Inland Revenue Department
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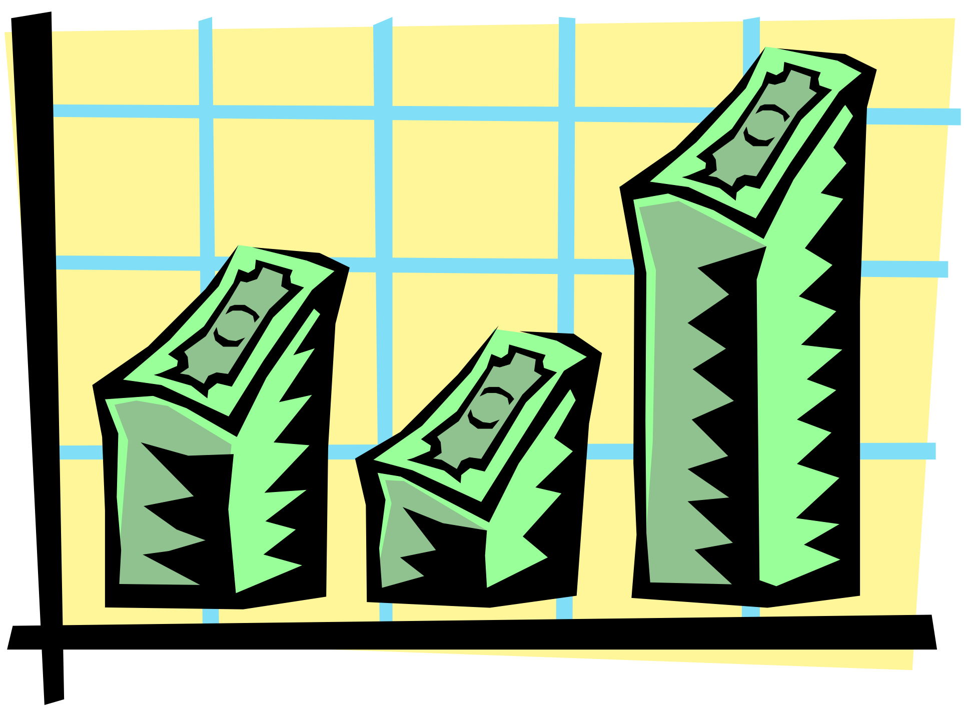
Business

Tax Guide

An introductory guide for businesses



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Part 1 – General

Introduction

Being in business or running an organisation carries certain obligations. Some important obligations can influence whether or not your business or organisation survives. There are many reasons for a business's failure, but a major one is inefficient record keeping. By setting up the right system from the start you give yourself a better chance to succeed and can save time and money in the long run. We have produced this booklet to help new and existing businesses and organisations.

Business types

The chart below gives a brief description of different business types and basic facts about how they are run.

Business Type	What it is	How it Works
Sole trader	A sole trader is a person trading on their own. The business is controlled, managed and owned by that person.	There are usually no formal or legal processes to set one up. The owner/ manager is personally entitled to all profits, but is also personally liable for all business taxes and debts.
Partnership	A partnership is where two or more people join together to run a business. Each partner contributes something to the business and, in return, each shares in any profit or loss. Each partner is also liable for any debt within the partnership.	A formal partnership agreement can be prepared. Partners share responsibility for running the business, and share the profits and losses equally unless the agreement says otherwise. The partnership itself does not pay income tax, however it must prepare income tax returns. It distributes the partnership profits to the partners who pay tax on their share. When partnership profits or losses are distributed to a relative or an associated person and we consider the distribution to be excessive or unreasonable, it may be reallocated
Company	A company is a formal and legal entity in its own right, separate from its shareholders (or owners). It's formed when a group of people exchange money and/or property for shares in an enterprise registered under the Companies Act.	There is a legal registration process you will have to pay for. More money can be raised through many owners. The company owns the assets and liabilities of the business and is responsible for any debts. The shareholders' liability for losses is limited to their share of ownership in the company.

