Australian Taxation Office

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2000

Company tax return instructions

What's new?

- Business tax reform
- Capital gains tax
  - – changes
  - – worksheets
- General interest charge
- Income tax deductions for GST-related expenditure

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Foreword

This publication is to assist in the completion of the *Company tax return 2000*. This is NOT a guide to the income tax law. More detailed information is available in other publications.

Please get help from any tax office or a professional tax practitioner if you feel this publication does not fully cover your circumstances.

As part of our commitment to producing accurate publications, a taxpayer will not be subject to penalties if it is demonstrated that a tax claim is based on wrong information contained in this publication. However, interest could be payable depending on the circumstances of each case.

Contents

What's new? 1
- Legislative changes 2
- Business Tax Reform 10

General information—Important messages 15
- Record keeping requirements 15
- Tax return 17
- Classification and payment arrangements 18

Completing the tax return 20
1 Ultimate holding company, Immediate holding company name(s) and ACN or ARBN 21
2 Description of main business activity, Industry code and Percentage of foreign shareholding 21
3 Status of company 22
4 Interposed entity election 22
Tax agent's certificate 23
5 Calculation of total profit or loss (Profit and loss statement)—Income 24
- Expenses 28
- Operating profit or loss 33

6 Reconciliation to taxable income or loss (Reconciliation statement) 34
7 Financial and other information 50
8 Licensed clubs only 55
9 Life assurance companies and registered organisations only 55
10 Pooled development funds 55
11 Retirement savings accounts 56
12 Landcare and water facility rebate 56
13 Internet trading 57
14 Overseas transactions 58
15 Interest in a foreign company or foreign trust 58
16 Foreign investment fund and foreign life assurance policy 59
Calculation statement 59
Declaration 63

Worksheets
- 1 – Depreciation 64
- 2 – Capital gains 65
- 3 – Deferred instalment 72
- 4 – Other reconciliation items 73

Appendices
- 1 – Strata title bodies corporate 75
- 2 – Commercial debt forgiveness 76
- 3 – Special building write-off 79
- 4 – Research and development incentives for companies 82
- 5 – Environmental impact study expenditure 83
- 6 – Environmental protection expenditure 84
- 7 – Thin capitalisation and debt creation rules 85
- 8 – Taxation treatment of pooled development funds and investors 88
- 9 – Infrastructure borrowings 89
- 10 – Heritage conservation 89
- 11 – Company rates of tax 90
- 12 – Country codes 91
- 13 – Lodgment and payment arrangements 92
- 14 – ATO locations and where to lodge your tax return 93

Changes effective from 1 July 2000 94
Glossary 95
References to Taxation Determinations and Taxation Rulings 96
Index 97
Your helplines for further information inside back cover

What's new?

Legislative changes

The following highlights legislative developments affecting income taxation of companies that occurred in the last year. These developments reflect the changes to the law up to the date of printing. Changes were made to the income tax law in relation to:

- Capital gains tax (CGT)—see page 2
- Capital losses artificially created—see page 2
- Company tax instalments—grouping provisions —see page 2
- Company tax instalments—payment of tax by small companies—see page 3
- Concessions where fixed entitlements in a company held by discretionary trusts—see page 3
- Deductible expenditure and cost base—see page 3
- Demutualisation of mutual entities other than insurance companies—see page 3
- Depreciation of plant previously owned by an exempt entity—see page 4
- Distributions equivalent to interest—see page 4
- Dividend streaming measures—see page 4
- Film Licensed Investment Company deductions —see page 4
- Franking credit trading measures—see pages 4 and 5
- Franking debits and credits for life assurance companies—see page 5
- General interest charge—see page 5
- Goods and services tax (GST) components excluded from income and deductions—see page 5
- GST Direct Assistance Certificates—see page 6
- Hire purchase and limited recourse finance arrangements—see pages 6 and 7
- Income tax deductions for GST-related expenditure —see pages 7 and 8
- Interposed entity elections—see page 8
- Managed investments schemes—see page 8
- Pay As You Go—see page 8
- Penalty for failure to notify—see page 9
- Philanthropy—see page 9
- Year 2000 related expenditure and software expenditure generally—see page 9.

Business tax reform

The first of the business tax reforms under the *New Business Tax System* that affect the preparation of 1999–2000 tax returns have also been introduced.

These measures change the income tax law in relation to:

- Depreciation (capital allowances)—see pages 10 and 11
- The '13 month rule' on prepayments—see page 11
- Bad debt deductions—see page 11
- Revenue losses—see page 11
- Capital gains tax:
  - indexing frozen at 30 September 1999—see page 12
  - introducing a further concession for small business, as well as streamlining existing small business concessions—see page 13
- Further value shifting and loss duplication rules:
  - debt forgiveness arrangements entered into between commonly-owned companies —see page 13
  - capital losses where a deduction has been claimed on revenue account in relation to the same dealing with an asset to prevent deductions being claimed twice for the same economic loss—see page 13
  - duplication of losses or deductions generated through dealings between members of linked groups—see page 13
  - interim measures against loss duplication on transfer of a revenue or capital loss within a wholly owned group—see page 13
  - changes to the continuity of ownership test for companies in relation to tax losses, net capital losses and bad debts—see page 13
  - change of ownership and control and applying the same business test to unrealised losses—see page 13
  - capital losses on interests held by entities interposed between a loss company and its ultimate individual owners—see pages 13 and 14
- Assignments of leases or interests in leased plant —see page 14
- Deduction limits on exploration and prospecting expenditure and allowable capital expenditure on mine development for excess deductions
- Venture capital franking rebates for eligible shareholders of pooled development funds (PDF) —see page 14
- A PDF that over-franks dividends may be liable for venture capital deficit tax—see page 14.

Legislative changes

Capital gains tax

Taxation Laws Amendment Bill (No. 11) 1999, if enacted by Parliament as introduced, will correct unintended consequences made by the rewrite of the CGT provisions from the *Income Tax Assessment Act 1936* (ITAA 1936) into the *Income Tax Assessment Act 1997* (ITAA 1997) by the Tax Law Improvement Project. The corrections will apply to assessments for the 1998–1999 and later income years and are the second instalment of corrections after those contained in *Taxation Laws Amendment Act (No. 4) 1999* (TLAA (No. 4) 1999).

Taxation Laws Amendment Bill (No. 8) 1999 (TLAB (No. 8) 1999), if enacted by Parliament as introduced, will amend the Controlled Foreign Company (CFC) measures in ITAA 1936 to give effect to the Treasurer's announcement in the 1997–1998 Budget to rectify anomalies in the interaction of the CFC measures and the CGT provisions. The Bill

- ensures that capital gains made on tainted assets, deemed to be disposed of after the amendment to the measures on 13 May 1997 when a company leaves the WHOLLY OWNED group, are included in the attributable income of Australia resident controllers
- enables those tainted capital gains to be taken into account when applying the active income test
- will prevent taxpayers deliberately avoiding taxation of those capital gains by using schemes or arrangements intended to dilute the Australian taxpayer's attribution percentage in the CFC holding tainted assets that have previously received CGT roll-over relief.
- amends the cost base rules with application to the 1999–2000 and later income years to provide that expenditure does not form part of the cost base of any CGT asset to the extent that it is a bribe to a foreign public official
- implements the Government's response to the report on philanthropy in Australia by the Business and Community Partnerships Working Group on Taxation Reform by providing a CGT exemption for testamentary gifts of property made to gift deductible organisations and for gifts of property made under the Cultural Gifts Program on or after 1 July 1999. Anti-avoidance provisions will apply if the property is reacquired for less than market value.

TLAA (No. 4) 1999, which received Royal Assent on 16 July 1999, inserted a rewrite of the CGT rules about:

- value shifts between companies under common ownership
- CGT asset register entries that eliminate the need for business taxpayers to keep source documents after 5 years and
- exempting reimbursements or payments of expenses under the M4/M5 Cashback Scheme for tolls paid on the M4 and M5 toll roads.

TLAA (No. 4) 1999 also corrected the first round of unintended consequences made by the rewrite of ITAA 1936 CGT provisions into ITAA 1997 by the Tax Law Improvement Project by:

- amending the CGT provisions so as to provide that public entities—such as listed public companies, publicly traded unit trusts and mutual insurance organisations—with pre-CGT assets at 30 June 1999, and thereafter at 5 yearly intervals or if there is abnormal trading, must satisfy the Commissioner of Taxation (Commissioner) that they have maintained continuity of majority underlying ownership. If continuity is lost, any pre-CGT assets are treated as post CGT assets.
- amending Division 20 of Part IIIA of ITAA 1936 to remove the Commissioner's power to disregard the, notional holder rule which public entities may use to calculate the majority underlying interests in their assets.

Capital losses artificially created

The measures which were announced in the *Treasurer's Press Release No. 35 of 1997*, that will, deny the ability to offset against capital gains certain artificially created capital losses, have been enacted by *Taxation Laws Amendment Act (No. 2) 1998* (TLAA (No. 2) 1998). These measures include:

- limiting certain capital losses incurred by corporate groups to the group's economic loss. New section 160ZPA of ITAA 1936 applies to capital losses created by arrangements entered into before 3.00p.m. Australian Eastern Standard Time (AEST), 29 April 1997, which have not been offset in an income tax return for the 1996–1997 income year and lodged before 3.00p.m. AEST, 29 April 1997
- amending the anti-avoidance provisions of Part IVA of ITAA 1936 to enable those provisions to apply to schemes which artificially create capital losses in the year in which the losses are created. These amendments apply to capital losses created under a scheme entered into after 3.00p.m. AEST, 29 April 1997.

Company tax instalments—grouping provisions

Generally speaking, amendments made by *Taxation Laws Amendment Act (No. 1) 1999* (TLAA (No. 1) 1999) exclude superannuation funds, approved deposit funds and pooled superannuation trusts from the grouping provisions contained in the company tax instalment system. Furthermore, companies that control superannuation funds, approved deposit funds or pooled superannuation trusts do not have to consider whether the grouping provisions apply. These amendments apply from the 1995–1996 income year.

Company tax instalments—payment of tax by small companies

Certain amendments made by TLAA (No. 1) 1999 mean that instalment taxpayers classified as small (including companies, corporate unit trusts, public trading trusts, superannuation funds, approved deposit funds and pooled superannuation trusts) that balance on 30 June are allowed to pay their 'likely tax' on 15 December following the income year with the balance of their tax liability, if any, on the following 15 March. Corresponding dates apply to small companies that balance on dates other than 30 June. Consequential amendments to the date for determining classification as SMALL, MEDIUM or LARGE, and some minor amendments have also been made. The changes to the instalment payment schedule take effect from the 1996–1997 income year. The changes to the classification system take effect from the 1997–1998 income year.

Concessions where fixed entitlements in a company held by discretionary trusts

TLAB (No. 8) 1999 will amend the company prior year, current year and capital loss rules, and rules for bad debt and certain debt/equity swap deductions provisions of the income tax law, to make available to companies 2 concessional tracing rules which are available to trusts under the trust loss measures contained in Schedule 2F to ITAA 1936.

The 2 concessional tracing rules that may allow a company to deduct prior year, current year and capital losses, and bad debt and certain debt/equity swap deductions are:

- the 'family trust concession' which applies where the fixed interest in a company is held, directly or indirectly, by a family trust (refer to proposed section 165-207, amended section 166-165(1) and Division 180 of ITAA 1997)
- the 'alternative condition' which applies where the fixed interests in a company are held by non-fixed trusts that are not family trusts (refer to proposed sections 165-215 to 165-245 of ITAA 1997).

The family trust concession applies so that for tracing under the continuity of ownership test, the family trust—which must have made a family trust election under the trust loss measures—is treated as an individual, holding the interest in the company for its own benefit.

The alternative condition applies so that a company can deduct a loss, etc. if certain conditions are satisfied. These conditions are that:

- persons who have fixed entitlements to a share of income or capital of the fixed trust must not change nor must the percentage of their shares
- the non-fixed trusts which hold fixed entitlements in the company must pass the ownership and control tests that apply to non-fixed trusts in the trust loss measures.

Special information requirements may need to be satisfied when the fixed entitlements in a company seeking to rely on the concessional tracing rules are owned by non-resident trusts. The rules are available in respect of losses, etc. incurred in the 1996–1997 income year and later income years.

Deductible expenditure and cost base

For most GST assets acquired after 7.30p.m. AEST, 13 May 1997, the cost base is reduced by the amount of any expenditure that is deductible. The cost base is not reduced if the deduction is reversed by an amount being included in the taxpayer's assessable income or that would be included apart from a provision of ITAA 1936 or ITAA 1997 which provides relief from including a balancing charge in the taxpayer's assessable income.

If the taxpayer acquired land or a building before 7.30p.m. AEST, 13 May 1997 but incurred expenditure after that time, which section 160P of ITAA 1936 would have treated as a separate asset from the land or building, the cost base is not reduced by the amount of deductible expenditure as long as the taxpayer incurred the expenditure before 1 July 1999. An example is land acquired before 7.30p.m. AEST, 13 May 1997 where expenditure is incurred before 1 July 1999 on construction on the land of a rental property.

The cost base is also reduced where the taxpayer claims a heritage conservation rebate, or landcare and water facility tax offset—rather than a tax deduction—for expenditure incurred on or after 12 November 1998.

These changes to the law are contained in TLAA (No. 1) 1999 which received Royal Assent on 9 April 1999.

Demutualisation of mutual entities other than insurance companies

The *Taxation Laws Amendment (Demutualisation of Non-Insurance Mutual Entities) Act 1999*, which received Royal Assent on 16 July 1999, introduced a generic taxation framework applying to demutualisations of mutual non-insurance organisations completed on or after 12 May 1998. Features of the new framework include:

- its application to a demutualisation that occurs under one of 3 specified methods
- a requirement that the interests of members in the mutual organisation be extinguished in exchange for ordinary shares
- a need for broad continuity of beneficial interest to be maintained
- the deferral of any CGT liability until the disposal of the demutualisation shares or interests in them and
- the establishing, for CGT purposes, of the date and cost of acquisition of shares acquired by former members as part of the demutualisation process.

Depreciation of plant previously owned by an exempt entity

Division 58 of ITAA 1997 sets out special rules that apply in calculating depreciation deductions and balancing adjustments in respect of plant previously owned by an exempt entity if the plant:

- continues to be owned by that entity after the entity becomes taxable or
- is acquired from that entity, in connection with the acquisition of a business, by a purchaser that is a taxable entity.

The measures apply to entity sales and asset sales that occur on or after 4 August 1997.

Distributions equivalent to interest

New section 45ZA of ITAA 1936 supplements section 45Z to ensure that dividends which are equivalent to interest on a loan distributed through partnerships or trusts to beneficial owners of shares, are treated in the same way as dividends direct to owners with respect to the operation of the debt dividend provisions in section 46D of ITAA 1936. This amendment applies to distributions from interests in partnerships or trusts created or extended after 7.30p.m. AEST, 13 May 1997, and to distributions from interests in partnerships or trusts acquired on or after 2 July 1998.

Dividend streaming measures

The measures announced by the Government in the 1997–1998 Budget to strengthen the existing dividend streaming provisions are now law. These amendments are set out in Schedule 8 to *Taxation Laws Amendment Act (No. 3) 1998*
(TLAA (No. 3) 1998). These measures include:

- a specific anti-streaming rule that applies where a company streams dividends so as to provide franking benefits to shareholders who benefit most in preference to other shareholders (new section 160AQCBA of ITAA 1936). Where this occurs the Commissioner may make a determination specifying that the streaming company will incur a franking debit, or that the franking benefits on the streamed dividends will be denied. This rule applies to dividends and distributions paid on or after 7.30p.m. AEST, 13 May 1997
- an amendment to the definition of 'class of share' in section 160APE of ITAA 1936 to provide that a class of share includes all shares having substantially the same rights. A similar amendment applies to all shares and partnership interests held in a corporate limited partnership so that they are deemed to be one share class. These amendments apply to all shares and partnership interests, whether issued before or after 7.30p.m. AEST, 13 May 1997, and in relation to franking years commencing after that time and
- a general anti-avoidance rule that may also apply to certain dividend streaming arrangements. This rule may apply to deny franking credits on dividends and other distributions paid on or after 7.30p.m. AEST, 13 May 1997 (refer to new section 177EA of ITAA 1936).

Film Licensed Investment Company deductions

Under subdivision 375-H of ITAA 1997, eligible taxpayers are able to claim the payment for shares, in the income year in which the shares are fully paid and issued, for a company which has been granted a license to raise concessional capital under the *Film Licensed Investment Company Act 1998*. Deductions are not available for shares issued after 30 June 2000.

Franking credit trading measures

The measures announced by the Government in the 1997–1998 Budget to prevent trading in franking credits are now law. These amendments are set out in Schedules 4 and 5 to TLAA (No. 2) 1999. These measures include:

- limiting the source of franking credits available for trading by providing that franked dividends paid by companies that effectively are wholly owned by non-resident shareholders or tax exempt shareholders will only give franking benefits to shareholders in limited circumstances and
- quarantining the franking surpluses of companies which were formerly effectively wholly owned by non-resident shareholders or tax exempt shareholders. This rule applies from 7.30p.m. AEST, 13 May 1997 subject to certain transitional rules (refer to section 160AQCNI of ITAA 1936)
- the 45 day holding period rule, denying franking credits and the inter-corporate dividend rebate on dividends paid on shares, or on partnership or trust distributions, where the taxpayer acquires the shares or interests in shares and then disposes of them or equivalent shares or interests without first holding them for at least 45 days—or 90 days in the case of preference shares—not counting the day of acquisition or disposal. The rule is applied on a 'last in first out' (LIFO) basis, and WHOLLY OWNED company groups are treated in some circumstances as if they were one taxpayer (refer to new section 160APHI of ITAA 1936). In counting the number of days for which shares or interests in shares are held, any day on which the taxpayer did not have at least 30 per cent of the risks of loss and opportunities for gain associated with the shares is disregarded.
  As an alternative to complying with the 45 day holding period rule, certain taxpayers including superannuation funds, approved deposit funds, pooled superannuation trusts and the statutory funds of life assurance companies can elect to have

a franking rebate ceiling applied by reference to franking rebates on a benchmark portfolio. Certain investment vehicles primarily held by such taxpayers are also included. Other types of taxpayers may be added to these by regulation (refer to section 160APHR and section 160APHS of ITAA 1936).

The 45 day holding period rule applies to shares and interests in shares acquired on or after 1 July 1997, unless the company had become contractually obliged to acquire the shares before 7.30p.m. AEST, 13 May 1997. Beneficiaries of trusts, other than family trusts and deceased estate trusts, will not be entitled to franking credits or the intercorporate dividend rebate from shares acquired by the trust after 3.00p.m. Australian Eastern Daylight Time (AEDT), 31 December 1997, (other than shares which the trustee was contractually obliged to acquire before that time, certain bonus shares, and certain shares distributed in specie by another partnership or trust) unless they hold a sufficient fixed interest in their proportionate interest in the shares that exposes them to at least 30 per cent of the risks and opportunities of owning the shares

- the related payments rule, preventing shareholders receiving a franking or intercorporate dividend rebate from dividends paid on shares, or distributions from an interest in shares, if they are not carrying the economic risks and benefits of share ownership and they—or an associate—are under an obligation to make a related payment. This rule applies to arrangements entered into on or after 7.30p.m. AEST, 13 May 1997 and
- the general anti-avoidance rule against franking credit trading and streaming where one of the purposes—other than an incidental purpose—is to obtain a tax advantage in relation to franking credits. This rule applies to dividends or distributions paid after 7.30p.m. AEST, 13 May 1997, under certain arrangements having the requisite purpose.

Franking debits and credits for life assurance companies

Certain amendments made by TLAA (No. 1) 1999 provide that no franking credit or debit arises from the payment or refund of tax after 12 November 1998 where those amounts are attributable to the retirement savings account (RSA) business of a life assurance company. This brings the dividend imputation treatment of RSAs for life assurance companies into line with the treatment for ordinary companies.

General interest charge

On 1 July 1999, the penalty arrangements for late payment and other obligations were rationalised and simplified under TLAA (No. 3) 1999.

This has been done by the introduction of a uniform, tax deductible general interest charge (GIC). The GIC is a penalty that is levied on outstanding amounts due to the Australian Taxation Office (ATO). Section 8AAD of the *Taxation Administration Act 1953* (TAA 1953) determines the rate of the charge. It is based on the relevant 13 week Treasury Note rate plus 8 percentage points. The daily rate can be calculated by dividing this sum by the number of days in a calendar year. In the 1999–2000 income year, the daily compounding rate will only apply to the

- Pay-As-You-Earn (PAYE) system
- Prescribed Payments System (PPS)
- Reportable Payments System (RPS) and
- Sales Tax.

In all other taxes, the Commissioner will exercise his discretion to apply an annual simple interest rate. The GIC is updated quarterly.

Quarter	GIC annual rate (simple interest)	GIC daily rate (compounding)
Jul–Sep 1999	12.72%	0.0348493%
Oct–Dec 1999	12.73%	0.0348767%
Jan–Mar 2000	13.08%	0.0357377%
Apr–Jun 2000	13.65%	0.037295081%

GST components excluded from income and deductions

In accordance with the *New Tax System (Goods and Services Transition) Act 1999*, GST may be payable on income derived before 1 July 2000, and input tax credit entitlements may arise in relation to outgoings incurred before that date.

If an entity is not registered or not entitled to claim input tax credits, the entity will claim the GST inclusive amount incurred on outgoings.

The following rules only apply if you are registered for GST purposes:

- for income tax purposes, GST will be excluded from assessable income, exempt income and from amounts received or receivable that are taken into account in calculating income and deductions
- outgoings will be reduced by the amount of input tax credit entitlement.

If you have paid or collected any GST prior to 1 July 2000, these amounts are included on your first *Business Activity Statement*.

GST Direct Assistance Certificates

To assist in the implementation of GST, a $200 Direct Assistance Certificate is provided to entities that have a turnover of less than $10 million and register for the GST before 31 May 2000. The face value of a GST Direct Assistance Certificate ($200) will not be assessable income of a recipient. Legislation to ensure these certificates will be exempt from income tax is scheduled to be introduced into Parliament in the *Taxation Laws Amendment Bill (No. 6) 2000*.

The certificate can be used to purchase:

- computer hardware and software products prior to 30 June 2000
- training services, and financial or accounting advice prior to 31 October 2000

that may assist in preparing for the GST.

A number of suppliers of these products have been registered and approved by the GST Start-Up Assistance Office for this purpose.

A company which incurs expenditure that is deductible under section 8-1 of ITAA 1997 and uses the certificate to meet the whole or part of the expenditure, can claim a deduction for the whole of the expenditure. The deduction is NOT reduced by the amount of the certificate because the company has incurred the expenditure and is using the certificate to pay the whole or part of the amount due. For example, if a company obtains professional advice for which an adviser charges $400 and the company pays the amount owing with a cheque for $200 and the certificate, the company is entitled to a deduction of $400.

If a company uses the certificate to pay for computer hardware or software to be used for the purposes of producing assessable income, the company is entitled to a deduction for depreciation. The amount of the deduction is based on the cost of the item which is generally the cost of the item to the company. Using the certificate to pay for the item will not affect the cost of the item to the company. For example, if a company buys a computer for $2000 and pays for it with a certificate for $200 and cash of $1800, the cost of the item to the company is $2000 and depreciation will be calculated on that amount.

For more information refer to *Taxation Determination TD 2000/18*. To find out how to get a copy see the inside back cover.

Note: New measures may affect the amount of depreciation expenses relating to GST-related expenditure—see **What's new?** on page 7.

Hire purchase and limited recourse finance arrangements

Proposed Divisions 240 and 243 to ITAA 1997 which will amend the income tax law to rectify an anomaly in the capital allowance provisions in relation to property acquired under hire purchase or limited recourse finance arrangements are contained in *Taxation Laws Amendment Bill (No. 5) 1999*. The broad impact of these amendments is to:

1. treat hire purchase and instalment sales as the equivalent of a sale of property by the financier/hire purchase company (the notional seller) to the hire purchaser (the notional buyer), financed by a loan from the notional seller to the notional buyer, at a sale price of either the agreed cost or value, or the property's arm's length value. The effect of this treatment under proposed Division 240 of ITAA 1997, which will apply to relevant transactions entered into after 27 February 1998, will be to:
   a. for the notional seller—include in assessable income the profit on sale, (including on-sale after re-acquisition), as well as the finance component of payments made under the arrangement. The financier notional seller will not be treated as the owner of the property for taxation purposes and
   b. for the notional buyer—to be treated as the owner for taxation purposes in circumstances where they are reasonably likely to acquire the property. They will be eligible to claim capital allowances, as well as a deduction, where the property is used for income producing purposes, for the finance component of the actual payments under the arrangement. The actual payments under a hire purchase agreement are not deductible. Deductions for allowable capital expenditure, for example plant allowances, will be limited to the total amounts actually expended by a taxpayer. The new provisions ensure that sections 51AD and 57AF, and Division 16D of ITAA 1936 can apply to the notional buyer as deemed owner
2. ensure that owners of property who transfer title to property by way of security under a chattel mortgage or other charge over the property, will continue to be treated as owners for the purposes of capital allowances. These owners will be deemed to be the owners for the purposes of section 51AD and Division 16D of ITAA 1936. This measure applies to relevant transactions entered into after 27 February 1998
3. ensure that deductions for capital allowances will not exceed the actual capital expenditure where that expenditure is financed by limited recourse debt (including hire purchase). The proposed provision, Division 243, would apply where:
   a. the limited recourse debt used wholly or partly to finance or re-finance the capital expenditure is terminated and

b. deductions for capital allowances are claimed on that capital expenditure, then where:
- the limited recourse debt, when terminated, has not been paid in full by the debtor and
- because the debt has not been paid in full, the capital allowance deductions exceed what would have been allowable if the capital expenditure were reduced by the amount unpaid. An amount representing the excess identified at **1.b.** above will be included in the assessable income of the debtor. Special rules apply in calculating the assessable amount. Reductions in amounts owing by the debtor as a result of the transfer of the property to the tender, and payments to the debtor financed from a non-arm's length limited recourse debt or the sale of the financed property, are not to be taken into account. This measure applies to hire purchase and limited recourse debt arrangements which terminate after 27 February 1998.

The above new measures may be applicable to determine who is entitled to claim and the amounts allowable to be claimed in item **6—Reconciliation to taxable income or loss** at:

label **F** — **Depreciation deducted**

label **G** — **Mining and quarrying companies only —Immediate write-off**

label **H** — **Mining and quarrying companies only —Other capital expenditure**

label **I** — **Special building write-off**

label **J** — **Drought investment allowance,** applicable to proposed Division 240 of ITAA 1997 only

label **K** — **Development allowance,** applicable to proposed Division 240 of ITAA 1997 only

label **L** — **Non-syndicated research and development**

label **M** — **Syndicated research and development allowance**

label **N** — **Landcare operations and water conservation /conveying expenses**

label **O** — **Environmental impact assessment and protection expenses.**

Income tax deductions for GST-related expenditure

Schedule 4A of the *New Tax System (Indirect Tax and Consequential Amendments) Act (No. 2) 1999*, which received Royal Assent on 22 December 1999, amends Divisions 25, 42 and 46 of ITAA 1997.

These amendments allow eligible companies to claim an immediate income tax deduction for the cost of acquiring or upgrading plant or software for the purpose of meeting your obligations or exercising your entitlements under the GST law. The amendments affect:
- the depreciation of plant in Division 42 of ITAA 1997
- software depreciation provisions in Division 46 of ITAA 1997, which modify the application of Division 42 and
- the deductibility of particular amounts in Division 25 of ITAA 1997.

A company is eligible for the deduction if you:
- acquired or upgraded the plant or software as the owner or quasi-owner during the period from 1 July 1999 to 30 June 2000
- has a pre-GST annual turnover—taking into account connected entities—for the income year (refer to subdivision 960R of ITAA 1997) which does not exceed $10 million
- acquired or upgraded the plant or software to prepare for the commencement of the GST and
- is registered for the GST immediately before 1 July 2000.

If a company has an income year ending before 30 June 2000, you will satisfy the requirement of registration for GST immediately before 1 July 2000 if, when lodging your tax return for that income year:
- you are registered for GST or
- you have applied to be registered and that application has not been refused.

However if a company with a substituted accounting period (SAP) satisfies one of the rules above, but is not actually registered for GST before 1 July 2000, you cannot claim this deduction and your assessment for that income year may be amended to disallow the deduction.

In addition, to claim depreciation deductions, a company must also satisfy the general conditions for depreciation deductions—for example, the plant or software must be used, or installed ready for use, to produce assessable income.

Examples of deductible plant or software expenditure include:
1. A company has cash registers that cannot comply with the GST requirements. You acquire new cash registers on 30 April 2000 so that you can provide your customers with the information required for GST purposes. The cost of the new cash registers is immediately deductible under section 42-168 of ITAA 1997.
2. A company operating a manual accounting system decides that you should change to a computerised system because of the additional work required to comply with its GST obligations. During the 1999–2000 income year you also acquire the computerised system because it will help the business to manage its quarterly obligations under the Pay As You Go (PAYG) instalments arrangements. You are entitled to an immediate deduction for the cost of the computer and the software under section 42-168 because meeting the

obligations under the GST law was a significant purpose in your decision to acquire the new plant.

3. A company which already has a computerised system buys new software and upgrades existing software during 1999–2000 income year to be able to comply with GST and PAYG obligations. Your existing computer hardware is not capable of operating the new software in an efficient way and you decide to buy a new computer that can. The cost of the new software, the upgraded software and the computer is immediately deductible under section 42-168.

Other GST-related expenditure may be fully deductible in the income year in which it is incurred because it is of a revenue nature—for example, expenditure on GST-related training or stationery. For more information refer to *Taxation Ruling TR 1999/12*. To find out how to get a copy see the inside back cover.

Interposed entity elections

Under the existing transitional rule in Schedule 1 to the *Taxation Laws Amendment (Trust Loss and Other Deductions) Act 1998* (Trust Loss Act), the deadline for making family trust and interposed entity elections for the 1996–1997 and 1997–1998 income years is the time for lodging the 1997–1998 tax returns which has already passed. Under section 272-85 of Schedule 2F to ITAA 1936, the deadline for making elections for the 1998–1999 income year is the time for lodging the 1998–1999 tax return which has also passed.

Schedule 10 to TLAB (No. 8) 1999 contains proposed amendments to Schedule 1 of Trust Loss Act to allow an extended period for making elections. This will enable elections to be made for:

- the family trust concessional tracing rule that applies to companies—see **What's new?** on page 3
- the franking credit trading measures—see **What's new?** on page 4.

The proposed transitional provisions contained in TLAB (No. 8) 1999 will extend the deadlines to:

- allow a trustee of a non-fixed trust which holds an interest in a company that can benefit from the family trust concession, to make a family trust election for the 1996–1997, 1997–1998 and 1998–1999 income years (refer to proposed subitem 22A(1) of Schedule 1 to Trust Loss Act) and
- allow a trustee of a non-fixed trust which receives a franked dividend or a distribution attributable to a franked dividend in the 1997–1998 or 1998–1999 income year to make a family trust election (refer to proposed subitem 22A(2) of Schedule 1 to Trust Loss Act).

Parallel rules will also allow companies that wish to be a member of the same family group to have interposed entity elections in place for the same income years (refer to proposed subitems 23A(2) to (4) of Schedule 1 to Trust Loss Act).

For more detailed instructions concerning completion and lodgment of the *Interposed entity election 2000* see label **F—Interposed entity election status** on page 22.

Note: At the time of printing, TLAB (No. 8) 1999 is still before Parliament. The *Interposed entity election 2000* will not be available until this Bill receives Royal Assent. For more information see the inside back cover.

Managed investments schemes

Eligible managed investment schemes and their members are provided relief from any unintended taxation consequences caused by changing the scheme's 2 tier manager and trustee structure to a single responsible entity structure as required under the *Managed Investments Act 1998*, effective from 1 July 1998. Managed investment schemes that change their structure to become a registered scheme in accordance with the *Managed Investments Act 1998* and members of such schemes may be eligible for CGT relief (refer to *Taxation Laws Amendment Act (No. 7) 1999*, which received Royal Assent on 22 September 1999, and *Taxation Laws Amendment Bill (No. 10) 1999*).

Pay As You Go

The PAYG system for collecting income tax and other liabilities is another part of the reform of the Australian Taxation System which has already seen the introduction of the Australian Business Number (ABN) and the GST. There are 2 parts to the PAYG system:

- PAYG income instalments and
- PAYG income withholding.

The PAYG income instalment system will replace the existing company and superannuation fund income instalments system and the provisional tax system.

The instalment system starts at the commencement of the 2000–2001 income year. Advice will be issued separately to taxpayers who are involved in the PAYG income instalments system about how this system works, what the reporting requirements will be and when instalments will need to be paid.

Information provided in the 1999–2000 tax return will be used to calculate the Commissioner's rate under the PAYG income instalment system. Taxpayers complete all labels as accurately as possible to ensure that the rate calculated results in a reliable estimate of tax payable for 2000–2001 income year. For more information about how the rate is calculated refer to the worksheet relevant to your particular entity type. To find out how to get a copy see the inside back cover.

The PAYG income withholding system will replace the existing PAYE system and several other tax collection systems from 1 July 2000. PPS and RPS will cease from that date.

Penalty for failure to notify

A failure to notify (FTN) penalty applies when you fail to notify the ATO of the amount of tax instalments deducted from employees during a quarter. The FTN penalty is calculated at a rate of 8 per cent per annum of the amount not notified. To avoid this penalty notify the ATO of the amount due to be paid even if you cannot pay the full amount by the due date. If you are unable to make the payment contact the Small business helpline on **13 2866** before the due date to notify the amount of the tax instalments deducted for the period and negotiate a payment arrangement.

Philanthropy

On 26 March 1999 a proposal was announced to implement the Government's response to the report on philanthropy in Australia by the Business and Community Partnerships Working Group on Taxation Reform. The measures to implement the proposal are contained in TLAB (No. 8) 1999 and encourage taxpayers to donate to certain funds, authorities and institutions. At the time of printing TLAB (No. 8) 1999 is still before Parliament. The amendments will apply from 1 July 1999 and contain the following measures:

- deductions will be allowable for gifts of property to certain funds, authorities and institutions, and to political parties, independent candidates and members made on or after 1 July 1999 where the value of property exceeds $5000. The relevant funds, authorities and institutions include charities, approved overseas aid funds, school building funds and cultural organisations. Deductions for political contributions and gifts are limited to a maximum of $1500.
- deductions will be allowable for donations made to prescribed private funds. These funds will be listed in the *Income Tax Assessment Regulations* once approval has been obtained
- taxpayers who make gifts under the Cultural Gifts Program may choose to apportion the deduction over a maximum of 5 income years. An election must be lodged with the Secretary of the Department of Communications, Information Technology and the Arts who administers the Cultural Gifts Program. For more information about the Cultural Gifts Program and the election contact the Department of Communications, Information Technology and the Arts by:
  phone—(02) 6271 1642
  email—cgp.mail@dcita.gov.au
  Internet—www.dcita.gov.au
- taxpayers who make gifts to environmental organisations may choose to apportion the deduction over a maximum of 5 income years. An election must be lodged with the Secretary of the Department of the Environment and Heritage. For more information about making gifts to environmental organisations and the election contact the Department of the Environment and Heritage by:
  phone—(02) 6274 1467
  email—reo@ea.gov.au
- an exemption from CGT will apply for testamentary gifts of property to certain funds, authorities and institutions, and to political parties, independent candidates and members unless the property is reacquired for less than market value by the estate, a beneficiary of the estate or an associate
- an exemption from CGT will apply for gifts of property under the Cultural Gifts Program unless the property is reacquired for less than the market value by the donor or an associate.

For more information refer to the *Guide to capital gains tax*. To find out how to get a copy see the inside back cover.

Year 2000 related expenditure and software expenditure generally

Legislation contained in *Taxation Laws Amendment (Software Depreciation) Act 1999* provides that all expenditure on software is deductible, either within Division 46 of ITAA 1997 or elsewhere in the tax law.

New Division 46:

- modifies the provisions in Division 42 of ITAA 1997 to allow a deduction, over 2 years at 40 per cent per year, for expenditure incurred in acquiring, developing or commissioning software
- includes an option to allow taxpayers to choose to pool expenditure on in-house development or commissioning of software projects and
- allows an immediate deduction for:
  - certain Year 2000 (Y2K) expenditure incurred before 1 January 2000
  - minor expenditure and for expenditure on software that is never used.

Depreciation (capital allowances)

Several measures in the *New Business Tax System (Capital Allowances) Act 1999* (Capital Allowances Act 1999) relating to the depreciation system apply from 11.45a.m. AEST, 21 September 1999. These measures generally do not affect small business taxpayers who satisfy certain conditions (see Small business taxpayers on this page). The changes are:

- the removal of accelerated depreciation for depreciable assets acquired after 11.45a.m. AEST, 21 September 1999 except for small business taxpayers satisfying certain conditions
- the accelerated depreciation system being replaced with a system where depreciation rates are fixed by reference to the effective life of the asset
- the introduction of the ability to reassess the effective life of depreciable assets acquired after 11.45a.m. AEST, 21 September 1999 where depreciation rates are fixed by reference to the effective life of the asset
- the removal of the option to offset any assessable balancing adjustment amount against replacement plant for disposals occurring after 11.45a.m. AEST, 21 September 1999 for all taxpayers except small business taxpayers
- the introduction of an option to offset any assessable balancing adjustment amount against replacement plant for certain involuntary disposals occurring after 11.45a.m. AEST, 21 September 1999
- the removal of depreciable assets from the CGT regime for disposals occurring after 11.45a.m. AEST, 21 September 1999 and treating any gains or losses as an additional balancing adjustment and
- the introduction of depreciation deductions for the cost of an indefeasible right to use an international telecommunications submarine cable system (IRUs). The measures apply to expenditure incurred after 11.45a.m. AEST, 21 September 1999 on IRUs over new cables.

Legislation proposed in the *New Business Tax System (Miscellaneous) Bill 1999* (Miscellaneous Bill 1999) will change the present treatment for plant costing $300 or less (refer to section 42-167 of ITAA 1997) by allowing an immediate 100 per cent depreciation deduction. From 1 July 2000 this immediate deduction is to be replaced with a system that allows taxpayers, except small business taxpayers, an option to depreciate all items of plant costing less than $1000 through a pooling mechanism. These items will then be depreciated over an effective life of 4 years using the diminishing value method. Where the option is not exercised, the depreciation for the plant will be determined only by its effective life.

