2020 Tax Time Toolkit

Small Business

Australian Government
Australian Taxation Office

NAT 75057-07.2020 DE-22676

Assistant Commissioner's foreword

We encourage you to share this information within your networks.

Welcome to the Small Business Tax Time toolkit for 2020!

This past year has been unprecedented, with bushfires, drought and COVID-19 making things more difficult for many people in small businesses.

We want to help businesses get back on their feet. Small businesses have always been the backbone of our economy. They make up more than 99% of all Australian businesses, contribute more than $413 billion to the economy and employ more than 5.5 million people. These challenging times mean a lot of people and businesses are finding things tough. This has been reflected in the interest around the government's COVID-19 measures, such as JobKeeper and early access to your super.

This toolkit includes a helpful directory of links to help small businesses find information, tools, calculators and services to help them at tax time and throughout the year, as well as several fact sheets for small businesses. We have included two new fact sheets this year.

Tax professionals provide valuable knowledge and support to small businesses. We encourage you to share this information with your small business clients, stakeholders, members and networks, and hope you find it helpful.

If you would like more materials or are interested in receiving tailored content to share across your communication channels, get in touch with us at **smallbusinesscommunication@ato.gov.au**

Andrew Watson
Assistant Commissioner
Australian Taxation Office

A helpful directory for small businesses this tax time

The ATO has a range of information, tools, calculators and services available to help small businesses at tax time and all year round.

Information

- **ATO Tax inVoice podcasts** – Tax inVoice is an easy way to keep updated about the latest tax and super information, including episodes on good record keeping and Single Touch Payroll
- **atoTV Business channel** – access a wide range of videos that cover tax time information, to watch at a time that best suits you
- **Due dates by topic** – find due dates for all of your obligations by topic
- **Income tax return** – how to lodge an income tax return for your business
- **Lodge with a registered tax agent** – how to lodge your tax return using a registered tax agent
- **Small business webinars** – register and watch to find out about tax and super obligations and entitlements for your business. Topics covered include income tax deductions, concessions for small business and employer obligations
- **Small business workshops** – register to attend our face-to-face workshops to help you understand your tax entitlements and obligations.

Stay up to date

- **Small business newsroom** – get the latest tax news delivered straight into your email inbox
- **Social media** – Get the latest tax and super information on the go. Follow us for tax tips and updates, share information and stay informed.

Tools and calculators

- **ATO app** – download for quick access to handy tools and calculators, and answers to frequently asked questions
- **myDeductions** – for sole traders with simple tax affairs, to track your business income, expenses and car trips
- Other **calculators and tools** – to help you run your business
- **Small business benchmarks** – help compare your businesses performance against similar businesses in your industry.

Help and support

- **After-hours call back service** – get the help you need, at a time that's convenient for you. Complete the online form to book a time to talk to us from 6.00pm–8.00pm Monday to Thursday (except public holidays)
- **Alex** – ask our virtual assistant Alex your questions about tax to help you find the information you need on our website
- **ATO Community** – ask your tax and super related questions on the ATO's online community forum.
- A full list of tools and services, including all of the above, is available at **Supporting your small business**.

Fact sheets

The following pages contain fact sheets for a range of tax topics for small business.

- Small business – Home-based business expenses
- Small business – Motor vehicle expenses
- Small business – Travel expenses
- Small business – Using your company's money or assets
- Small business – Pausing or permanently closing your business due to COVID-19 (novel coronavirus)

Australian Government
Australian Taxation Office

Small business

Home-based business expenses

This information will help you if you are a small business owner claiming deductions for the costs of using your home as your main place of business – whether you use a registered tax agent or lodge your own tax return.

Key points

- The types of expenses you can claim depend on how you operate your business out of your home.
- You can only claim deductions for the portion of your expenses that relate to running your business.
- You must keep records for at least five years to show that your business incurred the expenses and how you calculated your claim.
- If you sell your home, there may be capital gains tax (CGT) implications.
- If you do some work from home but it is not your main place of business, see **ato.gov.au/workingfromhome**

If you are entitled to goods and services tax (GST) input tax credits, you must claim your deduction in your income tax return at the GST exclusive amount.

Business structure

Your business structure affects your entitlements and obligations when claiming deductions for your home-based business expenses.

Sole traders and partnerships

If you operate your business as a sole trader or partnership, you can claim a deduction for the costs of running your business from home.

There are two types of expenses for your home-based business – running expenses and occupancy expenses.

Whether you can claim running expenses only, or both running and occupancy expenses, depends on whether you have an area of your home set aside as a 'place of business'.

Running expenses

Running expenses are the increased costs from using your home's facilities for your business, for example:

- the costs of using a room (such as heating, cooling and lighting)
- cleaning costs
- landline phone and internet costs
- decline in value (depreciation) of your business furniture and equipment
- costs of repairs to your business equipment.

