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Australian Government
Australian Taxation Office

Company tax return instructions 2005

To help you complete the company tax return
for 1 July 2004–30 June 2005

OUR COMMITMENT TO YOU

The information in this publication is current at May 2005.

In the taxpayers' charter we commit to giving you information and advice you can rely on.

If you try to follow the information contained in our written general advice and publications, and in doing so you make an honest mistake, you won't be subject to a penalty. However, as well as the underpaid tax, we may ask you to pay an interest charge.

We make every effort to ensure that this information and advice is accurate. If you follow our advice, which subsequently turns out to be incorrect, or our advice is misleading and you make a mistake as a result, you won't be subject to a penalty or interest charge although you'll be required to pay any underpaid tax.

If you feel this publication does not fully cover your circumstances, please seek help from the Tax Office or a recognised tax adviser. Since we regularly revise our publications to take account of any changes to the law, you should make sure this edition is the latest. The easiest way to do this is by checking for a more recent version on our website at **www.ato.gov.au**

YOUR RIGHTS

It is important that you are aware of your rights and obligations when dealing with the Tax Office.

When we make a decision about your tax affairs, we will tell you about your rights and obligations in relation to that decision. We will also give you contact details in case you have any queries or need more information.

There is information under 'Your rights' on the Tax Office website at **www.ato.gov.au** To get a printed copy of the *Taxpayers' charter – what you need to know* (NAT 2548), phone our distribution service on **1300 720 092**.

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ABOUT THESE INSTRUCTIONS

The *Company tax return instructions 2005* will help you complete the *Company tax return 2005*.

The instructions include:

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

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

This publication is NOT a guide to income tax law. Please get help from the Tax Office or a recognised tax adviser if you feel this publication does not fully cover your circumstances.

PUBLICATIONS AND SERVICES

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

INTRODUCTION

These instructions will help you complete the *Company tax return 2005*, including a return for a head company of a consolidated group.

These instructions contain a number of abbreviations for names or technical terms. Each term abbreviated is spelt out the first time it is used and there is also a list of abbreviations on page 93.

WHAT'S NEW

Non-resident permanent establishment

At item **3 Status of company** we have introduced **C3**. This should be completed by non-resident companies that have a permanent establishment in Australia.

DTA exempt interest paid to US/UK financial institutions

There are two new labels on the tax return at item **8**. These show the country code and amount of interest paid to financial institutions in the United States or United Kingdom that is exempt from withholding tax under the double tax treaties (DTAs) with those countries.

Consolidation

The consolidation information in these instructions has a green background for easy identification.

Consolidation: legislative changes

On 4 December 2003, the Minister for Revenue and the Assistant Treasurer announced a number of consolidation measures in Press Release No. C116/03. Amendments to give effect to some of these proposals have recently been passed by Parliament. The measures are contained in *Tax Laws Amendment (2004 Measures No. 6) Act 2005* (23 of 2005) and *Tax Laws Amendment (2004 Measures No. 7) Act 2005* (41 of 2005). These measures apply on or after 1 July 2002 and include the following matters:

- membership rules to ensure that when a member is in liquidation or under administration that member is not precluded from being a member of a consolidated group
- cost setting rules to ensure that entities which are subject to a finance lease and enter a consolidated group are provided an appropriate tax cost in order to obtain the appropriate deductions under the uniform capital allowance regime
- cost setting rules to ensure that appropriate allowance is given for expenditure relating to mining or quarrying activities
- cost setting rules to ensure that entities that have low-value pools and software development pools receive the appropriate tax costs to enable them to maintain their entitlement to deductions for those pools
- source of profit distributions in working out the allocable cost amount and cost setting process
- ensuring that the undistributed profits of a joining entity are appropriately included in working out the allocable cost amount
- adjusting for changes in deferred tax liabilities in working out the allocable cost amount and for CGT purposes
- technical amendments to clarify the application of certain trust cost setting provisions
- inter-entity loss multiplication rules to alleviate notice requirements
- allowing entities to revoke irrevocable choices or elections when they consolidate, join consolidated groups and/or leave consolidated groups
- ensuring that certain liabilities taken into account when an entity leaves a consolidated group that correspond to liabilities brought into a consolidated group with a joining entity have the same value at the leaving time that the liabilities had at the joining time
- ensuring that there is no double reduction in working out step 3 of the allocable cost amount on entry to consolidation
- ensuring that when debts which have had a connection with a consolidated group are written off, the claimant can claim a bad debt deduction, and
- clarifying the taxation consequences for life insurance companies and general insurance companies that join or leave a consolidated group.

Our general practice for retrospective measures is outlined in the publication *Administrative treatment of retrospective legislation*, available on our website.

New provisions in Subdivision 713-C of the *Income Tax Assessment Act 1997* (ITAA 1997) enable certain corporate unit trusts or public trading trusts to form a consolidated group and be treated like the head company of the group.

Additional proposed changes

Exposure draft legislation and explanatory material was released for comment on 11 February 2005 relating to the proposed changes to the loss recoupment and bad debt deduction rules for companies announced on 7 April 2004.

The Minister for Revenue and the Assistant Treasurer's Press Release No. O11/05 of 11 February 2005, which accompanied the exposure draft and explanatory material, stated that the changes related to the tests that companies must apply in determining whether tax losses of earlier years, net capital losses and bad debts may be claimed for tax purposes and that the changes mainly affect large companies and consolidated groups.

The Press Release highlighted the following in respect of the proposed changes:

- A proposed change affects the modified continuity of ownership test that listed public companies and their 100% subsidiaries may use to determine whether the company has maintained the same owners. It will be easier for widely held companies, such as listed public companies, and eligible subsidiaries, such as companies more than 50% owned by non-profit companies, charities, mutual insurance companies or complying

superannuation funds, to satisfy the continuity of ownership test. Consequently, these companies will not need to rely as much on the same business test, which is often difficult for large companies to apply and can lead to uncertain and anomalous outcomes.
- The changes to the continuity of ownership test apply to losses incurred in an income year commencing on or after 1 July 2002 and earlier year losses that would have been deductible in that year.
- The same business test will not be available to a company in an income year in which its total income is more than $100 million. This change was to start for losses incurred in income years commencing after 30 June 2004. However, as a result of representations the Government has decided to extend large companies' access to the same business test for another year to allow companies more time to adjust to this change. The changes to the same business test will now apply to losses incurred in income years commencing after 30 June 2005.
- The exposure draft also contains some other proposed changes to remove some anomalies and clarify some aspects of the existing law.

At the time of printing, these proposed changes had not become law.

The Minister for Revenue and the Assistant Treasurer announced in the Press Release 'More time for consolidated groups to make elections' that the time for making or revoking certain elections will be extended to 31 December 2005. These include the choices to:
- retain existing tax cost of a subsidiary's assets
- utilise certain losses over three years rather than under the available fraction
- utilise 'value donor' concessions to increase the available fraction for a bundle of losses
- waive the 'capital injection' rules, and
- cancel the transfer of a loss by the head company of a consolidated or MEC (Multiple entry consolidated) group.

The choice to form a consolidated group or MEC group remains irrevocable.

At the time of printing, this announcement had not become law. Further details are in the Minister for Revenue and the Assistant Treasurer's Press Release No. O23/04 of 20 December 2004.

Imputation – life insurance companies

The *Tax Laws Amendment (2004 Measures No 2) Act 2004* introduced a number of amendments relating to the taxation of life insurance companies. In particular, it clarified how the two classes of taxable income and/or tax loss of life insurance companies are calculated. It also ensured that the provisions of the *Income Tax Assessment Act 1936* (ITAA 1936) relating to reinsurance with non-residents apply only to their accident and disability business.

Interposed entity elections

Recent changes to the rules relating to the making of interposed entity elections allow entities to make interposed entity elections at any time in relation to earlier years provided certain conditions are met.

International Tax – Review of International Tax Arrangements (RITA)

Parliament has passed two Acts containing the first eight measures to implement the Government's reform of Australia's international taxation system – the *New International Tax Arrangements Act 2004* and *New International Tax Arrangements (Participation Exemption and Other Measures) Act 2004*. Key points in the new law include:
- Certain qualifying superannuation entities, certain fixed trusts and certain assets of life insurance companies are exempt from the foreign investment fund (FIF) regime for income years beginning after 30 June 2003.
- Income from the management of funds is excluded from the FIF regime for notional accounting periods of FIFs beginning after 30 June 2003.
- The balanced portfolio FIF exemption threshold also increased from 5% to 10% for income years beginning after 30 June 2003.
- Certain debentures issued on or after 23 June 2004 by (the trustees of) eligible unit trusts are exempt from interest withholding tax (new section 128FA of the ITAA 1936).
- For controlled foreign companies (CFCs) resident in broad-exemption listed countries (now called 'listed countries'), the scope of attributable income is reduced (subject to the safeguard that allows amounts to be attributable if identified by regulation). Also, what is included as 'tainted services income' has been narrowed for attribution purposes. These measures apply in relation to statutory accounting periods beginning after 30 June 2004.
- The capital gains tax (CGT) participation measure in certain circumstances reduces capital gains and losses from non-portfolio shareholdings in foreign companies that are held by Australian companies (and CFCs) where the foreign company has an underlying active business. This measure applies to specified CGT events occurring after 31 March 2004.
- The existing exemptions for foreign non-portfolio dividends and foreign branch profits have been extended to all countries for dividends paid after 30 June 2004 and for branch profits in income years beginning after 30 June 2004 (sections 23AJ and 23AH of the ITAA 1936).

For more information on the Review of International Tax Arrangements, visit our website and see the *Foreign income return form guide* and the *Foreign investment fund guide*.

Foreign hybrids

Changes to the taxation treatment of certain foreign hybrid entities have been made law – see page 13.

Foreign resident withholding

Foreign resident withholding is a new measure under which PAYG withholding obligations have been extended to payments made to foreign residents where the payment is:

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

Payers are required to withhold at the rate prescribed in the appropriate regulation. We may grant a variation to the rate of withholding in special circumstances.

This withholding is not a final tax. These new withholding requirements do not affect existing income tax obligations for foreign residents deriving assessable income in Australia, such as the requirement to lodge a tax return. Two new labels at item **6** on the tax return show income subject to foreign resident withholding and related expenses. A credit can be claimed in the **Calculation statement** at **I Credit for tax withheld – foreign resident withholding**.

Income subject to foreign resident withholding is not taken into account in determining the company's instalment rate.

For further information, visit our website or phone the Business Infoline on **13 28 66**.

Capital allowances

Division 40 of the ITAA 1997 has been amended to allow eligible irrigation water providers access to the water facilities tax concession and landcare tax concession for expenditure incurred after 30 June 2004.

Parliament is presently considering a new measure that will, if enacted, apply to expenditure on indefeasible rights to use domestic telecommunication cables and expenditure on telecommunication site access rights. At the time of printing, this measure had not become law. For more information, phone the Tax Reform Infoline on **13 24 78**.

Non-commercial loans treated as dividends

Changes applying to non-commercial loans made by private companies in the 2004–05 and later income years are included in *Tax Laws Amendment (2004 Measures No 7) Act 2005*. For more information, see pages 52 and 54.

Capital gains tax concessions for small business

On 29 June 2004, changes to the control test for discretionary trusts were enacted. These amendments seek to improve the operation of the test that is used to determine when an entity controls a discretionary trust for the purposes of applying the small business capital gains tax concessions. For more information, see **Connected with – control of a discretionary trust** in the *Advanced guide to capital gains tax concessions for small business*, available on our website.

Report on aspects of income tax self assessment

The Government recently introduced legislation, Tax Laws Amendment (Improvements to Self Assessment) Bill (No.1) 2005 to support the recommendations made in the Report on Aspects of Income Tax Self Assessment. The changes impact on the administration of income tax including interest charges and the penalty consequences of company error. These changes will provide greater protection and certainty for companies. See page 17 for more information about the changes.

Other measures

Proposal to introduce a review period for loss and nil liability returns, see page 18.

SCHEDULES

- Complete only ONE copy of the appropriate schedule.
- Attach all completed schedules to the *Company tax return 2005* unless specified otherwise
- If you lodge your tax returns without all the required schedules we may not consider them to have been lodged in the approved form. Unless you lodge all schedules by the due date, you may be charged a failure to lodge on time penalty.

CONSOLIDATED GROUPS LOSSES SCHEDULE

A head company of a consolidated group or multiple entry consolidated (MEC) group must complete a *Consolidated losses schedule 2005* and lodge it with the *Company tax return 2005* if the head company satisfies one or more of the following tests:

- It has a total of tax losses and net capital losses carried forward to the 2005–06 income year greater than $100,000.
- It has a total of tax losses and net capital losses transferred from joining entities greater than $100,000.
- It has a total of tax losses and net capital losses utilised by the consolidated group greater than $100,000.
- It has a total of foreign source losses carried forward to the 2005–06 income year greater than $100,000.
- It has a total of foreign source losses transferred from joining entities greater than $100,000.
- It has a total of foreign source losses utilised by the consolidated group greater than $100,000.
- It has a deduction for earlier year controlled foreign company (CFC) losses greater than $100,000.
- It has a total of CFC losses carried forward to the 2005–06 income year greater than $100,000.
- It is a life insurance company and has a total of complying superannuation class tax losses and virtual PST net capital losses carried forward to the 2005–06 income year greater than $100,000.

Transfer totals of tax losses carried forward and net capital losses carried forward in Part A of the *Consolidated groups losses schedule 2005* to **U** and **V** item **10 Losses information** on the company tax return.

For more information, see the *Consolidated groups losses schedule instructions 2005* (NAT 7891–6.2005).

If a head company needs to complete a consolidated losses schedule, it might also need to complete a *Capital gains tax (CGT) schedule 2005*. For more information, see the *Guide to capital gains tax 2005* (NAT 4151–6.2005).

> **NOTE**
>
> Consolidated groups transferred tax losses schedule (2005 only)
>
> If you are the head company of a consolidated group or multiple entry consolidated (MEC) group with tax losses carried forward from earlier years please see **Review period for loss and nil liability returns** on page 18 for proposed legislative changes that may affect you.

DIVIDEND AND INTEREST SCHEDULE

Every company must lodge a *Dividend and interest schedule 2005* showing the following details:

- the names, addresses, dates of birth, gender and tax file numbers or Australian business number (ABN) (where quoted) of all shareholders (including employee shareholdings held in a consolidated group) to whom dividends have been paid during the year of income ended 30 June 2005, including the amount of dividend paid to each shareholder and any franking credits referable to that amount. Do NOT include dividends paid under a demerger in this schedule unless the head entity of the demerger group elected under subsection 44(2) of the ITAA 1936 that those dividends will be treated as assessable dividends. Do NOT include dividends paid by one member to another within a consolidated group.

> **NOTE**
>
> If a subsidiary member of a consolidated group must lodge a company tax return for any periods when it is not a subsidiary member of any consolidated group (non-membership periods) during the year of income, that company must also lodge a schedule showing the above details.

- the names, addresses, dates of birth, gender and tax file numbers or ABN (where quoted) of all investors, other than those investors in the business of providing business or consumer finance, to whom interest of $1 or more was paid or credited during the year of income ended 30 June 2005, and the amount of interest so paid or credited to each person. Include interest paid or credited by a subsidiary member of a consolidated group to an investor outside the group. Do NOT include interest paid by one member to another within a consolidated group.

> **NOTE**
>
> If a subsidiary member of a consolidated group must lodge a company tax return for any non-membership periods during the year of income, that company must also lodge a schedule showing the above details.

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

Lodging the schedule

You can lodge the schedule with the company tax return or under separate cover. However, you must lodge it by the due date for lodgment of the company tax return but not later than 14 May 2006 for companies whose income year ends on 30 June 2005. Companies with an approved substituted accounting period must lodge their schedule by 31 October 2005 or the due date for lodgment of their company tax return, whichever is later.

If you are lodging your schedule separately to your company return, send it to:

Australian Taxation Office
PO Box 2090
Chermside Centre
Queensland 4032

CONSOLIDATED SUBSIDIARY MEMBERS

Companies that were subsidiary members of consolidated groups during only part of the income year and that are lodging a company tax return for any non-membership periods must complete all relevant schedules covering the periods of non-membership if required by the instructions following.

CAPITAL ALLOWANCES SCHEDULE

If your company has an amount greater than $15,000 at **Expenses, X Depreciation expenses** item **6**, or **F Deduction for decline in value of depreciating assets** item **7**, complete a *Capital allowances schedule 2005* and attach it to the *Company tax return 2005* **unless** your company is:

- eligible to enter or continue in the simplified tax system (STS) and has chosen to do so, or
- exiting from the STS at item **5** or has previously exited from the STS, and the amount at **X** relates entirely to STS depreciating assets.

You must complete a *Capital allowances schedule 2005* and attach it to the *Company tax return 2005* if your company has:

- an amount greater than $1,000 at **H Deduction for project pool** item **7**, **unless** it is eligible to enter or continue in the STS and has chosen to do so at item **5 Simplified tax system (STS) elections**
- included an amount of more than $75,000 at **Z Intangible depreciating assets first deducted** item **8**, or **A Other depreciating assets first deducted** item **8**.

For more information, see the *Capital allowances schedule instructions 2005* (NAT 4089–6.2005).

Worksheets 1 and 2 in the *Guide to depreciating assets 2005* (NAT 1996–6.2005) will help you complete the *Capital allowances schedule 2005*. **G**, **H**, **I**, **J** and **K** in worksheet 1 and **L**, **M**, **N**, **O**, **P** and **Q** in worksheet 2 correspond to labels in the *Capital allowances schedule 2005*.

CAPITAL GAINS TAX (CGT) SCHEDULE

Companies that have one or more CGT events during the income year must complete a *Capital gains tax (CGT) schedule 2005* and attach it to the *Company tax return 2005* if:

- total current year capital gains for the income year are greater than $10,000, or
- total current year capital losses for the income year are greater than $10,000.

> **!** NOTE
> The head company of a consolidated group must complete a *Capital gains tax (CGT) schedule 2005* if the total current year capital gains or the total current year capital losses that it makes – as head company of the consolidated group and for any part of the income year that it was not a member of a consolidated group – are greater than $10,000.

The *Guide to capital gains tax 2005* will help you complete the CGT schedule. It also includes:

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

LOSSES SCHEDULE

Complete and attach a losses schedule if your company does not need to submit a *Consolidated groups losses schedule 2005* and if it satisfies one or more of the following tests:

- It has a total of tax losses and net capital losses carried forward to the 2005–06 income year greater than $100,000.
- It is required by section 165-13 of the ITAA 1997 to satisfy the 'same business test' in Subdivision 165-E of that Act to claim a deduction for a tax loss or apply a net capital loss in the 2004–05 income year or later income year.
- It has unrealised losses as defined in the provisions of Subdivision 165-CC of the ITAA 1997.
- It is a life insurance entity and has either a complying superannuation class tax loss or a virtual pooled superannuation trust (PST) net capital loss carried forward to the 2005–06 income year.
- It claims a deduction for foreign source losses.
- It has 'current year' foreign source losses.
- It has foreign source losses carried forward to later income years.
- It claims a deduction for prior year controlled foreign company (CFC) losses, has 'current year' CFC losses or has CFC losses carried forward to later income years.

If the company is required to complete a *Losses schedule 2005*, transfer the totals of the amounts at Part A of the losses schedule to **U** and **V** item **10** on the *Company tax return 2005*. For more information, see the *Losses schedule instructions 2005* (NAT 4088–6.2005).

If a company needs to complete a losses schedule under the above criteria, it may also need to complete a CGT schedule. For more information, see the *Guide to capital gains tax 2005*.

> **!** NOTE
> If you have tax losses carried forward from earlier years please see **Review period for loss and nil liability returns** on page 18 for proposed legislative changes that may affect you.

NON-INDIVIDUAL PAYG PAYMENT SUMMARY SCHEDULE

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

- payments for a supply where no ABN is quoted
- payments arising from investments where no TFN or ABN is quoted, and
- certain payments to foreign residents described in the regulations.

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

You must include details from each *Payment summary – withholding where ABN not quoted* and *Payment summary – foreign resident withholding* on a *Non-individual PAYG payment summary schedule 2005*.

Complete a *Non-individual PAYG payment summary schedule 2005* if your company has an amount at:

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

Income subject to foreign resident withholding that has been included in a distribution received by the company from a partnership or trust is also declared at **B Gross payments subject to foreign resident withholding** item **6**. However, a *Non-individual PAYG payment summary schedule 2005* is not required for these distributions because they do not have an associated payment summary.

Completing the non-individual PAYG payment summary schedule

When completing the non-individual PAYG payment summary schedule print neatly in BLOCK LETTERS with a black pen only. Print the company's tax file number (TFN) and name in the appropriate boxes at the top.

From each *Payment summary – withholding where ABN not quoted* and *Payment summary – foreign resident withholding*, record on the *Non-individual PAYG payment summary schedule*:

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

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

Do not attach copies of any payment summary to the company tax return – keep them with the company's copy of the tax return. Keep a copy of the *Non-individual PAYG payment summary schedule 2005* with the company's tax records.

PERSONAL SERVICES INCOME SCHEDULE

Special rules for the income tax treatment of personal services income (PSI) earned by contractors and consultants started on 1 July 2000.

For 2002–03 and later income years the measure also applies to payees under the former prescribed payments system who under transitional arrangements were not subject to the measure in the 2000–01 and 2001–02 income years.

If the company is receiving an individual's PSI, complete item **11 Personal services income** on the company tax return. Also complete a *Personal services income schedule 2005* (PSI schedule) and attach it to the tax return.

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

RESEARCH AND DEVELOPMENT TAX CONCESSION SCHEDULE

All companies claiming a deduction for the research and development (R&D) tax concession must complete the *Research and development tax concession schedule 2005* and attach it to the company tax return.

The schedule forms part of the *Research and development tax concession schedule instructions 2005* (NAT 6709–6.2005). This publication, as well as an Excel version of the schedule and instructions, are available at **www.ato.gov.au/randd** The Excel spreadsheet version is automated to self-calculate and provide guidance for correct completion of the schedule. This completed schedule will be accepted for lodgment with an original tax return or an amendment request.

How to lodge the R&D schedule

Lodge the *Research and development tax concession schedule 2005* with the appropriate company tax return.

If you have requested an amendment

If your company has made a request for an amendment that includes changes to its R&D claim, you must complete an R&D schedule showing the amended figures. Send this schedule, with a letter requesting the amendment, to the appropriate address per appendix 10 on page 91.

This requirement applies only to the income year ended 30 June 2002 and subsequent income years.

THIN CAPITALISATION SCHEDULE

If your company is subject to the thin capitalisation rules, you must complete and send a *Thin capitalisation schedule 2005* either through the electronic lodgment service (ELS), or by completing the paper schedule and posting it to:

Australian Taxation Office
PO Box 1365
ALBURY NSW 2640

For more information, see appendix 3 on page 80.

The *Guide to thin capitalisation* is available on our website. It contains more detailed information and includes an outline of the essential steps involved in completing the schedule.

GENERAL INFORMATION

CONSOLIDATION – TAXING WHOLLY OWNED GROUPS AS SINGLE ENTITIES

As part of the business tax reform package, the Australian Government introduced the income taxation of consolidated groups – that is, the taxing of eligible companies, partnerships and trusts that are wholly owned as if they are part of a single head company – from 1 July 2002. Many small businesses use simple structures (a single company, partnership or trust) and will not be affected by the consolidation legislation. It is not relevant to the business activity of individuals (such as people operating as sole traders or in partnership). However, consolidation may be an option for your business if the business structure includes a company that wholly owns one or more entities.

For more detailed information about the consolidation measures, see the *Consolidation reference manual* and other relevant publications available on the consolidation homepage on our website.

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

If the company is a subsidiary member of a consolidated group and is lodging a tax return because there were any non-membership periods during the year of income, print **X** in the box at **Z2 Consolidated subsidiary member** item **3**.

If you have completed **Z2**:

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

Some key elements of the consolidation regime

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

- The choice to consolidate is optional but irrevocable. If a head company chooses to consolidate, all its eligible wholly owned subsidiaries will be part of the consolidated group for income tax purposes.
- The head company can notify the Commissioner of the choice to consolidate up to the time the head company lodges its income tax return for the year in which the choice to consolidate first takes effect.

- On consolidation, the head company and all of its eligible wholly owned subsidiary members are treated as a single entity for their income tax purposes – that is, each subsidiary member is treated as a part of the head company.
- The tax costs of assets of an entity joining a consolidated group which become assets of the head company under the single entity rule are reset in accordance with special tax cost setting rules.
- The consolidated group operates as a single entity for income tax purposes with the head company lodging a single income tax return and then paying a single set of PAYG instalments for the consolidated group.
- A consequence of choosing to consolidate is that transactions that occur between members of the consolidated group are not recognised for income tax purposes.
- If an entity becomes a subsidiary member of a group part-way through its income year or it has a period in the year that it is not a subsidiary member for any other reason, it will also need to lodge a tax return for that income year. However, the tax return will be based only on amounts properly attributable to all of the periods that the company was not a subsidiary member of a consolidated group during the income year.
- The losses, franking credits, excess foreign tax credits, foreign dividend account surpluses, attribution account surpluses and attributed tax account surpluses of each subsidiary member can generally be brought into, and used by, the head company of a consolidated group.
- Carry-forward losses, franking balances, foreign dividend account surpluses and excess foreign tax credit balances transferred to the head company of the group remain with the head company when an entity leaves the group. Special rules apply regarding treatment of carry-forward losses transferred into the consolidated group.
- The consolidation regime does not affect a subsidiary member's obligations in relation to other taxes such as goods and services tax (GST), fringe benefits tax (FBT) and PAYG withholding.
- New legislation now permits certain corporate unit trusts and public trading trusts to form a consolidated group and be treated like the head company of the group.
- Where a consolidated group includes one or more subsidiary members that are life insurance companies, special consolidation rules apply to take into account the particular taxation treatment of life insurance companies. Further details are in the *Consolidation reference manual*.
- The choice to form a consolidated group or MEC group is irrevocable.
- The Minister for Revenue and the Assistant Treasurer announced in the Press Release 'More time for consolidated groups to make elections' that the time for making or revoking certain elections will be extended to 31 December 2005. These include the choices to:
  - retain existing tax cost of a subsidiary's assets
  - utilise certain losses over three years rather than under the available fraction
  - utilise 'value donor' concessions to increase the available fraction for a bundle of losses
  - waive the 'capital injection' rules, and
  - cancel the transfer of a loss by the head company of a consolidated or MEC group.

  At the time of printing, this announcement had not become law. Further details may be found in the Minister for Revenue and the Assistant Treasurer's Press Release No. O23/04 of 20 December 2004.
- If a foreign company, either directly or through its wholly owned foreign group, has multiple entry points into Australia, special MEC group rules will apply to the wholly owned resident entities. See the *Consolidation reference manual* for more information on MEC groups.
- If an entity becomes a subsidiary member of a group part-way through its income year or it has a period in the year that it is not a subsidiary member for any other reason, it must lodge a tax return for that income year. However, the tax return will be based only on amounts properly attributable to all of the periods that the company was not a subsidiary member of a consolidated group during the income year.

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

2005 consolidation groups – head company tax returns

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

We therefore expect that all tax return label disclosures where practicable (see following) will reflect correct, or materially correct, consolidated amounts at each label. Such amounts are net of transactions that occur between members of the consolidated group and give effect to the single entity principle. Correct or materially correct consolidated amounts at each label will retain the structural integrity of the disclosures to enable consistent monitoring and analysis of taxpayer data.

In addition, the concept of materiality applies to the tax return labels affected by consolidation but not to

T Taxable income or loss item **7** or those labels in the **Calculation statement** on page 4 of the tax return.

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

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

For the company tax return, if groups can compile correct, or materially correct, consolidated data for the head company, net of transactions that occur between members of the consolidated group, label-by-label, we expect this data to be disclosed.

Furthermore, we require that the same calculation method used to compile the tax return consolidated data be used when completing the head company's instalment activity statement throughout the period during which the head company's PAYG instalment rate is based on the data in the head company tax return. This is because a group's consolidated PAYG rate is adjusted by the data disclosed in the head company's 2005 consolidated group tax return.

As a result of representations from industry, we understand that groups will be able to return their correct taxable income or loss but due to ongoing implementation of systems some groups will not be able to return consolidated data at particular labels in the 2005 tax return.

To overcome this difficulty for 2004–05, we:

- recognise that consolidating groups will have different accounting and tax systems to compile the label amounts for the consolidated group tax return
- strongly advise consolidating groups to have robust audit trail records to explain what was done to compile and disclose the label amounts in the consolidated group tax return
- require, where possible, consolidated data at each label on the tax return to reflect correct, or materially correct, amounts for the consolidated group
- will accept some aggregated data if necessary for items **6**, **7** and **8** on the tax return provided the head company:
  - determines its total profit or loss at **T** item **6**, after intra-group eliminations have occurred, thus preventing or minimising having intra-group eliminations reflected in the item **7** reconciliation labels of the tax return
  - determines the total dividends at **Income**, **H** item **6** to be the consolidated amount net of all intra-group dividends
  - determines the correct or materially correct amounts for:
    - **Income**, **F Gross interest** item **6**
    - **Income**, **R Other gross income** item **6**
    - **Expenses**, **V Interest expenses within Australia** item **6**
    - **Expenses**, **J Interest expenses overseas** item **6**, and
    - **Expenses**, **S All other expenses** item **6** after eliminating intra-group interest and management fee transactions at each of these five labels
- will accept, in the first instance, correct or materially correct consolidated data, label-by-label, for the Australian-resident consolidated group at item **8 Financial and other information**. If this data is not possible to compile, we will accept aggregated data at item **8** provided it is aggregated data for the Australian-resident group, and
- will require that the method used in dealing with transactions that occur between members of the consolidated group when completing the tax return be the same method used when completing the head company's instalment activity statement throughout the period during which the head company's instalment rate is based on the data in the 2005 tax return. Failure to comply with this requirement may result in a revision of instalments paid and/or penalties.

2005 schedules

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

Future developments

For the 2006 company tax return, correct or materially correct consolidated data for an Australian-resident group will be the only acceptable basis for making tax return disclosures label-by-label. Groups should put record keeping, accounting and tax systems in place from now on to ensure that materially correct consolidated data is available for next year's tax return.

SIMPLIFIED IMPUTATION SYSTEM

Broadly the simplified imputation system and its effects on the company tax return are as follows:

- The gross-up and credit approach replaces the intercorporate dividend rebate for companies in receipt of franked distributions. Under this approach a company that is paid a franked distribution must include:
  - the franked amount of the distribution at **Income**, **H Total dividends** item **6**, and
  - the attached franking credits at **J Franking credits** item **7** (if the shares are not held at risk as required under the holding period and related payments rules, or if there is other manipulation of the imputation system, the franking credit is not included in assessable income at **J** and there is no entitlement to a franking tax offset).
- The amount of franking credits included in assessable income is allowed as a tax offset and claimed in the **Calculation statement** at **C Rebates/tax offsets**.
- Where the company has a franking deficit tax (FDT) liability, it can claim an FDT offset against its income tax liability. Some special rules apply to life insurance companies to ensure that an FDT liability can only be offset against that part of the company's income tax

liability that is attributable to shareholders. The FDT offset rules reduce the amount of FDT offset where the FDT liability is more than 10% of the total franking credits arising in the company's franking account for the year. See the *Franking account tax return instructions 2005* (NAT 1382–6.2005) for further information on how to calculate this amount. There are also special rules that apply to late balancing entities that elect to determine their FDT on a 30 June basis. For more information, see the fact sheets *Simplified imputation: Franking deficit tax offset* and *Simplified imputation: FDT offset for late balancers* which are available on our website.

For further explanation on how to calculate the amount that can be claimed as an FDT offset for the income year, see **Franking deficit tax offset** on page 67.

Other features of the simplified imputation system include the following:

- The franking account operates on a tax-paid basis and is also a rolling-balance account.
- Corporate tax entities can align the period for determination of their franking deficit tax liability with their income year.
- The franking period relates to the operation of the benchmark rule.
- Corporate tax entities can choose the extent to which they frank frankable distributions made within a franking period. This choice, though, is subject to the benchmark rule.
- The benchmark rule, while limiting streaming opportunities, provides greater flexibility in allocating franking credits to frankable distributions. To comply with this rule, a corporate tax entity must ensure that all frankable distributions made within a franking period are franked to the same extent – the benchmark franking percentage. The benchmark franking percentage is equal to the franking percentage established for the first frankable distribution made in that franking period.
- A breach of the benchmark rule will not invalidate the allocation made to the distribution. However, a penalty will be imposed on the corporate tax entity. The penalty is either:
  - an over-franking tax, if the franking percentage for the distribution exceeds the benchmark franking percentage, or
  - a franking debit to the franking account, if the franking percentage for the distribution is less than the benchmark franking percentage.

The penalty is calculated by reference to the difference between the franking credits actually allocated and the benchmark franking percentage.

- Payment of over-franking tax does not give rise to a franking credit in the franking account. If an entity is liable to pay over-franking tax it must complete a *Franking account tax return 2005*.
- Under the disclosure rule, corporate tax entities must notify the Commissioner in the approved form if they have significantly varied their benchmark franking percentage between franking periods. Corporate tax entities disclose this information on the *Franking account tax return 2005*.

Intercorporate dividend rebate

From 1 July 2004, there is no entitlement to an intercorporate dividend rebate. These rules have been replaced by the gross up and credit approach introduced by the simplified imputation system and the rules applicable to consolidated groups.

Franking account tax return

The legislation to allow corporate tax entities to claim an FDT offset against their income tax liability received royal assent on 21 October 2003. These provisions are contained in *Taxation Laws Amendment Act (No. 8) 2003* and apply retrospectively from 1 July 2002. Further rules were enacted to replace the old franking additional tax provisions with a 30% reduction in the amount of FDT that can be offset against future income tax liabilities.

As a result of these rules, the *Franking account tax return 2005* requires you to complete **C Offsettable portion of current year franking deficit tax**. This means that if the amount of FDT liability for the income year exceeds 10% of the total amount of franking credits that arose in the franking account that year, the FDT offset will be reduced by 30%.

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

- a liability to pay franking deficit tax
- a liability to pay over-franking tax, and/or
- an obligation to disclose information to the Commissioner in relation to their benchmark franking percentage.

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

For more information on completing this tax return, see the *Franking account tax return and instructions 2005*.

> **NOTE**
> Under the simplified imputation system, there is no deficit deferral tax. Instead, there is a mechanism for recalculation of the franking deficit tax liability.

COOPERATIVES – OPTION TO FRANK DIVIDENDS

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

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

> **NOTE**
> For a range of more detailed information about simplified imputation, consolidation and the cooperatives measures, please visit our website or phone the Tax Reform Infoline on **13 24 78**.

LIFE INSURANCE COMPANIES

Taxation Laws Amendment Act (No. 1) 2004 introduced imputation rules for life insurance companies which complement the core superannuation industry supervision (SIS) rules introduced in the *New Business Tax System (Imputation) Act 2002* which applied from 1 July 2002.

These new imputation provisions generally replicate the former imputation provisions relating to life insurance companies except for the following changes:

- The over-estimation penalty for life insurance companies if they overestimated the total amount of franking credits they were entitled to receive during the income year has been removed.
- The holding period requirement in respect of franking credits arising from the receipt of franked dividends has been removed.
- A method is prescribed for determining the amount of income tax liability attributable to shareholders for an original and an amended assessment.

There are also amendments for the franking deficit tax offset rules for life insurance companies. These amendments ensure that a franking deficit tax offset can only be applied against that part of the company's income tax liability that is referable to shareholders (after all other tax offsets have been deducted). A method is prescribed for working out the relevant amount that is attributable to shareholders.