Getting an IRD number

All businesses need to have an IRD number. There are different requirements for getting an IRD number for businesses. The table below tells you what form to use and what we'll need from you.

Business	What we'll need
Sole trader	You use your personal IRD number for your business. If you don't have a personal IRD number, fill in the IRD Number Application to apply for one.
Partnership	Use the IRD Number Application with a list of the names and IRD numbers of each of the partners.
Company	Use the IRD Number Application with a copy of the company's certificate of incorporation.
Trust	Use the IRD Number Application with a copy of the trust deed.

Basic tax obligations

It's a good idea to establish your tax obligations as soon as possible. Here are some of the basic tax obligations most businesses will have.

- As we've already mentioned, you'll need to get an IRD number if you don't already have one.
- If you are in business as a company or partnership you will need a new IRD number.
- You will have to fill in an income tax return each year.
- If you're an employer, you may have to deduct PAYE and pay this to us.
- Businesses and some organisations have to work out their profits, so they can calculate how much income tax to pay.
- You may have to pay provisional tax during the year.

The Montserrat tax system relies on people meeting their tax obligations voluntarily. However, there are penalties if you don't comply.

Keeping records – why they are important

No matter what sort of business you're running, you need to be able to see what you've paid and what you're owed so you can budget. Your bank manager, accountant or investors may also need to see your business records at some time to keep track of your progress and help plan your business's future.

Benefits of keeping accurate records

As soon as you decide to go into business, it's important you start keeping your records. This is because it's much harder to work backwards at a later date. If you're going to make a success of running your business or organisation, you need to keep accurate records. Though there are legal reasons for keeping accurate records, there are also good business reasons to do so.

- Accurate records will help you determine whether your business is making enough money to meet its expenses.
- Good record keeping makes it easier for others to know whether to invest in your business or project.
- You'll find that the more up-to-date your records are, the quicker you'll get through your tax returns and other paperwork.
- If you're in business you can expect to be audited by Inland Revenue at some stage. There will be less time spent on the audit if your records are well kept.

What records to keep

Here is a broad outline of the type of records you must keep. You must keep enough records to be able to calculate your income and expenses and to confirm your accounts.

1. For business income records, you must keep:
    - books of account, such as your cashbook, journals and ledgers
    - receipts and invoices issued, or till tapes as appropriate
    - bank statements and deposit slips
    - worksheets showing tax return calculations
    - any other necessary documents to confirm account entries.

2. For business expenses, keep records such as:
    - your cashbook and petty cash book
    - receipts and invoices received
    - bank statements and cheque butts
    - depreciation calculations
    - details of travel expenses
    - details of entertainment expenses
    - motor vehicle logbooks, telephone and power bills and other such records
    - wage records for employees
    - legal statements, such as purchase or sale agreements of a business and leases
    - interest and dividend statements.

3. You must also keep records for all your business assets and liabilities at the end of the year, including:
    - lists of debtors and creditors
    - stocktake figures
    - a fixed asset register
    - final profit and loss statements and balance sheets
    - year-end journals.

It's important to keep all this information, as we routinely audit business records. If you haven't been keeping sufficient records you can be prosecuted and fined.

How long to keep your records

Keep all your business records for at least **seven** years from the end of the tax year or the taxable period to which they relate. Even after you stop operating your business you still have record keeping obligations.

Personal records

It's a good idea to keep all personal records and transactions separate from business records. This is best achieved by using separate cheque and savings accounts for the business. As with business records, you must keep all private records (including private bank account records) for seven years.

Part 2 Source Documents

Introduction

Source documents show details of money coming in or going out of a business. That is, they show money you've received or expect to receive, and money you've paid or expect to pay. These documents carry all the information you need to put into your bookkeeping system.

Banking records

Starting up a business account

It's a good idea to keep separate bank accounts for personal and business purposes. When opening a business bank account, use your registered business, trust or organisation name to give a clear indication it is not a personal account. You may want to open a separate bank account just for large bills and taxes. Transfer money from your main account to cover these expenses.

