



What You Need To Know About Small Business Expenses

Small business in Australia is the lifeblood of our country's economy, and accounts for almost half of the employment in the private sector. Just under 5 million people work in small businesses, supplying a myriad of industries with goods, services and innovation. Australian's rely on our entrepreneurial strengths and are an economic force to be reckoned with.

There are 2.1 million actively trading businesses in Australia with 97 percent having fewer than 20 employees, according to the Australian Bureau of Statistics (ABS). It's no wonder why the Australian government wants to protect our local industries, and business owners can go a long way to keeping their costs under control when it comes to claiming all of their eligible tax deductions.

Business owners can claim tax deductions for most costs related to running their business which helps to reduce the overall amount of tax each business is obligated to pay.

How Tax Deductions Work

When you claim your business expenses, you reduce your overall taxable income which in turn reduces the tax you pay. The ATO uses the following formula:

Assessable income - tax deductions = taxable income

When calculating your business income, you'll need to include your gross income (income before tax) from your everyday business activities. This includes all sales both cash, electronic and over the internet as well as foreign income. Gross income does not include the Goods and Services tax (GST).

All other income, such as income generated through trading stock, capital gains, government payments, sharing economies, crowd funding and cryptocurrencies as well as other isolated transactions intended to make a profit will also need to be included.

Expenses You Can Claim As A Deduction

You can claim most expenses you incur as a part of running your small business. The types of expenses you are eligible to claim are those that directly relate to earning your income, must be business and not private and you must have the records to substantiate your claim.

Types Of Expenses

Any expense that meets the criteria necessary for running a business is tax deductible. For some businesses, the claims may be fully or only partially deductible. The percentage of business use and personal use will need to be calculated.

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The day to day costs of running a business are categorised into:

- General
- Operating
- Capital
- Inventory.

General expenses are all of the costs incurred in managing a business, while selling expenses include marketing, salaries, supplies, rent, utilities, maintenance, repair, car, fuel and operating expenses. Capital expenses are costs a business will incur buying assets and includes machinery, vehicles, patents, books, equipment and furniture. Lastly, inventory costs can be included.

General Expenses

There are certain tax deductions that can be made from the expenses associated with employing people. As a business owner, super contributions, wages and salaries are a type of operating expense and are sometimes known as working or revenue expenses. If you're a sole trader, you can usually claim tax deductions for your own super contributions in your personal tax return.

Some general expenses include:

- Workers' salaries, wages and super contributions
- Fringe benefits including the cost of any fringe benefit provided and the associated fringe benefits tax
- Allowance and reimbursements paid to employees who use their own mobile device for work purposes

Operating Expenses

All of the basic expenses necessary to running a business are generally tax deductible in the year in which they were incurred.

- Operating expenses include:
- Motor Vehicle Expenses
- Business travel
- Repairs, maintenance and replacement expenses

- Utility costs
- Landline phone calls and line rental
- Mobile phone calls
- Internet service fees
- Data plans
- Cloud storage
- Renting or leasing
- Trading stock
- Advertising and sponsorship
- Public relations
- Legal and accounting expenses
- Tender costs
- Bad debts
- Bank fees and charges
- Insurance premiums
- Interest on money borrowed
- Car leases
- Costs for running a commercial website
- Internet service provider fees
- Subscriptions
- Transport and freight
- Waste removal and recycling
- Parking fees (not fines)
- Small value items costing \$100 or less

Capital Expenses

Capital expenses are assets a business purchases for the business to increase growth, profits or upkeep. Capital assets are bought by a business to make the goods and services it sells and can include cash, real estate, inventory, equipment and vehicles.

Assets lose value over time, and can be depreciated, reducing your tax. The ATO has standards for working out the time and percentage of depreciation on

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certain types of equipment and a tax accountant will help you work out the best way to capitalise on your business capital expenses.

Inventory Expenses

Inventories are the goods and materials a business acquires, produces or manufactures to make the goods it sells or exchanges and is a part of the supply chain. Businesses must account for the value of their trading stock at the end of each income year and the start of the next income year. This is known as closing and opening stock.

There are three main types of inventory:

- Raw materials
- Work-in-progress
- Finished goods

Inventory in itself isn't a tax deduction, however it is a reduction in a business's gross receipts. Inventory will decrease the income before calculating taxed or the taxable income of your business. A planned inventory level will enable your business to decrease your gross incomes and as a result, the taxable income of your business.

Employee-Based Expenses

As a business owner, you're also able to claim tax deductions for some business expenses that are the same as usually claimed as an employee, including:

- Union fees and subscriptions to trade, business or professionals associations
- Clothing expenses which includes uniforms and protective clothing
- Educational expenses, including professional qualifications
- Subscription costs for business journals, services, newspapers and magazines
- Items that protect you or your employees from the sun, a health or injury risk
- Gifts and donations that have a deductible gift recipient status

There are tax-related costs that can also be claimed. These include:

- Using a registered tax agent and accounting fees
- Tax-related expenses, such as:
 - Using a bookkeeper to prepare your business records
 - Preparing and lodging tax returns and activity statements
 - Objecting to or appealing against your assessment
 - Attending an ATO audit
 - Obtaining tax advice about your business
 - Credit card / charge card payment fees associated with paying a business tax liability, such as a GST liability

Keeping Records

No expense can be claimed unless you have the records to prove that you have incurred the expense. Under tax law, your records should:

- Be in writing, either on paper or electronically
- Be in English or in a form that can be readily converted into English
- Be kept for five years (although some records need to be kept longer)

Make The Most From Tax Time

There are government payments and schemes that your business might be eligible for. Your business might also be entitled to immediately write off the acquisitions of new depreciating assets. The amount had been extended to \$150,000 and now has no upper threshold for most businesses. Use this to your advantage if your small business is planning to purchase major assets, such as machinery as you can get a cash injection rather than depreciating small amounts over a number of years.

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Speak To Your Tax Accountant

There are means and ways to make the most out of tax time for your small business, and it pays to speak to a professional who understands and can lend key advice you might not otherwise know about. Even better, the advice is tax deductible. Getting the help you need will turn an otherwise stressful experience into something constructive. Speak with an ITP Tax Accountant today.

ITP The Income Tax Professionals are more than tax agents. They have been helping Australian individuals and businesses with their business accounting and advice for 50 years and offer a wealth of knowledge. Speak to a Professional today and see how your business can be more profitable.



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