LOSSES

No wastage of current year losses and optional use of prior year losses

Subject to certain limitations, corporate tax entities can choose the amount of prior year losses they wish to deduct from the excess, if any, of their assessable income over total deductions (other than tax losses) in a later year of income. This also means that corporate tax entities can choose not to deduct prior year losses in order to pay sufficient tax to be able to frank their distributions. A company reflects the choice made by including the amount (including a nil amount) of tax loss deducted at **R Tax losses deducted** item **7**. A company cannot deduct an amount of a prior year loss if it either has excess franking offsets prior to deducting any tax loss, or the choice to deduct that particular amount of the tax loss would give rise to excess franking offsets.

Corporate tax entities can also treat a current year loss that would otherwise be incurred but for deriving franked dividend income as a tax loss for that income year and be able to carry forward the tax loss to a later year of income. The relevant current year loss will be determined by reference to the amount of any excess franking offsets for the income year. Disclose the amount of excess franking offsets a company has at **H Excess franking offsets** item **8**. For more information, see **Excess franking offsets** on page 53. Include the amount of tax loss created and carried forward to future income years at **U Tax losses carried forward to later income years** item **10**.

The rule about choosing to deduct a prior year loss applies to deductions of tax losses in the year in which 1 July 2002 falls and later years. The rule ensuring current year losses are not wasted applies to the income year in which 1 July 2002 falls and later years.

> **NOTE**
> For a range of more detailed information about this new measure, visit the business home page of our website at **www.ato.gov.au/businesses**, select 'Share dividends and investments' on the left hand side near the bottom of the screen to access the 'Imputation essentials' page, then view the information under 'Current and prior year losses' or phone the Tax Reform Infoline on **13 24 78.**

Accessing the same business test

The same business test is available to companies to determine their eligibility to deduct prior year losses, if:

- the company fails the continuity of ownership test, or
- it is not practicable to show that the company meets the continuity of ownership test.

Subsection 165-13(2) of the ITAA 1997 provides a default test time at which the same business test can be applied if the company is unable to determine precisely when it has failed the continuity of ownership test.

If it is not practicable for the company to show that it has maintained the same owners for any period since the start of the loss year, the default test time for application of the same business test is:

- if the company was in existence throughout the income year – the start of the loss year, or
- if the company came into being during the loss year – the end of the loss year.

This provision applies to assessments for the 1997–98 year of income and later income years (Section 165-13 of the ITAA 1997).

If it is practicable for the company to show when in the income year it failed the continuity of ownership test, then in the case of tax losses, the test time for application of the same business test is the latest time in that income year when the company can show that it has satisfied the continuity of ownership test.

THE DEBT AND EQUITY RULES

The debt equity measures broadly operate to characterise certain interests as either debt or equity. These measures generally apply from 1 July 2001. For some tax law purposes interests are treated in the same way as shares even though they are not shares in legal form. These

interests are called 'non-share equity interests'. They include some income securities and some stapled securities. The *Guide to the debt and equity tests*, available on our website, provides an overview of the debt/equity rules and explains what a non-share equity interest is.

For the purposes of the imputation system, generally non-share equity interests are treated in the same way as shares. Non-share dividends on these types of interests may be franked or unfranked. Show any amount of non-share dividend, whether franked or unfranked, and any amount of franking credit attached to the non-share dividend, at the appropriate place on the tax return as if it were for a share.

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

CLUBS, SOCIETIES AND ASSOCIATIONS

Taxable clubs, associations, societies and organisations are generally treated as companies. However, non-profit companies are subject to special tax rules, which are explained in the *Income tax guide for non-profit organisations,* available on our website. Non-profit companies that are resident and have taxable income of $416 or less do not have to lodge an income tax return, unless specifically requested.

CORPORATE UNIT TRUSTS AND PUBLIC TRADING TRUSTS

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

The trust loss legislation in Schedule 2F to the ITAA 1936 applies to these trusts except where the corporate unit trust or public trading trust is treated like the head company of a consolidated group.

The new legislative measures in Subdivision 713-C of the ITAA 1997 enable a corporate unit trust or public trading trust to form a consolidated group and be treated like the head company of the group (the change applies from 1 July 2002).

FOREIGN EXCHANGE (FOREX) GAINS AND LOSSES

Under the forex measures, foreign exchange gains and losses are generally brought to account as assessable income or allowable deductions, when realised. The measures cover both foreign currency denominated arrangements, and broadly, arrangements to be cash-settled in Australian currency with reference to a currency exchange rate. Foreign exchange gains and losses of a private or domestic nature, or in relation to exempt income or non-assessable non-exempt income, are generally not brought to account under the forex measures.

If a foreign exchange gain or loss is brought to account under the forex measures and under another provision of the tax law, it is assessable or deductible only under the forex measures.

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

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

For most companies the forex measures and general translation rule have applied from 1 July 2003. However, companies with certain early substituted accounting periods will not be subject to these provisions until the first day of their 2004–05 income year.

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

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

More information about these measures and on how to calculate your foreign exchange realisation gains and losses is available on our website (search for 'forex').

GENERAL VALUE SHIFTING REGIME

The general value shifting regime (GVSR) replaces the value shifting rules in Divisions 138, 139 and 140 of the ITAA 1997. Subject to transitional rules, the GVSR applies from 1 July 2002.

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

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

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

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

For more information, visit our website or phone the Tax Reform Infoline on **13 24 78**.

TRANS-TASMAN IMPUTATION

The Trans-Tasman imputation measure allows a New Zealand resident company to choose to enter the Australian imputation system. This allows a New Zealand company to maintain an Australian franking account from 1 April 2003 and to attach Australian franking credits to dividends it pays from 1 October 2003 or one month after the company makes an election, whichever is later. Australian shareholders of New Zealand companies may benefit from the Australian franking credits attached to distributions made by a New Zealand company that has elected into the trans-Tasman imputation measure (referred to as a 'New Zealand franking company').

For more information on the Trans-Tasman imputation measure, visit the business section of our website and click on 'Trans-Tasman imputation', or phone the Tax Reform Infoline on **13 24 78**.

INTERNATIONAL TAXATION – THE TAXATION TREATMENT OF CERTAIN FOREIGN HYBRID ENTITIES

The taxation treatment of certain foreign hybrid entities has changed. Broadly, foreign hybrid means entities such as non-resident limited liability partnerships (LLP), limited liability companies in the USA (US LLC) and other similar entities that are taxed on a partnership basis in their country of formation – that is, the overseas jurisdiction taxes the members on their share of the entity's income. The entity itself is not taxed.

Under the new laws, non-resident limited partnerships and other foreign hybrids are treated as partnerships and not as companies for Australian income tax purposes. Investors in these entities are treated for Australian tax purposes as having partnership interests.

For more information about foreign hybrids, visit our website.

INTERPOSED ENTITY ELECTIONS

Changes have been made to the rules relating to the making of interposed entity elections. Generally, the changes allow entities to make interposed entity elections at any time in relation to earlier years provided certain conditions are met. The changes allow trustee(s), a company or partners to make interposed entity elections at any time in relation to earlier years provided that from the beginning of the specified income year until 30 June of the income year immediately preceding that in which the election is made:

- the company, partnership or trust passes the family control test, and
- any conferral of present entitlement to, or any actual distributions of, income or capital during that period have been made to the individual specified in the election or members of that individual's family group.

This change applies to interposed entity elections specifying the 2005 or a later income year. The measure does not apply to elections specifying the 2004 or earlier income years.

For further information, call the Business Infoline on **13 28 66** or the Tax Agents Infoline on **13 72 86**.

INFORMATION MATCHING

We are making increasing use of information-matching technology to verify the correctness of tax returns. Ensure that all information is fully and correctly declared on the company tax return.

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

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

In particular, we will be checking the following in the 2005 tax returns:

- distributions from partnerships and trusts, including unit trusts – see pages 24 and 25
- income and credits for withholding if an ABN has not been quoted against information provided to us by payers – see pages 24 and 70
- total salary and wages will be cross checked against the PAYG withholding system – see page 56
- the amount of prior year losses claimed will be reconciled with the amounts of losses carried forward on tax returns of earlier years – see page 44
- dividend and interest income – see page 27.

STRATA TITLE BODIES CORPORATE

Strata title bodies corporate are treated as public companies under the tax law and must lodge a company tax return for any year in which non-mutual income is earned. For more information on this type of income, see the instructions in the *Strata title body corporate tax return 2005*.

If the strata title body corporate has:

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

complete a company tax return. The company cannot complete its tax return using the strata title body corporate tax return.

INTERNATIONAL TAXATION – CHANGES TO THE TAXATION TREATMENT OF CERTAIN TRUSTS, MANAGED FUNDS AND OTHER MEASURES

The *New International Tax Arrangements (Managed Funds and Other Measures) Act 2005* became law on 21 March 2005. The Act makes amendments to the operation of capital gains tax and treaty source rules in respect of certain interests held by foreign residents in Australian trusts.

At the time of printing this publication, the New International Tax Arrangements (Foreign-owned branches and other measures) Bill 2005 had not passed through Parliament – Royal Assent may be granted in late June 2005. The Bill covers a number of measures such as dividends received by Australian branches of foreign entities, cross-border employee shares or rights. Certain measures in the Bill have application from the date of Royal Assent (various Application Dates are specified in the legislation).

Further information about both these measures may be found on our website.

RECORD KEEPING REQUIREMENTS

Record keeping and retention

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

- any documents that are relevant for the purpose of ascertaining the person's income or expenditure
- documents containing particulars of any election, 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 five years after those records were prepared or obtained, or five years after the completion of the transactions or acts to which those records relate, whichever is the later, although this period may be extended in certain circumstances. Keep records in writing and in English; however, you can keep them in an electronic form or on microfiche as long as the records are in a form that we can access and understand to ascertain your taxation liability (see Taxation Ruling TR 96/7).

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

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

Prepare and keep these documents:

- a statement of financial position
- a detailed operating statement
- livestock and produce accounts for primary producers
- notices and elections
- documents containing particulars of any estimate, determination, or calculation made for the purpose of preparing the tax return, together with details of the basis and method used in arriving at the amounts on the tax return, and
- 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, we may request, and a company is expected to make readily available:

- a list and description of the main financial products – for example, bank overdrafts, bills, futures and swaps – that were used by the company to finance or manage its business activities during the income year
- for companies that have entered into transactions with associated entities overseas:
  - an organisational chart of the company group structure, 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 if the company does not keep records, or keeps inadequate records, about business transactions or the items disclosed on the tax return. For guidelines on record keeping obligations and remission of penalty for failure to keep or retain records, see PS LA 2005/2.

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

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

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

More information on the record keeping and retention requirements of a consolidated group can be found in the *Consolidation reference manual* available on our website.

e-Record

e-Record is an electronic record keeping package we have developed to help small/micro businesses and non-profit organisations keep good business records and meet their taxation reporting obligations.

It is designed for businesses that use a cash basis of accounting and that wish to make the transition from paper based products to an electronic record keeping package. It is not designed for businesses already using a commercially available accounting software package.

e-Record consists of a set of simple-to-use electronic worksheets that produce daily and weekly information, as well as monthly, quarterly and annual summaries, with the added benefit of automatic calculations and consolidations. This will assist businesses in the completion of their activity statements.

Download the latest version of *e-Record* from **www.ato.gov.au/erecord** or obtain a copy of the CD-ROM by phoning **1300 139 051**.

Capital gains tax record keeping

For more information on record keeping for capital gains tax, see the *Guide to capital gains tax 2005*. See also Taxation Ruling TR 2002/10 for more detailed information about keeping a CGT asset register.

Tax losses record keeping

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

Record keeping for overseas transactions and interests

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

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

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

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

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

TAX RETURN

First company tax return

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

If the company has applied for a TFN but has not received notification of its TFN at the time of lodging its tax return, include a copy of the application with its tax return. If that is not possible, complete a new application and lodge this with the *Company tax return 2005*.

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

Lodging the tax return, schedules, etc

Companies that derived assessable income in the 2004–05 income year must lodge a tax return for the 2004–05 income year. Companies that are carrying forward losses that exceed $1,000 to the 2005–06 income year must also lodge a tax return for the 2004–05 income year even if no assessable income has been derived in the 2004–05 income year. Keep records so the information reported on the tax return can be verified at a later date, if required – see **Record keeping requirements** on page 14.

The addresses for lodging the company tax return are listed at appendix 10.

The following are the ONLY schedules that are sent with the *Company tax return 2005*:

- *Capital gains tax (CGT) schedule 2005*
- *Capital allowances schedule 2005*
- *Consolidated losses schedule 2005*
- *Dividend and interest schedule 2005*
- *Interposed entity election 2005*
- *Losses schedule 2005*
- *Non-individual PAYG payment summary schedule 2005*
- *Personal services income schedule 2005*
- *Research and development tax concession schedule 2005*
- *Schedule 25A 2005,* and
- any elections required by Taxation Ruling IT 2624.

The *Thin capitalisation schedule 2005* can be lodged through the electronic lodgment service (ELS), or the company may choose to complete the paper schedule and post it to:

Australian Taxation Office
PO Box 1365
ALBURY NSW 2640

Do NOT send other schedules or documents with the *Company tax return 2005*. Keep these with the company's tax records.

The date for lodgment of the company tax return (including any relevant schedules) is notified in the Commonwealth Gazette (Gazette). If you lodge your return without all the required schedules we may not consider it to have been lodged in the approved form. Unless all schedules are lodged by the due date, you may be charged a failure to lodge on time penalty.

Do not attach the company's payment to the company tax return. The company can make payments by one of five methods. These are listed at appendix 11 on page 92.

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 four years following the assessment. The objection must state the full particulars of the issue in dispute. This is a basic guide only.

PRIVATE RULING BY THE COMMISSIONER OF TAXATION

A private ruling is a written expression of opinion by the Commissioner of Taxation (Commissioner) about the way in which a tax law or tax laws would apply to a person in relation to an arrangement in respect of a specified income year.

An *Application for a private ruling* must be in writing and in accordance with the provisions of Part IVAA of the *Taxation Administration Act 1953* (TAA 1953).

The required information and documentation that accompanies a private ruling request must be sufficient for the Commissioner to make a private ruling. Such information will include the parties involved, the facts, income years covered by the arrangement, issues and questions raised that relate to specified tax laws, and 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, see Taxation Ruling TR 93/1 and Addendum.

Review rights

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 later of:

- 60 days after the receipt of the ruling
- four 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.

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

Private rulings dealing with the ITAA 1936 continue to apply to the ITAA 1997, to the extent that the old law ruled on expresses the same ideas as the new law in the ITAA 1997 – see Taxation Ruling TR 97/16.

Withdrawals

The Commissioner cannot withdraw a private ruling if the year of income for the ruling has started or ended. If the year of income has not started but the arrangement has started, the Commissioner can only withdraw a private ruling in very limited circumstances. If the arrangement has not started then generally the Commissioner can withdraw a private ruling.

PAYMENT ARRANGEMENTS

Paying your tax debt

Income tax debts must be paid by the due date. For payment options, see appendix 11 on page 92.

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

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

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

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

To avoid action being taken to recover the debt, phone us on **13 11 42**. You are expected to organise your affairs to ensure that you pay your debts on time. Nevertheless, we may allow you to pay your debts under a mutually agreed payment plan if you face genuine difficulty and have the capacity to eventually pay the debt. The interest charge will continue to accrue on any outstanding amounts of tax during any payment arrangement. Approval for a payment arrangement is not given automatically. The company may need to provide details of its financial position, including a statement of its assets and liabilities and details of its income and expenditure. We will also want to know what steps the company has taken to obtain funds to pay its tax debt and the steps it is taking to meet future tax debts on time.

PENALTIES

The law imposes penalties on companies for:

- failing to lodge a tax return on time and in the approved form
- having a tax shortfall or over-claiming a credit that is caused by:
  - making a false or misleading statement
  - taking a position that is not reasonably arguable
  - disregarding a private ruling *
- refusing to provide a tax return from which the Commissioner can determine a liability
- failing to keep and produce proper records
- preventing access to premises and documents, or
- failing to retain or produce declarations.

A company is liable for an interest charge where they have:

- tax, penalty or certain other amounts which remain unpaid after the due date for payment, or
- a variation of a PAYG instalment rate is less than 85% of the instalment rate which would have covered the company's actual liability for the year.

* Amendments to particular sections of legislation affecting penalties, as a result of the *Report on Aspects of Income Tax Self Assessment*, are currently under consideration. These amendments may result in changes to whether penalties would be imposed for disregarding a private ruling.

REPORT ON ASPECTS OF INCOME TAX SELF ASSESSMENT

On 17 March 2005, Tax Laws Amendment (Improvements to Self Assessment) Bill (No.1) 2005 was introduced into Parliament. Shortfall Interest Charge (Impositions) Bill 2005 was also introduced. The bills, when enacted, are intended to provide greater protection and certainty for companies in relation to interest charges and penalties. In particular, the changes:

- introduce a separate interest charge that has a lower rate than the general interest charge for shortfalls of income tax
- improve the transparency of the Tax Office's administrative processes of imposing penalties on taxpayers who understate a tax liability, and
- abolish the separate penalty for failing to follow an ATO private ruling.

Shortfall interest charge

Currently, where a company's income tax assessment is amended to increase liability, the increase is treated as a late payment. The amended assessment or shortfall is due on the due date for the original (understated) assessment and general interest charge applies from that date. The bill proposes that for the 2004–05 income year and later years, where an assessment is amended because of a tax shortfall the due date for payment of the amended assessment is 21 days after the Commissioner gives the notice increasing the liability. The company is liable to pay a shortfall interest charge from the due date of the original assessment, to the issue date of the amended notice of assessment on the increase. The company will be notified of the amount of the shortfall interest charge and it will be due 21 days after the notice is given. General interest charge will apply automatically to any unpaid amount of the amended assessment and the shortfall interest charge once the due date has passed.

The shortfall interest charge replaces the liability to pay general interest charge during the shortfall period. It will be calculated at a lower interest rate than general interest charge.

Penalties

Currently, penalties may be applied to any tax shortfall. In future, the penalty for a tax shortfall for failing to follow a private ruling that resulted in a shortfall will be abolished.

There will also be a requirement for the Commissioner to provide an explanation in writing of why an entity is liable to a penalty and why the penalty has not been remitted in full when the Commissioner decides that the penalty should not be remitted in full.

The definition of 'reasonably arguable' will be clarified to mean 'as likely to be correct as incorrect or more likely to be correct than incorrect'.

These changes had not received royal assent at time of print.

Review period for loss and nil liability returns

On 16 December 2004 the Treasurer announced in *Press Release No 106 of 2004* that the Government will adopt the legislative recommendations made in the *Report on Aspects of Income Tax Self Assessment* which will reduce uncertainty and compliance costs for taxpayers when implemented.

Where you return a tax loss in an income year, the Tax Office currently considers that there is no deemed assessment. Consequently, there is an unlimited period to review your affairs. The same issue arises in other nil liability cases, for example, where tax offsets reduce your tax payable to nil.

The Government proposes that from the 2004–05 income year, the period of review for nil and loss assessments will be equivalent to the period for the Tax Office to amend assessments creating liabilities.

Where your 2005 return discloses relevant loss information about any earlier loss years, the Tax Office will have six years from lodgment of that return to issue an assessment for those prior loss years. For other (non-loss) nil liability returns for years ended 30 June 2004 and earlier, the Tax Office will have until 31 October 2008 (or four years from the date of lodgment, whichever is later) to issue an assessment.

This transitional arrangement will not apply to you if you do not disclose the relevant loss information about unutilised carry forward losses in the 2005 return. These prior year loss returns will continue to be subject to an unlimited period of review.

> **NOTE**
>
> If the proposed legislation is enacted, you will be required to complete and submit certain losses information with your 2005 tax return in order for the transitional arrangements to apply. You can meet this requirement by completing the 2005 return label for tax losses carried forward to later income years and submit a *Losses schedule 2005* or *Consolidated groups losses schedule 2005* where required.
>
> Consolidated groups may, in addition, be required to complete and submit a *Consolidated groups transferred tax losses schedule 2005*. For more information refer to the publication *Consolidated groups transferred tax losses schedule 2005 instructions*.
>
> The Government proposes that the legislative changes will apply to assessments for the 2004-05 and later income years. At the time this publication was prepared the legislation for this measure had not been introduced into Parliament. Once legislation has passed and received royal assent further information will be available on our website or by phoning the Business Infoline on **13 28 66**.

COMPLETING THE TAX RETURN

PAGE 1 OF THE TAX RETURN

IS A PAYMENT DUE?

Print **YES** in the box if a payment is due now or at a later date. Otherwise print **NO**.

IS A REFUND DUE?

Print **YES** in the box if a refund is due. Otherwise print **NO**.

TAX FILE NUMBER (TFN)

Print the TFN of the company in the boxes provided. The head company of a consolidated group continues to use its existing TFN.

If the company has not previously been allocated a TFN, see **First company tax return** on page 15.

NAME OF COMPANY ENTITY

When recording the name of the company entity:

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

If the company name is legally changed, notify us in writing of the change at the time the change is made. Show on the tax return the current company name as registered with the Australian Securities and Investments Commission. In the case of the head company of a consolidated group, use only the head company's name.

AUSTRALIAN BUSINESS NUMBER (ABN)

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

Print the ABN of the company in the boxes provided if the company is registered on the Australian Business Register. In the case of a consolidated group, print the ABN of the head company.

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

Follow the instructions on the *Company tax return 2005* for the following items:

- Previous name of the company
- Current postal address
- Postal address on previous tax return.

> **NOTE**
> C/- is the only acceptable format when 'care of' is part of an address. Any deviation from this format will delay the processing of the tax return.

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. For a consolidated group, show the business address of the head company.

FINAL TAX RETURN

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

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

1 ULTIMATE AND IMMEDIATE HOLDING COMPANY NAME AND ABN OR COUNTRY CODE

Ultimate holding company name and ABN or country code

Show the name of the ultimate holding company in the group. This is the company that has ownership and controlling interest over the whole group of companies of which the company lodging the *Company tax return 2005* and the immediate holding company forms part. For a consolidated group, show the name of the ultimate holding company of the head company.

If the ultimate holding company is registered on the Australian Business Register, show the ABN of the ultimate holding company.

If it is resident in another country give the code for that country – see appendix 9 on page 88.

Immediate holding company name and ABN

If the company has no immediate holding company, do not complete this item. Otherwise show the name of the immediate holding company. This is the company that has the largest share of the controlling interest in the operations of the company lodging the company tax return, and that is immediately above that company in the company group. If it is registered on the Australian Business Register show the ABN of the immediate holding company. For a consolidated group, show the name of the immediate holding company (if any) of the head company.

2 DESCRIPTION OF MAIN BUSINESS ACTIVITY

Describe as accurately as possible the business activity from which the company derived the most gross income – for example, beef cattle breeder, vegetable grower, clothing manufacturer, confectionery wholesaler, electrical goods retailer. Do not use general descriptions such as farmer, manufacturer or wholesaler. For a consolidated group, show the business activity from which the group derived the most gross income.

Industry code

Show at **B** the appropriate industry code for the company's main business. If the company has applied for an ABN its industry code appears on the ABN notification of registration. If the company has not applied for an ABN or has not received notification of its ABN, find the appropriate business code for the company in *Business industry codes* (NAT 1827–6.2005), available on our website.

If the company has changed its main business activity since receiving its ABN notification of registration the company's industry code number is no longer valid. Describe and code the business activity as accurately as possible. The industry code is made up of five digits. For example, if the industry is 'dairy cattle farming', the code on the tax return will be shown as '01300'.

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

An incorrect code may result in clients not receiving a necessary service or material from the Tax Office, or could lead to incorrect targeting of audits. In addition, we provide 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 we give to the ABS.

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

Percentage of foreign shareholding

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

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

- 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 Australian Company Number (ACN).

3 STATUS OF COMPANY

C1, C2 and C3

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

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

D1 to D10

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

A friendly society that carries on life insurance business must describe its status as **D10 Public**; otherwise its status is **D3 Non-profit**. For further information on friendly societies that carry on life insurance business, see the information on item **13 Life insurance companies and friendly societies only** on page 60.

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

E1 to E3

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

Z1 and Z2

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

- Select **Z1 Consolidated head company** if the company was a head company of a consolidated group at any time during the income year.
- Select **Z2 Consolidated subsidiary member** if **Z1** does not apply and the company was a subsidiary member of a consolidated group at any time during the income year.

If neither applies leave the boxes blank.

4 INTERPOSED ENTITY ELECTION STATUS

This item must be completed if either of the following applies:

- the company has previously made one or more interposed entity elections specifying a day in the income years from 1994–95 to 2003–04 in accordance with section 272-85 of Schedule 2F to the ITAA 1936 and, if applicable, item 23 or 23A of Schedule 1 to the *Taxation Laws Amendment (Trust Loss and Other Deductions) Act 1998* (Trust Loss Act)
- the company is making one or more interposed entity elections specifying a day in the 2004–05 income year in accordance with section 272-85 of Schedule 2F to the ITAA 1936.

DO NOT attach election forms for interposed entity elections made specifying a day in an income year BEFORE the 2004–05 income year on the *Company tax return 2005*.

> **NOTE**
> Under section 272-85 of Schedule 2F to the ITAA 1936, a company cannot make an interposed entity election specifying a year early than 2004–05 on the *Company tax return 2005*.

If the company has previously made one or more elections specifying a day in an income year before the 2004–05 income year, print the appropriate election status code at **F** item **4** unless the company is making one or more elections specifying a day in the 2004–05 income year.

If the company has previously made one or more elections specifying a day in an income year before the 2004–05 income year and took advantage of the one-off opportunity in Practice Statement PS LA 2004/1 (GA) to specify an earlier year, print the appropriate election status code for the earliest year at **F** unless the company is making one or more elections specifying a day in the 2004–05 income year.

If the company is making one or more interposed entity elections specifying a day in the 2004–05 income year, print the election status code for 2004–05 at **F** and complete an interposed entity election for each election specifying a day in the 2004–05 income year and attach it to the company tax return.

Instructions on how to complete the interposed entity election are provided on the approved form.

If you do not use the electronic lodgment service (ELS) to lodge the company tax return, send it with the interposed entity election to:

Australian Taxation Office
PO Box 9990
PENRITH NSW 2740.

Election status code

Print in the box at **F** the code from table 1 which corresponds to the interposed entity 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 (if more than one interposed entity election is made) or the 2004–05 income year code if an interposed entity election is being made specifying a day in the 2004–05 income year.

TABLE 1

Code	Income year specified in first interposed entity election
I	1994–95
J	1995–96
K	1996–97
L	1997–98
M	1998–99
N	1999–2000
O	2000–01
P	2001–02
Q	2002–03
S	2003–04
T	2004–05

EXAMPLE 1

A company has previously made an interposed entity election specifying a day in the 1994–95 income year in accordance with section 272-85 of Schedule 2F to the ITAA 1936 and item 23 of Schedule 1 to the Trust Loss Act and is not making another interposed entity election specifying a day in the 2004–05 income year.

Print code **I** at **F**. The company is not required to complete an *Interposed entity election 2005* or attach one to the company tax return.

EXAMPLE 2

A company has previously made an interposed entity election specifying a day in the 1996–97 income year in accordance with section 272-85 of Schedule 2F to the ITAA 1936 and item 23 or 23A of Schedule 1 to the Trust Loss Act – whichever is applicable – and wants to make another interposed entity election specifying a day in the 2004–05 income year.

Print code **T** at **F**. The company provides details in an interposed entity election of the election it is making specifying a day in the 2004–05 income year. Attach the completed interposed entity election to the company tax return.

EXAMPLE 3

A company has not previously made an interposed entity election specifying a day in an income year before the 2004–05 income year but the company wants to make an interposed entity election specifying a day in the 2004–05 income year in accordance with section 272-85 of Schedule 2F to the ITAA 1936.

Print code **T** at **F**. The company provides details in an interposed entity election of the election it is making. Attach the completed interposed entity election to the company tax return.

EXAMPLE 4

A company had previously lodged an interposed entity election which specified a day in the 2002–03 income year. The company took advantage of the one-off opportunity in Practice Statement PS LA 2004/1 (GA) by lodging a declaration requesting that the election apply from the 1997–98 income year.

Print code **L** at **F**. The company is not required to complete an *Interposed entity election 2005* or attach one to the company tax return.

Family trust distribution tax

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

See Subdivision 272-D of Schedule 2F to the ITAA 1936. The making of an interposed entity election is optional.

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

A consequence of a company making an interposed entity election is that under section 271-30 of Schedule 2F to the ITAA 1936 the company pays a special tax, called family trust distribution (FTD) tax, at 48.5% on any conferral of present entitlement to, or distribution of, the company's income or capital to persons who are not members of the family group of the specified individual within the meaning of section 272-90 of Schedule 2F to the ITAA 1936. For this purpose, a company's distribution of income or capital has the meaning given in sections 272-50 and 272-60 of Schedule 2F to the ITAA 1936.

Pay FTD tax by mail, using a *Family trust distribution tax payment* slip which is available on our website.

Make cheques or money orders payable to the Deputy Commissioner of Taxation and print 'Not negotiable' across the cheque. Tender all cheques in Australian currency. Do not send cash by post. Payment addresses are listed at appendix 11 on page 92.

5 SIMPLIFIED TAX SYSTEM (STS) ELECTIONS

Only complete this item if the company is:

- electing to enter the STS and is eligible to do so
- continuing in the STS and is eligible to do so, or
- exiting from the STS.

If the company wants to enter or continue in the STS and is eligible to do so, complete **G**, **H** or **R**, and **I**.

If the company is exiting from the STS, complete **S** or **T** – see **Exiting from the STS** on page 23.

Do not complete this item if the company

- is not eligible to enter the STS, or
- is eligible but does not want to enter the STS.

Is the company eligible to enter or continue in the STS?

The company is eligible to be an STS taxpayer for an income year if the company:

- carries on a business
- has an STS average turnover of less than $1 million. The STS average turnover includes the turnover of any entities the company is 'grouped with', and
- together with any entities the company is 'grouped with' has depreciating assets with a total adjustable value of less than $3 million at the end of the year.

Grouping rules

Special rules called the STS grouping rules will determine who the company is 'grouped with'. These rules prevent larger businesses from structuring or restructuring their affairs to take advantage of the STS. For more information on the grouping rules, see Taxation Ruling TR 2002/6 or phone the Business Infoline on **13 28 66**.

For the year of income the company must have satisfied all three eligibility tests listed below.

Test 1

Was the company carrying on a business during the year?

If the company carried on a business at any time during the year of income, it satisfies this test.

Test 2

Is the STS average turnover of the company less than $1 million?

The STS average turnover for an income year is worked out either by looking back to actual turnover in previous years, or looking forward to estimated future turnover. Before the company can work out the STS average turnover, it needs to know its STS group turnover. For more information on calculating STS group turnover, see Taxation Ruling TR 2002/11.

The STS group turnover of the company is the value of business supplies it makes in the ordinary course of its business, and the value of business supplies any businesses the company is grouped with make in the ordinary course of their business. It does not include any business supplies made between the company and businesses the company is grouped with.

Look back method

Under the look back method, the company generally calculates its STS average turnover using the average of its 'STS group turnovers' of any three years out of the previous four years (excluding the current year). If the company has been in business for less than three years, calculate the STS average turnover for the number of years the company has been in business (excluding the current year).

If the company has been in business for only part of any of those years, use a reasonable estimate of what the turnover for the year would have been if it was in business for the full year.

Use the following table for the calculation.

TABLE 2

Income year	STS group turnover
2000–01	$
2001–02	$
2002–03	$
2003–04	$
Cross out the largest turnover amount if the company has been in business for each of the four income years.	
Total of the three* years	$
Divide by 3*	
STS average turnover	$
* or the number of years the company has been in business if less than three years	

If the STS average turnover is less than $1 million, the company satisfies this test and needs to consider test 3. Otherwise read on.

Look forward method

Under the look forward method, the STS average turnover is calculated using a reasonable estimate of 'STS group turnovers' for the current year and the two following years. Alternatively, the company can use its actual STS group turnover for the current year, and a reasonable estimate of its STS group turnover for each of the following two income years.

If the company has been in business for only part of one of those years, use a reasonable estimate of what the turnover for that year would have been if it was in business for the full year.

Use the following table for the calculation.

TABLE 3

Income year	STS group turnover
2004–05	$
2005–06	$
2006–07	$
Total	$
Divide by 3*	
STS average turnover	$
* or the number of years the company expects to be in business if less than three years	

If the STS average turnover of the company is less than $1 million it satisfies this test.

Test 3

Does the company and any businesses it is grouped with have depreciating assets with a total adjustable value of less than $3 million at 30 June 2005?

Broadly, the adjustable value of a depreciating asset is its cost less its decline in value since it was first used, or installed ready for use, for any purpose whether business or private. It is the value at the end of the year of income that is relevant.

If the total adjustable values of the depreciating assets of the company, and those of entities it is grouped with for the income year ended 30 June 2005, is less than $3 million at this time, the company satisfies this test.

Did the company satisfy the three eligibility tests?

If the company did not satisfy all three eligibility tests, it is not eligible to enter or continue in the STS. Leave **G**, **H**, **R** and **I** blank.

Entering the STS

If the company does satisfy all three eligibility tests and wants to enter the STS, complete **G**, **H** and **I**.

Print **Y** for yes at **G** and **H**.

Print **Y** for yes at **I** if the company is grouped with another entity for any year relevant to the company's calculation of STS average turnover – otherwise print **N** for no at **I**.

Continuing in the STS

If the company does satisfy all three eligibility tests and wants to continue in the STS, complete **G**, **R** and **I**.

Print **Y** for yes at **G** and **R**.

Print **Y** for yes at **I** if the company is grouped with another entity for any year relevant to the company's calculation of STS average turnover – otherwise print **N** for no at **I**.

Exiting from the STS

If the company does satisfy all three eligibility tests but wants to exit from the STS, complete **S**.

Print **Y** for yes at **S**. Leave all other labels blank.

If the company does not satisfy all three eligibility tests it must exit from the STS. Complete **T**.

Print **Y** for yes at **T**. Leave all other labels blank.

PAGE 2 OF THE TAX RETURN

6 CALCULATION OF TOTAL PROFIT OR LOSS

The **Income** and **Expenses** amounts to be shown at item **6** are accounting system amounts and correspond to the amounts in the company's financial statements for the income year.

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

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

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

If the company is eligible to enter or continue in the STS and has chosen to do so at item **5**, see **STS taxpayers** below. Otherwise see **All companies (including STS)** on page 24.

STS taxpayers

STS taxpayers must use the STS accounting method.

This accounting method recognises most income only when received. This type of income is called ordinary income – for example, sales of goods and/or services, professional fees and commissions.

If the company is registered or required to be registered for GST, income amounts should exclude GST payable.

An STS taxpayer can claim deductions for the following expenses only when they are paid:

- general deductions – for example, stock purchases, wages and rent of business premises
- tax related expenses, and
- expenses for repairs.

If the company is registered or is required to be registered for GST, expense amounts should exclude input tax credit entitlements.

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

In addition, if another provision of the income tax law apportions or alters the assessability or deductibility of a particular type of ordinary income or general deduction, the timing rule in the specific provision overrides the received or paid rule for STS taxpayers – for example, double wool clips or prepayment of a business expense for a period greater than 12 months. Because of these specific provisions, you may need to make adjustments at item **7**. For more information about the STS accounting method, visit our website or phone the Business Infoline on **13 28 66**.

The amounts the company includes at item **6 Calculation of total profit and loss** should be based on the STS accounting method if possible. If the company's profit and loss statement does not reflect the STS accounting rules additional adjustments may need to be made at item **7**.

For more information about these adjustments, see **STS taxpayers** on page 23.

In addition to the STS cash accounting method there are also specific STS depreciation and trading stock rules. For more information, see **Depreciation expenses** on page 31 and **Closing stock** on page 50.

ALL COMPANIES (INCLUDING STS)

INCOME

Gross payments subject to foreign resident withholding

Show at **B** gross payments made to the company that were subject to foreign resident withholding. Gross payments include amounts of tax withheld.

Also include at this label amounts subject to foreign resident withholding that were distributed to the company from a partnership and/or trust.