Cheque books

Most businesses pay expenses by cheque. It is vital you complete the cheque butts as you write out cheques and keep the butts and copies of the issued cheques returned to you by the bank for your business records. If you write a lot of cheques, it is a good idea to record on the front of each completed cheque book the cheque numbers and the dates the cheques were written. File old cheque books in date order. Make sure you fill in these details on each cheque butt:

- the date of payment
- the name of the person or business you are paying (the payee)
- the amount of the cheque
- the type of goods or services purchased.

Deposit books

Many businesses use deposit books to record their sales. Banks can provide large deposit books with carbonised copies of each page so you keep a copy of the items you are depositing. In your deposit book write down:

- the date of the deposit
- the payer's name (the person you got the funds from)
- the amount of each deposit.

The deposit book will usually have columns for recording information about whether the deposit is from a cheque, credit card docket or cash. If you don't use a supplementary deposit book make sure you record all details on the back of your deposit butt.

Bank statements

Arrange with your bank to send statements when it's convenient for you. It's a good idea to have the statement issued on the last day of the month—it will make it easier to complete your bank reconciliation.

Make sure you keep all your business and private bank statements. File them in date order. You will not be able to complete your end-of-year business accounts until you have them all. Most banks will charge you for replacement statements.

Here are some handy hints on banking

- All business transactions should go through the business bank account.
- Bank all business income you receive into your business bank account.
- Charge all purchases to the business, and pay for them by cheque so a permanent record of each payment will appear in your bank statement.
- Transfer money to a separate account for large bills and taxes.
- If you take money out of the business for personal use, clearly identify it as "personal drawings".
- If you need to put some of your own money back into the business, it should be clearly identified as "personal funds introduced".
- If you want to make purchases for the business on credit card, you should use a separate card for business expenses only.

Records of income

It's good business practice to produce invoices for your customers. Invoices help you keep track of money coming in and going out. There are no special requirements for what a normal invoice should show, as long as it can help prove a particular transaction took place. A normal invoice will generally show:

- the seller's name
- the purchase date
- the amount paid or to be paid
- a unique invoice number
- a description of the goods or services being sold.

Credit card sales

Keep all copies of the vouchers and voucher schedules from your credit card sales. Also make sure you include your credit card sales when working out your total sales for the month.

Debit and credit notes

You must produce a debit note for your customers if the price of goods or services has increased after the original invoice was issued. If the price has decreased, you must produce for your customer a credit note. Debit and credit notes must show the words "debit note" or "credit note" in a prominent place, in addition to the details required for a normal invoice.

Cash register tape

Some businesses, such as supermarkets, make a large number of cash sales. These businesses are not required to record the name of each customer in a cashbook or to issue a tax invoice for every sale.

It is more appropriate for such businesses to use a cash register tape. Make sure all your cash sales are recorded on the tape. Keep these tapes in a daily order by highlighting the date on each tape, and store them with your other sales records. The amount you deposit as cash sales in your cashbook should equal the total on your cash tape.

Records of expenses

You need to keep records of all your expenses for income tax purposes.

Invoices for purchases

If you buy goods or services on credit for the business you will usually be sent an invoice requesting and recording payment. Make sure you keep your invoices for purchases. Don't send them back to the supplier with your remittance advice and payment.

If you receive regular supplies from a supplier, it is a good idea to tick off all the invoices you have received against the supplier's monthly statement. That way you can make sure you are not paying an invoice twice.

It is helpful to sort your expense invoices into those you have paid and those you haven't paid yet. You can store those that have been paid with any paid monthly statements in cheque number or date paid order. As a reminder, write the date, cheque amount and cheque number on the statement or invoice.

To tell the difference between paid invoices and those still to be paid, put them into separate files. Store the paid invoices and statements in a file called "accounts paid". Store the invoices yet to be paid in a separate file, until they are due for payment, and call this file "creditors" or "accounts payable".

Credit card purchases

When you make purchases using a credit card for the business, make sure you keep:

- your credit card vouchers
- payment receipts
- monthly statements.

