

ezytax
BLUE

chapter 2b
business



CHAPTER 2B – BUSINESS INCOME

WHAT IS THE DIFFERENCE BETWEEN A BUSINESS AND A HOBBY?

Under income tax law, deductions can be claimed for expenses that are incurred in carrying on a business to produce assessable income, provided these expenses are not of a private, domestic or capital nature.

To be able to claim business deductions the taxpayer must be carrying on a business. If the taxpayer is not carrying on a business, the activities may in fact be a hobby.

The courts have provided some guidelines to help determine whether a business exists or whether it is, in fact, a hobby. There are no hard and fast rules. The Tax Office looks at all the circumstances of a case in determining whether a business exists.

Guidelines adopted by the courts include the following:

These factors provide general guidance in determining whether the taxpayer's activity is a business.

- **Does the activity have a significant commercial purpose or character?**
It is important to consider whether the activity is carried on for commercial reasons and in a commercially viable manner.
- **Is there an intention to actually engage in business?**
The taxpayer needs to have made a decision to commence business and done something about it, rather than just having an idea that they will do so sometime in the future. If the taxpayer is still setting up or preparing to go into business, they might not have commenced business yet.
- **Does the activity have a purpose of profit as well as prospect of profit?**
It is relevant whether you have an intention to make a profit or a genuine belief that a profit will be made.
It is important that the taxpayer is able to show how the activity can make a profit, even if it does not make a profit in the short term.
- **Is there repetition and regularity to the taxpayer's activity?**
It is often a feature of a business that similar sorts of activities are repeated on a regular basis (although, one-off transactions can constitute a business in some cases). It would need to be considered whether at least a minimum level of activity appropriate to the industry is undertaken.
- **Is the activity of the same kind and carried on in a similar manner to businesses in your industry?**
It is relevant whether the manner of operation is consistent with industry norms or with businesses in the same field.
- **Is the activity planned, organised and carried on in a business-like manner?**

This may be indicated by:

- business records and books of accounts
- business premises
- licenses or qualifications, and
- a registered business name (having a registered business name is not compulsory for tax purposes and just having a business name does not necessarily mean you are in business).

- **Does the activity have characteristics of size, scale and permanency?**

It is more likely that the activity constitute a business if the size and scale of the activity is:

- consistent with businesses in the same field or with industry norms, and
- sufficient to allow you to make a profit, even if not in the short term.

- **Would the activity be better described as a hobby, recreation or sporting activity?**

If the manner in which the activity is undertaken shows that it is more properly considered a hobby, recreation or sporting activity, it will not constitute a business.

However, a hobby may turn into a business.

Example.....

Carrying on a business

Melissa sells wooden toys from a retail outlet. Her outlet is open the same hours as other retail outlets. She advertises in the Yellow Pages as well as regional toy magazines. She sells to clients within her region and to people who have seen her advertisement. She sells her toys at a price that enables her to make a profit. Melissa would normally be considered to be carrying on a business.

Example.....

Conducting a hobby

Tony makes wooden toys at home. He works about six hours a week and sells the toys only to his family and friends. He intends the activity to remain small and is happy if all he does is cover his costs. Tony would be considered to have a hobby. As such, he would not include the amounts he received in his income tax return. Consequently, he cannot claim any expenditure he incurred in relation to his hobby against any other income he earns.

Evidence may be required to show that the activity is a business

These are examples of question that the Tax Office may consider in determining whether the activity constitutes a business:

- Does the taxpayer have a business plan? (See below)
- Does the taxpayer use specialised knowledge or skills?
- Has the taxpayer had prior experience in this area?
- How much capital has the taxpayer invested in the activity?
- Has the taxpayer done market research?
- How much time does the taxpayer spend on the activity?
- Is the activity a part-time 'side-line' or the taxpayer's main income earning activity?
- Does the taxpayer give quotes and supply invoices?

- Does the taxpayer advertise?

The business plan

A business plan can include:

- a description of the taxpayer's activities
- the markets to which the taxpayer proposes to sell
- realistic estimates of quantity and volume of sales
- income expected from the activity
- the research that the taxpayer has conducted
- expected expenses and capital outlays, and
- how the taxpayer proposes to finance these expenses and outlays.

SUMMARY

The tax law does not provide a detailed definition of a business. All cases have to be decided on their own facts.

The decision is a process of weighing all of the facts. The weight of each factor will vary from case to case. No single indicator is decisive.

The factors must be considered in combination and as a whole, not separately.

The list of factors is not intended for use as a 'checklist'. If the taxpayer's activity does not satisfy all of these factors, it does not automatically mean that it is not a business.

However, it is likely that an activity that is not conducted in accordance with these factors would be considered a hobby.

As a general rule:

- The taxpayer would normally be considered to be in business for tax purposes if they enter into an activity with the intention of running it as a profit-making business, and the way the activity is carried out shows that it has a significant commercial purpose and viability.
- Where an overall profit motive appears lacking and the activity does not look like producing a profit, it will be exception rather than the rule that the activity will amount to a business.

The **INTENTION** to make a profit is the all-important factor when determining if the activity is a hobby or a business and whether that intention is based on a reasonable business plan.

Although a business could quite reasonably make a loss in its early years of operation a consistent loss year after year probably means that it is a hobby and not a business.

The ATO also takes into account whether the taxpayer is engaged in full-time

employment and the hours devoted to the activity.

Taxpayer must be able to show that their business is running in a manner that meets the ATO guidelines.

Direct Selling Industry

'Direct Selling' includes such activities as Multi-Level Marketing, Party Plan, Person to Person and Door to Door Sales. 'Agents' include consultants (e.g. for Party Plans DSOs), representative (e.g. for Person to Person and Door to Door Sales DSOs) and distributors (e.g. for a Multi-Level Marketing DSOs).