For more information refer to the *Guide to depreciation*. To find out how to get a copy see the inside back cover.

Small business taxpayers

The following measures, that apply from 11.45a.m. AEST, 21 September 1999, are interim measures pending the introduction of a Simplified Tax System for small business taxpayers, which is to commence on 1 July 2001. Legislation for the Simplified Tax System has not been introduced into Parliament at the time of printing.

The key features of the Simplified Tax System are:

- cash accounting rather than accruals
- a simplified depreciation system
- a simplified treatment of trading stock

Small business taxpayers, who meet certain eligibility requirements, will retain the following:

- accelerated depreciation for plant and equipment used in their business activities, when certain conditions are met—see below
- immediate deduction for plant costing $300 or less
- balancing adjustment offsetting
- continued access to the ‘13 month rule’ for prepayments other than prepayments in relation to tax shelter arrangements—see Prepayments on page 11.

Conditions to retain access to accelerated rates of depreciation

The following conditions must be met to retain access to accelerated rates of depreciation:

- the entity must be a small business taxpayer for the income year that includes the time when the entity first used the plant or first had it installed ready for use
- at least 50 per cent of the plant’s intended use must be in carrying on a business for the purpose of producing assessable income and
- neither of the following conditions applies:
  - it could reasonably be expected that, because of the plant’s use, the entity would not be a small business taxpayer for the next income year or either of the next 2 income years after that
  - the plant is being or is intended to be predominantly leased. This does not include a hire purchase agreement or short-term hire agreement.

Note: Accelerated depreciation will not be available to a small business if that item of plant is part of the start-up of a major business or major expansion of an existing business.

Definition of a small business taxpayer

New subdivision 960-Q of ITAA 1997 defines a small business taxpayer as a taxpayer who carries on a business during the income year and either:

- the taxpayer's average turnover for the year is less than $1 million or
- where the taxpayer chooses to recalculate their average turnover for an income year before 2001–2002 income year based on a reasonable estimate, and it is less than $1 million.

Average turnover

A taxpayer's average turnover for an income year is the average of the taxpayer's 'group turnovers' for the year and the preceding 2 years if any. Taxpayers can only average the years in which they carry on a business, except where they are winding up a business. For example, if a taxpayer has carried on a business for the current and previous year only, the taxpayer would average only those 2 years.

A taxpayer is taken to be carrying on a business in a year if the taxpayer is winding up a business they formerly carried on and the taxpayer was a small business taxpayer at the time that they stopped carrying on the business.

Group turnover

To determine average turnover a small business taxpayer's turnover will be grouped with the entities it controls or is controlled by. These grouping measures are based on those that apply under the CGT rollover relief for small business. A taxpayer's group turnover for an income year means the sum of the values of all supplies of goods and services that the taxpayer and its controlling or controlled entities made during the year to third parties in the ordinary course of carrying on a business, exclusive of GST payable on supplies.

Changes to prepayment rules

The *New Business Tax System (Integrity and Other Measures) Act 1999* (Integrity and Other Measures) Act 1999) made changes to the rules about when you can deduct a prepayment incurred after 11.45a.m. AEST, 21 September 1999. Prepayments can now only be deducted in an income year to the extent that the thing the payment was for, is done in that income year. This change does NOT apply to:

- any prepayment that is not incurred in carrying on a business
- any prepayment incurred by a small business taxpayer—for a Definition of a small business taxpayer see above
- any prepayment incurred after 11.45a.m. AEST, 21 September 1999 but in accordance with a contractual obligation that you cannot unilaterally escape existing BEFORE that time to make that prepayment or
- any prepayment that is 'excluded expenditure' —that is, an amount below $1000, an amount required to be incurred by law, or an amount of salary or wages. Those prepayments will be treated in the same way as they would have been before the changes were made.

Transitional rule

There is a transitional rule for affected prepayments incurred in the income year that includes 21 September 1999 (this will usually be in the 1999–2000 income year but may be different if you have a SAP) that would previously have fallen within the 13 month rule. Such prepayments made after 11.45a.m. AEST, 21 September 1999 can be divided into 2 parts:

- the part relating to something to be done within the same income year and
- the part relating to something to be done in future income years.

The first part is deductible in the same income year. Under the changes, the second part would only be deductible in the future years but the transitional rule allows you to deduct 80 per cent in the first income year and the remaining 20 per cent in the next year.

Tax shelters

Legislation was introduced into Parliament on 13 April 2000 in *New Business Tax System (Integrity Measures) Bill 2000* that will apply to prepayments made after 1.00p.m. AEDT, 11 November 1999. If those prepayments relate to a tax shelter, they will only be deductible in the income year the benefits attributable to the prepayment are provided. The legislation does NOT apply to:

- prepaid interest on money borrowed to buy real estate, shares, or units in a unit trust
- prepaid premiums on buildings, contents or rent insurance
- prepayments in respect of certain infrastructure bonds and arrangements for which an ATO product ruling had issued.

At the time of printing legislation is still before Parliament. For more information see the inside back cover.

Bad debt deductions

For a summary of the changes affecting a company's ability to claim bad debt deductions see Continuity of ownership test on page 13.

Revenue losses

For a summary of the changes affecting a company's ability to claim deductions for taxation losses of prior years and those incurred in the current year see:

- Loss transfer and realised interests on page 13
- Continuity of ownership test on page 13
- Unrealised losses on page 13
- Loss cascading on pages 13 and 14.

Capital gains tax

In the *Treasurer's Press Release No. 58 of 1999* issued on 21 September 1999 several capital gains measures were announced as part of the *New Business Tax System*. Legislation to give effect to these measures received Royal Assent on 10 December 1999.

1. **The *New Business Tax System (Capital Gains Tax) Act 1999* inserted the following measures into ITAA 1997:**

Small business relief

There are 4 small business CGT concessions now contained in Division 152 of ITAA 1997 which may apply to CGT events that happen after 11.45a.m. AEST, 21 September 1999 if certain conditions are satisfied.These are:

- the small business 15 year exemption
- the small business 50% active asset reduction
- the small business retirement exemption
- the small business roll-over.

The small business 15 year exemption does not apply to CGT events that happen before 20 September 2000. The small business 50% active asset reduction may apply to all CGT assets that are active assets —including goodwill of a business—and replaces the 50 per cent concession previously available in section 118-250 of ITAA 1997 for goodwill of a business. The previous small business roll-over and retirement exemption provisions and 50 per cent goodwill concession (refer to Division 123, subdivision 118-F and section 118-250 of ITAA 1997 respectively) continue to apply to CGT events happening before 11.45a.m. AEST, 21 September 1999. For more information refer to the *Capital gains tax concessions for small business*. To find out how to get a copy see the inside back cover.

Scrip for scrip roll-over

New subdivision 124-M of ITAA 1997 provides, with effect from 10 December 1999, for a CGT roll-over —that is, deferral of any capital gain—when certain interests in companies and trusts are exchanged for interests in another entity, typically as the result of a takeover. This roll-over allows the capital gains liability otherwise arising on the disposal of the original interests to be deferred until a CGT event happens to the replacement interests. *Treasurer's Press Release No. 87* issued on 10 December 1999 announced that legislation to give effect to cost base rules for assets acquired by an interposed entity from the exchanging taxpayer in a takeover or merger will be introduced as soon as possible following consultation. A further announcement will also be made following a review of some other aspects of the scrip for scrip roll-over provisions.

2. **The Integrity and Other Measures Act 1999** inserted the following measure into ITAA 1997:

Limiting indexation of the cost base of CGT assets

Indexation is not available for CGT assets acquired after 11.45a.m. AEST, 21 September 1999. For CGT events happening after that time to a company's CGT assets acquired at or before that time, indexation is frozen as at 30 September 1999. If a CGT asset is acquired at or before 11.45a.m. AEST, 21 September 1999 and further expenditure is incurred in relation to that asset after that time, indexation of that part of the cost base is not available. A company cannot choose the CGT discount available to some other entities—individuals, complying superannuation entities and trusts only —so indexation of the cost base of the company's CGT assets remains available, frozen at 30 September 1999, provided the company acquired the assets at or before 11.45a.m. AEST, 21 September 1999 and owned them for at least 12 months.

3. **The Capital Allowances Act 1999**

This Act amended ITAA 1997 to remove plant and equipment from the CGT regime and to include in assessable income, under the depreciation provisions in Division 4 of ITAA 1997, the excess of disposal proceeds over the cost base of the plant and equipment, indexed to 30 September 1999. It also provides for a balancing charge offset for involuntary disposals of plant to replace the current CGT roll-over relief for such disposals. The amendments apply to balancing adjustment events (such as the disposal of plant or equipment) occurring after 11.45a.m. AEST, 21 September 1999.

4. **In the *Treasurer's Press Release No. 74 of 1999*** issued on 11 November 1999 the following further measures were announced:

Involuntary disposal roll-overs

The existing law will be amended to extend the scope of what is defined as an involuntary disposal for CGT roll-over purposes and will establish the same treatment for a compulsory acquisition by a private acquirer as for a public acquirer, if the former has recourse to a statutory power. The amendment will not, however, apply to compulsory acquisitions of minority interests under the Corporations Law. Roll-over will also apply if a landowner whose land is compulsorily subject to a mining lease sells the land to the mining company and acquires a replacement asset, if the mining operation would significantly affect the landowner's use of the land. The measure is intended to apply to involuntary disposals after 1.00p.m. AEDT, 11 November 1999.

Roll-over provisions for entities

Measures will be introduced to provide ongoing relief for roll-overs, with effect from 1 July 2001, into companies and fixed trusts and also to provide transitional roll-over relief, with effect from 1.00p.m. AEDT, 11 November 1999 and available until 1 July 2001, for fixed trusts restructuring to a company and for companies restructuring to Collective Investment Vehicles (CIV), providing certain conditions are satisfied. These measures will facilitate restructuring as a result of the unified entity regime.

Further value shifting and loss duplication rules

Debt forgiveness

New Division 139 of ITAA 1997 deals with value shifting through debt forgiveness arrangements entered into between commonly owned companies. It denies the creation of artificial capital losses by providing for cost base adjustments to the interests held directly or indirectly in the creditor and debtor company in certain circumstances. The new provisions apply to debts forgiven or substantially and permanently reduced in value on or after 22 February 1999.

Same economic loss

The reduced cost base provisions have been amended to make it clear that a taxpayer cannot claim a deduction and a capital loss for the same economic loss, if a CGT event happens to a CGT asset including an interest in a CGT asset of a partnership. The amendment applies in respect of CGT events happening on or after 21 October 1999.

Linked groups

For CGT events and other transactions that happen on or after 21 October 1999, new subdivision 170-D of ITAA 1997 defers recognition of a capital loss or a deduction that would otherwise be realised, if a CGT asset is transferred to, or created in, a company by another company (the originating company) where the companies form part of a linked group. Companies are linked if one has a more than 50 per cent interest in the other or the same entity has a more than 50 per cent interest in each. Deferral may also occur if a CGT asset is transferred to, or created in, an entity (being an individual or a trust) that is connected with the originating company. The deferred capital loss or deduction will, become available to the originating company where, broadly, the asset substantially ceases to belong to the same linked group together with connected entities and their associates. In certain circumstances, deferral will re-occur if, broadly, the asset is, within 4 years, substantially reacquired by a member of the linked group or a connected entity of the original company or associate.

Loss transfer and realised interests

New subdivision 170-C prevents the duplication of a tax loss or net capital loss transferred between wholly owned group companies where direct or indirect interests in the 'loss company' are realised. It requires a reduction of the cost base and the reduced cost base of equity interests, and the reduced cost base of debt interests, held directly or indirectly in the loss company in certain circumstances. In some cases, the cost base and reduced cost base of interests held directly or indirectly in the income or 'gain' company will be increased. These amendments apply where losses are transferred under a written agreement made on or after 22 February 1999 and, for tax loss transfers, where CGT events happen in relation to shares or debts on or after 22 February 1999.

Continuity of ownership test

The continuity of ownership test applying to companies' prior and current year tax losses, net capital losses and bad debt deductions has been amended. For income years ending after 21 September 1999, the test will only be satisfied if there is no substantial change in proportionate shareholding within a group of continuing owners. Majority ownership must also be maintained throughout the period from the time a loss was incurred to the time the loss is claimed. The amended test will also apply to companies with unrealised net losses where the continuity of ownership test is failed after 1.00p.m. AEDT, 11 November 1999.

Unrealised losses

New subdivision 165-CC of ITAA 1997 will limit the extent of duplication of unrealised losses by applying the same business test to company losses where there has been a substantial change in the company's ownership or control. If a substantial change in ownership has occurred the new law requires the company to work out the amount of its unrealised net loss. Broadly, this is the amount of the net loss that the company would make if it were to sell all of its assets at market value on the day of the change. It provides that, up to the amount of the unrealised net loss, deductions and capital losses subsequently arising on the disposal of assets held at the time of a change in ownership or control may be claimed only where the company satisfies the same business test. The measure will apply to a company with unrealised net losses if it undergoes a substantial change of ownership or control after 1.00p.m. AEDT, 11 November 1999.

Loss cascading

A further measure dealing with losses on entity interests in loss companies was announced in the *Treasurer's Press Release No. 74 of 1999* on 11 November 1999. This measure will deny, for tax purposes, losses on interests held by entities interposed between a loss company and its ultimate individual owners where there is a change in the majority ownership of the loss company. Losses will be denied to the extent of any realised or unrealised losses in the company. This will reduce the scope for multiple recognition of losses by the tax system. The measure will apply to a company if it undergoes a substantial change of ownership or control after 1.00p.m. AEDT, 11 November 1999.

Assignment of leases

The Government announced in the *Treasurer's Press Release No. 10 of 1999* that it intended to address any exploitation of deficiencies in the current business tax system in relation to assignments of leases or interests in leased plant. All forms of consideration received in connection with a lease assignment—including the benefit of being relieved of debt—are taken into account in calculating the assignor's assessable income. The amendments are included in new Division 45 of ITAA 1997. The broad impact of new Division 45 and related amendments is to:

- include an amount in the assessable income of a plant lessor when:
  1. plant which has been used principally for leasing, or an interest in such plant, is disposed of on or after 22 February 1999 and some part of the lease period occurred on or after that date, and the consideration and other benefits received for the disposal exceed the plant's depreciated value or
  2. there is a disposal of rights under a lease of depreciable plant, such as the rights to receive a flow of rental income, where the plant has been principally used for leasing and some part of the plant lease period occurred on or after 22 February 1999
- include an amount in the assessable income of a partner in a leasing partnership, when the conditions in **1**. or **2**. above are met, and the partner disposes of either:
  – an interest in the partnership so as to reduce the partner's interest in plant which the partnership has principally used to lease to other entities or
  – rights or an interest under a lease and
- treat a former leasing subsidiary of a wholly owned group as having disposed of and reacquired for market value leased plant which it holds, provided that;
  – there is a disposal of a direct or indirect majority beneficial interest in the shares of that subsidiary and
  – the main business of the acquiring entity is not the same as the main business of the subsidiary's former group and
- make each member of the subsidiary's former wholly owned group jointly and severally liable for any tax—including interest—arising from a deemed disposal and reacquisition of leased plant under Division 45 that remains unpaid 6 months after becoming due and payable by the subsidiary. This joint and several liability is imposed by the *New Business Tax System (Former Subsidiary Tax Imposition) Act 1999*.

Venture capital franking rebates

On 21 September 1999 measures were announced in the *Treasurer's Press Release No. 58 of 1999* which ensure that resident complying superannuation funds and like entities—other than self-managed superannuation funds—that invest in venture capital through a PDF will receive venture capital gains tax free. To ensure this treatment, eligible shareholders in the PDF receive a rebate—the venture capital franking rebate—for the CGT paid by the PDF on venture capital investments.

In outline, the measures provide that CGT paid by the PDF on venture capital, gains is identified as venture capital credits. The credits are distributed to shareholders by means of venture capital franked dividends. A venture capital franking rebate is available only to the extent to which a dividend paid by the PDF is both venture capital franked and referrable to the superannuation business of the eligible shareholder.

The dividend is also exempt from income tax to the extent to which it has been venture capital franked.

If the PDF over distributes venture capital credits for the franking year, it will be subject to venture capital deficit tax.

These measures were introduced into Parliament on 9 December 1999 in the Miscellaneous Bill 1999.

General information

Important messages

Clubs, societies and associations

Clubs, associations, societies, organisations, non-profit organisations and tax exempt organisations are treated as companies. However, these bodies are subject to special tax rules which are explained in the *Club Pack*. To find out how to get a copy see the inside back cover.

Conversion of class C franking account

For the 2000–2001 income year the company income tax rate will be reduced to 34 per cent. This rate reduction will have consequences for the imputation system. Companies will be required to convert their class C franking account balances on 1 July 2000 so that they are based on the new company tax rate. Franking credits and franking debits arising on or after 1 July 2000 based on the 36 per cent rate will be converted to equivalent credits and debits based on a 34 per cent rate. Franked dividends paid on or after 1 July 2000 will carry underlying imputation credits at a 34 per cent rate.

Corporate unit trusts and public trading trusts

Trustees of corporate unit trusts and public trading trusts are defined as companies under section 221AK of ITAA 1936. These trustees are subject to the company tax arrangements and lodge company tax returns.

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

Information matching

The ATO is making increasing use of information matching technology to verify the correctness of tax returns. Ensure that all information is fully and correctly declared on your tax returns. Certain claims that are made may be subject to additional scrutiny by the ATO.

In particular, the ATO will be checking the following in the 1999–2000 tax returns:

- PPS and RPS income and credits will be matched against information provided to the ATO by PPS and RPS payers—see pages 25 and 62
- distributions from partnerships and trusts—see pages 25 and 26
- total salary and wages paid will be cross checked against the PAYE system—see page 53
- the amount of prior year losses claimed will reconcile with the amounts of losses carried forward in tax returns of earlier years—see pages 37 and 38
- dividend income—see page 27.

Limited partnerships

Sections 94A to 94Y of ITAA 1936 tax certain limited partnerships as companies. Government proposals announced in the 1997–1998 Budget, which deal with limited partnerships and the unified entity tax regime, have now been delayed until 1 July 2001. For more information, refer to the *Treasurer's Press Release No. 58 of 1999*.

Strata title bodies corporate

See Appendix 1 on page 75.

Record keeping requirements

Record keeping and retention

Persons carrying on a business must keep records that record and explain all transactions and other acts, engaged in by the person, which are relevant for any taxation purpose. Subsection 262A(2) of 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, 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.

Generally, a company must keep all relevant records for 5 years after those records were prepared or obtained, or 5 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. Records must be in writing and in English, however they may be kept in an electronic form, or on microfiche on the condition that the records are in a form that ATO staff can access and understand to ascertain the person's taxation liability (refer to *Taxation Ruling TR 96/7* and *Taxation Ruling TR 97/21*. To find out how to get a copy see the inside back cover).

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

For some items on the tax return, reference to specific record retention requirements is made in these instructions. In general, the records specified are intended to cover instances where the required information may not be available in the normal company accounts. The record retention requirements within the instructions indicate the information that the company uses to calculate the correct amounts to declare in the tax return but is not an exhaustive list of the records that a company maintains.

Documents that a company prepares and keeps include:
- balance sheet
- detailed profit and loss statement—includes profit and loss appropriation account and, where appropriate, manufacturing and trading accounts
- 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 in 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 is conducted, the ATO 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 and
  - all documents, including worksheets, that explain the nature and terms of the transactions entered into.

The company may be liable to additional tax if it does not declare the correct amount of taxable income and/or tax payable. Penalties also apply where inadequate or no records are kept by the company about business transactions or the items disclosed in the tax return.

E-record

The ATO has developed E-record to assist small/micro businesses and non-profit organisations keep good business records electronically, both now and after the introduction of the GST.

It is designed for businesses who use a cash basis of accounting and who wish to make the transition from paper based products to an electronic record keeping package. It is not designed for those businesses who are already using a commercially available accounting software package. The E-record CD-ROM consists of 2 components:
- a multi-media component that contains information on record keeping and a demonstration (through examples) of how the E-record package works and
- a set of simple to use electronic worksheets that produce daily, weekly and monthly summaries, with the added benefit of automatic calculations and consolidations. This will assist businesses in the completion of their *Business Activity Statement* for *The New Tax System* from 1 July 2000.

From mid March 2000, the E-record CD was sent automatically to businesses who had registered for the GST and indicated they use a cash basis of accounting. For more information phone the Business tax reform infoline—see the inside back cover.

Capital gains tax record keeping

It is important to keep accurate records from the date of acquisition of any CGT asset from which a company has made or might make a capital gain or capital loss if a CGT event happens to it—for example, a disposal of the asset.

Failure to keep such records could result in:
- extra expense being incurred to reconstruct the cost base of the asset when a CGT event happens to it and
- more tax being paid.

A company must keep records of every act, transaction, event or circumstance that can reasonably be expected to be relevant in working out whether a capital gain or capital loss is made from a CGT event. (It does not matter whether the CGT event has happened or may happen in the future).

The records must be in English—or readily convertible into English. The records must show the nature of the act, transaction, event or circumstance and the day when it happened or arose.

A company must retain the records for 5 years after it becomes certain that no CGT event—or no further CGT event—can happen so that the records can no longer reasonably be expected to be relevant to working out whether a capital gain or capital loss is made from the event.

Note: Section 121-35 of ITAA 1997 now allows taxpayers to either:
- continue to follow the record keeping requirements above or
- transfer the information contained in the records to a CGT asset register or
- adopt a combination of both methods.

For more information, phone the Capital gains asset register hotline on **1800 801 882** or refer to the CGT asset register. To find out how to get a copy see the inside back cover.

Tax return

First company tax return

A company applies for a tax file number (TFN) before lodging the first tax return to ensure that payments are credited to the correct account. This is done by completing an *Application to register for the new tax system*. The ATO cannot allocate a TFN until it receives this application.

If you have applied for a TFN but have not received notification of your TFN at the time of lodging your tax return, you must include a copy of the application with your tax return. If that is not possible you must complete a new application and lodge this with your tax return.

If you have not applied for a TFN, you must attach a completed application with your tax return.

There may be delays in processing a tax return lodged without a TFN.

Lodging your tax return, schedules, etc.

Companies which derived assessable income in 1999–2000 must lodge a tax return for the 1999–2000 income year. Keep records so the information reported in the tax return can be verified, if required, at a later date—see Record keeping requirements on pages 15 and 16.

As a result of the Government's response to the recommendation of the Small Business Deregulation Task Force new payment arrangements, payment and lodgment dates have been introduced. See Appendix 13 on page 92.

The addresses for lodging your tax return are listed at Appendix 14 on page 93. The addresses for paying your tax debt are listed on page 18. Do NOT attach your payment to the tax return.

Do NOT send schedules and other documents with the tax return except for the *Schedule 25A 2000*, the *Interposed entity election 2000* and any elections required by *Taxation Ruling IT 2624*. To find out how to get a copy see the inside back cover.

Send schedules of interest and dividend payments required under Regulation 17(2) under separate cover and addressed to:

The Manager
CIDC Operations
Australian Taxation Office
PO Box 2090
Chermside Centre QLD 4032

The details of information required to be provided in the schedules and the date for their lodgment is notified in the Commonwealth of Australia Gazette (Gazette).

Late lodgment penalty

The amount of late lodgment penalty payable is $10 for each week or part of a week occurring after the due date and before the tax return is lodged. The maximum penalty is $200. The penalty is payable irrespective of whether any tax is payable. When a company fails to pay on time, it is liable to pay the GIC on some or all of the penalty.

Amendment under self assessment

The taxable income and/or 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 4 years following the assessment. This is a basic guide only. For more information see the inside back cover.

Private ruling by the Commissioner of Taxation

An *Application for a private ruling* must be in writing and in accordance with the provisions of Part IVAA of TAA 1953. To find out how to get a copy see the inside back cover. The information and documentation that must accompany a private ruling request, must be sufficient for the Commissioner to make a private ruling. Such information will include not only the parties involved, the facts, income years covered by the arrangement, issues and questions raised that relate to specified tax laws, but also an analysis and opinion 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. For more information refer to *Taxation Ruling TR 93/1* and *Addendum*. To find out how to get a copy see the inside back cover.

Taxpayers can object against adverse private rulings in much the same way as they can object against assessments. They also can seek a review of adverse objection decisions on a private ruling by the Administrative Appeals Tribunal (AAT) 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 latter of:

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

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

Where a taxpayer has objected against a private ruling, the taxpayer cannot object on the same grounds against a later assessment, unless the facts have changed.

Private rulings dealing with ITAA 1936 continue to apply to ITAA 1997, to the extent that the old law ruled on expresses the same ideas as the new law in ITAA 1997 (refer to *Taxation Ruling TR 97/16*. To find out how to get a copy see inside back cover).

Classification and payment arrangements

Classification

For the purpose of payment and lodgment arrangements, each company is classified according to its likely tax. Likely tax is broadly determined according to the following priority:

- the latest estimate of tax payable lodged for the current income year, or if none
- the amount of tax assessed in the most recent prior year, or if none
- nil.

In the absence of any estimates being made, or tax return for the proceeding year being lodged before 1 March, a company's classification for the current year is determined on the earlier of the date of lodgment of the return for the proceeding year and 15 March for a company which balances on 30 June.

If likely tax is:

- less than $8000, the classification is 'SMALL'
- between $8000 and $300 000, the classification is 'MEDIUM'
- more than $300 000, the classification is 'LARGE'.

Certain industry types are exempt from classification, and are not required to make instalment payments.

Companies exempt from the instalment system

Certain industry types are exempt from classification and are not required to make instalment payments. These industry types derive income from the following sources:

Industry type	Industry code	Section
Overseas shipping	99020	129
Agents for non-resident insurers	99050	144
Agents for non-resident reinsurers	99040	148
Control of non-resident's money	99070	255

The use of the correct industry code allows the ATO system to recognise these types of industries and ensures that they are correctly exempt from the instalment system.

They are required to lodge their tax return by the first day of the 18th month after the beginning of the income year. This lodgment date is set by the Gazette each year. For companies with an income year commencing 1 July, this would be 1 December of the following year.

For more information on the payment system refer to the *Company and superannuation fund instalment payment system*. To find out how to get a copy see the inside back cover.

Estimates of tax payable

A company may lodge up to 2 estimates of tax payable for an income year. If an estimate is lodged on or prior to the classification date, classification is based on that estimate. If an estimate is made, it cannot be revoked. Interest may apply for underestimation of tax payable.

Paying your tax debt

Tax instalments must be paid by the due date. Companies which have received a pre-identified payment advice attach it to their instalment payment, regardless of the type of tax return used. The optical character recognition (OCR) strip assists processing by the ATO, and ensures that payments are credited to the correct account.

You can make payments by one of 3 methods:

- In person at any Australia Post agency, by cash or cheque. A $3000 cash limit applies. You must present your pre-identified payment advice when making a payment.

  Note: The ATO has closed its over the counter cashiers service.

- By mailing your payment to the address printed on your payment advice. Where a payment advice is not available, payments can be mailed to either of the addresses below.
  From 15 May 2000 clients from New South Wales, Australian Capital Territory and Queensland mail payments to:

  ATO Mail Payments
  Private Bag 50
  Penrith NSW 2750

  From 6 March 2000 all other clients mail payments to:

  ATO Mail Payments
  Private Bag 6007
  Albury NSW 2640

  Cheques are made payable to the Deputy Commissioner of Taxation with **Not negotiable** printed across the cheque. Tender all cheques in Australian currency. Do not send cash by mail.

- Electronically, by arranging to have your payment credited to the ATO, via a desktop banking package. Payments via BPAY will be available from July 2000. For more information phone **1800 815 886.**

The ATO is under no legal obligation to issue an advice to a company in respect of its instalment payments or its classification. It will do so as a courtesy. If the actual tax liability is or will be less than the likely tax, the company may lodge an estimate of tax payable.

The GIC is payable for all outstanding tax debts including instalment payments. The rate is updated every quarter—see **What's new?** on page 5. In addition, the ATO will adopt any appropriate collection approach to collect the tax. These include telephone contact, letters, payment by instalments,

serving ‘garnishee’ notices on your bank or trade debtors, and taking legal action in appropriate cases up to and including placing a company in liquidation.

What you do if you cannot pay your tax debt by the due date?

To avoid action being taken to recover the debt, telephone the Debt collection helpline on **13 1142**. Taxpayers are expected to organise their affairs to ensure that they pay their debts on time. Nevertheless, the ATO may allow taxpayers to pay their debts by instalments where they face genuine difficulty and have the capacity to pay the debt—and the GIC on outstanding amounts of tax—over a reasonable period of time. Approval to do this will not be given automatically. You will need to provide details of your financial position, including a statement of your assets and liabilities and details of your income and expenditure. The ATO will also want to know what steps you have taken to obtain funds to pay your debt and the steps you are taking to meet future tax debts on time.

Penalties/interest

Additional tax may apply where companies do not meet the requirements of the tax law by:

- failing to produce and keep proper records
- having a tax shortfall as a result of incorrect or inaccurate statements made in relation to a company’s taxation affairs—refer to *Taxation Ruling TR 94/3* and *Taxation Ruling TR 94/4*. To find out how to get a copy see the inside back cover.
- lodging a tax return late
- submitting an estimate of tax which proves to be less than 90 per cent of the lesser of the likely tax or the final tax liability.

The GIC is also payable where a company fails to pay tax by the correct date, whether the instalment payment or final payment.

Completing the tax return

Company tax return 2000
1 July 1999 to 30 June 2000

Day Month Year **to** Day Month Year

or specify period if part year or **approved** substitute period

Is a payment due?

Is a refund due?

Tax file number

Notes to assist in the preparation of this tax return are provided in the *Company tax return 2000 instructions (C 2000 instructions)* available from the Australian Taxation Office (ATO).

Name of entity and Australian Company Number (ACN) or Australian Registered Body Number (ARBN)

ACN or ARBN*

* Cross out whichever is not applicable.

Previous name of company
If the company name has changed, please print it **exactly** as shown on the last tax return lodged.

ACN or ARBN*

* Cross out whichever is not applicable.

Current postal address
If the address has not changed, please print it **exactly** as shown on the last tax return lodged.

Suburb or town State Postcode

Postal address on previous tax return
If the address has changed, please print it **exactly** as shown on the last tax return lodged.

Suburb or town State Postcode

Business address of main business

Suburb or town State Postcode

Final tax return—
refer to the *C 2000 instructions*

Page 1—Top right hand corner questions

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

Print **Yes** in the bottom box if a refund is due.

Where neither applies, print **No** in both boxes.

Name of company and ACN or ARBN

When recording the name of the company on page 1 of the *Company tax return 2000*:

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

If the company name is legally changed, send written advice of the change to the ATO at the time the change is made. Show on the tax return the current company name as registered with the Australian Securities Commission.

If the company is registered in Australia, show the Australian Company Number (ACN) or Australian Registered Body Number (ARBN).

Previous name of the company

If the company name has changed, print it exactly as shown on the last tax return lodged.

Current postal address

If the address has not changed, print it exactly as shown on the last tax return lodged.

Postal address on previous tax return

If the address has changed, print it exactly as shown on the last tax return lodged.

Business address of main business

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

Final tax return

If it is considered that there will be no requirement for the company to lodge tax returns in future years, print **Final** in the box provided on page 1 of the *Company tax return 2000*.

1 Ultimate holding company, Immediate holding company name(s) and ACN or ARBN

1 **Ultimate holding company name and ACN or ARBN or country code**—refer to the *C 2000 instructions*

ACN or ARBN or country code*

Immediate holding company name and ACN or ARBN

ACN or ARBN*

* Cross out whichever is not applicable.

Ultimate holding company name and ACN or ARBN or country code

Show at item **1** 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 tax return and the immediate company, forms part of the company group. If it is registered in Australia, show the ACN or ARBN. If the ultimate holding company is resident in another country give the code for that country—see Appendix 12 on page 91.

Immediate holding company and ACN or ARBN

If the company has no immediate holding company do not complete this field.

Show at item **1** the name of the immediate holding company. This is the name of the company that has the largest share of the controlling interest in the operations of the company that is lodging the tax return, and is the company that is immediately above that company in the company group. If it is registered in Australia show the ACN or ARBN.

2 Description of main business activity, Industry code and Percentage of foreign shareholding

2 **Description of main business**

Industry code **B**

Percentage of foreign shareholding—refer to the *C 2000 instructions* **A** %

Description of main business activity

Describe as accurately as possible the business activity from which you derived the MOST gross income—for example, beef cattle breeder, vegetable grower, clothing manufacturer, confectionery wholesaler, electrical goods retailer. Do not use general descriptions such as farmer, manufacturer or wholesaler.

Industry code—label B

Show at label **B** the appropriate industry code for your main business. If you have applied for an ABN your industry code appears on your *ABN—notification of registration*. If you have not applied for an ABN or have not received notification of your ABN, look up your code in the *Business industry codes 2000*. To find out how to get a copy see the inside back cover.

If you have changed your main business activity since receiving your *ABN—notification of registration* your industry code number is no longer valid. Describe and code the business activity as accurately as possible. The industry code is made up of 5 digits. For example, where the industry is 'dairy cattle farming', the code on the tax return is shown as '01300'.

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. In addition, the ATO provides the Australian Bureau of Statistics (ABS) with aggregated client records for the preparation of national accounts and related economic surveys. Industry codes are an important part of the information the ATO gives to the ABS.

Percentage of foreign shareholding—label A

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. Show this percentage in whole numbers. If this aggregate percentage is less than 10 per cent, disregard this question. For the purpose of this question, a foreign shareholder includes the following but is not limited to:

- a shareholder whose address in the share register is shown as being outside Australia
- a shareholder who has directed that their dividends be paid at a place outside Australia
- a shareholder who is entitled to dividends from a Foreign Dividend Account (FDA)
- a shareholder which is a company that is not incorporated in Australia
- a shareholder which is a company that does not have an ACN.

3 Status of company

3 Status of company—print **X** in a box if applicable

						Corporate unit trust	**D7**		
		Co-operative	**D1**	Strata title	**D4**	Public trading trust	**D8**	Multiple business	**E1**
Resident	**C1**	Registered organisation	**D2**	Pooled development fund	**D5**	Private	**D9**	Ceased business	**E2**
Non-resident	**C2**	Non-profit	**D3**	Limited partnership	**D6**	Public	**D10**	Commenced business	**E3**

Print **X** in the box which shows the appropriate description for each of the following groups:

- Labels **C1-C2**
- Labels **D1-D10**
  Only complete one of these labels; if more than one applies, select the one that appears first.
- Labels **E1-E3**
  If more than one label applies, select the one that appears first; if none applies, leave the boxes blank.

4 Interposed entity election status

4 Interposed entity election status
If the company has made or is making one or more interposed entity elections from a day in 1999–2000 or an earlier income year, print the appropriate **election status code** for the company in the box to the right of label **F** and complete and attach an ***Interposed entity election 2000***—refer to the *C 2000 instructions.* **F** F

Interposed entity election status—label F

If the company is making one or more interposed entity elections) specifying a day in the 1996–1997, 1997–1998 or 1998–99 income year—in accordance with the proposed new transitional provisions (see **What's new?** on page 8)—and/or is making one or more interposed entity elections) specifying a day in the 1999–2000 income year, the appropriate election status code is printed at item **4**, label **F**—**Interposed entity election status** of the tax return and an *Interposed entity election 2000* is completed for each election and included in the *Company tax return 2000*. Instructions on how to complete the *Interposed entity election 2000* are given on the form. To find out how to get a copy see the inside back cover.

If the *Company tax return 2000* is not lodged using the electronic lodgment service (ELS), the tax return including the *Interposed entity election 2000* are sent to:

ATO*datacorp*
Non-individuals
GPO Box 9990
Box Hill VIC 3128

Election status codes

Print the code in the box at this label from the table on this page which corresponds to the interposed election status of the company. Choose the code for the income year which has been specified in the interposed entity election made by the company (if only one interposed entity election is made) or the earliest income year which has been specified in all of the interposed entity elections made by the company since the lodgment of the 1998–1999 tax return (if more than one interposed entity election is made).

Example:

If the company has made one interposed entity election specifying a day in the 1996–1997 income year and is making another interposed entity election specifying a day in the 1999–2000 income year, code **K** is printed in the box to the right of label **F**. The company completes 2 of the *Interposed entity election 2000* and attaches these to the *Company tax return 2000*.

Table

Code	Income year specified in first interposed entity election
K	1996–1997
L	1997–1998
M	1998–1999
N	1999–2000

Note: At the time of printing TLAB (No. 8) 1999 is still before Parliament. The *Interposed entity election 2000* will not be available until this Bill receives Royal Assent. For more information see the inside back cover.

Family trust distribution tax

A company may make an interposed entity election under section 272-85 of Schedule 2F to 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 ITAA 1936 (refer to subdivision 272-D of Schedule 2F to ITAA 1936). The making of an interposed entity election is optional.

Note: 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 (refer to subsection 272-90(5) of Schedule 2F to ITAA 1936).

A consequence of a company making an interposed entity election is that under section 271-30 of Schedule 2F to ITAA 1936 a special tax, called family trust distribution tax (FTD tax), is payable at 48.5 per cent by the company on any conferral of present entitlement to, or distribution of, income or capital of the company 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 ITAA 1936. For this purpose, a distribution of income or capital by a company has the meaning given in sections 272-50 and 272-60 of Schedule 2F to ITAA 1936.

Payment of FTD tax is made by mail to the

Deputy Commissioner of Taxation
GPO Box 220
Sydney NSW 2001

using a *Family trust distribution tax payment advice*. To find out how to get a copy see the inside back cover. Cheques or money orders are made payable to the Deputy Commissioner of Taxation with **Not negotiable** printed across the cheque. Tender all cheques in Australian currency. Do not send cash by mail.

Tax agent's certificate

Tax agent's certificate—refer to the *C 2000 instructions*

I, ______ having charged a fee for preparing or assisting in the preparation of this return, hereby certify that this return has been prepared in accordance with the information supplied by the taxpayer.

Agent's signature	Day Month Year	Client's reference

Contact name	Area code	Telephone number	Agent's reference number

Where the agent is a partnership or a company, this certificate is signed in the name of the partnership or company by a person who is registered as a nominee of that partnership or company. That person's name is also printed at this item.