If an amount is shown at **B** (except for distributed amounts from a partnership or trust) complete and attach a *Non-individual PAYG payment summary schedule 2005*. For instructions on completing the schedule, see **Schedules** on page 4.

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

Gross payments where ABN not quoted

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

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

- complete a *Non individual PAYG payment summary schedule 2005*. For instructions on completing the schedule, see **Schedules** on page 4.
- ensure that you show the corresponding amount of tax withheld at **W** **Credit for tax withheld where ABN not quoted** in the **Calculation statement** on page 4 of the tax return.

Other sales of goods and services

Show at **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, livestock killed for rations or exchanged for other goods or services, and gross earnings from services.

Do not include at **C**:

- any payments where tax has been withheld for failure to quote an ABN. Show these amounts at **A** **Gross payments where ABN not quoted**
- any amounts subject to foreign resident withholding. Show these amounts at **B** **Gross payments subject to foreign resident withholding**
- sales of shares and land.

Gross distribution from partnerships

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

Do not include at **D**:

- distributions subject to foreign resident withholding. Include these amounts at **B** **Gross payments subject to foreign resident withholding** item **6**

- any amount referable to Australian franking credits received indirectly from a New Zealand company through a partnership. Include these amounts at **C** **Australian franking credits from a New Zealand company** item **7**.

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

> **NOTE**
> Special rules apply if an entity is a partner in a partnership and joins a consolidated group part-way through an income year. For further information, see the *Consolidation reference manual*.

Also, show the company's share of franking credit included in the gross distribution from the partnership in the **Calculation statement** at **C** **Rebates/tax offsets**. However, if the relevant interest is not held at risk as required under the holding period and related payments rules, or there is other manipulation of the imputation system, or if the gross distribution from the partnership is exempt income or non-assessable non-exempt income (other than because of certain provisions mentioned in section 207-110 of the ITAA 1997), the company is not entitled to a franking tax offset. Do NOT show the amount of franking credit attached to these distributions at **C** **Rebates/tax offsets**.

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

To the extent that family trust distribution (FTD) tax has been paid on income received by the company from partnership(s), that amount is excluded from the assessable income of the company under section 271–105 of Schedule 2F to the ITAA 1936.

If ultimate beneficiary non-disclosure tax (UBNT) has been paid on a share of the net income of a closely held trust to which another trust is presently entitled, that income attributable to the UBNT to which the company is presently entitled or which has been distributed to the company is excluded from the assessable income of the company under sections 102UK and 102UM of the ITAA 1936.

Any losses or outgoings incurred in deriving an amount which is excluded from assessable income under section 271-105 of Schedule 2F or sections 102UK or 102UM of the ITAA 1936 are not deductible. The company cannot claim a tax offset for any franking credit attributable to the whole or a portion of a dividend that is excluded from assessable income under these provisions.

Record keeping

Keep a record of the following:
- full name of the partnership
- TFN of the partnership – if known
- amount of income
- deductible expenses relating to the amount of income that were not claimed in the partnership tax return and that are claimed on the company tax return.

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

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

Gross distribution from trusts

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

Do not include at **E**:
- distributions subject to foreign resident withholding. Include these amounts at **B** **Gross payments subject to foreign resident withholding** item **6**
- capital gains received from a trust Include these at **A** **Net capital gain** item **7**. For information on how to include a capital gain received from a trust at **A** – for example, how to gross-up a capital gain for a trust – see the *Guide to capital gains tax 2005*
- any amount referable to Australian franking credits received indirectly from a New Zealand company through a trust. Include these amounts at **C** **Australian franking credits from a New Zealand company** item **7**.

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

Also show the company's share of franking credit included in the gross distribution from the trust in the **Calculation statement** at **C** **Rebates/tax offsets**. However, if the relevant interest is not held at risk as required under the holding period and related payments rules, or there is other manipulation of the imputation system, or if the gross distribution from the trust is exempt income or non-assessable non-exempt income (other than because of certain provisions mentioned in section 207-110 of the ITAA 1997), the company is not entitled to a franking tax offset. Do NOT show the amount of franking credit attached to these distributions at **C** **Rebates/tax offsets**.

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

> **NOTE**
> Special rules apply if an entity is a beneficiary or object of a trust and joins a consolidated group partway through an income year. For further information, see the *Consolidation reference manual* on our website.

To the extent that 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 under section 271-105 of Schedule 2F to the ITAA 1936.

If UBNT has been paid on a share of the net income of a closely held trust to which another trust is presently entitled, that income attributable to the UBNT to which the company is presently entitled or which has been distributed to the company is excluded from the assessable income of the company under sections 102UK and 102UM of the ITAA 1936.

Any losses or outgoings incurred in deriving an amount which is excluded from assessable income under section 271-105 of Schedule 2F or sections 102UK or 102UM of the ITAA 1936 are not deductible. The company cannot claim a tax offset for any franking credit attributable to the whole or a portion of a dividend that is excluded from assessable income under the provisions.

Print in the CODE box the code from table 4 that best describes the type of trust for the amount of income shown at **E**. If this amount is from more than one type of trust, print the code that represents the trust with the greatest amount of income. Descriptions of the types of trusts listed in table 4 are at table 5.

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

TABLE 4

Code	Type
D	Deceased estate
F	Fixed trust – other than a fixed unit trust or a public unit trust shown at **U**, **P** or **Q**
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 5 DESCRIPTION OF TRUSTS

Fixed trust A trust in which persons have fixed entitlements – as defined in section 272-5 of Schedule 2F to the ITAA 1936 – to all of the income and capital of the trust at all times during the income year.
Hybrid trust A trust which is not a fixed trust but in which persons have fixed entitlements – as defined in section 272-5 of Schedule 2F to the ITAA 1936 – to income or capital of the trust during the income year.
Discretionary trust A trust 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 Schedule 2F to the ITAA 1936 – at all times during the income year.
Public unit trust – listed A public unit trust in which any of its units were listed for quotation in the official list of a stock exchange in Australia or elsewhere during the income year.
Public unit trust – unlisted A public unit trust in which none of its units was listed for quotation in the official list of a stock exchange in Australia or elsewhere during the income year.

Record keeping

Keep a record of the following:

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

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

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

Gross interest

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

Record keeping

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

Gross rent and other leasing and hiring income

Show at **G** the total of these types of income received. The amount at this label cannot be a loss.

Total dividends

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

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

> **!** NOTE FOR CONSOLIDATED GROUPS
> All transactions that occur between members of the consolidated group, including distributions between group members, are not recognised for income tax purposes. Do NOT include at **H** distributions between members of the same consolidated group.

Distributions from a film licensed investment company (FLIC) may be affected by section 375–872 of the ITAA 1997. This provision treats certain distributions of concessional capital (capital that was invested in a FLIC during its licence period) as franked dividends.

If you are an investor in a FLIC you may have received a notice from the company advising that it is returning to you an amount of concessional capital which, for tax purposes, is a franked dividend.

The FLIC advises you of the amount of your dividend and the franking credit.

To the extent that FTD tax has been paid on a dividend paid or credited to the company by another company which has made an interposed entity election, that amount is excluded from the assessable income of the company under section 271-105 of Schedule 2F to the ITAA 1936.

Any losses or outgoings incurred in deriving an amount which is excluded from assessable income under section 271-105 of Schedule 2F to the ITAA 1936 are not deductible and a credit or tax offset cannot be claimed by the company for any franking credit attached to the whole or portion of the dividend which is excluded from assessable income under section 271-105 of Schedule 2F to the ITAA 1936.

Record keeping

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

Fringe benefit employee contributions

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

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

> **!** NOTE FOR CONSOLIDATED GROUPS
> If you are the head company of a consolidated group, include all fringe benefit employee contributions received by you or by an entity that was a subsidiary member of the group when the contribution was received.

Assessable government industry payments

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

Show at **Q** the following assessable government industry payments:
- bounties
- diesel fuel rebate – see following
- diesel and alternative fuels grant – see following
- drought relief
- employee subsidies
- fuel grant under the energy grants credits scheme
- export incentive grants
- fuel sales grant
- cleaner fuel grants
- industry assistance grants including grants relating to research and development

- Medicare payments to medical practice companies
- product stewardship (oil) benefit.

If this amount includes a diesel fuel rebate, a diesel and alternative fuels grant or a grant under the energy grants credits scheme, print **D** in the CODE box.

> **NOTE**
>
> For more information on fuel schemes, phone **1300 657 162**

Other gross income

Show at **R** other gross income, including royalties, insurance recoveries, bad debt recoveries, life insurance premiums, subsidies and assessable non-government assistance from all sources and profit on sale of depreciating assets (including assets used for R&D purposes).

This label excludes:

- amounts included at **Income**, **B** to **Q** item **6**, and
- extraordinary items included at **Operating profit or loss**, **N** item **6**.

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 keeping

Keep a record of the following:

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

Total income

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

EXPENSES

Note:

- Show all expense amounts from the company's financial statements at **B** to **S** – see relevant item names and labels.
- Show at **B** **Foreign resident withholding expenses** all expenses that directly relate to income subject to foreign resident withholding. Do not show these amounts at other **Expenses** labels.
- Input tax credit entitlements that arise in relation to outgoings are excluded from expenses – see the information on item **6 Calculation of total profit and loss** on page 23.
- Show non-deductible expenses incurred in deriving any exempt income at the appropriate expense labels. Add back these non-deductible expenses at **U** **Non-deductible exempt income expenditure** item **7**.
- Other expenses, to the extent that they are not deductible in the 2004–05 income year, which have been included at **A** to **S** item **6**, are added back at **W** **Non-deductible expenses** item **7**.
- If the company operates on a cash basis, claim any allowable deduction for prepaid expenses under the relevant expense label.
- Gifts and donations made to an organisation are no longer tax deductible to the donor unless the organisation is endorsed by the Tax Office as a deductible gift recipient (DGR) or specifically named in the income tax law. All receipts issued for gifts by a DGR must include the name of the fund, authority or institution to which the gift has been made, the DGR's ABN and must state that the receipt is for a gift. To check whether a recipient of a gift or donation is a DGR as listed on the Australian Business Register, visit the ABR public search website hosted by the Business Entry Point at **www.abr.business.gov.au** or phone **1300 130 248**.
- Under philanthropy measures deductions are allowable for gifts of property exceeding $5,000 to certain funds, authorities and institutions. Deductions are also allowable for donations to prescribed private funds. Deductions can also be apportioned over a five-year period for gifts made to the Cultural Gifts Program, heritage or environmental organisations, or of property we value at more than $5,000.

Foreign resident withholding expenses

Show at **B** all expenses directly relating to gaining income subject to foreign resident withholding (shown at **Income**, **B** **Gross payments subject to foreign resident withholding** item **6**).

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

Cost of sales

STS taxpayers

If the company is eligible to enter or continue in the STS and has chosen to do so at item **5** it will need to know the value of its closing stock in order to calculate cost of sales. STS taxpayers only need to account for changes in the value of their trading stock in limited circumstances. These are explained on page 50. If the company does not need to account for the change in value of closing stock, its closing stock will equal its opening stock value. If the company does need to account for the change in value of closing stock, or chooses to do so, see the information on **B** **Closing stock** item **8** on page 50 for information about how to calculate the closing stock value. For further information on calculating cost of sales, read on.

All companies (including STS)

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

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

For more information on the circumstances in which packaging items held by a manufacturer, wholesaler or retailer are 'trading stock' as defined in Section 70-10 of the ITAA 1997, see Taxation Ruling TR 98/7.

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

Contractor, sub-contractor and commission expenses

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

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

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

- expenses for external labour which are incorporated into the amount shown at **A** **Cost of sales** item **6**
- expenses for accounting or legal services – these are shown at **S** **All other expenses** item **6**.

Record keeping

Keep a record of the following:

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

Employee superannuation

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

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

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

The amount of contributions that can be claimed as a deduction by an employer contributing to a resident complying superannuation fund or RSA in respect of eligible employees is limited by the age of each relevant employee.

When an employee has reached the age of 70, there is a further restriction on the deduction that can be claimed for an employer contribution to a complying superannuation fund or RSA.

For the 2004–05 income year these age based limits are as follows:

TABLE 6

Age in years	Deduction limit
under 35	$13,934
35 to 49	$38,702
50 and over*	$95,980

* For contributions made after the 28th day of the month following the employee's 70th birthday, the deduction claimable is limited to the amount of the contribution required:

- under a federal, state or territory award, or
- to meet the employer's superannuation guarantee obligation on salary or wages paid to the employee before the employee's 70th birthday.

The employee's age limit is determined at the end of the day on which the last contribution for the income year was made by the employer or an associate of the employer for the benefit of the employee.

Employer contributions paid to the Superannuation Holding Accounts Reserve (SHAR) are allowable deductions up to a limit of $1,200 per employee.

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

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

In addition, contributions made to a non-complying fund do not count towards superannuation guarantee obligations. The superannuation guarantee charge is a tax payable to the Commissioner. As such, it is not a superannuation contribution and is not tax deductible.

Contributions paid by an employer for eligible employees to a non-complying superannuation fund are fringe benefits – other than where the contributions are made for an exempt visitor – and may be subject to tax under the *Fringe Benefits Tax Assessment Act 1986*.

Consolidated groups

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

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

Bad debts

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

Please note:

- Show recovery of bad debts at **Income**, **R** **Other gross income** item **6**.
- 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 – see section 25-35(1) of the ITAA 1997.
- Do not include accounting provisions for doubtful debts at **E**. Show these at **Expenses**, **S** **All other expenses** item **6** and add them back at **W** **Non-deductible expenses** item **7**.
- Before a bad debt can be claimed, it must be bad and not merely doubtful. The deduction depends on the facts in each case and, where applicable, the action taken for recovery. For more information, see Taxation Ruling TR 92/18.

A deduction can also be claimed for:

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

If the taxpayer is not in the business of lending money, the deduction is limited to the amount of the debt included in assessable income.

A deduction for a bad debt or loss on a debt for equity swap is only allowable if the company claiming the deduction can satisfy either:

- a continuity of ownership test from the date on which the debt was incurred through to the end of the income year in which it writes off the debt – see Subdivision 165-C of the ITAA 1997, or
- the same business test – see Subdivision 165-E of the ITAA 1997. For the operation of this test, see Taxation Ruling TR 1999/9.

The continuity of ownership test is subject to the following provisions of the ITAA 1997:

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

The provisions of Subdivision 165-C of the 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 1 on page 75.

Record keeping

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

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

Lease expenses within Australia

Show at **F** the expenditure incurred through both financial and operating leases on leasing assets – motor vehicles and depreciating assets such as plant. Do not include the cost of leasing real estate.

Expenses incurred under a hire purchase agreement are not lease expenses. Such expenses are referred to in appendix 7 on page 83.

Lease expenses overseas

Show at **I** the lease expenses incurred through both finance and operating leases on leasing depreciating assets – including motor vehicles. Exclude the cost of leasing real estate and expenditure on items other than depreciating assets leased from non-residents.

Record keeping

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

- a description of the items leased
- where applicable the country from which the items were leased
- full particulars of the lease expenses for each item of property – including motor vehicles – showing:
  - to whom the payments were made
  - where applicable the country to which the payments were made
  - the terms of the payments including details of any prepayments, or deferred payments
  - if any assignment, defeasance or re-direction to pay the payments were entered into, full particulars of those arrangements, including to whom the payments were made

– details of any use other than for producing assessable income
– any documentation on or relating to the lease of the item.

Rent expenses

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

Interest expenses within Australia

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

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

For information on thin capitalisation, see appendix 3 on page 80.

Interest expenses overseas

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

An amount of tax – withholding tax – is generally withheld from interest paid or payable to non-residents and to overseas branches of residents. The company must remit these amounts of withholding tax to the Tax Office.

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

For information on thin capitalisation, see appendix 3 on page 80

Record keeping

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

- name and address of recipient(s)
- amount of interest paid or credited
- amount of withholding tax withheld and the date on which it was remitted to the Tax Office.

Royalty expenses within Australia

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

Record keeping

Keep a record of 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 withheld where applicable and the date on which it was remitted to the Tax Office.

Royalty expenses overseas

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

An amount of tax – withholding tax – is generally withheld from royalties paid or payable to non-residents and to overseas branches of residents, and must be remitted to the Tax Office. For more information, phone the Business Infoline on **13 28 66**.

Record keeping

Keep a record of the following:

- name and address of recipient(s)
- amounts paid or credited
- nature of the benefit derived – for example, a copy of the royalty agreement
- details of tax withheld where applicable and the date on which it was remitted to the Tax Office.

Depreciation expenses

If the company is eligible to enter or continue in the STS and has chosen to do so at item **5**, see **STS taxpayers** on page 32. Otherwise see **Non-STS taxpayers** following.

Non-STS taxpayers

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

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

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

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

Show the deduction for decline in value of most depreciating assets at **F Deduction for decline in value of depreciating assets** item **7**. If a depreciating asset is subject to the R&D tax concession, show the deduction for its decline in value at **L R&D tax concession – not including label M** item **7**.

> **NOTE**
> If the company has included an amount greater than $15,000 at **X**, complete and attach a *Capital allowances schedule 2005* unless it is exiting from the STS at item 5 or has previously exited from the STS, and the amount at **X** relates entirely to STS depreciating assets. For more information, see the *Capital allowances schedule instructions 2005.*

If the company is exiting the STS or has previously exited the STS, and is continuing to claim a deduction for any prior STS pool at **X Depreciation expenses**, you will also need to print in the CODE box at **X** the appropriate code from the following table.

TABLE 7

Code	Type of depreciation expense
S	The amount at **X** relates entirely to STS depreciating assets. Do not complete a *Capital allowances schedule 2005*.
M	The amount at **X** relates to both STS depreciating assets and to UCA items. You will need to complete and attach a *Capital allowances schedule 2005* if the total amount at **X** exceeds $15,000.
In all other cases leave the CODE box blank.	

NOTE

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

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

STS taxpayers

Show at **X Depreciation expenses** the total depreciation deductions being claimed under the STS depreciation (capital allowance) rules and the UCA rules. The company does NOT need to complete a capital allowances schedule.

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

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

Some depreciating assets are excluded from the STS rules but a deduction may be available under the UCA or the R&D depreciating asset regime. For more information about the STS depreciation rules, see *The simplified tax system – a guide for tax agents and small businesses* (NAT 6459), visit our website or phone the Business Infoline on **13 28 66**.

Calculating depreciation deductions for STS taxpayers

Only use steps 1 to 5 following to calculate the depreciation deductions if the company is eligible to enter or continue in the STS and has chosen to do so at item **5**.

If the company's profit and loss statement provides the amounts to complete table 8 on page 34, write these amounts in the table. Otherwise, use steps 1 to 5 to calculate its depreciation deductions.

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

Step 1 Low-cost assets

For each depreciating asset:

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

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

Asset's adjustable value multiplied by its taxable purpose proportion

The adjustable value of an asset is its cost less its decline in value since it was first used (or installed ready for use) for any purpose. The adjustable value of an asset, at the time it was first used (or installed ready for use) for a taxable purpose, will be its cost unless the asset was previously used (or installed ready for use) by the company solely for non-taxable purposes. For example, for a tool set bought on 1 December 2004 at a cost of $800 (excluding input tax credit entitlements) and used for producing assessable income from that date at an estimated 70% of the time, the immediate deduction would be $800 x 70% = $560.

Add up these results and write the total at (a) in table 8 on page 34.

Do NOT include in this calculation amounts for depreciating assets the company started to hold prior to entering the STS and that cost less than $1,000. These assets are allocated to an STS pool (see step 2).

Step 2 STS pool deductions

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

For a company that is continuing in the STS, the opening pool balance of each STS pool is the closing pool balance for the 2003–04 income year, except where an adjustment is made to reflect the changed business use of a pooled asset.

For a company that is entering the STS, allocate each depreciating asset it holds at the start of the income year to the appropriate pool according to the asset's effective life. Only include the taxable purpose proportion of the adjustable value of each depreciating asset.

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

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

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

Calculate the deduction for each STS pool and complete as follows:

General STS pool deduction:	
	Opening pool balance $ x 30%
	Insert the result at (b) in table 8.
Long life STS pool deduction:	
	Opening pool balance $ x 5%
	Insert the result at (c) in table 8.

NOTE

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

Step 3 Depreciating assets first used for a taxable purpose during the income year and improvements made to assets already allocated to a pool

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

- depreciating assets that the company first used or installed ready for use for a taxable purpose during the year, and
- improvements made during the year to assets already allocated to an STS pool.

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

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

Insert the total deduction for general STS pool assets at (d) in table 8.

Insert the total deduction for long life STS pool assets at (e) in table 8.

NOTE

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

Step 4 Other depreciating assets

Calculate the deduction for the decline in value of all the other depreciating assets of the company that are not included in steps 1 to 3. See the *Guide to depreciating assets 2005* for information on how to calculate the decline in value of these assets.

Insert the company's total deduction at (f) in table 8.

Do NOT include at (f) in table 8 depreciating assets which qualify for a deduction under Subdivision 40-F or 40-G of the ITAA 1997 as water facilities or landcare operations in the company's primary production business and for which the company has chosen to claim a deduction under these subdivisions and not the STS rules. Show these deductions at **N Landcare operations and deduction for decline in value of water facility** item **7**.

Step 5 Disposal of depreciating assets

(a) Low-cost assets

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

(b) Assets allocated to STS pools

If the company disposes of depreciating assets that have been allocated to either the general or long life STS pools, the taxable purpose proportion of the termination value is deducted from the closing pool balance. For example, for a pooled depreciating asset used only 50% for an

income-producing purpose which was sold for $3,000 (excluding GST), only $1,500 will be deducted from the closing pool balance.

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

Write this deduction against the appropriate pool at (b) or (c) in table 8.

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

(c) Other depreciating assets

See the *Guide to depreciating assets 2005* for information on how to calculate any balancing adjustment amounts on the disposal of other depreciating assets.

Include assessable balancing adjustment amounts at **B** **Other assessable income** item **7**. Include deductible balancing adjustment amounts at **X** **Other deductible expenses** item **7**. See worksheet 1 on pages 72–74.

TABLE 8 DEPRECIATION DEDUCTIONS (STS TAXPAYERS ONLY)

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

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

Transfer the amount at (a) to **A** **Deduction for low-cost assets** item **9**

Transfer the total of the amounts at (b) and (d) to **B** **Deduction for general pool assets** item **9**

Transfer the total of the amounts at (c) and (e) to **C** **Deduction for long life pool assets** item **9**.

Closing pool balance

The closing balance of each STS pool for an income year is the sum of:

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

If the company's closing pool balance is less than zero (**0**) see step 5(b).

The closing pool balance for this year becomes the opening pool balance for the 2005–06 income year except where an adjustment is made to reflect the changed business use of a pooled asset.

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

Motor vehicle expenses

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

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

Repairs and maintenance

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

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

Provided it is not expenditure of a capital nature, the company may deduct the cost of repairs to property, plant, machinery or equipment used for producing assessable income or in carrying on a business for that purpose. Expenditure on repairs to property used partially for business or income-producing purposes – for example, where the property is also used for private purposes, or in the production of exempt income – is deductible only to the extent that is reasonable in the circumstances.

If items are newly acquired, including by way of a legacy or gift, the cost of remedying defects in existence at the time

of acquisition is generally of a capital nature. Expenditure incurred in making alterations, additions or improvements is of a capital nature and is not deductible.

For more information on deductions for repairs, see Taxation Ruling TR 97/23.

All other expenses

Show at **S** the total of all other expenses for the 2004–05 income year which have not been included at **B** to **Z** item **6**. Also show losses on the disposal of depreciating assets (including assets used for R&D purposes) at **S**.

Calculation of some deductions may be affected by the commercial debt forgiveness provisions – see appendix 1 on page 75.

Total expenses

Show at **Q** the total of all expense items shown at **B** to **S** item **6**.

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

OPERATING PROFIT OR LOSS

Calculate the amount at **R** by subtracting **Q** **Total expenses** from **S** **Total income**.

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

Extraordinary items are excluded from **R**. Show these at **Operating profit or loss**, **N** **Extraordinary revenue or expenses** item **6**.

Extraordinary revenue or expenses

Show at **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 and that are not of a recurring nature.

If this amount is a loss, print **L** in the box at the right of the amount shown at **N**. If an accounting capital gain or capital loss has resulted from an extraordinary item, show the net amount at **N**.

Please note:

- Adjustments for tax purposes are made at item **7**.
- An extraordinary loss is added back at **W** **Non-deductible expenses** item **7**.
- An extraordinary gain is added back at **Q** **Other income not included in assessable income** item **7**.
- Any net domestic and foreign sourced capital gain for taxation purposes is shown at **A** **Net capital gain** item **7**.
- Any net domestic and foreign capital loss is included with any unapplied capital losses carried forward to later income years and is shown at **V** **Net capital losses carried forward to later income years** item **10**.

Total profit or loss

Show at **T** the total profit or loss of the company. Total profit or loss is the amount shown at **Operating profit or loss**, **R** item **6** plus or minus the amount at, **N** **Extraordinary revenue or expenses** item **6**. If this amount is a loss, print **L** in the box at the right of the amount at **T**.

7 RECONCILIATION TO TAXABLE INCOME OR LOSS

The items under this heading are the adjustments for tax purposes to reconcile the amount at **Operating profit or loss**, **T** **Total profit or loss** item **6** with **T** **Taxable income or loss** item **7**. Worksheet 1 on pages 72–74 will assist with the calculations.

STS taxpayers

If the company is eligible to enter or continue in the STS and has chosen to do so at item **5**, you may need to make additional adjustments.

STS taxpayers must use the STS accounting method.

This accounting method only recognises most income when received and most expenses when paid. More information about the STS accounting method can be obtained by phoning the Business Infoline on **13 28 66**.

Make adjustments at item **7** if:

- the amounts the company has shown at the **Income and Expenses** sections of item **6** **Calculation of total profit and loss** are not based on the STS accounting method, or
- the company's accounting method has not taken into account adjustments necessary when it enters the STS, or
- the company has disposed of depreciating assets during the year.

These adjustments are explained in more detail below. Worksheet 1 on pages 72–74 will assist with the calculations.

Trade debtors and creditors as at 30 June 2005

If the company has included at any **Income** labels at item **6** amounts of ordinary income that have been derived but not received in the 2004–05 income year, the amounts not received are not assessable under the STS rules this year – for example, trade debtors as at 30 June 2005.

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

If the company has included at any **Expenses** labels at item **6** amounts of general deductions, repairs or tax-related expenses that have been incurred but not paid in the 2004–05 income year, the amounts not paid are not deductible under the STS rules this year – for example, trade creditors as at 30 June 2005.

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

Adjustments when entering the STS

If the company has included at any **Income** labels at item **6** amounts of ordinary income received in 2004–05 that have been included in a previous year's assessable income, these amounts are not assessable again under the STS rules – for example, trade debtors as at 30 June 2004.

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

If the company has included at any **Expenses** labels at item **6** amounts for general deductions, repairs and tax-related expenses that have been deducted in a previous year, these amounts are not deducted again under the STS rules – for example, trade creditors as at 30 June 2004.

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

Disposal of depreciating assets

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

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

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

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

Include at **W** **Non-deductible expenses** item **7** any loss on sale of depreciating assets included at **S** **All other expenses** item **6**. See worksheet 1 on pages 72–74.

Prepaid expenses

STS taxpayers are entitled to an immediate deduction for prepaid expenses if the expenditure is incurred for a period of service not exceeding 12 months and the eligible service period ends on or before the last day of the next year of income. If the eligible service period is more than 12 months, or ends after the next year of income, apportion the deduction for the expenditure over the eligible service period or 10 years, whichever is less. The immediate deduction under this 12 month rule does not apply to expenditure incurred under a tax shelter agreement except where it is for certain expenditure incurred under a plantation forestry managed agreement. For more information, see *Deductions for prepaid expenses* (NAT 4170–6.2005). If expense labels include prepaid expenses that differ from the amounts allowable as deductions in the 2004–05 income year, include the reconciliation adjustment at **W** **Non-deductible expenses** item **7** or **X** **Other deductible expenses** item **7** as required. See worksheet 1 on pages 72–74.

Non-STS taxpayers

Did you exit from the STS this year?

If the company has exited from the STS this year and has not included at any **Income** labels at item **6** amounts of ordinary income that were derived but not received while in the STS, these amounts are assessable this year – for example, trade debtors as at 30 June 2004.

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

If the company has exited from the STS this year and has not included at any **Expenses** labels at item **6** amounts of general deductions, repairs or tax-related expenses that were incurred but not paid while in the STS, these amounts are deductible this year – for example, trade creditors as at 30 June 2004.

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

Worksheet 1 on pages 72–74 will assist with the calculations.

ALL COMPANIES (INCLUDING STS)

Did you have a CGT event or receive a capital gain from a trust during the year?

If the company had a CGT event happen during the income year, or if the company received a distribution of a capital gain from a trust, print **Y** for yes at **G** item **7**. Otherwise print **N** for no.

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

An Australian resident company makes a capital gain or capital loss if a CGT event happens to any of its worldwide CGT assets. A company that is not an Australian resident makes a capital gain or capital loss, generally speaking, if a CGT event happens to any of its CGT assets which have the necessary connection with Australia just before the CGT event happens.

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

For more information about CGT events, see the *Guide to capital gains tax 2005*.

The *Guide to capital gains tax* includes:

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

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

However, if the company has:

- total current year capital gains for the income year greater than $10,000, or
- total current year capital losses for the income year greater than $10,000

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

Consolidated groups

Transfers of assets between members of the same consolidated group are not recognised for the members' income tax purposes.

ADD-BACK ITEMS

Add the following items to Operating profit or loss, **T** **Total profit or loss** item **6**.

Net capital gain

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

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

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

- the small business 50% active asset reduction
- the small business retirement exemption, and
- the small business rollover relief.

A company is not eligible for the CGT discount.

Include any net capital loss with any unapplied net capital losses carried forward to later income years and record it at **V** **Net capital losses carried forward to later income years** item **10**.

For more information about capital gains tax, see the *Guide to capital gains tax 2005*. For information regarding the small business concessions, see the *Guide to capital gains tax concessions for small business* (NAT 8384).

> **NOTE**
> The company may need to complete a *Losses schedule 2005*. For more information, see the *Losses schedule instructions 2005*.

Non-deductible exempt income expenditure

Show at **U** any expenditure incurred in deriving exempt income shown at **V** **Exempt income** item **7**. Do not include expenditure incurred in deriving exempt income from retirement savings accounts (RSAs) and expenditure allowed by section 25–90 of the ITAA 1997.

Franking credits

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

Do NOT include franking credits attached to:

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

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

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

For example:

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

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

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

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

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

For most companies the amount of franking credits included at **J** is allowable as a tax offset and should be claimed in the **Calculation statement** at **C Rebates/tax offsets**. If the company is a life insurance company or organisation entitled to claim a refund of excess franking credits, claim the refundable amount in the **Calculation statement** at **Z Other refundable credits**, not **C**.

Australian franking credits from a New Zealand company

Show at **C** amounts of Australian franking credits from a New Zealand company that are included in assessable income because of a franked dividend paid to the company by a New Zealand company or because of its receipt indirectly through a partnership or trust. To work out whether the dividend is included in assessable income, see the *Foreign income return form guide*.

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

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

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

For most companies the amount of **Australian franking credits** included at **C** is allowable as a tax offset and should be claimed in the **Calculation statement** at **C Rebates/tax offsets**. If the company is a life insurance company or organisation entitled to claim a refund of excess franking credits, claim the refundable amount in the **Calculation statement** at **Z Other refundable credits**.

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

Other assessable income

Show at **B** amounts which form part of assessable income if you have not included them as income at item **6** or at item **7** at **A Net capital gain**, **J Franking credits** or **C Australian franking credits from a New Zealand company** – for example, attributed foreign income of a CFC, and timing adjustments such as that which reconciles interest receivable to assessable interest income. For more examples of specific items, see the list of items in worksheet 1 on pages 72–74.

The following items are shown at **B**:

- assessable balancing adjustment amounts for non-R&D assets. (Assessable balancing adjustment amounts for assets used in R&D activities are taken into account at **L R&D tax concession** – **not including label M** item **7**. See page 41.)
  If the company ceases to hold or to use a depreciating asset, a balancing adjustment event occurs. For assets subject to the STS rules, including those where the company has exited the STS, see step 5 on page 33. For assets not subject to the STS rules, calculate a balancing adjustment amount to include in the company's assessable income or to claim as a deduction. If the asset was used for both taxable and non-taxable purposes, reduce the balancing adjustment amount by the amount attributable to the non-taxable use. A capital gain or capital loss amount may arise attributable to that non-taxable use. For more information, see the *Guide to depreciating assets 2005*.
- the company's share of a deduction in respect of a 'LIC capital gain amount' if it receives a distribution from a partnership or trust which claimed a deduction in respect of a LIC capital gain amount – see section 115-280 of the ITAA 1997. There is an exception for life insurance companies. For more information, see the information on item **13 Life insurance companies and friendly societies only** on page 60.
- the excess of the company's foreign sourced income and attributed foreign income for taxation purposes over income from such sources shown in the accounts – see section 6AB of the ITAA 1936. Gross up foreign sourced income by the amount of foreign tax paid – see section 6AC of the ITAA 1936. Show any add-back or subtraction adjustment to expenses claimed against such income separately at **W Non-deductible expenses** item **7** or at **X Other deductible expenses** item **7**.
- assessable foreign exchange gains to the extent that they have not been included in item **6** or in any other label of item **7**. See **Foreign exchange (forex) gains and losses** on page 12 for more information.
- excessive deductions for capital allowances that are to be included in assessable income under the limited recourse debt rules contained in Division 243 of the ITAA 1997. This will occur where:
  - expenditure on property has been financed or re-financed wholly or partly by limited recourse debt,
  - the limited recourse debt is terminated after 27 February 1998 but has not been paid in full by the debtor, and

  – because the debt has not been paid in full, the capital allowance deductions allowed for the expenditure exceed the deductions that would be allowable if the unpaid amount of the debt was not counted as capital expenditure of the taxpayer. Special rules apply in working out whether the debt has been fully paid.

  Limited recourse debt is a debt where the rights of the creditor as against the debtor in the event of default in payment of the debt or of interest are limited wholly or predominantly to the property that has been financed by the debt, or is security for the debt, or rights in relation to such property. A debt is also limited recourse debt if, notwithstanding that there may be no specific conditions to that effect, it is reasonable to conclude that the creditor's rights as against the debtor are capable of being so limited. Limited recourse debt includes a notional loan under a hire purchase or instalment sale agreement of goods to which Division 240 of the ITAA 1997 applies. See section 243-20 of the ITAA 1997.

- amounts assessable under Division 45 of the ITAA 1997. Broadly, if a taxpayer holds plant which has been used principally for leasing and some part of the lease period occurred on or after 22 February 1999, Division 45 and related amendments may apply from that date to include an amount in the assessable income of the taxpayer upon disposal of such plant, or an interest in the plant, or an interest in, or rights under, a lease of the plant.

  Similar tax consequences arise for a partner in a partnership if the partnership holds plant which has been used principally for leasing and some part of the lease period occurred on or after 22 February 1999 – see sections 45-5 and 45-10 of the ITAA 1997.

  When more than 50% direct or indirect beneficial ownership in the shares of a subsidiary of a wholly owned company group is acquired on or after 22 February 1999 by an entity or entities, none of which is a member of the wholly owned group, the subsidiary is treated under Division 45 as if it had disposed of and immediately reacquired plant it holds, if the plant has been used principally for leasing and some part of the lease period occurred on or after 22 February 1999 and, at that acquisition time, the plant's written down value is less than the plant's market value. This treatment does not apply if the main business of each acquiring entity is the same as the main business of the wholly owned group immediately before the relevant acquisition – see section 45-15 of the ITAA 1997. Similar tax consequences arise if the subsidiary is a partner in a leasing partnership – see section 45-20 of the ITAA 1997.