You can claim running expenses if you run your business from home, such as in a separate study or a desk in a lounge room, even if it doesn't have the character of a 'place of business'.

Calculating your claim

To calculate the running expenses of your home-based business, you can use one of the methods described below or any other method as long as:

- it is reasonable in your circumstances
- you exclude your normal (private) living costs
- you have records to show how you calculated the business expense.

Heating, cooling and lighting

- If you have an area set aside for your business, you can split your heating, cooling and electricity bills based on the proportion of the floor area of your home that you use for your business and proportion of the year that you used it for business.
- Alternatively, you can use a fixed rate of 52 cents an hour for each hour that you operate your business from home – based on either your actual use or pattern of use. This covers heating, cooling, lighting, cleaning, and the decline in value of furniture and furnishings (you need to work out other expenses separately). From 1 March 2020 until 30 September 2020, you have the option of a temporary shortcut method. This is similar to the fixed rate but covers more of your expenses and has a higher rate of 80 cents a work hour. See **ato.gov.au/WFH**

Home phone and internet

- For home (landline) phones, you can claim your business calls and a portion of the line rental costs.
- For internet expenses, you can claim the proportion of time or data you used your internet for business uses.

You can claim some expenses based on your 'pattern of use', which you can work out by keeping a diary for a representative four-week period each financial year. If you can't show a regular pattern, you need to keep detailed records.

- You can calculate the business portion of your home phone and internet using an itemised account or pattern of use.
- If you are using the 80 cent an hour shortcut method, you don't need to calculate these amounts as they are already included in the rate.

Decline in value (depreciation) of business assets

- You don't separately claim the depreciation of your home-based business furniture and furnishings if you claim running expenses using the fixed rate of 52 cents an hour, as this is included in this rate.
- If you are using the shortcut rate of 80 cents an hour then that covers the decline of your furniture, furnishings as well as your computer equipment or laptop.
- You can use the instant asset write-off to deduct the full cost of business assets that cost less than the threshold that applied when it was first used or installed and ready for use, see **ato.gov.au/instantassetwriteoff**
- If you use assets for both personal and business use, you can separate your business deprecation expenses from personal based on your pattern of use.

Sole traders and partnerships (continued)

Occupancy expenses

Occupancy expenses are the expenses that you pay to own or rent your home, for example:

- mortgage interest or rent
- council rates
- land taxes
- house and contents insurance.

You can only claim occupancy expenses if the area of your house set aside for your business has the character of a 'place of business' (including if most of your business is conducted online). Indicators that the area of your home that you've set aside is a place of business include:

- clearly identifiable as a place of business (such as a sign at the front of your house)
- not easily suitable or adaptable for private or domestic use
- used exclusively or almost exclusively for your business
- used regularly for business visits by your clients.

If you're eligible to claim occupancy expenses, you can also claim running expenses.

You usually calculate occupancy expenses based on the proportion of the floor area of your home that is a place of business and proportion of the year it was used for business.

Trusts and companies

If you operate your home-based business as a trust or company, the business should have a genuine, market-rate rental contract (or similar agreement) with the owner of the property. This will determine which expenses the business pays for and can claim as a deduction. If there isn't a genuine rental contract, there may be tax implications for you and the business. For more information, see **ato.gov.au/Division7A**

If you are an employee of the business and the business pays for or reimburses you for some of the costs of running your business from home, you cannot claim a deduction for the expenses in your individual income tax return. Your business will be subject to fringe benefit tax (FBT) if it pays or reimburses you for the expenses.

Certain exemptions and concessions may reduce your FBT liability. You may need to keep additional records. For more information, see **ato.gov.au/FBT**

> If you earn personal services income (PSI), you may not be able to deduct some occupancy expenses. To find out more, visit **ato.gov.au/PSI**

Capital gains tax (CGT)

If you were entitled to claim occupancy expenses or you own your home and receive rental income from your business, there may be CGT implications when you sell your home. The main residence exemption may not apply for the proportion of your home and the periods that you used it for your business.

For more information, see **ato.gov.au/HomeBasedBusinessCGT**

Records you need to keep

You need to keep records to substantiate your claims for all of your home-based business expenses. This includes written evidence, tax invoices or receipts for:

- purchase and repairs of furniture and equipment used for your business
- utility bills and cleaning expenses
- mortgage interest, rent, insurance and council rates (if you claim occupancy expenses)
- rental contract between homeowner and business (if you claim occupancy expenses)
- how you separate your business and private use (for example, a diary over a representative four-week period or records of how you calculated the percentage of your floor plan dedicated to your business).

Examples

Rocco: plumber

Rocco is a sole trader plumber who doesn't have a dedicated business premises. He travels to his clients' houses each day from home.

He does his bookkeeping in his dining room on a computer that he only uses for his business.

Rocco keeps a diary for four weeks and finds that he spends, on average, two hours a day, five days a week (with four weeks of holidays a year) on his bookkeeping.

