

Business deductions checklist

The following checklist is designed to provide an easy reference guide to the types of expenses that may be claimed by business taxpayers. The checklist shows the **general** deductibility status of a wide range of expenses which are marked as either *deductible* or *non-deductible*.

Where an item is marked as deductible, this generally indicates the item may broadly be claimed as an income tax deduction as follows:

- the item is immediately deductible in the income year in which it is incurred;
- the item is deductible over its effective life by claiming a deduction for decline in value;
- the item is deductible at specified rates under Division 43 as a capital write-off; or
- the item is deductible under various other provisions of the Income Tax Assessment Acts (over certain specified periods).

In order to claim certain deductions, businesses must maintain sufficient records of transactions relating to their expenditure which support the particular claims.

Please note that this checklist is generally intended to apply to a taxpayer that is not a Small Business Entity ('SBE').

Description of items	Deductible	Non-deductible
Accident insurance premiums	✓	
Accountant's fees for preparing financial accounts	✓	
Accountant's fees for preparing tax returns	✓	
Accrued leave transfer payments	✓	
Annual leave expenses	✓	
Advertising expenses	✓	
Alterations (not repairs) to plant ¹	✓	
Appeal costs relating to tax disputes	✓	
Audit fees (financial accounts)	✓	
Audit fees (ATO audits)	✓	
Bad debts written off	✓	
Bank account debits tax	✓	
Bank charges (business accounts)	✓	
Bills of exchange (discount factor)	✓	
Bonuses actually paid to employees	✓	
Bonuses accrued to employees (no definite commitment)		x
Borrowing expenses ²	✓	
Bribes		x
Broker's commission on borrowed moneys	✓	
Buildings and structural improvements ³	✓	
Business (cost of purchasing business)		x
Business (establishment of business structure) ⁴	✓	
Business (operating expenses)	✓	

Description of items	Deductible	Non-deductible
Business (cost of preventing competition)		x
Capital allowance (i.e., depreciation) ¹	✓	
Capital loss (net)		x
Cessation (costs to stop carrying on your business) ⁴	✓	
Commission payments	✓	
Company loss transfer payments		x
Competition (payment to prevent)		x
Computer software ¹	✓	
Consolidation valuation expenses	✓	
Convention expenses	✓	
Copyrights, patents and registered designs (registration fees and amortisation of development cost or purchase price) ¹⁰	✓	
Cultural bequests (to certain funds, galleries, museums or libraries)	✓	
Debits tax (bank charges)	✓	
Debt/equity swaps resulting in a loss	✓	
Decline in value of business assets ¹	✓	
Directors fees (generally)	✓	
Discontinuance of business expenses ⁴	✓	
Discounts or rebates on sales income	✓	
Dividends paid by companies		x
Donations to approved Deductible Gift Recipients etc.	✓	
Electricity connection costs ⁶	✓	
Embezzlement (losses)	✓	
Employer's costs of share scheme	✓	
Employment agreement expenses of employer	✓	
Entertainment expenses subject to FBT	✓	
Entertainment expenses not subject to FBT ¹²		x
Environmental impact study expenses ⁵	✓	
Environmental protection expenditure	✓	
Equipment (service fees)	✓	
Establishment of business structure ⁴	✓	
Eviction proceedings against tenant		x
Excessive remuneration to relatives or associated persons		x
FBT payments	✓	
Feasibility study expenses for new business		x
Feasibility study expenses for certain new projects ⁵	✓	

Description of items	Deductible	Non-deductible
Film (Australian) investment	✓	
Fines		x
Fixed capital assets (cost of preserving, defending, protecting)		x
Foreign exchange loss	✓	
Franchise fees or licences		x
Freight costs	✓	
Fuel and oil	✓	
General interest charge (GIC)	✓	
Gift (cost of valuation fees under the Cultural Program)	✓	
Gifts (advertising or public relations)	✓	
Gifts (to clients which are not entertainment)	✓	
Gifts (to clients which are entertainment)		x
Gifts of works of art and heritage items	✓	
Gifts of \$2 or more to deductible gift recipients	✓	
Gifts under Cultural Bequests Program	✓	
Goodwill (purchased or internally generated)		x
Gratuities (employees' payments)	✓	
GST payments		x
Guarantee payments		x
Hiring charges (not hire purchases)	✓	
Hire purchase (instalment – principal component)		x
Hire purchase (instalment – interest component)	✓	
Hire purchase (instalment – stamp duty amount)		x
Income tax		x
Insurance premiums (business related)	✓	
Insurance premiums (key-person life or endowment policy)		x
Interest on borrowings for employer superannuation contributions	✓	
Interest (borrowings to finance life premiums)		x
Interest (borrowings to pay business income tax)	✓	
Interest (late lodgments)	✓	
Interest (on late payments of tax)	✓	
Interest (money used for assessable income production or purchase of income-producing assets)	✓	
Interest (on underpaid tax where assessment amended)	✓	
Interest withholding tax	✓	

