Claiming small business tax deductions

Fast facts

Allowable deductions

Most of the money you spend in running a business is tax deductible. Allowable deductions are subtracted from your assessable income to calculate your taxable income. Your taxable income is used to calculate your tax liability.

The golden rules of deduction

There are three golden rules for valid business deductions:

1. The expense must have been for business use and not for private use
2. If the expense is a mix of business and private use, you can only claim the portion that is used for your business
3. You must have records to prove it.

Types of expenses

Expenses can be divided into three main groups:

1. Expenses you can never deduct
2. Expenses you can deduct over time
3. Expenses you can deduct immediately

Expenses you can never deduct

- Private or domestic expenses
- Expenses relating to income that is not taxable
- Expenses that are specifically non-deductible under the tax law (e.g. speeding fines)
- Loans the business makes, and money drawn from the business by the owner

Expenses you can deduct over time

- Prepayments, which are expenditures you incur for things to be done in a later income year
- Expenses for depreciating assets, which can reasonably be expected to decline in value or depreciate over the time. Generally, you can claim a deduction for the decline in value of a depreciating asset for each year over its effective life.

Expenses you can deduct immediately

- Certain capital expenses associated with starting up a business
- Operating expenses
- Business travel expenses
- Workers' salaries, wages and super contributions
- Repairs, maintenance and replacement expenses

Motor vehicle deductions

Deductions you can claim for the business use of a motor vehicle depend on your business structure, the type of vehicle you use, and whether you also use the vehicle for private purposes.

Company or trust

- You can claim actual costs based on the receipts for the expenses you are

- You can claim private usage accounted for by the company. If this applies to you, see 'car fringe benefits' at ato.gov.au

Sole trader or partnership

- If your vehicle's carrying capacity is 1 tonne or more, you can only claim actual costs and must keep records to show the costs
- If the vehicle's carrying capacity is less than 1 tonne, you can claim deductions for the proportion of business use for a vehicle you own, lease or hire under a hire purchase agreement
- If you want to claim more than 5,000 kilometres in deductions for a vehicle, you must use a logbook
- If you don't want to claim more than 5,000 kilometres in deductions for a vehicle, you can use a logbook or the 'cents per kilometre' method

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