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

  Transitional provisions modify the operation of Division 45 for the period from 22 February 1999 to 11.45am by legal time in the Australian Capital Territory on 21 September 1999.

Non-deductible expenses

Show at **W** expense related adjustments that are added back to the amount shown at **T** **Total profit or loss** item **6** to reconcile with the amount shown at **T** **Taxable income or loss** item **7**.

The amount shown at **W** excludes:

- any amount shown at item **7** **U** **Non-deductible exempt income expenditure**, and
- any amount shown at **D** **Accounting expenditure in item 6 subject to R&D tax concession** item **7**.

Generally, **W** shows the amounts that are an expense for accounting purposes but are not deductible for income tax purposes, including timing variations. Examples are debt deductions disallowed under the thin capitalisation rules or expenses incurred in deriving non-assessable non-exempt income such as foreign income that is non-assessable non-exempt income under sections 23AH or 23AJ of the ITAA 1936.

Another example, to the extent that it is an expense for accounting purposes, and therefore taken into account in determining total profit and loss, is a non-share dividend, which is not deductible for income tax purposes. For more examples of specific items, see worksheet 1 on pages 72–74.

If a foreign exchange loss for accounting purposes, included in item **6**, exceeds the deductible forex loss, show the difference at **W**. See **Foreign exchange (forex) gains and losses** on page 12 for more information.

If foreign sourced income expenses for accounting purposes exceed allowable deductions for income tax purposes, show the excess at **W**.

> **NOTE**
> Most debt deductions incurred in the derivation of assessable foreign income are not subject to the foreign loss quarantining provisions and so they would not be included. An exception would be debt deductions attributable to an overseas permanent establishment, which are still subject to the foreign loss quarantining provisions. For more information, see the *Guide to thin capitalisation*, available on our website

If Australian and foreign sourced capital losses for accounting purposes are included at **Expenses**, **S** **All other expenses** item **6** or **Operating profit or loss**, **N** **Extraordinary revenue or expenses** item **6**, show them also at **W**. For Australian taxation purposes, include any net capital loss with any unapplied capital losses carried forward to later income years and show it at **V** **Net capital losses carried forward to later income years** item **10**.

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

Show at **D** the expense amounts included at item **6** **Calculation of total profit or loss**, which relate to amounts that are subject to the R&D tax concession provisions. Generally, these amounts include expense

amounts for accounting purposes, related to R&D activities, for which different amounts will be claimed for income tax purposes. If no expense amounts relating to R&D deductions have been included at item **6** (for example, amounts are capitalised) enter a zero at **D**.

The amount shown at **D** on the company tax return must be the same as the amount shown at **D Write-back of R&D accounting expenditure** under the heading **Preliminary calculation** on the *Research and development tax concession schedule 2005*.

Subtotal

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

SUBTRACTION ITEMS

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

Section 46FA deduction for flow-on dividends

Show at **C** any amounts claimed as a deduction during the 2004–05 income year that are deductible under section 46FA of the ITAA 1936.

This deduction is allowable in certain cases for an on-payment of unfranked non-portfolio dividend by a resident company to its non-resident parent.

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

Deduction for decline in value of depreciating assets

If the company is not an STS taxpayer, show the deduction for decline in value of most depreciating assets for taxation purposes at **F**.

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

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

Include the deduction for decline in value of R&D depreciating assets which is subject to the R&D tax concession at **L R&D tax concession – not including label M** item **7**.

Show the decline in value of water facilities at **N Landcare operations and deduction for decline in value of water facility** item **7**.

For information about how to work out deductions for decline in value, see appendix 7.

If the company is an STS taxpayer, show deductions for depreciating assets at **X Depreciation expenses** item **6**.

> **NOTE**
> If the company has included an amount greater than $15,000 at **F**, complete and attach a *Capital allowances schedule 2005* unless it is eligible to enter or continue in the STS and has chosen to do so at item **5**. For more information, see the *Capital allowances schedule instructions 2005*.

> **NOTE**
> Our Practice Statement PS LA 2003/8 provides guidance on two straightforward methods taxpayers carrying on a business can use to help them determine whether expenditure incurred to acquire certain low-cost assets is to be treated as revenue or capital.
>
> Subject to certain qualifications, the two methods cover expenditure below a threshold and the use of statistical sampling to estimate total revenue expenditure on low cost items. Under the threshold rule, low cost items with a typically short life costing $100 or less are assumed to be revenue in nature and are immediately deductible. The sampling rule allows taxpayers with a low-value pool to use statistical sampling to determine the proportion of the total purchases on low cost tangible assets that are revenue expenditure.

Immediate deduction for capital expenditure

Companies in the mining, petroleum and quarrying industries show at **E** the total amount of capital expenditure (other than on depreciating assets) claimed as an immediate deduction for:

- exploration and prospecting
- rehabilitation of mining or quarrying sites, and
- paying petroleum resource rent tax.

For more information about these deductions, see the *Guide to depreciating assets 2005*.

Deduction for project pool

Show at **H** the total amount of the company's deductions for project pools.

If a project is abandoned, sold or otherwise disposed of the company can deduct the project pool value at that time. Include this deduction at **H**.

Show the expenditure allocated to the project pool for the income year at **W Non-deductible expenses** item **7** to the extent that it has been included as an expense at item **6**.

For more information about project pools, see appendix 7 on page 83.

> **NOTE**
> If the company has included an amount greater than $1,000 at **H**, complete and attach a *Capital allowances schedule 2005* unless it is eligible to enter or continue in the STS and has chosen to do so at item **5**. For more information, see the *Capital allowances schedule instructions 2005*.

Capital works deductions

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

For more information on capital works deductions, see appendix 2 on page 78. Commercial debt forgiveness provisions may affect the calculation of some deductions – see appendix 1 on page 75.

Section 40-880 deduction

Show at **Z** the total of the company's deductions allowable under section 40-880 of the ITAA 1997.

The expenditure deductible under section 40-880 must be shown at **W** **Non-deductible expenses** item **7** to the extent that it has been included as an expense at item **6**.

For information about section 40-880 deductions, see appendix 7 on page 83.

R&D tax concession – not including label M

To complete and claim at:

- **D** **Accounting expenditure** in item **6** subject to R&D tax concession item **7**
- **L** **R&D tax concession – not including label M** item **7**
- **M** **Incremental R&D (additional 50%) deduction** item **7**
- **Y** **R&D tax offset, if chosen** item **7**

companies must meet the annual registration requirements under the *Industry, Research and Development Act 1986*. Companies choosing to claim the R&D tax offset must be registered at the time they make this choice. The R&D tax offset is subject to the refundable tax offset rules. The offset directly reduces tax payable by a company. If the amount of the offset exceeds the amount of tax that the company would otherwise have to pay, then the excess is refundable.

Companies claiming an R&D tax concession amount must complete the *Research and development tax concession schedule 2005*. For further information, see **Schedules** on page 4 and the *Research and development tax concession schedule instructions 2005*.

Show at **L** **R&D tax concession – not including label M** the amount of the R&D concession claim calculated at **L** **Total claim (including concession)** in part A, item **17** of the *Research and development tax concession schedule 2005*. The amount shown at **L** item **7** on the company tax return must be the same as the amount shown at **L** on the research and development tax concession schedule. If this amount is negative, print code **L** in the box at the right of **L** item **7**. A negative amount may arise from profits on disposal or assessable balancing adjustment amounts occurring in relation to R&D depreciating assets.

> **NOTE**
> The syndicated research and development label has been removed from the company tax return. Do not claim interest incurred as a syndicate member after the cessation of the R&D syndicate program at **L** item **7** or **M** **Incremental R&D (additional 50%) deduction** item **7**.

Incremental R&D (additional 50%) deduction

Show at **M** the amount of the R&D increment claim calculated at **M** **R&D incremental concession** in part D, item **2** of the *Research and development tax concession schedule 2005*. The amount shown at **M** item **7** on the company tax return must be the same as the amount shown at **M** on the research and development tax concession schedule.

In the box at the right of **M** print code **G** if the company is a grouped taxpayer in accordance with the grouping rules in section 73L of the ITAA 1936 and another taxpayer in the same group is also claiming the additional 50% deduction.

Landcare operations and deduction for decline in value of water facility

Show at **N** the company's total deductions for landcare operations expenses and for water facilities.

Do not include the deduction for the decline in value of water facilities at **F** **Deduction for decline in value of depreciating assets** item **7**.

The expenditure on landcare operations and water facilities must be shown at **W** **Non-deductible expenses** item **7** to the extent that it has been included as an expense at item **6**.

For information about deductions for landcare operations and water facilities, see appendix 7 on page 83.

Deduction for environmental protection expenses

Show at **O** the amount of allowable expenditure on environmental protection activities.

The deductible expenditure on environmental protection activities must also be shown at **W** **Non-deductible expenses** item **7** to the extent that it has been included as an expense at item **6**.

For information about deductions for expenditure on environmental protection activities, see appendix 7 on page 83.

Offshore banking unit adjustment

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

Subject to certain exceptions, an OBU is effectively taxed at the rate of 10% on income derived from offshore banking (OB) activities. In calculating an OBU's total income for the year, show gross income from OB activities at **R Other gross income** item **6**.

Show total expenses from OB activities at **S All other expenses** item **6**.

You do not need to separate gross income or total expenses from OB activities into the various income and expenses categories that appear at item **6**. These categories only apply to income and expenses that do not relate to OB activities.

To get the effective 10% tax rate on OB activity income, section 121EG of the ITAA 1936 reduces the assessable income and allowable deductions from OB activities so that an OBU's taxable income includes only the 'eligible fraction', currently 10/30, of its net income from OB activities.

Calculation of the offshore banking unit adjustment

P ensures that the net income from OB activities is taxed at an effective tax rate of 10%. Show at **P** the difference between the OBU's net income from OB activities and the eligible fraction:

P = Net OB income – (net OB income x eligible fraction)

When the amount shown at **P** is deducted from the OBU's total profit, this results in only the eligible fraction shown at **T Taxable income or loss** item **7**. This is illustrated in the following examples:

EXAMPLE 5

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

	Relating to OB activities	Relating to non-OB activities	Total activities
	$	$	$
Income interest	200	400	600
Rent	–	500	500
Dividends	100	400	500
Total income	300	1,300	1,600
Expenses			
Rent expenses	–	600	600
Interest (within Australia)	200	300	500
Total expenses	200	900	1,100
Net profit	**100**	**400**	**500**

Complete item **6** as follows:

Income		**$**
Gross interest	F	400
Gross rent and other leasing and hiring income	G	500
Total dividends	H	400
Other gross income	R	300
Total income	S	1,600
Expenses		
Rent expenses	H	600
Interest expenses within Australia	V	300
All other expenses	S	200
Total expenses	Q	1,100
Total profit or loss	T	**500**

If this company was not an OBU the amount of tax payable at 30% on a taxable income of $500 is $150. However, because the company is an OBU, it is entitled to an effective 10% tax rate on its net profit of $100 from OB activities. This is achieved by recording at **P** the untaxed proportion of the net profit from OB activities which, in this example, is calculated as follows:

P	=	net OB income – (net OB income x eligible fraction)
	=	$100 – (100 x 10/30)
	=	$67 (amount shown at item **7**)

The eligible fraction is, therefore, $33 and is the only part of the net profit from OB activities shown at **P Taxable income or loss** item **7**.

Item **7** in this example contains the following entries:

Total profit or loss amount shown at **T**	$500
Less:	
Offshore banking unit adjustment at **P**	$67
Taxable income or loss at **T**	$433
The tax payable at 30% on a taxable income of $433 is $130, which is the same as the total of the tax payable on:	
Taxable non-OBU activity income of $400 at 30%	$120
Add:	
Taxable OBU activity income of $100 at 10%	$10
Tax payable	$130

OBU losses

Do not use **P** to record a loss from OBU activities.

If a loss is incurred, make the adjustment at **W Non-deductible expenses** item **7** to ensure that the company is taxed at the correct rate.

The adjustment is made by inserting the following amount at **W**:

Net OB Loss – (net OB loss x eligible fraction)

EXAMPLE 6

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	1,300	1,500
Expenses	300	900	1,200
Net income	(100)	400	300

Although the company's net income is $300, its taxable income is actually $367. This is because only 10/30 – the eligible fraction – of the income and expenses from OB activities is taken into account in calculating an OBU's taxable income – that is:

Net income from non-OB activities		$400
Less:		
Loss from OB activities (100 x 10/30)		$(33)
Taxable income		$367
W =	Net OB loss – (net OB loss x eligible fraction)	
=	$100 – (100 x 10/30)	
=	$67	

In this example, the company tax return would show the following entries:

Item **6**	Total income **S**	$1,500
	Total expenses **Q**	$1,200
	Total profit/loss **T**	$300
Add:		
Item **7**	Non-deductible expenses **W**	$67
	Taxable income or loss **T**	$367

For more information on the taxation of OBUs, see Taxation Determinations TD 93/202 to 93/217, TD 93/241, TD 95/1 and 95/2.

Exempt income

Show at **V** all income that is exempt from Australian tax.

Do not show at **V** amounts that are not assessable income and not exempt income – for example, any foreign income amounts that are treated as non-assessable non-exempt income under section 23AH, 23AI, 23AJ, 23AK or 99B(2A) of the ITAA 1936. Show these amounts at **Q Other income not included in assessable income** item **7**.

Do not show at **V** income exempt under an RSA. Show exempt income from RSAs at **S Exempt income from RSAs** item **15**.

Other income not included in assessable income

Show at **Q** income related adjustments that have to be subtracted from **T Total profit or loss** item **6** to reconcile with **T Taxable income or loss** item **7**. Do not show again amounts included at **C** to **V** item **7** here.

Generally the amounts that are included at **Q** are income for accounting purposes but not assessable for income tax purposes – for example, non-taxable OBU income.

Show exempt income separately at **V Exempt income** item **7**. For more examples of specific items, see worksheet 1 on pages 72–74.

Include the following items at **Q**:

- Any excess of gross foreign source income, shown in the income labels at item **6**, over the amount which represents assessable income. In calculating the excess, include dividends and other amounts that are not assessable because of Sections 23AH, 23AI, 23AJ, 23AK and 99B(2A) of the ITAA 1936. Note that you must attach a *Schedule 25A 2005* if the company received dividends or other amounts covered by any of these provisions.
- Other amounts of non-assessable non-exempt income (do not include demerger dividends or other amounts not shown at item **6**).
- Profits on disposal of assets used in R&D activities.
- Australian and foreign sourced capital gains for accounting purposes which have been included at **R Other gross income** item **6** or **N Extraordinary revenue or expenses** item **6**. For Australian taxation purposes, include any net capital gain at **A Net capital gain** item **7**.
- Any excess of a foreign exchange gain for accounting purposes, included at item **6**, over the assessable forex gain. See **Foreign exchange (forex) gains and losses** on page 12 for more information on the forex measures.

Other deductible expenses

Show at **X** expense related adjustments that are subtracted from **T Total profit or loss** item **6** to reconcile with **T Taxable income or loss** item **7**. Do not show items included under **C** to **P** item **7** again here. Generally, **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 **C** to **P** item **7**.

For examples of specific items to be included, see worksheet 1 on pages 72–74.

If the company is a life insurance company, include at **X** the deduction it is entitled to if it receives a dividend from a listed investment company (LIC) which includes a LIC capital gain amount. For more information, see item **13 Life insurance companies and friendly societies only**. Other companies are not entitled to this deduction.

Also show at **X** deductible foreign exchange losses to the extent that they have not been included in item **6** or in any other label of item **7**. See **Foreign exchange (forex) gains and losses** on page 12 for more information on the forex measures.

Tax losses deducted

> **NOTE**
> The company may need to complete a *Losses schedule 2005*. For more information, see **Schedules** on page 4 or see the *Losses schedule instructions 2005*.

Show at **R** only tax losses of a prior income year deducted during the 2004–05 income year under section 36-17 of the 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.

If the company has no net exempt income and has an excess of assessable income over total deductions – other than tax losses – the company may, subject to certain limitations, deduct from this excess assessable income so much of its tax loss as the company chooses – see subsection 36-17(2) of the ITAA 1997.

A company is required to determine whether it has excess franking offsets before making a choice in relation to how much of its prior year tax loss it wants to deduct from its 2004–05 assessable income. This is because subsection 36-17(5) of the ITAA 1997 prevents a company deducting an amount of a prior year tax loss if either:

- the company has excess franking offsets prior to deducting any tax loss, or
- the choice to deduct that particular amount of tax loss would give rise to excess franking offsets.

A company has excess franking offsets if the amount of franking tax offsets that the company is entitled to (ignoring any franking tax offsets that are subject to the refundable tax offset rules) exceeds the amount of income tax that the company would have to pay on its taxable income taking into account all tax offsets (including foreign tax credits), with the exception of the following tax offsets:

- any franking tax offsets, and
- any tax offsets subject to the tax offset carry forward rules or the refundable tax offset rules, and
- any tax offset arising from a franking deficit tax liability.

For most companies, franking tax offsets are not subject to the refundable tax offset rules in Division 67 of the ITAA 1997. However, there is an exception for life insurance companies: franking tax offsets of a life insurance company are generally subject to the refundable tax offset rules to the extent they relate to distributions on shares and other membership interests held on behalf of policy-holders.

EXAMPLE 7

For the 2004–05 income year, Company A has:

- a tax loss of $150 from a previous income year, and
- assessable income of $200 (franked distribution of $70, franking credit of $30 and $100 of income from other sources)
- no allowable deductions, and
- no net exempt income.

The $30 franking credit generates a franking tax offset of $30. The $30 franking tax offset is not subject to the refundable tax offset rules in Division 67 of the ITAA 1997. Company A would not have excess franking offsets for the year if the tax loss was disregarded. This is because the tax offset of $30 is less than $60, which is the amount of income tax that Company A would have to pay on the $200 taxable income if it did not have the tax loss and the franking tax offset. Consequently, Company A may choose to deduct some of its tax loss subject to the limitation that Company A cannot choose to deduct an amount of its loss that would result in it having an amount of excess franking offsets for the year. If Company A were to consider deducting the full tax loss of $150 it would generate excess franking offsets of $15, calculated as follows:

	$	
Taxable income	50	(200 – 150)
Gross tax	15	(50 x 30%)
Rebates/tax offsets	30	franking tax offset
Excess franking offsets	15	

Company A therefore cannot make this choice. The maximum amount of tax loss that Company A may deduct is $100 as this will not generate any excess franking offsets – that is:

	$	
Taxable income	100	(200 – 100)
Gross tax	30	(100 x 30%)
Rebates/tax offsets	30	franking tax offset
Excess franking offsets	0	

To calculate the excess franking offsets, see **Excess franking offsets** on page 53.

In the above example, in completing its income tax return, Company A would record $100 at **R Tax losses deducted** item **7** and would record $50 at **U Tax losses carried forward to later income years** item **10**.

If the company has exempt income and an excess of assessable income over total deductions (other than tax losses) the company must deduct the tax loss from the net exempt income, then may deduct from the excess assessable income so much of the tax loss as the company chooses – see subsection 36-17(3) of the ITAA 1997. In making the choice to deduct a tax loss from the excess assessable income, a company must apply the rules in subsection 36-17(5) of the ITAA 1997 outlined above.

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 – see subsection 36-17(4) of the ITAA 1997.

A company's net exempt income is calculated in accordance with section 36-20 of the ITAA 1997.

This amount is not necessarily the same as the amount shown at **R** **Exempt income** item **7**.

A company cannot deduct a tax loss of an earlier year unless:

- the company maintains the same owners as prescribed under section 165-12 of the ITAA 1997 (the continuity of ownership test), or
- if the company fails to meet a condition of subsection 165-12(2), (3) or (4) or it is not practicable to show that the company meets the conditions in those subsections, it satisfies the conditions relating to carrying on the same business in section 165-13 (refer TR 1999/9).

See also the rules on arrangements affecting beneficial ownership in section 165-180 of the ITAA 1997.

The following conditions apply to the continuity of ownership test:

- If tax losses are claimed in an income year ending after 21 September 1999, majority ownership must be maintained from the start of the loss year to the end of the income year (ownership test period).
- There must be persons who maintained rights to more than 50% of the voting power in the company, and rights to more than 50% of the dividends and capital distributions of the company at all times during the ownership test period. See sections 165-150 to 165-160 of the ITAA 1997.
- If tax losses are claimed in an income year ending after 21 September 1999, the company must meet the 'same share and interest' rule, except where the 'saving' rule applies. See section 165-165 and subsection 165-12(7) of the ITAA 1997.
- A modified version of the above rules applies to shares held by a listed public company in a wholly owned subsidiary, whether directly or indirectly owned. See Division 166 of the ITAA 1997.

Additionally, a company also cannot deduct a tax loss of an earlier year where there has been a change in control as prescribed in subsection 165-15(1) of the ITAA 1997 (the control test). However, if the company fails the control test, this does not prevent the company from deducting the tax loss if the conditions relating to the carrying on of the same business under subsections 165-15(2) and (3) are satisfied.

> **!** NOTE
> If the company is claiming a deduction for losses under the same business test provisions of section 165-13 of the ITAA 1997, or will be required to satisfy that test in respect of any losses being carried forward to a later income year, complete a *Losses schedule 2005* and attach it to the company tax return. For more information, see the *Losses schedule instructions 2005*.

The anti-avoidance provisions in Subdivisions 175-A and 175-B of the ITAA 1997 may apply.

Note:

- Keep a record of tax losses and account for any adjustments including those made by the Tax Office. Keep these records for five years after the end of the year in which the losses of the company were fully recouped or otherwise applied.
- A prior year tax loss may be reduced by the commercial debt forgiveness provisions – see appendix 1 on page 75.
- Non-primary production losses for the 1988–89 and earlier income years are not deductible. See subsection 80(2) of the ITAA 1936.
- Do not include losses incurred in deriving foreign income at **R**. For rules which quarantine classes of deductions and losses of previous years incurred in producing foreign source income, see sections 79D and 160AFD of the ITAA 1936. Allowable foreign losses are taken into account in the calculation of assessable foreign income for taxation purposes. Make any adjustment to reconcile deductions claimed against foreign income at the appropriate labels at item **7** – see the information on **W** **Non-deductible expenses**.
- Do not include the film component of any tax loss (film loss) at **R**. For a film loss to be deductible, see Divisions 36 and 375 of the ITAA 1997. Film losses are only deducted from net exempt film income or net assessable film income for taxation purposes and are shown at either **W** **Non-deductible expenses** item **7** or **X** **Other deductible expenses** item **7**.
- Do not include pooled development fund (PDF) tax losses at **R**. For deductibility of PDF tax losses, see Division 195 of the ITAA 1997.
- Capital losses may only be applied in accordance with Division 102 of the ITAA 1997.

Tax losses deducted – consolidated groups

> **!** NOTE
> The head company may need to complete a *Consolidated groups losses schedule 2005*. For more information, see **Schedules** on page 4 or see the *Consolidated groups losses schedule instructions 2005*.

Show at **R** tax losses deducted during the year of income under section 36-17 of the ITAA 1997.

A head company may be entitled to utilise carry forward losses broadly comprising:

- losses generated by the consolidated group in a prior year – group losses, and/or
- transferred losses that were generated by an entity before it became a member of the group.

Before utilising a group loss or a transferred loss, a head company must pass the continuity of ownership and control tests or the same business test. For more information on the conditions applying to the continuity of ownership test, see the *Consolidated groups losses schedule instructions 2005*. For more information on the same business test, see sections 165-13 and 165-210 of the ITAA 1997 and Taxation Ruling TR 1999/9.

Transferred losses

The operation of the continuity of ownership test is modified by Subdivision 707-B of the ITAA 1997. Firstly, the loss year is modified so that it starts from when the loss was transferred to the head company. Secondly, in determining whether a head company can use a loss transferred to it from a company as a result of passing the continuity of ownership and control tests, changes in ownership of a loss company prior to it joining the consolidated group are recognised. See section 707-210 of the ITAA 1997.

Tax losses generated by a consolidated group – group losses – are effectively utilised before transferred tax losses. See paragraph 707-310(3)(b) of the ITAA 1997.

Concessional tax losses are used after group tax losses and are effectively used before other transferred tax losses. See subsection 707-350(2) of the *Income Tax (Transitional Provisions) Act 1997*.

All losses transferred to a head company for the first time from the entity that actually made them constitute a bundle of losses. Losses within the bundle will be categorised by sort, such as a tax loss or net capital loss. See section 707-315 of the ITAA 1997.

There is no ordering rule for usage of losses within a bundle or between different bundles, regardless of their age.

Available fraction

A single available fraction is worked out for each loss bundle. The available fraction limits the annual rate at which the bundle's losses may be recouped by the head company. However, for utilisation purposes, losses in one bundle may be subject to the available fraction for another loss bundle if the value and loss donor concession applies.

If losses are transferred for the first time, the available fraction is calculated like this:

$$\frac{\text{modified market value of the joining loss entity at the initial transfer time}}{\text{adjusted market value of the head company at the initial transfer time}}$$

The modified market value of a joining entity is the amount that would be the market value of the entity at the joining time if:

- the entity has no losses and the balance of its franking account is nil
- the subsidiary members of the group at the time are separate entities and not divisions or parts of the head company of the group
- the entity's market value did not include an amount attributable (directly or indirectly) to a membership interest in a member of the group (other than the entity) that is a corporate tax entity or an entity that transferred losses to the head company, and
- a trust (other than a corporate tax entity or a trust with losses) contributes to the joining entity's market value only to the extent attributable to fixed entitlements (at joining time) to income or capital of the trust that is not attributable (directly or indirectly) to membership interests in another member of the group that is a corporate tax entity or a trust with losses.

See section 707-325 of the ITAA 1997.

An increase in the value of the loss entity is excluded from the entity's modified market value if the increase results from either:

- an injection of capital into the loss entity, its associate or, if the loss entity is a trust, an associate of the trustee, or
- a non-arm's length transaction that involved the loss entity, its associate or, if the loss entity is a trust, an associate of the trustee.

This integrity rule applies to events that occur in the four years before the loss entity joins the group; however, it does not apply to events that occurred before 9 December 2000. See subsections 707-325(2) and (4) of the ITAA 1997 and section 707-329 of the *Income Tax (Transitional Provisions) Act 1997*.

NOTE

For more information, see *Taxation Ruling TR 2004/9: What is meant by 'injection of capital' in section 707-325 of the Income Tax Assessment Act 1997?*

The head company's adjusted market value at the initial transfer time is the amount that would be the market value at that time if:

- the head company did not have a loss of any sort for an income year ending before that time, and
- the balance of the head company's franking account was nil at that time.

See subsection 707-320(1) of the ITAA 1997. The value for the head company is worked out on the basis that subsidiary members of the consolidated group are part of the head company.

> **NOTE**
> The Commissioner of Taxation will have a statutory obligation to ensure compliance with the market valuation requirements of the consolidation regime and to form a view as to whether valuations undertaken are accurate. To assist taxpayers to meet their obligations, the *Consolidation reference manual* has a section dealing with market valuation guidelines.

The available fraction is adjusted if certain events happen – for example, the consolidated group acquires a new loss entity or the sum of the available fraction in the group exceeds 1. See subsection 707-320(2) of the ITAA 1997.

The use of transferred losses is apportioned if their available fraction applied for only part of the income year or when the available fraction changes during the income year. See section 707-335 of the ITAA 1997.

Apply the available fraction using a three-step process as follows:

1. Work out the amount of each category of the group's income or gains as specified in column 2 of the table in subsection 707-310(3) of the ITAA 1997. This is the group's total income or gains for each category less relevant deductions, including group losses and concessional losses (but not transferred losses whose use is limited by their available fraction).
2. Multiply each category amount by the bundle's available fraction. The result is taken to be the head company's only income or gains for that category.
3. On the basis of the step 2 assumption, work out a notional taxable income for the head company.

This process enables the head company to determine the amount of transferred losses of each sort it can use from the loss bundle to determine its actual taxable income.

Tax losses must first be deducted against exempt income. A special rule provides that the head company, in working out its actual taxable income, can offset its transferred tax losses against assessable income provided they have been first utilised against a fraction of its total exempt income. See section 707-340 of the ITAA 1997.

Increasing the available fraction – value donor concession – only available where consolidation is before 1 July 2004

A loss entity (the 'real loss-maker'), in calculating its available fraction, may add to its modified market value the modified market value of another company (the 'value donor'). Certain losses from the value donor are also able to be notionally transferred to the real loss-maker. This enables those losses to be utilised using the available fraction for the real loss-maker. Only company losses may benefit from the concession to donate value and losses.

The conditions for adding an amount of modified market value from the value donor to the real loss-maker are as follows:

- Both the real loss-maker and the value donor join the group when it first consolidates before 1 July 2004.
- The real loss-maker has a 'test loss' – a tax loss or net capital loss that is not a concessional loss.
- The real loss-maker could have transferred its test loss to the value donor under Subdivision 170-A or 170-B of the ITAA 1997 for an income year – generally the trial year.
- The value donor – assuming it had made the test loss – could have transferred it to the head company under Subdivision 707-A.
- The head company chooses to increase the real loss-maker's modified market value by a portion of the value donor's modified market value.

See subsections 707-325(1) and (2) of the *Income Tax (Transitional Provisions) Act 1997*.

The increase in the modified market value of the real loss-maker is worked out using a formula. See subsections 707-325(3) and (4) of the *Income Tax (Transitional Provisions) Act 1997*.

The increase to an available fraction provided by this value donor concession can be affected by the integrity rule in section 707-325 of the ITAA 1997. Given the nature of the relationship between a value donor and the real loss-maker, it is appropriate to waive the effect of certain inflationary events occurring between these related entities. The group waiver rule ignores the effect of the integrity rule in respect of injections and transactions involving group members if certain conditions are met. The single waiver rule ignores the effect of the integrity rule in respect of injections and transactions involving two group members only if certain conditions are met. See sections 707-326 and 707-328A of the *Income Tax (Transitional Provisions) Act 1997*.

The conditions for donating losses from the value donor (referred to here as the 'loss donor') to the real loss-maker are as follows:

- The loss donor has also donated an amount of modified market value to the real loss-maker (the amount can be nil).
- The loss to be donated is a tax loss or a net capital loss that is not a concessional loss.
- The loss was transferred under Subdivision 707-A from the loss donor to the head company at the time when the consolidated group came into existence.
- The loss donor could have transferred the loss to the real loss-maker – and any other value donor to the real loss-maker – under Subdivision 170-A or 170-B of the ITAA 1997 for an income year – generally the trial year.
- The real loss-maker – and any other value donor of the real loss-maker – could have transferred the loss to the head company under Subdivision 707-A.
- The head company chooses that the loss be included in the real loss-maker's bundle.

See subsections 707-327(1), (2) and (3) of the *Income Tax (Transitional Provisions) Act 1997*.

If a loss is donated, the group's use of the loss is governed by the real loss-maker's available fraction.

A loss can only be taken into account under either the value donor rule or the loss donor rule but not both. See

subsection 707-327(6) of the *Income Tax (Transitional Provisions) Act 1997*.

The head company must make a choice to donate losses by the day it lodges its income tax return for the first income year for which it uses transferred losses by the available fraction method.

When applying Subdivisions 170-A or 170-B of the ITAA 1997 for the purposes of the value donor and loss donor rules, the income year is modified and certain conditions apply. See section 707-328 of the *Income Tax (Transitional Provisions) Act 1997*.

Concessional losses – only available where consolidation is before 1 July 2004

A transferred tax loss, in a particular loss bundle, may be used in accordance with the concessional method if the loss meets certain conditions and the head company has chosen to use the concessional method for all losses in the bundle that meet these conditions. The conditions are that the tax loss:

- was originally made outside the consolidated group by a company – the real loss-maker – for an income year ending on or before 21 September 1999
- is transferred from the real loss-maker to the head company of the group when the group first consolidates before 1 July 2004
- is transferred because the continuity of ownership and control tests were passed, and
- has not been previously transferred to a group.

See subsection 707-350(1) of the *Income Tax (Transitional Provisions) Act 1997*.

Concessional losses may be utilised by the head company over three years, subject to the general loss recoupment tests as modified. See subsection 707-350(3) of the *Income Tax (Transitional Provisions) Act 1997*. This limit on utilisation replaces that which would otherwise apply under the available fraction method.

Tax losses claimed on a concessional basis are effectively utilised before other transferred tax losses. Group tax losses must be utilised before concessional losses.

Tax losses transferred in

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

A group company may transfer the whole or a part of a tax loss to another company where:

- both companies are members of the same wholly-owned group
- one of the companies is an Australian branch of a foreign bank
- the other company is:
  - (i) the head company of a consolidated group or MEC group, or
  - (ii) not a member of a consolidatable group, and
- further conditions in Subdivision 170-A of the ITAA 1997 are satisfied.

Note:

- The loss transferred to the income company is deductible to the income company in accordance with the provisions of section 36-17 of the ITAA 1997. For example, the tax loss transferred to the income company is first offset against the income company's net exempt income, then against its assessable income.
- Tax losses transferred cannot be used to create a tax loss.
- The Commissioner has power in certain circumstances to amend assessments to disallow a deduction for an amount of transferred tax loss despite section 170 of the ITAA 1936 – see section 170-70 of the ITAA 1997.

Tax losses transferred in – consolidated groups

Tax losses cannot be transferred to a head company from subsidiary companies under Subdivision 170-A of the ITAA 1997 when consolidation occurs part-way through the head company's income year. Therefore, **S** is not applicable in this circumstance.

Do NOT show tax losses transferred from subsidiary companies under Subdivision 707-A of the ITAA 1997. These losses should be shown in part A of the *Consolidated groups losses schedule 2005* at item 1 or item 2.

Subtraction items subtotal

Show the sum of the amounts at **C**, **F**, **E**, **H**, **I**, **Z**, **L**, **M**, **N**, **O**, **P**, **V**, **Q**, **X**, **R** and **S** in the subtraction items subtotal. The total amount cannot be a loss.

R&D tax offset, if chosen

Show at **Y** the amount of the R&D deduction subject to the R&D tax offset shown at **Y** **R&D claim subject to the R&D tax offset** in part E, item **2** of the *Research and development tax concession schedule 2005*. The amount shown at **Y** on the company tax return must be the same as the amount shown at **Y** in part E, item **2** of the research and development tax concession schedule.

> **!** NOTE
>
> Inclusion of an amount at **Y** has the effect that the company will be taken to have made the choice under subsection 73I(1) of the ITAA 1936 to take the tax offset instead of the tax deduction under the R&D tax concession provisions.

Taxable income or loss

Show at **T** all assessable income less allowable deductions which equals the amount at **T** **Total profit or loss** item **6** plus or minus the reconciliation adjustments at item **7** plus the amount shown at **Y** **R&D tax offset** item **7**, if chosen.

If the company has excess franking offsets that under section 36-55 of the ITAA 1997 can be converted into a tax loss to be carried forward (see **Excess franking offsets** on page 53), do not include at **T** the amount of that loss. The amount is taken into account only at **U** **Tax losses**

carried forward to later income years item **10**. This means that a company may have a taxable income at **T** and a tax loss carried forward at item **10**. Alternatively, if the company has a loss at **T**, the amount of that loss will not be the company's tax loss for the income year.

If the company has a taxable income of $1 or more, transfer the amount at **T** to **A** **Taxable or net income** in the **Calculation statement** on page 4 of the tax return.

If the amount calculated for **T** is a loss and an amount is shown at **V** **Exempt income** item **7**, calculate the company's allowable current year loss before taking into account prior year or transferred losses or any loss created from the conversion of excess franking offsets.

The company's allowable current year loss at **T** is its deductible amounts less total assessable income less net exempt income – see section 36-10 of the ITAA 1997 – disregarding any tax loss created from the conversion of excess franking offsets. The company's net exempt income is calculated under section 36-20 of the ITAA 1997 and is not necessarily equal to the amount shown at **V** **Exempt income** item **7**. Once the company's allowable current year loss is calculated, show this amount at **T**. If the amount is a taxable loss print **L** in the box at the right of the amount. Show the amount of net exempt income taken into account in calculating the company's allowable current year loss at **B** **Other assessable income** item **7**. If the company has an allowable current year loss, print zero (**0**) at **A** **Taxable or net income** in the **Calculation statement**.