5 Calculation of total profit or loss (Profit and loss statement)

Information statement	**To be completed by all companies** Refer to the *C 2000 instructions* for information on completing this tax return.

5 Calculation of total profit or loss

Income

Item	Label	Amount	Code
Gross prescribed payments system income	A		
Gross reportable payments system income	B		
Other sales of goods and services	C		
Gross distribution from partnerships	D		CODE
Gross distribution from trusts	E		
Gross interest	F		
Gross rents and other leasing and hiring income	G		
Gross dividends	H		
Fringe benefit employee contributions	I		
Assessable government industry payments	Q		CODE
Other gross income	R		
Total income	S		F

This part of the tax return presents the accounts of the company for the 1999–2000 income year (hereafter referred to as the **Profit and loss statement**). The following item, item **6—Reconciliation to taxable income or loss** (hereafter referred to as the **Reconciliation statement**) makes the necessary adjustments to those accounts to determine taxable income or loss.

Note:

- gross income for accounting purposes—show at labels **A** to **R** the gross income of the company for accounting purposes. These amounts correspond to the amounts in the company's financial statements.
- exempt income—show at labels **A** to **R** all exempt income. This amount is subtracted at label **V —Exempt income** in the **Reconciliation statement.**
- gross foreign sourced income—show at labels **A** to **R** gross foreign sourced income. Adjust this amount to the amount which represents assessable income at the appropriate label in the **Reconciliation statement** at either label **B—Other assessable income** or label **Q—Other income not included in assessable income.**
- attributed foreign income—show these amounts at labels **A** to **R** where appropriate. Show any attributed foreign income not shown in the accounts at label **B—Other assessable income** in the **Reconciliation statement**. Show attributed foreign income that is:
  - exempt from tax under sections 23AH and 23AJ of ITAA 1936 at label **V—Exempt income** in the **Reconciliation statement**
  - dividends and amounts paid out of previously attributed income under section 23AI, 23AK and 99BW(d) of ITAA 1936 that is not strictly exempt from tax, is shown at label **Q—Other income not included in assessable income** in the **Reconciliation statement**
- gross domestic and foreign sourced capital gains and losses—show these amounts in the **Reconciliation statement**. The actual amounts at these 2 labels are a net amount where both capital gains and capital losses are returned. Where the net amount is a loss, print **L** in the CODE box.
  - these entries are reversed at the appropriate labels; either label **W—Non-deductible expenses**, or label **Q—Other income not included in assessable income** in the **Reconciliation statement**
  - domestic and foreign sourced capital gains for taxation purposes are shown at label **A—Total current year capital gains** in the **Reconciliation statement**
  - allowable foreign and domestic capital losses are shown at label **C—Total current year capital losses applied** or label **D—Prior year net capital losses applied** in the **Reconciliation statement** whichever is appropriate
- where GST is payable in relation to income derived before 1 July 2000, the GST must be excluded from the income derived—see **What's new?** on page 5.

Gross prescribed payments system income —label A

Show at label **A** all gross income derived directly by the company to which PPS applies. Do not include any income distributed from partnerships or trusts. Gross PPS income is the total income derived including any amounts of tax deducted.

Note: This item is completed where a claim for PPS credit is made at label **W—Prescribed payments system credit** in the **Calculation statement** on page 4 of the *Company tax return 2000*, and includes that amount.

The gross income and any related credits are declared in the tax return for the entity that actually derived the income.

Gross reportable payments system income —label B

Show at label **B** all gross income derived directly by the company to which RPS applies. Do not include any income distributed from partnerships or trusts. Gross RPS income is the total income derived including any amounts of tax deducted.

Note: This item is completed where a claim for RPS credit is made at label **X—Reportable payments system credit** in the **Calculation statement** on page 4 of the *Company tax return 2000*, and includes that amount.

The gross income and any related credits are declared in the tax return for the entity that actually derived the income.

Other sales of goods and services—label C

Show at label **C** the gross sales of trading stock including wool, produce and livestock—including the assessable value of forced disposal, manufactured goods, goods taken ex-stock, and gross earnings from services. Do not include any PPS or RPS income.

This label excludes sales tax received and sales of shares and land—except where the shares and land are held for resale by a business dealing in shares and land.

Gross distribution from partnerships—label D

Show at label **D** the gross distribution from all partnerships. Any adjustment for taxation purposes is shown at label **B—Other assessable income** or label **X—Other deductible expenses** in the **Reconciliation statement**.

If this amount is a loss, print **L** in the box after the amount.

Note: If FTD tax has been paid on partnership income, the whole income or if income from other partnerships is received, that income attributable to the FTD tax is excluded from the assessable income of the company (refer to section 271-105 of Schedule 2F to ITAA 1936). Any losses or outgoings incurred in deriving an amount which is excluded from assessable income under section 271-105 of Schedule 2F to ITAA 1936 are not deductible. A credit or rebate cannot be claimed for any imputation credit attached to a dividend which is exempt from income tax under Section 271-105 of Schedule 2F to ITAA 1936.

Record retention—Keep the following:

- full name of the partnership
- TFN of the partnership—if known
- amount of income
- deductible expenses relating to the amount of income which were not claimed in the partnership tax returns and which are claimed in the *Company tax return 2000*.

Expenses incurred by the company as a partner are shown at label **S—All other expenses** in the **Profit and loss statement**—see page 32.

Non-deductible expenses are added back at label **W—Non-deductible expenses** in the **Reconciliation statement**—see page 36.

Gross distribution from trusts—label E

Show at label **E** the total amount of gross distributions that have been received from trusts. Capital gains received from a trust are not included at label **E** but included at label **A—Total current year capital gains**, unless disregarded. This item cannot be a loss. Any part of a distribution is included in the gross amount—for example, a part of a distribution that is not taxable income. Any adjustment for taxation purposes is then shown in the **Reconciliation statement**. In the example mentioned, that part of the distribution is shown at label **Q—Other income not included in assessable income**, to ensure that the amount is not included in taxable income.

Note: For CGT purposes, each time a payment is received from a trust in respect of a unit or interest that is not included as assessable income, it reduces the existing cost base of the unit or interest by that amount. When the cost base has been reduced to nil, any payment made not included as assessable income is a capital gain and is shown at label **A—Total current year capital gains** (refer to section 104-70 of ITAA 1997).

Note: If FTD tax 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 (refer to section 271-105 of Schedule 2F to

ITAA 1936). Any losses or outgoings incurred in deriving an amount which is excluded from assessable income under section 271-105 of Schedule 2F to ITAA 1936 are not deductible. A credit or rebate cannot be claimed for any imputation credit attached to a dividend which is exempt income under section 271-105 of Schedule 2F to ITAA 1936.

Print the code in the CODE box from the list below which best describes the type of trust for the amount of income shown at label **E—Gross distribution from trusts**. If this amount is from more than one type of trust, print the code that represents the greatest amount of income. Descriptions of the type of trusts listed in Table 1 are contained in Table 2.

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

Table 1

Code	Description
D	Deceased estate
F	Fixed trust—other than a fixed unit trust or a public unit trust described in **U**, **P** or **Q**
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**
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 2

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

Hybrid trust
A trust which is not a fixed trust but in which person(s) have fixed entitlements—as defined in section 272-5 of ITAA 1936—to income or capital of the trust during the income year.

Discretionary trust
A trust which is neither a fixed trust nor a hybrid trust and under which person(s) benefit from income or capital of the trust upon the exercise of a discretion by person(s), 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 which is a widely held unit trust—as defined in section 272-105 of 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 retention —Keep the following:
- full name of the trust
- TFN of the trust-if known
- amount of income
- deductible expenses relating to amount of income.

Expenses incurred by the company as a beneficiary are shown at label **S—All other expenses** in the **Profit and loss statement**.

Non-deductible expenses are added back at label **W —Non-deductible expenses** in the **Reconciliation statement**.

Gross interest—label F

Show at label **F** the total interest from all sources including interest received from or credited by an associate. This item cannot be a loss.

Record retention—Keep the following:
- name and address of borrower
- amount received or credited.

Gross rent and other leasing and hiring income—label G

Show at label **G** all income from rents—being income from land and buildings, leasing and hiring. This item cannot be a loss.

Note: New measures dealing with lease assignments may affect the amount of rent and other leasing and hiring income—see **What's new?** on page 14.

Gross dividends—label H

Show at label **H** all gross dividends including all dividends franked and unfranked, foreign source dividends, bonus shares, deemed dividends, liquidators and other company distributions. This item cannot be a loss.

Note: If FTD tax has been paid on a dividend, or a credit which is not a dividend, to the company by another company which has made an interposed entity election, the dividend is excluded from the assessable income of the company and any credit or rebate cannot be claimed for any imputation credit attached to the dividend (refer to section 271-105 of Schedule 2F to ITAA 1936). Any losses or outgoings incurred in deriving an amount which is excluded from assessable income under section 271-105 Of Schedule 2F to ITAA 1936 are not deductible. A credit or rebate cannot be claimed for any imputation credit attached to a dividend which is exempt from income tax under Section 271-105 of Schedule 2F to ITAA 1936.

Note: Imputation credits are not included in the assessable income of companies other than life companies and registered organisations. A section 46 of ITAA 1936 rebate may apply to some dividends.

Note: There have been a number of legislative changes including:

- a specific anti-streaming rule that applies where a company streams dividends to provide franking credit benefits to shareholders who benefit most in preference to others (refer to section 160AQCBA of ITAA 1936)
- a general anti-avoidance rule that applies to schemes directed at obtaining a tax advantage in relation to franking credits (refer to subsection 177EA(3) of ITAA 1936)
- limiting the source of franking credits available for trading and quarantining the franking surpluses of companies—see **What's new?** on page 4
- denying franking benefits or an inter-corporate dividend rebate from a dividend where the taxpayer does not satisfy the 45 day holding period rule or related payments rule—see **What's new?** on pages 4 and 5
- *Taxation Laws Amendment (Company Law Review) Act 1998* introduced an anti-avoidance provision that applies where:
  - a capital benefit is provided under an arrangement where the company or a taxpayer has a purpose, (other than an incidental purpose), of conferring or obtaining a tax advantage in connection with the capital benefit as compared to the payment of a dividend regarding certain listed factors or
  - capital benefits are streamed to shareholders who gain a tax benefit from the receipt of capital, while dividends are paid to those who do not gain such a benefit, or bonus shares are dividends (refer to sections 45, 45A and 45B of ITAA 1936)
- *Taxation Laws Amendment Act (No. 3) 1998* amended ITAA 1936 by including Division 7A to ensure that all advances, loans, and other credits—unless they come within specified exclusions—by private companies to shareholders, and their associates, are treated as assessable dividends to the extent that there are realised or unrealised profits in the company. In addition debts owed by shareholders or associates which are forgiven by private companies are treated as dividends.

Record retention—Keep the following:

- name of the payer
- date dividend was received or credited
- gross amount of dividend
- type of distribution —for example, foreign source dividend, bonus shares, phasing-out dividend, liquidator's distribution.

Fringe benefit employee contributions—label I

Show at label **I** all payments you have received from recipients of fringe benefits.

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

Assessable government industry payments —label Q

Generally, government grants, rebates, 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.

Examples of assessable government industry payments shown at label **Q** include:

- bounties
- diesel fuel rebate—see below
- drought relief
- employee subsidies
- export incentive grants
- Industry Assistance Grants including research and development (R&D) grants.
- Medicare payments to medical practice companies

If this amount includes a diesel fuel rebate, print **D** in the CODE box.

Other gross income—label R

Show at label **R**—other gross income, including royalties, insurance recoveries, bad debt recoveries, subsidies and non-assessable government assistance from all sources. If this amount is a loss, print **L** after the amount. This label excludes:

- amounts included at labels **A** to **Q** and
- extraordinary items included at label **N**.

Note: Extraordinary items are revenue and expenses, that is, gains and losses that are from events outside the ordinary operations of the company and not of a recurring nature.

Record retention—Keep the following:

- types of income—for example, sales, commissions
- amount derived for each type of income. Where various profit and loss account balances are combined when calculating label **R**, keep a list of the names and amounts of those accounts.

Total income—label S

Show at label **S** the total of all income items shown at labels **A** to **R**. If this amount is a loss, print **L** in the box after the amount.

Expenses

Expenses			
	Cost of sales	**A**	/
	Contractor, sub-contractor and commission expenses	**C**	
	Employee superannuation	**D**	
	Bad debts	**E**	
	Lease expenses within Australia	**F**	
	Lease expenses overseas	**I**	
	Rent expenses	**H**	
	Interest expenses within Australia	**V**	
	Interest expenses overseas	**J**	
	Royalty expenses within Australia	**W**	
	Royalty expenses overseas	**U**	
	Depreciation expenses	**X**	
	Motor vehicle expenses	**Y**	
	Repairs and maintenance	**Z**	
	All other expenses	**S**	
	Total expenses	**Q**	/

Note:

- all expense amounts from the company's financial statements are shown at labels **A** to **S**—see relevant item names and labels
- input tax credit entitlements that arise in relation to expenses incurred before 1 July 2000 are excluded from the expenses—see **What's new?** on page 5
- show non-deductible expenses incurred in deriving any exempt income at the appropriate expenses labels. These non-deductible expenses are added back at label **U**—**Non-deductible exempt income expenditure** in the **Reconciliation statement**. Other expenses, to the extent that they are not deductible in the 1999–2000 income year and which have been included at expense labels **A** to **S**, are added back at label **W**—**Non-deductible expenses** in the **Reconciliation statement**
- if you operate on a cash basis, claim any allowable deduction for prepaid expenses under the relevant expense label.

Cost of sales—label A

Show at label **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 recorded 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 after the amount. Do not show the amount in brackets.

Refer to *Taxation Ruling TR 98/7* which explains the circumstances in which packaging items held by a manufacturer, wholesaler or retailer are 'trading stock' as defined in section 70-10 of ITAA 1997. To find out how to get a copy see the inside back cover.

Contractor, sub-contractor and commission expenses—label C

Show at label **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
- commissions paid to people not receiving a retainer
- agency fees—for example, advertising
- service fees—for example, plant service
- management fees
- consultant fees.

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

- expenses for external labour which are incorporated into the amount shown at label **A** —**Cost of sales**
- expenses for accounting or legal services. These are shown at label **S**—**All other expenses**.

Record retention—Keep the following:

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

Employee superannuation—label D

Show at label **D** the employee superannuation expenses incurred for the income year.

Employers are entitled to a deduction for contributions made to a superannuation, provident, benefit or retirement fund, or RSA for the benefit of eligible employees, or on the employee's death for the benefit of the dependants of the employee. The purpose of the contributions must be to provide for individual personal benefits, pensions or retiring allowances. A deduction is allowable in the income year in which the contributions were made.

The deduction is allowable whether or not the fund is a complying fund, and is entitled to concessional tax treatment. However, contributions made to a non-complying fund do not count toward superannuation guarantee obligations.

Superannuation guarantee charges are not contributions and, therefore, are not tax deductible.

Contributions paid by an employer for eligible employees (other than an exempt visitor) to a non-complying superannuation fund are tax deductible and are not subject to the limits specified below. However, these contributions are fringe benefits and may be subject to tax under the *Fringe Benefits Tax Assessment Act 1986*.

An employer contributing to a resident complying superannuation fund in respect of eligible employees may claim a deduction based on the age of each relevant employee.

For the year ended 30 June 2000 these limits are as follows:

Age in years	Deduction limit
under 35	$10 929
35 to 49	$30 356
50 and over	$75 283

The employee's age limit is determined at the end of the last day of the income year when the employer or associate of the employer made a contribution for the benefit of the employee.

Employer contributions paid to the Superannuation Holding Accounts Reserve (SHAR) are allowable deductions up to $1200 per employee.

The adjustments for taxation purposes are recorded at label **W**—**Non-deductible expenses** in the **Reconciliation statement**.

Bad debts—label E

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

Note:

- recovery of bad debts is shown at label **R**—**Other gross income** in the **Profit and loss statement**
- a deduction for bad debts is not allowable unless the debt which is bad has previously been included in assessable income, or is for money lent in the ordinary course of the business of the lending of money by a company carrying on that business (refer to section 25-35(1) of ITAA 1997)
- do not include accounting provisions for doubtful debts at label **E**. They are shown at label **S**—**All other expenses** in the **Profit and loss statement**, then added back at label **W**—**Non-deductible expenses** in the **Reconciliation statement**
- before it can be claimed, a bad debt must be bad and not merely doubtful. The deduction depends upon the facts in each case and where applicable, the action taken for recovery. For more information refer to *Taxation Ruling TR 92/18*. To find out how to get a copy see the inside back cover.

A company can also claim a deduction for:

- partial debt write-offs where only part of a debt is bad and is written off. The taxpayer may claim a deduction for the amount written off and
- losses incurred in debt for equity swaps for debt written off after 26 February 1992.

The deduction is 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. The market value of the equity is the price quoted on the stock exchange or where the equity is not listed, the net asset backing of the equity.

Where the taxpayer is not in the business of lending money, the deduction is limited to the amount of the debt that has been included in assessable income.

A bad debt deduction is only allowable where the company claiming the deduction can satisfy either:

- a continuity of ownership test for the year in which the deduction was claimed and the year in which the debt was incurred (refer to subdivision 165-C of ITAA 1997) or
- the same business test (refer to subdivision 165-E of ITAA 1997)—refer to *Taxation Ruling TR 1999/9* for the operation of this test. To find out how to get a copy see inside the back cover.

Note: The continuity of ownership test is subject to the provisions of:

- sections 165-120(2) and 165-195(3) of ITAA 1997
- subdivision 165-C of ITAA 1997—the anti-avoidance provisions which include changes in the real control of the company
- subdivision 175-C of ITAA 1997—receipt of scheme benefits and abuse of rights of continuing shareholders

Note: The provisions of subdivision 165-C of ITAA 1997 prevent prior year losses arising as a result of manipulating the bad debt provisions.

Deductions for bad debts may also be reduced by the commercial debt forgiveness provisions—see Appendix 2 on page 76.

A deduction may be allowable in respect of a debt for an equity swap by the company, if the provisions of sections 63E to 63F of ITAA 1936 are satisfied.

Record retention—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 year that the amount was returned as income.

Lease expenses within Australia—label F

Show at label **F** the lease expenses incurred through both finance and operating leases on leasing plant and equipment—including motor vehicles—from Australian residents. Exclude the cost of leasing real estate.

Note: New measures dealing with lease assignments may affect the amount of lease expenses within Australia—see **What's new?** on page 14.

Luxury car leasing

Luxury car leasing arrangements, excluding those for trading stock and genuine short-term hire arrangements, entered into after 7.30p.m. AEST, 20 August 1996, are treated under Division 42A of Schedule 2E to ITAA 1936 as a notional sale and loan transaction.

A leased car, either new or second hand, is a luxury car when its cost exceeds the luxury car depreciation limit that applies for the income year in which a lease commences for a car. The luxury car depreciation limit for the 1999–2000 year is $55 134.

Under these rules the lessee is treated as the owner of the luxury car and is therefore entitled to claim a depreciation deduction limited to the luxury car depreciation limit. The actual lease payments made by the lessee for the luxury cars will no longer be allowable deductions although they are taken into account to calculate any deductible amounts. These deductions are calculated under the rules by dividing the lease payments into their underlying capital component and their finance charge component —accrual amount. As a result a lessee will be entitled to a deduction for:

- the accrual amount reduced to reflect non-business use and
- depreciation based on the luxury car depreciation limit applicable reduced to reflect non-business use.

As a result of the application of these rules the effect of the depreciation limit on the after-tax cost of a leased luxury car to its end user, will be comparable to the effect of the limit on the after-tax cost of buying or otherwise financing the car.

These rules set out different outcomes for the lessee if a lease expires, is terminated at the end of the lease or is terminated before the end of the lease. In each of these circumstances outcomes may again be different where a lease term is extended, or a lease is renewed and the lessee buys the car, or the lessee ceases to have a right to use the car. Two of the different outcomes are demonstrated in the following examples:

Example 1:

Should the luxury car revert to the lessor because the term is not extended, the lease is not renewed and no amount is paid to the lessor, the rules treat the return of the car as a disposal by way of a sale by the lessee. Thus the depreciation balancing charge provisions may need to be considered to determine any assessable or deductible amount for the lessee.

Example 2:
Should a lessee acquire the car and an amount is paid by or on behalf of the lessee to acquire the car, a deduction is not allowable to the lessee. The lessee will continue to be the owner of the car until it is disposed of. However subdivision 20-B of ITAA 1997 may bring into assessable income at the time of disposal, certain profits made on disposal of the previously leased car. The adjustments for taxation purposes are recorded at label **B—Other assessable income** in the **Reconciliation statement**.

Record retention—If the company claims a deduction for the cost of leasing property keep the following:
- a description of the property leased
- full particulars of the lease expenses for each item of property—including motor vehicles—showing:
  - to whom 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 were entered into, full particulars of those arrangements, including to whom the payments were made
- details of any non-business use
- any documentation on or relating to the lease of the property.

Lease expenses overseas—label I

Show at label **I** the lease expenses incurred through both finance and operating leases on leasing plant and equipment—including motor vehicles—from Australian residents. Exclude the cost of leasing real estate and expenditure on items leased from non-residents.

Note: New measures dealing with lease assignments may affect the amount of lease expenses overseas—see **What's new?** on page 14.

Record retention—If the company claims a deduction for the cost of leasing property keep the following:
- a description of the property leased
- the country from which the property was leased
- full particulars of the lease expenses for each item of property—including motor vehicles—showing:
  - to whom the payments were made
  - the country to whom 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 were entered into, full particulars of those arrangements, including to whom the payments were made
- details of any non-business use
- any documentation on or relating to the lease of the property.

Rent expenses—label H

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

Interest expenses within Australia—label V

Show at label **V** the deductible interest incurred on money borrowed from Australian sources.

Interest expenses overseas—label J

Show at label **J** the deductible interest incurred on money borrowed from overseas sources.

Note: In general terms, an amount of non-resident withholding tax is required to be deducted from interest paid or payable to non-residents, and also interest derived by a resident through an overseas branch. These amounts must be sent to the ATO.

Record retention—If interest is paid to non-residents keep the following:
- name and address of recipient(s)
- amount of interest paid or credited
- amount of withholding tax deducted and the date on which it was sent to the ATO.

Note: An amount of interest may not be deductible such as interest to which the thin capitalisation provisions and debt creation provisions apply. Include the amount of interest not allowable at label **W—Non-deductible expenses** in the **Reconciliation statement**. For additional notes on thin capitalisation see Appendix 7 on page 85.

Royalty expenses within Australia—label W

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

Record retention—Keep the following:
- name and address of recipient(s)
- amounts paid
- nature of the benefit derived—for example, a copy of the royalty agreement
- details of tax deducted where applicable and the date on which it was sent to the ATO.

Royalty expenses overseas—label U

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

Note: In general terms, an amount of non-resident withholding tax is required to be deducted from interest paid or payable to non-residents, and also interest derived by a resident through an overseas branch. These amounts must be sent to the ATO.

Record retention—Keep the following:
- name and address of recipient(s)
- amounts paid
- nature of the benefit derived—for example, a copy of the royalty agreement
- details of tax deducted where applicable and the date on which it was sent to the ATO.

Depreciation expenses—label X

These are book depreciation expenses for depreciable assets. The amount shown at label **X** does not include:

- profit on sale of depreciable assets—shown at label **R**—**Other gross income**
- loss on sale of depreciable assets—shown at label **S**—**All other expenses**.

Tax depreciation may differ from accounting or book depreciation. The reconciliation between accounting and tax depreciation is done through the **Reconciliation statement**.

Note: The amount shown at label **X** is included again at label **W**—**Non-deductible expenses** in the **Reconciliation statement.** The tax deductible depreciation amount is shown at label **F**—**Depreciation deducted** in the **Reconciliation statement**.

The write back of accounting profit or loss on disposal of depreciable assets and the inclusion/deduction of tax profit or loss on disposal of depreciable assets are shown in Worksheet 4 on pages 73–74.

Worksheet 4 includes the following:

- depreciation recouped on disposal of assets at label **B**—**Other assessable income**
- profits on sale of other assets included in accounts at label **Q**—**Other income not Included in assessable income**
- loss on sale of other assets included in accounts at label **W**—**Non-deductible expenses**
- tax loss on disposal of depreciable assets at label **X**—**Other deductible expenses**

Note: New measures may affect the amount of depreciation expenses relating to:

- GST-related expenditure—see **What's new?** on page 7
- Y2K related expenditure and software expenditure generally—see **What's new?** on page 9
- the depreciation system—see **What's new?** on page 10.

Motor vehicle expenses—label Y

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

- depreciation expenses—shown at label **X**
- lease expenses—shown at label **F** and label **I**
- interest expenses—shown at label **V** and label **J**.

A motor vehicle for the purposes of label **Y** is a motor car, station wagon, panel van, utility truck or other road vehicle designed to carry a load of less than one tonne or fewer than 9 passengers.

Repairs and maintenance—label Z

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

Note: Any item of a capital nature shown at label **Z** is written back under label **W**—**Non-deductible expenses** in the **Reconciliation statement**.

The company may deduct the cost of repairs, not being expenditure of a capital nature, to property, plant, machinery or equipment used for producing assessable income or in carrying on a business for that purpose.

Where items are newly acquired, including property acquired 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.

For more information on deductions for repairs see *Taxation Ruling TR 97/23*. To find out how to get a copy see the inside back cover.

All other expenses—label S

Show at label **S** the total of all other expenses for the income year. Calculation of some deductions may be affected by the commercial debt forgiveness provisions—see Appendix 2 on page 76.

Note: Capital items and other non-deductible items included at label **S** are written back at label **W**—**Non-deductible expenses** in the **Reconciliation statement**.

Total expenses—label Q

Show at label **Q** the total of all expense items shown at labels **A** to **S**.

If there is a negative amount at label **A**—**Cost of sales** which exceeds the total of labels **C** to **S**, print **L** in the box after the amount.

Operating profit or loss

Operating profit or loss—subtract **Total expenses** Q from **Total income** S	R		
Extraordinary revenue or expenses	N		
Total profit or loss	T		F

Operating profit or loss—label R

The amount at label **R**—**Operating profit or loss** is calculated by subtracting label **Q**—**Total expenses** from label **S**—**Total Income**.

If this amount is a loss, print **L** in the box after the amount. Extraordinary items are excluded from label **R**. These are shown at label **N**—**Extraordinary revenue or expenses**.

Extraordinary revenue or expenses—label N

Show at label **N** any amounts of extraordinary revenue or expenses. Extraordinary items are revenue and expenses or gains and losses that are from events outside the ordinary operations of the company, which are not of a recurring nature.

For a loss, print **L** in the box after the amount. Where an accounting capital gain or loss has resulted from an extraordinary item, the net amount is shown at label **N**.

Note: The amount shown at label **N** is included in the **Reconciliation statement**. For example, an extraordinary loss is added back at label **W**—**Non-deductible expenses** in the **Reconciliation statement**.

Total profit or loss—label T

Show at label **T** the total profit or loss of the company. Total profit or loss is label **R**—**Operating profit or loss** plus or minus label **N**—**Extraordinary revenue or expenses**. If this amount is a loss, print **L** in the box after the amount.

6 Reconciliation to taxable income or loss (Reconciliation statement)

6 Reconciliation to taxable income or loss

Item	Label	
Total profit or loss amount shown at label **T**, page 2		
Add:		CODE
Total current year capital gains	A	
Non-deductible exempt income expenditure	U	
Other assessable income	B	
Non-deductible expenses	W	
Less:		CODE
Total current year capital losses applied	C	
Prior year net capital losses applied	D	
Net capital losses transferred in	E	
Depreciation deducted	F	
Mining and quarrying companies only — Immediate write-off	G	
Mining and quarrying companies only — Other capital expenditure	H	
Special building write-off	I	
Drought investment allowance	J	
Development allowance	K	
IRDB registrants only — Non-syndicated research and development	L	
Syndicated research and development	M	
Landcare operations and water conservation/conveying expenses	N	
Environmental impact assessment and protection expenses	O	
Offshore banking unit adjustment	P	
Exempt income	V	
Other income not included in assessable income	Q	
Other deductible expenses	X	
Losses deducted	R	
Losses transferred in	S	
Taxable income or loss	T	F
Losses transferred out	Y	
Losses carried forward	V	
Net capital losses transferred out	W	
Net capital losses carried forward	X	
Capital gains tax small business roll-over amount	Z	

The items under this heading reconcile the amount at label **T—Total profit or loss** in the **Profit and loss statement** with label **T—Taxable income or loss** in the **Reconciliation statement** of the *Company tax return 2000*.

Add back items

Add the following items to label **T—Total profit or loss** in the **Profit and loss statement**.

Total current year capital gains—label A

To calculate the amount to be shown at label **A** complete the Capital gains worksheet at Worksheet 2 on pages 65–71. Use a separate worksheet for each capital gain. Show at label **A** the amount at **F38** in **Part F** of the worksheet.

Note: Only include at label **A**, 50 per cent of any capital gains that qualify for the small business 50% active asset reduction —see below.

For CGT events happening after 11.45a.m. AEST, 21 September 1999, a company may be eligible for the small business CGT relief including:

- the small business 50% active asset reduction of capital gains
- the small business retirement exemption and the small business roll-over

if certain conditions are satisfied—see **What's new?** on page 12.

Current year capital losses, prior year net capital losses and net capital losses transferred in, must be applied to reduce current year capital gains before applying any of the small business concessions in Division 152 of ITAA 1997. A company can choose the order in which it reduces its capital gains.

The small business 50% active asset reduction applies to any capital gain remaining after the application of all capital losses if certain conditions are satisfied. A company can then choose to apply the small business retirement exemption or small business roll-over or both to all or part of the remaining capital gain if certain further conditions are satisfied. For more information refer to the *Capital gains tax concessions for small business*. To find out how to get a copy see the inside back cover.

Companies can not choose the CGT discount available to some other entities (individuals, complying superannuation entities and trusts—50 per cent for individuals and trusts, 331/3 per cent for complying superannuation entities). Accordingly, it is necessary for corporate beneficiaries of trusts to 'gross-up', by multiplying by 2, their share of any net capital gains received from the trust that has been reduced (by the trust) by the discount percentage. Also, although companies may be eligible for the small business 50% active asset reduction, because capital losses must be applied to reduce capital gains before applying the small business concessions it is necessary to gross-up, by multiplying by 2, their share of any net capital gains received from a trust that has been reduced (by the trust) by the small

business 50% active asset reduction and, by multiplying by 4, their share of any net capital gains received from the trust that has been reduced (by the trust) by both the small business 50% active asset reduction and the discount percentage (refer to subdivision 115-C of ITAA 1997).

Corporate beneficiaries of trusts may also receive payments from the trustee out of the discount amount and/or the active asset reduction amount. These payments are 'tax-deferred amounts'. If the trust is a unit trust and the tax-deferred amount exceeds the cost base of the units in the trust, the corporate beneficiary makes a capital gain equal to the excess. As the discount amount has already been 'taxed' to the corporate beneficiary under the gross-up calculations there are no further tax consequences arising from the payment of this amount to the corporate beneficiary.

A company makes a capital gain only if a CGT event happens (refer to section 102-20 of ITAA 1997). There are a wide range of CGT events. Most CGT events involve a CGT asset. Some happen often and affect many different taxpayers—for example, when a company disposes of a CGT asset. Other events are rare and affect only a few. For example, some CGT events are concerned directly with capital receipts and do not involve a CGT asset.

A company makes a capital gain in the current income year if it receives or is entitled to receive, capital proceeds from a CGT event which exceed its cost base (or, for some CGT events, some other amount), indexed if appropriate.

Note: Indexation is not available for CGT assets acquired after 11.45a.m. AEST, 21 September 1999. For CGT events happening after that time to a company's CGT assets acquired at or before that time, indexation is frozen as at 30 September 1999.

An exception—most are contained in Division 104 of ITAA 1997—or exemption may apply to allow the company to reduce the capital gain or loss or to disregard it. The company may defer or disregard a capital gain or loss if a roll over is allowable. A capital gain a company makes on a disposal of a CGT asset is disregarded, as a general rule, if the company acquired the asset before 20 September 1985.

Note: If a CGT event happens to an asset the company acquired before 20 September 1985, the CGT provisions apply if there has been a change in majority underlying interests in the asset. The provisions dealing with changes in majority underlying interests are in subdivision 149-C of ITAA 1997 for public companies and their subsidiaries, and subdivision 149-B of ITAA 1997 for other companies.

An Australian resident company may make a capital gain, generally speaking, if a CGT event happens to any of its worldwide CGT assets. A company, which is not an Australian resident just before the CGT event happens, may make a capital gain if, generally speaking, its CGT asset has the necessary connection with Australia (refer to sections 136-10 and 136-25 of ITAA 1997) or certain CGT events apply, that is:

- those which create contractual or other rights, a CGT event D1 or
- those which create a trust over future property, a CGT event E9.

A non resident company makes a capital gain or loss from CGT event D1 or CGT event E9 only if the requirements of section 136-15 of ITAA 1997 are satisfied.

If a capital improvement is made after 19 September 1985 to an asset acquired on or before that date, the improvement may be treated as a separate CGT asset (refer to section 108-70 of ITAA 1997).

If any part of a company's capital proceeds from a CGT event has been otherwise included in its assessable income (refer to section 6-5 of ITAA 1997) a capital gain the company makes from the event is reduced (refer to section 118-20 of ITAA 1997).

Special rules apply to collectables and personal use assets. A capital gain is disregarded if a company makes it from a collectable acquired for $500 or less, or a personal use asset, or part of it, that the company acquired for $10 000 or less (refer to section 118-10 of ITAA 1997). Any profit from the sale of any property acquired before 20 September 1985 must be included in a company's assessable income if:

- the profit arose from the carrying on or carrying out of a profit-making undertaking or plan (refer to section 15-15 of ITAA 1997) or
- the property was acquired for profit-making by sale (refer to section 25A of ITAA 1936). Do not include this type of profit at label **A** but ensure that it is shown at label **R—Other gross income** or label **N —Extraordinary revenue or expenses** in the **Profit and loss statement**. The ATO has issued a number of Taxation Rulings and Taxation Determinations setting out the views of the ATO on the interpretation and application of the law as it relates to transactions involving property. To find out how to get a copy see the inside back cover.

In calculating capital gains, the cost base of certain assets may need to be reduced by commercial debt forgiveness provisions (refer to item 19 of section 112-97 of ITAA 1997 and Schedule 2C to ITAA 1936)—see Worksheet 2 on pages 65–71.

If a company made a capital gain from a CGT event involving a CGT asset and it has shown the capital gain at label **A**, print the code in the CODE box from the list below which best describes that CGT asset. If it made capital gains from more than one CGT event, select the code which best describes the CGT asset that produced the largest amount of capital gain.

CGT asset	Code
Shares	**S**
Units in unit trust	**U**
Real estate	**R**
Collectables	**A**
Personal use assets	**P**
Equipment and plant including trucks	**E**
Goodwill on the sale of a business	**G**
Trust distributions	**T**
Other assets or where the CGT event does not involve a CGT asset	**O**
Instalment receipts	**I**

Note: New measures relating to the depreciation system may affect the amount of capital gains—see **What's new?** on page 10.

Non-deductible exempt income expenditure —label U

Show at label **U** any expenditure incurred in deriving exempt income shown at label **V—Exempt income**. Do not include expenditure incurred in deriving exempt income from RSAs.

Other assessable income—label B

Label **T—Total profit or loss** in the **Profit and loss statement** on page 2 of the *Company tax return 2000* is transferred to label **T—Taxable income or loss** on page 3 in the **Reconciliation statement**. The amount shown at label **B** excludes any amount shown at label **A—Total current year capital gains**. Generally, the amounts included here are amounts that are not included as income in the **Profit and loss statement** but which form part of assessable income. For example, attributed foreign income of a CFC, and timing adjustments, such as that which reconciles interest receivable to assessable interest income. For more information on specific items see the inclusive list of items at Worksheet 4 on pages 73–74.

Note: The following items are added back at label **B**:

- assessable balancing charges—that is, profit on disposal of depreciated plant (refer to subdivisions 42-E, 42-G and 42-H of ITAA 1997).
  To calculate these amounts use the Depreciation worksheet at Worksheet 1 on page 64. For more information on depreciation, refer to the *Guide to depreciation*. To find out how to get a copy see the inside back cover
- the excess of the company's foreign sourced income for taxation purposes over income from such sources shown in the accounts (refer to section 6AB of ITAA 1936). Foreign sourced income must be grossed up by the amount of foreign tax paid (refer to section 6AC of ITAA 1936). Any add back or subtraction adjustment to expenses claimed against such income is separately shown at label **W—Non-deductible expenses**, or at label **X—Other deductible expenses** in the **Reconciliation statement**.

Non-deductible expenses—label W

Show at label **W** expense related adjustments that have to be added back to the amount shown at label **T—Total profit or loss** in the **Profit and loss statement** to reconcile with the amount shown at label **T—Taxable income or loss** in the **Reconciliation statement**. The amount shown at label **W** excludes any amount shown at label **U—Non-deductible exempt income expenditure**.

Generally, label **W** shows the amounts that are an expense for accounting purposes, but not deductible for income tax purposes, including timing variations. Examples are overseas interest disallowed under the thin capitalisation or debt creation provisions, and losses on sale of fixed assets included in the accounts—to calculate the income tax amount see the Depreciation worksheet at Worksheet 1 on page 64. For more information on specific items see the inclusive list of items at Worksheet 4 on pages 73–74.

Where foreign sourced income expenses for accounting purposes exceed allowable deductions for income tax purposes, the difference is shown at label **W**.

Note: Where Australian and foreign sourced capital losses for accounting purposes are recorded at label **R—Other gross income** or label **N —Extraordinary revenue or expenses** in the **Profit and loss statement** they are also included at label **W**.
Capital losses for Australian taxation purposes are shown at the appropriate labels, either label **C—Total current year capital losses applied**, or label **D—Prior year net capital losses** applied in the **Reconciliation statement**.

Subtraction items

Deduct the following items from the sum of the amount shown at label **T—Total profit or loss** in the **Profit and loss statement**, and the add back items at labels **A** to **W** in the **Reconciliation statement**.

Total current year capital losses applied —label C

To calculate the amount shown at label **C**, complete the Capital gains worksheet at Worksheet 2 on pages 65–71. Use a separate worksheet for each capital loss. Add the total amounts calculated using the worksheets. Show at label **C** the amount at **F35** in **Part F** of the worksheet.

