



**The what, why and
how of deductibles for
small business.**





What you can and can't claim on tax for your business.



For small businesses, the end of the financial year can be stressful for a few reasons. Endless paperwork, complex rules and the prospect of a large tax bill eating into your profits.

While you can't do much about box-ticking and compliance, you can reduce that looming tax bill by claiming deductions for your business expenses. When you claim an expense, the cost is deducted from your total taxable income, reducing the tax you'll need to pay

for the year. You're probably already claiming for major business expenses, like rent and vehicles, but there are plenty of lesser-known costs that can be claimed. While you don't get the full cost back, it's worth knowing what you can claim so you don't miss potential tax savings. Every little bit counts when you're a small business with slim margins.

Australia's tax system is pretty complicated, with many confusing rules around deductible expenses. If you're new to running a small business – or if you just need a refresher – we can help. In this eBook, we look at how deductibles work and some of the expenses you could claim.*



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How deductibles work.



It's a misconception that you get all your money back when you claim a tax deduction – unfortunately, that's not how it works. Instead, eligible expenses are deducted from your assessable income, so your business pays less tax.

In Australia, deductions can only be claimed for expenses directly related to running your business and earning income. Operating expenses, buying products or services for use in the business and even the cost of depreciating assets can be claimed.

Here's where it gets complicated. The deduction amount and what you can claim varies depending on the type of expense you are claiming. If an expense is used outside the business as well – for example, a car used as a personal vehicle outside business hours – you can only claim the portion used for the business.

Another crucial point: You must have records for any business expense you want to claim as a deductible. Be sure to collect and save receipts and invoices throughout the financial year so it's easy to make a claim at tax time.

Fringe benefit tax.

Some of the expenses you can claim as deductibles will be related to your staff: for example, the cost of coffee and tea for the office or refreshments during a staff training seminar. The catch? Some staff-related costs are considered perks, which means you'll need to pay fringe benefit tax (FBT). This is a tax that employers pay on items or expenses that are seen as part of an employee's benefit package.

Get to know your deductibles.

Ready to reduce that tax bill? Here's a look at some deductible expenses you could be claiming.



Food and drink deductibles.



Eat, drink and learn.

While most staff entertainment costs aren't deductible, food and drinks supplied as part of a training seminar or conference can be claimed. This means if you run an employee training course or send staff to an outside conference, you should be able to claim the cost of refreshments as a deductible. Don't get too carried away however – if the meal involves alcohol, that cost needs to be separated, as it will be subject to FBT.

Deductible:

- ✓ Food and drinks as part of a training course
- ✗ Alcohol



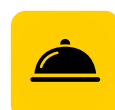
Keep your staff caffeinated.

Your employees appreciate a good morning cuppa, but when it comes to deductibles, exactly how you choose to provide it makes a difference. If you put a coffee machine in the office (or just supply good old teabags and instant), that cost is deductible and isn't subject to FBT.

However, treating your staff to takeaway coffee is – at least if you do it regularly. That's because FBT applies unless a perk is 'minor and infrequent'. While one flat white might seem pretty minor, the costs add up quickly if your employees get them every day, making them subject to FBT.

Deductible:

- ✓ Coffee or tea in the office
- ✗ Regular café coffees



Meeting refreshments.

Meeting clients at your office or theirs? If you bring in catering – like a light meal, snacks or coffee – it's likely to count as a deductible expense. On the other hand, if you wine and dine a client at a restaurant or meet for lunch at a café, it's considered entertainment and can't be claimed.

Deductible:

- ✓ Catering a meeting in the office
- ✗ Restaurant or café meals



Employee-related costs.



Work-from-home expenses.

With working from home more common than ever, it makes sense to claim those costs as deductibles. [You may be able to claim 'occupancy costs'](#) – that is, a proportion of your mortgage, rent, insurance and utility costs – as a tax deduction.