The Tax Office acknowledges that there are significant differences between the activities carried out by the Agents for different Direct Selling Organisations. For example, some organisations (particularly some Multi-Level Marketing Organisations) place an emphasis on recruitment of other Agents as well as the sale of products, whilst others (particularly some Party Plan Organisations) emphasis is on product demonstration, or sales parties at the home of a hostess.

The Tax Office has adopted an 'Administrative Positions' in relation to the taxation treatment of Amway "Independent Business Owners" and Omegatrend Members.

The ATO has issued detailed information to assist the taxpayer to determine whether or not the activity will be deemed a business.

ITEM 15 – BUSINESS INCOME

Income from any business – other than personal services income included at Item 15.

This could also include:

- Personal services income paid under a Pay As You Go (PAYG) voluntary agreement.
- Personal services income from which an amount was withheld because an Australian Business Number (ABN) was not quoted.
- Personal services income as an independent contractor under a labour hire agreement.
- Business income and deductions should be presented in the following format -

TRADING ACCOUNT

Sales

Plus Goods for own use

Less Cost of Goods sold:

 Opening Stock

 Plus Purchases

 Less Closing Stock

Gross Profit/Loss

Other Income

Total Gross Business Income/Loss

LESS: DEDUCTIONS CLAIMED

Accounting

Advertising

Bank Fees

Commissions

Depreciation

Donations

Elect/Gas

Home Office

Insurance

Interest

Materials

Motor Expenses

Postage

Print/Stationery

Protective Clothing

Replacement tools

Rent Expenses

Subscription

Telephone

Wages

LESS: TOTAL DEDUCTIONS

Net PROFIT/LOSS from this business

TRADING ACCOUNT

This is a normal accounting measure to calculate the level of gross profit within the trading enterprise. A trading account is to be completed by every taxpayer who holds stock for resale. To complete a trading account, figures are necessary for sales; goods for own use and cost of goods sold.

SALES

Records may be kept under the accrual or cash method. (Under the STS system small businesses were required to use the cash method. From 1 July 2005 either cash or accrual method can be used.)

VALUE OF GOODS TAKEN FROM STOCK FOR PRIVATE USE 2007/2008

The ATO sets guidelines for the value of goods taken from stock for use by self and family. This meant to be a guide only. Most trading businesses have some private use of stock.

The ATO have issued a Tax Determination TD 2007/30 setting out the amounts that

should be treated assessable income.

GST ON INCOME and EXPENSES

If the business is registered for GST the income and expenses are reduced by the GST amount. Only the net figures (less GST) should be included on the tax return.

If the business is not registered for GST, there is no GST collected on income. Therefore, they can claim the total expenses including GST as a deduction.

COST OF GOODS SOLD

All businesses that sell stock **MUST** complete a Cost of Goods Sold section.

Opening Stock there must always equal stock from previous year. For a new business there will be no opening stock, this will form part of purchases.

Purchases are goods bought for resale at a profit?

Closing Stock is the value of goods on hand at the end of the financial year. Goods can be value at cost or market value and can be changed each year. Cost price is the one most commonly used.

Example.....

During the 2023 tax year Rebecca purchased a Dress Shop for \$55,000 goodwill plus plant and equipment \$9,500 and stock at valuation \$23,200. Sales for year equalled \$268,254. Purchases of \$165,510. Rebecca took out clothing valued at \$5,100. On 30 June 2018 she carried out a stock take and valued her stock at \$27,631. Rebecca's trading account would show as:-

Trading Account		
Sales Cash and Credit		268,254
<i>(not including value of goods taken from stock)</i>		
Plus Cost of Goods taken from stock and used for maintenance of self and family		
		5,100
Gross Sales	(1)	273,354
Less Cost of Goods sold		
Opening stock		Nil
Plus: Purchases		188,710*
Less: Closing stock		27,631
Cost of goods sold	(2)	161,079
* This figure includes the stock purchased from the previous owner of \$23,200 plus purchases \$165,510.		
GROSS PROFIT (subtract (2) from (1))		112,275

The ATO looks at Gross Profit and Net Profit margins as well as other ratios and compares this information with the industry averages.

For example, if the industry average for the gross profit margin is 100% and the business is only showing a margin of 50% the ATO will look at the sales and cost of goods sold. The business may then be asked to explain the difference.

GROSS INCOME FROM PROFESSION

If a taxpayer is self-employed in a profession (i.e computer programmer, solicitor, or engineering etc) and no trading stock is involved, then gross income is declared.

AMOUNTS RECEIVED BY WAY OF INSURANCE FOR LOSS OF TRADING STOCK OR LOSS OF PROFITS.

Any amounts received from an insurance company for losses of stock or profits due to a claim on the policy is assessable income (i.e burglary, fire and storm). This also includes assessable income from a sickness and accident policy.

ASSESSABLE PROFIT ON SALE OF ASSETS

As determined from depreciation schedule. Discussed in a later chapter.

DISCOUNTS, REBATES, ETC

Discount received for payment of accounts, promotional rebates for advertising, bad debts recovered etc, is all assessable income.

GROSS EARNINGS FROM FEES, COMMISSION, CARTAGE, ETC

This covers income from all other source not previously listed (i.e self-employed contractors, bricklayers, courier operators, pool fencings contractors, carpenters, builders, joiners, salesman, etc).

BUSINESS EXPENSES

All legitimate expenses incurred in operating a business are generally deductible.

Types of expenses that can be explained:-

- Advertising
- Accounting
- Bank Fees and charges
- Cartage and Freight
- Depreciation on business plant including motor vehicles
(special depreciation rules apply for small business)

- Donations
- Electricity (business percentage only)
- Home Office expenses (business percentage only)
- Insurance premiums, e.g public liability (excluding amounts claimed as motor vehicle expenses)
- Interest on money borrowed for business use (including interest on car)
- Motor vehicle expenses (excluding depreciation and interest)
- Printing and stationery
- Postage
- Rates and land taxed (apportioned between business and private use – business portion only can be claimed)
- Rent or lease of business premises or land
- Repairs (not alterations, additions or improvements) to property and plant (cost of repairs must be apportioned between business and private use – business portion only can be claimed)
- Salaries and wages paid to associated persons and domestics, other employees, sub-contract, contract labour
- Subscription to trade, business or professional associations
- Superannuation paid for employees (only applies to wages over \$450 per month)
- Telephone (mobile and home restricted to business percentage)
- Tools – replacement, repair and insurance
- Travelling expenses for business purposes
- Other business expenses

Business related costs, section 40-880 ITAA 1997.