Description of items	Deductible	Non-deductible
Internet (including data access costs)	✓	
Investment losses	✓	
Investment portfolio, expenses of servicing	✓	
Land tax on business premises	✓	
Late payment penalty interest	✓	
Lease payments (finance and operating)	✓	
Lease (incentive payments)	✓	
Lease (payment by tenant for failure to comply with obligation to repair premises)	✓	
Lease (preparation expenses – used for business)	✓	
Lease (stamp duty costs – used for business)	✓	
Lease (registration costs – used for business)	✓	
Leasehold improvements (e.g., shop fit-out) ³		x
Leave accrued but unpaid		x
Leave payments made by employer	✓	
Legal expenses: <ul style="list-style-type: none"> • Proceedings affecting future income-earnings; • Relating to borrowings² or mortgage discharge; • Tax advice costs 	✓ ✓ ✓	
Legal expenses (capital)		x
Leisure facility expenditure		x
Lessee's legal expenses in defending lessor's attempted termination of lease		x
Lessor's payment to lessee to secure early termination of lease		x
Licences (cost of initial business licences)		x
Licences (ongoing to operate a business)	✓	
Liquidating a company (by shareholder) ⁴	✓	
Loss on sale (depreciable assets)	✓	
Losses (current year company revenue losses)	✓	
Losses (current year trust revenue loss)	✓	
Losses (previous year company revenue loss)	✓	
Losses (previous year trust revenue loss)	✓	
Losses (from profit undertaking or plan)	✓	
Losses (theft or misappropriation)	✓	
Low-cost items (below relevant thresholds)	✓	
Luxury car lease expenses		x
Luxury car lease notional loan principal		x
Mains electricity connection ⁶	✓	

Description of items	Deductible	Non-deductible
Maintenance expenses (e.g., of income-producing expenses)	✓	
Management expenses (investment assets)	✓	
Managing tax affairs	✓	
Mining expenditure ⁵	✓	
Modernisation of premises or plant		x
Mortgage discharge expenses (if money or property purchased used for income producing purposes)	✓	
Mortgage protection insurance (investment assets)	✓	
Municipal rates on business premises	✓	
Net capital loss		x
Newspapers and magazines	✓	
Partner's salary		x
Patent (grant or extension of) ¹⁰	✓	
Payroll tax	✓	
Penalties and fines		x
Penalty tax		x
Pensions (employee payments)	✓	
Petroleum resource rent tax	✓	
Plant demolition costs		x
Plant (installed), cost of bringing to full operation ¹	✓	
Political parties, contributions of \$2 or more (up to a specified limit)	✓	
Postage	✓	
Prepayments ("pre-RBT obligations") ¹¹	✓	
Prepayments (<\$1,000) ¹¹	✓	
Prepayments (required under the law, or by an order of a court, of the Commonwealth, a State or a Territory; or under a contract of service) ¹¹	✓	
Primary producers:		
• Agistment fees	✓	
• Breeding service fees	✓	
• Droving expenses	✓	
• Electricity connection costs	✓	
• Farm management deposits (FMD)	✓	
• Fertiliser	✓	
• Fodder	✓	
• Grape vine establishment costs ⁷	✓	
• Hire of farm implements	✓	
• Horticultural plantation establishment ⁸	✓	

Description of items	Deductible	Non-deductible
• Insecticides, weedkillers, rabbit	✓	
• Fumigant	✓	
• Landcare expenditure	✓	
• Lease preparation expenses	✓	
• Mains electricity connections ⁶	✓	
• Marketing and delivery expenses	✓	
• Payment to co-ops for business services	✓	
• Pay-roll tax	✓	
• Power, fuel, light	✓	
• Rates and land taxes	✓	
• Rent on farm property	✓	
• Seeds	✓	
• Shearing expenses	✓	
• Subscriptions to producers' organisations	✓	
• Timber felling deduction	✓	
• Vaccination against Q fever	✓	
• Veterinary fees	✓	
• Water facility expenditure ⁹	✓	
• Wool tax	✓	
Printing costs	✓	
Profit a prendre (cost of acquiring)		x
Project infrastructure costs ⁵	✓	
Promissory notes, discount factor	✓	
Provisions and reserves		x
Raising equity (cost of) ⁴	✓	
Rebates and discounts (to customers)	✓	
Relocation expenses incurred by employer	✓	
Rent collection, commission on	✓	
Rent for business premises	✓	
Repair costs under warranty	✓	
Repairs to income-producing property	✓	
R&D expenses:		
• core technology costs	✓	
• accelerated deduction	✓	
• plant costs	✓	
• building construction costs	✓	
Reserves and provisions		x
Restrictive covenants		x

