



The small business income tax offset

The small business income tax offset (also known as the unincorporated small business tax discount) can reduce the tax a sole trader business pays by up to \$1,000 each year. The offset is worked out on the proportion of tax payable on business income.

To be eligible, a taxpayer must be carrying on a small business as a sole trader, or have a share of net small business income from a partnership or trust, and have an aggregated turnover of less than \$5 million.

The rate of the offset is 8% up to the end of the 2019-20 income year, but will increase to 13% for 2020-21 and again increase to 16% for 2021-22 and then remain at that level.

The ATO calculates the offset using information from the business's tax return, with the offset amount

shown on the notice of assessment. Its "Small business income tax offset calculator" (we can access this for you) can work out the income amounts to be used to work out the tax offset, however it doesn't work out the amount of the offset.

Net small business income is the sum of the assessable income from carrying on a business minus any deductions. If net small business income is a loss it is treated as zero, and you will not be entitled to the offset.

The following income amounts are not included in working out net small business income:

- net capital gains made from carrying on a business
- personal services income (unless your business is a "personal services business")
- salary and wages
- allowances and director's fees
- government allowances and pensions

- interest and dividends unless it's related to a business activity
- interest earned on a farm management deposit.

Also, the following deductions are not used when working out net small business income:

- tax-related expenses such as accounting fees
- gifts, donations or contributions

- personal superannuation contributions
- current year business losses, which are not deductible this year under the non-commercial loss rules
- tax losses from prior years (unless they are deferred non-commercial losses).

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