Capital expenditure incurred can be deducted amounts of one of these:

- expenditure to establish a business;
- expenditure to convert a business structure to a different structure;
- expenditure to raise equity for a business;
- expenditure to defend a business against a takeover;
- cost of a business of unsuccessfully attempting a takeover;
- costs of liquidating a company that carried on a business and of which the taxpayer is a shareholder;
- costs to stop carrying on a business – to the extent that the business is or was carried on for a taxable purposes.

The amount that can be deducted is 20% of the expenditure:

- for the income year in which it is incurred; and
- for each of the next 4 income years.

However, no deduction can be claimed under this section for an amount of capital expenditure incurred to the extent that:

- it forms part of the cost of a depreciating asset that are held; or
- an amount can be deducted for it under a provision of this Act outside this section;
- or
- it forms part of the cost of land.

Family Day Car Providers

The ATO has released Taxation Ruling IT 2396 that covers Family Day Care Providers.

The following are some of the expenses able to be claimed-

- Food and toiletries (all receipts should be kept, but if use in general household consumption then a reasonable estimate may be used – details must be kept of how estimate was made).
- Electricity or gas – a reasonable estimate of business percentage.
- Telephone calls – business percentage of rental plus any outgoing calls – diaries for one month.
- Protective clothing eg aprons and gloves.
- Smoke-alarms, fire blankets.
- Safety catches, doorway barriers.
- Cleaning materials and hiring of help to clean business area.
- Cost of replacing toys and small non-depreciable items.
- Transporting children to school etc – kilometres kept.
- Insurance premiums e.g. public liability.
- Where an area is set exclusively for business usage then a percentage of mortgage interest, rent, rates, insurance and repairs.
- Repairs claimed outright to area used exclusively for business use.

ITEM 16 – NON-COMMERCIAL LOSSES

(Deferral of losses from Non Commercial activities)

- **EFFECTIVE DATE** 1 July 2000
- **WHO DO THE NEW RULES AFFECT?** Individual taxpayers (including partners)
- **ONLY LOSSES INCURRED AFTER THE 1 JULY 2000 ARE AFFECTED**
The new rules will not affect un-recouped losses as at the 30 June 2000.
- **WHAT DO THE NEW RULES MEAN?**
Losses incurred by an individual (including individuals in a partnership), which would otherwise be deductible because an individual is carrying on a business activity; will NOT be deductible against an individual's other income for a particular year, unless ONE or FOUR tests are satisfied. If none of the tests are satisfied these losses will be carried forward and will only be deductible against that individual future profit from that business activity.
- **EXCEPTIONS**
The new rules DO NOT apply to a loss you incur from:
 - A negatively geared rental property.
 - Primary producers with other assessable income of less than \$40,000*.
 - A professional ARTS business activity with other assessable income of less than \$40,000*.

*Does not include any net capital gains.

If the taxpayer's business activity qualifies for these exemptions they may claim the loss against other assessable income, without passing any of the 4 tests.

THE FOUR TESTS

The new rules only require ONE test to be passed. If ONE of the test if met the taxpayer is fully entitled to deduct the loss against other income earned for the income year.

- If more than one business activity is undertaken that are not similar then each business must be assessed separately for these tests.
- If undertaking similar business activities, the results of these activities may be combined when applying these tests.

1. THE INCOME TEST

The activity produces an assessable income of at least \$20,000. Assessable income includes:

- The gross earnings of a business income.
- Ordinary income.
- Statutory income.

Partnerships

If the taxpayer is a member of a partnership and all the other partners are individuals, the assessable income of the partnership must be at least \$20,000 before individual members can deduct losses. Income paid to the partners who are a Company or Trust cannot be counted for the purpose of this test.

If the taxpayer has not carried on a business for a full year because it was started or ceased business part way during the year, a reasonable estimate of what would have been made for a full year can be made. These new measures will not apply if the reasonable estimate is over \$20,000.

The legislation sets no formula for this reasonable estimate. Relevant factors to be considered are:

- Any orders received.
- Any forward contracts entered into.
- The size of the business.
- The amount invested into the business.
- The type of business entered into and the typical pattern for that industry.
- How the actual income would translate into an annual income on a pro-rated basis.
- Cyclical or seasonal patterns in the business area, and the effect this would have had on the annual income.

2. THE PROFITS TEST

This test requires that the business activity produced profit 3 out of the past 5 years.

- For the purpose of this test a business activity has a profit when its assessable income is greater than its deductions for the income year.
- When calculating the profit, exclude any loss from that activity that is deferred form

an earlier year.

- If the business has a profit in three out of the past five years (including the current year), it will pass the profit test.

Partnerships

If the taxpayer is carrying on a business activity in partnership the rules are the same as an individual, they should include the income and deductions share from the partnership as well as any income that they have from the activity on an individual basis.

3. THE REAL PROPERTY TEST

Use real property or an interest in real property worth at least \$500,000 on a continuing basis.

Partnerships

Any assets attributable to non-individual partners must be EXCLUDED.

Any assets owned by individual partners in their own right must be EXCLUDED.

Real property includes:

- * Land in land such as leases
- * Structure such as buildings

Real property does not include:

- * A dwelling and adjacent land used for private purposes
- * Interest
- * Fixed assets owned by you as a tenant

What is continuing basis

- * This will depend on your business circumstances

How to value the property?

- * Reduced cost base
- * Market Value

Assets that cannot be included are those:

- * Used for a short term basis
- * Used for a one off task
- * Through an agreement for intermittent use

What if the taxpayer leases equipment?

