputation: Franking deficit tax offset

Simplified imputation: FDT offset for late balancers

Strata title body corporate tax return and instructions 2012 (NAT 4125)

Tax Laws Amendment (Improvements to Self Assessment) Act (No. 1) 2005

Tax Laws Amendment (Taxation of Financial Arrangements) Act 2009

Tax Laws Amendment (2007 Measures No. 2) Act 2007

Tax Laws Amendment (2007 Measures No. 3) Act 2007

Tax Laws Amendment (2007 Measures No. 4) Act 2007

Tax Laws Amendment (2007 Measures No. 5) Act 2007

Tax Laws Amendment (2010 Measures No. 1) Act 2010

Taxation Administration Act 1953

Tax Laws Amendment (Small Business) Act 2007

Taxation Laws Amendment (Trust Loss and Other Deductions) Act 1998

Taxation statistics

TFN withholding for closely held trusts (NAT 73561)

Venture capital deficit tax return 2012 (NAT 3309)

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