Note: Only include at label **C**, 50 per cent of any current year capital losses that are applied against capital gains that qualify for the small business 50% active asset reduction —see below.

The amount shown at label **C** cannot exceed the amount shown at label **A—Total current year capital gains**. Therefore, if label **A** is blank, do not complete label **C**. Any current year capital loss that cannot be applied against total current year capital gains is shown at label **X—Net capital losses carried forward**. It can be carried forward to a later income year and applied against capital gains in that year.

A company makes a capital loss if and only if, a CGT event happens (refer to section 102-20 of ITAA 1997).

A company makes a capital loss in the current income year if its reduced cost base (or, for some CGT events, some other amount) exceeds the capital proceeds it receives or is entitled to receive from the CGT event.

The elements of the reduced cost base are not indexed for inflation in working out a capital loss.

Note: Indexation is not available in any case for CGT assets acquired after 11.45a.m. AEST, 21 September 1999. For CGT events happening after that time to a company's CGT assets acquired at or before that time, indexation is frozen as at 30 September 1999.

An exception—most are contained in Division 104 of ITAA 1997—or exemption may apply to reduce the capital loss or gain or to disregard it. A capital loss a company makes on a disposal of a CGT asset is disregarded as a general rule if it acquired the asset before 20 September 1985. The company may defer or disregard a capital loss or gain if a roll-over is allowable.

If a company is a member of a WHOLLY OWNED group of companies, do not include at label **C** any net capital losses transferred in or transferred out. These are included at labels **E—Net capital losses transferred in** and **W—Net capital losses transferred out**.

A capital loss is disregarded if a company makes it from a collectable it acquired for $500 or less, or from a personal use asset, or part of it (refer to section 118-10 of ITAA 1997). A current year capital loss made on a collectable or an unapplied prior year net capital loss on a collectable, can only be used to reduce capital gains from other collectables (refer to section 108-10 of ITAA 1997). Only show at label **C** the amount of any current year capital losses from collectables that you are using this year to reduce current year capital gains from collectables. A capital loss from a personal use asset is disregarded (refer to section 108-20 of ITAA 1997)—that is, it is not even used to reduce capital gains from other personal use assets.

If a company has not had the same ownership and control during the current income year, and has not satisfied the same business test, its net capital loss or gain for the year is calculated under subdivision 165-CB of ITAA 1997.

As an anti-avoidance measure, the Commissioner, may prevent a company, in working out its net capital gain (or net capital loss) for an income year, from applying all or part of a capital loss it made during the year (refer to subdivision 175-CB of ITAA 1997).

Also, capital losses may need to be reduced by the commercial debt forgiveness provisions (refer to item 3 of section 102-30 of ITAA 1997 and Schedule 2 of ITAA 1936)—see Worksheet 2 on pages 65–71.

There are also a number of new value shifting and loss duplication provisions that may reduce or deny capital losses in certain circumstances. For more information see **What's new?** on page 13.

If a company has made a capital loss from a CGT event involving a CGT asset and is applying it or part of it at label **C**, print the code in the CODE box from the list on page 36 which best describes that CGT asset. If it made capital losses, from more than one CGT event, that it is applying at label **C**, select the code which best describes the CGT asset that produced the largest amount of capital loss.

Do not include capital losses applied in calculating a small business roll-over amount.

Note: New measures relating to the depreciation system may affect the amount of capital gains—see **What's new?** on page 10.

Prior year net capital losses applied—label D

To calculate the amount shown at label **D**, complete the Capital gains worksheet at Worksheet 2 on pages 65–71. Show at label **D** the amount at **F36** in **Part E** of the worksheet.

Note: Only include at label **D**, 50 per cent of any prior year net capital losses that are applied against capital gains that qualify for the small business 50% active asset reduction.

Prior year net capital losses are applied against a company's current year capital gains in the order in which the company made them. A net capital loss can be applied only to the extent that it has not already been applied or transferred out.

The amount shown at label **D** cannot exceed the amount shown at label **A—Total current year capital gains** minus the amount shown at **label C—Total current year capital losses applied**. Therefore, if label **A** is blank or label **C** equals label **A**, do not complete label **D**. Any prior year net capital losses not applied or transferred out are shown at label **X —Net capital losses carried forward**. It can be carried forward to a later income year and applied against capital gains in that year.

If a company is a member of a WHOLLY OWNED group of companies, do not show at label **D** net capital losses transferred in or transferred out. These are shown at label **E—Net capital losses transferred in** and label **W—Net capital losses transferred out**.

Generally speaking, a company cannot apply a prior year net capital loss, in working out its net capital gain for the current income year, unless:

- it has the same owners and the same control throughout the period from the start of the loss year to the end of the current income year or
- it carried on the same business, entered no new kinds of transactions and conducted no new kinds of business (refer to subdivision 165-CA of ITAA 1997 as amended by the Integrity and Other Measures Act 1999).

However, there are 2 exceptions.

- if the company made a net capital loss during a particular part of an earlier income year—and the company would have been able to apply the net capital loss against a capital gain in the current income year if the particular part of the earlier income year was treated as a full income year—the company may apply that net capital loss (refer to subsection 165-96(2) of ITAA 1997).
- section 165-111 of ITAA 1997 allows any unapplied prior year net capital losses to be taken into account in calculating a net capital gain under subdivision 165-CB of ITAA 1997—working out the net capital gain and the net capital loss for the income year of the change.

An unapplied prior year capital loss from collectables can only be applied to reduce current year capital gains from other collectables. Only show at label **D**, any prior year capital losses from collectables applied against current year capital gains from collectables. A capital loss from a personal use asset is disregarded—it is not even used to reduce capital gains from other personal use assets.

Do not show at label **D** any prior year net capital losses applied in calculating a CGT small business roll-over amount under Division 123 of ITAA 1997 or retirement exemption amount under subdivision 118-F of ITAA 1997—for CGT events that happen before 11.45a.m. AEST, 21 September 1999.

As an anti-avoidance measure the Commissioner in certain cases, may prevent a company, in working out its net capital gain—or net capital loss—for an income year, from applying some or all, of its prior year net capital losses (refer to subdivision 175-CA of ITAA 1997).

Also, capital losses need to be reduced by the commercial debt forgiveness provisions (refer to item 3 of section 102-30 of ITAA 1997 and Schedule 2C of ITAA 1936)—see Worksheet 2 on pages 65–71.

There are also a number of new value shifting and loss duplication provisions that may reduce the amount of prior year net capital losses a company may claim in certain circumstances. For more information see **What's new?** on page 13.

Net capital losses transferred in—label E

Show at label **E** the amount at **F37** in **Part E** of the Capital gains worksheet at Worksheet 2 on pages 65–71 if any current year or prior year net capital losses (refer to subsection 170-120(2) of ITAA 1997) are transferred to the company from another company where both companies are members of the same WHOLLY OWNED group of companies (refer to subdivision 170-B of ITAA 1997).

Note: Only include at label **E**, 50 per cent of any net capital losses transferred in that are applied against capital gains that qualify for the small business 50% active asset reduction.

The transferred loss must be 'surplus' in the sense that, for the income year of the transfer, the transferring company does not have enough capital gains against which to apply it and the other company—the gain company—has enough capital gains against which to apply it (refer to subsection 170-105(3) of ITAA 1997). Therefore, the amount shown at label **E** cannot exceed the amount shown at label **A—Total current year capital gains** minus the sum of the amount shown at label **C—Total current year capital losses applied** and the amount shown at label **D—Total current year net capital losses applied**.

If a net capital loss was made by the transferring company in an earlier income year, the gain company must not be prevented by:

- subdivision 165-CA of ITAA 1997—applying net capital losses of earlier income years (ownership, control and same business rules) or
- subdivision 175-CA of ITAA 1997—tax benefits from unused net capital losses of earlier income years.

from applying the transferred amount.

If a net capital loss was made by the transferring company in the current income year, the gain company must not be required to calculate its net capital gain or net capital loss, under either:

- subdivision 165-CB of ITAA 1997—working out the net capital gain and the net capital loss for the income year of the change or

- subdivision 175-CB of ITAA 1997—tax benefits from unused net capital losses of the current year (refer to paragraph 170-140(3)(b) and section 175-75 both of ITAA 1997).

Net capital losses of a PDF are not transferable (refer to sections 195-30 and 195-35 of ITAA 1997). There are also a number of new value shifting and loss duplication provisions that may reduce the amount of net capital losses a company may claim in certain circumstances. For more information see **What's new?** on page 13.

Depreciation deducted—label F

Show at label **F** the amount of depreciation deductible for taxation purposes. This amount is often different from the amount of depreciation calculated for accounting purposes. An amount of depreciation for taxation purposes is deductible for a unit of plant owned or quasi-owned by the taxpayer during the income year, which is used or installed ready for use for the purpose of producing assessable income (refer to section 42-15 of ITAA 1997). Quasi-ownership is explained in subdivision 42-1 of ITAA 1997. For quasi-ownership of plant installed on land not owned by the taxpayer and used in mining operations, refer to *Taxation Ruling TR 1999/2*. To find out how to get a copy see the inside back cover.

Depreciation is calculated on the cost of plant as worked out under subdivision 42-B of ITAA 1997. The provisions under which cost is calculated include where for example:

- a car is acquired at a discount (section 42-70 of ITAA 1997)
- there is a non-arm's length transaction (section 42-75 of ITAA 1997)
- the car depreciation limit applies (section 42-80 of ITAA 1997)
- there is a sale and lease-back of plant that has become a fixture (section 42-82 of ITAA 1997)
- double deductions apply (section 42-85 of ITAA 1997)
- plant has been previously depreciated (section 42-90 of ITAA 1997).

Note: Division 58 affects the way in which depreciation deductions and balancing deductions are calculated in respect of depreciable plant previously owned by a tax exempt entity which enters the tax net on or after 4 August 1997. For more information on depreciation of plant previously owned by an exempt entity see **What's new?** on page 4.

The effective life of plant is determined under subdivision 42-C of ITAA 1997. This effective life can be reassessed for plant acquired after 11.45a.m. AEST, 21 September 1999 (*Treasurer's Press Release No. 58 of 1999*). However, it cannot be reassessed if that plant continues to attract accelerated depreciation rates.

Rates of depreciation are determined under subdivision 42-D of ITAA 1997. These rates will not apply to plant acquired after 11.45a.m. AEST, 21 September 1999 except if it is acquired by small business taxpayers satisfying certain conditions. (For a Definition of a small business taxpayer see page 11). Rates of depreciation for plant acquired after 11.45a.m. AEST, 21 September 1999 will be determined according to its effective life.

Depreciation is calculated under subdivision 42-E of ITAA 1997 by the prime cost or diminishing value methods. Plant can be allocated to a pool for an income year under subdivision 42-L of ITAA 1997. Disposals of plant after 11.45a.m. AEST, 21 September 1999 are excluded from the CGT system. Any capital gain or loss is treated as additional balancing adjustment calculations under the depreciation provisions.

Note: Some specific issues in respect of depreciation are:

- plant costing $300 or less (refer to section 42-167 of ITAA 1997) is available for an immediate 100 per cent depreciation deduction. Under the Miscellaneous Bill 1999, from 1 July 2000 this immediate deduction is to be replaced with a system that allows taxpayers, except small business taxpayers, an option to depreciate all items of plant costing less than $1000 through a pooling mechanism.
- plant with an effective life of fewer than 3 years acquired at or before 11.45a.m. AEST, 21 September 1999 is also available for an immediate deduction. Small business taxpayers who satisfy certain conditions will retain the immediate deduction for this plant acquired after 11.45a.m. AEST, 21 September 1999.
- in certain circumstances where the commercial debt forgiveness provisions in Division 245 of ITAA 1936 apply, the cost or undeducted cost of plant used in calculating depreciation may be reduced by amounts forgiven (refer to section 42-48 of ITAA 1997). For more information on the commercial debt forgiveness provisions see Appendix 2 on page 76.
- balancing deductions—that is, loss on disposal of depreciated plant (refer to sections 42-195, 42-197 and 42-224 of ITAA 1997) are claimed at **label X—Other deductible expenses** in the **Reconciliation statement**.
- deductions for capital works under Division 43 of ITAA 1997 are claimed at the appropriate labels —for example, label **I—Special building write-off** in the **Reconciliation statement**.

For more information on depreciation, refer to the *Guide to depreciation*. To find out how to get a copy see the inside back cover.

Note: New measures may affect the amount of depreciation deducted relating to:

- GST related expenditure—see **What's new?** on page 7
- lease assignments—see **What's new?** on page 10.

Section 61A

Section 61A of ITAA 1936 affects the way in which depreciation deductions and balancing adjustments are calculated in respect of depreciable plant of a formerly tax exempt entity that became taxable at any time between 1 July 1988 and 2 July 1995 inclusive. The provision ensures that the depreciable assets of tax exempt entities which become taxable are brought into the tax system, for the purposes of the depreciation provisions, at their notional written down values as if they had always been wholly used for the purposes of producing assessable income.

Division 57

Division 57 of ITAA 1997 affects the way in which depreciation deductions and balancing deductions are calculated in respect of the depreciable plant of a tax exempt entity which became taxable on or after 3 July 1995. Subdivisions 57-1 and 57-K ensure that depreciation deductions and balancing adjustments in respect of such transitional plant are based on the plant's notional written down value as if it had always been used by the transition entity wholly for the purposes of producing assessable income.

Division 58

Division 58 of ITAA 1997 affects the way in which depreciation deductions and balancing adjustments are calculated in respect of depreciable plant previously owned by a tax exempt entity which enters the tax net on or after 4 August 1997 by way of:

- an entity sale—plant continues to be owned by the exempt entity that becomes taxable or
- an asset sale—plant is acquired by a taxable purchaser from a tax exempt entity in connection with the acquisition of a business

Division 58:

- limits the depreciation deductions available to the first taxable owner in respect of such plant to a choice between the plant's notional written down value and its undeducted pre-existing audited book value at the time the plant enters the tax net
- contains safeguard provisions—in the form of special rules for calculating assessable balancing adjustments under subdivision 42-F of ITAA 1997 —in circumstances where the first taxable owner on-sells such plant to a subsequent purchaser
- also applies to plant that would have qualified for a capital allowance under the provisions of subdivision 330-H of ITAA 1997—transport capital expenditure.

Immediate write-off—label G

(Mining and quarrying only)

Label **G** records the total amount of expenditure claimed as a deduction under Division 330 of ITAA 1997. This Division specifically relates to the mining, petroleum and quarrying industries. For example, it includes such items as exploration expenditures, payments of petroleum resource rent tax, rehabilitation expenditures and any immediate deductions arising under subdivision 330-J of ITAA 1997—Balancing adjustment. As mining information is not property, there is no balancing adjustment arising from the disposal of mining information—refer to *Taxation Ruling TR 98/3*. To find out how to get a copy see the inside back cover.

Other capital expenditure—label H

(Mining and quarrying only)

Label **H** records the total amount of capital expenditure claimed under Division 330 of ITAA 1997—mining, petroleum and quarrying—on a 10 year write-off rate (or a 20 year write-off in relation to quarrying only) or such shorter annual write-off rate as may be determined by either the anticipated life of the mine or quarry or under the *Income Tax (Transitional Provisions) Act 1997* (Transitional Provisions Act 1997). Only amounts actually claimed this year are recorded. Balances available for future years are not required. Claims include capital expenditure on such items as:

- site preparation
- the provision of water, light or power, housing and welfare
- certain cash bidding payments for the grant of a mining or exploration authority and
- transport costs.

Amounts that were treated as current year allowable capital expenditure items under the Transitional Provisions Act 1997 are also recorded under label **H**. Only amounts actually claimed this year are recorded.

Special building write-off—label I

Show at label **I** the deduction claimed for capital expenditure on special buildings which include eligible capital expenditure on extensions, alterations or improvements. Exclude capital expenditure for mining infrastructure buildings and timber milling buildings.

For additional notes on special building write-off see Appendix 3 on page 79. Commercial debt forgiveness provisions may affect the calculation of some deductions, see Appendix 2 on page 76.

Drought investment allowance—label J

The Drought Investment Allowance (DIA) is the only investment allowance deduction for the 1999–2000 income year. The allowance provides a deduction of 10 per cent of the expenditure on the cost of acquisition or construction by the company on new items of 'drought mitigation property' as follows:

- fodder storage facilities—for example, buildings or structures used exclusively for the storage of grain, hay or fodder
- livestock drinking water storage facilities—for example, dams, earth tanks, underground tanks, above ground tanks, or the bases, stands, or covers of these tanks, approved by a federal, state or territory authority for primary industry or an approved farm water resource consultant
- water transport facilities equipment—for example, bores, wells, pumps, windmills, pipes, water towers or header tanks, with similar approval to the preceding. Capital expenditure on vehicular water tankers is not eligible for DIA. Capital expenditure on vehicular water tankers is not eligible for DIA
- minimum tillage equipment—for example, trash tillage implements, boom sprays and markers, zero and reduced tillage planters, trash seeders, deep ploughs and seed drills.

The DIA is available to either primary producer lessees who own the property, and leasing companies who own and lease the property to primary producer companies. There are special provisions for leasing companies to transfer the benefit of their DIA to the primary producer lessees.

The main criteria for the DIA are:

- the company must incur the expenditure in acquiring or constructing a new item of drought mitigation property, after 23 March 1995 and before 1 July 2000
- the property is to be used to earn primary production assessable income or installed ready for use for that purpose before 1 July 2001
- the expenditure incurred by the company must be at least $3000 on each new item of drought mitigation property
- the maximum deduction allowable to a company in an income year for one or more items of drought mitigation property is $5000. Excess expenditure, or any deduction based on it, does not carry over to other years. If expenditure on more than one item is allowable, the maximum deduction must be apportioned having regard to the cost of each item
- the deduction is allowable in the income year of first use or installed ready for first use.

Although a company can claim the DIA in addition to depreciation, the DIA cannot be claimed where a claim has been allowed or is allowable under the following provisions of ITAA 1997:

- subdivision 387-E—mains electricity connection
- subdivision 330-A—exploration and prospecting
- subdivision 42-D—depreciation rates and

section 73B of ITAA 1936—expenditure on research and development (R&D) activities.

Loss of deduction occurs where there is a:

- disposal of the property within the first 12 months of first use or installation in readiness for use
- disposal of the property after the first 12 months where this was the intention when first purchasing or constructing the property. Disposal includes loss, destruction, leasing or hiring out the property or granting a right to use to another person or use outside Australia. There are provisions for property to be transferred to companies in the same group within the 12 month period without a loss of the entitlement to the deduction.

A recoupment of the deductible expenditure is assessable under subdivision 20-A of ITAA 1997. Only 10 per cent of the amount received as a recoupment is treated as assessable income. If a recoupment amount is assessable under another provision of the income tax law, subdivision 20-A does not apply.

Development allowance—label K

This allowance shown at label **K** is available only to those companies or partnerships that have applied to the Development Allowance Authority by 31 December 1992 and which have received a pre-qualification certificate. Calculation of some deductions may be affected by the commercial debt forgiveness provisions—see Appendix 2 on page 76.

IRDB registrants only: Non-syndicated research and development—label L

To claim the R&D concession at label **L**, an eligible company must be registered in relation to its R&D activities in relation to the income year with the Industrial Research and Development Board (IRDB).

The amount of R&D expenditure at label **L** is the sum of the following amounts less any claw back amount:

- the total amount claimed under subsections 73B(13) and (14) of ITAA 1936 as an R&D deduction—other than in respect of plant—in the year the expenditure is incurred, less the amount of expenditure actually incurred. That is, where R&D expenditure qualifies for a deduction of up to 150 per cent or 125 per cent of expenditure, only the amount above 100 per cent is shown at label **L**
- one-third of the extra amount of deduction that is allowable for plant under section 73B of ITAA 1936. That is, for plant that qualifies for a 150 per cent or 125 per cent deduction over 3 years, the amount is shown at label **L** is one-third of the 50 per cent or 25 per cent as appropriate. The balance of the total plant depreciation claim for the relevant year is shown at label **F**—**Depreciation deducted** in the **Reconciliation statement**.

Only the concessional amounts specified above are shown at label **L**. Any extra adjustments for accounting reconciliation purposes relating to R&D are shown at label **W**—**Non-deductible expenses** or label **X**—**Other deductible expenses** in the **Reconciliation statement**. For more information see Appendix 4 on page 82.

Example 1

A company's aggregate R&D amount for the year is $120 000, which includes the purchase of plant for R&D costing $20 000. For accounting purposes, the company writes off the $100 000 R&D expenditure as it is incurred and depreciates the plant at 20 per cent. For tax purposes the company can claim 125 per cent of $100 000 R&D expenditure ($125 000) and one-third of 125 per cent of $20 000 plant expenditure ($8 333), being a total of $133 333 for the year.

This is shown on the *Company tax return 2000* as follows:

At item **5 Profit and loss statement**

Expenses—labels **A** to **S**		$100 000
Depreciation expenses—label **X**		$4 000

At item **6 Reconciliation statement**

Non-deductible expenses—label **W**		$4 000
Non-syndicated research and development—label **L**	(**Note 1**)	$26 666
Depreciation deducted—label **F**	(**Note 2**)	$6 667

Note 1

Step (a)	$100 000 (actual expenditure) x 125%	$125 000	
	less actual expenditure	$100 000	
	Amount from step (a)		$25 000
Step (b)	$20 000 (cost of plant) x 125%	$25 000	
	less actual cost of plant	$20 000	
		$5 000 x 1/3	$1 666
Amount to be claimed at label **L**			**$26 666**

Note 2

Total concessional amount $20 000 x 125%	$25 000	
Amount of write-off claimable under section 73B	$25 000 x 1/3	$8 333
Less amount shown under label **L** (Note 1, step (b) above)	($1 666)	
Amount to be shown at label **F**		**$6 667**

In the following 2 years the plant deduction is shown in the company tax return as (assuming other R&D expenditure of $100 000):

At item **5 Profit and loss statement**

Depreciation expenses—label **X**	$4 000

At item **6 Reconciliation statement**

Non-deductible expenses—label **W**	$4 000
Non-syndicated research and development—label **L**	$26 667
Depreciation deducted—label **F**	$ 6 667

Example 2

A company's aggregate R&D amount for the year is $100 000. For accounting purposes R&D expenditure is capitalised, and written off at 20 per cent per annum. For tax purposes, the company can claim 125 per cent, or $125 000, as a deduction.

This is shown in the *Company tax return 2000* as follows:

At item **5 Profit and loss statement**

Expenses—labels **A** to **S**	$20 000

At item **6 Reconciliation statement**

Other deductible expenses—label **X**	$80 000
Non-syndicated research and development—label **L**	$25 000

For the following 4 years the expense is shown in the company tax return as:

At item **5 Profit and loss statement**

Expenses—labels **A** to **S**	$20 000

At **6 Reconciliation statement**

Non-deductible expenses—label **W**	$20 000

Syndicated research and development—label M

The R&D amount at label **M** is the company's share of the syndicate's R&D and core technology expenditure which is deductible under section 73B of ITAA 1936. If any expenditure is deductible at the rate of 125 per cent, then the amount at label **M** is the company's share of the 125 per cent deduction. Any amounts claimed as expense items in the **Profit and loss statement** are added back at label **W —Non-deductible expenses** in the **Reconciliation statement**.

Landcare operations and water conservation/conveying expenses—label N

Landcare operations expenses

Landcare operations cover what were previously known as land degradation measures. A company can claim a deduction in the year it incurs capital expenditure on landcare measures for land in Australia, provided it is incurred in any one of the following operations:

- eradicating or exterminating animal or plant pests from the land
- destroying weed or plant growth detrimental to the land
- preventing or combating land degradation other than by the use of fences
- erecting fences to keep out livestock or vermin from areas affected by land degradation to prevent or limit further damage and assist in reclaiming the areas
- erecting fences to separate different land classes in accordance with an approved land management plan
- constructing levee banks or similar improvements
- constructing surface or sub-surface drainage works—other than the draining of swamps or low-lying areas—to control salinity or assist in drainage control.

In each case, apart from the construction of levee banks, the operation must be carried out primarily and principally for the purpose stated. This is to ensure that the outright deduction for landcare measures and the 3 year write-off for facilities to conserve or convey water cannot both be claimed for the same item of expenditure. Where levee banks are constructed primarily and principally for water conservation, the cost is an allowable deduction under the water conservation provisions—see Water conservation/conveying expenses on this page. If a company is carrying on a primary production business on the land, it may claim the deduction even when it does not own the land. Therefore, if a company lessee is carrying on a primary production business on the land, it can still claim the deduction.

The deduction for landcare operation expenses is reduced when the land is not used wholly for either:

- a primary production business or
- a business for the purpose of producing assessable income from the use of rural land—except a business of mining or quarrying.

A recoupment of the deductible expenditure is assessable under subdivision 20-A of ITAA 1997. This subdivision does not apply if the recoupment is assessable under another provision of the income tax law.

These deductions are not available to a partnership. Each partner's share of costs incurred for landcare operations are allocated to each partner and deducted in the partner's individual tax return.

Water conservation/conveying expenses

Capital expenditure incurred on water storage and farm reticulation systems is deductible if incurred primarily and principally in carrying on a primary production business on land in Australia. The expenditure can be deducted in equal instalments over 3 years. The amount shown at label **N**, in respect of water conservation expenses, is therefore one-third of the capital expenditure. Items include dams, earth tanks, underground tanks, concrete or metal tanks, tank stands, bores, wells, irrigation channels or similar improvements, pipes, pumps, water towers, windmills and extensions or improvements to any of these items. The cost of constructing a power line from an existing mains electricity connection to any plant used for conserving or conveying water is also included.

If a company is carrying on a primary production business on the land, it may claim the deduction ever when it does not own the land. Therefore, if a company lessee is carrying on a primary production business on the land, it can still claim the deduction.

The deduction for facilities to conserve or convey water is reduced where the facility is not used wholly for either:

- carrying on a primary production business on land in Australia or
- for the purpose of producing assessable income.

A recoupment of the deductible expenditure is assessable under subdivision 20-A of ITAA 1997. As the expenditure on water facilities is deductible over 3 income years, special rules apply to determine the amount of any recoupment to be included in assessable income. If the recoupment is assessable under another provision of the income tax law, subdivision 20-A does not apply. For more information, see the inside back cover.

These deductions are not available to a partnership.

Each partner's share of costs incurred for facilities to conserve or convey water are deducted in the partner's individual tax return.

Environmental impact assessment and protection expenses—label O

Show at label **O** specified expenditure of a capital nature or otherwise for:

- environmental impact studies allowable under subdivision 400-A of ITAA 1997—see Appendix 5 on page 83 and
- environmental protection activities allowable under subdivision 400-B of ITAA 1997—see Appendix 6 on page 84

Do not include here outgoings that are allowable under some other provision of ITAA 1936 and ITAA 1997.

If expenditure of a capital nature is shown at expense labels **A** to **S** or as an extraordinary expense at label **N** in the **Profit and loss statement**, then those amounts are added back at label **W**—**Non-deductible expenses** in the **Reconciliation statement**.

The deduction is subsequently reduced if any assessable grant in respect of the expenditure is received or receivable. Any recoupment of the expenditure is included in assessable income under section 20-30 of ITAA 1997.

Offshore banking unit adjustment—label P

Only use label **P** if the company has been declared to be an Offshore banking unit (OBU) by the Treasurer under subsection 128A11(2) of ITAA 1936. Otherwise disregard label **P**.

Subject to certain exceptions, an OBU is effectively taxed at the rate of 10 per cent on income derived from offshore banking activities (OB activities). In calculating an OBU's total income for the year, 'gross income from OB activities' are returned at label **R** —**Other gross income** in the **Profit and loss statement**. Total expenses from OB activities are returned at label **S**—**All other expenses** in the **Profit and loss statement**.

It is not necessary to separate gross income or total expenses from OB activities into the various income and expenses categories that appear in the **Profit and loss statement**. These categories only apply to income and expenses that do not relate to OB activities.

The 10 per cent tax rate on OB activity income is achieved by applying the normal company tax rate to an amount known as the 'eligible fraction', which is defined in section 121EG of ITAA 1936 and is therefore currently 10/36. The effect of section 121EG of ITAA 1936 means that an OBU's taxable income includes only 10/36 of its net income from OB activities.

Calculation of the offshore banking unit adjustment

The label **P**—**Offshore banking unit adjustment** ensures that the net income from OB activities is taxed at 10 per cent. The amount shown at label **P** is the difference between the OBU's net income from OB activities and the eligible fraction:

Label **P** = Net OB income–(Net OB income X eligible fraction)

When the amount shown at label **P** is deducted from the OBU's total profit, this results in only the eligible fraction shown at label **T**—**Taxable income or loss** in the **Reconciliation statement**. This is illustrated in the following examples:

Example 1

An OBU has income and expenses from various activities as follows:

	Relating to OB Activities	**Relating to non-OB Activities**	**Total**
	$	$	$
Income			
Interest	200	400	600
Rent	–	500	500
Dividends	100	400	500
Total Income	300	1300	1600
Expenses			
Rent expenses	–	600	600
Interest (within Australia)	200	300	500
Total expenses	200	900	1100
Net Profit	**100**	**400**	**500**

Page 2 of the *Company tax return 2000* is completed as follows:

Income	Gross interest	**F**	$400
	Gross rent and other leasing and hiring income	**G**	$500
	Gross dividends	**H**	$400
	Other gross income	**R**	$300
	Total income	**S**	$1600
Expenses	Rent expenses	**H**	$600
	Interest expenses within Australia	**V**	$300
	All other expenses	**S**	$200
	Total expenses	**Q**	**$1100**
	Total profit or loss	**T**	**$500**

If this company was not an OBU the amount of tax payable at 36 per cent on a taxable income of $500 is $180. However, because the company is an OBU it is entitled to the 10 per cent tax rate on its net profit of $100 from OB activities. This is achieved by recording at label P the untaxed proportion of the net profit from OB activities which, in this example, is calculated as follows:

Label **P** = net OB income–(net OB income X eligible fraction)
= $100–(100 x 10/36)
= $72 (amount shown in the **Reconciliation statement**)

The eligible fraction is, therefore, $28 and is the only part of the net profit from OB activities shown at label **T—Taxable income or loss** in the **Reconciliation statement**.

The **Reconciliation statement** in this example contains the following entries:

	Total profit or loss amount shown at label **T**, page 2	$500
Less:	Offshore banking unit adjustment at label **P**	$72
	Taxable income or loss at label **T**, page 3	$428

The tax payable at 36 per cent on a taxable income of $428 is $154, which is the same as the total of the tax payable on:

	Taxable non-OBU activity income of $400 at 36%	$144
Add:	Taxable OBU activity income of $100 at 10%	$10
	Tax payable	**$154**

OBU losses

Label **P** must not be used to record a loss from OBU activities.

Where such a loss is incurred, it is necessary to make an adjustment at label **W—Non-deductible expenses** in the **Reconciliation statement** to ensure that the company is taxed at the correct rate.

The adjustment is made by inserting at label **W** the following amount—that is:
Net OB Loss – (net OB loss x eligible fraction).

Example 2

An OBU has income and expenses relating to both OB and non-OB activities as follows:

	Relating to OB Activities	Relating to non-OB Activities	Total
	$	**$**	**$**
Gross income	200	1300	500
Expenses	300	900	1200
Net income	**(100)**	**400**	**300**

Although the company's net income is $300, its taxable income is actually $372. This is because only 10/36—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 (100x10/36)	$(28)
	Taxable income	**$372**

Label **W** = Net OB Loss – (net OB loss x eligible fraction)
= $100 – (100 x 10/36)
= $72

Completing the *Company tax return 2000*

	Total income (label **S** – page 2)	$1500
	Total expenses (label **Q** – page 2)	$1200
	Total profit/loss (label **T** – page 2)	$300
Add:	Non-deductible expenses (label **W**– page 3)	$72
	Taxable income or loss (label **T** – page 3)	**$372**

For more information on the taxation of OBU's refer to *Taxation Determinations—TD 93/202 to 93/217*, *TD 93/241* and *TD 95/1* to *95/3*. To find out how to get a copy see the inside back cover.

Exempt income—label V

Show at label **V** all income that is exempt from Australian tax. This includes income that may, subject to certain conditions, be exempt under:

- section 23AH of ITAA 1936—foreign branch income and foreign branch capital gains and
- section 23AJ of ITAA 1936—non-portfolio dividends from foreign countries.

Do not show at label **V** dividends and other amounts paid out of previously attributed income under sections 23AI, 23AK and 9913(2) of ITAA 1936. These provisions merely relieve from double taxation amounts already taxed under the CFC, transferor trust and foreign investment fund (FIF) regimes. These amounts are shown at label **Q—Other income not included in assessable income** in the **Reconciliation statement**. Income exempt under a RSA is also not shown at label **V**. Exempt income from RSAs is shown at Item **11—RSA providers only**, label **S—Exempt income from RSAs**.

Note: New measures dealing with lease assignments may affect the amount of exempt income—see **What's new?** on page 14.

Other income not included in assessable income—label Q

Show at label **Q** income related adjustments that have to be subtracted from label **T—Total profit or loss** in the **Profit and loss statement**, to reconcile with the label **T—Taxable Income or loss** in the **Reconciliation statement**. Items included under labels **C** to **V** above are not shown again here.

Generally the amounts that are included here are items that are income for accounting purposes, but not assessable for income tax purposes—for example, non-taxable offshore banking unit income, profit on sale of fixed or other assets included in accounts. Exempt income is shown separately at label **V—Exempt income**. For more information on specific items see Worksheet 4 on pages 73–74.

> **Note**: The following items are included at label **Q**:
> - any excess of gross foreign sourced income shown in the **Profit and loss statement, Income**, over the amount which represents assessable income. In calculating the excess, include dividends and other amounts paid out of previously attributed income under sections 23AL 23AK and 9913(2)(d) of ITAA 1936 which are not strictly exempt from tax. However, exclude foreign source income exempt from tax—for example, under sections 23AH and 23A1 of ITAA 1936, which is shown separately at label **V—Exempt income** in the **Reconciliation statement**.
> - the company's Australian and foreign sourced capital gains for accounting purposes that were recorded at label **R—Other gross income** or at label **N—Extraordinary revenue or expenses** in the **Profit and loss statement**. Show your Australian and foreign sourced capital gains for taxation purposes at label **A—Total current year capital gains** in the **Reconciliation statement**.

Other deductible expenses—label X

Show at label **X** expense related adjustments that are subtracted from label **T—Total profit or loss** in the **Profit and loss statement** to reconcile with label **T —Taxable income or loss** in the **Reconciliation statement**. Items included under labels **C** to **V** above are not shown again here. Generally label **X** 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 labels **C** to **V** above. For more information on specific items to be included see Worksheet 4 on pages 73–74.

Examples include:

- balancing deductions—that is, loss on disposal of depreciated plant (refer to subdivisions 42-F, 42-G and 42-GA of ITAA 1997). To calculate these amounts use the Depreciation worksheet at Worksheet 1 on page 64
- film licensed investment company deductions. A company can claim the payment for shares, in the income year in which the shares are fully paid and issued, from a company which has been granted a license to raise concessional capital under the *Film Licensed Investment Company Act*—see **What's new?** on page 4
- incentive deductions for investment under Australian Films—refer to Division 10BA of Part III of ITAA 1936 and subdivision 375-G of ITAA 1997
- capital allowances for software expenditure to ensure Y2K compliance of existing computer systems—see **What's new?** on page 9
- capital allowances for primary producers.

Losses deducted—label R

Show at label **R** only tax loss(es) of a prior income year deducted during the 1999–2000 income year under section 36-15 of ITAA 1997. Subject to various rules, a prior year tax loss is deducted in a later income year in the order in which it was incurred—to the extent that it has not already been deducted—as follows:

- if the company has no net exempt income and has an excess of assessable income over total deductions—other than tax losses—deduct the tax loss from the excess assessable income (refer to subsection 36-15(2) of ITAA 1997)
- if the company has net exempt income and an excess of assessable income over total deductions—other than tax losses—deduct the tax loss first from the net exempt income, with any remaining amount of tax loss then being deducted from the excess assessable income (refer to subsection 36-15 (3) of ITAA 1997)
- if the company has net exempt income and an excess of total deductions—other than tax losses —over assessable income, subtract the excess deductions from the net exempt income and then deduct the tax loss from any net exempt income that remains (refer to subsection 36-15(4) of ITAA 1997). A company's net exempt income is calculated in accordance with section 36-20 of ITAA 1997. This amount is not necessarily the same as the amount shown at label **V—Exempt income**.

However, a tax loss of an earlier income year is not allowable unless a company maintains the same owners as prescribed under section 165-12 of ITAA 1997 (refer to the rules on arrangements affecting beneficial ownership in section 165-180 of ITAA 1997). If it fails to meet a condition of section 165-12, it must satisfy the conditions relating to carrying on the same business under section 165-13 of ITAA 1997 (refer to T*axation Ruling TR 1999/9*. To find out how to get a copy see inside the back cover).

> **Note**: If the company satisfies the same business test but fails the conditions relating to the same owners, it cannot deduct prior year tax loss(es) unless it satisfies the control test in section 165-15 of ITAA 1997.

Note: The anti-avoidance provisions in subdivisions 175-A and 175-B of ITAA 1997 (refer to *Taxation Ruling TR 1999/9*. To find out how to get a copy see inside the back cover).

Note:

- the company must keep a record of its tax losses and account for any adjustments including those made by the ATO
- a prior year tax loss may also be reduced by the commercial debt forgiveness provisions—see Appendix 2 on page 76
- non-primary production losses for the 1988–1989 year and earlier are not deductible (refer to subsection 80(2) of ITAA 1936)
- losses incurred in relation to deriving foreign income are excluded from label **R**. For rules which quarantine classes of deductions and losses of previous years incurred in producing foreign source income refer to sections 79D and 160AFD of ITAA 1936. Allowable foreign losses are taken into account in the calculation of assessable foreign income for taxation purposes. Any adjustment to reconcile deductions claimed against foreign income are made at the appropriate labels in the **Reconciliation statement**. See the instructions for label **W—Non-deductible expenses** on page 36 and label **X—Other deductible expenses** on page 46
- the film component of tax loss(es) (film loss(es)) is excluded from label **R**. For a film loss to be deductible refer to Divisions 36 and 375 of 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 label **W—Non-deductible expenses** or label **X—Other deductible expenses** in the **Reconciliation statement**
- PDF tax loss(es) are excluded from label **R**. For deductibility of PDF tax losses refer to Division 195 of ITAA 1997
- capital losses may only be applied in accordance with Division 102 of ITAA 1997.