Rocco claims:

- running expenses using the fixed rate of 52 cents an hour for 10 hours a week for 48 weeks ($249.60)
- the cost of his computer, as it cost less than $30,000 (the instant asset threshold that applied at the time he bought and first used it) and depreciation of computer equipment is not covered by the fixed rate.

Rocco cannot claim:

- occupancy expenses, as he does not have a dedicated area for his business.

Fern: photographer

Fern runs her business – Fern's Photos Pty Ltd – as a company from the home that she owns.

Fern's house has a dedicated studio where she keeps her photography equipment.

Fern's Photos Pty Ltd has a formal rental agreement with Fern to hire the studio for $500 per month. This covers use of the space and facilities such as electricity. It is consistent with what it would cost the company to hire a similar studio elsewhere.

Fern's Photos Pty Ltd claims:

- rent paid to Fern

Fern must report the rental income that she receives from her company in her personal income tax return. She can claim expenses that she incurs in making that income.

There may be CGT implications if Fern sells her house.

> If you're a sole trader with simple tax affairs, you can use the myDeductions tool in the ATO app to record your expenses. For more information, see **ato.gov.au/myDeductions**

This is a general summary only

For more information, speak with your registered tax agent, or visit **ato.gov.au/homebasedbusiness**

NAT 75196-07.2020 DE-22676

Australian Government
Australian Taxation Office

Small business
Motor vehicle expenses

This information will help you when claiming a deduction for motor vehicle expenses for your business – whether you use a registered tax agent or lodge your own return.

Key points

- The way to calculate your claim depends on your business structure.
- If you change your business structure, your entitlements and obligations may change.
- You must apportion your expenses between business and private use.
- You must keep records for five years to prove your expenses.

Types of motor vehicles

The type of motor vehicle you drive can affect how you calculate your claim. A motor vehicle is either a car or an 'other vehicle'.

Car

A 'car' is a motor vehicle that is designed to carry:

- a load of less than one tonne, and
- fewer than nine passengers.

Many four-wheel drives and some utes are classed as cars.

Other vehicle

If your motor vehicle is not a car it's an 'other vehicle'. Other vehicles include:

- motorcycles
- minivans that can carry nine or more passengers
- utes or panel vans designed to carry loads of one tonne or more.

Expenses incurred in running a ute are not automatically tax deductible; you need to use the ute in your business and claim the business portion only.

Types of expenses

Common types of motor vehicle expenses you can claim include:

- fuel and oil
- repairs and servicing
- interest on a motor vehicle loan
- lease payments
- insurance
- registration
- depreciation (decline in value) of the vehicle.

Business structure

Your business structure affects your entitlements and obligations when claiming deductions for motor vehicle expenses.

Sole traders and partnerships

If you operate your business as a sole trader or partnership (where at least one partner is an individual), the way to calculate your deduction depends on the type of vehicle and how it is used. The vehicle can be owned, leased, or hired under a hire purchase agreement.

You can only claim motor vehicle expenses that are part of the everyday running of your business (such as travelling between different business premises). If the vehicle is used for both private and business purposes, you must exclude any private use (such as driving your children to school).

Cars

For cars, you can use the cents per kilometre method or the logbook method.

Cents per kilometre method

You can claim a maximum of 5,000 business kilometres per car.

The rate per kilometre (68 cents from 1 July 2018 to 30 June 2020 and 72 cents from 1 July 2020) takes into account your car running expenses, including depreciation. You can't make a separate claim for depreciation of the car's value.

You don't need written evidence, but you must be able to show how you worked out your business kilometres (for example, calendar or diary records).

For claims above 5,000 kilometres, you must use the logbook method to claim the entire amount.

For more information, see **ato.gov.au/centsperkm**

Logbook method

You can claim the business-use percentage of each car expense, based on logbook records.

You must record:

- when the logbook period begins and ends
- the car's odometer reading at the start and end of the logbook period
- details of each journey including
  - start date and finishing date
  - odometer readings at the start and end
  - kilometres travelled
  - reason for the journey.

You must keep the logbook for a period (at least 12 continuous weeks) that is representative of your travel throughout the year. You can then use this representative period to calculate your claim for five years if you:

- keep the logbook
- take odometer readings at the start and end of each year that you use it.

Work out the percentage of business travel from your logbook and use this to claim your business-related car expenses.

You can't claim capital costs, such as the purchase price of the car, but you can claim this as depreciation.

For more information, see **ato.gov.au/logbook**

Other vehicles

For all other vehicles, you can't use the cents per kilometre or logbook method. Your claims must be for actual costs for expenses you incurred, based on receipts. You can use a diary or journal to separate private use from business use.

If you're a sole trader with simple tax affairs, you can use the myDeductions tool in the ATO app to keep a logbook and record business-related car trips and other car expenses. For more information, see **ato.gov.au/mydeductions**

Business structure (continued)

Companies and trusts

If you operate your business as a company or trust, you can only claim the actual costs for motor vehicle expenses that are part of the everyday running of your business (such as travelling between different business premises, visiting clients or picking up goods for sale). Actual costs are based on receipts for expenses incurred.