Leased property used on a continuing basis in the business activity may be included in the threshold calculation. You should take into account, in calculating the market value of the lease, such things as:

- The amount of your lease payment
- The term of the lease
- Any premium payable

In calculating the reduces cost base of the lease taken into account any premium paid for entering the lease, but not the value of the periodical lease payments.

- If the taxpayer installs their own fixtures into the leased premises the rules are the same as for other assets, (test 4 detailed below)
- If they use the real property for private use as well they should include the business portion
- They would normally value their real property at the end of the year.

4. THE OTHER ASSET TEST

To pass the other assets test, the value of the assets used in the business on a continuing basis must at least be \$100,000.

You can count the value of four different types of asset. They are value in different ways.

When assessing the value of the assets for the test, the same valuation method must be used for income tax basis. (This does not apply to valuing leased assets).

Excluded Assets

- Real property assets taken into account for the real property test
- Interest in real property taken into account for the real property test
- Cars, Motor Cycles and similar vehicles

Partnerships

You must EXCLUDE any assets attributable to non-individual partners (i.e. Companies or trusts).

You must EXCLUDE any assets owned by individual partners in their own right.

OTHER NOTES:

- **Continuing basis** – Has the same meaning as described in Test 2.
- **When should the assets be valued** – at the end of the year, or at the time the business activity ceases or was disposed of.
- **If the real property is used for both private use and in the business activity** – only include the business portion.
- **When calculating the value of the assets** – ignore assets that are attributable at non-individual partners i.e. Companies and trust partners.

THE COMMISSIONER'S DISCRETION

An application may be made for the commissioner's discretion if all of the four tests are failed.

The commissioner will only exercise his discretion if

- The business would have passed one of the four tests, except for exceptional circumstances.
- The business activity has just commenced and because of the nature of the business, there is a lead time before profit can be expected.

NOTES:

- The expectation that the business activity will pass one of the test or make a profit within a period that is commercially viable should be based on evidence from an independent source, (provided such a source exists).

- The commercially viable lead time will vary from industry to industry, according to factors such as anticipated income, expenses and seasonal variations.
- What would be considered exceptional circumstances
 - Bush fires - Floods - Hail storms
 - Droughts - Pest Plagues - Oil Spills
 - Gas Explosion - Power Plant Shutdown -Water Authority Failure
 - Diseases that destroy livestock & crops
- The length the discretion would apply will be determined on a case by case basis.
- To apply for the commissioner's discretion, apply for a private ruling.

SUMMARY

A loss can be offset from a business activity against other income if the business activity passes at least one of the four tests:

- Business has assessable business income of at least \$20,000, or
- Produce a **profit** in three out of the past five years, or
- **Real property** or an interest in real property worth at least \$500,000, on a continuing basis, or
- Other assets worth at least \$100,000, on a continuing basis.
- If the business activity does not pass any of these tests, you may still claim a loss if the Commissioner of Taxation decides to exercise **discretion**.

Example...

Daniel has a salaried job but he also carries on a small business making wooden toys. He starts the business on the 1 July 2007.

2013 – Daniel makes a net loss of \$3000. The business does not pass any of the tests and the commissioner does not exercise the discretion, so Daniel cannot deduct the loss from his assessable income. The loss is deferred.

2014 – Daniel makes a \$1000 profit. He offsets \$1000 of the \$3000 deferred loss against this profit. He leaves a loss of \$2000 to defer to the following year.

2015 – Daniel makes a loss of \$2000, but this is offset against \$1000 of exempt income he received. His business still does not pass any of the tests. So the loss of \$3000 is deferred.

2016 – Daniel makes a loss of \$4000, but this year his business passes one of the four tests. This means he can deduct this year's loss (and the deferred loss \$3000) from his assessable income in this year.

2017 – Daniel makes a \$3000 profit

2018 – Daniel makes a \$2000 loss. The business does not pass any of the tests. The loss deferred.

BUSINESS INCOME WORKSHEET MANUAL

The Business Income Worksheet is an internal spreadsheet developed to allow Management to better audit and track errors for business returns done at the booths. The BIW is broken into several sheets.

- **Income_Expenses**

Contains summary info, income, expenses and GST figures which can be used to complete BAS. This is the section to complete based on the Client's income and expense information.

- **GST Reconciliation**

Calculates the difference between BAS per Portal and info supplied by client. If difference is present, Client will need to amend BAS.

- **Tax Return**

Translates and summarises the information previously entered as it should appear in the ITR. This minimises confusion and errors when completing Business tab in the ITR.

IMPORTANT NOTE: When entering figures DO NOT use totals, use formulas to enter so that your work can be tracked i.e.

"=150+75+46" rather than "271"

INCOME & EXPENSES

When you first open the BIW, enter the Client's info at the top of the Income & Expenses sheet. You will need:

- Date (enter the date you began working/took payment)
- Your Initials
- Client's Name (or name of their business)
- Financial year ended (eg. 30/06/2023)
- Client's GST registration status: Y/N
- BAS Frequency (majority of clients will be Quarterly but always check Portal)

- Does Client have a Motor Vehicle logbook? If yes, you will also need odometer start and finish for the period. If not, enter Business KMS.
- Does the Client use a bonafide home office? i.e. Dedicated room used as an office. If yes, what % of house floor space? Otherwise enter WFH hours and choose COVID Rate or ATO Rate.

If the client is *not* registered for GST – simply enter all income and expenses into the June column as a breakdown by month is not needed.

If client *is* registered for GST – record their income and expenses in the appropriate month as listed at the top of the Income & Expenses sheet. Ignore the Qtr totals as this will auto-calc as you go.