PAGE 3 OF THE TAX RETURN

8 FINANCIAL AND OTHER INFORMATION

Functional currency translation rate

Complete **N** item **8** if the company keeps its accounts solely or predominantly in a foreign currency (its applicable functional currency) and has elected to use that functional currency for its tax accounts which it then translates to Australian dollars to complete its tax return.

Do not complete **N** if the company has elected to employ a non-Australian dollar functional currency only to calculate income attributable to the activities of an overseas permanent establishment, controlled foreign company, off-shore banking unit or transferor trust. For more information, see the *Foreign income return form guide* available on our website.

If the company is using a functional currency, see the instructions in the *Guide to functional currency rules* available on our website

Show at **N** the exchange rate employed to translate the taxable income figure from the applicable functional currency into Australian dollars. The translation rate is the amount by which the functional currency amount must be divided in order to reflect an equivalent amount of Australian dollars (A$) – that is, the number of non-A$ currency units that equal one A$, rounded to four significant figures.

If **N** is completed, also complete **O** **Functional currency chosen**.

Functional currency chosen

Complete **O** if **N** **Functional currency translation rate** has been completed.

Show at **O** the currency code from International Standard ISO 4217 which corresponds to the functional currency chosen by the company. For more information, see the *Guide to functional currency rules* available on our website.

> **NOTE**
> Show at **A** to **B**, **J** **Total debt** and **K** **Commercial debt forgiveness** amounts calculated for tax purposes.

Opening stock

Show at **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 is being prepared. The amount shown by the company at **A** is the value for income tax purposes under section 70-40 or for STS taxpayers subsection 328-295(1) of the ITAA 1997. The opening value of an item of stock must equal its closing value in the previous income year. If a taxpayer did not have any trading stock in the previous year, the value of trading stock at the start of the year is zero. This might occur in the case of a new business or in the first year a taxpayer has trading stock.

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

Exclude any amount that represents opening stock of a business that commenced operations during the income year. Show this amount at **S** **Purchases and other costs** item **8**.

For consolidated groups, see the *Consolidation reference manual* for more information on trading stock held by its subsidiary members at joining time.

Purchases and other costs

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

If the company is an STS taxpayer only show at **S** costs which the company has paid.

For information on GST and input tax credits, see the information on item **6 Calculation of total profit or loss** on page 23.

Closing stock

If the company is eligible to enter or continue in the STS and has chosen to do so at item **5**, see **STS taxpayers** below. Otherwise see **Non-STS taxpayers** on this page.

STS taxpayers

Account for changes in the value of the company's trading stock only if:

- the value of the company's stock on hand at the start of the income year as shown at **A** **Opening stock**, and
- a reasonable estimate of the value of the company's stock on hand at the end of the income year

varies by more than $5,000. For more information relating to 'reasonable estimate', phone the Business Infoline on **13 28 66**.

The company can still choose to conduct a stocktake and account for changes in the value of trading stock.

If the difference between the value of the opening stock and a reasonable estimate of its closing stock is more than $5,000 the company must account for changes in the value of its trading stock. Go to step 2. Otherwise go to step 1.

Step 1

If the difference referred to above is $5,000 or less and the company chooses not to account for this difference, the closing stock value put at **B** is the same value the company put for opening stock at **A** item **8**. Do NOT put the company's reasonable estimate at **B**.

Print in the CODE box at **B** the code from table 9 that matches the code the company used to value closing stock in the previous year.

TABLE 9

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

If this is the company's first year in business, the value of its closing stock will be zero. Print code **C** in the CODE box.

Step 2

If the difference referred to above is more than $5,000 or the company chooses to account for the difference in trading stock, the closing stock values must be brought to account under section 70-35 of the ITAA 1997. See the following instructions for non-STS taxpayers for calculating the value of trading stock.

In the case above, include in closing stock value at **B** the value of all stock on hand, regardless of whether the company has paid for the stock.

Non-STS taxpayers

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

If the company is registered, or required to be registered for GST, the value of closing stock should not include an amount equal to the input tax credit that the company has claimed or is entitled to claim. Input tax credits do not arise for some items of trading stock, such as shares.

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

Exclude any amount that represents closing stock of a business that ceased operations during the income year. Show this amount at **Income**, **R** **Other gross income** item **6**.

Print in the CODE box the code from table 10 indicating the method used to value closing stock for income tax purposes. If more than one method is used, use the code applicable to the method representing the highest value.

TABLE 10

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

Different methods of valuation may be used to value the same item of trading stock in different income years, and similar items may be valued using different methods in the same income year.

However, the opening value of an item in a particular income year must equal the closing value for that item in the previous income year. The company cannot reduce the value of stock on hand by creating reserves to offset future diminution of the value of stock, or any other factors. Keep records showing how each item was valued.

If incorrect trading stock information has been included on a tax return, advise us by submitting a full statement of the facts, accompanied by a reconciliation of the value of stock as returned for each income year with the values permissible under the law.

Companies engaged in manufacturing include the value of partly manufactured goods as part of their stock and materials on hand at the end of the income year.

For more information on the circumstances in which packaging items held by a manufacturer, wholesaler or retailer are 'trading stock' as defined in section 70-10 of the ITAA 1997, see Taxation Ruling TR 98/7 and Taxation Ruling TR 98/8.

Consolidated groups

If the company was a subsidiary member of a consolidated group at the end of the income year and is completing a tax return because of any non-membership periods, show at **B** the value for trading stock on hand as at the end of the latest non-membership period. The amount at **B** is generally a tax neutral value. This may not be the case if the company was a chosen transitional entity or a continuing majority-owned entity when it became a member of the group. For more information, see the *Consolidation reference manual*.

Trading stock election

A company may elect to value an item of trading stock below the lowest value of cost, market selling value, or replacement value, because of obsolescence or any other special circumstances. The value it elects must be reasonable.

For guidelines on trading stock valuations where obsolescence or other special circumstances exist, see Taxation Ruling TR 93/23.

If an election is made, print **Y** for yes in the box at this item. Otherwise leave blank.

> **NOTE**
>
> Show at **C** to **H**, **R** **Shareholders funds** and **N** **Loans to shareholders and their associates** amounts taken from the company's financial statements as these amounts relate to accounting values. See item names and labels below.

Trade debtors

Show at **C** the total amounts owing to the company at year end for goods and services provided during the income year – that is, the gross amount of current trade debtors from the company's accounts. Also include this amount at **D** **All current assets** item **8**.

STS taxpayers do not need to complete this label.

Consolidated groups

If the company was a subsidiary member of a consolidated group at the end of the income year and is completing a tax return because of any non-membership periods, show at **C** the relevant amount as at the end of the latest non-membership period.

All current assets

Show at **D** all current assets of the company, including cash on hand, trade debtors, short-term bills receivable, inventories and cash at bank. Also include the amount shown at **C** **Trade debtors** item **8**.

Consolidated groups

If the company was a subsidiary member of a consolidated group at the end of the income year and is completing a tax return because of any non-membership periods, show at **D** the relevant amount as at the end of the latest non-membership period.

Total assets

Show at **E** all assets of the company, including current, fixed, tangible and intangible assets. Also include the amount shown at **D** **All current assets** item **8**.

Consolidated groups

For a consolidated group include all the assets of the group as disclosed in the financial accounts and not the amounts that are calculated by way of the allocable cost amount.

If the company was a subsidiary member of a consolidated group at the end of the income year and is completing a tax return because of any non-membership periods, show at **E** the relevant amount as at the end of the latest non-membership period.

Trade creditors

Show at **F** the total amounts owed by the company at year end for goods and services received during the income year, that is current trade creditors. Also include this amount at **G** **All current liabilities** item **8**.

STS taxpayers do not need to complete this label.

Consolidated groups

If the company was a subsidiary member of a consolidated group at the end of the income year and is completing a tax return because of any non-membership periods, show at **F** the relevant amount as at the end of the latest non-membership period.

All current liabilities

Show at **G** the total obligations payable by the company within the coming year. Also include the amount shown at **F** **Trade creditors** item **8**.

Consolidated groups

If the company was a subsidiary member of a consolidated group at the end of the income year and is completing a tax return because of any non-membership periods, show at **G** the relevant amount as at the end of the latest non-membership period.

Total liabilities

Show at **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 **G** **All current liabilities** item **8**.

Consolidated groups

If the company was a subsidiary member of a consolidated group at the end of the income year and is completing a tax return because of any non-membership periods, show at **H** the relevant amount as at the end of the latest non-membership period.

Total debt

Show at **J** the average total debt of the company for the income year. Calculate the average total debt by adding the opening and closing balances of the total debt of the entity for the income year, and divide this sum by 2.

The total debt of a company includes all financial instruments and arrangements that were used by the company to provide funds for their operations and investments. The instruments and arrangements that are shown at **J** include all loans, securities and instruments that give rise to deductible finance expenses, which include any of the following:

- interest, a payment in the nature of interest, or a payment in substitution for interest
- payments made for assignment(s) of the right to interest
- a discount on a security in relation to a finance arrangement
- an amount that is taken under a law to be an amount of interest in respect of a lease, a hire purchase arrangement or any other financial instrument specified by law
- any application or processing fee in respect of a finance arrangement
- any finance expense in respect of a repurchase agreement or securities lending arrangement
- any other form of yield associated with a finance arrangement
- any such amount that, instead of being paid to a party to the arrangement, is dealt with in any way on behalf of that party.

Accordingly, there is no requirement that amounts included at **J** satisfy the definition of 'debt interest' for the purposes of Division 974 of the ITAA 1997 (the debt/equity rules). The *Guide to the debt and equity tests* provides an overview of the debt/equity rules.

Consolidated groups

If the company was a subsidiary member of a consolidated group at the end of the income year and is completing a tax return because of any non-membership periods, show at **J** the relevant amount calculated as at the end of the latest non-membership period.

Commercial debt forgiveness

Show at **K** the net amount of commercial debts owed by the company that were forgiven during the income year – see Division 245 of Schedule 2C to the ITAA 1936. Broadly, a debt is a commercial debt if any part of the interest payable on the debt is or would be an allowable deduction. A debt is forgiven if the company's obligation to pay the debt is released or waived or otherwise extinguished other than by payment in cash.

The net amount of commercial debts forgiven must be applied to reduce the company's deductible revenue losses, net capital losses, certain undeducted revenue or capital expenditure and the cost base of assets, in that order.

For more information, see appendix 1 on page 75.

Shareholders' funds

Show at **R** the net shareholders' funds as per the accounting records. The amount shown at **E** **Total assets** item **8** less the amount shown at **H** **Total liabilities** item **8**, equals the amount shown at **R**.

If this amount is negative, print **L** in the box at the right of the amount.

Consolidated groups

If the company was a subsidiary member of a consolidated group at the end of the income year and is completing a tax return because of any non-membership periods, show at **R** the relevant amount as at the end of the latest non-membership period.

> **!** NOTE
> Show at **J** to **L** and **Z** to **I** amounts calculated for tax purposes. See item names and labels below.

Franked dividends paid

Show at **J** the amount of fully franked dividends paid or credited during the income year. If a partly franked dividend has been paid during the income year, show the franked portion at **J** and the unfranked portion at **K** **Unfranked dividends paid** item **8**.

Do NOT include dividends paid by one member to another within a consolidated group.

Record keeping

Keep a record of the following:

- dividends paid
- recipient(s)
- dates paid
- amounts paid.

Unfranked dividends paid

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

Do NOT include dividends paid by one member to another within a consolidated group.

Under Division 7A of Part III of the ITAA 1936, payments and loans – unless they come within specified exclusions –

by a private company to a shareholder and their associates are treated as assessable dividends to the extent of the distributable surplus – including realised and unrealised profit. In addition, debts owed by a shareholder or associate which are forgiven by a private company are treated as dividends.

A loan made in the 2004–05 or later income year by a private company to a shareholder (or their associate) may be repaid or put on a commercial footing before the earlier of the due date for lodgment or the date of lodgment of the private company's income tax return for the year in which the loan is made, in order to avoid the loan being treated as a deemed dividend.

Do not include a dividend paid under a demerger at **K** unless the head entity of the demerger group has elected under subsection 44(2) of the ITAA 1936 that it be treated as an assessable dividend.

Record keeping

Keep a record of the following:

- dividends paid
- recipient(s)
- dates paid
- amounts paid.

Franking account balance

Show at **M** the balance of the franking account at the end of the 2004–05 income year, unless it is a deficit balance.

If there is a deficit balance in the franking account at the end of the income year, the company must lodge a *Franking account tax return 2005* and pay by the last day of the month following the close of the income year. If the company is a late balancing company that has elected to have its franking deficit tax liability determined on 30 June 2005, it must lodge its franking account tax return on or before 31 July 2005.

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.

Note:

- Shareholder loans and other advances made by private companies that are deemed dividends are not frankable, but the company must debit its franking account as if the deemed dividend had been franked.
- Deemed dividends may also arise when a shareholder (or an associate of a shareholder) of a private company that has (or will have by a certain timeframe) an unpaid present entitlement from a trust estate, receives a payment or loan or has a debt forgiven in their favour by the trustee of the trust estate. However, this will not result in a debit to the franking account of the private company with the unpaid present entitlement.
- A company 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.

For a range of more detailed information about simplified imputation, see the imputation products on our website.

Consolidated groups

If the company was a subsidiary member of a consolidated group at the end of the income year and is completing a tax return because of any non-membership periods, show at **M** its franking account balance as at the end of the latest non-membership period if it is a surplus balance. If there is a deficit balance at the end of any non-membership period, the company must lodge a franking account tax return and pay the franking deficit tax.

Excess franking offsets

Show at **H** any excess franking offset calculated as follows:

Step 1: Calculate the amount of franking tax offsets that the company is entitled to. Franking tax offsets are available under Division 207 of the ITAA 1997 as a result of receiving a franked distribution and Subdivision 210-H of the ITAA 1997 as a result of receiving a franked distribution franked with a venture capital credit. The amount of franking tax offset that a company is entitled to is equal to the share of franking credits included in distributions received from partnerships and trusts, the amount of franking credits included at **J Franking credits** item **7** and the amount of franking credits included at **C Australian franking credits from a New Zealand company** item **7**. Do not include any franking tax offsets that are subject to the refundable tax offset rules under Division 67. For example, franking tax offsets of a life insurance company are generally subject to the refundable tax offset rules to the extent they relate to distributions paid on shares and other membership interests held on behalf of policy-holders. Do not include these amounts. Generally, however, the franking tax offsets of other companies are not subject to the refundable tax offset rules.

Step 2: Calculate the amount of income tax that would be payable taking into account all tax offsets (including foreign tax credits), with the exception of the following tax offsets:

- any franking tax offsets, and
- any tax offsets subject to the tax offset carry forward rules or the refundable tax offset rules, and
- any tax offset arising from a franking deficit tax liability.

Step 3: Calculate the amount of excess franking offsets. If the amount of franking tax offsets from step 1 exceeds the amount of hypothetical tax calculated at step 2 the excess is the amount of excess franking offset which should be recorded at **H Excess franking offsets**.

Excess franking offsets can affect the choice a company can make in relation to how much of any prior year tax loss it can deduct this year. For more information, see **Tax losses deducted** on page 44.

If the company has excess franking offsets, it may convert the excess franking offsets into an amount of tax loss to carry forward to later income years. For more information, see **Tax losses carried forward to later income years** on page 58.

EXAMPLE 8

For the 2004–05 income year ABC Company Ltd has the following:

Total dividends	**H** item 6	$140	Franked distribution
Franking credits	**J** item 7	$60	
Other deductible expenses	**X** item 7	$100	

The $60 franking tax offset is not subject to the refundable tax offset rules in Division 67 of the ITAA 1997. ABC Company Ltd has no net exempt income for the year and it does not have a tax loss for the year.

ABC Company Ltd would work out its excess franking offsets as follows:

Step 1: Calculate the amount of franking tax offsets that it is entitled to. In this instance, ABC Company Ltd's franking tax offsets are not subject to the refundable tax offset rules, therefore it is entitled to franking tax offsets of $60. However, for the purposes of calculating the amount of excess franking offset, these offsets are ignored in step 2 below.

Step 2: Calculate the amount of income tax payable ignoring franking tax offsets:

Taxable income	$100	($140 + $60 – $100)
Gross tax	$30	
Rebates/tax offsets	nil	ABC Company Ltd is required to disregard the franking tax offset
Tax payable	$30	

Step 3: Excess franking offsets is equal to $30. That is, the amount left over after deducting the amount at step 2 from the amount at step 1.

ABC Company Ltd would record $30 at **H** **Excess franking offsets** item **8**.

ABC Company Ltd would now convert this amount of excess franking offsets into a tax loss by dividing the excess franking offsets amount ($30) by the corporate tax rate (30%) which results in a tax loss amount of $100. ABC Company Ltd would record the amount of this tax loss at **U** **Tax losses carried forward to later income years** item **10**.

Balance of unfranked non-portfolio dividend account at year end

If a claim is made under section 46FA of the ITAA 1936, the claiming entity is required to maintain an unfranked non-portfolio dividend account under section 46FB of the ITAA 1936. Show at **L** the balance of this account as at the last day of the income year.

Loans to shareholders and their associates

Complete **N** only if:

- the company is a private company
- the company has a loan to a shareholder or associate which has a debit balance at the end of the income year, and
- the recipient of the loan was a natural person, partnership or trust.

Show at **N** the sum of all such loans that have a debit balance at the end of the income year. Show the sum in whole figures only.

TABLE 11

Print in the CODE box at the right of the amount at **N** the code indicating whether:

A	All loans were made on or after 4 December 1997.
B	All loans were made before 4 December 1997.
M	Some loans were made before 4 December 1997 and some loans were made on or after 4 December 1997.

Under Division 7A of Part III of the ITAA 1936, loans by a private company to a shareholder and their associates – 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.

A loan made in the 2004–05 or later income year by a private company to a shareholder (or their associate) may be repaid or put on a commercial footing, before the earlier of the due date for lodgment or the date of lodgment of the private company's income tax return for the year in which the loan is made, in order to avoid the loan being treated as a deemed dividend.

Intangible depreciating assets first deducted

If the company is eligible to enter or continue in the STS and has chosen to do so at item **5** do not include an amount at this label.

Show at **Z** the cost of all intangible depreciating assets for which the company is claiming a deduction for decline in value for the first time.

The following intangible assets are regarded as depreciating assets (as long as they are not trading stock):

- certain items of intellectual property (patents, registered designs, copyrights and licences of these)
- computer software (or a right to use computer software) that the company acquires, develops or has someone else develop for its use for the purposes for which it is designed (in-house software)
- mining, quarrying or prospecting rights and information
- spectrum licences
- datacasting transmitter licences
- certain indefeasible rights to use international submarine cable systems (IRUs).

A depreciating asset that the company holds starts to decline in value from the time the company uses it (or installs it ready for use) for any purpose. However, the company can only claim a deduction for the decline in value to the extent it uses the asset for a taxable purpose, such as for producing assessable income.

If the company has allocated any intangible depreciating assets with a cost of less than $1,000 to a low-value pool for the income year, also include the cost of those assets at **Z**. Do not reduce the cost for estimated non-taxable use.

Expenditure on in-house software which has been allocated to a software development pool is not included at **Z**.

For more information on decline in value, cost, low-value pools, in-house software and software development pools, see the *Guide to depreciating assets 2005*.

> **NOTE**
> If the company has included an amount of more than $75,000 at **Z**, complete a *Capital allowances schedule 2005* and attach it to the company tax return. For more information, see the *Capital allowances schedule instructions 2005*.

Consolidated groups

The head company must also include the cost of depreciating assets that a subsidiary member would have included at **Z** if it had not joined the consolidated group. However, the head company must not include the cost of depreciating assets at **Z** if the subsidiary member deducted their decline in value before becoming a member of the consolidated group.

For a company that was a subsidiary member of a consolidated group for part of the income year and is completing a tax return because of any non-membership periods, show at **Z** the cost of intangible depreciating assets first deducted during the non-membership periods. However, do not include the cost of depreciating assets where the head company deducted their decline in value during any period the subsidiary was a member of the consolidated group.

Other depreciating assets first deducted

If the company is eligible to enter or continue in the STS and has chosen to do so at item **5** do not include an amount at this label.

A depreciating asset that the company holds starts to decline in value from the time the company uses it (or installs it ready for use) for any purpose. However, the company can only claim a deduction for the decline in value to the extent it uses the asset for a taxable purpose, such as for producing assessable income.

Show at **A** the cost of all depreciating assets (other than intangible depreciating assets) for which the company is claiming a deduction for the decline in value for the first time.

If the company has allocated any assets (other than intangible depreciating assets) with a cost of less than $1,000 to a low-value pool for the income year, also include the cost of those assets at **A**. Do not reduce the cost for estimated non-taxable use.

For information on decline in value, cost and low-value pools, see the *Guide to depreciating assets 2005*.

> **NOTE**
> If the company has included an amount of more than $75,000 at **A**, complete a *Capital allowances schedule 2005* and attach it to the company tax return. For more information, see the *Capital allowances schedule instructions 2005*.

Consolidated groups

The head company must also include the cost of depreciating assets that a subsidiary member would have included at **A** if it had not joined the consolidated group. However, the head company must not include the cost of depreciating assets at **A** if the subsidiary member deducted their decline in value before becoming a member of the consolidated group.

For a company that was a subsidiary member of a consolidated group for part of the income year and is completing a tax return because of any non-membership periods, show at **A** the cost of depreciating assets first deducted during the non-membership periods. However, do not include the cost of depreciating assets where the head company deducted their decline in value during any period the subsidiary was a member of the consolidated group.

Termination value of intangible depreciating assets

If the company is eligible to enter the STS and has elected to do so at item **5** do not include an amount at this label.

For information on intangible depreciating assets, see **Intangible depreciating assets first deducted** on page 54.

Show at **P** the termination value of each balancing adjustment event occurring for intangible depreciating assets – including assets allocated to a low-value pool.

Do NOT show at **P** any termination value in relation to:

- assets allocated in a prior year to a general STS pool or long life STS pool
- in-house software for which the company has allocated expenditure to a software development pool
- assets falling within the provisions relating to investments in Australian films
- IRUs where the expenditure was incurred at or before 11.45am (by legal time in the ACT) on 21 September 1999
- IRUs used at or before that time for telecommunications purposes.

A balancing adjustment event occurs if the company stops holding or using a depreciating asset or decides not to use it in the future – for example, assets were sold, lost or destroyed.

Generally, the termination value is the amount the company received or is deemed to receive in relation to the balancing adjustment event. It also includes the market value of any non-cash benefits such as goods and services the company receives for the asset.

For more information on balancing adjustment events, termination value, in-house software and software development pools, see the *Guide to depreciating assets 2005*.

Termination value of other depreciating assets

If the company is eligible to enter or continue in the STS and has chosen to do so at item **5** do not include an amount at this label.

Show at **E** the termination value of each balancing adjustment event occurring for depreciating assets – including assets allocated to a low-value pool.

Do NOT show at **E** any termination value in relation to:

- assets allocated in a prior year to a general STS pool or long life STS pool
- intangible depreciating assets
- buildings or structures for which a deduction is available under the capital works provisions
- assets used in research and development activities, and
- assets falling within the provisions relating to investments in Australian films.

A balancing adjustment event occurs if the company stops holding or using a depreciating asset or decides not to use it in the future – for example, assets were sold, lost or destroyed.

Generally, the termination value is the amount the company received or is deemed to receive in relation to the balancing adjustment event. It also includes the market value of any non-cash benefits such as goods and services the company receives for the asset.

For more information on balancing adjustment events and termination value, see the *Guide to depreciating assets 2005*.

Total salary and wage expenses

Show at **D** the total salary, wage and other labour costs incurred, including directors' remuneration, as per payment summaries.

These expenses include any salary and wage component of **A Cost of sales** item **6** – that is, allowances, bonuses, casual labour, retainers and commissions paid to people who received a retainer, and workers' compensation paid through the payroll.

Also included are direct and indirect labour costs, directors' fees, holiday pay, locums, long service leave, lump sum payments, other employee benefits, overtime, payments under an incentive or profit sharing scheme, retiring allowances and sick pay. Any salary and wage paid by a private company to a current or former shareholder or director of the company, or to an associate of such a person, is included here and at **Q Payments to associated persons** item **8**.

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

Print in the CODE box at the right of the amount at **D** the code from table 12 that matches the description of the expense component where salary and wage expenses have been wholly or predominantly reported.

TABLE 12

	Code
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 associated persons

Show at **Q** the amounts, including salaries, wages, commissions, superannuation contributions, allowances and payments in consequence of retirement or termination of employment, paid by a private company to associated persons. An associated person is a current or former shareholder or director of the company, or an associate of such a person.

Also include the amounts of salaries and wages paid to associated persons at **D Total salary and wage expenses** item **8**.

Record keeping

Excessive remuneration paid to an associated person may not be deductible and could be treated as an unfranked dividend (see section 109 of the ITAA 1936). Records to establish the reasonableness of remuneration include:

- age – if under 18
- hours worked
- nature of duties performed
- other amounts paid – for example, retiring gratuities, bonuses and commissions
- total remuneration.

Net foreign income

Show at **R** assessable income derived by the company from foreign sources, net of expenses. This amount includes:

- foreign source capital gains – after offsetting any unapplied capital losses
- assessable dividends paid by a New Zealand company
- income attributable to a dividend from a New Zealand company received from a partnership or trust.

Do NOT show at **R**:

- attributed foreign income
- any amount of Australian franking credits attached to franked distributions received from a New Zealand company. Show these amounts at **C Australian franking credits from a New Zealand company** item **7**.

Do not show negative amounts at **R**. Foreign source tax losses may be offset only against foreign source income. Any excess of foreign source tax losses over foreign source income may be carried forward to be offset against future foreign source income of the same class – see the *Foreign income return form guide*, available on our website.

Foreign source capital gains are made by an Australian resident company if a CGT event happens to any of its worldwide CGT assets.

Include any capital gain made from CGT assets in the company's net capital gain for the income year and show it at **A Net capital gain** item **7**. For more information about capital gains tax, see the *Guide to capital gains tax 2005*.

Do not apply debt deductions other than those attributable to an overseas permanent establishment of the taxpayer against foreign source income for the purpose of calculating net foreign income or identifying a foreign loss.

> **NOTE**
>
> Complete a *Losses schedule 2005* if the company has:
>
> - claimed a deduction for foreign source losses
> - current year foreign source losses
> - foreign source losses carried forward to later income years
> - claimed a deduction for prior year CFC losses
> - current year CFC losses
> - CFC losses carried forward to later income years.
>
> For more information, see the *Losses schedule instructions 2005*.

Tax spared foreign tax credits

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

ATTRIBUTED FOREIGN INCOME

Listed country

Show at **B** the amount of attributed foreign income from controlled foreign entities in listed countries. Listed countries are listed in Part 1 of Schedule 10 to the Income Tax Regulations.

Do not include amounts attributed from transferor trusts – see **Transferor trust** below.

Section 404 country

Show at **C** the amount of attributed foreign income from controlled foreign entities in section 404 countries. Section 404 countries are listed in Part 2 of Schedule 10 to the Income Tax Regulations.

Do not include amounts attributed from transferor trusts – see **Transferor trust** below.

Unlisted country

Show at **U** the amount of attributed foreign income from controlled foreign entities in unlisted countries (excluding section 404 countries). Unlisted countries are countries that are not listed countries in Part 1 of Schedule 10 to the Income Tax Regulations.

Do not include amounts attributed from section 404 countries or transferor trusts – see **Transferor trust** below.

Transferor trust

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

Foreign investment fund income

Show at **W** the amount of attributed foreign income from foreign investment funds (FIFs). The term 'foreign investment fund' has the meaning set out in Part XI of the ITAA 1936.

Parliament has passed legislation that changes the FIF rules. Certain qualifying superannuation entities, certain fixed trusts and certain assets of life insurance companies are exempt from the FIF rules for income years beginning on or after 1 July 2003. Other changes to the FIF rules have been made to:

- increase the balanced portfolio FIF exemption for all taxpayers from 5% to 10% for income years beginning on or after 1 July 2003, and
- income from the management of funds is excluded from the FIF regime for notional accounting periods of FIFs beginning on or after 1 July 2003.

Foreign life policy

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

> **NOTE**
> For more information on the calculation of the amounts shown at **B**, **C**, **U** and **V** item **8**, see the *Foreign income return form guide* on our website. For more information on the calculation of the amounts shown at **W** and **X**, see the *Foreign investment funds guide* on our website.

Section 128F exempt interest paid

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

Interest to financial institutions exempt from withholding under a DTA

Show at **I** the total amount of interest paid to United States (US) and United Kingdom (UK) financial institutions that was exempt from withholding tax because of Article 11(3)(b) of Australia's DTAs with those countries.

DTA country

Complete **Y** if you have shown an amount at **I** **Interest to financial institutions exempt from withholding under a DTA**.

Print at **Y** the three letter country code **USA** if the exempt interest payments were to US financial institutions or **GBR** if to UK financial institutions. Print the code for the country where the most exempt interest was paid if payments were made to financial institutions in both countries.

9 STS DEPRECIATING ASSETS

Only complete this item if the company is eligible to enter or continue in the STS and has chosen to do so at item **5 Simplified tax system (STS) elections**.

To complete this item use the amounts the company calculated for STS depreciation deductions at **X** **Depreciation expenses** item **6**:

Low cost assets – show at **A** the total amount the company claimed at item **6** relating to low-cost assets.

General pool assets – show at **B** the total amount the company claimed at item **6** relating to the general STS pool.

Long life pool assets – show at **C** the total amount the company claimed at item **6** relating to the long life STS pool.

> **NOTE**
> Do NOT show at **A**, **B** or **C** the balance of any STS pool or the cost of assets transferred to a pool.

10 LOSSES INFORMATION

Any company which is a subsidiary member of a consolidated group at the end of the 2004–05 income year is not required to complete **U** and **V**. Other companies, including the head company of a consolidated group at the end of the 2004–05 income year, may need to complete **U** and **V**.

Tax losses carried forward to later income years

Show at **U** the unapplied – that is, undeducted or not transferred – amount of tax losses incurred by the company and carried forward to the 2005–06 income year under section 36-17 of the ITAA 1997.

Net exempt income (if any) must be taken into account in calculating the amount of tax losses carried forward to the 2005–06 income year – see sections 36-10 and 36-17 of the ITAA 1997.

Tax losses carried forward may be affected by the commercial debt forgiveness provisions – see appendix 1 on page 75.

Sections 36-17 and 36-55 of the ITAA 1997 ensure that companies do not waste losses against franked dividend income. Under these provisions a company is:

- subject to certain limitations, able to choose the amount of prior year losses it wishes to deduct in a later year of income from the excess, if any, of its assessable income over total deductions (other than tax losses). This rule applies to deductions of tax losses in the year in which 1 July 2002 falls and later years. Providing choice means that companies can choose not to deduct prior year losses in order to pay sufficient tax to be able to frank their distributions
- able to treat a current year loss that would otherwise be incurred but for deriving franked dividend income as a tax loss for that income year and be able to carry forward the tax loss for consideration as a deduction in a later year of income. This rule applies to the income year in which 1 July 2002 falls and later years. The relevant current year loss is determined by reference to the amount of any excess franking offsets.

If the company has excess franking offsets at **H** **Excess franking offsets** item **8**, the entity's tax loss for the income year may be calculated as follows. First, divide the amount of excess franking offsets by the corporate tax rate. Second, add the result of the division to what would have been the entity's tax loss for the year if both the entity's net exempt income for the year, and the excess franking offsets were disregarded. Third, reduce the aggregate amount by the net exempt income (if any) for the income year. The result (if a positive amount) is taken to be the tax loss for the income year. Show this amount at **U** together with any unapplied prior year losses.

If a company is required to complete a *Losses schedule 2005*, the amount of the tax losses shown at **U** **Tax losses carried forward to later income years** in Part A of that schedule must be the same as the amount shown at **U** on the company tax return.

> **NOTE**
> If you have tax losses carried forward from earlier years please see **Review period for loss and nil liability returns** on page 18 for proposed legislative changes that may affect you.

Do not include any net capital losses to be carried forward to later income years at **U** – show these separately at **V** **Net capital losses carried forward to later income years** item **10** and in the CGT schedule, if a CGT schedule is required.

Consolidated groups

If a head company is required to complete a *Consolidated groups losses schedule 2005*, the amount of the tax losses shown at **U** **Tax losses carried forward to later income years** in part A of that schedule must also be the same as the amount shown at **U** on the company tax return.

If the company is a subsidiary member of a consolidated group at the end of the income year, **U** is not applicable.

> **NOTE**
> *Consolidated groups transferred tax losses schedule 2005*
>
> If you are the head company of a consolidated group or multiple entry consolidated (MEC) group with tax losses carried forward from earlier years please see **Review period for loss and nil liability returns** under GENERAL INFORMATION for proposed legislative changes that may affect you.

Net capital losses carried forward to later income years

Show at **V** the total of any unapplied net capital losses from collectables and unapplied net capital losses from all other CGT assets and events. This information is calculated or transferred from:

- **V** in part I of the CGT summary worksheet, or
- **H** and **I** in part I of the CGT schedule, if a CGT schedule is required.

For more information, see the *Guide to capital gains tax 2005*.

If the company is required to complete the *Losses schedule 2005*, the amount of the tax losses shown at **V** **Net capital losses carried forward to later income years** in part A of that schedule must also be the same as the amount shown at **V** on the company tax return.

Consolidated groups

If a head company is required to complete a *Consolidated groups losses schedule 2005*, the amount of the net capital losses shown at **V** **Net capital losses carried forward to later income years** in part A of that schedule must also be the same as the amount shown at **V** on the company tax return.

If the company is a subsidiary member of a consolidated group at the end of the income year, **V** is not applicable.

11 PERSONAL SERVICES INCOME

Does your income include an individual's personal services income?

Print **Y** for yes at **N** item **11** if the company's income includes an individual's personal services income (PSI). Otherwise print **N** for no at **N**.

If you printed **Y** at **N**, complete and attach a PSI schedule to the company tax return.

PSI is income that is mainly a reward for an individual's personal efforts or skills (or would mainly be such a reward if it was derived by the individual).

A company may derive income which includes the PSI of one or more individuals. Examples include:

- income for the services of a professional practitioner in a sole practice
- income derived under a contract which is wholly or principally for the labour or services of an individual
- income for the exercise of professional skills by a professional sportsperson or entertainer
- income for the exercise of personal expertise by a consultant.

PSI does not include income that is mainly:

- for supplying or selling goods – for example, from retailing, wholesaling or manufacturing
- generated by an income-producing asset – for example from operating a bulldozer
- for granting a right to use property – for example, the copyright to a computer program, or
- generated by a business structure – for example, a large accounting firm.

There are special rules for the income tax treatment of PSI earned by contractors and consultants.

If the company receives an individual's PSI other than in the course of conducting a personal services business, and does not promptly pay it to the individual as salary or wages:

- the net amount of PSI is attributed to the individual and is not assessable to the company, and
- certain related expenses are not deductible under the special rules.

For more information, see the *Personal services income schedule instructions 2005* (NAT 3421–6.2005).

Adjustments relating to non-deductible expenses and attributed PSI are included at:

- **W** **Non-deductible expenses** item **7**
- **Q** **Other income not included in assessable income** item **7**.

See worksheet 1 on pages 72–74 and note 5 on page 74.

12 LICENSED CLUBS ONLY

Percentage of non-member income

Show at **A** item **12** the percentage, in whole figures, of total income attributable to non-members – that is, visitors.

13 LIFE INSURANCE COMPANIES AND FRIENDLY SOCIETIES ONLY

A life insurance company is defined for tax purposes in section 995-1 of the ITAA 1997 as a company registered under the *Life Insurance Act 1995* and includes:

- life insurance companies
- life reinsurance companies, and
- friendly societies carrying on life insurance business.