- You **cannot** use the cents per kilometre or logbook method to calculate your claim.

> If your business is a private company that provides a vehicle to a shareholder or their associate to use in their capacity other than as an employee, this may be treated as a dividend or loan (Division 7A) which could affect the deductibility of your motor vehicle expenses.
>
> For more information, see **ato.gov.au/Div7aFBT**

Motor vehicle ownership

There are further considerations depending on the ownership of the vehicle.

Vehicle owned or leased by your business

Your business can claim a deduction for the running expenses of a vehicle that is owned or leased by your business.

> If the vehicle is available for private use by an employee or their associate (such as a spouse), fringe benefits tax (FBT) may apply.
>
> For more information, see **ato.gov.au/carfringebenefits**

Vehicle owned by your employee

If your employee uses their own vehicle for business-related purposes and you pay them a motor vehicle allowance or reimburse them their costs, your business can claim a deduction for the allowance or expenses reimbursed, such as the cost of fuel.

> You can't claim depreciation if the vehicle is owned by your employee.

Your employee can claim a deduction for costs related to the business use of their vehicle in their own tax return, less any reimbursements or allowance they received from your business.

Depreciation of a motor vehicle

If you work out your deduction for expenses using the logbook method or actual costs, then you can generally claim a deduction for capital costs, such as the purchase price of a motor vehicle, over a period of time. This is known as depreciation or a decline in value.

You can apply the:

- simplified depreciation rules – by adding the motor vehicle's cost to the small business pool or using the instant asset write-off (if eligible), or
- general depreciation rules – by claiming a deduction over the effective life of the asset.

If the business vehicle is a car, there's a limit on the cost you can use to work out your depreciation claim. For the 2018–19 and 2019–20 income years, the limit is either:

- $57,581, or
- the cost of the vehicle if it's less than this amount.

> If you're a sole trader or partnership and use:
>
> - the cents per kilometre method, you cannot make a separate claim for depreciation of the vehicle as this is already taken into account
> - the logbook method, you can only claim depreciation on the business portion of the motor vehicle's cost.
>
> For more information, see **ato.gov.au/depreciation**

Records you need to keep

The records you need to keep depends on the method you use to calculate your motor vehicle expenses. Regardless of the method you use, you will need to keep:

- loan or lease documents
- details on how you calculated your claim
- tax invoices
- registration papers.

For more information, speak with your registered tax agent or visit **ato.gov.au/motorvehicleexpenses**

NAT 75147-07.2020 DE-22676

Australian Government
Australian Taxation Office

Small business
Travel expenses

This information will help you if you are a small business owner claiming a deduction for expenses you incur when travelling for your business – whether you use a registered tax agent or lodge your own tax return.

Key points

- You must keep your business travel expenses separate from your private expenses.
- You must keep records for five years that prove your expenses.
- If you travel for six or more consecutive nights, you may need to keep a travel diary.
- There is a separate factsheet about business motor vehicle expenses and travelling to and from your places of business. For more information about these expenses, see **ato.gov.au/motorvehicleexpenses**

Types of expenses

As the owner of a small business, you can claim a deduction for expenses that you incur when you travel for your business. Common expenses include:

- airline, bus, train, tram and taxi or ride-sourcing fares
- car-hire fees and the costs you incur (such as fuel, tolls and car parking) when using a hire car for business purposes
- accommodation and meals if you are away overnight.

You cannot claim a deduction for any travel undertaken before you started running your business.

Claiming travel expenses

Your business can claim a deduction for travel expenses related to your business, whether the travel is taken within a day, overnight, or for many nights. The expenses must form part of your business records.

You cannot claim any private costs of the travel, for example, leisure activities, a holiday that you add onto your business travel, or the costs of a family member who travels with you.

To claim expenses for overnight travel, you must have a permanent home elsewhere and your business must require you to stay away from home overnight. You cannot claim travel expenses that arise because you are relocating or living away from home.

If you operate your business as a company and the business pays for private portions of your travel, there may be tax implications for you (as an individual) and your business for providing benefits to you. For more information, see **ato.gov.au/Division7A** and **ato.gov.au/FBT**.

Employee travel expenses

Whatever your business structure, if you have employees who travel for your business, the business must actually incur the travel expense (by paying for it directly or reimbursing the employee) to be able to claim it as a deduction.

Your business may be subject to FBT if it pays or reimburses your employees for their travel expenses or private activities. Certain exemptions and concessions may apply to reduce your FBT liability. To access the exemptions and concessions, you may need to obtain records from your employee.

If you pay your employees a travel allowance or a living-away-from-home allowance, there are different considerations.