You might find it helpful to attach your credit card vouchers and receipts to the monthly statement, so they are all in one place. When you get your credit card statement from the bank listing your credit card expenses, go through it and write down what each expense was for.

Part 3 – Bookkeeping

Introduction

In this part, we look at different ways of record keeping. We'll also suggest some different ways of storing your records. Bookkeeping is simply transferring the information from your source documents, such as invoices and receipts, into:

- cashbooks for recording payments in and out
- petty cash books for smaller purchases
- wagebooks for employees' pay records.

With these three types of record books you can run your business as well as meeting most of your tax obligations. We'll look at how to set up and use each book.

Once you've mastered manual bookkeeping, computerised bookkeeping can make things a lot easier for you. There are a number of accounting and bookkeeping packages available that you can use on personal computers. These packages build on the basic principles of manual bookkeeping.

Cashbooks

A cashbook is a record of all payments and receipts by cheque, automatic teller machine and direct credit. It shows different types of sales and income, purchases and expenses under the appropriate headings. The headings you use will depend on the type of business or organisation you run. The headings should describe the type of transactions you make most often. A well-kept cashbook allows you to:

- keep track of how much money is coming in and how you are spending money
- prepare a cashflow budget of future income and expenses
- prepare end-of-year financial accounts
- complete various tax returns.

Some tips on setting up a cashbook

- Give yourself space. Buy a bigger book than you expect you'll need. A 14 or 16-column cashbook is best. This is particularly important in your first year of business, when your income and expenses may not be as expected.
- Leave a couple of pages at the back of the cashbook for your monthly bank reconciliations.
- Start each month on a new page.
- Choose expense and income titles in your cashbook that are relevant and common to your business.
- Make sure you write in the cheque number for expenses. This makes it easy to check your entries against the bank statement.
- Unusual items can be put into a "sundry" column—this is especially useful for one-off payments and receipts. It's a good idea to give these items a written description in the reference column or near the sundry amount for easier identification.
- Add up all columns at the end of the month, ensuring all other total columns equal the bank column total.

- Reconcile the cashbook with your business's bank statement each month.
- Make sure you rule off each tax year.

Reconciling your cashbook with your bank statement

It's good business practice to reconcile your bank statement and your cashbook on a regular basis (at least monthly). All it involves is balancing your bank account against the amounts of money you have noted down in your cashbook as paid or received.

Before you can reconcile your bank statement with your cashbook you need to have all your bank statements for the period you are trying to reconcile. Use your bank statements to record items into your cashbook such as automatic payments, bank fees and interest charges and anything else not shown in your cashbook in the month you paid or received them.

To make it easier, ask your bank to send bank statements to you as soon as possible after the end of the month so you can keep your cashbook up to date.

Eight steps for reconciling your bank statements

1. Make sure all your cheques and deposits over the last month have been recorded in your cashbook.
2. Get a copy of all bank statements for the month you are reconciling.
3. Tick off the cheques presented on your bank statement with those recorded in your cashbook. Make sure the amounts are the same.
4. Tick off the deposits in your bank statement with those recorded in your cashbook. Make sure the amounts are the same.
5. Make a list of unpresented cheques from those recorded in your cashbook without ticks.
6. Make a list of outstanding deposits from those recorded in the cashbook without ticks.
7. Make sure all automatic payments, bank fees and EFTPOS transactions are included in your cashbook.
8. Add up the cashbook columns of your sales and expenses and make sure all expense columns match the expenses' "bank" total and all sales columns match the sales' "bank" total.
9. Take the bank balance as per the bank statement and subtract unpresented cheques, and add outstanding deposits to reconcile with the bank balance as per the cash book.

Petty cash book

Petty cash is a small amount of cash kept on hand to make day-to-day purchases for items that are too small to pay for by cheque or if you don't have access to EFTPOS. Some examples are expenses such as milk, coffee and tea, stationery, postage and taxi fares. A petty cash book allows you to:

- keep track of small expenses so they don't get forgotten about as tax deductions
- keep the cheque account free of lots of small transactions
- avoid paying for smaller items from personal funds

- make purchases that are too small to be paid by cheque.