- Enter client's income into the income rows, again, making sure to enter into the correct month. As noted above, make sure you use formulas wherever possible. If a client drives for Uber they will have several income sources – Ride Fees, Toll Fees and Tips. Your formulas should allow these to be visible separately. See the below example:

		=1627+6+44+110			
Gross transportation fare ¹	A\$1,627.37	J	K	L	
Airport fee	A\$6.00	Review Date: 27/05/21			
Booking fee	A\$44.55				
Total	A\$1,677.92	No Bonafide home office is a room t Office area/Total floor area enter TOTAL hours for the FY			
OTHER INCOME BREAKDOWN		ATO Rate ATO Rate is 52c/hr and can clai COVID Rate is a flat 80c/hr and			
		S			
		JAN	FEB	MAR	QTR
Miscellaneous	A\$100.00			0	178.7
Tips	A\$10.00	0.00	0.00		162.45
Total	A\$110.00	0.00	0.00		1624.55

- Once you have completed the income rows for all relevant months, you will notice that there are several types of expenses: Capital Purchases, Non Capital Purchases Incl GST and Non Capital Purchases GST Free. The worksheet will do the maths for you but it is important to know the difference.

Capital Purchases refers to large assets which may need to be depreciated (businesses are subject to generous instant asset write off schemes that individuals are not). These are things such as computers, machinery or motor vehicles.

Non-Capital Purchases Incl GST make up the bulk of ABN expenses and refer to smaller items that are subject to GST. Examples are costs of goods sold, stationery, rent, insurance, tools under \$300, and so on.

Non-Capital Purchases GST Free is limited to items that are not subject to GST such as vehicle registration, rates, bank fees and donations. This section also includes other items.

The worksheet contains almost all expenses which you will come across. As you may notice, c/km and c/hr for MVE and Home Office respectively are both within the Non-Capital Purchases GST Free category. This is because when claiming via these methods, no GST is applicable. This will also be reflected when expenses are entered on the tax return.

Non-Capital Purchases GST-free
Bank charges
Donations
Govt fees, licenses, levies
Home Office expenses - WFH info above
Home Rent - Biz Use % is _____ %
Interest expense
MV - Cents/KM - enter Biz Kms above
MV Rego (Qld Transport)
Superannuation
Total Expenses (G11)

GST RECONCILIATION

When preparing a tax return that includes a GST registered ABN, it is critical that the sum of all BAS for that period reconciles or matches the figures declared in the ITR.

- The GST Reconciliation sheet will compare the BAS figures as you enter them to the BAS figures that are available on the Portal. To find the figures from Portal >

Lodgments > Activity Statements > History.

Summary Profile Accounts and payments **Lodgments** Super Business

COVID-19
Access ATO stimulus measures such as JobKeeper wage sub...

View

For action

- ✓ Lodgments are up to date.
- ✓ Payments are up to date.

- Select “History” then select the BAS for the period(s) you need as displayed below. In this case, we want the Jan-Mar 2021 BAS.

For action **History**

Below is a list of all the activity statements for the selected account which have been lodged, finalised or cancelled for the last four years.

Statements

8 results: 28/05/2017 – Current Filter

Statement	Status	Received date	Outcome
Jan 2021 – Mar 2021 Business activity statement	Finalised	11/05/2021 Payment due 26/05/2021	\$132.00 debt Revise
Oct 2020 – Dec 2020 Business activity statement	Finalised	16/02/2021 Payment due 02/03/2021	\$219.00 debt Revise
Jul 2020 – Sep 2020 Business activity statement	Finalised	16/02/2021 Payment due 25/11/2020	\$342.00 debt Revise
Apr 2020 – Jun 2020 Business activity statement	Finalised	28/10/2020	\$1,327.00 refund Revise

- You will then be presented with a summary of the BAS lodged for that period. You will need to click the “Details” on the right-hand side to find more details.

GST Reconciliation			WP – J			
Client name	John Doe	Prepared by	JE			
Client code		Date prepared	27/05/2021			
Year ended	30/06/21	Reviewed by	JD			
Business Activity Statement per Portal						
MONTHLY CYCLE						
What is the BAS cycle? Quarterly	Complete the relevant table based on what the BAS cycle is					
BA \$ as per portal						
QUARTERLY CYCLE						
	Q1	1A	1B	PAYGW	PAYGI	Balance
Apr – Jun – Prior Year						0
Jul – Sept						0
Oct – Dec						0
Jan – Mar	2149	195	53			132
Apr – Jun						0
Total for financial year	2149	195	53	0	0	132
BA \$ per software reports						
	Q1	1A	1B	PAYGW	PAYGI	Balance
Jul – Sept	5369	488	0			488
Oct – Dec	3879	353	0			353
Jan – Mar	2149	195	53			142
Apr – Jun	0	0	0			0
Total for financial year	11396	1036	53	0	0	983
Difference	-9248	-841	0	0	0	-881
Other Issues						
Is there any differences?						
If yes - Client MUST amend BAS's						
**ANNUAL CYCLE Information is based on the above						
	Q1	1A	1B	PAYGW	PAYGI	Balance
Annual BAS TBL	11396	1036	53	0	0	983
Business Activity Statement per Software						
	Q1	1A	1B	PAYGW	PAYGI	BALANCE
July	2025	187	0			187
August	1854	133	0			183
September	1821	168	0			168
October	850	78	0			78
November	1855	170	0			170
December	1154	104	0			104
January	325	30	8			22
February	0	0	0			0
March	1817	165	46			120
April	0	0	0			0
May	0	0	0			0
June	0	0	0			0
Totals	11386	1038	53	0	0	983
Difference	-1186	-1038	-53	0	0	-983
Other Issues						
Is there any differences?						
If yes - Client MUST amend BAS's						