If a friendly society does not conduct life insurance business, write zero (**0**) at **B** to **J** item **13**.

A friendly society that does conduct life insurance business should follow these instructions as a life insurance company.

Life insurance companies separate their taxable income into two classes – the ordinary class and the complying superannuation class – and multiply the taxable income of each class by the appropriate tax rate to determine their gross tax.

Recent amendments to the law ensure that:

- the taxable income of the complying superannuation class and the ordinary class are worked out separately, and
- tax losses of one class can only be applied to reduce future income of the same class.

The tax rates to assist with the calculation of the gross tax amount for life insurance companies are listed at appendix 8 on page 87.

Life insurance companies, including friendly societies carrying on life insurance business, are entitled to a franking tax offset for franked dividends, although mutual friendly societies are not entitled to maintain a franking account.

If franking tax offsets exceed the tax that would be payable after all other tax offsets are taken into account, life insurance companies may be entitled to a refund of the excess to the extent it relates to distributions paid on shares and other membership interests held on behalf of policy-holders. Claim the amount of the excess franking tax offset that is refundable at **Z Other refundable credits** in the **Calculation statement**.

If a life insurance company receives a dividend from a listed investment company which includes a LIC capital gain amount, the life insurance company is entitled to a deduction of 33⅓% of the LIC capital gain amount if the shares in the listed investment company are virtual PST assets. The deduction should be shown at **X Other deductible expenses** item **7**.

If the complying superannuation class of a life insurance company includes a distribution from a partnership or trust that claimed a deduction in respect of a LIC capital gain amount, the life insurance company must add back as income one-third of its share of the deduction claimed by the partnership or trust. Show the amount of income added back at **B Other assessable income** item **7**.

If the ordinary class of a life insurance company includes a distribution from a partnership or trust that claimed a deduction in respect of a LIC capital gain amount, the life insurance company must add back as income its share of the deduction claimed by the partnership or trust. Show the amount of income added back at **B Other assessable income** item **7**.

Note:
The special rules in the income tax law that apply to tax life insurance companies will apply to the head company of a consolidated group if that consolidated group has one or more members that are life insurance companies.

Complying superannuation class

Show at **B** the amount of taxable income of the complying superannuation class.

> **NOTE**
> If the company is a life insurance company that is not a member of a consolidated group and has complying superannuation class tax losses carried forward to later income years or virtual PST net capital losses carried forward to later income years, complete a *Losses schedule 2005*. For more information, see the *Losses schedule instructions 2005*.

Consolidated groups

The head company of a consolidated group that has one or more subsidiary members that are life insurance companies at any time during the income year is also taken to be a life insurance company for the purposes of applying the income tax law.

If the head company has tax losses of the complying superannuation class or net capital losses from virtual PST assets carried forward to later income years, it will need to complete a *Consolidated groups losses schedule 2005*. For more information, see the *Consolidated groups losses schedule instructions 2005*.

Net capital gain – complying super class

Show at **C** the amount of the net capital gain that is included in the virtual PST component of the complying superannuation class of taxable income.

Net capital gain – ordinary class

Show at **D** the amount of the net capital gain that is included in the ordinary class of taxable income.

Gross taxable contributions

Show at **E** taxable contributions of complying superannuation funds that were transferred to the life insurance company and are included in the assessable income of the company under section 275 of the ITAA 1936.

Fees and charges

Show at **F** the amount of all fees and charges included in assessable income. This includes premium based fees, establishment fees, time based account fees, asset fees, switching fees, surrender penalties, buy/sell margins, exit fees and interest on overdue premiums. Do not show any fees and charges that are not assessable income under section 320-40 of the ITAA 1997 at **F** – show these at **J Non-assessable management fees**.

For further information on fees and charges, see *Taxation Ruling TR2003/14: Income Tax: Life insurance companies: the actuarial determination of fees and charges*.

Non-assessable management fees

Show at **J** the amount of any management fees that are not assessable income under section 320-40 of the ITAA 1997.

14 POOLED DEVELOPMENT FUNDS

Small and medium sized enterprises income

Show at **G** item **14** the amount of income received by a pooled development fund from small and medium sized enterprises.

Unregulated investment income

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

PAGE 4 OF THE TAX RETURN

15 RETIREMENT SAVINGS ACCOUNTS (RSAs) PROVIDERS ONLY

RSA providers only are to complete **R** *to* **V**

RSA providers other than life insurance companies separate the RSA component of their income and multiply the net taxable income from RSAs at the appropriate rate. For information on the tax rate, see appendix 8 on page 87.

Gross income of RSAs

Show at **R** the gross income of the RSA provider that is not a life insurance company, or the total amount credited to the RSAs provided by a life insurance company.

This includes gross taxable contributions received by the RSA provider.

Gross taxable contributions of RSAs

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

Total deductions from RSAs

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

Exempt income from RSAs

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

Net taxable income from RSAs

Show at **V** the RSA component of the taxable income of the RSA provider that is not a life insurance company, or the amount to be included in the complying superannuation class of the taxable income of a life insurance company that is referrable to RSAs provided by the company.

16 LANDCARE AND WATER FACILITY TAX OFFSET

The company cannot choose a tax offset for expenditure incurred after the 2000–01 income year on landcare operations or water facilities. A company may have a landcare or water facility tax offset carried forward to this income year if its income tax liabilities and net exempt income for earlier years did not absorb all of the tax offset available to it from a previous year.

Landcare and water facility tax offset brought forward from prior years

Show at **K** the total of any landcare and water facility tax offsets carried forward and available for offset in this income year.

A company must first apply a carried forward tax offset to reduce any unused net exempt income to nil for this year or for any earlier income year in which the company had a

taxable income after the year in which the tax offset arose. Net exempt income is reduced by $1 for each 30 cents of the tax offset.

The company cannot apply a tax offset it has carried forward if Subdivision 165-A of the ITAA 1997 would prevent the company from deducting a tax loss for the current year.

17 INTERNET TRADING

Print **Y** for yes at **Q** item **17** if, in deriving income, the company used the internet to:

- receive orders for goods and/or services. For example, the company received orders by email or a web page form – rather than by conventional post, telephone or facsimile
- receive payment for goods and/or services. For example, the company received:
  - credit card or charge card details by email or web page form, rather than by conventional post, telephone or facsimile
  - digital cash
- deliver goods and/or services. For example, the company:
  - used email, the world wide web (www) or file transfer protocol (FTP) to deliver digitised music, news articles or software, rather than conventional post to deliver software on a floppy disk
  - used email, in conjunction with a website, to give advice and received a payment in connection with this advice
  - advertised goods or services of other businesses for a fee on the internet
  - hosted websites, or
  - provided access to the internet.

Print **N** for no at **Q** if the company only used the internet to:

- advertise the company's goods or services
- give support to the company's customers
- buy the company's stock
- do the company's banking online.

ITEMS 18 TO 23 – OVERSEAS TRANSACTIONS OR INTERESTS/THIN CAPITALISATION/FOREIGN SOURCE INCOME

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

Agents for non-residents

If a tax return that includes income or deductions from only the following activities is lodged in accordance with the following sections of the ITAA 1936 and does not include income or deductions from any other source, print **N** for no at **X** item **18**, **Y** item **19** and **Z** item **20**. Do not complete a *Schedule 25A 2005*.

TABLE 13

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

Dividends as the only international transactions

If dividends were paid to or received from a related overseas entity and those dividends were the only transactions with related overseas entities, print **N** for no at **X** item **18** and **Y** item **19** in respect of overseas transactions and do not complete Section A of *Schedule 25A 2005*. Answer items **20**, **21**, **22** and **23** as required.

Schedule 25A and the thin capitalisation schedule

If you need to lodge a *Schedule 25A 2005* or *Thin capitalisation schedule 2005*, see the instructions to these schedules for more information.

18 DID YOU HAVE ANY TRANSACTIONS OR DEALINGS WITH INTERNATIONAL RELATED PARTIES (IRRESPECTIVE OF WHETHER THEY WERE ON REVENUE OR CAPITAL ACCOUNT)?

Print **Y** for yes or **N** for no at **X** item **18**.

'International related parties' are persons, including permanent establishments, who are parties to international dealings that can be subject to Division 13 of the ITAA 1936 and/or the business profits article, or associated enterprises article, of a relevant double tax agreement. The term includes the following:

- any overseas entity or person who participates directly or indirectly in the company's management, control or capital
- any overseas entity or person in respect of which the company participates directly or indirectly in the management, control or capital

- any overseas entity or person in respect of which persons who participate directly or indirectly in its management, control or capital are the same persons who participate directly or indirectly in the company's management, control or capital
- a permanent establishment and its head office
- two permanent establishments of the same person.

'Participates' includes a right of participation, the exercise of which is contingent on an agreed event occurring. 'Person' has the same meaning as in subsection 6(1) of the ITAA 1936 and section 995-1 of the ITAA 1997.

The type of 'dealings or transactions' that will require the entity to print **Y** for yes at this question are dealings by the entity with related parties as above, such as an overseas holding company, overseas subsidiary, an overseas permanent establishment of the entity, or a non-resident trust in which the entity has an interest. These dealings or transactions may be the provision or receipt of services, or transactions in which money or property has been sent out of Australia, or received in Australia from an overseas source during the income year. The dealings may also include transfer of tangible or intangible property, provision or receipt of services, or the provision or receipt of loans or financial services.

If money or property is not actually sent out of Australia or received in Australia, but accounting entries are made that have the effect of money or property being transferred, this is also to be taken as an international transaction.

19 WAS THE AGGREGATE AMOUNT OF THE TRANSACTIONS OR DEALINGS WITH INTERNATIONAL RELATED PARTIES (INCLUDING THE VALUE OF PROPERTY TRANSFERRED OR THE BALANCE OUTSTANDING ON ANY LOANS) GREATER THAN $1 MILLION?

Print **Y** for yes or **N** for no at **Y** item **19**.

The aggregate amount of the dealings is the total amount of all dealings, whether on revenue or capital account, and includes the balance of any loans or borrowings outstanding with international related parties.

If the answer is yes, complete Section A of *Schedule 25A 2005*, together with any other relevant part of the schedule. Attach the completed schedule to the company tax return.

20 OVERSEAS INTERESTS

Did you have an overseas branch or a direct or indirect interest in a foreign trust, controlled foreign entity, transferor trust, foreign investment fund or foreign life policy?

Print **Y** for yes or **N** for no at **Z** item **20**.

You must answer yes if the company received a dividend or other amount that is treated as non-assessable non-exempt income under section 23AH, 23AI, 23AJ, 23AK or 99B(2A) of the ITAA 1936.

If the answer is yes, complete section B and any other relevant part of *Schedule 25A 2005*. Attach the schedule to the company tax return, and lodge it with the tax return.

The 'interests' in item **20** that will require the entity to complete the schedule are those where:

- the entity has an interest in a controlled foreign company or trust
- the entity has an interest in a foreign investment fund or foreign life assurance policy, or
- the entity has transferred property, at any time, including money or services, to a non-resident trust, or is able to influence the decisions relating to a non-resident trust.

An interest in a controlled foreign company or trust may be either direct or indirect, and has the same meaning as set out in Division 3 Part X of the ITAA 1936.

An interest in a foreign investment fund or foreign life assurance policy has the same meaning as set out in section 483 of the ITAA 1936.

A company has an interest in a transferor trust if the company has ever made, or caused to be made, a transfer of property or services to a non-resident trust. 'Transfer', 'property' and 'services' are defined in section 102AAB of the ITAA 1936. Sections 102AAJ and 102AAK of the ITAA 1936 provide guidance in relation to whether there has been a transfer or deemed transfer of property or services to a non-resident trust.

21 THIN CAPITALISATION

Did the thin capitalisation provisions apply as outlined in the instructions and the *Guide to thin capitalisation*?

Print **Y** for yes or **N** for no at **O** item **21**. If the answer is yes, complete a *Thin capitalisation schedule 2005*. This schedule is now available through the electronic lodgment service (ELS), or complete the paper schedule and post it to:

Australian Taxation Office
PO Box 1365
ALBURY NSW 2640

For information on whether the thin capitalisation provisions apply, see appendix 3 on page 80 and the *Guide to thin capitalisation*, available on our website.

22 FOREIGN SOURCE INCOME

Was the amount of foreign tax credits paid or carried forward greater than $100,000 OR was the amount of assessable foreign income greater than $500,000?

Print **Y** for yes or **N** for no at **P** item **22**.

Assessable foreign income is all income sourced from overseas, and includes interest, dividends, attributable foreign income, and foreign sourced capital gains.

23 TRANSACTIONS WITH SPECIFIED COUNTRIES

Did you directly or indirectly send to, or receive from, one of the countries specified in the instructions, any funds or property, or

Do you have the ability or expectation, to control, whether directly or indirectly, the disposition of any funds, property, assets or investments located in, or located elsewhere but controlled or managed from one of those countries?

Print **Y** for yes or **N** for no at **I** item **23**.

The specified countries are in table 14:

TABLE 14 SPECIFIED COUNTRIES

Andorra	Cook Islands	Liechtenstein	Samoa
Anguilla	Cyprus	Malta	San Marino
Antigua & Barbuda	Dominica	Marshall Islands	Seychelles
Aruba	Gibraltar	Mauritius	St Kitts and Nevis
Bahamas	Grenada	Monaco	St Lucia
Bahrain	Guernsey	Montserrat	St Vincent and the Grenadines
Belize	Isle of Man	Nauru	Turks and Caicos Islands
Bermuda	Jersey	Netherlands Antilles	US Virgin Islands
British Virgin Islands	Labuan	Niue	Vanuatu
Cayman Islands	Liberia	Panama	

CALCULATION STATEMENT

This statement works out the tax liability, if any, where there is a taxable or net income. It also takes into account amounts which reduce the tax liability. The final outcome is the net amount the company must pay or we will refund.

We use the information you provide at certain labels of the **Calculation statement** to calculate the Commissioner's instalment rate and the Commissioner's instalment amount for taxpayers under the PAYG instalment system for the next income year. Complete all labels as accurately as possible to ensure that the rate and instalment amounts we calculate result in a reliable estimate of your tax payable for the 2005–06 income year.

To work through the **Calculation statement** on the tax return, begin with the right hand column. Two of the labels in the right hand column (**G Total** of **D** and **E**, and **R Total of T, V, I, W, Y, U and Z**) require certain labels in the left hand column to be completed so that the total (or the reduced total where required) can be inserted at the appropriate label.

NOTE
Labels **A**, **B**, and **S** are compulsory.

Calculation statement

Left column	Label			Right column	Label	
				Taxable or net income	A	·00
Foreign tax credits	D	:		Gross tax	B	:
Franking deficit tax offset	E	:	*Less:*	Rebates/tax offsets	C	:
PAYG instalments raised	T	:		Tax assessed		:
Credit for interest on early payments – amount of interest	V	:	*Less:*	**Total of D and E**	G	:
Credit for tax withheld – foreign resident withholding	I			**Tax payable**		:
Credit for tax withheld where ABN not quoted	W		*Add:*	Section 102AAM interest	H	:
Tax withheld from interest/investments	Y	:	*Less:*	Total of T, V, I, W, Y, U and Z	R	:
R&D tax offset	U	:		Total amount of tax payable (+) or refundable (–)	S	: F
Other refundable credits	Z	:				

Taxable or net income

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

If the 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.

Show at **A** the amount of taxable income of $1 or more. This is the amount shown at **T Taxable income or loss** item **7**.

Print zero (**0**) at **A** if the company has no taxable income or has a loss amount shown at **T Taxable income or loss** item **7** with **L** in the box at the right of the amount.

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

Gross tax

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

The tax rates applicable to companies are listed at appendix 8 on page 87.

Rebates/tax offsets

Show at **C** the total of actual rebates/tax offsets available – in dollars and cents – and not the amounts giving rise to those tax offsets.

Tax offsets to be shown at **C** include:

- allowable franking tax offsets for the income year. The amount claimed here should include the share of franking credit included in gross distributions from partnerships and gross distributions from trusts, the amount recorded at **J Franking credits** item **7** and the amount recorded at **C Australian franking credits from a New Zealand company** item **7**. If the shares or relevant interest are not held at risk as required under the holding period and related payments rules, or there is other manipulation of the imputation system, there is no entitlement to a franking tax offset
- tax offsets for bonuses and certain other amounts received under short-term life insurance policies taken out after 27 August 1982
- tax offsets for interest on certain government and semi-government securities
- tax offsets on approved heritage conservation expenditure – see appendix 6 on page 82
- tax offsets to approved resident lenders for infrastructure borrowings – see appendix 5 on page 82.

Do NOT show at **C**:

- tax offsets for the intercorporate dividend rebate which is no longer available
- any foreign tax credit – show these amounts at **D Foreign tax credits**
- any franking deficit tax offset – show this amount at **E Franking deficit tax offset**
- any R&D tax offset – show this amount at **U R&D tax offset.**

The rebates/tax offsets shown at **C** are not refundable nor can they be carried forward – they can only be offset against gross tax. If the total of rebates/tax offsets is more than the amount at **B Gross tax**, reduce the amount at **C** so that it equals the amount at **B**. The aggregate amount at **C** cannot exceed **B Gross tax**.

By contrast, the following tax offsets are subject to refundable tax offset rules:

- R&D tax offset
- film tax offset under Division 376 of the ITAA 1997
- franking tax offsets claimed by life insurance companies to the extent they relate to distributions paid on shares and other membership interests held on behalf of policy-holders
- franking credits claimed by endorsed income tax exempt charities and deductible gift recipients that are entitled to a refund of excess franking credits. These entities may complete the *Application for refund of franking credits – endorsed income tax exempt charities and deductible gift recipients* rather than the company tax return to obtain a refund.

The company may have a refundable amount to the extent that the total of these tax offsets exceeds the tax that would otherwise be payable by the company after all its other tax offsets are taken into account. Show the R&D tax offset at **U R&D tax offset** and the excess of other refundable tax offsets at **Z Other refundable credits** not at **C**.

Record keeping

Keep a record of the following:

- **for franking tax offsets**:
- the distribution statement which contains:
  - name of the payer
  - date the dividend was received or credited
  - franked amount of the dividend
  - unfranked amount of the dividend
  - franking credit allocated to the dividend
  - amount of franking credit tax offsets allowable for each franked dividend received
  - franking percentage of the dividend
- and other records to substantiate:
  - deductions relating to dividends
  - 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 tax offsets claimed, were acquired and disposed

- **for short-term life insurance policies**:
  - a copy of the policy
  - the amount of the bonus included in assessable income under section 26AH of the ITAA 1936
- **for interest on certain government and semi-government securities**:
  - a copy of the security documentation
  - the amount of gross interest received or credited
  - deductions solely referable to the gross interest
- the type of tax offset
- the amount claimed for each type.

Tax assessed

Gross tax **B** less rebates/tax offsets **C** equals the amount at **Tax assessed**. This cannot be a negative amount – see **Rebates/tax offsets** on page 65.

Foreign tax credits

Show at **D** allowable foreign tax credits.

The company may be able to claim a foreign tax credit for foreign tax it has paid on foreign income, as well as certain types of income or profits or gains, **only** if the conditions in section 160AF of the ITAA 1936 are satisfied. The certain types of income or profits or gains are those that are derived from a source covered by an international tax sharing treaty to the extent that income is taxable in Australia.

The Australian resident company may be entitled to a credit of the lesser of:

- the foreign tax paid – reduced by any foreign relief
- the Australian tax payable in respect of that income, profit or gain

where it is an Australian resident, includes that income, profit or gain within its assessable income (upon which foreign tax was paid or taken to have been paid) and it was personally liable or taken to be personally liable for the foreign tax paid on that income, profit or gain.

When determining whether a foreign tax credit is allowable, the company must refer to and adhere to the provisions of Division 18 of Part III (including section 160AF), and the other relevant provisions of the ITAA 1936.

Note specifically the following key points:

- Subsection 160AF(7) of the ITAA 1936 requires the quarantining of foreign income into its four categories – passive income, offshore banking income, section 27CAA of the ITAA 1936 income and other income. You must calculate foreign tax credits separately for each class of foreign income. You can only apply an allowable foreign tax credit arising from a particular class of foreign income against that class of foreign income.
- You cannot claim a foreign tax credit for amounts of foreign income included under section 459A of the ITAA 1936.
- You cannot claim a foreign tax credit in certain circumstances where there has been a refund of foreign tax or benefit in respect of the payment of foreign tax – see subsection 6AB(5A) of the ITAA 1936.
- You can only carry forward allowable excess foreign tax credits for a period of five years, you can apply them against the same class of foreign income and you must utilise them in the order in which they arise – see section 160AFE of the ITAA 1936.
- Show allowable foreign tax credits for foreign tax foregone on foreign income by foreign countries under tax sparing arrangements at **D** – see subsection 6AB(5), 6AC and 160AFF of the ITAA 1936.
- You may be able to claim foreign tax credits for overseas tax paid on certain shipping income – see Division 18B of Part III of the ITAA 1936.
- Foreign tax credits of a head company of a consolidated group will reflect any excess foreign tax credits transferred to it from subsidiary members who joined the group during the year. Special consolidation provisions govern the use of those credits by the head company. See the *Consolidation reference manual* for additional information.

The company can self-determine foreign tax credits under section 160AIA of the ITAA 1936. For more machinery provisions, see Division 19 of Part III of the ITAA 1936. For more information on how to calculate the company's allowable foreign tax credits, see the *Foreign income return form guide*.

Franking deficit tax offset

Show this amount at **E**.

Taxation Laws Amendment Act (No. 8) 2003 inserted rules in the simplified imputation system to allow entities which have incurred a franking deficit tax (FDT) liability to offset the whole or part of this amount against an income tax liability. Some special rules apply to life insurance companies to ensure that an FDT liability can only be offset against that part of the company's income tax liability that is attributable to shareholders. More information on calculating FDT offset for life insurance companies is at our website.

The new FDT offset rules contain provisions that replace the franking additional tax penalty provisions which operated under the former imputation rules. The new rule reduces the amount of FDT that an entity can offset against its income tax liability. For further information on how to calculate this amount, refer to the *Franking account tax return 2005 instructions*.

A corporate tax entity will be entitled to apply an FDT offset to reduce its income tax liability for an income year if it satisfies the residency requirement and at least one of the following three conditions are met:

- it incurred a liability to pay FDT in that year
- there is an amount of FDT offset carried forward from a previous year, and not all the FDT offset could be applied against a previous income tax liability

- it incurred a liability to pay FDT in a previous year when it did not meet the residency requirement, and that liability has not been included in calculating an FDT offset.

Generally, an entity satisfies the residency requirement for an income year if it is an Australian resident for more than one half of the year, or it is a resident at all times during the year when it exists.

To determine the amount of the FDT offset to which the company is entitled for the income year if it satisfies the residency requirement, use the following method statement to calculate the correct amount.

> **NOTE**
> These steps are modified for certain late balancing entities under section 205-70 of the *Income Tax (Transitional Provisions) Act 1997*. For more information, see **Late balancing entities – special rules** on page 69.

Step 1: Work out the amount of FDT that the entity has incurred a liability to pay in the income year. Reduce this by 30% if it exceeds 10% of the total amount of franking credits that arose in the franking account in that year. This amount is equal to the amount you completed in **C Offsettable portion of current year FDT** in the *Franking account tax return and instructions 2005*.

Step 2: For each previous income year for which the entity did not meet the residency requirement work out the amount of FDT liability that was incurred in that year and has not previously been included in calculating an FDT offset. Reduce each of these amounts by 30% if it exceeds 10% of the total amount of franking credits that arose in the franking account for that income year.

Step 3: Add up the amounts covered by step 2 for all the previous income years covered.

Step 4: Work out the amount of any FDT offset that has been excess in a previous year (that is, has exceeded the tax liability for a previous year after applying all other tax offsets) and has not previously been included in calculating an FDT offset.

Step 5: Add up the totals of steps 1, 3 and 4. This amount is the FDT offset that the entity is entitled to for the income year.

The amount calculated at step 5 is the entity's entitlement to the FDT offset. This amount is not necessarily the same as the actual amount that can be claimed this year in the **Calculation statement** at **E Franking deficit tax offset**. The amount that can be claimed this year is limited to the amount that would be the income tax liability after all other tax offsets (including foreign tax credits and refundable tax offsets) have been deducted. Any excess is carried forward and taken into account in calculating the amount of FDT offset for the next income year for which the entity satisfies the residency requirement.

EXAMPLE 9

Square Co Pty Ltd has calculated that it is entitled to an FDT offset of $3,000 for its 2004–05 income year.

Square Co Pty Ltd's final tax liability for 2004–05 is calculated as follows:

	$	$	$
Sales income	25,000		
Dividends received	2,000		
Franking credits received	857		
ASSESSABLE INCOME	27,857		
Less			
Deductions	12,000		
Carry forward loss	5,000		
TAXABLE INCOME	10,857		
Tax on taxable income (30%)	3,257		
Less franking tax offset	857		2,400
Less FDT offset		3,000	
Excess FDT offset			(600)
TAX PAYABLE	0		

While Square Co Pty Ltd is entitled to an amount of $3000 FDT offset, it will only show an amount of $2,400 as the amount that can be claimed in the **Calculation statement** at **E Franking deficit tax offset.** This means that $600 of the FDT offset has exceeded the income tax liability in the 2004–05 income year. Therefore, when calculating the FDT offset for the 2005–06 income year, $600 will be included at step 4 and may be able to be offset in calculating any income tax liability (after all other tax offsets) for the 2005–06 income year.

30% reduction in FDT that can be offset

Steps 1 and 2 in the above method statement show that the amount of the FDT offset that the company can claim may have to be reduced in some situations. The FDT offset will be reduced by 30% if the amount of FDT liability for the income year exceeds 10% of the total amount of franking credits that arose in the franking account in that year. This amount is equal to the amount you completed in **C Offsettable portion of current year FDT** in the *Franking account tax return and instructions 2005*.

EXAMPLE 10

In the 2004–05 income year Stripe Co Pty Ltd's franking account has a $3,000 deficit at the end of the income year, resulting in the company incurring a liability for FDT of this amount. The company's franking account showed that there were franking credits of $10,000 that arose during the year. As the franking deficit is greater than 10% of the total franking credits that arose during the year, Stripe Co Pty Ltd will therefore only be able to offset $2,100 of its FDT liability of $3000 against its current or future income tax liabilities. The remaining $900 will not be offsettable at any time.

NOTE

This rule replaces the former franking additional tax that was imposed where there had been excessive over-franking by a company.

NOTE

1 Government announcement on 11 May 2004 which may affect private companies

On 11 May 2004, the Government announced that it would amend the simplified imputation system to ensure that, the 30% reductions in steps 1 and 2 of the method statement above do not apply in working out the amount of the tax offset to which the entity is entitled for the relevant year if:

– the entity is a private company for the relevant year; and
– if the company did not have the tax offset (but had all its other tax offsets) it would have had an income tax liability for the relevant year; and
– the amount of the income tax liability for the relevant year is at least 90% of the amount of the deficit in the company's franking account at the end of the relevant year; and
– the company has not had an income tax liability for any income year before the relevant year.

Tax Laws Amendment (2005 Measures No. 2) Bill 2005 which contains the amendments to the simplified imputation system was introduced into Parliament on 17 March 2005. As introduced the Bill provides that the amendments will apply in relation to the income year in which the Bill receives Royal Assent and to later income years. At the time of printing these instructions the Bill had not been enacted.

2 May 2005 Budget announcement of further changes to the franking deficit tax offset rules

In press release 30/2005 of 10 May 2005 the Minister for Revenue and Assistant Treasurer announced that the Government will modify the franking deficit tax offset rules to remove some unintended consequences.

The modifications proposed will apply from 1 July 2002 and will ensure that:

– the franking deficit tax offset penalty will apply only for those income years in which a corporate tax entity franks a distribution during the income year for which the franking deficit arises
– franking debits arising as a result of the application of a penalty provision in the income tax law will be disregarded when determining the amount of an entity's tax offset arising from its franking deficit tax liability
– full franking deficit tax offset will be allowed where, broadly, events that caused excessive over franking were outside of the company's control or were unanticipated, and did not involve any broader exploitation of the imputation system.

At the time of printing the amendments to give effect to these changes had not been introduced into Parliament. Once these rules are enacted, the Tax Office will contact you if any of them may apply to you.

For further information on the application of these amendments please refer to the fact sheet *Simplified Imputation: Franking deficit tax offset*. This fact sheet is available on our website.

Priority of the tax offset

The amount of the FDT offset that can be claimed this year cannot exceed the amount that would have been the entity's income tax liability if it did not have the FDT offset, but had all its other tax offsets (including foreign tax credits and refundable tax offsets).

EXAMPLE 11

For the 2004–05 income year Circle Co has:

- a franking deficit tax liability of $60,000 (the company's FDT liability at the end of the income year) and an unapplied FDT offset from a previous year of $20,000
- before its tax offsets are applied, Circle Co has gross tax for the income year of $100,000, and
- an entitlement to a foreign tax credit of $80,000.

You must apply the foreign tax credit before you apply the FDT offset. As a result, that credit and $20,000 of the FDT offset combine to reduce the Circle Co's income tax liability to nil. Circle Co will include the remaining $60,000 of the FDT offset in the FDT offset for the next income year for which the company satisfies the residency requirement.

NOTE

If you have refundable tax offsets, before you can calculate the amount to include at **E**, complete **B Gross tax**, **C Rebates/tax offsets**, **D Foreign tax credits**, **U R&D tax offset** and **Z Other refundable credits** if applicable.

To calculate the amount to include at **E Franking deficit tax offset** use the following steps:

- Add up any amounts you have at **C Rebates/tax offsets**, **D Foreign tax credits**, **U R&D tax offset** and any other refundable tax offsets shown at **Z Other refundable credits**

- If the total of these offsets is greater than the amount of gross tax shown at **B** **Gross tax**, the company is not eligible to claim an amount of FDT offset at **E**. This amount will be carried forward to the next income year in which the company satisfies the residency requirement.
- If these offsets amount to less than the amount shown at **B** **Gross tax**, the company is entitled to an FDT offset at **E** equal to the lesser of:
  - its FDT offset entitlement, or
  - the difference between the gross tax and those offset amounts.

EXAMPLE 12

Triangle Co has the following amounts to calculate in its *Company tax return 2005* as follows:

Gross tax	**B**	$1,000
Rebates/tax offsets	**C**	$800
Tax assessed		$200
R&D tax offset	**U**	$500

The company has calculated an entitlement to a FDT offset of $150 for 2004–05.

As **C** and **U** ($1300) are greater than the amount of gross tax at **B** ($1,000), the total amount of tax payable or refundable will be determined by applying the R&D tax offset of $500 against tax assessed of $200. This will result in an amount refundable of $300 that is shown at **S** **Total amount of tax refundable**. Triangle Co cannot claim any of the $150 FDT offset at **E** in the 2004–05 income year. Triangle Co will carry forward this amount to the next income year and include it in working out the amount to include at **E** **Franking deficit tax offset** in the calculation statement in its *Company tax return 2006*.

For more information, see the fact sheet *Simplified imputation: Franking deficit tax offset* on our website.

Late balancing entities – special rules

There are special rules that apply to calculating the amount of an FDT offset for late balancing entities where:

- the late balancing entity has made an election to have its FDT liability determined on 30 June instead of at the end of its income year, and
- the entity ceases to be a franking entity (or joins a consolidated group) between 30 June and the end of its income year.

These rules ensure the 30% reduction works appropriately for these entities. For more information on these special rules for late balancing entities, see the fact sheet *Simplified imputation – FDT offset for late balancers* on our website.

NOTE

The amount completed at **E** **Franking deficit tax offset** in this return will not necessarily be the same as the amount shown at section B **C** **Offsettable portion of current year FDT** in the *Franking account tax return 2005*. See the *Franking account tax return and instructions 2005* for information on how to complete section B **C** **Offsettable portion of current year FDT**.

Total of D and E

The amount calculated at **G** is not refundable – it can only reduce tax assessed.

Add the amounts shown at **D** and **E**.

If the total of **D** and **E** is less than or equal to the amount at **Tax assessed**, show the total at **G**.

If the total of **D** and **E** is more than the amount at **Tax assessed**, reduce the total so that the amount shown at **G** equals the amount at **Tax assessed**.

Tax payable

Subtract the amount at **G** from the amount at **Tax assessed**. The amount shown at **G** must be less than or equal to the amount at **Tax assessed**. Tax payable cannot be a negative amount.

Section 102AAM interest

Show at **H** any Section 102AAM interest relating to a distribution received from a non-resident trust. Section 102AAM of the ITAA 1936 imposes an interest charge on certain distributions from non-resident trusts. See chapter 2 of the *Foreign income return form guide,* available on our website.

PAYG instalments raised

Show at **T** the total of the company's PAYG instalments for the income year of the tax return, whether or not the instalments have actually been paid.

Include in the total instalment amount either:

- the amount(s) pre-printed at **T7** on the company's quarterly activity statements or at **T5** on its annual instalment activity statement (if it used the instalment amount/s worked out by the Tax Office which it did not vary) OR
- the amount(s) the company reported at **5A** on its activity statement(s), reduced by any credit(s) it claimed at **5B** (if it did not use the instalment amount/s worked out by the Tax Office).

To ensure the company receives the correct amount of credit for its PAYG instalments, make sure all of its activity statements are lodged before its income tax return is lodged. Lodge any outstanding activity statements even if the company has paid the instalments, or had nothing to pay.

The company is entitled to a credit for its PAYG instalments even if it has not actually paid a particular instalment.

However, the company will be charged interest for any outstanding instalment for the period from the due date for the instalment until the date it is fully paid.

This label is only to be used for the quarterly or annual instalments raised during the financial year. The amount recorded at the label must not include ('wash up') or residual payments.

Members of consolidated groups

A head company is entitled to claim credit for its own instalments plus any subsidiary member's instalments that are attributable to the period the subsidiary was a member of the consolidated group during the head company's income year.

If a subsidiary was a member of a particular consolidated group for only part of the head company's income year, the head company can claim an amount of instalment credit that can be reasonably attributed to the period the subsidiary member was part of the head company's consolidated group.

Show at **T** the total amount of instalments as above for the head company and those claimed for subsidiary members.

Instalment credits belonging to a subsidiary member not attributable to and claimed by a head company may be claimed by the subsidiary member against its assessment.

Credit for interest on early payments – amount of interest

Show at **V** only the calculated interest amount of 50 cents or more for early payment. Do not show actual payments.

The company may be entitled to interest if it makes an actual payment on account of certain amounts more than 14 days before the due date of payment. Amounts which may attract early payment interest are payments of:

- income tax, and
- interest payable under Section 102AAM.

Amounts which are not directly paid, but are reduced by the crediting or applying of an amount do not attract early payment interest. These amounts include:

- credit for instalments payable under the PAYG instalment regime
- credit for amounts withheld from withholding payments under the PAYG withholding regime
- an overpayment of other income tax liabilities
- a running balance account (RBA) surplus, and
- any other credit entitlement arising under a taxation law.

Early payment interest is also not payable on:

- any component of the payment that exceeds the amount due
- an amount for any period during which that amount also attracts interest on overpayment.

Calculate early payments interest from the date the early payment is made to the date the amount becomes due and payable. However, if an amount paid early on account of a tax liability is refunded before the due and payable date of the liability, interest does not accrue for the period after the date the amount is refunded.

Date of payment is:

- the date shown on the receipt for payment to the Tax Office
- the date payment is posted to the Tax Office plus three days
- the date shown on the taxpayer's bank statement if payment is made through direct debit – that is, electronic funds transfer (EFT).

TABLE 15

Interest rates for early payment calculation:

Quarter	Interest rate (pa)
Jul–Sep 2004	5.51%
Oct–Dec 2004	5.44%
Jan–Mar 2005	5.43%
Apr–Jun 2005	5.63%

If the early payment extends over two or more interest periods, calculate the interest for the number of days in each period.