When setting up a petty cash book you'll need:

- a petty cash tin or purse to keep money in
- a petty cash book to record expenses.

To start using your petty cash system:

- Write out a cheque for cash, recording it on the cheque butt as "petty cash". The first petty cash cheque can't be claimed as an expense,
- Put the cash in the petty cash tin.
- Make sure you receive a receipt for each petty cash purchase. If a receipt is not issued make sure you record the details.
- Record the purchase, with the type of expense, in the petty cash book.
- Keep a running total.

When your petty cash gets low, count the money in the tin and add up all purchases made. The total should equal the original petty cash amount. Write out a new cheque for cash to bring the petty cash back up to the original amount. Try to do this at least weekly if petty cash is used a lot.

Claiming petty cash expenses

It's important to remember that the first petty cash cheque can't be claimed for income tax. It is the second and subsequent cheques on which you can claim. The first cheque is just to open the petty cash book.

If any small expenses are paid straight from the till, remember to write out a petty cash docket or write out the details on the receipt and put this in the till.

Petty cash alternative

Some small businesses, especially those that don't employ staff, may find a petty cash system doesn't suit their business needs. An alternative method is for the owner or manager to pay for small items using their own personal funds, and reimburse themselves from the business cheque account once the total reaches a suitably large value.

All receipts or written details relating to the reimbursement should be kept—a good idea is to staple them together, with the total value and cheque number recorded on a separate piece of paper, at the front of the receipts.

Wagebook

Whenever you employ someone, you have to keep their wage records for seven years. A good way to do this is to use a wagebook. Each payday, you have to complete these details for each employee:

- total gross earnings, including taxable allowances (this is the amount before PAYE is deducted)

- the amount of PAYE deductions
- any non-taxable allowances
- the net wage.

Non-taxable allowances will include actual expenses employees have incurred on behalf of the employer, such as meal, mileage, tool and telephone expenses.

Time management hints

Here are some tips to make bookkeeping easier and save you time and money.

- Make bookkeeping part of your regular routine.
- When you've established a routine you'll find you work through your books quicker.
- Try to update your records regularly, at least once a week. Don't leave things until the last minute. The longer you put it off, the harder it becomes to put your records into order.
- Before starting, make sure you have all the information and documents you need.
- Avoid interruptions when doing your bookkeeping. You should set aside a time and place just for bookkeeping.
- Try to complete each bookkeeping task in one sitting. For example, when filling in your PAYE forms make sure you finish them before doing something else.
- Keep your books in an organised manner. You'll work quicker if you can find the information you need easily.
- Strive to find better ways to keep your books and records.

Storage methods

Now you know what types of records you need to keep and how to record them, here are some suggestions for storing these records. This is important because your records should be organised enough to allow you or anyone else to work through them quickly and efficiently.

The paper-based method

Paper-based record keeping simply means keeping all your invoices for sales and purchases as well as all your cheque butts and bank statements. You will probably also use a cashbook to record all your sales, income, purchases and other expenses.

There are many different ways to organise paper records. Choose a filing system that's simple so others can quickly and easily get the information they need. When you find a system that suits your business, stick to it. Remember, it's important to keep it up-to-date and well organised. If you use an accountant, try to ensure your record keeping method gives them the information they require.

Using a ring binder for invoices and statements is a good way to start off a record keeping system. Staple the relevant invoices to the statement.

After you've been in business for a while you may want to consider using a filing cabinet to store your records. Filing cabinets are lockable, safe and give you a lot more storage space as your operation grows.

Remember, when you're in business time is money. Time wasted looking for records that haven't been put away in some order is money wasted. This is because bills aren't paid on time and money coming in may not be accounted for. Your business advisor will spend more time doing basic bookkeeping rather than giving financial advice.