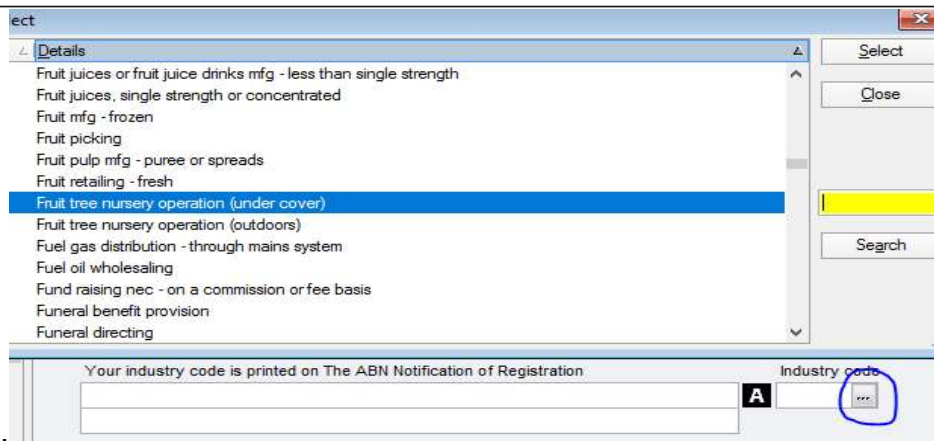
TAX RETURN

The final sheet within the BIW is designed to imitate the Business Income page of the ITR in MYOB. It will primarily pull from the information which you have entered in the prior sheets.

At the top of the page, complete labels P1-P7 with more basic info about the business.

- P1: Did you receive PSI? If Yes, proceed to P2. The majority of ABN clients registered for GST will not have received PSI.
- P2: Description of business. If Uber driver = taxi service, if commercial cleaner = cleaning service etc.

TIP: When entering into MYOB, press the 3 dots (circled in blue) and then enter keywords (highlighted in yellow) until you find a description that fits their business.



- P3: How many business activities? If they drive for Uber, Didi and Ola then they still only have the 1 activity – taxi service. An example of 2 business activities would be a Personal Trainer who also drives for Uber when not with their clients.
- P4: Status of Business. This simply discloses to the ATO if the business was initiated or concluded within the financial year. The codes are:
 - 0=N/A (neither started the business nor closed it during the year)
 - 1=Ceased business during the year
 - 2=Began the business during the year

These show up with a description when entering in MYOB so do not stress about the remembering numbers.

- P5: Business Name. If they have a trading name (can be found on ABN Lookup) then enter that, otherwise their name.
- P6: Business address. If they don't have a business premises then their home address.
- P7: Did the client sell goods or services over the internet? This is a simple data collection point for the ATO and doesn't affect anything in the return.

From here, you will see the business income schedule as it appears in MYOB. Most of the information will be pre-filled for you from the inputs you made on the Income_Expenses sheet. Make sure to note the method used to count closing stock and MVE expenses when applicable. See examples highlighted below.

Non-commercial losses rules:

Is there a profit or loss?	LOSS	If a LOSS , answer the below questions and complete P9.
1) Is gross income over \$20,000?	No	
4) Are there assets over \$150K?		
3) Are there real assets over \$300K?		
2) Has there been profit in 3 out of 5yrs?		
Is it PP or Arts Business?		
5) Have they received a Tax Ruling?		
Did you answer YES to ANY of the above?	No	YES – Business is commercial. Losses do not need to be deferred
Pre-fill)		If you answered NO to the above questions, business is NOT commercial and losses MUST be deferred Item 16 must be completed

Then complete P9 and Item 16 for non-commercial losses. P9 Label G – choose the correct code.

Check non-commercial loss rules		
P9	Press ENTER to open schedule	Non
Inside Schedule:		
E	Industry Code - Same as P2 above	
F	Partnership or Sole Trader?	
G	Type of Loss	Non-commercial losses = 8
H	Deferred non-commercial losses from PY (check <u>Pre-fill</u>)	
I	Net Loss	\$0.00 Press ← to close
Item 16 - Non-commercial Losses (Income Tab)		
Partnership loss click on	F	
Sole Trader loss click on	G	
Enter amount in the Non-PP box		\$0.00

Transfer the results as they appear in the Tax Return sheet into MYOB and complete the ITR.

The BIW is now complete, ensure that you save the BIW and transfer to the Client's

folder for review. Naming convention for the file is: LASTNAME, FirstName BIW.

FOR BUSINESS/ABN RETURNS THAT REQUIRE THIS SHEET, TAKE THE INFORMATION AWAY! DO NOT ATTEMPT TO COMPLETE AT THE BOOTH. ENSURE YOU TAKE PAYMENT AND COMPLETE THE REST OF THE ITR.

ENTERING INTO MYOB

1. Business Items tab > complete P1

Goto (F2)

Front cover Income Deductions & Losses Tax offsets Medicare Adj Credits Income tests Spouse details **Business items**

Business and professional items

P1 Personal services income (PSI)

Did you receive any personal services income? ...
(If No, go to P2)

Part A

Did you satisfy the results test? ...
(If Yes, go to P2)

Have you received a personal services business determination(s) that was in force for the period you earned PSI? ...
(If Yes, go to P2)

Did you receive 80% or more of your PSI from one source? ...
(If Yes, go to part B)

If you received less than 80% of your PSI from each source for the whole of the period you earned PSI and you satisfied any of the following personal services business tests, indicate which business test(s) you satisfied. (If no tests satisfied go to part B)

Unrelated clients test ... Employment test ... Business premises test ...

Press F1 for help on these tests

Part B

Do not show amounts at part B that were subject to foreign resident withholding. Show these at P8.

PSI - voluntary agreement ...

PSI - where ABN not quoted ...

PSI - labour hire or other specified ...

2. **P2:** Click on three grey boxes to search for industry code. Make it as close to client's business as possible.
- P3:** Enter number of business activities
- P4:** Unless client began or ceased a business during the current FY, leave blank.
- P5:** Business name is just the client's name unless they have a registered business name.
- P6:** Address is just the client's home address unless they have an actual business address.
- P7:** Y or N

P2 Description of main business or professional activity

Your industry code is printed on The ABN Notification of Registration

Industry code

A

P3 Number of business activities

B

P4 Status of your business

C

P5 Business name of main business and Australian business number (ABN)

Use ABN from Return properties?

ABN

P6 Business address of main business

Suburb or town State Postcode

P7 Did you sell any goods or services using the internet?