Interest is calculated as follows:

$$\text{Interest} = \frac{\text{Number of days}}{365^*} \times \text{amount of payment} \times \frac{\text{interest rate for period}}{100}$$

*366 for a leap year

Keep a record of the amount of early payments interest claimed. This interest is assessable as income in the income year it is paid or credited against another liability.

Credit for tax withheld – foreign resident withholding

Show at **I** the total tax withheld from payments made to the company that were subject to foreign resident withholding. This includes any share of credits received by the company from a partnership or trust.

If an amount of tax withheld is shown at **I**, ensure you show the corresponding gross payment at **Income**, **B** item **6**.

Credit for tax withheld where ABN not quoted

Show at **W** the total tax withheld from payments subject to withholding where an ABN was not quoted.

This amount equals the sum of the amounts shown in the tax withheld boxes on the *Non-individual PAYG payment summary schedule 2005*. For instructions on completing the schedule, see page 6.

Do not include any share of tax withheld from a partnership or trust distribution where an ABN was not quoted. This is shown at **Z** **Other refundable credits**.

If an amount of tax withheld is reported at **W**, declare the corresponding gross payment at **Income**, **A** **Gross payments where ABN not quoted** item **6**.

Tax withheld from interest/investments

Show at **Y** any amounts withheld from investment income by an investment body because the company did not provide a TFN or ABN and which have not been refunded already to the company.

Record keeping

Keep the following details of credits for amounts withheld from investments:
- all documentation issued by the investment body detailing payments of income and any amounts withheld from those payments
- details of any amounts withheld from an income payment made to the company and subsequently refunded by the investment body.

Keep the following details of refund receipts:
- amount of refund received
- date of refund
- investment reference number – for example, the bank account number of the investment relating to refund.

R&D tax offset

Show at **U** the amount shown at **U R&D tax offset amount** in part E, item **3** of the *Research and development tax concession schedule 2005*.

Note:
- **U** is 30% of the amount shown at **Y R&D tax offset** item **7**, if chosen.
- Companies claiming the R&D tax offset must have registered their R&D activities with AusIndustry prior to making the claim.

Other refundable credits

Show at **Z**:
- the company's share of credit from a partnership or trust for tax withheld where an ABN was not quoted
- the refundable amount of franking tax offsets – including venture capital franking tax offsets and franking tax offsets arising from Australian franking credits attached to a dividend received from a New Zealand company – for life insurance companies to the extent they relate to distributions paid on shares and other membership interests held on behalf of policy-holders
- franking credits for endorsed income tax exempt charities and deductible gift recipients entitled to claim a refund of excess franking credits. These entities may complete the *Application for refund of franking credits – endorsed income tax exempt charities and deductible gift recipients* rather than the company tax return to obtain a refund
- any refundable amount of the film tax offset under Division 376 of the ITAA 1997. For more information, see *Australian film industries incentives 2005* (NAT 0954–6.2005).

Do not include at **Z** those credits included in the **Calculation statement** at **D Foreign tax credits**. Also, do not include at **Z** any amounts that relate to PAYG instalments. Include these at **T PAYG instalments raised**.

Total of T, V, I, W, Y, U and Z

Show at **R** the total of the amounts at **T**, **V**, **I**, **W**, **Y**, **U** and **Z**.

Total amount of tax payable (+) or refundable (–)

Show at **S** the balance of tax payable (+) or refundable (–). This amount is calculated as the sum of the amounts shown in the **Calculation statement** at **Tax payable** (+), **H** (+) and **R** (–).

The amount at **S** does not take into account any interim or voluntary payments the company has made against its income tax liability for the year of this return. If the company has made such payments, take these into account in calculating the company's final payment but do not show the amounts on this tax return.

Send the company's payment to the address on the pre-identified payment slip. If the company has not received one, see appendix 11 on page 92.

Do NOT send the company's payment with the *Company tax return 2005*.

For lodgment addresses, see appendix 10 on page 92.

TAX AGENT'S DECLARATION

If the tax agent is a partnership or a company, this declaration must be signed in the name of the partnership or company by a person who is registered as a nominee of that partnership or company. Print that person's name at this item also.

DECLARATION

Public officer

The public officer is responsible for doing all things required by the company under section 252 of the ITAA 1936 or the Regulations. In case of default the public officer is liable to the same penalties. For example, the public officer is responsible for lodging the company tax return. If the tax return is lodged late the public officer may be liable for a failure to lodge on time penalty.

Include in the declaration a signature, date, name, title and telephone number for the public officer.

Hours taken to prepare and complete this tax return

We are committed to reducing the costs involved in complying with your taxation obligations. By completing **J** you will help us to monitor these costs as closely as possible. Your response to this question is voluntary.

When completing this question consider the time, rounded up to the nearest hour, that your business spent:
- reading the instructions
- collecting the necessary information to complete this tax return
- making any necessary calculations
- actually completing this tax return and/or putting the tax

affairs of your business in order so the information can be handed to your tax agent.

The answer should relate to the time both you and your tax agent spent in preparing and completing your tax return. This includes the time spent by any other person whose assistance was obtained in doing this, such as an employee.

> **!** TAX AGENTS
> If you are preparing this tax return on behalf of your client, please consult with your client to obtain a reliable estimate.

WORKSHEET 1 OTHER RECONCILIATION ITEMS

This worksheet caters for those items that reconcile **T Total profit or loss** item **6** with **T Taxable income or loss** item **7** other than those items specifically included in item **7**. This statement is not an exhaustive list. All references to accounts below are taken to mean the company's profit and loss account.

Additions to **T Total profit or loss** item **6** not covered by item **7**:

- **A Net capital gain**
- **U Non-deductible exempt income expenditure**
- **J Franking credits**
- **C Australian franking credits from a New Zealand company,** and
- **D Accounting expenditure in item 6 subject to R&D tax concession**

are specified under **B Other assessable income** on this page and **W Non-deductible expenses** on page 73. Show the total for income related add-back items at **B Other assessable income** item **7** and the total for expense-related add-back items at **W Non-deductible expenses** item **7**.

Subtractions from **T Total profit or loss** item **6** not covered by item **7**:

- **C Section 46FA deduction** to **V Exempt income**
- **R Tax losses deducted**, and
- **S Tax losses transferred in**

are specified under **Q Other income not included in assessable income** and **X Other deductible expenses** on page 73. Show the total for income-related subtraction items at **Q** and the total for expense related subtraction items at **X**.

In some cases a reconciliation adjustment at item **7** adds back or subtracts the whole of an amount shown at item **6** and a separate label at item **7** shows the amount for income tax purposes. For example, depreciation as per the accounts is shown at item **6** and added back in full at **W Non-deductible expenses** item **7**. The deduction for the decline in value of depreciating assets is listed at **F Deduction for decline in value of depreciating assets** item **7**.

B Other assessable income

(assessable income not shown in accounts)

Adjustments to income derived	
– increase in interest	$...........
– increase in dividends	$...........
– increase in partnership distribution	$...........
– increase in trust distribution	$...........
– year-end sales cut-off adjustment	$...........
Assessable balancing adjustment amounts on depreciating assets – see appendix 7	$...........
See note 4 on page 74 for R&D assets which are excluded	
Attributed foreign income not included in accounts	$...........
Bad debts recovered not included in accounts	$...........
Benefits or prizes from investment-related lotteries not included in accounts	$...........
Foreign exchange taxable gains – see page 12	$...........
Grants received not included in accounts	$...........
Gross taxable foreign sourced income	$...........
Other income not included in accounts	$...........
Total	**$**.................

W Non-deductible expenses

Amortisation as per accounts (including goodwill)	$...........
Borrowing costs	$...........
Capital items written off as repairs	$...........
Depreciation expenses – **X** item **6**	$...........

See note 6 on page 74. See note 4 on page 74 for R&D assets which are excluded

Expenses to the extent to which they are not deductible

– entertainment	$...........
– legal expenses/consultants' fees	$...........
– subscriptions and donations	$...........
– bad debts	$...........
– part of prepaid expenses not deductible this year – see note 1(a) on page 74	$...........
– spouse travel	$...........
Expenses incurred in deriving non-assessable non-exempt income	$...........
Certain expenses relating to PSI that are not deductible – see note 5 on page 74.	$...........
Extraordinary loss per accounts	$...........
Finance lease interest	$...........
Foreign exchange accounting losses	$...........
Foreign tax paid or deemed paid	$...........
Debt deductions denied by thin capitalisation – see appendix 3	$...........
Loss on sale of depreciating assets included in accounts – see appendix 7	$...........
Loss on sale of other assets included in accounts	$...........
Luxury car lease payments – see appendix 7	$...........
Net adjustment to expenses claimed – decrease in consumable stores – see note 2 on page 74	$...........
Net increase in provisions	$...........
Net increase in trading stock valuation for tax purposes	$...........
Non-share dividends	$...........
Offshore banking unit losses – 20/30 of eligible deductions	$...........
Other capital items included in accounts	$...........
Penalties and fines	$...........
Superannuation charged in accounts	$...........
Trust losses deducted from accounting income	$...........
Other	$...........
Total	**$**..................

Q Other income not included in assessable income

(income shown in the accounts which is not assessable)

Adjustment to income derived

– decrease in interest	$...........
– decrease in dividends	$...........
– decrease in trust distribution	$...........
– year-end sales cut-off adjustment	$...........
Extraordinary profits per accounts	$...........
Foreign exchange accounting profits	$...........
Foreign source income in the accounts which is not assessable	$...........
Grants receivable	$...........
PSI included in the assessable income of an individual (attributed amount)	$...........
Profit on sale of depreciating assets included in accounts – see appendix 7	$...........
Profit on sale of other assets included in accounts (including assets used for R&D)	$...........
Other	$...........
Total	**$**..................

X Other deductible expenses

(deductible amounts not shown as expenses in the accounts)

Allowable superannuation fund payments	$...........
Deductible balancing adjustment amounts on depreciating assets – see appendix 7	$...........

See note 4 on page 74 for R&D assets which are excluded

Film industry incentive balance – see note 3	$...........
Foreign exchange taxable losses – see page 12	$...........
Interest charge	$...........
Hire purchase agreements – interest component – see appendix 7	$...........
Luxury car leases – accrual amount – see appendix 7	$...........
Mains electricity connection to land used in carrying on a business – see appendix 7	$...........
Net adjustment to expenses claimed – increase in consumable stores – see note 2	$...........
Net decrease in provisions	$...........
Net decrease in trading stock valuation for tax purposes	$...........
Part of prepaid expenses deductible this year, but not included at any other label – see note 1(b)	$...........
Tax deductible borrowing costs	$...........
Telephone line connection to land used for primary production – see appendix 7	$...........
Other	$...........
Total	**$**..................

Note 1(a)

Insert the difference between the total amount of prepaid expenses incurred in the 2004–05 income year and the amount the company is entitled to claim as a deduction in this year. See *Deductions for prepaid expenses 2005* for a detailed explanation of how to calculate the company's deduction for the 2004–05 income year.

Note 1(b)

Insert the amount of prepaid expenditure that you were not entitled to deduct in previous years, which the company is now entitled to deduct in the 2004–05 income year. See *Deductions for prepaid expenses 2005* for a detailed explanation of how the deduction for later years is calculated.

Note 2

Insert the difference between the value of consumable stores on hand at the end of the previous income year and the value of consumable stores on hand at the end of the current income year. The balance of these items determines whether they are add-backs or subtractions.

Note 3

Film industry incentive balance. The amount shown is the excess, if any, of:

- the amount of any concession available under Division 10BA of the 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 **Q** **Total expenses** item **6**.

Note 4

Some of the labels on the worksheet do not include any amounts for R&D assets. While profits on disposal of all assets (R&D and non-R&D) are subtracted at **Q** **Other income not included in assessable income** item **7**, amounts at other labels at item **7** are split between R&D and non-R&D amounts. For example, book depreciation and losses for R&D assets are not shown at **W** **Non-deductible expenses** item **7**, but at **D** **Accounting expenditure in item 6 subject to R&D tax concession** item **7**. The amounts shown at **B** **Other assessable income** item **7** do not include any amounts for assessable balancing adjustment amounts for R&D assets. Additionally, the amounts shown at **X** **Other deductible expenses** item **7** do not include any deductible balancing adjustment amounts for R&D assets. These balancing adjustment amounts are taken into account in part A, item **17** in the *Research and development tax concession schedule 2005* and also in the amount at **L** **R&D tax concession – not including label M** item **7**. For more information, see the *Research and development tax concession schedule instructions 2005*.

Note 5

If the company receives an individual's PSI other than in the course of conducting a personal services business, and does not promptly pay it to the individual as salary or wages:

- the net amount of PSI is attributed to the individual and is not assessable to the company, and
- certain related expenses are not deductible.

Expenses specifically denied include rent, mortgage interest, rates and land tax for the residence of individuals (or their associates – for example, spouse) whose efforts or skills mainly generate the PSI for the company, the costs of a second private use car and payments of salary or wages and superannuation for associates to the extent such payments relate to non-principal work.

The company is not entitled to a deduction for any net PSI loss that is attributed to the individual. See the *Personal services income schedule instructions 2005* for more information.

Note 6

Only include depreciation expenses at **W** item **7** if the company is not an STS taxpayer. However, do not include any STS pool deductions shown at **X** item **6**.

APPENDIXES

APPENDIX 1 COMMERCIAL DEBT FORGIVENESS

If a commercial debt owed by a company is forgiven during the income year, apply the net amount of debts forgiven to reduce the company's deductible revenue losses, net capital losses, certain undeducted revenue or capital expenditure and the cost base of CGT 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. If interest is not payable, the debt is still a commercial debt if interest, if charged, would have been deductible. A commercial debt also includes a non-equity share issued by a company.

A debt is forgiven if the company's obligation to pay the debt is released or waived or otherwise extinguished.

A debt is also forgiven if it is assigned by a creditor to an associate of the debtor or in certain other circumstances, or if the right to recover it ceases.

Calculation of net forgiven amount

Calculate the net forgiven amount 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 on termination of the debt – this would occur 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 – see Division 243 and sections 245-60 and 245-61 of Schedule 2C to the ITAA 1936.

2 Calculate the gross forgiven amount of the debt by deducting from the notional value of the debt any amount of consideration in respect of the forgiveness. This consideration normally is the sum of the amounts of money the company is required to pay in respect of the forgiveness or, if property is required to be given, the market value of the property. Special rules apply in determining the consideration given for the forgiveness if a debt is forgiven in exchange for shares, if there are debt parking circumstances, or if money or property is applied for the benefit or at the direction of the creditor – see sections 245-65 and 245-70 of Schedule 2C to the ITAA 1936.

3 Reduce the gross forgiven amount by any amount:
  - which has been, is or will be included in the company's assessable income as a result of the forgiveness of the debt
  - by which a deduction otherwise allowable to the company has been or will be reduced as a result of the forgiven debt except for a reduction under Division 727 (indirect value shifting) of the ITAA 1997, or
  - by which the cost base to the company of any CGT asset has been or will be reduced, as a result of the forgiveness of the debt except for a reduction under Division 139 of the ITAA 1997.

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, reduce the creditor's capital loss or the deduction otherwise allowable to the creditor to the extent of the amount agreed on – up to the amount left after 3 above. For the company, reduce the amount remaining after 3 above by the same amount.

5 The balance remaining is the net forgiven amount of that debt. Then add the net forgiven amount to the net forgiven amounts of other debts forgiven during the income year to arrive at the total net forgiven amount in respect of the income year.

Application of total net forgiven amount

Apply this total net forgiven amount to reduce the amount the company has in the following categories, in the order listed:

- deductible revenue losses
- deductible net capital losses
- deductible expenditure, and
- cost bases of certain CGT assets.

Within the relevant categories, the company may choose the relevant loss, item of expenditure or asset against which the total net forgiven amount is applied, provided it is applied to the maximum extent possible within that category. Once you have applied the total net forgiven amount against all the amounts in a category, apply any excess, in the above order, against the next category. If there is an excess remaining after applying the amount to the maximum extent possible against all categories, disregard this excess. However, see **Related companies** on page 77 for special rules applying in the case of groups of related companies.

Deductible revenue losses

These are:

- tax losses
- foreign losses of pre-1990 income years, and
- foreign losses of post-1989 income years,

which the company incurred in an earlier income year and which are undeducted at the beginning of the forgiveness year.

Deductible net capital losses

These are unrecouped net capital losses incurred in income years before the forgiveness year.

Deductible expenditure

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 deductible under the UCA
- expenditure on pooled Subdivision 46-D software
- 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 on
- 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 a 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
- expenditure incurred in obtaining a spectrum licence to produce assessable income.

There are two principal methods of reducing deductible expenditures:

- If the deduction is calculated as a percentage of a base amount – for example, deductions for decline in value of depreciating assets calculated under the prime cost method – make the reduction to the base amount. The effect is that deductions allowable in the forgiveness year and later years are reduced. Also, the total amount of deductions allowable is limited to the reduced base amount. The amount of the reduction is treated as if it had been a deduction when calculating any required balancing adjustment amount.
- If the deduction for a particular deductible expenditure is a percentage, fraction or portion of an amount worked out after taking into account any deductions for the deductible expenditure previously allowed to the company – for example, deductions for decline in value calculated under the diminishing value method – the forgiven amount is taken to have been allowed as a deduction before the forgiveness income year.

If, as a result of the recoupment of a particular deductible expenditure, a provision of the ITAA 1936 or the ITAA 1997 applies to disallow any deductions previously allowed to the company for the expenditure, the total net forgiven amount previously applied in the reduction of the recouped deductible expenditure is treated as assessable income in the year of recoupment.

Cost bases of certain CGT assets

Cost bases of certain CGT assets owned by the company at the beginning of the forgiveness year – 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 capital loss might arise on a CGT event, such as a disposal, happening to them.

Assets not treated as reducible assets include those for which a capital gain or capital loss will not arise or is unlikely to arise on a CGT event happening to them – for example, CGT assets acquired before 20 September 1985, trading stock or a personal use asset within the meaning of section 108-20 of the ITAA 1997. Also excluded are CGT assets whose cost is deductible, such as depreciating assets.

The company may choose the reducible assets whose cost bases are to be reduced and the extent of that reduction. However, the cost base of reducible 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 at any time from the beginning of the forgiveness income year each of the relevant cost bases – that is, the cost base or reduced cost base – is taken to be reduced accordingly.

Ordinarily, the reduction of a CGT asset's relevant cost base cannot exceed the amount that would have been the reduced cost base of the asset, calculated as if the asset

was disposed of at market value on the first day of the forgiveness income year. However, a special rule applies – see subsection 245-190(3) of Schedule 2C to the 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.

The reduction of the relevant cost base of a CGT asset affects the calculation of the amount of the capital gain or capital loss on a CGT event happening to the nominated reducible asset because the relevant cost base that is taken into account in determining the capital gain or capital loss must reflect that reduction.

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 has deductible revenue losses. In this case, apportion the net forgiven amount to each of those companies in the group which has deductible revenue losses. The relevant proportion is the proportion of each company's deductible revenue losses to the total revenue losses of the group. In working out that company's total net forgiven amount for the income year, treat each of the companies in the group as having a net forgiven amount equal to the relevant proportion of the apportioned net forgiven amount.

Special rules also apply if none of the companies in the group has deductible revenue losses but any of the non-debtor companies in the group have deductible net capital losses. As above, apportion the net forgiven amount to each company in the group that has deductible net capital losses. Then apply an equivalent formula to that described in relation to deductible revenue losses to apportion the net forgiven amount of a group company among group companies with deductible net capital losses. In working out that company's total net forgiven amount for the income year, treat each of the companies in the group as having a net forgiven amount equal to the relevant proportion of the apportioned net forgiven amount.

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. If the company had been under common ownership with the debtor company at any time within the two 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 two 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 two 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.

Consolidated groups

Where a commercial debt is owed by a member of a consolidated group to a non group entity, the head company is treated as the debtor for its income tax purposes. If the debt is forgiven, the head company must calculate the net forgiven amount and apply this amount to its deductible revenue losses, deductible capital losses, deductible expenditure and the cost bases of CGT assets.

Intra-group debts

One of the consequences of consolidation is that intra-group loans and intra-group dealings are not recognised for the group's income tax purposes. Where a debt owed by one consolidated group member to another is forgiven there will be no income tax consequences for the head company or the members.

APPENDIX 2 CAPITAL WORKS DEDUCTIONS

Division 43 of the ITAA 1997 provides for a system of deducting capital expenditure incurred in the construction of capital works used to produce assessable income.

Capital works

You can deduct construction costs for the following capital works:
- buildings or extensions, alterations or improvements to a building
- structural improvements or extensions, alterations or improvements to structural improvements
- environmental protection earthworks – see appendix 7.

Deductions for construction costs and structural improvements must be based on actual costs incurred. If it is not possible to genuinely determine the actual costs, provide an estimate by a quantity surveyor or other independent qualified person. The costs incurred by the company for the provision of this estimate are deductible as a tax-related expense, not as an expense in gaining or producing assessable income.

Who can claim?

The company can claim a deduction under Division 43 for an income year only if:
- the company owns, leases or holds part of a construction expenditure area of capital works ('your area')
- the company incurred the expense, and
- the company uses the building to produce income.

The area the company owns, leases or holds is called 'your area'.

In calculating the company's deductions 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 been an assignee of the lessee who incurred the expenditure
- the lessee must have continuously leased or held the building itself, or the building must have been held in that way by previous lessees, holders or assignees since completion of construction, and
- the lessee must have 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

The company can deduct an amount for capital works in an income year if:
- the capital works have a 'construction expenditure area'
- there is a 'pool of construction expenditure' for that area, and
- the company uses the area in the income year to produce assessable income or carry on R&D activities in the way set out in section 43-140 of the ITAA 1997.

No deduction until construction is complete

The company cannot claim a deduction for any period before the completion of construction of the capital works even though the company used them, or part of them, before completion. Additionally, the deduction cannot exceed the undeducted construction expenditure for your area.

Capital works are taken to have commenced when the first step in the construction phase starts – for example, the pouring of foundations or sinking of pylons for a building.

Establishing the deduction base

You can deduct expenditure for the construction of capital works if there is a construction expenditure area for the capital works. Whether there is a construction expenditure area for the capital works and how it is identified depends on the following factors:
- the type of expenditure incurred
- the time the capital works commenced
- the area of the capital works to be owned, leased or held by the entity that incurred the expenditure, and
- for capital works begun before 1 July 1997, the area of the capital works that was used in a particular manner – see section 43-90 of the ITAA 1997.

Construction expenditure

Expenses incurred on construction include:
- preliminary expenses such as an architect's fees, engineering fees, foundation excavation expenses and costs of building permits
- costs of structural features that are an integral part of the income-producing building or income-producing structural improvements – for example, lift wells and atriums, and
- some portion of indirect costs.

In relation to an owner/builder entitled to a deduction under Division 43 of the ITAA 1997, the value of the owner/builder's contributions to the works – that is, labour or expertise and any notional profit element – do not form part of construction expenditure.

See Taxation Ruling TR 97/25 and Addendum.

Construction expenditure does not include expenditure on:
- acquiring land
- demolishing existing structures

- clearing, levelling, filling, draining or otherwise preparing the construction site before carrying out excavation work
- landscaping
- plant
- property or expenditure for which a deduction is allowable or would be allowable if the property were for use for the purpose of producing assessable income under another specified provision of the ITAA 1936 or the ITAA 1997.

Construction expenditure area

The construction of the capital works must be complete before the construction expenditure area is determined. A separate construction expenditure area is created each time an entity undertakes the construction of capital works.

For construction expenditure incurred before 1 July 1997, the capital works must have been constructed for a specified use at the time of completion, depending on the time when the capital works commenced. The first specified use construction time was 22 August 1979 – see Table 43-90 and subsection 43-75(2) of the ITAA 1997.

Pool of construction expenditure

The pool of construction expenditure is the portion of the construction expenditure incurred by an entity on capital works, which is attributable to the construction expenditure area.

Deductible use

The company can only obtain a deduction under this Division if it uses your area in a way described in Table 43-140 or 43-145 of Subdivision 43-D of the ITAA 1997.

Special rules about uses

Your area is taken to be used for a particular purpose or manner if:

- it is maintained ready for that use, is not used for another purpose and its use has not been abandoned, or
- its use has temporarily ceased because of construction, repairs, 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
- the company uses it for residential accommodation and it is not a hotel or apartment building – for exceptions to this rule, see subsection 43-170(2) of the ITAA 1997.

Your area is taken to be used as residential accommodation if it is:

- part of an individual's home – other than a hotel or apartment building
- 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.

Special rules for hotels and apartments are contained in section 43-180 of the ITAA 1997.

Calculation and rate of deduction

The company's entitlement to a deduction begins on the date the building is first used to produce assessable income. The first and last years of use may be apportioned. The entitlement to a deduction runs for either 25 or 40 years (the limitation period) depending on the rate of deduction applicable.

The legislation contains two calculation provisions:

- section 43-210 of the ITAA 1997 deals with the deduction for capital works which began after 26 February 1992
- section 43-215 of the 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

Calculate the deduction separately for each part that meets the description of your area.

Multiply the company's construction expenditure by the applicable rate – either 4% if the capital works were begun after 21 August 1984 and before 16 September 1987 or 2.5% in any other case – and by the number of days in the income year in which the company owned, leased or held your area and used it in a relevant way. Divide that amount by the number of days in the year.

Apportion the amount if your area is used only partly to produce assessable income or for R&D.

The amount the company claims cannot exceed the undeducted construction expenditure.

Capital works begun after 26 February 1992

Calculate the deduction separately for each part of capital works that meets the description of your area.

There is a basic entitlement to a rate of 2.5% for parts used as described in Table 43-140 – Current year use. The rate increases to 4% for parts used as described in Table 43-145 – use in the 4% manner.

Undeducted construction expenditure

The undeducted construction expenditure for your area is the part of the company's construction expenditure it has left to write off. It is used to work out:

- the number of years in which the company can deduct amounts for the company's construction expenditure, and
- the amount that the company can deduct under section 43-40 of the ITAA 1997 if your area or a part of it is destroyed.

Balancing deduction on destruction

If a building is destroyed or damaged during an income year, you can claim a deduction for the remaining amount of undeducted construction expenditure that has not yet been deducted, less any compensation received. If the destruction or demolition is voluntary, the entitlement to a deduction is unaffected.

You can claim the deduction in the income year in which the destruction occurs.

The deduction is reduced if the capital works are used in an income year only partly for the purpose of producing assessable income or for R&D.

For guidelines issued by the Commissioner on these measures, see Taxation Ruling TR 97/25 and Addendum.

APPENDIX 3 THIN CAPITALISATION

The thin capitalisation provisions reduce certain expenditure (debt deductions) incurred in obtaining and servicing debt if the debt used to finance the Australian operations of a company exceeds the limits set out in Division 820 of the ITAA 1997. These rules ensure that entities fund their Australian operations with an appropriate amount of equity.

Do the thin capitalisation rules apply?

The thin capitalisation rules will apply to a company if:

- the company is an Australian resident company and either:
  - the company, or any of its associate entities, is an Australian controller of a foreign entity (explained below) or carries on business overseas at or through a permanent establishment, or
  - the company is foreign controlled, either directly or indirectly (see below), or
- the company is a foreign resident and carries on business in Australia at or through a permanent establishment or otherwise has assets that produce assessable income.

Exclusions

The thin capitalisation rules will NOT apply if:

- the company's debt deductions (combined with the debt deductions of its associate entities) do not exceed $250,000 in the income year, or
- in the case of an Australian company which is not foreign controlled, the combined value of the company's Australian assets and the Australian assets of its associates comprise at least 90% of the value of the total assets of the company and those associates.

Control

The rules measuring control take into account both direct and indirect interests that the company holds in the other entity (or vice-versa) and the direct and indirect interests that associate entities of the company hold in the other entity. This means that an Australian company can be an Australian controller of a foreign entity even if it holds a direct interest of less than 50% in the foreign entity. Similarly, an Australian company can be foreign controlled even if its direct holding company is an Australian resident.

For more information, see the *Guide to thin capitalisation*, available on our website.

What if the thin capitalisation rules apply?

If the thin capitalisation rules apply, or further information is required, see the *Guide to thin capitalisation*, available on our website.

If the thin capitalisation rules apply, print **Y** for yes at item **21 Thin capitalisation**. In addition, complete the *Thin capitalisation schedule 2005* available through the electronic lodgment service (ELS), or complete the paper schedule and post it to:

Australian Taxation Office
PO Box 1365
ALBURY NSW 2640

What if the thin capitalisation rules are breached?

If the thin capitalisation rules are breached, some of the company's debt deductions may be denied. Show the amount denied at **W Non-deductible expenses** item **7**.

APPENDIX 4 TAXATION TREATMENT OF POOLED DEVELOPMENT FUNDS AND INVESTORS

How pooled development funds are taxed

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 30%.

If a company ceases to be a PDF part way through an income year, it is taxed as an ordinary company for the whole year – that is, taxable income is taxed at 30%.

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%. 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%.

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 from the receipt of franked dividends.

PDFs pay franked dividends in the same manner as other companies and the gross-up amount is calculated on the basis of the general company tax rate of 30% rather than the PDF rates of tax.

The PDF obtains venture capital 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*. These credits are only available to complying superannuation funds, pooled superannuation trusts and like entities and are specifically available only to those entities to ensure equivalence with certain non-resident pension funds.

If a PDF over-distributes venture capital credits during the franking year it incurs a liability to venture capital deficit tax – equivalent to franking deficit tax.

Tax offset for franking credits

Dividends received by a PDF are treated as SME income and taxed at the SME rate of 15%. A PDF that is in receipt of a franked distribution must include the franked

distribution together with the franking credits allocated to the distribution in their assessable income (unless the shares are not held at risk as required under the holding period and related payments rules, or there is other manipulation of the imputation system). The PDF can claim a tax offset equal to the amount of franking credits included in their assessable income. This tax offset can be used to reduce the PDF's own income tax liabilities.

The process outlined above is commonly referred to as the 'gross-up and credit' approach and, for an entity that is taxed like a company, it replaces the ICDR for franked dividends.

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

Unfranked PDF dividends, which include the unfranked part of a franked dividend, are exempt from tax.

Franked dividends that are venture capital franked and produce a venture capital tax offset 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 franking 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.

Also, 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.

Capital gains or capital losses from the disposal of PDF shares are not assessable or deductible.

APPENDIX 5 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 to new projects with effect from 14 February 1997. The provisions relating to the concession are contained in Division 16L of the ITAA 1936 and Chapter 3 of the *Development Allowance Authority Act 1992*.

The concession provides that the lender's interest and amounts in the nature of interest on the infrastructure borrowings are exempt. Alternatively, the lender may choose to be assessed on those amounts and claim a tax offset of 30%. The borrower's interest and amounts in the nature of interest on the infrastructure borrowings are not deductible. In addition, any profit or loss on the disposal of an infrastructure borrowings instrument is non-assessable or non-deductible.

The replacement land transport infrastructure offset in Division 396 of the ITAA 1997 is a more restricted concession. The concession is in the form of a tax offset on the taxable interest of a resident lender to an approved infrastructure project. The offset is calculated by applying the general company tax rate to the lender's assessable interest, but may be subject to an upper limit set by the Minister for Transport and Regional Services.

If the lender's interest is subject to a tax offset, the project borrower cannot claim a deduction for a comparable amount of interest.

APPENDIX 6 HERITAGE CONSERVATION TAX OFFSET

Companies and trustees of corporate unit trusts and public trading trusts are entitled to this tax offset if the Minister for the Environment and Heritage (formerly the Minister for Communications and the Arts) has issued to them a final certificate specifying an amount of eligible heritage conservation works expenditure.

The offset equals 20% of the specified amount and is allowable in the income year the final certificate is applied for.

APPENDIX 7 UNIFORM CAPITAL ALLOWANCES

The following concepts relevant to the uniform capital allowance system are referred to in this appendix:

- balancing adjustment amounts
- deduction for decline in value of depreciating assets
- deduction for environmental protection activities
- deduction for project pool
- electricity connections and telephone lines
- hire purchase agreements
- landcare operations and decline in value of water facility
- loss on the sale of a depreciating asset
- luxury car leases
- profit on the sale of a depreciating asset
- section 40-880 deduction.

For more information on any of these topics, see the *Guide to depreciating assets 2005*.

> **!** STS TAXPAYERS
> Taxpayers that elect to enter the STS calculate deductions for most of their depreciating assets under the specific STS depreciation rules – see page 32.

Balancing adjustment amounts

If the company ceases to hold or to use a depreciating asset, a balancing adjustment event occurs. Calculate a balancing adjustment amount to include in the company's assessable income or to claim as a deduction. Show the assessable balancing adjustment amount at **B Other assessable income** item **7** for non-R&D assets. The assessable balancing adjustment amount for assets used in R&D activities is taken into account in the part A, item **17** calculation in the *Research and development tax concession schedule 2005* – see **R&D tax concession – not including label M** on page 40.

Show the deductible balancing adjustment amount at **X Other deductible expenses** item **7**.

If the asset was used for both taxable and non-taxable purposes, reduce the balancing adjustment amount by the amount attributable to the non-taxable use. A capital gain or capital loss may arise in respect of the amount attributable to that non-taxable use. This capital gain or capital loss is included in calculating the net capital gain or net capital loss for the income year.

Show any profit or loss on the sale of a depreciating asset which has been included in the accounts of the company at either **R Other gross income** item **6** or **S All other expenses** item **6** – see **Profit on the sale of a depreciating asset** or **Loss on the sale of a depreciating asset** on page 86.

If a balancing adjustment event occurred to a depreciating asset of the company during the income year, you may also need to include an amount at **P Termination value of intangible depreciating assets** item **8** or at **E Termination value of other depreciating assets** item **8**.

Deduction for decline in value of depreciating assets

The decline in value of a depreciating asset is generally worked out using either the prime cost or diminishing value method. Both methods are based on the effective life of an asset. For most depreciating assets, the company can choose whether to self-assess the effective life or adopt the Commissioner's determination which can be found in Taxation Ruling TR 2000/18.

The company can deduct an amount equal to the decline in value for an income year of a depreciating asset for the period that it holds the asset during that year. However, the deduction is reduced to the extent the company uses the asset or has it installed ready for use other than for a taxable purpose.

The decline in value of a depreciating asset costing $300 or less is its cost (but only to the extent the asset is used for a taxable purpose) if the asset satisfies all of the following requirements:

- It is used predominantly for the purpose of producing assessable income that is not income from carrying on a business.
- It is not part of a set of assets acquired in the same income year that costs more than $300.
- It is not one of any number of substantially identical items acquired in the same income year that together cost more than $300.

Certain assets that cost less than $1,000 or that have an opening adjustable value of less than $1,000 can be allocated to a low-value pool to calculate the decline in value. Assets eligible for the immediate deduction cannot be allocated to a low-value pool.

To work out the deduction for decline in value of most depreciating assets use worksheets 1 and 2 in the *Guide to depreciating assets 2005*.

Deduction for environmental protection expenses

The company can deduct expenditure to the extent that it incurs it for the sole or dominant purpose of carrying on environmental protection activities (EPA). EPA are activities undertaken to prevent, fight or remedy pollution or to treat, clean up, remove or store waste from the company's earning activity. The company's earning activity is one it carried on, carries on or proposes to carry on for the purpose of:

- producing assessable income (other than a net capital gain)
- exploration or prospecting, or
- mining site rehabilitation.

The company may also claim a deduction for cleaning up a site on which a predecessor carried on substantially the same business activity.

The deduction is not available for:

- EPA bonds and security deposits

- expenditure for acquiring land
- expenditure for constructing or altering buildings, structures or structural improvements
- expenditure to the extent that the company can deduct an amount for it under another provision.

Expenditure which forms part of the cost of a depreciating asset is not expenditure on EPA.

Expenditure incurred on or after 19 August 1992 on certain earthworks constructed as a result of carrying out EPA can be written off at the rate of 2.5% per annum under the provisions for capital works expenditure.