The computer method

Another way of storing records is on computer. Depending on the type and size of your business, using a computer can improve your record keeping. As personal computers become cheaper and easier to use, more and more businesses and organisations are using them. Here are some of the benefits of using a computer in your business:

- you can find information quickly
- it's easy to update records
- there's less paper required so records take up less storage space
- you can keep a check on the accuracy of records you've kept and you can produce accounts.

There are a number of accounting and bookkeeping packages available that you can use on personal computers. The major software manufacturers also provide standardised business software that includes spreadsheets, databases and word processing packages. These packages build on the basic principles of manual record keeping, so it's useful to understand a manual system first.

Keeping all your records on computer without backups can be disastrous if your system breaks down. If this happens you could lose all the information you've stored on your computer. A "backup" is a copy of the information you have on your computer, either on a floppy disk or copies of vital information printed out regularly. Keep these copies or the disk somewhere else—in another building if possible.

Making your bookkeeping system work for you

Using your cashbook for budgets and cashflow

Having set up a cashbook and organised your books into a system, you can now use your cashbook to monitor and plan your business's performance. A cashflow budget is basically a summary of the financial future of your business for the next six months to a year. Cashflow budgets are sometimes also called cashflow forecasts.

The term "cashflow" is used to describe the movement of money in and out of a business. One of the most important ways to manage your finances is by checking actual cashflow figures (from your cashbook) with your cashflow budget. A cashflow budget shows:

- forecast monthly cash in (from sales, loans, your own money, grants and other income)
- forecast monthly cash out (for purchases and expenses).

A cashflow budget can show you how well your business is doing so you can plan ahead. That way you'll be able to tell when you can afford new equipment, hire more staff, pay bonuses or arrange finance for the future if necessary. You'll be in better control of the business if you know from month-to-month how the business is doing rather than waiting till the end of the year.

Monitoring your cashflow budget

At the end of each month, enter actual figures into the cashflow budget. Highlight those items that were significantly over or under forecast amounts. Update the forecasts for following months as you go. From there you can decide whether you will be able to invest more in the business or talk to a business advisor if funds are going to be low. Comparing actual against forecast figures helps you control finances and prevent many problems before they happen.

Part 4 – Income Tax for Businesses

Income

Business income is any sort of payment (money or money's worth) you receive for goods or services you sell. You can claim expenses against your income to arrive at a net profit. You pay income tax on your net profit.

Your first year in business is not tax-free

A common misconception is that the first year in business is tax-free. If you make a profit at the end of your first year in business you will owe tax. So, although you may not be actually making tax payments on your profit during your first year, that year is still taxed. You will have to pay this tax by 30th June in the following year, After that first year, you may be required to pay income tax in three instalments during the year. This is called provisional tax.

Drawings

An important point to remember is that you pay income tax on your profits. This includes any drawings you take from the business. "Drawings" is the money you take out of the business to live on and pay any personal expenses. If you like, you can take regular weekly, fortnightly, four-weekly or monthly cash drawings.

Balance date

For most businesses, the accounting year ends on 31 December. This is the balance date. This means you need to have your accounts up-to-date, so you can work out the profit you've made and the amount of tax you need to pay. If you want a balance date other than 31 December, you must apply in writing to Inland Revenue stating sound business reasons for the change. You can't use another balance date until you have written approval.

Paying income tax

Whether you're in business or running an organisation, you'll need to fill in a tax return each year and send it to us. You include income from all sources and work out the tax on your total taxable income. If you have any tax credits (such as PAYE) these are deducted from your tax in your return. You also need to send us a copy of your financial accounts.

When is the tax return due?

If you have a balance date of 31st December, you must send your tax return to us by 31st March. If you have any other approved balance date, you must send your tax return to us by the date specified by Inland Revenue.

Income tax rates

Different tax rates apply to companies, and individuals and partnerships. These rates can change if the government changes the legislation. Remember, if you make a loss you don't pay any income tax for that year if this was your only source of income.

Sole traders

A sole trader manages his or her own business and is responsible for all the business's income and debts. If you're a sole trader you don't pay yourself a wage, but you simply take money from the business when you need it for personal use. These takings are called "drawings".