For more information, see **ato.gov.au/FBT** and **ato.gov.au/travelallowances**

If you are entitled to goods and services tax (GST) input tax credits, you must claim your deduction in your income tax return at the GST exclusive amount.

Records you need to keep

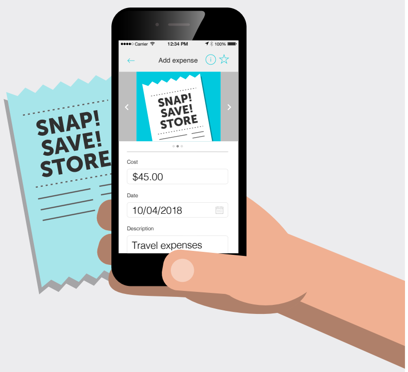
You need to keep records that prove all of your business travel expenses for five years. These records can include:

- tax invoices
- boarding passes
- tickets
- travel diary
- details of how you worked out the private portion of expenses.

If you are a sole trader or partner in a partnership, you must keep a travel diary if you are away for six or more consecutive nights. A travel diary is also highly recommended if you run your business as a company or trust, as it will help you to determine the portion of the travel that was for private purposes.

If you're a sole trader with simple tax affairs, you can use the myDeductions tool in the ATO app to record your business-related expenses.

For more information, see **ato.gov.au/mydeductions**

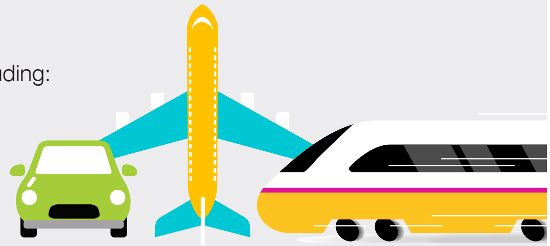


Travel diary

In your travel diary, record the details of each business activity as you go, including:

- the nature of each business activity
- the date and approximate time the business activity began
- how long the business activity lasted
- the name of the place where you engaged in the business activity.

The travel diary can be in any format that records this information.



Example: Rebecca

Rebecca owns a business as a sole trader landscape gardener. She is invited to exhibit at the Chelsea flower show in England. This involves six days of work representing her business at the show. After the show is finished, Rebecca spends some time sightseeing.

Rebecca's son James joins her on her trip. James is not involved in the business and spends the days exploring London while Rebecca is at the Chelsea flower show.

As Rebecca is travelling for more than six nights, she keeps the below travel diary.

Travel diary for May

Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
28	**29**	**30**	**31**	**1**	**2**	**3**
4	**5**	**6**	**7**	**8**	**9** 10am flight Q13 to London (via Dubai)	**10** Arrive London 1pm local time. bus to hotel in Chelsea 3pm.
11 Rest day	**12** Chelsea flower show set-up day from 9am	**13** Chelsea flower show day 1	**14** Chelsea flower show day 2	**15** Chelsea flower show day 3	**16** Chelsea flower show day 4	**17** Chelsea flower show day 5, ends 5pm
18 Sightseeing in London	**19** Sightseeing day trip to Oxford	**20** Bus to airport. Flight home Q23 6pm, from London, arrive 10pm local time			23	24
25	**26**	**27**	**28**	**29**	**30**	**31**

This shows that Rebecca travelled for 12 days. She spent the majority of the time on business-related activities and took the opportunity to do some sightseeing while in London for two extra days. Rebecca can only claim deductions for the business-related portion of her travel.

Rebecca can claim:

- ✅ the return airfare to London (which does not have to be separated out as the primary purpose of her travel is for business, the sightseeing was incidental)
- ✅ her bus fares to and from the airport
- ✅ the costs associated with working at the Chelsea flower show, including the exhibitor's fee and transport to and from the location from her hotel
- ✅ Rebecca's accommodation in Chelsea up to and including 17 May
- ✅ meals and incidental costs on the days she attended the Chelsea flower show.

Rebecca cannot claim:

- ❌ accommodation, meals or transport expenses on the days noted for sightseeing
- ❌ additional private costs from the whole of her time away (such as souvenirs)
- ❌ costs of visas, passports or travel insurance
- ❌ any of James' expenses (such as his airfares, the cost of his meals or the cost of an extra hotel room for James).

Example: Noah

Noah owns a business as a sole trader interior designer and decorator. He lives and works in Perth. A new customer has asked him to design and decorate her home in Broome. This will take two weeks to complete.

Noah flies to Broome on Sunday evening and returns to Perth two weeks later. On the weekend, he does some sightseeing and catches up with friends. He keeps the following diary:

- **Sunday:** Fly to Broome (depart 4pm, arrive 6.30pm).
- **Monday 2 September:** Purchase decorating supplies 9am–10.30am. Working at client's house 10.45am – 4pm.
- **Tuesday 3 – Friday 6 September:** Working at client's house 7.30am to 4pm.
- **Saturday:** Day trip to Horizontal Falls. Dinner with Pam and Geoff.
- **Sunday:** Sightseeing around Broome.
- **Monday 9 – Friday 13 September:** Working 7.30am to 4pm at client's house.
- **Saturday:** Return flight to Perth (depart 10am, arrive 12.30pm).