Expenditure on an environmental assessment of a project of the company is not deductible as expenditure on EPA. If it is capital expenditure directly connected with a project, it could be a project amount for which a deduction would be available over the life of the project – see **Deduction for project pools** below.

If the deduction arises from a non-arm's length transaction and the expenditure is more than the market value of what it was for, the amount of the expenditure is taken instead to be that market value.

Any recoupment of the expenditure is assessable income.

Deduction for project pools

Certain capital expenditure incurred after 30 June 2001 which is directly connected with a project carried on or proposed to be carried on for a taxable purpose can be allocated to a project pool and written off over the project life.

A project is carried on if it involves a continuity of activity and active participation. Merely holding a passive investment such as a rental property would not be regarded as carrying on a project.

For further guidance, see TR 2005/4.

The capital expenditure, known as a project amount, must be expenditure incurred:

- to create or upgrade community infrastructure for a community associated with the project – this expenditure must be paid (not just incurred) to be a project amount
- for site preparation for depreciating assets (other than in draining swamp or low-lying land or in clearing land for horticultural plants including grapevines)
- for feasibility studies for the project
- for environmental assessments for the project
- to obtain information associated with the project
- in seeking to obtain a right to intellectual property
- for ornamental trees or shrubs.

Project amounts also include mining capital expenditure and transport capital expenditure.

The expenditure must not otherwise be deductible or form part of the cost of a depreciating asset.

If the expenditure incurred arises from a non-arm's length dealing and is more than the market value of what it was for, the amount of the expenditure is taken to be that market value.

The deduction for project amounts allocated to a project pool commences when the project starts to operate and is calculated as follows:

$$\frac{\text{Pool value} \times 150\%}{\text{DV project pool life}}$$

The 'DV project pool life' is the project life or, if that life has been recalculated, the most recently recalculated project life. The project life is determined by estimating how long (in years and fractions of years) it will be from when the project starts to operate until it stops operating. Generally, a project starts to operate when the activities that will produce assessable income start. The project life is estimated from the company's perspective but the event used to determine when the project will stop operating must be something outside its control.

The 'pool value' for an income year at a particular time is broadly the sum of the project amounts allocated to the pool up to the end of that year less the sum of the deductions the company has claimed for the project pool in previous years or could have claimed had the project operated wholly for a taxable purpose.

The pool value can be subject to adjustments.

If the company is or becomes entitled to a GST input tax credit for expenditure allocated to a project pool, the pool value is reduced by the amount of the credit. Certain increasing or decreasing adjustments in relation to expenditure allocated to a project pool will also require an adjustment to the pool value.

If during any income year commencing on or after 1 July 2003 the company ceased to have an obligation to pay foreign currency and the obligation was incurred as a project amount allocated to a project pool, a foreign currency gain or loss (referred to as a forex realisation gain or loss) may have arisen under new forex provisions. If the amount was incurred after 30 June 2003 (or earlier, if so elected) and became due for payment within 12 months after it was incurred then (unless elected otherwise – see below) the pool value for the income year in which the amount was incurred is increased by any forex realisation loss and decreased by any forex realisation gain. However, if a forex realisation gain exceeds the pool value, the pool value is reduced to zero and the excess gain is assessable income. If the company elected that this treatment should not apply, any forex realisation gain will be assessable and any forex realisation loss will be deductible.

The deduction for a project pool cannot be more than the amount of the pool value for that income year.

There is no need to apportion the deduction if the project starts to operate during the income year or for project amounts incurred during the year. However, the deduction is reduced to the extent to which the project is operated for other than a taxable purpose during the income year.

If the project is abandoned, sold or otherwise disposed of the company can deduct the sum of the closing pool value of the prior income year (if any) plus any project amounts allocated to the pool during the income year, after allowing for any necessary pool value adjustments. A project is abandoned if it stops operating and will not operate again.

Any amount received for the abandonment, sale or other disposal of a project is assessable.

If an amount of expenditure allocated to a project pool is recouped or if the company derives a capital amount in relation to a project amount or something on which a project amount was expended, the amount must be included in assessable income.

If any receipt arises from a non-arm's length dealing and the amount is less than the market value of what it was for, the amount received is taken to be that market value.

Electricity connections and telephone lines

A deduction can be claimed by the company over 10 years for capital expenditure incurred in connecting:

- mains electricity to land on which a business is carried on or in upgrading an existing connection to that land, or
- a telephone line to land being used to carry on a primary production business.

Show the deduction at **X** **Other deductible expenses** item **7** if you have not included the expenditure as an expense at item **6 Calculation of total profit or loss**.

Include any recoupment of the expenditure in assessable income at **B** **Other assessable income** item **7**.

Hire purchase agreements

Hire purchase and instalment sale agreements of goods are treated as a sale of the property by the financier (or hire purchase company) to the hirer (or instalment purchaser).

The sale is treated as being financed by a loan from the financier to the hirer at a sale price of either their agreed cost or value or the property's arm's length value. The periodic hire purchase (or instalment) payments are treated as payments of principal and interest under the notional loan. The hirer can deduct the interest component subject to any reduction required under the thin capitalisation rules.

In relation to the notional sale, the hirer of a depreciating asset is treated as the holder of the asset and is entitled to claim a deduction for the decline in value. The cost of the asset for this purpose is taken to be the agreed cost or value, or the arm's length value if the dealing is not at arm's length.

If the company has included hire purchase charges at any label in item **6 Calculation of total profit or loss**, include the amount at **W** **Non-deductible expenses** item **7**.

Include the deduction for the decline in value of the goods at **F** **Deduction for decline in value of depreciating assets** item **7**. Include the interest component at **X** **Other deductible expenses** item **7**.

Landcare operations and decline in value of water facility

Landcare operations

Landcare operation expenditures cover what were previously known as land degradation measures. The company can claim a deduction in the year it incurred capital expenditure on a landcare operation for land in Australia.

You can claim a deduction if the land is 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 and is reduced to the extent it is not.

The deduction is also available to rural land irrigation water providers – that is, to entities whose business is primarily and principally the supply of water (other than by using a motor vehicle) to primary producers or to businesses using rural land.

A landcare operation is one of the following operations:

- eradicating or exterminating animal pests from the land
- eradicating, exterminating or destroying plant growth detrimental to the land
- preventing or combating land degradation other than by the use of fences
- erecting fences to keep out animals 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 a levee or similar improvement
- constructing drainage works – other than the draining of swamps or low-lying areas – to control salinity or assist in drainage control
- a structural improvement or an alteration, addition, extension or repair to a structural improvement that is reasonably incidental to the previous operations.

You cannot claim a deduction if the capital expenditure is on plant unless it is on certain fences, dams or other structural improvements.

In each case, apart from the construction of a levee, the operation must be carried out primarily and principally for the purpose stated. This is to ensure that the deduction for landcare operation expenditure and the three-year write-off for facilities to conserve or convey water cannot both be claimed for the same item of expenditure. If a levee is constructed primarily and principally for water conservation, the cost is an allowable deduction under the water conservation provisions – see **Water facilities** on the next page.

If the company is carrying on a primary production business on the land, it may claim the deduction even if the company is a lessee.

Any recoupment of the expenditure would be assessable income.

Water facilities

You can claim a deduction for the decline in value of a water facility. A water facility is plant or a structural improvement that is primarily or principally for the purpose of conserving or conveying water. The company must have incurred the expenditure primarily and principally for conserving or conveying water for use in a primary production business on land in Australia.

The deduction is also available to irrigation water providers – that is, to entities whose business is primarily and principally the supply (other than by using a motor vehicle) of water to primary producers.

You can claim the deduction in equal instalments over three years.

Items for which you can claim a deduction 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.

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

The deduction is reduced if the facility is not wholly used for either:

- carrying on a primary production business on land in Australia (except in the case of irrigation water providers), or
- a taxable purpose, for example producing assessable income.

Loss on the sale of a depreciating asset

Any such loss included in the accounts will differ from the balancing adjustment amount taken into account for taxation purposes.

If the accounts show a loss on the sale of a depreciating asset under **S** **All other expenses** item **6**, include that amount at **W** **Non-deductible expenses** item **7**. Also see **Balancing adjustment amounts** on page 82.

Luxury car leases

Luxury car leasing arrangements entered into after 7.30pm (by legal time in the ACT) on 20 August 1996 (other than genuine short-term hire arrangements) are treated as notional sale and loan transactions.

A leased car, either new or second hand, is a luxury car if its cost exceeds the car limit that applies for the income year in which the lease commences. The car limit for 2004–05 is $57,009.

The cost or value of the car specified in the lease (or the market value if the parties were not dealing at arm's length in connection with the lease) is taken to be the cost of the car for the lessee and the amount loaned by the lessor to the lessee to buy the car.

In relation to the notional loan, the actual lease payments are divided into notional principal and finance charge components. That part of the finance charge component for the notional loan applicable for the particular period (the accrual amount) is deductible to the lessee subject to any reduction required under the thin capitalisation rules.

In relation to the notional sale, the lessee is treated as the holder of the luxury car and is entitled to claim a deduction for the decline in value of the car.

For the purpose of calculating the deduction, the cost of the car is limited to the car limit for the income year in which the lease is granted. For more information on deductions for the decline in value of leased luxury cars, see the *Guide to depreciating assets 2005*.

In summary, the lessee is entitled to deductions equal to:

- the accrual amount, and
- the decline in value of the luxury car, based on the applicable car limit.

Both deductions are reduced to reflect any use of the car for other than a taxable purpose.

If the company has included the lease expenses at **F** **Lease expenses within Australia** item **6** or **I** **Lease expenses overseas** item **6**, include the amount at **W** **Non-deductible expenses** item **7**.

Include the deduction for decline in value of the luxury car at **F** **Deduction for decline in value of depreciating assets** item **7**. Include the accrual amount at **X** **Other deductible expenses** item **7**.

If the lease terminates or is not extended or renewed and the lessee does not actually acquire the car from the lessor, the lessee is treated under the rules as disposing of the car by way of sale to the lessor. This constitutes a balancing adjustment event and any assessable or deductible balancing adjustment amount for the lessee must be determined.

Profit on the sale of a depreciating asset

Any such profit included in the accounts will differ from the balancing adjustment amount taken into account for taxation purposes.

If the accounts show a profit on the sale of a depreciating asset under **R** **Other gross income** item **6**, include that amount at **Q** **Other income not included in assessable income** item **7**. Also see **Balancing adjustment amounts** on page 83.

Section 40-880 deduction

This section provides a deduction for certain business related costs to the extent that the business is or was carried on for a taxable purpose, such as for producing assessable income.

The company may be able to claim a deduction for the following types of business related capital expenditure:

- expenditure to establish its business structure – such as the costs of incorporation
- expenditure to convert its business structure to another structure – such as the costs of transferring the company assets to another entity
- expenditure to raise equity for its business
- costs of defending its business against a takeover
- costs to the business of unsuccessfully attempting a takeover
- costs of liquidating a company that carried on a business and of which the company is a shareholder, and
- costs to stop carrying on its business.

The company deducts 20% of the expenditure in the year it is incurred and in each of the following four years.

The deduction cannot be claimed for capital expenditure which:

- can be deducted under another provision
- forms part of the cost of a depreciating asset or of land relates to a lease
- would be taken into account in working out a profit or loss
- would be taken into account when working out the amount of a capital gain or capital loss, or
- is specifically not deductible under the income tax laws – such as a fine.

APPENDIX 8 COMPANY TAX RATE

The following rates of tax apply to companies for the 2004–05 income year

Companies generally	Rate %
■ including corporate limited partnerships, strata title bodies corporate, trustees of corporate unit trusts and public trading trusts	30
Private companies generally	
■ taxable income	30
Life insurance companies	
■ ordinary class of taxable income	30
■ complying superannuation class of taxable income	15
Retirement savings accounts providers other than life insurance companies	
■ the RSA component of taxable income	15
■ the standard component of taxable income	rate applicable to institution
Pooled development funds	
For tax rates where a company commences to be, or ceases to be, a PDF during the income year, see appendix 4.	
■ small and medium sized enterprises component	15
■ unregulated investment income	25
■ other	30
Credit unions	
■ small credit unions – under $50,000	30
■ medium credit unions – $50,000–$149,999	45
■ large credit unions – $150,000 and over	30

Small credit unions are taxed on all their taxable income, but note the treatment of mutual interest.

Interest derived by small credit unions that are also approved credit unions, being interest paid to the credit union by its members (not being companies) in respect of loans made to those members, is exempt from tax.

Credit unions with a notional taxable income of at least $50,000 but less than $150,000 are taxed on their taxable income in excess of $49,999.

Credit unions with a notional taxable income of $150,000 or more are taxed on all of their taxable income.

Notional taxable income of a credit union is its taxable income if section 23G of the ITAA 1936 did not apply and Division 9 of Part III of the ITAA 1936 had not been enacted.

Non-profit companies

Non-profit companies with a taxable income of between $417 and $915 are taxed on their taxable income in excess of $416.

Non-profit companies with a taxable income above $915 are taxed on all of their taxable income.

Taxable income	Rate %
$0–$416	nil
$417–$915	55
$916 and above	30

APPENDIX 9 COUNTRY CODES

Note: Guernsey, Jersey and Isle of Man each have a separate country code

Country	Code
Afghanistan	AFG
Albania	ALB
Algeria	DZA
American Samoa	ASM
Andorra	AND
Angola	AGO
Anguilla	AIA
Antarctica	ATA
Antigua and Barbuda	ATG
Argentina	ARG
Armenia	ARM
Aruba	ABW
Austria	AAT
Azerbaijan	AZE
Bahamas	BHS
Bahrain	BHR
Bangladesh	BGD
Barbados	BRB
Belarus	BLR
Belgium	BEL
Belize	BLZ
Benin	BEN
Bermuda	BMU
Bhutan	BTN
Bolivia	BOL
Bosnia and Herzegovina	BIH
Botswana	BWA
Bouvet Island	BVT
Brazil	BRA
British Indian Ocean Territory	IOT
Brunei Darussalam	BRN
Bulgaria	BGR
Burkina Faso	BFA
Burundi	BDI
Cambodia	KHM
Cameroon	CMR
Canada	CAN
Cape Verde	CPV
Cayman Islands	CYM
Central African Republic	CAF
Chad	TCD
Chile	CHL
China	CHN
Christmas Island	CXR
Cocos (Keeling) Islands	CCK
Colombia	COL
Comoros	COM

Country	Code	Country	Code
Congo	COG	Hong Kong	HKG
Cook Islands	COK	Hungary	HUN
Costa Rica	CRI	Iceland	ISL
Cote D'Ivoire	CIV	India	IND
Croatia (local name: Hrvatska)	HRV	Indonesia	IDN
Cuba	CUB	Iran (Islamic Republic Of)	IRN
Cyprus	CYP	Iraq	IRQ
Czech Republic	CZE	Ireland	IRL
Denmark	DNK	Isle of Man, The	IMN
Djibouti	DJI	Israel	ISR
Dominica	DMA	Italy	ITA
Dominican Republic	DOM	Jamaica	JAM
East Timor	TMP	Japan	JPN
Ecuador	ECU	Jersey	JEY
Egypt	EGY	Jordan	JOR
El Salvador	SLV	Kazakhstan	KAZ
Equatorial Guinea	GNQ	Kenya	KEN
Eritrea	ERI	Kiribati	KIR
Estonia	EST	Korea, Democratic People's Republic of	PRK
Ethiopia	ETH	Korea, Republic of	KOR
Falkland Islands (Malvinas)	FLK	Kuwait	KWT
Faroe Islands	FRO	Kyrgyzstan	KGZ
Fiji	FJI	Lao People's Democratic Republic	LAO
Finland	FIN	Latvia	LVA
France	FRA	Lebanon	LBN
France, Metropolitan	FXX	Lesotho	LSO
French Guiana	GUF	Liberia	LBR
French Polynesia	PYF	Libyan Arab Jamahiriya	LBY
French Southern Territories	ATF	Liechtenstein	LIE
Gabon	GAB	Lithuania	LTU
Gambia	GMB	Luxembourg	LUX
Georgia	GEO	Macau	MAC
Germany	DEU	Macedonia, the Former Yugoslav Republic of	MKD
Ghana	GHA	Madagascar	MDG
Gibraltar	GIB	Malawi	MWI
Greece	GRC	Malaysia	MYS
Greenland	GRL	Maldives	MDV
Grenada	GRD	Mali	MLI
Guadeloupe	GLP	Malta	MLT
Guam	GUM	Marshall Islands	MHL
Guatemala	GTM	Martinique	MTQ
Guernsey	GGY	Mauritania	MRT
Guinea	GIN	Mauritius	MUS
Guinea-bissau	GNB	Mayotte	MYT
Guyana	GUY	Mexico	MEX
Haiti	HTI	Micronesia, Federated States of	FSM
Heard and McDonald Islands	HMD	Moldova, Republic of	MDA
Holy See (Vatican City State)	VAT	Monaco	MCO
Honduras	HND	Mongolia	MNG

Country	Code
Montserrat	MSR
Morocco	MAR
Mozambique	MOZ
Myanmar	MMR
Namibia	NAM
Nauru	NRU
Nepal	NPL
Netherlands	NLD
Netherlands Antilles	ANT
New Caledonia	NCL
New Zealand	NZL
Nicaragua	NIC
Niger	NER
Nigeria	NGA
Niue	NIU
Norfolk Island	NFK
Northern Mariana Islands	MNP
Norway	NOR
Oman	OMN
Pakistan	PAK
Palau	PLW
Panama	PAN
Papua New Guinea	PNG
Paraguay	PRY
Peru	PER
Philippines	PHL
Pitcairn	PCN
Poland	POL
Portugal	PRT
Puerto Rico	PRI
Qatar	QAT
Reunion	REU
Romania	ROM
Russian Federation	RUS
Rwanda	RWA
Saint Kitts and Nevis	KNA
Saint Lucia	LCA
Saint Vincent and The Grenadines	VCT
Samoa	WSM
San Marino	SMR
Sao Tome and Principe	STP
Saudi Arabia	SAU
Senegal	SEN
Seychelles	SYC
Sierra Leone	SLE
Singapore	SGP
Slovakia (Slovak Republic)	SVK
Slovenia	SVN
Solomon Islands	SLB
Somalia	SOM

Country	Code
South Africa	ZAF
South Georgia and the South Sandwich Islands	SGS
Spain	ESP
Sri Lanka	LKA
St Helena	SHN
St Pierre and Miquelon	SPM
Sudan	SDN
Suriname	SUR
Svalbard and Jan Mayen Islands	SJM
Swaziland	SWZ
Sweden	SWE
Switzerland	CHE
Syrian Arab Republic	SYR
Taiwan, Province of China	TWN
Tajikistan	TJK
Tanzania, United Republic of	TZA
Thailand	THA
Togo	TGO
Tokelau	TKL
Tonga	TON
Trinidad and Tobago	TTO
Tunisia	TUN
Turkey	TUR
Turkmenistan	TKM
Turks and Caicos Islands	TCA
Tuvalu	TUV
Uganda	UGA
Ukraine	UKR
United Arab Emirates	ARE
United Kingdom	GBR
United States	USA
United States Minor Outlying Islands	UMI
Uruguay	URY
Uzbekistan	UZB
Vanuatu	VUT
Venezuela	VEN
Viet Nam	VNM
Virgin Islands (British)	VGB
Virgin Islands (US)	VIR
Wallis and Futuna Islands	WLF
Western Sahara	ESH
Yemen	YEM
Yugoslavia	YUG
Zaire	ZAR
Zambia	ZMB
Zimbabwe	ZWE
Other countries NEI	NEI

NEI Means not elsewhere included

APPENDIX 10 LODGMENT ADDRESSES AND TAX OFFICE SHOPFRONTS

Below are the Tax Office postal addresses for lodgment of the company tax return and any other correspondence. If an *Interposed entity election 2005* is attached to the company tax return, send the tax return and the election to the address on page 20.

If you have questions about your company tax return, phone the Business Infoline on **13 28 66** or see the inside back cover for our other infoline services.

Note: Staff at our shopfronts are not trained to help with business tax returns – please phone one of our infolines if you have any business-related enquiries.

Postal address for lodgment

Clients in **NSW**, **ACT** and **QLD**

Send the *Company tax return 2005* to:

Australian Taxation Office
PO Box 2246
CHERMSIDE QLD 4032

Clients in **VIC**, **TAS**, **SA**, **NT** and **WA**

Send the *Company tax return 2005* to:

Australian Taxation Office
GPO Box X2229
PERTH WA 6847

Do NOT post payments to these addresses; for payment addresses, see page 92.

If you wish to write to the Tax Office send your correspondence to:

Australian Taxation Office
GPO Box 9990
Sydney NSW 2001

TAX OFFICE SHOPFRONTS

Victoria

Casselden Place
Level 1, 2 Lonsdale Street
Melbourne

Cheltenham
4A, 4–10 Jamieson Street
Cheltenham

Dandenong
14–16 Mason Street
Dandenong

Geelong
92–100 Brougham Street
Geelong

Western Australia

Northbridge
45 Francis Street
Northbridge

Northern Territory

Alice Springs
Jock Nelson Centre
16 Hartley Street
Alice Springs

Darwin
TIO Centre
24 Mitchell Street
Darwin

Tasmania

Hobart
200 Collins Street
Hobart

Australian Capital Territory

Canberra
Ground floor, Ethos House
28–36 Ainslie Avenue
Canberra

Queensland

Brisbane
280 Adelaide Street
Brisbane

Townsville
Stanley Place
235 Stanley Street
Townsville

Upper Mt Gravatt
Ground floor, Nexus Building
96 Mount Gravatt-Capalaba Road
Upper Mount Gravatt

South Australia

Adelaide
91 Waymouth Street
Adelaide

New South Wales

Albury
567 Smollett Street
Albury

Chatswood
Shop 43 Lemon Grove Shopping Centre
441 Victoria Avenue
Chatswood

Hurstville
1st Floor MacMahon Plaza
14–16 Woodville Street
Hurstville

Newcastle
266 King Street
Newcastle

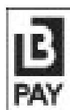
Sydney
Podium Level, Centrepoint
100 Market Street
Sydney

Parramatta
Ground Floor Commonwealth Offices
2–12 Macquarie Street
Parramatta

Wollongong
93–99 Burelli Street
Wollongong

APPENDIX 11 PAYMENT OPTIONS

You can make payments by one of five methods:



BPAY® allows you to transfer funds electronically from your cheque or savings accounts to the Tax Office using your financial institution's phone or internet banking service. You can make most tax payments by using BPAY.

Quote the Tax Office biller code (75556) and the EFT code as your customer reference number. Your EFT code is the string of numbers found immediately above the barcode on your payment slip.

A receipt number is issued at the time the payment is made. This should be recorded for future reference.

Check with your financial institution for processing deadlines, to ensure your payments reach the Tax Office on or before the due date. BPAY payments made out of hours, on a weekend or public holiday **will not** reach the Tax Office until the next working day.

If you need assistance locating or identifying the EFT code please phone **1800 815 886**, email **payment@ato.gov.au**

For more information about BPAY payments, contact your financial institution.

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Direct credit: You can arrange to have your payment credited to the Tax Office electronically, via a desktop banking package. Use the following information to transmit a payment to the Tax Office bank account:

Bank	**Reserve Bank of Australia**
BSB no.	**093 003**
Account no.	**316 385**
Account name	**ATO EFT direct credit official administered receipts account**

To ensure your payment is recorded correctly to your Tax Office account, you must record your EFT code in the Direct Entry System lodgment reference field. Your EFT code is the series of numbers found immediately above the bar code on your payment slip. For more information about direct credit payments phone **1800 815 886**, email **payment@ato.gov.au** or visit **www.ato.gov.au**

Direct debit: Direct debit allows you to have your tax liability electronically debited, as a one-off or periodic payment, from your nominated financial institution account (excluding credit card accounts).

To arrange a direct debit, complete and send a *Direct debit request* form to the Tax Office. The form gives the Tax Office permission to debit your nominated financial institution account. Forms can be printed and sent by a tax agent using ELS software, or you can order one yourself by phoning **1800 802 308**.

Please note that the *Direct debit request* must be signed and received by the Tax Office at least five working days before the first debit transaction.

For more information about direct debit payments phone **1800 802 308**, email **eft-information@ato.gov.au** or visit **www.ato.gov.au**

Mail: Post your payment with the payment slip to the address printed on the slip.

If a payment slip is not available, you can post payments to the appropriate address below. Include your full name, address, telephone number, type of payment and ABN or TFN.

For **NSW**, **ACT** and **QLD** clients please send payments to:

Australian Taxation Office
Locked Bag 1793
PENRITH NSW 1793

For **WA**, **SA**, **NT**, **TAS** and **VIC** clients please send payments to:

Australian Taxation Office
Locked Bag 1936
ALBURY NSW 1936

Make cheques and money orders payable to the 'Deputy Commissioner of Taxation' with 'Not negotiable' printed across the cheque. Tender all cheques in Australian dollars. Do not send cash by post. Do not use pins, staples, paper clips or adhesive tape.

In person – at a post office: If you have a payment slip with a barcode, you can pay in person at any Australia Post outlet. Australia Post does not accept photocopies of payment slips. Payments can be made by cash, cheque or money order.

A $3,000 limit applies to cash payments. Cheques should be made payable to the 'Deputy Commissioner of Taxation' and crossed 'Not negotiable'. A receipt will be issued for any payment made in person at a post office.

EFTPOS is available at most Australia Post outlets. However, payments can only be made using your savings or cheque account. The amount of the payment is also limited to the daily cash withdrawal amount permitted through the bank's ATM.

For more information on any payment method:

Phone: **1800 815 886**

Email: **payment@ato.gov.au**

Website: **www.ato.gov.au**

ABBREVIATIONS

A$	Australian dollars
AAT	Administrative Appeals Tribunal
ABN	Australian business number
ABS	Australian Bureau of Statistics
ACN	Australian Company Number
ACT	Australian Capital Territory
CFC	controlled foreign company
CGT	capital gains tax
Commissioner	Commissioner of Taxation
DDR	direct debit request
DES	direct entry system
DGR	deductible gift recipient
DVS	direct value shifting
EFT	electronic funds transfer
ELS	electronic lodgment service
EPA	environmental protection activities
FBT	fringe benefits tax
FDA	foreign dividend account
FDT	franking deficit tax
FIF	foreign investment fund
FLIC	film licensed investment company
forex	foreign exchange
FTD	family trust distribution tax
FTE	family trust election
FTP	file transfer protocol
Gazette	*Commonwealth of Australia Gazette*
GST	goods and services tax
GVSR	general value shifting regime
ICDR	intercorporate dividend rebate
IRU	indefeasible rights to use international submarine cable system
ITAA	Income Tax Assessment Act
ITEC	endorsed income tax exempt charity
IVS	indirect value shifting
LIC	listed investment company
MEC	multiple entry consolidated
NANE	non-assessable non-exempt
OB	offshore banking
OBU	offshore banking unit
PAYG	pay as you go
PDF	pooled development fund
PPS	prescribed payments system
PSI	personal services income
PST	pooled superannuation trust
R&D	research and development
RBA	running balance account
RSA	retirement savings account
SAP	substituted accounting period
SHAR	superannuation holding accounts reserve
SME	small and medium enterprises
STS	simplified tax system
TAA 1953	*Taxation Administration Act 1953*
TFN	tax file number
Trust Loss Act	*Taxation Laws Amendment (Trust Loss and Other Deductions) Act 1998*
UBNT	ultimate beneficiary non-disclosure tax
UCA	uniform capital allowances
VCDT	venture capital deficit tax
www	world wide web

TAXATION DETERMINATIONS AND TAXATION RULINGS

IT 2624 *Income tax: company self assessment; elections and other notifications; additional (penalty) tax; false or misleading statement*

TD 93/202 *Income tax: Offshore Banking Units (OBU) – can an OBU use offshore banking (OB) money (ie money that is not non-OB money) for purposes other than OB activities and replace those funds at a later date?*

TD 93/203 *Income tax: Offshore Banking Units (OBU) – does share capital subscribed by a resident owner to its subsidiary, before that subsidiary becomes registered as an OBU, constitute 'OBU resident-owner money'?*

TD 93/204 *Income tax: Offshore Banking Units (OBU) – where a non-resident has an Australian branch and an Australian subsidiary, and the subsidiary is registered as an OBU, does any share capital subscribed in the subsidiary by the parent fall within the definition of 'non-OB money'?*

TD 93/205 *Income tax: Offshore Banking Units (OBU) – does trading in, or entering into commodity derivatives such as commodity futures, forwards, options and swaps constitute offshore banking (OB) activity for the purposes of section 121D?*

TD 93/206 *Income tax: Offshore Banking Units (OBU) – if an OBU carries on a business of trading in shares or debt instruments, such that the trading is an offshore banking (OB) activity for the purposes of subsection 121D(1), are dividends and interest derived from holding the shares or debt instruments assessable OB income?*

TD 93/207 *Income tax: Offshore Banking Units (OBU) – if an OBU acts as funds manager for a trust with offshore investors and an Australian trustee, does the funds management role fall within the definition of an investment activity under subsection 121D(6)?*

TD 93/208 *Income tax: Offshore Banking Units (OBU) – does the definition of advisory activity in subsection 121D(7) encompass the provision of financial knowledge and information to an offshore person?*

TD 93/209 *Income tax: Offshore Banking Units – does the definition of advisory activity in subsection 121D(7) encompass: advising offshore parties on offshore infrastructure financing; and advising lessors or lessees on leasing transactions, where both lessor and lessee are offshore persons and the leased asset is not located in Australia?*

TD 93/210 *Income tax: Offshore Banking Units (OBU) – does the definition of advisory activity in section 121D(7) encompass advising an offshore debt investor or offshore borrower in an offshore leveraged lease which has an Australian end-user?*

TD 93/211 *Income tax: Offshore Banking Units (OBU) – where an OBU provides the services of its employees to a non-resident subsidiary to assist the subsidiary in advising offshore clients on offshore financial matters, can fees charged by the OBU to the subsidiary qualify as assessable OB income?*

TD 93/212 *Income tax: Offshore Banking Units (OBU) – are salaries and other operating expenses that are paid from non-OB money taken into account for purposes of the 'purity test' in section 121EH where the expenses are incurred in undertaking OB activities?*

TD 93/213 *Income tax: Offshore Banking Units (OBU) – if an OBU earns fee income for completing an assignment (say advisory activities) on a success only basis, are expenses incurred on unsuccessful deals exclusive offshore banking (OB) deductions or general OB deductions?*

TD 93/214 *Income tax: Offshore Banking Units (OBU) – must an OBU enter details of expenditure that it intends to claim as allowable offshore banking (OB) deductions or allowable non-OB deductions in its relevant books of account at the time of incurring that expenditure?*

TD 93/215 *Income tax: Offshore Banking Units (OBU) – where an institution that is registered as an OBU lends money to another institution that is registered as an OBU, how do the counterparties know whether the loan qualifies as an offshore banking (OB) activity?*

TD 93/216 *Income tax: Offshore Banking Units (OBU) – is an OBU entitled to concessional tax treatment for income derived on a success only basis from offshore banking (OB) advisory activities which were entered into prior to the entity being registered as an OBU?*

TD 93/217 *Income tax: Offshore Banking Units (OBU) – what is the effect of funding an offshore banking (OB) activity with both OB and non-OB money?*

TD 93/241 *Income tax: Offshore banking units – if an OBU sells down or disposes of its interest in a loan which originally qualified as an OB activity, does any fee receivable constitute assessable OB income?*

TD 95/1 *Income tax: Offshore Banking Units (OBU): what is the effect of converting a profit from offshore banking (OB) activities denominated in a foreign currency into Australian currency in an arm's length transaction with a separate Australian counterparty or with another division of the entity of which the OBU forms part?*

TD 95/2 *Income tax: Offshore Banking Units (OBU): can foreign currency denominated assets and receivables generated from offshore banking (OB) activities be hedged into Australian dollars (AUD) and if so, would the AUD received from the forward sale constitute non-OB money?*

TD 2004/4 *Income Tax: is a dividend paid before 1 July 1987 an unfranked dividend for the purposes of section 705-50 of the ITAA 1997?*

TR 92/18 *Income tax: bad debts*

TR 93/1 *Income tax and fringe benefits tax: private rulings*

TR 93/1A Addendum

Addendum to taxation ruling TR 93/1

TR 93/23 *Income tax: valuation of trading stock subject to obsolescence or other special circumstances*

TR 96/7 *Income tax: record keeping – section 262A - general principles*

TR 97/16 and TR 97/16A – Addendum
Income tax: status of taxation rulings following the income tax law rewrite

TR 97/23 *Income tax: deductions for repairs*

TR 97/25 and TR 97/25A – Addendum
Income tax: property development: deduction for capital expenditure on construction of income producing capital works, including buildings and structural improvements

TR 98/7 *Income tax: whether packaging items (ie, containers, labels, etc) held by a manufacturer, wholesaler or retailer are trading stock*

TR 98/8 *Income tax: whether materials and spare parts held by a taxpayer supplying services are trading stock*

TR 1999/9 *Income tax: the operation of sections 165-13 and 165-210, paragraph 165-35(b), section 165-126 and section 165-132*

TR 2000/18 and Addenda
Income tax: depreciation effective life

TR 2002/6 *Income tax: Simplified Tax System: eligibility – grouping rules (*STS affiliate, control of non fixed trusts)*

TR 2002/10 *Income tax: capital gains tax: asset register*

TR 2002/11 *Income tax: Simplified Tax System eligibility – STS average turnover*

TR 2003/14 *Income Tax: Life insurance companies: the actuarial determination of fees and charges*

TR 2004/9 *Income tax: consolidation: what is meant by 'injection of capital' in section 707-325 of the Income Tax Assessment Act 1997?*

TR 2005/4 *Income tax: capital allowances – project pools – core issues*

Law Administration Practice Statements

PS LA 2003/8
Taxation treatment of expenditure on low-cost items for taxpayers carrying on a business

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PUBLICATIONS

Publications you may need to refer to when completing the company tax return are:

- *Application for refund of franking credits – endorsed income tax exempt charities and deductible gift recipients* (NAT 4131)
- *Australian film industry incentives 2005* (NAT 0954–6.2005)
- *Capital allowances schedule instructions 2005* (NAT 4089–6.2005)
- *Guide to capital gains tax concessions for small business* (NAT 8384)
- *Consolidated groups losses schedule instructions 2005* (NAT 7891–6.2005)
- *Consolidation and market valuation* (NAT 7803)
- *Consolidation reference manual* (NAT 6835) (available at **www.ato.gov.au**)
- *Deductions for prepaid expenses 2005* (NAT 4170–6.2005)
- *Foreign income return form guide 2005* (available at **www.ato.gov.au**)
- *Foreign investment funds guide 2005* (available at **www.ato.gov.au**)
- *Franking account tax return instructions 2005* (NAT 1382–6.2005)
- *General value shifting regime in brief* (NAT 8933)
- *Guide to capital gains tax 2005* (NAT 4151–6.2005)
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- *Guide to functional currency rules* (available at **www.ato.gov.au**)
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- *Guide to the general value shifting regime* (NAT 8366) (available at **www.ato.gov.au**)
- *Guide to the R&D tax concession* (available at **www.ausindustry.gov.au**)
- *Guide to thin capitalisation* (NAT 4461) (available at **www.ato.gov.au**)
- *Income Tax Assessment Act* 1936
- *Income Tax Assessment Act* 1997
- *Income tax guide for non-profit organisations* (available at **www.ato.gov.au**)
- *Losses schedule instructions 2005* (NAT 4088–6.2005)
- *Personal services income schedule instructions 2005* (NAT 3421–6.2005)
- *Research and development tax concession schedule instructions 2005* (NAT 6709–6.2005)
- *Schedule 25A instructions 2005* (NAT 2639–6.2005)
- *The simplified tax system – a guide for tax agents and small businesses* (NAT 6459)
- *Strata title body corporate tax return 2005* (NAT 4125–6.2005).

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