Losses transferred in—label S

Show at label **S** the amount of tax losses transferred to the company from group companies under subdivision 170-A of ITAA 1997.

A group company may transfer the whole or a part of a tax loss to another group company where the conditions laid down in subdivision 170-A are satisfied (refer to *Taxation Ruling TR 98/12*. To find out how to get a copy see inside the back cover).

These conditions include:

- the loss company is a resident company in the income year in which the tax loss is incurred (refer to section 170-35 of ITAA 1997)
- the income company is a resident company in the income year in which the tax loss is being transferred (refer to section 170-40 of ITAA 1997)
- the transferee (income) company has an excess of income over deductions for the income year in which the tax loss is to be transferred and that excess is equal to or greater than the amount of loss being transferred (refer to section 170-20 of ITAA 1997)
- both the loss and income companies satisfy the common ownership test during the loss year and the deduction year and any intervening income years (refer to section 170-30 of ITAA 1997)
- the transfer is made under a written agreement between the loss company and the income company that:
  - specifies the income year of the transfer
  - specifies the amount of the tax loss being transferred
  - is signed by the public officer of each company
  - is made on or before the day of lodgment of the income company's tax return for the deduction year, or within such further time as the Commissioner allows.

Note:

- the tax loss transferred in, is first offset against the income company's net exempt income, then against its assessable income
- tax losses transferred can never be used to create a tax loss
- tax losses must be transferred in the order in which they were incurred (refer to section 170-55 of ITAA 1997)
- the income company can never transfer any amount of a tax loss transferred to it (refer to section 170-60 of ITAA 1997)
- consideration received by the tax loss company for the tax loss transfer is neither assessable income nor exempt income of the loss company. Neither does a capital gain accrue to the loss company because of the receipt of the consideration (refer to section 170-25 of ITAA 1997)
- 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 ITAA 1936 (refer to section 170-70 of ITAA 1997).

Taxable income or loss—label T

Show at label **T** all assessable income less allowable deductions which equals the amount at label **T—Total profit or loss** in the **Profit and loss statement** plus or minus the reconciliation adjustments in the **Reconciliation statement**. Where the company has a taxable income of $1 or more, transfer the amount at this label to label **A—Taxable or net income** in the **Calculation statement** on page 4 of the *Company tax return 2000*. Where the amount calculated for label **T** is a loss and an amount is shown at label **V—Exempt income**, then the company's allowable current year loss—prior to taking into account prior year or transferred losses—has to be calculated. The company's allowable current year loss is its deductible amounts less total assessable income less net exempt income (refer to section 36-10 of ITAA 1997). The company's net exempt income is calculated under section 36-20 of ITAA 1997 and is not necessarily equal to the amount shown at label **V—Exempt income**. Once the company's allowable current year loss is calculated, this amount is shown at label **T—Taxable income or loss** and where the amount is a taxable loss print **L** in the box after the amount. The amount of net exempt income taken into account in calculating the company's allowable current year loss is shown at label **B—Other assessable income**. Where the company has an allowable current year loss, show **0** at label **A—Taxable or net income** in the **Calculation statement** on page 4 of the *Company tax return 2000*.

Losses transferred out—label Y

Show at label **Y** the amount of tax losses transferred by the company to group companies under subdivision 170-A of ITAA 1997. For notes on tax loss transfers under subdivision 170-A of ITAA 1997 see label **E—Net capital losses transferred in** and label **S—Losses transferred in** in the **Reconciliation statement**.

Losses carried forward—label V

Show at label **V** the undeducted amount of tax losses incurred by the company and carried forward to the 2000–2001 income year under section 36-15 of ITAA 1997.

Any net capital losses to be carried forward are not included at label **V** but are shown separately at label **X—Net capital losses carried forward**.

Net exempt income reduces a current year tax loss and, to the extent of any excess, reduces prior year tax losses. Tax losses carried forward may be affected by the commercial debt forgiveness provisions—see Appendix 2 on page 76.

A tax loss for the 1999–2000 income year increases the tax losses carried forward. Where tax losses have been transferred out or recouped, this reduces the tax losses carried forward.

Net capital losses transferred out—label W

Show at label **W** the amount at **F30** in **Part F** of the Capital gains worksheet at Worksheet 2 on pages 65–71, being any current year net capital loss and prior year net capital losses that the company has transferred to another company where both companies are members of the same WHOLLY OWNED group of companies (refer to subdivision 170-B of ITAA 1997).

The transferred loss must be 'surplus' in the sense that, for the income year of the transfer, the transferring company does not have enough capital gains against which to apply it and the other company—the gain company—must have enough capital gains against which to apply it (refer to subsection 170-105(3) of ITAA 1997).

If a net capital loss was made by a company in an earlier income year, the company can only transfer the loss if the company would not have been prevented from applying the net capital loss under:

- subdivision 165-CA of ITAA 1997—applying net capital losses of earlier income years (ownership, control and same business rules) or
- subdivision 175-CA of ITAA 1997 tax benefits from unused net capital losses of earlier income years

had it made enough capital gains in the loss transfer year (the application year).

If a net capital loss was made by the transferring company in the current income year, the gain company must not have been required to calculate the net capital loss under either:

- subdivision 165-CB of 1997—working out the net capital gain and the net capital loss for the income year of the change (refer to paragraph 170-135(2)(a) of ITAA 1997) or
- subdivision 175-CB of ITAA 1997—tax benefits from unused capital losses of the current year (refer to paragraph 170-135(2)(b) and section 175-75 of ITAA 1997).

Capital losses from collectables cannot be transferred (refer to subsection 170-105(1) of ITAA 1997).

Net capital losses of a PDF are not transferable (refer to sections 195-30 and 195-35 of ITAA 1997).

Net capital losses carried forward—label X

Show at label **X** the amount at **F27** in **Part F** of the Capital gains worksheet at Worksheet 2 on pages 65–71, the amount of any unapplied net capital losses that can be carried forward and applied to reduce capital gains in future income years. The net capital losses include any unapplied current year net capital loss and any unapplied prior year net capital losses.

Note: Any net capital loss made from personal use assets is not shown at label **X**. Do not include net capital losses that have been applied in calculating a CGT small business roll-over amount under Division 123 of ITAA 1997 or retirement exemption amount under subdivision 118-F of ITAA 1997—for CGT events that happen before 11.45a.m. AEST, 21 September 1999.

If any commercial debts of the company have been forgiven in the income year, its net capital losses may need to be reduced accordingly (refer to item 3 of section 102-30 of ITAA 1997 and Schedule 2C to ITAA 1936).

Capital gains tax small business roll-over amount—label Z

Show at label **Z** the sum of **C2** and **E3** in **Part C** and **Part E** of the Capital gains worksheet at Worksheet 2 on pages 65–71, being the amount of capital gains that the company has rolled over under subdivision 152-E or Division 123 of ITAA 1997 in respect of the small business roll-over. Do not show at label **Z** amounts that are disregarded under the small business retirement exemption in subdivision 152-D or 118-F of ITAA 1997. The small business CGT concessions are explained in more detail in the *Capital gains tax concessions for small business*. To find out how to get a copy see the inside back cover.

7 Financial and other information

7 Financial and other information

Label	Item	
Opening stock	A	
Purchases and other costs	S	
Closing stock	B	CODE
Trading stock election		Print Y for yes or leave blank.
Trade debtors	C	
All current assets	D	
Total assets	E	
Trade creditors	F	
All current liabilities	G	
Total liabilities	H	
Shareholders' funds	R	F
Franked dividends paid	J	
Unfranked dividends paid	K	
Class A franking account balance	L	
Class C franking account balance	M	
Loans to shareholders and their associates	N	CODE
Depreciable assets purchased	Z	
Depreciable assets sold	P	
Total salary and wage expenses	D	CODE
Payments to related entities	Q	
Prescribed payments system income—net of expenses	A	
Net foreign income	R	
Tax spared foreign tax credits	S	
Attributed foreign income: Broad-exemption listed country	B	
Attributed foreign income: Limited-exemption listed country	C	
Attributed foreign income: Unlisted country	U	
Attributed foreign income: Transferor trust	V	
Attributed foreign income: Foreign investment fund income	W	
Attributed foreign income: Foreign life policy	X	
Foreign currency exchange gains or losses of a capital nature	I	
Section 128F exempt interest paid	O	F

Opening stock—label A

Show at label **A** 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 2000* has been prepared. The amount shown by the company at label **A** is the value for income tax purposes under section 70-40 of ITAA 1997. The opening value of an item of stock must equal its closing value in the previous year.

Include motor vehicle floor plan stock and work in progress of manufactured goods.

Exclude any amount that represents opening stock of a business that commenced operations during the income year. This amount is shown at label **S—Purchases and other costs**.

Purchases and other costs—label S

Show at label **S** the cost of direct materials used for manufacture, sale or exchange in deriving the gross proceeds or earnings of the business.

Closing stock—label B

Show at label **B** 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 2000* has been prepared. The amount at label **B** is the value calculated for income tax purposes under section 70-45 of ITAA 1997.

Include floor plan stock and work in progress of manufactured goods.

Exclude any amount that represents closing stock of a business that ceased operations during the income year. This amount is shown at label **R—Other gross income** in the **Profit and loss statement**.

Print the code in the CODE box indicating the method used to value closing stock for income tax purposes. Where more than one method is used, use the code applicable to the method representing the highest value.

Valuation method	Code
Cost	C
Market selling value	M
Replacement price	R

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 depreciation, 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 in the tax return, advise the ATO 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.

Note: Refer to *Taxation Ruling TR 98/7* which explains the circumstances in which packaging items held by a manufacturer, wholesaler or retailer are 'trading stock' as defined in section 70-10 of ITAA 1997. To find out how to get a copy see the inside back cover.

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 price, because of obsolescence or any other special circumstances. The value it elects must be reasonable—for guidelines on trading stock valuations where obsolescence or other special circumstances exist refer to *Taxation Ruling TR 92/23*. To find out how to get a copy see the back cover.

Where an election is made, print **Y** for yes in the box at this item.

Trade debtors—label C

Show at label **C** the total amounts owing to the company for goods and services provided during the income year, that is current trade debtors. Also include this amount at label **D—All current assets**.

All current assets—label D

Show at label **D** all assets of the company, including all current assets, other debtors, fixed, tangible and intangible assets. Include cash on hand, accounts receivable, short term bills receivable, inventories and cash at bank. Also include the amount shown at label **C—Trade debtors**.

Total assets—label E

Show at label **E** all assets of the company, including current, fixed, tangible and intangible assets. Also include the amount shown at label **D—All current assets**.

Trade creditors—label F

Show at label **F** the total amounts owed by the company at year end for goods and services provided during the income year, that is current trade creditors. Also include this amount at label **G—All current liabilities**.

All current liabilities—label G

Show at label **G** the total obligations payable by the company within the coming year. Also include the amount shown at label **F—Trade creditors**.

Total liabilities—label H

Show at label **H** 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 label **G—All current liabilities**.

Shareholders' funds—label R

Show at label **R** the net shareholders' funds per accounting records. The amount shown at label **E —Total assets** less the amount shown at label **H —Total liabilities**, equals the amount shown at label **R**. If this amount is negative, print **L** in the box to the right of the amount.

Note: Proposed measures dealing with lease assignments may affect the amount shown for:
- label **D**—All current assets
- label **E**—Total assets
- label **G**—All current liabilities
- label **H**—Total liabilities
- label **R**—Shareholders' funds.

For more information see **What's new?** on page 14.

Franked dividends paid—label J

Show at label **J** the amount of fully-franked dividends paid or credited during the income year. Where a partly franked dividend has been paid during the income year, show the franked portion at label **J** and the unfranked portion at label **K**.

Record retention—Keep a record of dividends paid, including recipients, dates paid and amounts paid.

Unfranked dividends paid—label K

Show at label **K** the amounts deemed to be dividends by various sections of ITAA 1936 and 1997.

Under Division 7A Part III of ITAA 1936, payments and loans—unless they come within specified exclusions—by a private company to a shareholder and their associate, are treated as assessable dividends to the extent of the distributable surplus (includes realised and unrealised profit). In addition, debts owed by a shareholder or associate which are forgiven by a private company are treated as dividends.

Record retention—Keep a record of dividends paid, including recipients, dates paid and amounts paid.

Franking accounts

Class A franking account balance—label L

Label **L** applies to life assurance companies. Life assurance companies have converted their class B franking accounts into class C franking accounts but they can continue to maintain a class A franking account for the 1995–1996 income year and later income years.

Note: No franking credit or debit arises from the payment or refund of tax after 12 November 1998, where those amounts are attributable to the RSA business of a life assurance company. This brings the dividend imputation treatment of RSAs for life assurance companies into line with the treatment for ordinary companies—see **What's new?** on page 5.

Class C franking account balance—label M

Show at label **M** the balance of the class C franking account at the end of the 2000 franking year, unless it is a deficit balance.

The entry of a surplus balance or nil on the *Company tax return 2000* means the company is not required to lodge a *Franking account tax return 2000*, unless requested to do so by the Commissioner.

If there is a deficit balance in the franking account at the end of the franking year, a *Franking account tax return 2000* must be lodged by the last day of the month following the close of the franking year.

If the company is a PDF and its venture capital sub-account is in deficit at the end of the franking year, 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* must be lodged. To find out how to get a copy see the inside back cover. For more information see **What's New?** on page 14.

Note:

- shareholder loans and other advances made by private companies that are deemed dividends are not frankable, but the company's franking account is debited as if the deemed dividend had been franked
- the summarised measures dealing with dividend streaming and franking credit trading, together with franking debits and credits for life assurance companies—see **What's new?** on pages 4 and 5. A company determines whether its franking account needs adjustment, because the measures may affect franking benefits available to shareholders, deny franking credits or give rise to additional franking debits.

Loans to shareholders and their associates —label N

Label **N** is only to be completed if:

- the company is a private company
- the company had a loan account to a shareholder or an associate which had a debit balance at any time during the income year and
- the recipient of the loan was a natural person.

Show at label **N** the net sum of debit loan account balances of all such loan accounts for shareholders or other associates at the end of the income year. The net sum is shown in whole figures only and does not include brackets, or plus or minus signs.

For example, –$34 677 becomes $34 677.

Print the code in the CODE box indicating whether:

- the net balance is a debit balance (money owed to the company) **D**
- the net balance is a credit balance (money owed by the company) **C**
- the net balance is nil **N**

Under Division 7A, Part III of ITAA 1936, loans by a private company to a shareholder and their associate—unless they 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.

Depreciable assets purchased—label Z

Show at label **Z** the cost, for income tax depreciation purposes, of all depreciable assets other than buildings, brought into use and first depreciated during the income year for producing assessable income. The amount shown is the cost of the depreciable assets less adjustments made, such as those made under sections 42-65, 42-165 and 42-285 of ITAA 1997.

Include—for example, purchases of plant and equipment for approved R&D projects.

Exclude—for example:

- purchases of buildings used to produce assessable income
- purchases of buildings used for approved R&D projects
- purchases of assets used to produce exempt income. For more information see the Depreciation worksheet at Worksheet 1 on page 64.

Measures contained in Division 58 of ITAA 1997 affect the way in which depreciation deductions and balancing adjustments are calculated in respect of depreciable plant previously owned by a tax exempt entity which enters the tax net on or after 4 August 1997 by way of:

- an entity sale—plant continues to be owned by the exempt entity that becomes taxable or
- an asset sale—plant is acquired by a taxable purchaser from a tax exempt entity in connection with the acquisition of a business.

Division 58:

- limits the depreciation deductions available to the first taxable owner in respect of such plant to a choice between the plant's notional written down value and its undeducted pre-existing audited book value at the time the plant enters the tax net
- contains safeguard provisions—in the form of special rules for calculating assessable balancing adjustments under subdivision 42-F of ITAA 1997 —in circumstances where the first taxable owner on-sells such plant to a subsequent purchaser applies to plant that would have qualified for a capital allowance under the provisions of subdivision 330-H of ITAA 1997—transport capital expenditure.

Note: New measures may affect the amount of depreciable assets purchased relating to:
- GST-related expenditure—see **What's new**? on page 7
- the depreciation system—see **What's new**? on page 10
- lease assignments—see **What's new**? on page 14.

Depreciable assets sold—label P

Show at label **P** the amount of each depreciable asset sold, lost or destroyed during the income year. The amount shown is the lesser of the written down value at the date of disposal or the amount received. If these amounts are the same, show that amount.

Include—for example, sales of plant and equipment for approved R & D projects.

Exclude—for example:
- sales of buildings used to produce assessable income
- sales of buildings used for approved R & D projects
- sales of assets used to produce exempt income. For more information see the Depreciation worksheet at Worksheet 1 on page 64.

Note: New measures may affect the amount of depreciable assets sold relating to:
- GST-related expenditure—see **What's new**? on page 7
- the depreciation system—see **What's new**? on page 10
- lease assignments—see **What's new**? on page 14.

Total salary and wage expenses—label D

Show at label **D** the total salary, wage and other labour costs incurred including directors' remuneration, as per group certificates. The group tax reconciliation for the income year adjusted for companies with substituted accounting periods normally provides the information required.

These expenses include any salary and wage component of label **A**—**Cost of sales** in the **Profit and loss statement**—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 to an associated person is included here and at label **Q**—**Payments to related entities**.

However, these expenses exclude agency fees, contract payments, sub-contract payments, service fees, superannuation, reimbursements or allowances for travel, wages or salaries reimbursed under a government program, management fees and consultant fees.

Print the code in the CODE box from the list below that matches the description of the expense component where salary and wage expenses have been wholly or predominantly reported.

Included in the expense component of:

Cost of sales	C
All other expenses	A

Included in both the expense components of:

Cost of sales and **All other expenses**	B

Included in other than:

Cost of sales and/or **All other expenses**	O

Payments to related entities—label Q

Show at label **Q** the amounts, including salaries, wages, commissions, superannuation contributions or allowances paid by a private company to related entities. (A related entity has the meaning given by subsections 26-35(2) and 2635(3) of ITAA 1997 and includes a relative).

Also include the amounts of salaries and wages paid to related entities at label **D—Total salary and wage expenses**.

Record retention—Excessive remuneration paid to a related entity may not be deductible and could be treated as an unfranked dividend. 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.

Prescribed payments system income—net of expenses—label A

Label **A** needs to be completed where you have entered an amount at label **A**—**Gross prescribed payments system income** in the **Profit and loss statement**.

PPS income-net of expenses represents the gross amount of PPS income (label **A—Gross prescribed payments system** in the **Profit and loss statement**) less any allowable deductions related to earning that income. Allowable deductions that relate to both PPS income and non-PPS income are apportioned accordingly.

Note: PPS credits for tax deducted are not an allowable deduction. PPS credits are shown at either label **W**—**PPS credit** or label **Z**—**Other refundable credits** in the **Calculation statement** (for PPS credits distributed from a partnership or trust). If the PPS income-net of expenses is a loss, insert the amount at label **A** and print **L** in the CODE box.

Net foreign income—label R

Show at label **R** assessable income derived by the company from foreign sources net of expenses. This amount includes foreign source capital gains but excludes attributed foreign income and capital losses.

Foreign source losses may be offset only against foreign source income. Do not show negative amounts at label **R**. Any excess of foreign source losses over foreign source income may be carried forward to be offset against future foreign source income of the same class—refer to the *Foreign income return form guide*. To find out how to get a copy see the inside back cover.

Tax spared foreign tax credits—label S

Show at label **S** the amount of foreign tax credit relating to foreign tax forgone under an investment incentive scheme provided by a foreign government where that tax forgone is deemed to have been paid for the purposes of Australia's foreign tax credit system.

Attributed foreign income—labels B, C, U, V, W and X

Broad-exemption listed country—label B

Show at label **B** the amount of net attributed foreign income from controlled foreign entities in broad-exemption listed countries. Broad-exemption listed countries are listed in Part 1 of Schedule 10 of the *Income Tax Regulations*. Do not include amounts attributed from transferor trusts—see label **V —Transferor trust**.

Limited-exemption listed country—label C

Show at label **C** the amount of net attributed foreign income from controlled foreign entities in limited-exemption listed countries. Limited-exemption listed countries are listed in Part 2 of Schedule 10 of the *Income Tax Regulations*. Do not include amounts attributed from transferor trusts —see label **V—Transferor trust**.

Unlisted country—label U

Show at label **U** the amount of net attributed foreign income from controlled foreign entities in unlisted countries. Unlisted countries are countries that are not listed in Schedule 10 of the *Income Tax Regulations*. Do not include amounts attributed from transferor trusts—see label **V—Transferor trust**.

Transferor trust—label V

Show at label **V** the amount of net attributed foreign income from transferor trusts.

Foreign investment fund income—label W

Show at label **W** the amount of net attributed foreign income from foreign investment funds. The term foreign investment fund has the same meaning as set out in Part XI of ITAA 1936.

Foreign life policy—label X

Show at label **X** the amount of net attributed foreign income from foreign life policies. The term foreign life policy has the same meaning as set out in Part XI of ITAA 1936.

Note: For more information on the calculation of the amounts to be returned at labels **B**, **C**, **U** and **V** refer to the *Foreign income return form guide*. For more information on the calculation of the amounts to be returned at labels **W** and **X** refer to the *Foreign investment funds guide*. To find out how to get a copy see the inside back cover.

Foreign currency exchange gains or losses of a capital nature—label I

Show at label **I** the amount of capital gains or losses realised due to foreign exchange fluctuations for borrowings or loans, delayed payments for acquisition of assets, delayed receipts for sales of assets and instalment purchase arrangements.

Note: Only realised profits and losses are included If a foreign exchange loss is realised print **L** in the box to the right of the amount.

Section 128F exempt interest paid—label O

Show at label **O** the total amount of interest that was paid to non-residents and is exempt from interest withholding tax under section 128F of ITAA 1936.

8 Licensed clubs only

8 Licensed clubs only		
Percentage of non-member income	A	%

Percentage of non-member income—label A

Show at label **A** the percentage, in whole figures, of total income attributable to non-members (visitors).

9 Life assurance companies and registered organisations only

9 Life assurance companies and registered organisations only	
Complying	B
Non-complying	C
Net capital gains	D
Gross taxable contributions	E
Total superannuation deductions	F
Management fees	J

Life assurance companies from 12 November 1998 are not entitled to franking credits or debits arising from the payment or refund of tax relating to their RSA business—see **What's new?** on page 5.

Registered organisations are entitled to a franking rebate for franked dividends. Life assurance companies also are entitled to a franking rebate for franked dividends received on assets held in their insurance funds. The amount of the franking rebate to which the company is entitled must be claimed at label **C—Rebates/tax offsets** in the **Calculation statement** on page 4 of the *Company tax return 2000*.

Life assurance companies and registered organisations separate each component of their income and multiply the components by the appropriate rate. The tax rates to assist with the calculation of the gross tax amount for life assurance companies and registered organisations are provided at Appendix 11 on page 90.

Superannuation business income—complying—label B

This item shall be completed only by life assurance companies and registered organisations.

Show at label **B** the taxable income of:

- policies held by complying superannuation funds, complying approved deposit funds and pooled superannuation trusts
- roll-over annuity policies.

Superannuation business income—non-complying—label C

This item shall be completed only by life assurance companies and registered organisations.

Show at label **C** the taxable income of policies held by non-complying superannuation funds and non-complying approved deposit funds.

Superannuation business income—net capital gains—label D

This item shall be completed only by life assurance companies and registered organisations.

Show at label **D** the amount of the company's net capital gain which is attributable to the complying superannuation business or roll-over annuity business of the company.

Superannuation business income—gross taxable contributions—label E

This item shall be completed only by life assurance companies and registered organisations.

Show at label **E** certain taxable contributions of complying funds transferred to a life assurance company or registered organisation which are included as assessable income.

Total superannuation deductions—label F

This item shall be completed only by life assurance companies and registered organisations.

Show at label **F** the total deductions claimed against all income relating to superannuation business income.

Management fees—label J

This item shall be completed only by life assurance companies and registered organisations.

Show at label **J** the amount of management fees that are included as part of the premiums received in respect of life assurance policies which are exempt from tax under section 111 of ITAA 1936.

10 Pooled development funds

10 Pooled development funds	
Small and medium sized enterprises income	G
Unregulated investment income	H

Small and medium sized enterprises income—label G

Show at label **G** the amount of income received by a PDF from small and medium sized enterprises.

Unregulated investment income—label H

Show at label **H** the amount of income received from unregulated investments.

11 Retirement savings accounts

11 Retirement savings accounts (RSAs) providers only

	Label	
Gross income of RSAs	R	
Gross taxable contributions of RSAs	W	
Total deductions from RSAs	T	
Exempt income from RSAs	S	
Net taxable income from RSAs	V	

RSA providers only are to complete labels R–V

RSA providers separate that component of their income which relates to the RSA component and multiply the net taxable income from RSAs at the appropriate rate. The tax rate is listed at Appendix 11 on page 90.

Gross income of RSAs—label R

Show at label **R** the gross income of the RSA provider that is not a life insurance company, or the general fund component of a RSA provider that is a life insurance company.

This includes gross taxable contributions received by the RSA provider.

Gross taxable contributions of RSAs—label W

Show at label **W** all taxable contributions received by the RSA provider.

Total deductions from RSAs—label T

Show at label **T** the total deductions claimed against all income relating to gross income of RSAs.

Exempt income from RSAs—label S

Show at label **S** the amounts—other than contributions—credited to RSAs, paying current pensions and annuities.

Net taxable income from RSAs—label V

Show at label **V** the RSA component of the taxable income of the RSA provider that is not a life insurance company, or the RSA component of the general fund of the taxable income of a life insurance company.

12 Landcare and water facility tax offset

12 Landcare and water facility tax offset

	Label		CODE
Landcare and water facility tax offset claimed	L		
Landcare and water facility tax offset brought forward from prior years	K		

The landcare and water facility tax offset is a 34 cents in the dollar tax offset and is an ALTERNATIVE to the deductions currently available under the following subdivisions of ITAA 1997:

- subdivision 387-A for expenditure incurred on landcare operations by a company carrying on a business of primary production or a company carrying on any business using rural land
- subdivision 387-B for expenditure incurred on facilities to conserve or convey water by a company carrying on a business of primary production.

Note: The tax offset is at the rate of 34 cents per dollar whereas the alternative deduction has a tax impact of 36 cents per dollar.

Landcare and water facility tax offset claimed—label L

Show at label **L** the amount of landcare and water facility tax offset the company is entitled to claim under subdivision 387-A and 387-B of ITAA 1997. Print the code in the CODE box indicating the type of expenditure.

Type of expenditure	Code
Landcare operations only	C
Water facilities only	W
Both landcare operations and water facilities	B

Landcare and water facility tax offset brought forward from prior years—label K

Show at label **K** the amount of landcare and water facility tax offset brought forward available to the company.

This item only applies if the company's income tax liability from prior years did not absorb all of the landcare and water facility tax offset. Any brought forward tax offset available to a taxpayer is shown on the previous year's tax return. The brought forward tax offset must first be reduced against net exempt income, including any exempt foreign income. Every dollar of exempt income reduces the brought forward rebate by 34 cents.

The company must also satisfy the continuity of ownership test or the same business test to apply the tax offset in subsequent years—see **What's new?** on page 13.

13 Internet trading

13 Internet trading Did the company sell any goods or services using the Internet? **Q** [ ] Print **Y** for yes or **N** for no.

Internet trading—label Q

Answer **Y** (yes) at this item if you have an

Internet presence and one or more of the following applies:

- you accept orders for goods and/or services via the Internet
- you accept payment for goods and/or services via the Internet or
- you fulfil orders via the Internet.

Answer **N** (no) at this item if you do not have an Internet presence, or if you do have an Internet presence and all of the following apply:

- you do not accept orders via the Internet
- you do not accept payment via the Internet and
- you do not fulfil orders via the Internet.

Terms explained

Internet presence:

An Internet presence is any one or more of the following:

- the use of a web page/site for commercial purposes
- the use of Internet email for commercial purposes
- the use of Internet news groups for commercial purposes
- the use of any other Internet technology for commercial purposes—for example, banner advertising on a web page not maintained by you, etc.

Accept orders via the Internet:

Accepting orders via the Internet includes the following:

- orders received via a form on a web page
- orders received via email
- orders received by other means delivered via the Internet.

It does not include orders received by postal mail, facsimile, telephone or in person as a result of advertising via the Internet.

Accept payment via the Internet:

Accepting payment via the Internet includes:

- acceptance of electronic cash, or similar Internet payment technologies, as payment for goods or services
- acceptance of credit card, charge card, or other payment card details received via the Internet by means of web page forms, email or other.

It does not include acceptance of credit card, charge card, or other payment card details received by postal mail, facsimile, telephone or in person. This is regardless of whether the goods or services were offered, ordered or delivered via the Internet.

Fulfil orders via the Internet:

Fulfilment of orders via the Internet includes:

- provision of Internet access and related services —such as email, web page hosting, web site development
- provision of access to Internet services
- delivery of software and/or digitised goods—such as music, news article via the Internet, by email downloaded from a web page or via an FTP site, etc.

It does not include providing digitised goods, software, etc. on floppy disk or other medium, delivered by conventional postal services.

Items 14 to 16—Overseas transactions or interests

These items must be answered even if you have no overseas transactions or interests.

General Note 1: Agents for non-residents, etc.

Where a tax return includes income or deductions from only the following activities and is lodged in accordance with the following sections of ITAA 1936:

Industry type	Industry code	Section number
Overseas shipping	99020	129
Agents for non-resident insurer	99050	144
Agents for non-resident reinsurers	99040	148
Control of non-resident's money	99070	255

and does not include income or deductions from any other source, print **N** (no) at items **14**, **15** and **16** in respect of overseas transactions and interests in foreign companies, etc. and do not complete a *Schedule 25A 2000*.

General Note 2: Dividends as the only international transactions

Where dividends were paid to or received from an international related party and those dividends were the only transactions with international related parties, print **N** (no) at item **14** in respect of overseas transactions and do not complete Section A of the *Schedule 25A 2000*. Answer items **15** and **16** as required.

General Note 3: Schedule 25A 2000 instructions

Where a *Schedule 25A 2000* is required to be lodged, more information is available in the *Schedule 25A 2000 instructions*. To find out how to get a copy see the inside back cover.

14 Overseas transactions

14 Overseas transactions

- Did the company have international dealings, including loans or advances, with related parties overseas, including permanent establishments or head offices? OR
- Did the company (including where the company is a non-resident company) claim as a deduction any interest paid on 'foreign debt' to a 'foreign controller' or non-resident associate?

X [ ] Print **Y** for yes or **N** for no.

Overseas transactions—label X

If the answer to either part of this item is yes, print **Y** at label **X** and complete Section A of the *Schedule 25A 2000*. If the answer to this item is no, write **N** at label **X**.

If you answered yes only to the second part of the item—regarding interest paid on the 'foreign debt' to a 'foreign controller' or non-resident associate—and had no related party international dealings during the income year, complete item 8 of Section A of the *Schedule 25A 2000* and leave items **15** and **16** blank.

Related party international dealings means transactions, agreements or arrangements between related parties, between a permanent establishment and its head office—or between 2 permanent establishments of the same entity—and includes all transactions between an Australian resident and overseas related parties.

15 Interest in a foreign company or foreign trust

15 Interest in a foreign company or foreign trust

Did the company have either a direct or indirect interest in a foreign trust, controlled foreign company, or transferor trust?

Y [ ] Print **Y** for yes or **N** for no.

Interest in a foreign company or foreign trust—label Y

If the answer to this item is yes, print **Y** at label **Y** and complete Section B of the *Schedule 25A 2000*. If the answer to this item is no, print **N** at label **Y**.

Direct or indirect interests in a controlled foreign company or a foreign trust are taken to have the same meaning as set out in Division 3 of Part X of ITAA 1936.

16 Foreign investment fund and foreign life assurance policy

16 Foreign investment fund and foreign life assurance policy
Did the company have an interest in a foreign investment fund or a foreign life assurance policy? **Z** Print **Y** for yes or **N** for no. **F**

Foreign investment fund and foreign life assurance policy—label Z

If the answer to this item is yes, print **Y** at label **Z** and complete Section B of the *Schedule 25A 2000*. If the answer to this item is no, print **N** at label **Z**. Interest in a foreign investment fund or foreign life assurance policy has the same meaning as set out in section 483 of ITAA 1936.

A company will have 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 ITAA 1936. Sections 102AAJ and 102AAK of ITAA 1936 provide guidance in relation to whether there has been a transfer, or a deemed transfer of property or services to a non-resident trust.

Calculation statement

Label		Amount
Foreign tax credits	D	$
Franking deficit tax offset	E	$
Deficit deferral tax offset	F	$
Instalments paid	T	$
Credit for interest on early payments—amount of interest	V	$
Prescribed payments system credit	W	$
Reportable payments system credit	X	$
Tax withheld from interest/investments	Y	$
Other refundable credits	Z	$

	Label		Amount
	Taxable or net income	A	$
	Gross tax	B	$
Less:	Rebates/tax offsets	C	$
	Tax assessed		$
Less:	**total of labels D/E/F**	G	$
	Tax payable		$
Add:	Sec 102AAM interest	H	$
Less:	**total of labels T/V/W/X/Y/Z**	R	$
	Total amount of tax payable (+) or refundable (–)	S	$
Less:	Deferral claimed	M	$
	Actual amount of tax payable (+) or refundable (–)	N	$

F

This statement works out the tax liability where there is a taxable or net income.

The information provided at certain labels of the **Calculation statement** will be used to calculate the Commissioner's rate, for quarterly payers under the PAYG income instalment system, for the next income year. Taxpayers complete all labels as accurately as possible to ensure that the rate calculated will result in a reliable estimate of tax payable for 2000–2001. For more information about how the rate is calculated refer to the worksheet relevant to your particular entity type. To find out how to get a copy see the inside back cover.

Taxable or net income—label A

If a company is a resident, taxable income equals assessable income derived from all sources less allowable deductions incurred in gaining that income.

If a company is a non-resident, 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.

Where the company has a taxable income of $1 or more show the amount at label **A**. This amount is the amount shown at label **T—Taxable income or loss** on page 3 of the *Company tax return 2000*.

Where the company has no taxable income or has a taxation loss, only show **0** at label **A**. The actual loss is shown at label **T—Taxable income or loss** on page 3 of the *Company tax return 2000* with **L** in the box after the amount.

Public trading trusts and corporate unit trusts show net income at label **A**.

Note: Only a life assurance company or registered organisation includes franking credits at label **A**, provided the credit is not in relation to the RSA business of a life company—see **What's new?** on page 5. Other companies are not required to gross-up their franked dividends.

Gross tax—label B

Show at label **B** the amount of tax payable before the allowance of any rebates/tax offsets, credits or franking deficit tax offsets.

For the tax rates applicable to companies and registered organisations see Appendix 11 on page 90.

Rebates/tax offsets—label C

Show at label **C** the total of actual rebates/tax offsets available—in dollars and cents—and not the amounts giving rise to that rebate. The amounts shown at label **C** are not refundable nor can they be carried forward—they can only be offset against gross tax. Where the total of rebates/tax offsets is more than the amount at label **B—Gross tax**, the amount at label **C** must be reduced so that the amount equals label **B—Gross tax**.

Rebates/tax offsets include:

- rebates available under section 46 of ITAA 1936. (Under section 46F, for private companies generally, the rebate is only available for the fully franked part of any dividend. Under legislation introduced in the Miscellaneous Bill 1999, a section 46 rebate is not available for an unfranked dividend paid to a public or private company on or after 1 July 2000 unless it is paid within a wholly owned company group.)
- rebates for bonuses and certain other amounts received under short-term life assurance policies taken out after 27 August 1982
- rebates for interest on certain government and semi-government securities
- rebates on approved heritage conservation expenditure—see Appendix 10 on page 89
- for life assurance companies and registered organisations only, franking rebates (including venture capital franking rebates) also known as imputation credits—see **What's new?** on page 14
- rebates to approved resident lenders for infrastructure borrowings—see Appendix 9 on page 89
- tax offset for the landcare and water facility tax offset.

Note: Companies may be denied the intercorporate dividend rebate in circumstances where the franking credit measures apply. Life assurance companies and registered organisations may be denied franking rebates in circumstances where the franking credit measures apply —see **What's new?** on page 5.

Record retention—Keep the following:

- for section 46 of ITAA 1936 rebates
  - name of the payer
  - date the dividend was received or credited
  - gross amount of the dividend
  - deductions relating to dividends
  - type of distribution—for example, foreign source dividend, bonus shares, phasing-out dividend, liquidator's distribution
  - dates that shares, in respect of which dividends were received and rebates claimed, were acquired and disposed
- for short-term life assurance policies—a copy of the policy—the amount of the bonus included in assessable income under section 26AH of 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
- the type of rebate or tax offset
- the amount claimed for each type.

Tax assessed

Gross tax less rebates/tax offsets equals **Tax assessed** and cannot be a negative amount—see label **C—Rebates/tax offsets** on this page.

Foreign tax credits—label D

A foreign tax credit may be allowable in respect of foreign tax paid by the company on foreign income only where the conditions in section 160AF of ITAA 1936 are satisfied. Where these conditions are satisfied, including the requirement for the company to be a resident taxpayer whose assessable income includes foreign income upon which foreign tax, for which the taxpayer was personally liable, has been paid, the company may be entitled to a credit of the lesser of:

- the foreign tax paid—reduced by any foreign relief or
- the Australian tax payable in respect of the foreign income.

When determining whether a foreign tax credit is allowable, the company must refer to and adhere by the provisions of section 160AF of ITAA 1936 as well as the other provisions of Division 18 of Part III of ITAA 1936.

Note specifically the following key points:

- subsection 160AF(7) of ITAA 1936 requires the quarantining of foreign income into its 4 categories—passive income, offshore banking income, section 27CAA of ITAA 1936 income and other income. Foreign tax credits must be calculated separately for each class of foreign income. An allowable foreign tax credit arising from a particular class of foreign income can only be offset against that class of foreign income
- a foreign tax credit is not allowable in respect of sections 459 and 459A of ITAA 1936 foreign income
- a foreign tax credit is not allowable in certain circumstances where there has been a refund of foreign tax or benefit in respect of the payment of foreign tax (refer to subsection 6BA(5A) of ITAA 1936)
- allowable excess foreign tax credits can only be carried forward for a period of 5 years, can only be applied against the same class of foreign income and must be utilised in the order in which they arise (refer to section 160AFE of ITAA 1936)

- allowable excess foreign tax credits arising in respect of passive income and all other income except offshore banking income, can only be transferred to a group company subject to the provisions of section 160AFE of ITAA 1936
- allowable foreign tax credits for foreign tax foregone on foreign income by foreign countries under tax sparing arrangements is shown at label **D** (refer to subsection 6AB(5), 6AC and 160AFF of ITAA 1936)
- foreign tax credits may be allowable in respect of overseas tax paid on certain shipping income (refer to Division 18B of Part Ill of ITAA 1936).

