

### **Small business:**

# Digital product expenses



This general information will help you if you are a small business owner claiming deductions for the cost of digital products used in running your business.

### **Key points**

- The type of expense operating expense or capital expense – determines when you claim your deduction.
- Your business may be eligible to claim an immediate or accelerated deduction for a capital expense using a tax depreciation incentive.
- You can only claim deductions for the portion of your expenses that relate to running your business.
- You must keep records to prove your expenses and how you calculated your claim.

• The Small business technology investment boost is a bonus 20% deduction you may be able to claim this tax time, if your eligible tech is installed by 30 June 2023. Check if you can claim the 20% bonus deduction on technology expenditure to help digitise your small business.

For more information, see ato.gov.au/Technologyboost

# Expenses you can claim

As a business owner, you can claim a tax deduction for the cost of digital products used in running your business.

There are two types of expenses you can claim:

- operating expenses
- · capital expenses.

The type of expense determines when you claim your deduction.

### **Operating expenses**

Operating expenses are the expenses you incur in the everyday running of your business.

Examples include:

- internet service provider fees
- software subscription fees (for example, accounting, cybersecurity, point of sale, learning, job, and client management software)
- cost of running a website (for example, site maintenance that preserves its character)
- file sharing services
- cloud storage
- lease payments.

You claim most operating expenses as a tax deduction in the year you incur them.

### Capital expenses

Capital expenses are either:

- the expense of a depreciating asset including the amount you paid for the asset and the expense of transporting and installing it
- an expense associated with establishing, replacing, enlarging or improving your business.

#### Examples include:

- computers and computer accessories
- mobile phones and tablets
- connectivity boosters
- cameras
- point of sale machines
- in-house software
- cost of acquiring or developing a website.

 You generally claim capital expenses over time, reflecting the asset's depreciation (decline in value).

Your business may be eligible to claim an immediate or accelerated deduction for a capital expense using a tax depreciation incentive. For more information, see ato.gov.au/depreciationincentives

### Software expenses

You can claim some software costs as operating expenses in the year you incur them, including:

- software subscription fees
- the cost of commercial off-the-shelf software with an effective life of one year or less.

If the effective life is more than a year, you need to consider if it is in-house software.

#### In-house software

In-house software is computer software, or the right to use computer software that you acquire, develop or have someone else develop for your business use, not for sale.

Expenses for in-house software may be calculated in a few ways depending on the circumstances and your eligibility to use a tax depreciation incentive.

If the software is still in development and is not ready for use, you can use the software development pool rules.

For more information, see ato.gov.au/in-housesoftware

# Exclude private use

When calculating your claim, you must apportion your expenses between business and private use, only claiming a deduction for the business portion.

For more information, see ato.gov.au/privateuseofassets

## Records you need to keep

You must keep accurate records to substantiate your claims for digital product expenses.

This includes:

- tax invoices
- loan or lease documents
- details of how you calculated your claim.

For more information, see ato.gov.au/recordkeeping

# **Examples**

### Software subscription

Zoe from Zoe's hair salon subscribes to a software as a service (SaaS) provider, which allows her a right to access software for up to 300 of her customers per month to book a hair appointment online. It is a standardised cloud-based service where no modifications to her IT infrastructure were required.

Zoe can claim the month-by-month fee for this service as an operating expense in the year she incurs them.

### Scanner and photocopier lease

On 1 November 2022, Flowers R Best Pty Ltd entered a 12-month lease agreement for a scanner and photocopier. The monthly fee is \$100.

Flowers R Best Pty Ltd can claim the lease cost as an operating expense in its 2022–23 tax return.

It does not qualify as a capital expense because ownership of the assets sits with the entity leasing them to Flowers R Best.

### Laptops hire-purchase

B Co Pty Ltd has an aggregated turnover of \$9.5 million. The company purchased multiple laptops on a hire-purchase agreement, for its staff to work away from the office. The total cost (excluding any interest component) was \$153,500.

The laptops were purchased on 15 March 2023, delivered on 19 March 2023, and immediately issued to staff for business use.

The hirer of the assets is treated as the holder of the assets and is entitled to claim a deduction for the depreciation of a capital expense.

B Co Pty Ltd can claim the full purchase price of the laptops (\$153,500) in the 2022–23 income year under temporary full expensing because:

- it is the holder of the laptops under the hire-purchase agreement
- its aggregated annual turnover is less than \$5 billion
- the laptops were purchased after 7:30pm,
  6 October 2020
- the laptops were first installed ready for business use before 30 June 2022.

B Co Pty Ltd can claim the interest component as an operating expense.

### Website development

In January 2023, Jenna engaged a consultant to develop a website for her small business. It cost \$2,000 including labour and software and was ready for business use later that month.

She also pays service fees of \$50 a month and \$50 each year for the domain name.

Jenna can claim a deduction for the capital expense of developing the website (\$2,000) under temporary full expensing in the 2022–23 income year.

She can also claim the monthly and yearly fees as operating expenses in the year she incurs them.

#### In-house software

### Software development pool

Nguyen is a sole trader who runs an interior design business. He set up a software development pool in 2021 when he started his business's website. In August 2022 he paid \$1,500 to have customised software developed to create bookings and store client information.

Nguyen must allocate this expenditure (\$1,500) to a software development pool and claim a deduction over the next 5 years in his tax returns.

#### Temporary full expensing

On 15 January 2023, Westside Recruiting Pty Ltd purchased client relationship management software for \$5,000, with an effective life of more than one year. The software was installed on its business computers the same day.

Westside Recruiting Pty Ltd also entered a cloud storage contract for \$150 a month, to back-up its business files.

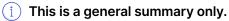
The aggregated annual turnover of Westside Recruiting Pty Ltd is \$6 million.

Westside Recruiting Pty Ltd will claim the full purchase price of the software (\$5,000) using temporary full expensing because:

- it is a purchase of software with no amount deductible outside the general depreciation rules (in-house software)
- its aggregated annual turnover is less than \$5 billion
- the software was purchased after 7:30pm,
  6 October 2020
- the software was installed and ready for use before 30 June 2023.

It can also claim the cloud storage costs (\$150 per month) as an operating expense in its tax return.

• If you are registered for GST and can claim the full GST credit, you must exclude the GST amount of the asset when calculating your claim.



For more information, go to ato.gov.au/digitalexpenses or speak to a registered tax professional.

