

Stage One: General permission

(a) Has a **business** or income earning activity **commenced**?

Four factors are relevant:

- It is critical to determine the nature of the business or activity.
- A commitment must have been made to enter into that business or activity.
- A profit-making structure must be in place for that business or activity.
- The ordinary current operations of the business or activity have begun.

No

No deduction is allowed for the expenditure.

Yes

(b) Has the expenditure been incurred as part of the **ordinary current operations** of that business or income-earning activity?

No

No deduction is allowed for the expenditure.

Yes

Stage Two: Capital limitation

A deduction can be denied where expenditure is of a capital nature:

This has been described as:

- Expenditure that creates an advantage that is of an enduring benefit to the business or activity.
- Expenditure on the profit-making structure (rather than the profit-making process).

Yes

Is the expenditure of a type normally incurred on a recurrent basis as a normal incident of the taxpayer's business or income earning activity?

No

Outside the scope of this interpretation statement.

Yes

(a) Is the expenditure directed towards a **specific capital project** (or acquisition of a **potential capital asset**)?

No

A deduction is allowed for the expenditure.

Yes

(b) Is the expenditure so preliminary as not to be directed towards **materially advancing** (or making tangible progress on) a specific capital project (or capital asset)?

Yes

A deduction is allowed for the expenditure.

No

No deduction is allowed for the expenditure (but a depreciation deduction may be available over time for capitalised expenditure).