Foreign tax credits may be self determined by the company under section 160AIA of ITAA 1936. For further machinery provisions refer to Division 19 of Part III of ITAA 1936. For more information on how to calculate your allowable foreign tax credits refer to the *Foreign income return form guide*. To find out how to get a copy see the inside back cover.

Franking deficit tax offset—label E

Where you have over franked resulting in a liability for franking deficit tax—excluding venture capital deficit tax—this amount paid may be offset against tax that the company is liable to pay. This franking deficit rebate amount is the lesser of:

- the amount of the franking deficit tax which the company has paid, less any part which has been previously applied or
- the amount of company tax assessed less any allowable foreign tax credits. This amount cannot exceed the amount shown at **Tax assessed**.

Franking deficit rebate amounts are self determined. The Commissioner is authorised at any time to amend an offset determination. If a self determined offset is later found to be excessive, the Commissioner may recover the amount as if it was company tax due and payable. Penalties and the GIC may also be payable.

Deficit deferral tax offset—label F

A company is able to offset deficit deferral tax against tax assessed in the same way as franking deficit tax can be used—see above.

Show at label **F** the deficit deferral tax paid by the company which is offset against any remaining tax assessed for the income year. This amount cannot exceed the amount shown at **Tax assessed**.

Total of labels D/E/F—label G

The amount shown at label **G** is not refundable—it can only reduce tax assessed.

Add the amounts shown at labels **D**, **E** and **F**.

Where the total of labels **D**, **E** and **F** is less than or equal to the amount at **Tax assessed**, show the total at label **G**.

Where the total of labels **D**, **E** and **F** is more than the amount at **Tax assessed**, the amount at those labels must be reduced so that the amount shown at label **G** equals **Tax assessed**.

Tax payable

The amount at label **G** is subtracted from the amount at **Tax assessed**. The amount shown at label **G** must be less than or equal to the amount at **Tax assessed** and cannot be a negative amount.

Section 102AAM interest—label H

Section 102AAM imposes an interest charge on certain distributions from non-resident trusts. If the company has received a distribution from a non-resident trust, refer to Chapter 2 of the *Foreign income return form guide*. To find out how to get a copy see the inside back cover.

Instalments paid—label T

Show at label **T** any amounts already paid or payable for the current year tax liability. Include instalments of tax based on likely tax and any interim payments.

Credit for interest on early payments—amount of interest—label V

Do not show actual payments at label **V**. Only the calculated interest amount for early payment is shown at label **V**.

Early payment interest is calculated from the date the early payment is made to the date the amount becomes due and payable. Interest is only payable where the tax is actually paid more than 14 days before the due date of payment. Amounts which may attract early payment interest credit are payments of:

- income tax
- initial and final payments of company tax under sections 221AP and 221AZD of ITAA 1936
- instalments of company tax under section 221AZK of ITAA 1936
- additional tax under Part VII of ITAA 1936
- interest under section 102AAM of ITAA 1936
- interest under section 170AA of ITAA 1936
- late lodgment penalties under section 163A of ITAA 1936.

Early payment interest is not payable on:

- any component of the payment that exceeds the amount due
- amounts deducted under arrangements for collection of tax at the time of payment—for example, deductions of PPS or RPS
- amounts credited following assessment in payment of the tax liability
- amounts paid less than 14 days before the due date.

Any amount paid early which is refunded before the date an amount of tax, instalment or interest becomes due and payable, does not accrue early payment interest for the period after the date it is refunded.

Date of payment is:
- the date shown on the receipt for payment(s) to the ATO or
- the date payment is mailed to the ATO plus 3 days.

Rates applicable for 1999–2000 Income year:
The new rates applicable in the 1999–2000 income year for interest on early payments are the weighted average yield for the 13 Week Treasury Note applicable for the relevant quarters (refer to section 214A of ITAA 1936).

Quarter	Interest rate (p.a.)
Jul–Sep 1999	4.72%
Oct–Dec 1999	4.73%
Jan–Mar 2000	5.08%
Apr–Jun 2000	5.65%

Keep a record of the amount of early payment interest claimed. Early payment interest is assessable as income in the income year it is paid or credited against another liability.

Prescribed payments system credit—label W

Instructions to complete label **W**:
- complete label **A**—**Gross prescribed payments system income** in the **Profit and loss statement** if you are claiming a PPS credit at label **W** in the **Calculation statement**.
- to claim a PPS credit at label **W**, you must have:
  - declared the gross PPS income derived at label **A**—**Gross prescribed payments system income** and
  - had tax deducted by payers in relation to PPS income shown at label **A**—**Gross prescribed payments system income**
- do not include your share of PPS credits distributed from a partnership or trust at label **W**. Show that credit at label **Z**—**Other refundable credits**
- if you had tax deducted under PPS during the year ended 30 June 2000, you should have received duplicate copies of *PPS payment summaries*. Payers are required to send *PPS payment summaries* to you by 14 July 2000. Show at label **W**, the total amounts of tax deducted as shown on the *PPS payment summaries*
- if you did not receive or have lost your copy of a *PPS Payment summary*, contact the payer and request a signed photocopy of the payer's copy or a letter setting out the details previously shown in the missing *PPS Payment summary*.

Record retention—Do not include your copies of the *PPS payment summaries* with the *Company tax return 2000*. Keep them, with a copy of the tax return, for 5 years. They may be required by the ATO at a later date.

If you held a *Deduction variation certificate* or *Deduction exemption certificate* during the year, keep the certificate because it may be required by the ATO at a later date.

Reportable payments system credit—label X

Instructions to complete label **X**:
- complete label **B**—**Gross reportable payments system income** in the **Profit and loss statement**, if you are claiming a RPS credit at label **X** in the **Calculation statement**
- to claim a RPS credit at label **X**, you must have:
  - declared the gross RPS income derived at label **B**—**Gross reportable payments system income** and
  - had tax deducted by payers in relation to RPS income shown at label **B**—**Gross reportable payments system income**
- do not include your share of RPS credits distributed from a partnership or trust at label **X**. Show that credit at label **Z**—**Other refundable credits**
- if you had tax deducted under RPS during the year ended 30 June 2000, you should have received a receipt from the payer indicating the amounts deducted. Show at label **X** in the **Calculation statement** the total amount of tax deducted
- if you did not receive or have lost your copy of the receipt, contact the payer and request a signed photocopy of the payer's copy or a letter setting out the details previously shown in the missing receipt.

Record retention—Do not include the receipts with the *Company tax return 2000*. Keep them, with the copy of the tax return, for 5 years. They may be required by the ATO at a later date.

Tax withheld from interest/investments —label Y

Show at label **Y** any amounts deducted from investments where a TFN has not been provided to the financial institution and TFN amounts have been deducted.

Record retention—Keep the following for credits for TFN amounts deducted:
- all documentation issued by the financial institution detailing payments of income and any TFN amounts deducted from those payments
- details of any TFN amounts deducted from an income payment made to the company and subsequently refunded by their financial institution.

Keep the following details of refund receipts:
- amount of refund received
- date of refund
- investment reference number—for example, bank account number of investment relating to refund.

Other refundable credits—label Z

Do not include here those credits that are shown at label **D—Foreign tax credits.** Payments for the current year tax liability are not shown at label **Z**. Show any amounts already paid for the current year tax liability at label **T—Instalments paid**.

Record retention—If PPS/RPS credits are distributed from other partnerships or trusts keep the following:

- full name of the partnership or trust
- TFN of the partnership or trust—if known
- amount of credit.

Total of labels T/V/W/X/Y/Z—label R

Show at label **R** the total of amounts at labels **T**, **V**, **W**, **X**, **Y** and **Z**.

Total amount of tax payable (+) or refundable (–)—label S

Show at label **S** the balance of tax that is owing or refundable.

Deferral claimed—label M

The introduction of the PAYG income instalments system (part of *The New Tax System*) allows taxpayers to defer all or some of the instalments payable under the previous company and superannuation fund income tax instalment system. The amount that can be deferred depends on the amount of assessed tax for 1999–2000 and the instalments previously payable for the income year. If you choose to pay an annual PAYG instalment for 2000–2001 you are not entitled to defer your final 1999–2000 instalment liability.

To calculate the amount that can be deferred see Worksheet 3 on page 72.

Show at label **M** the amount of tax deferral claimed.

Actual amount of tax payable (+) or refundable (–)—label N

Show at label **N**:

- the total amount of tax payable or refundable at label **S** or
- the total amount of tax payable at label **S** less the amount that can be deferred at label **M**.

Payments must reach the ATO by the due date—see Appendix 13 on page 92.

Send your payment to the address on the pre-identified payment advice. If you have not received one see page 18 for the payment addresses. For more payment options see page 18.

Do NOT send your payment with your tax return.

Lodgment addresses are at Appendix 14 on page 93.

Declaration

Declaration

I declare that the particulars shown in this tax return and the relevant records used to ascertain the taxable or net income, as shown, derived by the company from all sources in **and out of** Australia during the income year are true and correct. Non-resident companies: delete **and out of**.

Public officer's signature

Day Month Year

Title

Hours taken to prepare and complete this return—refer to the *C 2000 instructions.* Do not include tax agent's time. **J** F

Public officer's name

Daytime contact telephone number Area code F Telephone number F

Time box—voluntary question—hours taken to prepare and complete this return

The ATO is committed to reducing the costs involved in complying with your taxation obligations. Your response to this question helps 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/or putting the tax affairs of your business in order so the information can be handed to your tax agent.

Notes:

- Your answer relates only to the time your business spent preparing and completing your tax return, including the time of any unpaid helpers. You do not include the time spent by your tax agent, or any other person whose assistance was paid for and who is not an employee of your business.
- Tax agents note: If you are preparing this tax return on behalf of your client, please consult with your client to obtain a reliable estimate.

Public officer

The public officer is responsible for doing all things required by the company under section 252 of ITAA 1936 or the Regulations. In case of default he/she shall be 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 late lodgment penalty.

Worksheet 1 Depreciation

For more information refer to the *Guide to depreciation*. To find out how to get a copy see the inside back cover. This worksheet has been reduced in size to fit on a page.

Depreciation worksheet

Use a new worksheet each year

Primary production only ☐ **Non-primary production only** ☐

Date of addition or adjust-ment	Description of each unit	Adjustments		Cost of plant less adjustments	Opening written down value *	Opening undeducted cost #	Disposals				Depreciation			Non-business use	Deductible amount	Closing written down value *	Closing undeducted cost
		Details	Amount				Date	Termination value	Balancing adjustments		Rate	Prime cost	Diminishing value				
									Assessable income	Deductible	%			%			
				Totals ▶													

Less relief offsets against other plant ▶ | ◀ Deduct for private use | ◀ Total depreciation

Amount to be returned as income (Do not deduct from depreciation) ▶ | ◀ Amount to be claimed as a deduction (Do not include in Total depreciation)

* The written down value of plant is its original cost less the sum of allowable depreciation deductions. For plant that has had no private or non-income-producing use since acquisition, the written down value will equal the undeducted cost.

\# Opening undeducted cost is the closing undeducted cost from the previous year less adjustments.

Part A—Gain or loss from collectables

For information on completing this form refer to the *Guide to capital gains tax*. To find out how to get a copy see the inside back cover.
Note: If a collectable was acquired for $500 or less, any capital gain or loss is disregarded.

Description of collectable

Date of acquisition Day Month Year

Date of CGT event Day Month Year

Elements of the cost base or reduced cost base	**1** Amount	**2** Amounts to be deducted for cost base [2]	**3** Net amount (1 – 2)	**4** Indexation factor [3]	**5** Cost base (3 x 4)	**6** Amounts to be deducted for reduced cost base [2]	**7** Reduced cost base (1 – 6)
Acquisition or purchase cost of the collectable [1]							
Incidental costs to acquire the collectable							
Incidental costs that relate to the CGT event							
Capital expenditure to increase the collectable's value that is reflected in the state or nature of the collectable at the time of the CGT event							
Balancing adjustments that relate to the collectable [4]							
Capital costs to establish, preserve or defend title to, or a right over, the collectable							
				Cost base [5]			
						Reduced cost base	

Capital gain calculation

Capital proceeds [6] $ ____________

Less: cost base [5] $ ____________

Less: forgiveness of commercial debts [7] $ ____________

$ ____________

Capital gain $ ____________

Repeat the calculation above for every collectable that is the subject of a CGT event.

Total current year capital gains from collectables $ ____________**A1**

Total current year capital losses from collectables $ ____________**A2**

Total prior year net capital losses from collectables [8] $ ____________**A3**

Capital loss calculation

Capital proceeds[6] $ ____________

Less: reduced cost base $ ____________

Less: forgiveness of commercial debts [7] $ ____________

$ ____________

Capital loss $ ____________

1. Money the taxpayer paid or is required to pay and the market value of any property the taxpayer gave or is required to give—worked out at the time of acquisition.
2. Exclude expenditure recouped or that you have deducted or can deduct. There are some exceptions for example, amounts included in assessable income. In some cases, reductions are made before indexing—for example, recouped expenditure in others, after indexing—for example, depreciation deductions.
3. Indexation is not available after 11.45 a.m. AEST, 21 September 1999—for more information see **What's new?** on page 12. The indexation factor is not used if the CGT asset was held for 12 months or less. There are some exceptions—for example, with rollovers and assets from deceased estates. Indexation is also not relevant to reduced cost base.
4. Any amount included in the taxpayer's assessable income because of a balancing adjustment for the asset or which would have been included except for sections 42-285 or 42-290 of ITAA 1997 or subsection 59(2A) or (2D) of ITAA 1936.
5. Non-capital costs of ownership do not form part of the cost base for collectables.
6. Money and the market value of any property the taxpayer has received, or is entitled to receive, in respect of the event happening. Modifications and special rules may apply to change the capital proceeds for certain CGT events. Special rules apply if a capital gain is made when a later change occurs to a replacement asset under CGT small business roll-over provisions in Division 123 or subdivision 152-E of ITAA 1997. If the capital proceeds are greater than the cost base, a capital gain is made. If the capital proceeds are less than the reduced cost base, a capital loss is made. If the capital proceeds are between cost base—or if applicable the cost base after indexation—and reduced cost base, neither a capital gain nor a capital loss is made.
7. The cost base or reduced cost base of a reducible CGT asset may be reduced by the residual forgiven amount under the provisions of Division 245 in Schedule 2C 'Forgiveness of commercial debts', to ITAA 1936. The residual forgiven amount is defined in subsection 245-165(1) in Schedule 2C to ITAA 1936.
8. If you became a bankrupt during the year, prior year net capital losses are disregarded.

Part B—Gain from personal use assets (PUA)

Note: If the PUA was acquired for $10 000 or less, any capital gain is disregarded. A capital loss the taxpayer made from a PUA is disregarded.

Description of PUA ____________________

Date of acquisition Day ___ Month ___ Year ___

Date of CGT event Day ___ Month ___ Year ___

Elements of the cost base	1 Amount	2 Amounts to be deducted for cost base [2]	3 Net amount (**1 – 2**)	4 Indexation factor [3]	5 Cost base (**3** x **4**)
Acquisition or purchase cost of the PUA [1]					
Incidental costs to acquire the PUA					
Incidental costs that relate to the CGT event					
Capital expenditure to increase the PUA's value that is reflected in the state or nature of the PUA at the time of the CGT event					
Capital costs to establish, preserve or defend title to, or a right over, the PUA					
				Cost base [4]	

Capital gain calculation

Capital proceeds [5] $ ___________

Less: cost base [4] $ ___________

Capital gain $ ___________

Repeat the calculation above for every PUA that is the subject of a CGT event.

Total current year capital gains from personal use assets $ ___________**B1**

1. Money the taxpayer paid or is required to pay, and the market value of any property the taxpayer gave or is required to give—worked out at the time of acquisition.
2. Exclude expenditure recouped or that you have deducted or can deduct. There are some exceptions for example amounts included in assessable income. In some cases reductions are made before indexing—for example, recouped expenditure; in others, after indexing—for example, depreciation deductions.
3. Indexation is not available after 11.45 a.m. AEST, 21 September 1999—for more information see **What's new?** on page 12. The indexation factor is not used if the taxpayer held the PUA for 12 months or less. There are some exceptions—for example, with rollovers and assets from deceased estates.
4. Non-capital costs of ownership do not form part of the cost base of PUAs.
5. Money and the market value of any property the taxpayer has received, or is entitled to receive, in respect of the event happening. If capital proceeds are greater than the cost base, a capital gain is made.

Part C—Gain or loss from other CGT assets

Description of CGT asset ____________________

Date of acquisition Day | Month | Year   **Date of CGT event** Day | Month | Year

Elements of the cost base or reduced cost base	1 Amount	2 Amounts to be deducted for cost base [2]	3 Net amount (1 – 2)	4 Indexation factor [3]	5 Cost base (3 x 4)	6 Amounts to be deducted for reduced cost base [2]	7 Reduced cost base (1 – 6)
Acquisition or purchase cost of the CGT asset [1]							
Incidental costs to acquire the the CGT asset							
Incidental costs that relate to the CGT event							
Non-capital costs of ownership of the CGT asset [4]							
Balancing adjustments that relate to the CGT asset [5]							
Capital expenditure to increase the asset's value that is reflected in the state or nature of the CGT asset at the time of the CGT event							
Capital costs to establish, preserve or defend title to, or a right over, the CGT asset							
				Cost base			
						Reduced cost base	

Capital gain calculation

Capital proceeds [6] $ __________

Less: cost base $ __________

Less: forgiveness of commercial debts [7] $ __________

$ __________

Capital gain [8] $ __________

Capital loss calculation

Capital proceeds [6] $ __________

Less: reduced cost base $ __________

Less: forgiveness of commercial debts [7] $ __________

$ __________

Capital loss $ __________

Repeat the calculation above for each other CGT asset that is the subject of a CGT event.

Total current year capital gains from other assets that qualify for the small business 50% active asset reduction [9] **$__________C1**
Amount of current year capital gains for which small business roll-over is chosen [10] **$__________C2**
Remaining current year capital gains from other assets **$__________C3**
Total current year capital losses from other assets applied against capital gains that qualify for the small business 50% active asset reduction **$__________C4**
Total current year capital losses from other assets not so applied **$__________C5**
Total prior year net capital losses from other assets applied against capital gains that qualify for the small business 50% active asset reduction [11] **$__________C6**
Total prior year net capital losses from other assets not so applied [11] **$__________C7**

If you are claiming CGT small business retirement exemption (refer to subdivision 118-F of ITAA 1997) or CGT small business rollover relief (refer to Division 123 of ITAA 1997) for CGT events that happen before 11.45 a.m. AEST, 21 September 1999 (the start time) go to **Part D** or **E.**

1. Money the taxpayer paid or is required to pay and the market value of any property the taxpayer gave or is required to give—worked out at the time of acquisition. Modifications and special rules may apply to this element of the cost base—for example, market value substitution rule. Special rules may also apply if a capital gain is made when a later change occurs to a replacement asset under CGT small business roll-over provisions in Division 123 or subdivision 152-E of ITAA 1997.
2. Exclude expenditure recouped or that the taxpayer has deducted or can deduct. There are some exceptions—for example, amounts included in assessable income. In some cases, reductions are made before indexing—for example, recouped expenditure; in others, after indexing—for example, depreciation deductions.
3. Indexation is not available after the start time—for more information see **What's new?** on page 12. The indexation factor is not used if the CGT asset was held for 12 months or less. There are some exceptions—for example, with rollovers and assets from deceased estates. Indexation is not available for non-capital costs of ownership. It is also not relevant to reduced cost base.
4. Non-capital costs of ownership include interest on borrowed money, rates and land tax, and the cost of repairing or maintaining the other CGT asset. They are included in the cost base provided the other CGT asset was acquired after 20 August 1991.
5. Any amount which was included in the taxpayer's assessable income because of a balancing adjustment for the other CGT asset or which would have been included except for sections 42-285 or 42-290 of ITAA 1997 or subsection 59(2A) or (2D) of ITAA 1936.
6. Money and the market value of any property the taxpayer has received, or is entitled to receive in respect of the CGT event happening. Modifications and special rules may apply to change the capital proceeds for certain CGT events. Special rules apply if a capital gain is made when a later change occurs to a replacement asset under CGT small business roll-over provisions in Division 123 or subdivision 152-E of ITAA 1997. If the capital proceeds are greater than the cost base, a capital gain is made. If the capital proceeds are less than the reduced cost base, a capital loss is made. If the capital proceeds are between cost base—or if applicable the cost base after indexation—and reduced cost base neither a capital gain nor a capital loss is made.
7. The cost base or reduced cost base of a reducible CGT asset may be reduced by the residual forgiven amount under the provisions of Division 245 in Schedule 2C 'Forgiveness of commercial debts', to ITAA 1936. The residual forgiven amount is defined in subsection 245-165(1) in schedule 2C to ITAA 1936.
8. If, before the start time, a capital gain attributable to goodwill is made on a change in the ownership of a business or an interest in a business, or that business or interest ends, half the capital gain is disregarded if the requirements of subdivision 118-C of ITAA 1997 are satisfied. **Note**: Subdivision 118-C has now been repealed as from the start time.
9. A company may qualify for the small business 50% active asset reduction of any capital gain made from a CGT event happening to an active asset after the start time. Certain conditions must be satisfied—refer to subdivision 152-C of ITAA 1997. Write at **C1** the amount of current year capital gains before applying the small business 50% active asset reduction.
10. A company may also qualify for the small business retirement exemption or the small business roll-over in respect of the capital gain remaining after the small business 50% active asset reduction is made. Certain conditions must be satisfied—refer to subdivisions 152-D and 152-E of ITAA 1997. Show at **C2** the amount of capital gains remaining after the small business 50% active asset reduction for which small business roll-over is chosen.
    Note: If a company which an individual controls claims the small business retirement exemption and the individual received an eligible termination payment (ETP) from the company, and all or part of the ETP includes a CGT exempt component, the individual must show the amount of the CGT exempt component at label T, item 14, supplementary section in their *Individual tax return 2000*.
11. If you became a bankrupt during the year, prior year net capital losses are disregarded.

Part D—Capital gains tax small business retirement exemption

Note 1: Use **Part D** only for CGT events that happen before 11.45 a.m. AEST, 21 September 1999 for which the small business retirement exemption contained in subdivision 118-F of ITAA 1997 is claimed. For CGT events that happen after this time use **Part C** and **Part F**.

Note 2: The exemption in subdivision 118-F of ITAA 1997 is limited to capital gains made on active business assets. Rules for this exemption are contained in that subdivision.

	1	2	3
Active business asset [1]	Capital gain as calculated for part C	Prior year net capital losses applied [2]	CGT small business retirement exemption amount [3] (**1** – **2**)
	Totals	**D1**	**D2**

Prior year net capital losses applied $ ___________ **D1**
Transfer the amount at **D1** to **Part F**.

Capital gains tax small business retirement exemption amount $ ___________ **D2**

1. List each active business asset for which you are claiming CGT small business retirement exemption. Do not list any personal use assets or collectables.
2. A capital gain on the disposal of an asset is reduced by unrecouped prior year net capital losses incurred after 1994–95 before it is counted as a CGT small business retirement exemption amount. Unrecouped prior year net capital losses are applied in the order in which they were incurred.
3. This amount may be a lesser amount if the taxpayer so elects. The reasonable benefits limit of the taxpayer or where the taxpayer is a company or trust, the controller of the taxpayer, may be relevant in choosing a lesser amount. A $500 000 CGT retirement exemption limit also applies to this exemption.

Note: A company which an individual controls may have claimed the CGT small business retirement exemption. If the individual received an eligible termination payment (ETP) from the company, and all or part of the ETP includes a CGT exempt component, the individual must show the amount of the CGT exempt component at label T, item 14, supplementary section in their *Individual tax return 2000.*

Part E—Capital gains tax small business roll-over relief

Note: Use **Part E** only for CGT events that happen before 11.45 a.m. AEST, 21 September 1999 (the start time) for which the small business roll-over relief contained in Division 123 of ITAA 1997 (which has been repealed as from the start time) is claimed. Rules for this concession are contained in that Division. For CGT events that happen after this time use **Part C** and **Part F**.

Roll-over assets	1	2	3	4	5	6
(**A**) **CGT asset** [1]	Capital gain as calculated for **Part C** (notional capital gain)	Reduction if share or unit [2]	Current year capital losses applied to reduce capital gain [3]	Prior year net capital losses applied [4]	Total capital losses applied (**3** + **4**)	Capital gains tax small business net roll-over amount (**1** – **2** – **5**)
Non-goodwill assets [5]						
Goodwill assets [5]						
	Totals		**E1**	**E2**		**E3**

Current year capital losses applied $ ____________**E1**

Transfer this amount to **Part F**.

Prior year net capital losses applied $ ____________**E2**

Transfer this amount to **Part F**.

Capital gains tax small business net roll-over amount $ ____________**E3**

Transfer the sum of **C2** and **E3** to label **Z,** item **6**—**Reconciliation to taxable income or loss** of the *Company tax return 2000* .

1. List each CGT asset for which you are claiming a CGT small business roll-over. Do not list any personal use assets or collectables.
2. If the notional capital gain from a CGT event happening in relation to a share in a company or a unit in a unit trust is more than the amount worked out using this formula, it is reduced by the excess (refer to section 123-20 of ITAA 1997):

$$\text{Unrealised net capital gain from active assets} \times \frac{\text{market value of share or unit}}{\text{total of market values of all shares in the company or units in the unit trust}}$$

3. Roll-over only applies after capital losses are used to offset capital gains. Take the **C5** amount—see **Part C**. Apply this amount against each capital gain in the order in which the capital losses were incurred.
4. Take the **C7** amount—see **Part C**—and reduce it by any amount of prior year net capital losses applied in working out a CGT small business retirement exemption amount, **D1**—see **Part D**. Apply this reduced amount against each capital gain in the order in which the capital losses were incurred. Prior year net capital losses from collectables do not reduce capital gains from other CGT assets. Only net capital losses incurred after 1994–1995 reduce the capital gain as calculated for **Part C**.
5. Work out the roll-over amount for non-goodwill assets before goodwill assets because current year capital losses and prior year net capital losses are first to be applied against non-goodwill assets and then goodwill assets.

Part F—Calculation of net capital gain.

Current year capital gains

Current year capital gains from collectables (**A1**)	**F1**
Current year capital gains from personal use assets (**B1**)	**F2**
Current year capital gains from other CGT assets that qualify for the small business 50% active asset reduction (**C1**)	**F3**
Remaining current year capital gains from other CGT assets [1] (**C3**)	**F4**
Share of any net capital gains from collectables received from a trust, which has been reduced by the discount percentage, multiplied by 2 [2]	**F5**
Share of any other net capital gains from collectables received from a trust	**F6**
Share of any other net capital gains received from a trust, which has been reduced by the discount percentage, multiplied by 2 [2]	**F7**
Share of any other net capital gains received from a trust, which has been reduced by the small business 50% active asset reduction, multiplied by 2 [3]	**F8**
Share of any other net capital gains received from a trust, which has been reduced by both the discount percentage and the small business 50% active asset reduction, multiplied by 4 [3]	**F9**
Share of any other net capital gains received from a trust which has not been reduced by either the discount percentage or the small business 50% reduction	**F10**
Total current year capital gains before adjustment (**sum of F1 to F10**)	**F11**

Current year capital losses

Current year capital losses from collectables (**A2**)	**F12**
Current year capital losses from other CGT assets (**C4**) that are applied against capital gains that qualify for the small business 50% active asset reduction	**F13**
Current year capital losses from other CGT assets (**C5**) ***Less***: current year capital losses applied in calculating the CGT small business roll-over amount (**E1**) that are not applied against capital gains that qualify for the small business 50% active asset reduction	**F14**
Total current year capital losses available to be applied (**F12+F13+F14**)	**F15**
Current year capital losses applied against current year capital gains [4]	**F16**
Unapplied current year capital losses from collectables [5]	**F17**
Unapplied current year capital losses from other CGT assets [6]	**F18**
Current year capital gains after applying current year capital losses (**F11-F16**) [7]	**F19**

Prior year net capital losses

Prior year net capital losses from collectables (**A3**) less any adjustment to prior year net capital losses for commercial debts forgiven [8]	**F20**
Prior year net capital losses from other CGT assets available to be applied(**C6**) ***Less***: any adjustment to prior year net capital losses for commercial debts forgiven [8]— that are applied against capital gains that qualify for the small business 50% active asset reduction	**F21**
Prior year net capital losses from other CGT assets available to be applied (**C7**) ***Less***: • prior year net capital losses applied in calculating a CGT small business retirement exemption amount (**D1**) • prior year net capital losses applied in calculating a CGT small business roll-over amount (**E2**) • any adjustment to prior year net capital losses for commercial debts forgiven [8]— that are not applied against capital gains that qualify for the small business 50% active asset reduction	**F22**
Total prior year net capital losses available to be applied (**F20+F21+F22**)	**F23**
Prior year net capital losses applied against current year capital gains [9]	**F24**
Unapplied prior year net capital losses from collectables [10]	**F25**
Unapplied prior year net capital losses from other CGT assets [11]	**F26**

Total unapplied net capital losses to be carried forward

Total unapplied current year capital losses and unapplied prior year net capital losses less net capital losses transferred out (**F17+F18+F25+F26-F30**)	**F27**

Capital loss transfers

Current year capital losses and prior year net capital losses applied against capital gains that qualify for the small business 50% active asset reduction that: • arose from other CGT assets and • were transferred in [12]	**F28**
Current year capital losses and prior year net capital losses not applied against capital gains that qualify for the small business 50% active asset reduction that: • arose from other CGT assets and • were transferred in [12]	**F29**
Net capital losses transferred out [13]	**F30**

Current year capital gains after capital losses

Current year capital gains after applying capital losses [14] (**F19–**(**F24+F28+F29**))	**F31**

Small business concessions

Current year capital gains after applying capital losses and the small business 50% active asset reduction **F31–**(((**F3+F8+F9**)-(**F13+F21+F28**)) **divided by 2**)	**F32**
Current year capital gains that do not qualify for the small business 50% active asset reduction (**F1+F2+F4+F5+F6+F7+F10**)	**F33**
Capital gains for which small business retirement exemption or small business roll-over is chosen [15]	**F34**
Current year capital losses adjusted for the small business 50% active asset reduction ((**F16–F13**)**+**(**F13 divided by 2**)) [16]	**F35**
Prior year net capital losses adjusted for the small business 50% active asset reduction ((**F24–F21**)**+**(**F21 divided by 2**)) [16]	**F36**
Capital losses transferred in adjusted for the small business 50% active asset reduction (**F29+**(**F28 divided by 2**)) [16]	**F37**

Total current year capital gains

Total current year capital gains (((**F3+F8+F9**) **divided by 2**)**+F33-F34**) [16]	**F38**

Net capital gain

Net capital gain [17] (**F32–F34**)	**F39**

Notes:

(1) Also include at **F4** capital gains made from CGT events—for example, CGT events **D1** or **H2**, that are concerned directly with capital receipts and do not involve a CGT asset.

(2) Companies can not choose the CGT discount available to some other entities (individuals, complying superannuation entities and trusts—(50% for individuals and trusts, 331/3% for complying superannuation entities). Accordingly, it is necessary for corporate beneficiaries of trusts to 'gross-up', by multiplying by 2, their share of any net capital gains received from the trust that has been reduced (by the trust) by the discount percentage (refer to subdivision 115-C of ITAA 1997).

(3) A company may qualify for the small business 50% active asset reduction of a capital gain only for CGT events that happen after 11.45 a.m. AEST, 21 September 1999, (the start time). Although companies may be eligible for the small business 50% active asset reduction, because capital losses must be applied to reduce capital gains before applying the small business concessions it is necessary to 'gross up', by multiplying by 2, their share of any net capital gains received from a trust that has been reduced (by the trust) by the small business 50% active asset reduction and, by multiplying by 4, their share of any net capital gains received from a trust that has been reduced (by the trust) by both the small business 50% active asset reduction and the discount percentage (refer to subdivision 115-C of ITAA 1997).

(4) This amount cannot exceed the amount at **F11**. If **F11** is zero, there is no amount at **F16**. Current year capital losses from collectables can only be applied against current year capital gains from collectables (**F1**) and any share of net capital gains (grossed up if the trust has applied the discount percentage) from collectables received from a trust (**F5 and F6**).

(5) This amount can be carried forward to reduce capital gains from collectables in future years.

(6) If there is an amount at **F18,** there is no amount at **F19**.

(7) If there is an amount at **F19,** there is no amount at **F18**. The amount at **F19** may be further reduced by prior year net capital losses.

(8) Prior year net capital losses are to be reduced by the residual forgiven amount as defined in section 245-125 of Schedule 2C 'Forgiveness of commercial debts', to ITAA 1936.

(9) This amount cannot exceed the amount shown at **F19**. If **F19** is zero do not complete **F24**. Prior year net capital losses that arose from collectables can only be applied against current year capital gains from collectables (**F1**) and any share of net capital gains (grossed up if the trust has applied the discount percentage) from collectables received from a trust (**F5 and F6**).

(10) This amount can be carried forward to reduce capital gains from collectables in future years.

(11) If there is an amount at **F26,** there is no amount at **F28**, **F29 and F31**.

(12) The company must have enough capital gains against which to apply these capital losses. Net capital losses that arose from collectables cannot be transferred within company groups. Net capital losses of a PDF are not transferable, (refer to sections 195-30 and 195-35 of ITAA 1997).

(13) The transferred capital losses must be 'surplus' in the sense that, for the current year of the transfer, the transferring company does not have enough capital gains against which to apply them.

(14) If there is an amount at **F31,** there is no amount at **F26**.

(15) If certain conditions are satisfied a company may choose the small business retirement exemption or small business roll-over and disregard all or part of the capital gain remaining after the small business 50% active asset reduction (refer to subdivisions 152-D and 152-E of ITAA 1997). For CGT events that happen before the start time for which a company chooses the small business retirement exemption or small business roll-over contained in subdivision 118-F and Division 123 of ITAA 1997 respectively, that part of the capital gain that is disregarded is also excluded.

(16) The effect of the small business 50% active asset reduction is achieved by reducing, by 50%, the relevant capital gains and capital losses.

(17) The amount at **F39** equals **F38-**(**F35+F36+F37**)**,** that is, the net capital gain equals labels **A-**(**C+D+E**) at item **6.**

Transfer the following information to item **6—Reconciliation to taxable income or loss** of the *Company tax return 2000.*

- Transfer the amount at **F38** to label **A**.
- Transfer the amount at **F35** to label **C**.
- Transfer the amount at **F36** to label **D**.
- Transfer the amount at **F37** to label **E**.
- Transfer the amount at **F30** to label **W**.
- Transfer the amount at **F27** to label **X**.
- Transfer the sum of **C2** and **E3** to label **Z**.

Worksheet 3 Deferred instalment

The information required to calculate the deferred income tax instalment comes from the **Calculation statement** on page 4 of the *Company tax return 2000*

Calculate tax assessed for 1999–2000 to determine the deferred income tax instalment amount

Gross tax (label **B**)		(a)	$	:
Rebates/tax offsets (label **C**)		(b)	$	:
Foreign tax credits (label **D**)		(c)	$	:
Sec 102AAM interest (label **H**)		(d)	$	:
Company's tax assessed for 1999–2000 to determine the deferred income tax instalment amount	(a) – (b) – (c) + (d)	**(e)**	**$**	**:**

Calculate maximum deferred amount

Company's tax assessed for 1999–2000—see (e) above		(f)	$	:
Deferral percentage—see table below		(g)		
Maximum deferred amount	(f) x (g)/100	**(h)**	**$**	**:**

Tax assessed 1999–2000	Deferral Percentage
Less than $8 000	100
$8 000 to $300 000	42
Greater than $300 000	20

Calculate your total credits for 1999–2000

Franking deficit tax offset (label **E**)		(j)	$	:
Deficit deferral tax offset (label **F**)		(k)	$	:
Credit for interest on early payments (label **V**)		(l)	$	:
Prescribed payments system credit (label **W**)		(m)	$	:
Reportable payments system credit (label **X**)		(n)	$	:
Tax withheld from interest/investments (label **Y**)		(o)	$	:
Other refundable credits (label **Z**)		(p)	$	:
Income tax instalments debited for 1999–2000*		(q)	$	:
Total of credits for 1999–2000	Total (j) to (q)	**(r)**	**$**	**:**

*** Note:** Income tax instalments debited for 1999–2000 may be different to instalments paid at label **T** in the **Calculation statement.**

Calculate your final instalment tax payable amount

Company's tax assessed for 1999–2000—see (e) above		(s)	$	:
Total of credits for 1999–2000—see (r) above		(t)	$	:
Final instalment tax payable amount for 1999–2000	(s) – (t)	**(u)**	**$**	**:**

Deferral amount to be claimed (label M)

Maximum deferred amount—see (h) above	**(v)**	**$**	**:**
Balance of tax payable—see (u) above	**(w)**	**$**	**:**

The deferral amount of tax claimed at label **M,** is the lower of the maximum deferred amount and the final instalment tax payable for 1999–2000.

Note: You can elect to defer less than the lower amount of the maximum deferred amount (see (v) above) and the final instalment tax payable (see (w) above).

Show at label **M—Deferral claimed** in the **Calculation statement** the amount of tax payable that is being deferred.