Q

3. Enter per Business Income Worksheet (BIW) or client's records. Will always be NPP income. Label 'H' is for JobKeeper payments.

P8 Business income and expenses

Income

	Primary production	Non-primary production	Totals
Gross payments where ABN not quoted C	<input type="text"/>	D <input type="text"/>	<input type="text"/>
Gross payments subject to FRW (excluding capital gains) B		<input type="text"/>	<input type="text"/>
Gross payments - voluntary agreement E	<input type="text"/>	F <input type="text"/>	<input type="text"/>
Gross payments - labour hire or other specified payments N	<input type="text"/>	O <input type="text"/>	<input type="text"/>
Assessable government industry payments G	<input type="text"/>	H <input type="text"/>	<input type="text"/>
Other business income I	<input type="text"/>	J <input type="text"/>	<input type="text"/>
Total business income	<input type="text"/>	<input type="text"/>	<input type="text"/>

4. Enter expenses per BIW or Client's records. By clicking on 'J' above, you can open a more detailed schedule.

Expenses			
Opening stock	<input type="text"/>	<input type="text"/>	K <input type="text"/>
Purchases and other costs	<input type="text"/>	<input type="text"/>	L <input type="text"/>
Closing stock	<input type="text"/>	<input type="text"/>	M <input type="text"/> / <input type="text"/>
Cost of sales (label K+L-M)	<input type="text"/> /	<input type="text"/> /	<input type="text"/> /
Foreign resident withholding expenses (excluding capital gains)	<input type="text"/>	<input type="text"/>	U <input type="text"/>
Contractor, sub-contractor and commission expenses	<input type="text"/>	<input type="text"/>	F <input type="text"/>
Superannuation expenses	<input type="text"/>	<input type="text"/>	G <input type="text"/>
Bad debts	<input type="text"/>	<input type="text"/>	I <input type="text"/>
Lease expenses	<input type="text"/>	<input type="text"/>	J <input type="text"/>
Rent expenses	<input type="text"/>	<input type="text"/>	K <input type="text"/>
Interest expenses within Australia	<input type="text"/>	<input type="text"/>	Q <input type="text"/>
Interest expenses overseas	<input type="text"/>	<input type="text"/>	R <input type="text"/>
Depreciation expenses	<input type="text"/>	<input type="text"/>	M <input type="text"/>
Motor vehicle expenses	<input type="text"/>	<input type="text"/>	N <input type="text"/> / <input type="text"/>
Repairs and maintenance	<input type="text"/>	<input type="text"/>	O <input type="text"/>
All other expenses	<input type="text"/>	<input type="text"/>	P <input type="text"/>
Total expenses S <input type="text"/> / T <input type="text"/> / <input type="text"/>			

5. Reconciliation income or other adjustments are never used.
Deferred non-commercial losses are sometimes used.

Reconciliation items					
Section 40-880 deduction	<input type="text"/>	<input type="text"/>	A <input type="text"/>		
Business deduction for project pool	<input type="text"/>	<input type="text"/>	L <input type="text"/>		
Landcare operations and business deduction for decline in value of water facility, fencing asset and fodder storage asset	<input type="text"/>	<input type="text"/>	W <input type="text"/>		
Income reconciliation adjustments	<input type="text"/>	<input type="text"/>	X <input type="text"/>		
Expense reconciliation adjustments	<input type="text"/>	<input type="text"/>	H <input type="text"/>		
Net income or loss from business this year			B <input type="text"/>	C <input type="text"/>	<input type="text"/>
Deferred non-commercial business losses from a prior year			D <input type="text"/>	E <input type="text"/>	<input type="text"/>
Net income or loss from business			Y <input type="text"/>	Z <input type="text"/>	<input type="text"/>
Required by the ATO for the correct completion of income test items IT5 and IT6					
Net income or loss from carrying on a business of investing		<input type="text"/>			
Net income or loss from carrying on a rental property business		<input type="text"/>			
Other income or loss relating to item 15		<input type="text"/>			

6. If there is a profit, no need to continue as the Business Schedule is complete. If there is a loss, need to determine whether the loss is commercial or non-commercial.

Commercial: Complete P9

Non-Commercial: Complete P9 and Item 16

P9 Business loss activity details

Press Enter to open the Business loss activity details (schedule bla)



P10 Small business entity simplified depreciation

Deduction for certain assets

A

Deduction for general small business pool

B

P11 Trade debtors

E

P12 Trade creditors

F

P13 Total salary and wage expenses

G /

P14 Payments to associated persons

H

P15 Intangible depreciating assets first deducted

I

P16 Other depreciating assets first deducted

J

P17 Termination value of intangible depreciating assets

D

P18 Termination value of other depreciating assets

K

7. Press Enter to open schedule > Complete the relevant sections

P9 Business loss activity details

Complete details of up to three business activities in which you made a net loss this year. List them in order of size of loss - greatest first. If you complete any label at P9, you must also complete item 16.

Activity 1

Industry code	Partnership or sole trader	Type of loss	Deferred non-commercial business loss from a prior year	Net loss
E <input type="text"/>	F <input type="text"/>	G <input type="text"/>	H <input type="text"/>	I <input type="text"/>
		Code	Year	Number
	Reference for code 5	C <input type="text"/>	Y <input type="text"/>	A <input type="text"/>
Description of activity D <input type="text"/>				