You can also claim a deduction for using equipment like your computer, software, office furniture and internet connection. Generally, you'll need to estimate the monthly business use of an item or service as a percentage of the total use to calculate the amount to claim.

Deductible:

- ✓ Occupancy costs for WFH expenses
- ✓ A proportion of hardware, software, equipment and other costs



Uniforms and protective gear.

A uniform can be a good way for clients to identify your staff when they're on the job and make your business look more polished and professional. Even better, you can claim a deduction for the cost of buying uniforms, protective gear and occupation-specific clothing for your staff. You can also [claim for the cost of laundering uniforms and other work clothing](#) – generally calculated at \$1 per load of washing.

Deductible:

- ✓ Purchasing distinctive uniforms, protective gear or occupation-specific clothing
- ✓ Laundering uniforms and other work gear



Be sun smart.

Believe it or not, you can claim your sunnies and sunscreen as a tax deduction if your job requires you to work outside for significant periods. While it might seem like a minor cost, sunscreen and sunglasses can add up quickly, particularly if you have a large group of employees.

There's no cap on how much you can claim for sunglasses, but if they cost more than \$300, they are expected to last for more than 12 months. This means you can't claim a pricey pair two years in a row. However, you may be able to [claim a deductible for depreciation](#) on your sunglasses if they're used over several years.

Deductible:

- ✓ Sunglasses
- ✓ Sunscreen



Training and education costs.



Learn and claim.

There's always more to know about running a business and training courses – online or in person – can be a great way to build your knowledge. They're also tax deductible in many cases, making them a way to offset your tax bill. If you take a training course connected to your role in the business, you could be entitled to a [tax deduction for a range of expenses](#) associated with it – not just the cost of course fees.

Deductible expenses include:

- Textbooks
- Stationery and photocopying
- Computer costs
- Student union fees
- Student services fees
- Accommodation and meals, if your course requires you to stay away from home for more than one night
- Study space – running expenses for a dedicated self-education room
- Travel expenses



Boost your business knowledge.

Business-related journals, magazines and online subscriptions can be a good way to boost your knowledge and stay up-to-date with your industry. They can also – usually – be claimed as a deductible if they're related to your work.





More ways to cut your tax bill.



Get smart about insurance.

Insurance premiums paid against loss of income are eligible for a tax deduction, so don't forget to claim for that expense. While other types of insurance – like life, trauma and critical-care cover – are not deductible, health insurance is a bit more complicated.

If you earn over a certain threshold and don't carry health insurance, you will need to pay a Medicare surcharge of 1-1.5%. Depending on your total income, this can make it cheaper to pay for private health insurance.

Deductible:

- ✓ Income protection premiums
- ✗ Health, life, trauma and other forms of insurance cover



Keep track of your calls.

Another seemingly minor but worthwhile deductible is work-related mobile calls – particularly if you're making a lot of them. You can't generally claim your entire phone bill if you also use your phone for personal reasons, but you can claim for work calls. It's a good idea to keep a brief log of business calls to estimate the percentage of business calls compared to personal ones.

Deductible:

- ✓ Work-related phone calls
- ✗ Entire phone bill



Support your favourite charity.

Supporting a charity or community organisation is never a bad thing and if it can help reduce your taxable income.

If you donate money or property to a registered charitable organisation, you can usually claim the cost as a deductible (just make sure you get a receipt).



Get deductions sorted.



Working out what's deductible and what's not can be confusing, particularly if you're new to running a business. While it's worth getting advice from an accountant or financial adviser to ensure you're claiming everything you're entitled to, it's good to have knowledge of your own.

If you know what's likely to be eligible for a deduction, you can keep receipts, log calls or vehicle use, and make smart choices around insurance and charitable donations. The end goal? Reducing your tax bill to manageable levels or – best case scenario – turning it into a refund.

When you're a small business, every cent counts, so it's worth making the effort.

For more support, advice and information for small businesses in Australia, visit our [Business Hub](#).