



STRENGTH IN NUMBERS

client alert

The Federal Governments \$42 Billion Nation Building and Jobs Plan

On 3 February 2009 the Rudd Government announced a \$42 billion Nation Building and Jobs Plan as part of its response to the global financial crisis. The Government advises that the plan is expected to support up to 90,000 jobs in 2008-09 and 2009-10. These measures are in addition to or extend the previously announced measures from 12 December 2008.

The key measures announced as part of this plan include:

- Free ceiling insulation for around 2.7 million Australian homes
- Build or upgrade a building in every one of Australia's 9,540 schools
- Build more than 20,000 new social and Defence homes
- \$950 one off cash payments to eligible families, single workers, students, drought effected farmers and others
- A temporary business investment tax break for small and general businesses buying eligible assets
- Significantly increase funding for local community infrastructure and local road projects

In respect of the business investment tax breaks and the one off cash payments, the following provides further details.

Small Business and General Business Tax Break

These measures modify the previously announced investment allowance provisions to provide a 30% tax benefit (up from 10% to 30 June 2009) for expenditure on eligible assets acquired by all Australian businesses.

Small businesses can claim an additional 30 per cent tax deduction for eligible assets costing \$1,000 or more that they acquire from 13 December 2008 to 30 June 2009, and install by 30 June 2010.

For eligible assets costing \$1,000 or more that they acquire from 1 July 2009 to 31 December 2009, they can claim an additional 10 per cent deduction where they are installed by 31 December 2010.

To benefit from this tax break a small business must have a turnover of \$2 million a year or less.

Other businesses can claim an additional 30 per cent tax deduction for eligible assets costing \$10,000 or more that they acquire from 13 December 2008 to 30 June 2009, and install by 30 June 2010.

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For eligible assets costing \$10,000 or more that they acquire from 1 July 2009 to 31 December 2009, they can claim an additional 10 per cent deduction where they are installed by 31 December 2010.

For a businesses to be able to claim a bonus deduction of 30 per cent for eligible assets they must:

- acquire or start to hold under a contract entered into between 12:01am AEDT 13 December 2008 and the end of June 2009, or start to construct between these times; and
- have installed ready for use by the end of June 2010, and
- meet the minimum expenditure requirements.

For a businesses to be able to claim a bonus deduction of 10 per cent for eligible assets they must:

- acquire or start to hold under a contract entered into between 1 July 2009 and the end of December 2009, or start to construct between these times; and
- have installed ready for use by the end of December 2010.
- meet the minimum expenditure requirements.

Eligible assets

The tax bonus will apply to tangible assets used in carrying on a business, for which a deduction is available under the core provisions of Division 40 (Capital Allowances) of the *Income Tax Assessment Act 1997* (ITAA 1997).

The bonus deduction is limited to new tangible depreciating assets and new expenditure on existing assets used in Australia. As a result it will not be available for second hand assets, or new assets used offshore.

Specifically, the deduction will be available for depreciating assets under section 40-30 that qualify for capital allowances under Subdivision 40-B, except for intangibles and rights that would otherwise be included by subsections 40-30(2), (5) and (6).

However, cars will not be disqualified from the allowance merely because they use the 12 per cent method.

Land and trading stock are excluded from the definition of depreciating assets, and will not qualify for the deduction. Capital works are also excluded from the additional deduction.

Expenditures above the threshold which are capitalised into an existing asset as a second element of cost will also qualify for the deduction.

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Claiming the tax bonus

The deduction will be available to the taxpayer who is entitled to the capital allowance deduction under Division 40 of ITAA97 in respect of the asset.

The deduction is on top of the usual capital allowance (depreciation) deduction claimable for the asset as part of the taxpayer's income tax return.

The deduction will be able to be claimed based on the applicable rate (30 per cent or 10 per cent) and the asset's first and/or second elements of cost in terms of Subdivision 40-C.

The deduction is claimable in the income year in which the asset is installed ready for use.