Drawings must not be included as a deductible business expense when calculating your profit. Make sure you record your drawings in your cashbook. This is done so you can reconcile your cashbook with your bank statements, ensuring there's enough money in the business to cover any bills owing.

Partnerships

The partnership itself doesn't pay tax on its income or profit, nor do the partners pay tax on any regular weekly or monthly drawings they take. Instead, at the end of each year the net profit (without allowing for partners' drawings) is shared in full between the partners. The partners then pay income tax on their share of the profit in their individual tax returns, along with any other income they have. As with a sole trader, the amount the partners take as drawings can be more than their share of the profit.

If we consider that the payment, salary or wages, share of profits or other income paid to a relative or associated person is unreasonable or excessive, any salary or wages, or share of profits or losses can be reallocated for tax purposes. To consider whether the payment or share in the profit or loss is reasonable we look at all of the following:

- The nature and extent of the services provided.
- The value of the partners' contributions made by way of services or capital.
- Any other relevant matters.

Companies

Any profits made belong to the company, which must pay tax on them. Companies can distribute money in three ways.

- Shareholder-employees can periodically draw money from the company. At the end of the year, the company calculates a salary amount on which the shareholder will have to pay income tax.
- Shareholders who are also employees of the company can be paid a salary with PAYE taken out in the normal way. These salaries are deductible as a business expense for the company.
- The company can pay dividends to shareholders out of the profits that remain after tax.

Provisional tax

Unless your profits are very small you will have to pay provisional tax. This is not a separate tax but a way of paying your income tax as the income is received through the year. With provisional tax, you pay instalments of income tax throughout the year, based on what you expect your tax bill to be. The amount of provisional tax you pay is then deducted from your tax bill at the end of the year.

We automatically charge provisional tax unless you apply to Inland Revenue to use some other method. With the standard option your provisional tax payable is simply your previous year's residual income tax

Like all other business expenses, you have to budget ahead for your taxes, so it's important to know when the provisional tax payments are due and how much they will be. It's a good idea to use a separate bank account to put aside income to cover provisional tax payments.

If you haven't been budgeting and putting money aside in your first year, you will have to pay all your tax in one go by 30th June, as well as paying provisional tax instalments for the coming year. One way to spread the cost of your first year's tax is to make voluntary payments during your first year.

If you have a 31 December balance date, provisional tax payments are due on:

- First instalment 28th February
- Second instalment 30th April
- Third instalment 30th June

If you have a different balance date, we can tell you when your payments are due. Make sure we receive your payments on or before the due date. If you pay late or do not pay the full amount, you will have to pay a late payment penalty and interest.

Part 5 - Expenses

Introduction

All businesses have expenses in generating taxable income. Most of these expenses can be deducted from your sales and income to arrive at a net profit, and it is on this net profit that you pay income tax. Examples of deductible expenses are:

- rent paid on business premises
- repairs and maintenance on business items
- stationery and supplies for the business
- purchases of raw materials or trading stock
- electricity and telephone costs
- business vehicle and transport costs
- interest on money borrowed for the business
- interest on underpayments of tax
- gross wages paid to employees
- insurance of business assets or premises
- premiums paid for accident insurance
- depreciation.

Some business expenses paid for out of business income can't be claimed as an income tax deduction. Examples of non-deductible expenses are:

- the cost of plant and machinery
- legal fees incurred in setting up a business
- loan principal repayments
- improvements to equipment (apart from repairs and maintenance)
- private expenses, such as life insurance, interest on money borrowed for private purposes
- drawings from the business.

Capital expenses

It's important to be able to tell the difference between capital and revenue expenses. This is because revenue expenses are deductible items in the income/profit and loss statement while capital expenses are not. Capital expenses are usually one-off payments to buy assets that will be used to run the business. You can't claim the full cost of capital items in the year they were purchased. Instead, their cost must be written off over a number of years. This is called depreciation/wear and tear.