Noah can claim:

- ✅ his return airfare to Broome and taxi to his hotel and from hotel to airport
- ✅ accommodation in Broome for all nights (as the weekend in between was incidental and the primary purpose of travel was for business)
- ✅ costs of undertaking his work in Broome (such as hire of tools)
- ✅ meals and incidental costs of his work.

Noah cannot claim his private expenses, including:

- ❌ the cost of the sightseeing he does on the weekend
- ❌ the dinner he has with friends.

This is a general summary only

For more information, speak with your registered tax agent, or visit **ato.gov.au/businesstravel**

NAT75197-07.2020 DE-22676

Australian Government
Australian Taxation Office

Small business

Using your company's money or assets

This information will help you if you are a director or shareholder of a company that operates a small business. It will help you understand when you can take money out of your company or use its assets. It will also show you the right way to report these transactions and keep proper records.

Key points

- Your company is a separate legal entity from you as a director or shareholder.
- The money the business earns and its assets do not belong to you, they belong to the company.
- If you take money out of the business or use its money or assets for yourself or your family, it needs to be reported and you must keep appropriate records.

How can I use my company's money or assets for myself?

You might take money out of the company or use its assets for private purposes through:

- salary, wages or directors fees
- repayments of a loan you have previously made to the company
- a fringe benefit, such as an employee using a company car
- dividends (a formal distribution of the profits)
- a loan from the company.

There are different reporting and record-keeping requirements for each of these circumstances.

This information also applies to:

- any individual or entity that is an 'associate' of a shareholder, which may include a relative, partner, spouse, or another entity controlled by the shareholder (such as an associated company or trust)
- someone who has previously been a shareholder (or an associate of such a shareholder), such as a former partner or spouse.

How do I record and report my use of the company's money or assets?

Salary, wages or directors fees

Directors or shareholders of a company can be paid a salary, wages or directors fees depending on their contract with the company.

- The **company** must withhold tax from the payments, make compulsory employer superannuation contributions, and report payroll information to us.
- **You** must report any salary, wages or directors fees you receive from the company in your individual tax return.

For more information about obligations as an employer, see **ato.gov.au/employers**

Fringe benefits

Fringe benefits tax (FBT) applies when employees or their family or other associates, including directors of a company, receive certain benefits from their employer. This could be a gym membership or reimbursement of expenses, or company assets used for private purposes (for example, the company car).

- The **company** must lodge an FBT return and pay if it has an FBT liability.
- **You** (the recipient of a benefit) do not need to report the fringe benefit in your income tax return, unless it's reported as a reportable fringe benefits amount on your income statement or payment summary.

For more information about which benefits FBT applies to, see **ato.gov.au/FBT**

Repayments of a loan to the company

If a shareholder or director has previously loaned money to the company, the company can make repayments to the shareholder or director.

- The **company** cannot claim a deduction for any repayments it makes, but may be able to claim a deduction for any interest payments it makes.
- **You** do not have to declare the repayments, but must declare any interest you receive from the company as assessable income.

Dividends

A company can pay a distribution of its profits to its shareholders, which is known as a dividend. The dividend may include a franking credit – which is the amount of tax already paid by the company and passed on to the shareholder.

- The **company** must issue a distribution statement to everyone who receives a distribution. It must show the amount of the franking credit attached to the distribution and the extent to which it's franked. The company may need to lodge a franking account tax return.
- **You** (the shareholder) must report dividends and any franking credits that you receive in your income tax return. You may have to pay income tax on the dividends you are paid.

For more information about paying dividends and other distributions to shareholders, see **ato.gov.au/dividends**

How do I record and report my use of the company's money or assets? (continued)

Loans from your company

A company can make a loan to a shareholder. However, to avoid tax consequences, before the company tax return is due or lodged (whichever comes first), the loan must either:

- be repaid, or
- comply with all of the following
  - be a written agreement, signed and dated
  - have an interest rate for each year that at least equals the **benchmark interest rate** for that particular year, and
  - not exceed the maximum term of seven years (25 years in certain circumstances when the loan is secured by a registered mortgage over real property).

A loan that complies with all of these requirements is known as a 'complying loan':

- The **company** must report any interest earned from the loan in their company tax return.
- **You** (the shareholder)
  - must make a minimum yearly repayment each year (use the **Division 7A calculator** to determine this amount)
  - cannot borrow further money from the company to make the minimum yearly repayment
  - can make payments on the loan using a dividend from the company, as long as you report the dividend in your income tax return.

For more information about complying loans, see **ato.gov.au/Div7ALoans**

What happens if I use the company's money or assets in another way?

