

Investment Allowance

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The Government has released details of a stimulus for business to purchase new assets for use in their business. Under the proposal, small businesses may claim a one-off tax deduction equal to 30% of the capital cost of eligible equipment, including motor vehicles. This is in addition to the standard depreciation claimed for such assets. To meet the definition of small business your yearly turnover must be less than \$2million. Businesses other than small businesses may also claim the one-off tax deduction but a higher expenditure threshold of \$10,000 applies.

Key features include:

- the deduction will only be available on purchases of eligible new depreciating assets (including motor vehicles) but not used assets
- relevant expenditure must be incurred between 13 December 2008 and 30 June 2009
- for small business taxpayers, the cost of the asset must be more than \$1,000
- for other businesses, the cost must be more than \$10,000
- the asset must be ready for use and installed by 30 June 2010.

There seems to be some confusion as to how the investment allowance will work. See below for a worked example:

Assume you purchase a new item of equipment for \$50,000. The investment allowance will be claimed in your taxation return at the end of the year in which the expenditure is made for \$15,000. As this amount is a tax deduction you will receive a tax benefit based on your marginal tax rate. If we assume this to be 30% which is the case for most taxpayers the benefit in tax savings is \$4,500. This amount will reduce your tax assessment for the relevant year. As with all purchases one should not be made for the tax benefit alone. In this example you would have to spend \$50,000 to save \$4,500 which is not good economics if you didn't really need the equipment. The item of equipment will need to exceed the threshold value itself and not be amalgamated with other items. For example several computer workstations cannot be added together to exceed the threshold of \$1,000 or \$10,000 respectively.

If you are considering leasing the asset you need to take particular care as we have heard that some of the leasing companies are not passing on the benefit in the form of lower payments to the customer. You need to check with the company and consider getting additional quotes or perhaps not leasing but rather using a chattel mortgage or hire purchase finance arrangement which will ensure you are entitled to the extra 30% or 10% tax deduction.

A 10% investment allowance will be available for eligible assets acquired from 1 July 2009 to 31 December 2009 where they are used or installed by 31 December 2010.

The tax break has been referred to in a number of ways, including as the "small business and general business tax break", the "bonus tax deduction" and the temporary "30% investment allowance".

Issued: 9th March 2009

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