Using your own vehicle in the business

If you are a sole trader or in a partnership and you use your own vehicle in the business, you can claim the running costs for income tax. If you use the vehicle strictly for business only, you can claim the full running costs, without making any adjustments. If you use it to travel from home to work, or any personal travel, you'll need to separate the running costs of your vehicle between business and private use. To do this, you must keep a logbook for at least three months every three years to work out the business share of the running costs. You'll need to record the distance, date and reason for the trip in the logbook. You can use the difference between the odometer readings at the start and end of the three months to work out the percentage of vehicle expenses you can claim.

If you don't keep a vehicle logbook you may claim up to 25% of the vehicle running costs as a business expense. However you could be asked to substantiate the percentage claimed.

Using your home for the business

Many people who run a small business use an area set aside in the family home for work purposes. If you are doing this, you can make a claim for the area set aside so long as it is used principally for business use (such as an office or storage area), and you keep a full record of all expenses you wish to claim.

The responsibility for keeping invoices and records for a home office is the same as for any other business expenses you are claiming. You can claim a portion of the household expenses, such as insurance, power, mortgage interest and depreciation (if you own the house).

You must keep invoices for these expenses. You can only claim the expenses that relate to the area set aside for business. Work out the percentage of the work area, compared to the total floor area of the house. Then apply this percentage to the total house expenses.

Telephone costs

You may claim a deduction for telephone rental if you run your business or organisation from your home. If your home is the centre of operations or management for the business, you may claim a deduction of 50% of the telephone rental. Identify those toll calls that are business related. It's a good idea to use a highlighter on your phone bill to mark the business toll calls. If you have a separate commercial and domestic line rental, you can claim the full cost of the commercial line If you make any private calls on the business line, you will have to make an adjustment for them.

Travel expenses

If you spend time travelling as part of your business you can claim business travel as an expense. A good way to prove the business portion of your travel expenses is by keeping a diary of your travels. In addition to invoices and tickets you should also keep details of:

- the reasons for the trip
- the date of the trip
- your itinerary
- the cost of car hire, and air, bus and taxi fares
- the cost of accommodation, meals and incidentals
- the time spent on business and non-business activities.

The cost of travelling from home to work is not a tax-deductible expense.

Fixed assets records

An asset is something the business owns. A fixed asset is an asset you generally expect to use in your business for more than a year. You can't deduct the full cost of purchasing these assets from your taxable income in the year of purchase. You can, however, claim depreciation.

You need to prove the purchase and sale of any fixed asset with a tax invoice. If you start using a private asset for business purposes or if you keep business assets for private use after you stop operating, you have to confirm that the asset is valued at market value. This may mean getting an independent valuation. Using a fixed asset register is a good way to keep track of these assets.

Depreciation

Depreciation allows for the wear and tear on a fixed asset and must be deducted from your income. You must claim depreciation on fixed assets used in your business that have a useful lifespan of more than 12 months. However, not all fixed assets can be depreciated—land is a common example.

You'll have to keep a fixed asset register to show assets you'll be depreciating. This should show the depreciation claimed and adjusted tax value of each asset. The adjusted tax value is the asset's cost price, less all depreciation calculated since purchase.

Electing not to depreciate

Although it is mandatory for you to claim a depreciation deduction, we recognise there can be instances where you may not want to. If you do not want to claim depreciation on an asset, and you want to avoid paying tax on depreciation recovered when that depreciation was not claimed, you should elect not to treat the asset as depreciable. Let us know if you are making an election by notifying us in your tax return for the income year when:you purchase your asset or you change the use of your asset from non-business to business.

Where depreciation has been claimed on the business area of your home

If you claim depreciation on the business area set aside in your home, you must include the depreciation recovered in your tax return when you cease using your home for business purposes, or when you sell your home.

Penalties and interest

Every taxpayer is responsible for working out the amount of tax they owe and for paying it when it's due—we may charge penalties and/or interest if you do not meet your obligations. As well as penalties, you may also be fined or prosecuted for certain offences