If you take money out of the company or use its assets for private purposes in a way not described above, an unfranked, deemed 'Division 7A' dividend can arise. This applies whether or not the company has banked the money (cash) before you use it.

- The **company** cannot claim a tax deduction for the dividend and cannot frank the dividend.
- **You** (shareholder or shareholder's associate) will have to declare the dividend as income on your individual tax return. You may have to pay income tax on the unfranked dividend.

To avoid unintentionally being in this situation:

- if you take money out of the company or use its assets, make sure you properly account for it as salary or wages, a fringe benefit, dividend, or complying loan before your company's lodgment date
- set up a separate bank account for your company, use it to pay for company expenses and don't use it to pay for your private expenses
- keep proper records to explain all of your company's transactions, including all income, payments and loans to and from shareholders and their associates
- repay any loans you take from the company or convert them into a complying loan before the company tax return is due or lodged (whichever comes first).

You can use the **Division 7A calculator and decision tool** to work out whether a payment your company has made will be treated as an unfranked dividend. The calculator also works out the minimum yearly repayment that must be made each year.

If you make an honest mistake when trying to comply with these obligations, you should tell us or your registered tax agent as soon as possible. There are ways you can get back on track without a penalty.

To find out more about Division 7A payments, see **ato.gov.au/Division7A**

If you have a trust that distributes to a company, there could be Division 7A implications. Speak with your registered tax agent or find out more at **ato.gov.au/Div7ATrusts**

This is a general summary only

For more information, speak with your registered tax agent or visit **ato.gov.au/Division7A**

Examples

Daphne

Daphne is the sole director of a company that provides administration services to other businesses. She and her partner Jo are equal shareholders in the company. Before this financial year, Daphne ran the business as a sole trader.

As a sole trader, Daphne paid herself $1,500 a month out of her business account and into her personal account. At the time she sets up the company, her tax agent explains to her that the company will now employ her as an employee and pay her $1,500 a month as a salary. The tax agent helps Daphne to set up pay as you go withholding and Single Touch Payroll reporting. Daphne reports the salary she receives in her personal income tax return.

Two years later, Daphne and Jo's daughter is about to start high school and they have to pay $2,000 in school fees. The business has had a few good years and Daphne decides that they should use the money from the business to pay for the fees.

However, Daphne knows that she cannot pay for a private expense using the company's money without properly accounting for it. As the director, she decides that the company will loan her and Jo the $2,000. She draws up a written loan agreement for the loan to be repaid over two years, with an interest rate equal to the benchmark interest rate. The loan agreement identifies the company, Daphne and Jo as the parties, and the repayment terms. It is signed by all parties.

The company loans Daphne and Jo the money, which they pay back to the company with interest each year according to the agreement over the next two years. When Daphne prepares the company's tax return, she declares the interest as income for the company.

Jian

Jian is the director and sole shareholder of a plumbing company. Jian decides to have his home repainted, which he pays for using his company's bank account.

Jian meets regularly with his bookkeeper, who notices the unusual transaction. The bookkeeper advises Jian that the transaction will be treated as a Division 7A dividend if he doesn't pay the money back or make it a complying loan before his next company tax return is due. Jian has enough money in his personal bank account, so he decides to repay the company the full amount. As he pays before the company's lodgment date, he doesn't have to pay any interest on the loan.

Jian also takes his bookkeeper's advice and makes sure he stops paying for his private expenses with the company bank account.

Sameera

Sameera is the sole director and shareholder of a small tourism company that runs tours and owns three coastal holiday houses. Sameera is also one of three employees of the company. Each employee of the company is given the opportunity to stay in one of the holiday houses for up to four weeks each year during the off-peak season. This year, Sameera and her family take up this offer and stay at their favourite holiday house for two weeks of their own holidays at no cost.

This is an employee's private use of one the company's business assets. The company is providing Sameera, in her capacity as an employee, with a fringe benefit. The company reports the fringe benefit in its FBT return and pays FBT on the benefit.

This is a general summary only

For more information, speak with your registered tax agent or visit **ato.gov.au/Division7A**

NAT 75273-07.2020 DE-22676

Australian Government
Australian Taxation Office

Small business

Pausing or permanently closing your business due to COVID-19 (novel coronavirus)

This information will help you understand what you need to do for tax purposes if you are a small business owner and you have had to pause or permanently close your business due to COVID-19.

Key points

- There are different things you need to know and do depending on whether you are pausing or permanently closing your business.
- This includes registrations (ABN and GST), tax and super obligations, disposing of capital assets, Single Touch Payroll (STP) and record keeping.

Registrations (ABN and GST)

Pausing your business

If you have paused trading activities in your business as a result of COVID-19, with the intent of restarting, you don't need to cancel your ABN and GST registration. This is the case even if you have paused your business for a lengthy or uncertain time period.

You will only need to cancel your ABN and GST registration if you permanently close your business.