Description of items	Deductible	Non-deductible
Retiring allowances (recognition of past service)	✓	
Royalties generally	✓	
Royalties (if fail to withhold or to pay)		x
Salaries paid in business	✓	
Shop fit-outs to new premises ³	✓	
Sickness/accident premiums	✓	
Sickness benefits repaid		x
Software expenses ¹	✓	
Solicitor disbursements	✓	
Sponsorship fees	✓	
Storage expenses	✓	
Structural improvements (post-26.2.92) ³	✓	
Subcontractors expenses	✓	
Superannuation contributions by employer ¹³	✓	
Superannuation contributions by employer for employee aged more than 75 years and 28 days and not required under industrial award or determination under the law		x
Superannuation contributions by employer to non-complying fund		x
Superannuation guarantee charge		x
Takeover defence costs ⁴	✓	
Takeover (costs of unsuccessful takeover) ⁴	✓	
Tax advice costs	✓	
Tax agent's fees	✓	
Tax return lodgment costs	✓	
Telephone lines on primary production land ⁶	✓	
Trademarks costs		x
Trading stock (purchases)	✓	
Trading stock (cost to take to new premises)	✓	
Travel (relocation) costs paid by employer	✓	
Trees, purchased in immature forest or plantation and sold standing	✓	
Valuation fees (purchase of business)		x
Valuation fees (lender requirement for borrowings) ²	✓	
Water facilities ⁹	✓	
Water rates on business premises	✓	
Workers compensation premiums	✓	
Wrongful dismissal (cost of defending)	✓	

Notes to business deductions checklist:

- ¹ *Not deductible outright but may be written-off over the effective life (i.e., depreciated). In-house software is deductible over 2.5 years on a straight line basis. Refer to Division 40.*
- ² *Deductible outright if total costs are \$100 or less, otherwise the deduction is apportioned over the life of the loan or five years (whichever is less). Refer to S. 25-25.*
- ³ *Not deductible outright but may be written-off at 2.5% or 4%. Refer to Division 43.*
- ⁴ *Not deductible outright but may be written-off over five years (i.e., at 20% each year). Refer to S.40-880.*
- ⁵ *Not deductible outright but may be allocated to certain project pools and written-off over the life of the project. Refer to Subdivision 40-I.*
- ⁶ *Not deductible outright but may be deductible in equal instalments over 10 years. Refer to S.40-645 to S.40-665.*
- ⁷ *Not deductible outright but may be deductible over the effective live of 15 years (for dried and table) and 20 years (wine) for cost of establishing grapevines on or after 1 October 2004. Capital expenditure incurred in establishing grapevines before 1 October 2004 for use in a primary production business for was deductible at the rate of 25% per year over a period of four years. Refer to Subdivision 40-F.*
- ⁸ *Not deductible outright but may be deductible over the effective life of the type of horticultural plants as determined by the Commissioner. Refer to Subdivision 40-F.*
- ⁹ *Not deductible outright but may be written-off over 3 years at 33.33% per year. Refer to Subdivision 40-F.*
- ¹⁰ *No outright deduction is available under section 68A of the ITAA 1936. However, a deduction in respect of such expenditure may be available under Division 40. Refer to TD 2004/32.*
- ¹¹ *Generally, for prepaid expenses (other than those specified in the checklist), an immediate deduction may not be available for the full amount of the expenditure in the year in which they are paid. Instead, the deduction may be required to be apportioned where the expenditure is incurred in return for services that are not wholly provided within the income year in which the expenditure is incurred. Separate prepayment rules apply for SBEs and non-business individuals. Refer to S.82KZL to S.82KZMD of the ITAA 1936.*
- ¹² *In some circumstances, entertainment expenses may be deductible to an employer who uses the actual method for FBT purposes, even where the entertainment expenses are not subject to FBT. For example, entertainment provided at an eligible seminar that goes for at least four hours may be deductible. Refer to S.32-30 to S.32-50.*
- ¹³ *As a result of changes to the superannuation rules which came into effect on 1 July 2007 (i.e., the 2008 income year), age-based limits on the deductibility of employer superannuation contributions were abolished and replaced by a single (indexed) annual contribution limit of \$50,000 per person (subject to transitional rules for people aged 50 or over).*