



# 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](http://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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