Permanently closing your business

A business closes when the activities related to that business stop – this occurs when all assets are disposed of or converted to another purpose or use, and all tax obligations have been met. Disposal of assets may include the sale, scrapping, abandoning, or other disposal of the assets.

In the course of permanently closing your business, there are a number of obligations that need to be finalised. These obligations may include:

- preparing final accounts, activity statements and income tax returns
- finalising your STP data or lodging a payment summary annual report (if you don't report through STP).

ABN

If you permanently close your business as a result of COVID-19, it is important that your tax affairs are finalised before you cancel your ABN.

You must lodge your final business activity statement (BAS) before permanently closing your business. This allows the ATO to finalise your account and issue any refunds that might be owed to you.

You must also cancel your ABN registration within 28 days of stopping your business activities.

For more information, see **abr.gov.au/cancel-your-abn**

GST

If you permanently close your business as a result of COVID-19, you must apply to cancel your GST registration within 21 days of stopping your business activities.

Cancelling your GST registration may affect some, but not all, of your other registrations, including:

- fuel tax credits
- luxury car tax
- wine equalisation tax.

For more information, see **ato.gov.au/GSTceasingbusiness**

Examples

Jodie pausing her café

Jodie runs a café and needs to pause her business. She doesn't provide takeaway services and she is uncertain when she will reopen her business.

Jodie keeps the café's assets and continues to pay reduced rent on the premises. The business has not permanently closed so she doesn't need to cancel her ABN. Jodie will continue to lodge her BAS to claim GST credits for the GST on expenses related to her business.

Joel closing his shop

Joel runs a craft shop selling craft supplies and decides to close his shop. All assets are sold except for a number of stationery items. Joel expects to sell the stationery items at some future time and pays to have it stored in a commercial warehouse.

The business has not permanently closed until the stationery is sold or is determined to be of no or little value.

Tax and super obligations

If you are pausing or permanently closing your business, you must still meet your tax and super obligations. This may include:

- fringe benefits tax
- pay as you go (PAYG) withholding for employees
- Super guarantee for your employees
- income tax – for example, for any capital gains tax (CGT) consequences
- GST.

If, before pausing or permanently closing your business, you were on a payment plan for your tax liabilities or had arranged for the deferral of some or all of your tax liabilities while you were having difficulties, contact our Emergency Support Infoline on **1800 806 218** to discuss your changed circumstances. By contacting us, we will be able to provide more personalised and often additional support based on your individual circumstances.

You still need to pay the minimum amount of super for your employees into the correct fund by the due date in order to avoid becoming potentially liable to pay a super guarantee charge (SGC). This will be based on their ordinary time earnings for the quarter.

If you cannot pay the full super guarantee contributions, pay as much as you can to their fund by the due date, as this will reduce the SGC. You will need to lodge an SGC statement within a month of the due date and pay the charge to us.

> If you are having trouble paying the SGC to us, we can work with you to set up a payment arrangement.
>
> For more information, see **ato.gov.au/helpwithpaying**

Disposing of capital assets

There may be GST and CGT implications when you dispose of your capital assets. For more information on the things you need to consider when selling or permanently closing a business, see **ato.gov.au/ceasingbusiness**

Record keeping

Whether you are pausing or permanently closing your business, you will need to keep records of all transactions relating to:

- sales (including the sale of your business and assets if applicable) and purchases
- payments to employees
- payments to other businesses.

For more information, see **ato.gov.au/ceasingbusiness_records**

Single Touch Payroll

STP reporting includes important information the ATO may be able to use through these unprecedented times. Having the most up-to-date employment information will help us support the community.

If an employee's employment has ended, make sure you report their cessation (end) date in your STP report. If you have already paid them their final pay, you can still tell us this information by submitting an update event.

If you have let employees go

If you have let employees go, you don't need to wait until the end of financial year to finalise your STP data. Finalising is an important step as it allows individuals to lodge their income tax return at the end of the year.

For more information, see **ato.gov.au/STP** and **ato.gov.au/finalisingSTP**

Pausing your business

You or your registered tax or BAS agent can let us know that you no longer need to report to us through:

- the Business Portal (employers) – select 'Manage employees' then 'STP deferrals or exemptions'
- Online services for agents – select 'Business' then 'STP deferrals and exemptions'.

More information

We know that many businesses and communities are being heavily affected by the challenging economic conditions created by the outbreak of COVID-19. We will work with people to help them through this difficult period and do what we can to ease the pressure.

If you are experiencing difficulties with tax obligations because of COVID-19, see **ato.gov.au/coronavirus**, talk to your tax professional or phone our Emergency Support Infoline on 1800 806 218 for help tailored to your circumstances.

If your business has been paused, you may be eligible for Government assistance such as the JobKeeper payment. For more information, see **ato.gov.au/JobKeeper**

This is a general summary only

For more information, speak with your registered tax professional or visit **ato.gov.au/ceasingbusiness**

NAT 75314–07.2020 DE-22676