Worksheet 4 Other reconciliation items

Other reconciliation items cater for those items that reconcile label **T—Total profit or loss** in the **Profit and loss statement** with label **T—Taxable income or loss**—other than those items specifically included in the **Reconciliation statement.** Please note that 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 label **T—Total profit or loss** not covered by labels **A** and **U** are specified under the **Other assessable income** and **Non-deductible expenses** headings below. Show the total for income related add back items at label **B—Other assessable income,** and show the total for expense related add back items at label **W—Non-deductible expenses.**

Subtractions from label **T—Total profit or loss**—not covered by labels **C** to **V**, label **R** and label **S**—are specified at the **Other income not included in assessable income** and **Other deductible expenses** headings below. Show the total for income related subtraction items at label **Q—Other income not included in assessable income,** and show the total for expense related subtraction items at label **X—Other deductible expenses.**

In some cases a reconciliation item adds back or subtracts the whole of an amount shown in the **Profit and loss statement,** and a separate label in the **Reconciliation statement** shows the amount for income tax purposes. For example, depreciation as per the accounts is shown in the **Profit and loss statement** and added back in full at label **W —Non-deductible expenses** in the **Reconciliation statement.** The depreciation deduction for income tax purposes is deducted at label **F—Depreciation deducted** in the **Reconciliation statement.**

Other assessable income—label B

Adjustments to income derived

–Increase in interest	$............
–Increase in dividends	$............
–Increase in partnership distribution	$............
–Increase in trust distribution	$............
–Year-end sales cut-off adjustment	$............
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	$............
Depreciation recouped on disposal of assets	$............
Foreign exchange taxable gains	$............
Grants received not included in accounts	$............
Gross taxable foreign sourced income	$............
Other	$............
Total	**$..............**

Non-deductible expenses—label W

Amortisation of leased assets	$.............
Borrowing costs claimed in accounts	$.............
Capital items written off as repairs	$.............
Depreciation as per accounts—label **X**	$.............
Expenses to the extent to which they are not deductible	
–Entertainment	$.............
–Legal expenses/consultants' fees	$.............
– Subscriptions and donations	$.............
–Bad debts	$.............
–Spouse travel	$.............
Extraordinary loss per accounts	$.............
Finance lease interest	$.............
Foreign exchange accounting losses	$.............
Foreign tax paid or deemed paid	$.............
Goodwill amortised	$.............
Interest deduction denied by debt creation rules—see Appendix 7 on page 85	$.............
Interest deduction denied by thin capitalisation—see Appendix 7 on page 85	$.............
Loss on sale of fixed assets included in accounts	$.............
Loss on sale of other assets included in accounts	$.............
Net adjustment to expenses claimed	
–Decrease in prepayments —see **Note 1**	$.............
–Decrease in consumable stores —see **Note 2**	$.............
Net increase in provisions	$.............
Net increase in trading stock valuation for tax purposes	$.............
Offshore banking unit losses—26/36 of eligible deductions	$.............
Other capital items included in accounts	$.............
Other income not included in accounts	$.............
Penalties and fines	$.............
Superannuation charged in accounts	$.............
Trust losses deducted from accounting income	$.............
Other	$.............
Total	**$...............**

Other income not included as assessable income—label Q

Adjustment to income derived

–Decrease in interest	$.............
–Decrease in dividends	$.............
–Decrease in partnership distribution	$.............
–Decrease in trust distribution	$.............
–Year-end sales cut-off adjustment	$.............
Extraordinary profits per accounts	$.............
Foreign exchange accounting profits	$.............
Foreign sourced income in accounts	$.............
Grants receivable	$.............
Profit on sale of fixed assets included in accounts	$.............
Profit on sale of other assets included in accounts	$.............
Other	$.............
Total	**$...............**

Other deductible expenses—label X

Actual lease payments	$.............
Allowable superannuation fund payments	$.............
Amortisation of industrial plant	$.............
Film industry incentive balance —see **Note 3**	$.............
Film licensed investment company deductions	$.............
Foreign exchange taxable losses	$.............
Mains electricity connection to land used for primary production	$.............
Net adjustment to expenses claimed	
–Increase in prepayments—see **Note 1**	$.............
–Increase in consumable stores —see **Note 2**	$.............
Net decrease in provisions	$.............
Net decrease in trading stock valuation for tax purposes	$.............
R&D expenses balance—see **Note 4**	$.............
Tax deductible borrowing costs	$.............
Tax loss on disposal of depreciable assets	$.............
Telephone line connection to land used for primary production	$.............
General interest charge	$.............
Other	$.............
Total	**$...............**

Note 1

Insert the difference between the balance of prepayments at the end of the previous income year which would have been claimed as an income tax deduction in that year, and the balance of prepayments at the end of the current income year. Special rules apply to prepayments—refer to sections 82KZL–KZN of ITAA 1936. Rules for prepayments made after 11.45a.m. AEST, 21 September 1999 have been changed—see **What's new?** on page 11. The net adjustment is shown at the appropriate reference to **Note 1**.

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

Film industry incentive balance. The amount shown is the excess, if any, of:

- the amount of any concession available under Division 10BA of ITAA 1936 for capital expenditure incurred in acquiring an interest in the initial copyright of a new Australian film, over
- expenses for capital expenditure incurred in acquiring an interest in the initial copyright of a new Australian film, which have already been shown at label **Q—Total expenses** in the **Profit and loss statement**.

Note 4

For information on how to calculate the reconciliation amount for R&D expenses balance see Appendix 4 on page 82.

Appendix 1 Strata title bodies corporate

Strata title bodies corporate are treated as public companies under the tax law and are required to lodge a company tax return for any year in which income is earned.

For a full explanation of the tax treatment of strata title bodies corporate refer to *Taxation Ruling IT 2505*, *Taxation Determinations TD 923/7*, *TD 923/723* and *TD 96/22*. To find out how to get a copy see the inside back cover.

For information on GST components excluded from income and deductions see **What's new?** on page 5. Also refer to *Property & The New Tax System*. To find out how to get a copy see the inside back cover.

Page 1

Complete all appropriate items.

The appropriate industry code shown at label **B** is 77200.

At item **3—Status of company**, print **X** at **Strata title—D4**.

Page 2—Information statement

Complete the following labels:

Income

The assessable income of a strata title body corporate includes interest, rent and other non-mutual income.

Show at label **F—Gross interest**, the amount of interest received or credited during the income year.

Show at label **G—Gross rents and other leasing and hiring income**, the total amount of rent, and other leasing and hiring income received or credited.

Show at label **R—Other gross income**, any other non-mutual income—for example, inspection fees.

Note: Income may be net of any GST payable—see **What's new?** on page 5

Total income—label S

Show at label **S** the total of labels **F**, **G** and **R** above.

Expenses

Show at label **S—All other expenses**, any expenses incurred by the strata title body corporate in deriving its assessable income. Some expenses, such as bank charges, are pro-rated based on total receipts.

Note: Expenses may be reduced by any input tax credit entitlement—see **What's new?** on page 5.

Total expenses—label Q

The amount at label **Q—Total expenses**, equals the amount shown at label **S—All other expenses**.

Total profit or loss—label T

Show at label **T** the amount shown at label **S—Total income**, less the amount shown at label **Q—Total expenses**. This is the net amount of non-mutual income received by the strata title body corporate during the income year.

Page 3–6—Reconciliation to taxable income or loss block

The amount shown at label **T—Taxable income or loss**, is equal to the amount shown at label **T—Total profit or loss** in the **Profit and loss statement**.

This amount is also shown at label **A—Taxable or net income** in the **Calculation statement** on page 4 of the *Company tax return 2000*.

All other labels on the tax return may be left blank.

Page 4—Calculation statement

Show at label **A—Taxable or net income** in the **Calculation statement**, the amount shown at label **T —Taxable income or loss** in the **Reconciliation statement**. Then complete the remaining labels in the **Calculation statement**.

Total amount of tax payable (+) or refundable (–)—label S

Show at label **S** the amount of tax that is owing or refundable.

Deferral claimed—label M

The introduction of the PAYG income instalments system (part of *A New Tax System*) allows taxpayers to defer all or some of the instalments payable under the previous company and superannuation fund income tax instalment system. The amount that can be deferred depends on the amount of assessed tax for 1999–2000 and the instalments previously payable for the income year. If you choose to pay an annual PAYG instalment for 2000–2001 you are not entitled to defer your final 1999–2000 instalment liability.

To calculate the amount that can be deferred see Worksheet 3 on page 72.

Show at label **M** the amount of tax deferral claimed.

Actual amount of tax payable (+) or refundable (–)—label N

Show at label **N**:

- the total amount of tax payable or refundable at label **S** or
- the total amount of tax payable at label **S** less the amount that can be deferred at label **M**.

Payments must reach the ATO by the due date—see Appendix 13 on page 92.

Send your payment to the address on the pre-identified payment advice. If you have not received one see page 18 for the payment addresses. For more payment options see page 18.

Do NOT send your payment with your tax return.

Lodgement addresses are on page 93.

Appendix 2 Commercial debt forgiveness

If a commercial debt owed by a company is forgiven during the income year, the net amount of 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 assets, in that order. In certain cases where the company is one of a group of related companies, the amount forgiven may be apportioned among the group companies.

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. Where interest is not payable, the debt is still a commercial debt if interest, if charged, would have been deductible.

A debt is forgiven if the company's obligation to pay the debt is released or waived or otherwise extinguished other than by payment in cash. Special rules apply in relation to debts that are assigned by the company's creditor to the company's associate or to another person with the company's agreement (refer to subsection 245-35(4) of Schedule 2C to ITAA 1936).

Calculation of net forgiven amount

The net forgiven amount of the forgiveness of a debt is calculated as follows:

1. determine the notional 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 the time the debt was incurred and the company's creditworthiness has not changed from the time the debt was incurred and
- the value of the debt at the time the debt was forgiven plus any amounts allowable as deductions upon termination of the debt. This occurred because of a decrease in value of the debt due to market movements. Special rules apply in calculating the notional value of non-recourse debt and in respect of debt parking circumstances (refer to sections 245-60 and 245-61 of Schedule 2C to ITAA 1936)

2. calculate the gross forgiven amount of the debt by deducting from the notional value of the debt any amount of consideration of the forgiveness. This consideration normally is the sum of the amounts of money the company is required to pay 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 of the forgiveness where a debt is forgiven in exchange for shares, where there are debt parking circumstances, or where money or property is applied for the benefit or at the direction of the creditor (refer to sections 245-65 and 245-70 of Schedule 2C to ITAA 1936)

3. the gross forgiven amount is then reduced by any amount:
- which has, is or will be included in the company's assessable income
- by which a deduction otherwise allowable to the company has been or will be reduced or
- by which the cost base to the company of any asset has been or will be reduced, as a result of the forgiveness of the debt

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 for forgiving the debt or to a deduction for a bad debt in the year of forgiveness. If such an agreement is made, the creditor's capital loss or the deduction otherwise allowable to the creditor is reduced to the extent of the amount agreed upon —up to the amount left after **3.** above. For the company, the amount remaining after **3.** above is reduced by the same amount

5. the balance remaining is the net forgiven amount of that debt. The net forgiven amount is then added 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

This total net forgiven amount is applied, in order, in the reduction of the following classes of the company's amounts of:
- deductible revenue losses
- deductible net capital losses
- deductible expenditure and
- cost bases of certain assets.

The company may choose the relevant loss, item of expenditure or asset against which the total net forgiven amount is applied within the relevant class, provided it is applied to the maximum extent possible within that class. Once the total net forgiven amount is applied against all the amounts in a class, any excess is applied, in the above order, against the next class. If there is an excess remaining after applying the amount to the maximum extent possible against all classes, this excess is disregarded—however see page 78 for special rules applying in the case of groups of related companies.

Deductible revenue losses are:
- tax losses
- foreign losses of pre-1990 income years and
- foreign losses of post-1989 income years,

which were incurred by the company in an earlier income year and are undeducted at the beginning of the forgiveness year.

Deductible net capital losses are unrecouped net capital losses incurred in respect of income years before the forgiveness year.

Deductible expenditure is limited to expenditure incurred before the forgiveness year which remains undeducted but which, on conditions prevailing at the beginning of the forgiveness year, would be deductible in that year or future years. The deductible expenditures are:

- cost of plant or articles used—or installed ready for use—to produce assessable income
- expenditure incurred in borrowing money to produce assessable income
- expenditure on a telephone line on land on which a business of primary production is carried
- expenditure in connecting or upgrading mains electricity facilities on land used or intended for use in producing assessable income
- expenditure on scientific research
- expenditure on R&D activities
- expenditure in connection with clearing and preparing land for primary production
- expenditure on establishing a grapevine
- expenditure on plant or structural improvements for conserving or conveying water
- expenditure on certain kinds of plant and equipment for use in very large development projects
- expenditure on study to evaluate the environmental impact of an income producing project
- advance revenue expenditure
- expenditure incurred in relation to mining or quarrying operations
- expenditure incurred on exploration or prospecting for minerals or quarry materials
- expenditure incurred in transporting minerals or quarry materials
- expenditure on forestry roads to an area of timber operations
- expenditure on timber buildings used for timber milling business, if the buildings are in a forest or adjacent to a timber milling or timber felling area
- expenditure on acquiring a unit of industrial property to produce assessable income
- expenditure on acquiring an item of intellectual property to produce assessable income
- expenditure on Australian films
- expenditure on assessable income producing buildings and other capital works
- expenditure incurred in establishing horticultural plants.

There are 2 principal methods of reducing deductible expenditures:

- where the deduction is calculated as a percentage of a base amount—for example, prime cost depreciation—the reduction is made 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 in respect of the deductible expenditure 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
- where the deduction in respect of a particular deductible expenditure is calculated as a percentage of an amount worked out after taking into account any deductions in respect of the deductible expenditure previously allowed to the company—for example, depreciation calculated under the diminishing value method—the forgiven amount is taken to have been allowed as a deduction before the forgiveness income year, effectively reducing the 'depreciated value' of the expenditure.

Where as a result of the recoupment of a particular deductible expenditure, a provision of ITAA 1936 or ITAA 1997 applies to disallow any deductions previously allowed to the company in respect of the expenditure, the amount of a 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 assets owned by the company at the beginning of the forgiveness year—referred to as reducible assets—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 loss might arise on disposal.

Therefore assets not treated as reducible assets include those for which a capital gain or loss will not or is unlikely to arise on disposal—for example, assets acquired prior to 20 September 1985—trading stock or a personal use asset within the meaning of section 108-20 of ITAA 1997. Also excluded are assets the cost of which is deductible, such as depreciable plant or articles.

The company may choose the reducible assets whose cost bases are to be reduced and the extent of that reduction. However, the cost base of 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 reducible asset, then as at any time after the beginning of the forgiveness income year, each of the cost bases—that is, the cost base, indexed cost base and reduced cost base—is taken to be reduced accordingly. Ordinarily, the reduction of an asset's cost bases 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 (refer to subsection 245-190(3) of Schedule 2C to ITAA 1936) 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—for example, because of section 170-175 of ITAA 1997.

The reduction of the relevant cost base of an asset affects the calculation of the amount of the capital gain or loss on the disposal of the nominated reducible asset because the relevant cost base that is taken into account in determining the capital gain or loss must reflect that reduction.

Related companies

Special rules apply if, at the time a debt of a company is forgiven, the company is one of a group of related companies and any of the non-debtor companies have deductible revenue losses. In this case, the net forgiven amount is apportioned to each of those companies in the group which have deductible revenue losses. The relevant proportion is the proportion of each company's deductible revenue losses to the total revenue losses of the group. Each of the companies in the group are treated as having a net forgiven amount, equal to the relevant proportion of the apportioned net forgiven amount for the purpose of working out that company's total net forgiven amount for the income year.

Special rules also apply if none of the companies in the group have deductible revenue losses but any of the non-debtor companies in the group have deductible net capital losses. As above, the net forgiven amount is to be apportioned to each company in the group which has deductible net capital losses. An equivalent formula to that described in relation to deductible revenue losses is then applied, to apportion the net forgiven amount of a group company among group companies with deductible net capital losses. Each of the companies in the group are treated as having a net forgiven amount, equal to the relevant proportion of the apportioned net forgiven amount for the purpose of working out that company's total net forgiven for the income year.

If none of the non-debtor companies within the group has deductible revenue losses or net capital losses, the net forgiven amount of the debtor company is not apportionable and the debtor company is treated as a single company.

A debtor company is part of a group of related companies when it and any other company are under common ownership at the end of the previous income year and on the day on which the debtor company's debt is forgiven. In certain circumstances, however, a company that was not under common ownership with the debtor company at the specified times is nevertheless included in the relevant group of related companies. Where the company had been under common ownership with the debtor company at any time within the 2 income years that immediately preceded the forgiveness income year, or the period in the year of forgiveness up to the time of forgiveness, the other company is taken to be included in the group of related companies if:

- a taxpayer that was the controller of the other company immediately before and after the 2 companies ceased to be under common ownership, was also a controller of that company and the debtor company at the time the debt was forgiven or
- immediately before and after the 2 companies ceased to be under common ownership and at the time the debt was forgiven, either the debtor company was a controller of the other company or the other company was a controller of the debtor company.

Appendix 3 Special building write-off

The special building write-off provisions contained in Division 10C and 10D of ITAA 1936 have been rewritten and replaced by Division 43 of ITAA 1997. Division 43 provides for a system of writing off capital expenditure incurred in the construction of capital works used to produce assessable income.

Capital works

Construction costs in respect of the following capital works may be deducted:

- buildings or extensions, alterations or improvements to a building
- structural improvements or extensions, alterations or improvements to structural improvements
- environment protection earthworks—see Appendix 6 on page 84.

Who can claim?

You can only claim a deduction under this Division for an income year if:

- you own, lease or hold part of a construction expenditure area of capital works
- you incurred the expense and
- you use the building to produce income.

The area you own, lease or hold is called 'your area'. In calculating your deduction you must 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.

Lessee of a building

A lessee can claim a deduction in respect of an area leased or held under a quasi-ownership right. To claim a deduction the lessee must have:

- incurred the construction expenditure or is an assignee of the lessee who incurred the expenditure
- continuously leased or held the building itself, or been so held by previous lessees, holders or assignees since completion of construction and
- used the building to produce assessable income.

If there is a lapse in the lease the entitlement to the deduction reverts to the building owner.

Requirement for deductibility

You 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
- you use the area in the income year to produce assessable income or carry on R&D activities in the way set out in section 43-140 of ITAA 1997.

No deduction until construction is complete

You cannot claim a deduction for any period before the completion of construction of the capital works even though you 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 commenced when the first step in the construction phase starts—for example, the pouring of foundations or sinking of pilings for a building.

Establishing the deduction base

Expenditure in respect of the construction of capital works is deductible 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 and
- for capital works begun before 1 July 1997, the area of the capital works that was to be used in a particular manner (refer to section 43-90 of ITAA 1997).

Construction expenditure

Includes:

- preliminary expenses such as 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 and
- some portion of indirect costs.

In relation to an owner/builder entitled to a deduction under Division 43 of ITAA 1997, the value of the owner/builder's contributions to the works —that is, labour or expertise and any notional profit element—do not form part of construction expenditure (refer to *Taxation Ruling TR 97/25*. To find out how to get a copy see the inside back cover).

Construction expenditure does not include expenditure on:
- acquiring land
- demolishing existing structures
- clearing, levelling, filling, draining or otherwise preparing the construction site prior to carrying out excavation work
- landscaping
- plant
- property 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 ITAA 1936 or 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.

Note: For construction expenditure before 1 July 1997, the capital works must have been constructed for a specified use at the time of completion, depending upon the time when the capital works commenced. The first specified use construction time was 22 August 1979 (refer to Table 43-90 and subsection 43-75(2) of 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

You can only get a deduction under this Division if you use your area in a way described in Table 43-140 or 43-145 of subdivision 43-D of 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, is not used for another purpose and its use has not been abandoned or
- its use has temporarily ceased because of construction, repairs, etc. or for seasonal or climatic conditions.

Your area is not accepted as being used to produce assessable income if:
- it is used for exhibition or display in connection with the sale of all or part of any building (other than a hotel or apartment building) and where construction began after 17 July 1985 but before 1 July 1997. If construction commenced after 30 June 1997, buildings that are used for display are eligible
- it is used
  - wholly or mainly for residential accommodation or
  - for exhibition or display in connection with the sale of all or part of any building, or the lease of all or part of the building for use wholly or mainly for or in association with residential accommodation and the building construction began after 19 July 1982 and before 18 July 1985
- you use it for residential accommodation—and it is not a hotel or apartment building (for exceptions to this rule refer to section 43-170(2) of ITAA 1997).

Your area is taken to be used as residential accommodation if:
- it is part of an individual's home—other than a hotel or apartment building
- it is used as a hotel, motel or guest house but does not satisfy the definition of a hotel building
- owned by a private company and used, or reserved for use, as residential accommodation for a director or member of the company, or a spouse, parent or child of such a director or member.

Note: Special rules for hotel and apartments are contained in section 43-180 of ITAA 1997.

Calculation and rate of deduction

Your entitlement to a deduction begins on the date the building is first used to produce assessable income. 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 upon the rate of deduction applicable.

The legislation contains 2 calculation provisions:
- section 43-210 of ITAA 1997 deals with the deduction for capital works which began after 26 February 1992
- section 43-215 of ITAA 1997 deals with deductions for capital works which began before 27 February 1992.

Capital works begun before 27 February 1992 and used as described in Table 43-140

The deduction is calculated separately for each part that meets the description of your area.

Your construction expenditure is multiplied by the applicable rate (either 4 per cent if the capital works were begun after 21 August 1984 and before 16 September 1987 or 2.5 per cent in any other case) and by the number of days in the income year in which you owned, leased or held your area and used it in a relevant way. That amount is divided by the number of days in the year.

You apportion the amount if your area is used only partly to produce assessable income.

The amount you claim cannot exceed the undeducted construction expenditure.

Capital works begun after 26 February 1992

The deduction is calculated 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 per cent for parts used as described in Table 43-140 (current year use). The rate increases to 4 per cent 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 your construction expenditure you have left to write off. It is used to work out:

- the number of years in which you can deduct amounts for your construction expenditure and
- the amount that you can deduct under section 43-40 of 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, the remaining amount of undeducted construction expenditure that has not yet been deducted less any compensation received is allowed as a deduction. Where the destruction or demolition is voluntary, the entitlement to a deduction is unaffected.

The deduction is allowable in the income year in which the destruction occurs.

The deduction is reduced where the capital works are used in an income year only partly for the purpose of producing assessable income or for R&D.

For guidelines issued by the Commissioner on these measures refer to *Taxation Ruling TR 97/25*. To find out how to get a copy see the inside back cover.

Companies must be registered to claim the concession

An income tax concession is available to a company registered with the IRDB for its R&D activities in relation to the income year for expenditure incurred on or after 1 July 1985 on qualifying R&D in Australia. The concession allows a deduction, against assessable income R&D expenditure, which can include expenditure on plant, but not on buildings. The concessional rate is up to 150 per cent for expenditure incurred prior to 7.30p.m. AEST, 20 August 1996, and up to 125 per cent thereafter except in respect of expenditure incurred under a contract—other than a contract of service entered into before that time.

In respect of qualifying plant, a maximum deduction of up to 125 per cent—previously 150 per cent of expenditure—can be claimed over 3 years in 3 equal instalments (for 1996 legislative changes to the concession regarding treatment of pilot plant see below). Expenditure incurred on buildings after 20 November 1987 can be written off at 2.5 per cent per annum over 40 years.

Information concerning specific items and their treatment as well as the conditions under which any claims may be allowed can be found in:

- *Taxation Rulings IT 2442, IT 2451, IT 2552* and *IT 2635* and *Draft Taxation Ruling TR 1999/D14*. To find out how to get a copy see the inside back cover.
- the explanatory memorandum to TLAA (No. 3) 1996 (for 1996 legislative changes to the concession see below).
- IRDB publications, available from AusIndustry offices in each capital city and on the AusIndustry website www.ausindustry.gov.au

These publications contain information dealing with issues, including:

- criteria for eligibility for the concession
- what is R&D—including the recent changes
- what is qualifying expenditure
- overseas R&D Activities
- what plant expenditure—including pilot plant expenditure can be claimed
- elections that may be made in respect of units of plant, including pilot plant
- what building expenditure can be claimed
- what is core technology and what deductions can be claimed in respect of core technology
- what deductions are allowable where there is a guaranteed return on expenditure
- what prepaid expenditure can be claimed
- what safeguards have been built into the law to prevent abuse of the concession
- reduction of the 150 per cent rate of the concession to 125 per cent
- rules relating to deductions that can be claimed by partnerships
- what amounts of interest can be claimed
- limits to the deduction that can be claimed for feedstock.

1996 legislative changes to the concession

TLAA (No. 3) 1996 and the *Industry Research and Development Amendment Act 1996* became law on 19 December 1996. These amendments to the law contained a number of measures affecting claims for deductions under section 73B of ITAA 1936. A summary of the changes follows.

Note: The various dates of effect of the measures.

Further detail on the changes can be found in the relevant legislation and the Explanatory Memoranda.

The changes contained in TLAA (No. 3) 1996 concern the following areas:

- the rate of deduction for eligible R&D expenditure has been reduced from 150 per cent to 125 per cent. This change applies to expenditure incurred after 7.30p.m. AEST, 20 August 1996 except expenditure incurred under a contract—other than a contract of service—entered into before that date
- the definition of eligible R&D activities has been clarified by importing into the law concepts from the Explanatory Memorandum to the *Income Tax Assessment (Research and Development) Act 1986*.

From 23 July 1996, R&D activities must be systematic, investigative and experimental activities which:

- are mainly carried out in Australia or an external territory
- involve innovation—an appreciable degree of novelty or high levels of technical risk—and
- are carried on for the purpose of acquiring new knowledge or creating new or improved materials, products, devices, processes or services.

The period in which tax assessments may be amended to reduce liability to give effect to section 73B of ITAA 1936 and related provisions is now limited to 4 years from the date of assessment. This change applies to the amendment of assessments after 23 July 1996, subject to transitional rules.

Note: The Commissioner's capacity to increase an assessment at any time has not changed.

Changes have been made to the treatment of the following deductible items, with effect from 23 July 1996:

- interest expenditure, or an amount in the nature of interest, incurred in financing R&D activities is now deductible at a rate of 100 per cent, unless incurred under a fixed term contract entered into prior to 5.00p.m. AEST, 23 July 1996

- the concessional deduction for feedstock expenditure is now limited to the net costs of the feedstock. This is achieved by subtracting the value of any products derived from processing or transforming feedstock as part of R&D activities, from the cost of the feedstock that was used in the process
- the deduction allowable for core technology expenditure has been limited to a maximum of one-third of the amount of R&D expenditure in the relevant year, on particular R&D activities that are related to the core technology. Any undeducted amounts can be carried forward and deducted in a future year in which related R&D activities take place
- a depreciation deduction for qualifying pilot plant expenditure is now based on the useful life of the pilot plant. The change applies to pilot plant acquired or constructed under a contract entered into after 5.00p.m. AEST, 23 July 1996.

The *Industry Research and Development Act 1986* requires:

- applications for registration must now be lodged with the IRDB within 10 months of the end of the income year
- applications for registration must specify and describe the R&D activities undertaken in the income year
- companies can now apply for advance registration for up to 3 years. Companies that obtain advance registration must still apply for registration within 10 months of the end of each income year to claim deductions for R&D expenditure in that year.

Claw back provisions

Companies claiming the R&D Tax Concession and also receiving various forms of grant and other government assistance be aware of the recoupment —or claw back provisions of ITAA 1936 and ITAA 1997. These are sections 73C and 73D of ITAA 1936 and subdivision 20-A of ITAA 1997.

Section 73C operates to claw back, or offset, the benefits received by companies in the form of tax-assessable grants or recoupments from the Commonwealth, States or Territories, a State/Territory body, or a Commonwealth, State or Territory authority, in respect of eligible R&D expenditure incurred by those companies after 21 November 1987.

Section 73D operates similarly in relation to any grants and recoupments which are not assessable income. Grants received from the Commonwealth under its Co-operative Research Centres Program are excluded from the operation of section 73C and section 73D.

Section 73D does not apply to amounts received as ‘recoupment’—as defined in section 20-25 of ITAA 1997—in the 1997–1998 or later income years. Subdivision 20-A applies instead.

Filling out the tax return

Instructions for the treatment of R&D expenditure are at item **6—Reconciliation statement** on pages 42 and 43. Ensure that deductions are not duplicated between the expense items in the **Profit and loss statement** and deduction items in the **Reconciliation statement.**

Appendix 5 Environmental impact study expenditure

Costs incurred on or after 12 March 1991 for evaluating the environmental impact of an income-producing project can be written off. The period for write-off shall be the lesser of 10 years or the life of the project to which the evaluation relates.

Note:

- the cost of depreciable plant or articles used for environmental impact studies are not written-off under this deduction, but are written-off under the ordinary depreciation provisions
- where the cost of an environmental impact study is allowable under any other provision, the deduction is allowable under that provision—for example, mining and quarrying companies can claim an outright deduction for many environmental impact studies under the exploration or prospecting provisions
- the deduction cannot be transferred to another taxpayer if the project to which the study relates, is sold or ceases. The deduction remains with the taxpayer who incurs the expenses
- the deduction is reduced by any grant or recoupment that the taxpayer receives or is entitled to receive, where that grant or recoupment is not included in the taxpayer’s assessable income
- where the deduction arises from a non-arm’s length transaction and the amount of the expenditure is not reasonable, the deduction is limited to the amount which would have been incurred had the parties been dealing at arm’s length.

Appendix 6 Environmental protection expenditure

Under subdivision 400-B of ITAA 1997 expenditure incurred for the sole or dominant purpose of carrying out environmental protection activities, can be deducted in the income year. Environmental protection activities are activities which are related to the production of assessable income—other than assessable income attributable to a net capital gain—and which are undertaken to prevent, fight or remedy pollution of the environment or to treat, clean up, remove or store waste.

The pollution or waste must result, or be likely to result, from an income-producing activity, or be pollution of or from, or waste on or from, the site or proposed site of that activity. The company is also eligible in respect of pollution of or from, or waste on or from, a site on which a predecessor carried on substantially the same business activity.

The deduction is not available for:

- bonds and security deposits for the performance of environmental protection activities
- expenditure incurred in calculating an amount of depreciation that is deductible under Division 42 of ITAA 1997
- the cost of acquiring land
- the capital cost of constructing or altering buildings, structures or structural improvements
- costs incurred which the company can deduct under another provision.

Repairs to plant or equipment used in an environmental protection activity are deductible in the income year in which the cost is incurred. However, where the replacement amounts to an improvement to the plant or equipment, it is depreciable at the relevant rate.

Expenditure on environmental protection activities that is also environmental impact assessment expenditure, is not deductible as expenditure on environmental protection activities.

Example:

A study to determine the quantity and type of pollutants which are produced from a process used in a proposed business that is expenditure on environmental protection activities. Such expenditure also may be environmental impact assessment expenditure. The expenditure is deductible over the lesser of 10 years or the life of the project and is excluded from a deduction as expenditure on environmental protection activities.

If the deductible expenditure is recouped, the recoupment is included in assessable income under subdivision 20-A of ITAA 1997, if it is not otherwise assessable income.

Where the deduction arises from a non-arm's length transaction and the amount of the expenditure is greater or less than the market value of what the expenditure is for, the amount of the expenditure is taken to be that market value (refer to subsection 400-65(3) of ITAA 1997).

Expenditure incurred on or after 19 August 1992 on earthworks, or extensions, alterations or improvements to earthworks, constructed as a result of carrying out an environmental protection activity as described in paragraph 400-60(1)(a) or (b) of ITAA 1997, can be written off under the provisions for income producing buildings at the rate of 2.5 per cent per annum. This deduction is available provided the earthwork can be economically maintained in reasonably good order and condition for an indefinite period and the earthwork is not integral to the construction of a building (refer to subsection 43-20(5) of ITAA 1997).

Appendix 7 Thin capitalisation and debt creation rules

Debt creation

The debt creation provisions apply to reduce certain interest deductions that arise from corporate restructures involving the sale of assets between certain foreign owned companies. If the company's interest expense is reduced, the amount of the reduction is shown at label **W—Non-deductible expenses** in the **Reconciliation statement**. The full amount of the interest expense is still shown at label **V—Interest expenses within Australia** and label **J—Interest expenses overseas** in the **Profit and loss statement**. For more information relating to the debt creation rules see the inside back cover.

Record retention

For each asset transfer affected, keep a statement showing:

- the percentage of foreign control in the taxpayer (buyer) company
- the percentage of foreign control in the seller company by the foreign controllers of the taxpayer company
- the amount of interest incurred on the asset during the income year
- a description of the asset
- the date of acquisition of the asset
- the calculation of interest which is not deductible.

Thin capitalisation

The thin capitalisation provisions apply to reduce certain interest deductions paid or payable to foreign related parties. If the company's overseas interest expense is reduced, the amount of the reduction is shown at label **W—Non-deductible expenses** in the **Reconciliation statement**. The full amount of the interest expense is still shown in the **Profit and loss statement**. In addition, the question at item **14,** label **X**—is answered **Y** for yes if the company claimed a deduction for interest payable on foreign debt—see below. If that is the case, it is also necessary to complete and attach a *Schedule 25A 2000* to the *Company tax return 2000*.

Generally, the thin capitalisation rules do NOT apply to:

- interest free debt
- foreign debt from arm's length sources—unless the debt is subject to a guarantee from a foreign controller or associate
- debt from Australian residents
- short-term trade credit.

The thin capitalisation rules only apply to reduce the deduction for foreign debt interest where ALL of the following items are present:

- foreign controller or foreign investor
- foreign debt
- foreign debt interest
- foreign equity product—which may be nil.

Record retention

Keep a statement showing:

- the percentage of foreign ownership in the company
- the total amount of foreign equity held by foreign controllers and their non-resident associates in the company
- the greatest total foreign debt of the company owing to foreign controllers or their associates at any time in the income year
- the total amount of interest payable on related party foreign debt
- the calculation of disallowed interest including any election to use the alternative formula under subsections 159GZS(3), 159GZT(4) or 159GZW(3) of ITAA 1936.

Guidelines for the calculation of interest not allowable under thin capitalisation rules are given below.

Where BOTH the debt creation and thin capitalisation rules apply, calculate the amount of interest not allowable under the debt creation rules before the application of the thin capitalisation rules. Keep a separate statement showing:

Total foreign interest claimed as a deduction before the application of thin capitalisation or debt creation rules applied		**A**
Less:		
Calculation of interest not allowable as per debt creation provisions		**B**
	A – B = C	**C**
Less:		
Calculation of interest not allowable as per thin capitalisation provisions		**D**
Interest allowable as a deduction	**C – D = E**	**E**

Guidelines for calculating interest not deductible under thin capitalisation rules

Division 16F of ITAA 1936 limits a deduction for interest payments on excess foreign debt to a non-resident related party or their non-resident associates, if the non-resident together with associates resident and non-resident, has a 15 per cent or greater controlling interest or is capable of obtaining such control.

The Division makes use of definitions for specific terms used in these guidelines.

To calculate the amount of related party foreign debt interest that is an allowable deduction, a debt to equity ratio is specified in ITAA 1936. The relevant ratio for companies that are not financial institutions is 2:1. For financial institutions, as defined in the *Banking Act*, it is 6:1, reduced by the extent to which any subsidiaries are non-financial institutions.

Where a company has foreign debt with a foreign controller, it is necessary to determine if there is any excess foreign debt. To calculate this, the interests of, and foreign debt to, foreign controllers and their non-resident associates is aggregated and a proportion is obtained by applying a formula. The proportion is used to determine the amount of related party foreign debt interest that is not an allowable deduction.

The following information is required:

- the foreign equity of the foreign controller and its non-resident associates
- the relevant debt to equity ratio
- the foreign debt to such parties and the interest payable on that debt
- an election to use the alternative formula, if necessary.

Two formulae—**A** and **B**—are available to calculate the portion of related party foreign debt interest that is attributable to excess foreign debt and is not an allowable deduction. In the absence of an election, Formula **A** applies—see page 87.

Foreign equity for thin capitalisation purposes

It is necessary to calculate the foreign equity of all foreign controllers and their non-resident associates. A foreign controller is one who has—together with associates—a 15 per cent or greater interest in the company, or is capable of acquiring such control.

Foreign equity is usually measured at the end of the income year. However, some items are measured at the beginning of the year. This enables a taxpayer to contribute more equity to avoid the application of Division 16F of ITAA 1936 and also pay out dividends during the income year without affecting the debt to equity ratio.

When calculating the proportion of accumulated profits, share premium account and asset revaluation reserves attributable to the interest of foreign controllers and their non-resident associates, at the relevant measurement point, the amount is calculated on the following assumptions:

- the company was wound up at that time
- the company has no accumulated losses
- the value at that time of the assets of the company, reduced by its liabilities, exceeded the paid-up capital by not less than the amount of accumulated profits, asset revaluation reserves and share premium account respectively.

On this basis net foreign equity used to determine the foreign equity product, is the sum of:

A the paid-up value of shares beneficially owned at the end of the income year by foreign controllers and their non-resident associates $...........

B their portion of the share premium account at the end of the income year $...........

C their portion of accumulated profits and asset revaluation reserves at the beginning of the income year $...........

D gross foreign equity = A + B + C $...........

Less:

E the balance outstanding at the end of the income year on all amounts owing to the company by foreign controllers or their non-resident associates, excluding short-term—that is, less than 30 days trade credit amounts and section 128F debenture amounts $...........

F any amount of accumulated profits or asset revaluation reserves applied towards the paid-up value of any issued shares which have benefited either the foreign controllers or the non-resident associates $...........

G any deficiency in paid-up capital as a result of accumulated losses, at the beginning of the income year $...........

H total = E + F + G $...........

Net foreign equity = D – H $..................

Clawback provisions apply if the level of foreign equity is reduced under certain circumstances. For financial institutions certain Nostro and Vostro account balances are not included in this calculation.

Foreign equity product

The amount of net foreign equity is multiplied by the relevant debt to equity ratio that is, 2:1—or for financial institutions, 6:1—to obtain the foreign equity product. Debt in excess of this amount is excess foreign debt.

The foreign equity product is calculated as being:

debt to equity ratio x net foreign equity = $...........

Foreign debt and foreign debt interest

Foreign debt is the amount of debt to a foreign controller or a non-resident associate of the foreign controller, that is or may become interest bearing. It does not include debts to Australian residents or to offshore non-associated third parties, unless such offshore debt is dependant on a guarantee or security from a foreign controller or associate. The relevant amount of foreign debt depends upon which formula is used.

Company groups

In the case of wholly owned company groups, the related party foreign debt for the group is aggregated. The foreign equity of the member of the group with direct foreign equity is used to calculate the foreign equity product. An excess foreign debt day occurs when related party foreign debt for the group exceeds the foreign equity product. The proportion obtained from the calculation is applied to the foreign debt interest of the taxpayer.