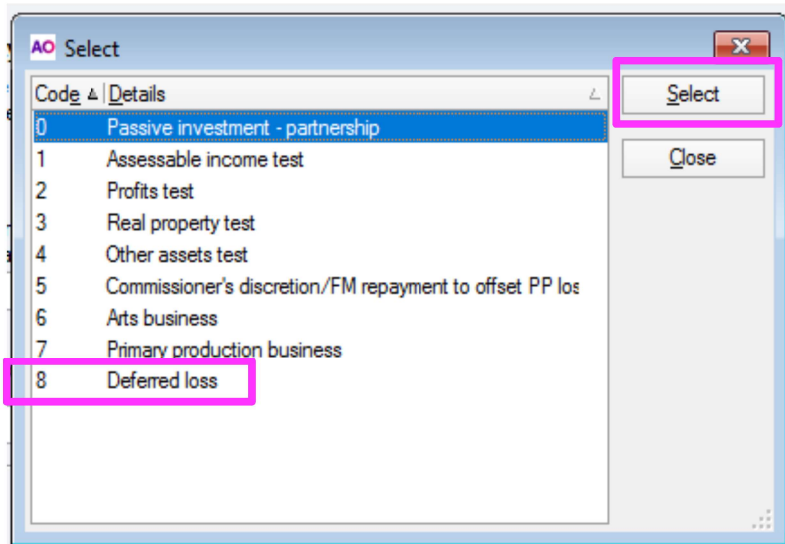
Activity 2

Industry code	Partnership or sole trader	Type of loss	Deferred non-commercial business loss from a prior year	Net loss
K <input type="text"/>	L <input type="text"/>	M <input type="text"/>	N <input type="text"/>	O <input type="text"/>
		Code	Year	Number
	Reference for code 5	C <input type="text"/>	Y <input type="text"/>	A <input type="text"/>
Description of activity J <input type="text"/>				

Industry Code: Should match what you entered at P2

Partnership or Sole Trader: Are the losses from a partnership or as a sole trader? Mostly sole trader.

Type of Loss: Click the three grey dots to choose. If commercial, choose 1-4. If non-commercial > choose 8 Deferred loss and complete Item 16.



Deferred NCL from PY: Enter amount of any deferred non-commercial loss from prior year. Will show on Prefill.

Net Loss: Enter net loss

8. Press the green back-arrow to close schedule.
9. Income tab > Item 16 > click 'G' for sole trader schedule.

16 Deferred non-commercial business losses

Your share of deferred losses from partnership activities **F**

Deferred losses from sole trader activities **G**

Primary production deferred losses **I**

Non-primary production deferred losses **J**

10. Enter amount of loss to be carried forward. It should match P8 and P9.

Deferred losses from sole trader

AO Deferred non-commercial business losses

Deferred losses from sole trader activities

PP

Non-PP

Total deferred losses

Required by ATO for the correct completion of Income test items IT5 and IT6:

Your share of deferred losses from a sole trader business of investing

Your share of deferred losses from a sole trader rental business

Your share of deferred losses from other sole trader activities

OK Cancel Edit

CHECK THE LOSSES ARE NOT OFFSET AGAINST OTHER INCOME!

BONUS 1: SMALL BUSINESS OFFSET

1. **Income** tab > **Item 15** > enter **Y** at the orange circle.
2. '**Small Business Entity – Eligibility Tests**' > enter **Y** at **1** and **2**. On the estimate, a small offset will be applied.

15 Net income or loss from business

Primary production - transferred from label Y item P8 **B**

Non-primary production - transferred from label Z item P8 **C**

Small Business Eligibility must be reviewed each year

Is the taxpayer a Small Business Entity? (Press Enter to open the SBE eligibility worksheet)

Net small business income **A**

Small Business Entity - Eligibility Tests

For full details press F1.

Eligibility Tests

1. Is the taxpayer carrying on a business during the year?
2. Is the aggregate turnover of the business less than \$10 million?

(Press [ALT+S] to open the aggregated turnover worksheet.)

BONUS 2: ABN LOOKUP

1. Search for client on the ABN Lookup website: <https://abr.business.gov.au/>
2. Click on the correct name/ABN
3. Check whether registered for **GST** and **entity type**



ABN Lookup



ABN Lookup > Search > Current details for ABN 21 688 152 581

Current details for ABN 21 688 152 581

Current details

Historical details

Pdf Print Email

ABN details

help

Entity name: HEWLETT, DANIEL JOHN

ABN status: Active from 08 Aug 2012

Entity type: **Individual/Sole Trader**

Goods & Services Tax (GST): Registered from 08 Aug 2012

Main business location: ACT 2602

BONUS 3: JOBKEEPER

1. Portal > search for Client's name > Business > JobKeeper or JobMaker Hiring

ABU GHAZALEH, AHMAD TFN 383 770 748 ABN 36 989 184 030

Summary Profile Accounts and payments Lodgments Super **Business**

COVID-19
Access ATO stimulus measures such as JobKeeper wage subsidy and JobMaker Hiring Credit

For action

Lodgments

Account	Description	Due date
Credit		

Business menu items:
STP reporting
STP deferrals and exemptions
JobKeeper or JobMaker Hiring Credit
Small business super clearing house
GST property credits
Commonwealth procurement statement

2. Click 'View'

COVID-19

JobMaker Hiring Credit

Registration
Notify us of your intent to claim JobMaker Hiring Credit [Register](#)

i You cannot receive JobMaker Hiring Credits if you also receive a JobKeeper payment for a fortnight which started during the JobMaker period.

JobKeeper extension

i **JobKeeper scheme ended**
The JobKeeper scheme ended on **28 March 2021**.

View payments [View](#)
Payments made for JobKeeper extension fortnights in October 2020 to March 2021
Enrolment ATO receipt ID 2410309521520

Related actions
> View [Critical response account](#)
> View or update [Financial institution details](#)

[Back](#) [Print-friendly version](#)

3. Add up the payments and enter at Label 'H' in NPP column in the Business Schedule.

ABU GHAZALEH, AHMAD TFN 383 770 748 ABN 36 989 184 030 [Add to favourites](#)

Summary Profile Accounts and payments Lodgments Super **Business**

JobKeeper extension | [View payments](#)

View payments made for JobKeeper extension fortnights in October 2020 to March 2021.

Payments summary

Month	Date last updated	Wage subsidy paid
January 2021	18/02/2021	\$2,000.00
December 2020	13/01/2021	\$3,600.00
November 2020	10/12/2020	\$2,400.00
October 2020	05/01/2021	\$2,400.00