Proportion of interest deduction disallowed

A formula is used to calculate the proportion of foreign debt interest which is not an allowable deduction—that which relates to excess foreign debt. The taxpayer can elect to use either of the 2 formulae specified in ITAA 1936.

Formula A

If no election is made, formula **A** applies. It uses the highest amount of related party interest bearing foreign debt for the income year—that is,

$$\frac{A \times E}{D}$$

where:

A is the amount of related party foreign debt interest payable during the income year

E is the amount by which the company's greatest total foreign debt exceeds the foreign equity product

D is the company's greatest total foreign debt for the income year.

The amount resulting from the application of the formula represents the amount of interest on related party foreign debt which is not an allowable deduction. The amount is added back to label **T —Total profit or loss** in the **Reconciliation statement**.

Formula B

The company can elect to use the alternative formula **B** which provides a weighted average of foreign debt. This gives a reduced proportion of interest that is not an allowable deduction when excess foreign debt occurred for a short period in the relevant income year.

It is necessary to determine:

- the average of foreign debt for each day of the income year—in the case of a wholly owned company, group foreign debt is aggregated
- the average debt for excess foreign debt days
- the number of excess foreign debt days
- the number of days in the income year.

These amounts are then used in the following formula,

$$A \left(\frac{B}{C} \times \frac{D}{E}\right)$$

where:

A is the amount of related party foreign debt interest payable during the income year

B is the average daily foreign debt for excess foreign debt days minus foreign equity product

C is the average daily foreign debt

D is the number of excess foreign days

E is the days in the income year.

The amount resulting from the application of the formula represents the amount of interest on related foreign party debt which is not an allowable deduction. The amount is written back in the **Reconciliation statement**.

Additional information relating to thin capitalisation is available in the *Schedule 25A 2000 instructions*. To find out how to get a copy see inside the back cover.

Appendix 8 Taxation treatment of pooled development funds and investors

How are pooled development funds taxed?

From 30 June 1992 a pooled development fund (PDF) is a company that is registered as a PDF and provides development capital to small and medium companies.

If a PDF is registered as a PDF part way through an income year it is taxed as a PDF for the period from the date of its registration to the end of the income year as if that period were an income year. The taxable income therefore in the pre-PDF period is taxed at 36 per cent.

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, its taxable income is taxed at 36 per cent.

Assessable income received by a PDF from its investments in small and medium enterprises (SME), less any deductions allowable to the PDF whether they relate to the SME income or not, is taxed at 15 per cent. If the available deductions exceed the SME assessable income, any excess deductions are taken into account in determining the unregulated investment component of taxable income.

Income received from interest-bearing investments such as loans to, deposits with, and debentures of banks and deposits with the money market—defined as unregulated investment income—is taxed at 25 per cent. The unregulated investment income component is the difference between the taxable income of the PDF and the SME income component.

Imputation

PDFs derive franking credits in the same way as other companies, mainly from the payment of company tax and for the receipt of franked dividends.

The PDF obtains venture capital franking credits from the payment of CGT on eligible venture capital investments—that is, SME investments made in accordance with the *Pooled Developments Funds Act 1992*.

Dividends paid by PDFs are frankable, on the same basis as other companies.

As with other franking credits, venture capital franking credits are allocated to shareholders by the payment of a dividend, here as a venture capital franked dividend. Eligible shareholders receive a rebate for venture capital franked dividends, which are calculated on the basis of the general company tax rate of 36 per cent.

If a PDF over distributes venture capital credits during the franking year it incurs venture capital deficit tax —equivalent to franking deficit tax.

Inter-corporate dividend rebate

Unlike other companies, a resident PDF is not entitled to a rebate at its average tax rate on dividends received as a shareholder of another company.

Dividends received by a PDF are treated as SME income and taxed at the SME rate of 15 per cent. Rebates on dividends, to the extent that those dividends do not exceed the SME income component of the PDF's taxable income, are available at the SME tax rate.

Losses

Deductions for PDF losses are allowable only in income years in which the company is a PDF.

PDF losses cannot be transferred to other companies in the same group.

Non-PDF 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

Dividends paid by a PDF until its deregistration are PDF dividends.

Unfranked PDF dividends, which include the unfranked part of a franked dividend, are exempt from tax.

Franked dividends are also exempt unless the shareholder elects to be taxed on them.

Franked dividends, which are venture capital franked and produce a venture capital rebate for the recipient shareholder, are also exempt. The remaining franked part of the dividend is exempt unless the shareholder elects to be taxed on it.

The election is made by including the dividend in assessable income.

A shareholder who uses the imputation credits attached to the franked PDF dividends must make an election to be taxed on all the franked PDF dividends derived during the income year.

PDF shareholders which are companies are entitled to the inter-corporate dividend rebate on franked PDF dividends that are included in assessable income. Also, the franked PDF dividends received give rise to a franking credit.

The costs associated with borrowing to purchase PDF shares are not deductible to the extent the dividends are exempt from tax.

Non-resident PDF shareholders are exempt from withholding tax on PDF dividends.

PDF shares are not trading stock of a share trader.

Profit or losses from the disposal of PDF shares are not assessable or deductible to a share trader or any other investor.

Capital gains or losses from the disposal of PDF shares are not assessable or deductible.

Appendix 9 Infrastructure borrowings

The previous infrastructure borrowings tax concession which was introduced in 1992 to facilitate private sector investment in certain publicly accessible infrastructure projects, was closed with effect from 14 February 1997. The provisions relating to the concession are contained in Division 16L of ITAA 1936 and Chapter 3 of the *Development Allowance Authority Act 1992*.

The tax concession was, broadly, by way of an exemption of the lender's interest on borrowings—or, as an option, a tax rebate of 36 per cent of the interest—and non-deduction for the borrower's interest. In addition, any profit or loss on the disposal of an infrastructure borrowings instrument was non-assessable or non-deductible. Eligible infrastructure facilities included:

- land transport
- seaport
- electricity generation
- air transport
- gas pipeline
- water supply and
- sewerage or waste water facilities.

The replacement land transport infrastructure rebate contained in Division 396 of ITAA 1997 is a more restricted concession. Only road and rail infrastructure facilities may be approved infrastructure projects. (As a transitional measure, however, projects of which an application had been made under the previous concession, extensions of projects certified under the previous concession, or projects certified after the cessation of the previous concession, may be approved.)

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 Transport and Regional Services.

Where the lender's interest is subject to a tax offset, the project borrower is denied a deduction in respect of a comparable amount of interest.

Offsets are allowable only in the first 5 income years after the first borrowing for the infrastructure project.

Appendix 10 Heritage conservation

A 20 per cent rebate on approved heritage conservation expenditure is available for companies, corporate unit trusts and public trading trusts where they have been issued with a final certificate that relates to a specified amount of heritage conservation expenditure.

Heritage conservation works are defined as works done for the purpose of conserving, maintaining, preserving, restoring, reconstructing or adopting a building or structure of cultural significance.

The rebate is allowable if:

- the expenditure is spent on buildings and structures that are listed in the Commonwealth, State or Territory heritage registers
- the expenditure is at least $5000
- the expenditure is not financed out of a fund, donations to which are deductions under Division 30 of ITAA 1997, or by a low interest loan or a Commonwealth, State or Territory grant
- the expenditure is not eligible for a capital allowance, depreciation or deduction under other taxation provisions
- the taxpayer, either alone or with others has a freehold interest in, or a Crown lease over, the land on which the building or structure is situated
- a provisional certificate is obtained from the Minister for Communications, Information Technology and the Arts who administers the scheme.

The provisional certificate remains in force from the time of issue until the earliest of:

- the taxpayer disposing of their interest in the property
- the taxpayer dies
- in the case of the taxpayer being a company, partnership or trust, it is dissolved or otherwise terminated
- 24 months
- upon the expiration of the period or
- on the issue of the final certificate.

The rebate is available in the income year that the final certificate was applied for, not the income year in which the final certificate was issued.

The rebate is subject to limitation in non-arm's length arrangements.

Appendix 11 Company rates of taxation

The following rates of tax apply to companies for the 1999–2000 income year

Companies generally	Rate %
• including corporate limited partnerships, strata title bodies corporate, trustees of corporate unit trusts and public trading trusts	36

Private companies generally	
• taxable income	36

Registered organisations	
• component of taxable income referable to policies held by complying superannuation funds or for roll-over annuities	15
• component of taxable income referable to policies held by non-complying superannuation funds	47
• component of taxable income referable to other life assurance and to accident and disability insurance.	39
• component of taxable income referable to contributions made by the RSA provider to RSA policies	15
• component of taxable income referable to contributions made by other parties to RSA policies	36

Life assurance companies	
• general fund—standard component:	
– mutual life companies	39
– other life companies	36
• component of taxable income referable to policies held by complying superannuation funds or in respect of roll-over annuities	15
• component of taxable income referable to policies held by non-complying superannuation fund	47
• component of taxable income referable to accident and disability/residual life assurance policies	39

Retirement savings accounts providers	
• the RSA component of the general fund component	15
• the standard component of the general fund component	36

Pooled development funds	Rate %

For tax rates where a company commences to be, or ceases to be, a PDF during the income year see Appendix 8 on page 88.

• small and medium sized enterprises component	15
• unregulated investment income	25
• other	36

Credit unions	
• small credit unions—under $50 000	36
• medium credit unions—$50 000–$149 999	54
• large credit unions—$150 000 and over	36

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 ITAA 1936 did not apply and Division 9 of Part III of ITAA 1936 had not been enacted.

Non-profit companies

Non-profit companies with a taxable income of between $417 and $1204 are taxed on their taxable income in excess of $416.

Non-profit companies with a taxable income of $1205 and above are taxed on all their taxable income.

Taxable income	
$0–$416	nil
$417–$1204	55
$1205 and above	36

Appendix 12 Country codes

Country	Code
Andorra	01
Anguilla	02
Antigua	03
Austria	04
Argentina	84
Bahamas	05
Bahrain	06
Bangladesh	85
Barbados	07
Brazil	86
Belgium	08
Belize	09
Bermuda	10
British Virgin Islands	12
Brunei	13
Canada	15
Cayman Islands	16
Chile	87
China (PRC)	17
Channel Islands	11
Cook Islands	18
Costa Rica	19
Croatia	79
Cyprus	20
Czech Republic	88
Denmark	21
Egypt	22
Estonia	89
Germany	23
Fiji	24
Finland	25
France	26
Gibraltar	27
Greece	28

Country	Code
Hong Kong	30
Hungary	90
India	31
Indonesia	32
Ireland	33
Isle of Man	34
Israel	35
Italy	36
Jamaica	37
Japan	38
Kazakstan	91
Kiribati	92
Kuwait	93
Korea (South)	39
Latvia	94
Liberia	40
Liechtenstein	41
Lithuania	95
Luxembourg	42
Macau	43
Malaysia	44
Malaysia (Labuan)	81
Maldives	45
Malta	46
Mauritius	96
Mexico	97
Monaco	47
Nauru	48
Netherlands	49
Netherlands Antilles	50
New Zealand	51
Norway	52
Panama	53
Papua New Guinea	54

Country	Code
Philippines	55
Romania	98
Russian Federation	69
Singapore	56
Slovenia	80
Slovak Republic	99
South Africa	57
Spain	58
Sri Lanka	59
Sweden	60
Switzerland	61
Taiwan	62
Thailand	63
Tonga	64
Turks and Caicos Islands	65
United Arab Emirates	66
United Kingdom	67
United States of America	68
USA (Delaware)	71
Vanuatu	70
Venezuela	14
Vietnam	82
Western Samoa	83
Zimbabwe	29
African countries NEI	72
Asian countries NEI	73
Central American countries NEI	74
European countries NEI	75
Middle East countries NEI	76
South American countries NEI	77
Other countries NEI	78

Note: NEI means 'not elsewhere included'.

Appendix 13 Lodgment and payment arrangements

Company and superannuation fund category 1999–2000	Payment schedule 1999–2000	Instalment amount 1999–2000	Lodgment and payment dates 1999–2000
Entities classified as SMALL but actual tax payable for the current year exceeds $300 000	1 December 2000*	Balance of tax liability*	Pay balance by 1 December 2000 and lodge return by 15 January 2001
Entities classified as SMALL but actual tax payable for the current year is less than or equal to $300 000	15 December 2000* 15 March 2001*	100% of likely tax Balance of tax liability*	Lodge return and pay balance by 15 March 2001
Entities classified MEDIUM	1 June 2000 1 September 2000 1 December 2000* 1 March 2001*	25% of likely tax 25% of likely tax 25% of likely tax Balance of tax liability*	Lodge return and pay balance by 1 March 2001
Entities classified LARGE	1 March 2000 1 June 2000 1 September 2000 1 December 2000*	25% of likely tax 25% of likely tax 25% of likely tax Balance of tax liability*	Pay balance by 1 December 2000 and lodge return by 15 January 2001
NON TAXABLE: • entities which are non-taxable in the immediate prior year and remain non-taxable in the current year or • entities taxable in the immediate prior year but have lodged an estimate varying tax payable to nil by 15 March or • new entrants which are non-taxable			Lodge return by 1 May 2001

* Transitional arrangements for the new PAYG income tax instalment system allow taxpayers, who are part of the quarterly instalment system for the 2000–2001 income year, to defer some or all of their income tax instalments for 1999–2000. The amount that can be deferred depends on the amount of tax payable in 1999–2000. The deferred amount is then paid in a number of equal, interest free, quarterly payments. Further details are shown in the table below.

Tax payable 1999–2000	Deferral %	No. of interest free quarterly payments	PAYG quarter payment commences
< $8 000	100	21	3rd
$8 000 – $300 000	42	21	3rd
> $300 000	20	10	2nd

- corresponding dates apply to companies and superannuation funds that balance on dates other than 30 June.
- the grouping provisions of the legislation can have the effect of re-classifying an entity that would individually be classified as a MEDIUM entity to the status of a LARGE entity with the consequent lodgment and payment requirements of a LARGE entity.

Appendix 14 ATO locations and where to lodge your tax return

Below are our street addresses, and mailing addresses for lodgment of your *Company tax return 2000* and any other correspondence. Do NOT mail payments to these addresses—see page 18.

If you have an enquiry, we can usually assist you faster by telephone. The inside back cover lists our telephone helpline services.

New South Wales

Albury
567 Smollett Street
Albury
PO Box 9990 Albury 2640

Bankstown
ATO*access*
2 Meredith Street
Bankstown
PO Box 9990 Hurstville 2220

Chatswood
ATO*access*
Shop 43 Lemon Grove
Shopping Centre
441 Victoria Avenue
Chatswood
PO Box 9990 Hurstville 2220

Hurstville
ATO*access*
1st Floor MacMahon Plaza
14–16 Woodville Street
Hurstville
PO Box 9990 Hurstville 2220

Newcastle
266 King Street
Newcastle
PO Box 9990 Newcastle 2300

Parramatta
Commonwealth Offices
2–12 Macquarie Street
Parramatta
PO Box 9990 Newcastle 2300

Penrith
121–125 Henry Street
Penrith
PO Box 9990 Penrith 2740

Sydney
100 Market Street
Sydney
PO Box 9990 Hurstville 2220

Wollongong
93–99 Burelli Street
Wollongong
PO Box 9990 Penrith 2740

Queensland

Brisbane
ATOaccess
280 Adelaide Street
Brisbane
PO Box 9438 Chermside 9438

Chermside
ATOaccess
766 Gympie Road
Chermside
PO Box 9438 Chermside 9438

Townsville
ATOaccess
Stanley Place
235 Stanley Street
Townsville
PO Box 9990 Townsville 4810

Upper Mt Gravatt
2221–2233 Logan Road
Upper Mt Gravatt
PO Box 9438 Chermside 9438

Australian Capital Territory

Canberra
ATO*access*
Ground floor Ethos House
28–36 Ainslie Avenue
Canberra
PO Box 9990 Penrith 2740

Tasmania

Hobart
200 Collins Street
Hobart
GPO Box 9990 Hobart 7001

Western Australia

Northbridge
45 Francis Street
Northbridge
GPO Box 9990 Perth 6848

Victoria

Box Hill
990 Whitehorse Road
Box Hill
PO Box 9990 Box Hill 3128

Casselden Place
2 Lonsdale Street
Melbourne
PO Box 9990 Dandenong 3175

Cheltenham
ATO*access*
4A, 4–10 Jamieson Street
Cheltenham
PO Box 9990 Albury 2640

Dandenong
14 Mason Street
Dandenong
PO Box 9990 Dandenong 3175

Geelong
92–100 Brougham Street
Geelong
PO Box 9990 Albury 2640

Moonee Ponds
6 Gladstone Street
Moonee Ponds
PO Box 9990 Dandenong 3175

Northern Territory

Alice Springs
ATO*access*
Jock Nelson Centre
16 Hartley Street
Alice Springs
GPO Box 800 Adelaide SA 5001

Darwin
ATO*access*
Cnr Mitchell & Briggs Streets
Darwin
GPO Box 800 Adelaide SA 5001

South Australia

Adelaide
91 Waymouth Street
Adelaide
GPO Box 800 Adelaide 5001

Changes effective from 1 July 2000

Endorsement of deductible gift recipients and/or income tax exempt charities

On 13 August 1998, the Treasurer announced as part of *The New Tax System* a process to enable deductible gift recipients (DGRs) and/or income tax exempt charities (ITECs) to be endorsed by the ATO.

From 1 July 2000 the following requirements take effect:

- organisations that have, or who are seeking to have DGR status need to be endorsed by the ATO unless they are specifically named in the income tax law. Charities that currently have or who are seeking to have income tax exempt status need to be endorsed by the ATO
- gifts and donations made to an organisation are no longer tax deductible to the donor unless the organisation is endorsed by the ATO as a DGR or specifically named in the income tax law
- all receipts issued for gifts by a DGR include its ABN, the name of the gift fund and state that the receipt is for a gift
- DGR status will be shown on the Australian Business Register. This will enable members of the public to check whether their gifts and donations are being made to a DGR—and hence are tax deductible
- non-charitable organisations such as sporting clubs do not require endorsement.

Alienation

On 11 November 1999 the Treasurer announced, in the *Treasurer's Press Release No.74 of 1999*, integrity measures to contribute to the fairness and equity of the tax system.

One of these measures will restrict the ability of individuals to reduce tax by diverting the income they earn from personal services to an entity—a company, partnership or trust. The proposed approach will treat, for tax purposes, the income of an entity that is earned through the provision of personal services as the income of the individual who provides the services. The provisions will not apply where the services are provided in the manner of a personal services business.

This measure which commences from 1 July 2000 is contained in *New Business Tax System (Alienation of Personal Services Income) Bill 2000*. At the time of printing legislation is still before Parliament. For more information see the inside back cover.

Glossary

AAT .... Administrative Appeals Tribunal
ABN .... Australian Business Number
ABS .... Australian Bureau of Statistics
ACN .... Australian Company Number
AEDT .... Australian Eastern Daylight Time (by legal time in the Australian Capital Territory)
AEST .... Australian Eastern Standard Time (by legal time in the Australian Capital Territory)
ARBN .... Australian Registered Body Number
ATO .... Australian Taxation Office
BTR .... Business tax reform
Capital Allowances Act 1999 .... *New Business Tax System (Capital Allowances) Act 1999*
CFC .... controlled foreign company
CGT .... capital gains tax
CIV .... collective investment vehicles
Commissioner .... Commissioner of Taxation
DGR .... deductible gift recipients
DIA .... drought investment allowance
ELS .... electronic lodgment service
ETP .... eligible termination payment
FDA .... foreign dividend account
FTD tax .... family trust distribution tax
FIF .... foreign investment fund
FTN .... failure to notify
GIC .... general interest charge
Gazette .... Commonwealth of Australia Gazette
GST .... goods and services tax
Integrity and Other Measures Act 1999 .... *A New Tax System (Integrity and Other Measures) Act 1999*
IRDB .... Industrial Research and Development Board
IRU .... indefeasible rights to use international telecommunication submarine cables
ITAA .... *Income Tax Assessment Act*
ITEC .... income tax exempt charities
LIFO .... last in first out
Miscellaneous Bill 1999 .... *A New Tax System (Miscellaneous) Bill 1999*
OB activities .... offshore banking activities
OBU .... offshore banking unit
OCR .... optical character recognition
PAYE .... Pay-As-You-Earn
PAYG .... Pay As You Go
PDF .... pooled development fund
PPS .... prescribed payment system
R&D .... research and development
RPS .... reportable payment system
RSA .... retirement savings account
SAP .... substituted accounting period
SHAR .... Superannuation Holding Account Reserve
SME .... small and medium enterprises
start time .... 11.45a.m. AEST, 21 September 1999
TAA .... *Taxation Administration Act*
TFN .... tax file number
TLAA .... *Taxation Laws Amendment Act*
TLAB .... *Taxation Laws Amendment Bill*
Transitional Provisions Act 1997 .... *Income Tax (Transitional Provisions) Act 1997*
Trust Loss Act .... *Taxation Laws Amendment (Trust Loss and Other Deductions) Act 1998*
Y2K .... year 2000

References to Taxation Determinations and Taxation Rulings

IT 2442 .... Income tax: concession for eligible research and development expenditure

IT 2451 .... Income tax: investor funding of research and development activities

IT 2505 .... Income tax: body corporate constituted under strata title legislation

IT 2552 .... Income tax: research and development (R&D)—costing of expenditure

IT 2624 .... Income tax: company self assessment; elections and other notifications; additional (penalty) tax; false or misleading statement

IT 2635 .... Income tax: syndicated research and development arrangements

TD 93/7 .... Income tax: under what circumstances is a strata title body corporate required to lodge an income tax return?

TD 93/73 .... Income tax: will a strata title body corporate be taxed as a non-profit company if it includes non-profit clauses in its by-laws?

TD 93/202–217 .... Income tax: offshore banking unit
TD 93/241,
TD 95/1–3

TD 96/22 .... Income tax: section 51AD—deductions not allowable if an asset financed by non-recourse debt is used by a tax exempt or other entity

TD 2000/18 .... Income tax: what are the consequences of using a GST Direct Assistance Certificate to pay for plant or deductible expenditure?

TR 92/18 .... Income tax: bad debts

TR 93/1 .... Income tax and fringe benefits tax: private rulings

TR 93/23 .... Income tax: valuation of trading stock subject to obsolescence or other special circumstances

TR 94/3 .... Income tax: tax shortfall penalties: calculation of a tax shortfall and allocation of additional tax

TR 94/4 .... Income tax: tax shortfall penalties: reasonable care, recklessness and intentional disregard

TR 94/8 .... Income tax: whether business is carried on in partnership (including ‘husband and wife’ partnerships)

TR 96/7 .... Income tax: record keeping—section 262A—general principles

TR 97/16 .... Income tax: status of taxation rulings following the income tax law rewrite

TR 97/21 .... Income tax: record keeping: electronic records

TR 97/23 .... Income tax: deduction for repairs

TR 97/25 .... Income tax: property development: deduction for capital expenditure on construction of income producing capital works, including buildings and structural improvements

TR 98/3 .... Income tax: treatment of receipts for dealing with or disclosing mining, quarrying or prospecting information

TR 98/7 .... Income tax: whether packaging items (ie, containers, labels, etc) held by manufacturer, wholesaler or retailer are trading stock

TR 1999/2 .... Income tax: deductibility of expenditure incurred on tailings dams or similar mining residue, waste storage or disposal facilities

TR 1999/9 .... Income tax: the operation of sections 165-13 and 165-10, paragraphs 165-35(b), section 165-126 and section 165-132

TR 1999/12 .... Income tax: deductibility of expenses incurred in preparing for the commencement of the Goods and Services Tax (GST)

Draft TR1999/D14 ..... Income tax: research and development: plant expenditure

Index

A

Accelerated depreciation removal 10
Actual amount of tax payable (+) or refundable (–)—label N 63
Add back items 34
Alienation 94
All current assets—label D 51
All current liabilities—label G 51
All other expenses—label S 32
Amendment under self assessment 17
Application of total net forgiven amount 76
Assessable government industry payments—label Q 27
Assignment of leases 14
ATO addresses for lodging your tax return 93
ATO locations 93
Attributed foreign income—labels B, C, U, V, W and X 54
Australian Company Number (ACN) 20
Australian Registered Business Number (ARBN) 20
Average turnover 11

B

Bad debt deductions 11
Bad debts—label E 29
Broad-exemption listed country—label B 54
Business address of main business 20
Business tax reform 10

C

Calculation of net capital gain—Part F 70
Calculation statement 59
Capital Allowances Act 1999 12
Capital gains tax 2
Capital gains tax—BTR 12
Capital gains tax record keeping 16
Capital gains tax small business roll-over amount—label Z 49
Capital gains tax small business retirement exemption—Part D 68
Capital gains tax small business roll-over relief—Part E 69
Capital gains worksheet 65
Capital losses artificially created 2
Capital works 79
Capital works begun after 27 February 1992 81
Capital works begun before 27 February 1992 and used as described in Table 43-140 81
Capital works–balancing deduction on destruction 81
Capital works–calculation and rate of deduction 80
Capital works–deductibility requirement 79
Capital works–deduction base establishment 79
Capital works–lessee of a building 79
CGT asset codes table 36
Changes effective from 1 July 2000 94
Class A franking account balance—label L 51
Class C franking account balance—label M 52
Classification and payment arrangements 18
Closing stock—label B 50
Closing stock valuation method table 50
Clubs, societies and associations 15
Commercial debt forgiveness 76
Companies exempt from the instalment system 18
Company groups 87
Company rates of tax 90
Company tax instalments—grouping provisions 2
Company tax instalments—payment of tax by small companies 3
Concessions where fixed entitlements in a company held by discretionary trusts 3
Conditions to retain access to accelerated rates of depreciation 10
Construction expenditure 79
Construction expenditure area 80
Construction expenditure deduction 80
Construction expenditure pool 80
Construction expenditure–undeducted 81
Continuity of ownership test 13
Contractor, sub-contractor and commission expenses—label C 29
Conversion of class C franking account 15
Corporate unit trusts and public trading trusts 15
Cost of sales—label A 28
Country codes 91
Credit for interest on early payments–amount of interest—label V 61
Credit for interest on early payment–interest rates for 1999–2000 62
Current postal address 20

D

Debt creation 85
Debt forgiveness 13
Declaration 63
Deductible expenditure and cost base 3
Deferral claimed—label M 63
Deferred instalment worksheet 72
Deficit deferral tax offset—label F 61
Definition of a small business taxpayer 11
Demutualisation of mutual entities other than insurance companies 3
Depreciable assets purchased—label Z 52
Depreciable assets sold—label P 53
Depreciation (capital allowances) 10
Depreciation deducted—label F 39

Depreciation expenses—label X 32
Depreciation of plant previously owned by an exempt entity 4
Depreciation worksheet 64
Description of main business activity 21
Development allowance—label K 41
Discretionary trust 26
Distributions equivalent to interest 4
Dividend streaming measures 4
Dividends as the only international transactions 58
Division 57 40
Division 58 40
Drought investment allowance—label J 41

E

Election status codes 22
Employee superannuation—label D 29
Endorsement of deductible gift recipients 94
Environmental impact assessment and protection expenses—label O 44
Environmental impact study expenditure 83
Environmental protection expenditure 84
E-record 16
Estimates of tax payable 18
Exempt income from RSAs—label S 56
Exempt income—label V 45
Extraordinary revenue or expenses—label N 33

F

Family trust distribution tax 22
Film Licensed Investment Company deductions 4
Final tax return 20
Financial and other information 50
First company tax return 17
Fixed trust 26
Fixed unit trust 26
Foreign currency exchange gains or losses of a capital nature—label I 54
Foreign debt 87
Foreign debt interest 87
Foreign equity for thin capitalisation purposes 86
Foreign equity product 86
Foreign investment fund and foreign life assurance policy—label Z 59
Foreign investment fund income—label W 54
Foreign life policy—label X 54
Foreign tax credits—label D 60
Formula A 87
Formula B 87
Franked dividends paid—label J 51
Franking accounts 51
Franking credit trading measures 4
Franking debits and credits for life assurance companies 5
Franking deficit tax offset—label E 61
Fringe benefit employee contributions—label I 27
Further value shifting and loss duplication rules 13

G

Gain or loss from collectables—Part A 65
Gain or from personal use assets (PUA)—Part B 66
Gain or loss from other CGT assets—Part C 67
General interest charge 5
General interest charge–interest rates for 1999–2000 5
Glossary 95
Gross distribution from partnerships—label D 25
Gross distribution from trusts—label E 25
Gross dividends—label H 27
Gross income of RSAs—label R 56
Gross interest—label F 26
Gross prescribed payments system income—label A 25
Gross rent and other leasing and hiring income—label G 26
Gross reportable payments system income—label B 25
Gross taxable contributions of RSAs—label W 56
Gross tax—label B 59
Group turnover 11
GST components excluded from income and deductions 5
GST Direct Assistance Certificates 6
GST-related expenditure deduction 7
Guidelines for calculating interest not deductible under thin capitalisation rules 85

H

Heritage conservation 89
Hire purchase and limited recourse finance arrangements 6
Hybrid trust 26

I

Immediate holding company and ACN or ARBN 21
Immediate write-off—label G (Mining and quarrying only) 40
Income tax deductions for GST-related expenditure 7
Income tax exempt charities 94
Industry code on your ABN 21
Industry code—label B 21
Information matching 15
Infrastructure borrowings 89
Input tax credit entitlements 5
Instalments paid—label T 61
Interest expenses overseas—label J 31
Interest expenses within Australia—label V 31
Interest in a foreign company or foreign trust—label Y 58
Internet trading terms explained 57
Internet trading—label Q 57
Interposed entity election status—label F 22
Interposed entity election status codes 22
Interposed entity elections 8
Involuntary disposal roll-overs 12
IRDB registrants only: Non-syndicated research and

development—label L 42
IRDB registration 42
Is a payment due? 20
Is a refund due? 20

L

Landcare and water facility tax offset brought forward from prior years—label K 56
Landcare and water facility tax offset claimed—label L 56
Landcare and water facility tax offset types of expenditure table 56
Landcare operations and water conservation/conveying expenses—label N 43
Landcare operations expenses 43
Late lodgment penalty 17
Lease expenses overseas—label I 31
Lease expenses within Australia—label F 30
Licensed clubs 55
Life assurance companies 55
Limited partnerships 15
Limited-exemption listed country—label C 54
Limiting indexation of the cost base of CGT assets 12
Linked groups 13
Loans to shareholders and their associates—label N 52
Lodging your tax return, schedules, etc. 17
Lodgment and payment details 92
Loss cascading 14
Loss transfer and realised interests 13
Losses carried forward—label V 48
Losses deducted—label R 46
Losses transferred in—label S 47
Losses transferred out—label Y 48
Luxury car leasing 30

M

Managed investments schemes 8
Management fees—label J 55
Motor vehicle expenses—label Y 32

N

Name of company and ACN or ARBN 20
Net capital losses carried forward—label X 49
Net capital losses transferred in—label E 38
Net capital losses transferred out—label W 48
Net foreign income—label R 54
Net forgiven amount calculation 76
Net taxable income from RSAs—label V 56
Non-deductible exempt income expenditure—label U 36
Non-deductible expenses—label W 36
Non-deductible expenses—label W worksheet 73
Non-syndicated research and development—label L 42

O

Offshore banking unit adjustment—label P 44
Offshore banking unit adjustment calculation 44
Offshore banking unit losses 45
Opening stock—label A 50
Operating profit or loss—label R 33
Other assessable income—label B 36
Other assessable income—label B worksheet 73
Other capital expenditure—label H (Mining and quarrying only) 40
Other deductible expenses—label X 46
Other deductible expenses—label X worksheet 74
Other gross income—label R 28
Other income not included in assessable income—label Q 46
Other income not included as assessable income—label Q worksheet 74
Other reconciliation items worksheet 73
Other refundable credits—label Z 63
Other sales of goods and services—label C 25
Overseas transactions or interests–general notes 58
Overseas transactions—label X 58

P

Page 1—Top right hand corner questions 20
Part A—Gain or loss from collectables 65
Part B—Gain or from personal use assets (PUA) 66
Part C—Gain or loss from other CGT assets 67
Part E—Capital gains tax small business roll-over relief 69
Part F—Calculation of net capital gain 70
Pay As You Go 8
Paying your tax debt 18
Payment addresses 18
Payments to related entities—label Q 53
PDF losses 88
PDF shareholders–how are they taxed? 88
PDFs and imputation 88
PDFs and inter-corporate dividend rebates 88
PDFs–how are they taxed? 88
Penalties/interest 19
Penalty for failure to notify 9
Percentage of foreign shareholding—label A 21
Percentage of non-member income—label A 55
Philanthropy 9
Pooled development funds 55
Postal address on previous tax return 20
Prepayment rule changes 11
Prescribed payments system credit—label W 62
Prescribed payments system income—net of expenses—label A 53
Previous name of the company 20
Prior year net capital losses applied—label D 37
Private ruling by the Commissioner of Taxation 17

Profit and loss statement 24
Public officer 63
Public unit trust 26
Public unit trust–listed 26
Public unit trust–unlisted 26
Purchases and other costs—label S 50

R

R&D claw back provisions 83
R&D income tax concessions 82
Rebates/tax offsets—label C 60
Reconciliation statement 34
Record keeping and retention 15
Record keeping requirements 15
References to Taxation Determinations and Taxation Rulings 96
Registered organisations 55
Related companies 78
Rent expenses—label H 31
Repairs and maintenance—label Z 32
Reportable payments system credit—label X 62
Research and development incentives 82
Retirement savings accounts 56
Revenue losses 11
Roll-over provisions for entities 13
Royalty expenses overseas—label U 31
Royalty expenses within Australia—label W 31
RSA providers 56

S

Same economic loss 13
Scrip for scrip roll-over 12
Section 61A 40
Section 102AAM interest—label H 61
Section 128F exempt interest paid—label O 54
Shareholders' funds—label R 51
Simplified Tax System 10
Small and medium sized enterprises income—label G 55
Small business relief 12
Small business taxpayers 10
Special building write-off 79
Special building write-off—label I 40
Status of company 22
Strata title bodies corporate 75
Subtraction items 36
Superannuation business income—complying—label B 55
Superannuation business income—gross taxable contributions—label E 55
Superannuation business income—net capital gains—label D 55
Superannuation business income—non-complying—label C 55
Syndicated research and development—label M 43

T

Tax agent's certificate 23
Tax assessed 60
Tax payable 61
Tax shelters 11
Tax spared foreign tax credits—label S 54
Tax withheld from interest/investments—label Y 62
Taxable income or loss—label T 48
Taxable or net income—label A 59
Thin capitalisation 85
Time box—voluntary question 63
Total amount of tax payable (+) or refundable (–)—label S 63
Total assets—label E 51
Total current year capital gains—label A 34
Total current year capital losses applied—label C 37
Total deductions from RSAs—label T 56
Total expenses—label Q 32
Total income—label S 28
Total liabilities—label H 51
Total of labels D/E/F—label G 61
Total of labels T/V/W/X/Y/Z—label R 63
Total profit or loss—label T 33
Total salary and wage expenses—label D 53
Total superannuation deductions—label F 55
Trade creditors—label F 51
Trade debtors—label C 51
Trading stock election 51
Transferor trust—label V 54
Transitional rule 11
Trust descriptions table 26
Trust types table 26

U

Ultimate holding company name and ACN or ARBN or country code 21
Unfranked dividends paid—label K 51
Unlisted country—label U 54
Unrealised losses 13
Unregulated investment income—label H 55

V

Venture capital deficit tax 52
Venture capital franking rebates 14

W

Water conservation/conveying expenses 43
What to do if you cannot pay your tax debt by the due date 19
What's new? 1

Y

Year 2000 related expenditure and software expenditure generally 9

Your helplines for further information

Publications, taxation rulings, forms and enquiries are available through the following services:

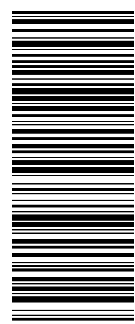
Tax agents please use the following numbers:

- **Business tax reform infoline—13 7286**
  This service operates from 8 a.m. to 6 p.m. Mon–Fri.
- **Publications distribution service by fax—1300 361 462**
  If you have a query on your order status, phone **1300 362 883**.

Non tax agents please use the following numbers:

- **Business tax reform infoline—13 2478**
  This service operates from 8 a.m. to 6 p.m. Mon-Fri.
  The Internet site at **www.taxreform.ato.gov.au** gives access to business tax reform information 24 hours a day, every day.
  Phone this number if you need information on the ABN or how to apply for one. For assistance in completing an application, phone **13 2866**.
- **Publications distribution service—1300 720 092**
  From July until the end of October, this service operates from 8 a.m. to at least 10 p.m. on weekdays and from 10 a.m. to 5 p.m. on weekends—AEST.
  Before you phone, check to see if there are other publications you may need—this will save you time and help us.
  This distribution service is not run by Australian Taxation Office (ATO) staff. Your tax questions cannot be answered on this number.

- **Internet site—ATOassist**
  The Internet site at **www.ato.gov.au** gives access to ATO publications and general information on tax matters, 24 hours a day, every day.
- **a FAX from TAX—13 2860**
  If you have access to a fax machine, tax information is available 24 hours a day, every day. When you phone, follow the instructions to obtain a list of available documents.
- **Lodgment enquiries—13 2863**
  If you are unsure whether you need to lodge a tax return or you want to know where or when to lodge a tax return.
- **Superannuation enquiries—13 1020**
  For assistance with all your superannuation enquiries
- **Small business—13 2866**
  Notify the ATO of the amount of tax instalments deducted from employees every quarter to avoid a penalty for failure to notify, even if you cannot pay the full amount by the due date. Phone this number also for information on the general interest charge.
- **Debt collection—13 1142**
  If you cannot pay your tax debt contact the ATO on this number to avoid action being taken to recover the debt.
- **General enquiries—13 2861**
  This helpline is for tax questions on topics other than those already described, including business industry codes. Please have your instruction guide and tax return handy when you phone.
- **Translating and interpreting service—13 1450**
  If you do not speak English and need help on tax matters, this service sets up a 3-way conversation between you, an interpreter and a tax officer.
- **Hearing or speech impairment—13 2544**
  If you have access to appropriate TTY or modem equipment, contact the Australian Communication Exchange National Relay Service. You will need to quote one of the helplines listed on this page. The relay service will then connect you with a tax officer.
  For information on business tax reform, phone **1300 130 478**.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