Worked example non-small business:

A landscaping business entered into a binding contract to acquire a new backhoe on 20 May 2009 at an all inclusive cost of \$60,000. The backhoe is delivered and ready for use on 20 June 2009 and has an effective life of 9 years.

The business will be entitled to claim the 30 per cent deduction because:

- a backhoe is a depreciating asset for which the business would be entitled to claim a deduction under the core provisions of Subdivision 40-B of ITAA97;*
- the asset exceeds the expenditure threshold of \$10,000;*
- the business started to hold the asset between 13 December 2008 and the end of June 2009; and*
- the asset was installed ready for use before the end of June 2010.*

The deduction will be 30 per cent of the asset's first element of cost under Subdivision 40-C – that is, \$18,000.

When lodging its 2008-09 income tax return the business will be able to claim this deduction in addition to the usual depreciation deduction in respect of the asset.

If the business had delayed this investment until after 30 June 2009 – for example, until 1 September 2009 – and had it installed ready for use before the end of December 2010, the 10 per cent rate would apply. It would be able to claim a deduction of \$6,000.

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Worked example small business:

A small business entered into a binding contract to acquire a new computer on 20 May 2009 at an all inclusive cost of \$2,000. The computer is delivered and ready for use on 20 June 2009 and has an effective life of 4 years.

The business will be entitled to claim the 30 per cent deduction because:

- a computer is a depreciating asset for which the business would be entitled to claim a deduction under the core provisions of Subdivision 40-B of ITAA97;*
- the turnover of the business is less than \$2 million;*
- the asset exceeds the expenditure threshold of \$1,000;*
- the business started to hold the asset between 13 December 2008 and the end of June 2009; and*
- the asset was installed ready for use before the end of June 2010.*

The deduction will be 30 per cent of the asset's first element of cost under Subdivision 40-C – that is, \$600.

When lodging its 2008-09 income tax return the business will be able to claim this deduction in addition to the usual depreciation deduction in respect of the asset.

If the business had delayed this investment until after 30 June 2009 – for example, until 1 September 2009 – and had it installed ready for use before the end of December 2010, the 10 per cent rate would apply. It would be able to claim a deduction of \$200.

The bonus deductions are similar in effect to the Research and Development tax concession. As a result, the claiming of the deductions by Companies can result in unfranked dividends as tax profits will be lower than accounting profits by the amount of the additional deduction claimed.

Cash Bonus Payments

Targeted bonuses to low and middle income households have been provided as part of this package of measures, with the declared aim of providing an immediate stimulus to the economy and to support Australian jobs.

The five one off cash bonuses included in the Nation Building Plan are the:

- Tax Bonus for Working Australians of up to \$950 paid to every eligible Australian worker earning \$100,000 or less.
- \$950 Single Income Family Bonus to support families with one main income earner.
- \$950 Farmers' Hardship Bonus paid to drought affected farmers and farm dependent small business owners receiving exceptional circumstances related income support.

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- \$950 per child Back to School Bonus to support children from low- and middle-income families.
- \$950 Training and Learning Bonus paid to students and people outside of the workforce returning to study to help with the costs of education and training.

Tax Bonus for Working Australians

A bonus of up to \$950 will be paid to Australian workers earning \$100,000 or less from April 2009. The bonus will be available to Australian resident taxpayers who paid tax in the 2007-08 financial year after taking into account available tax offsets and credits.

The bonus is subject to an income threshold test which determines that a:

- \$950 bonus will be paid to eligible taxpayers with a taxable income of up to and including \$80,000;
- \$650 bonus will be paid to eligible taxpayers with taxable incomes exceeding \$80,000 and up to \$90,000; and
- \$300 bonus will be paid to eligible taxpayers with incomes exceeding \$90,000 up to and including \$100,000.

There is no need to apply for the payment. The Australian Taxation Office will automatically make the payment after determining eligibility.

Single Income Family Bonus

A bonus payment of \$950 will be paid to families who receive Family Tax Benefit Part B (FTB-B). The bonus is intended to provide additional assistance to families with children that have one main income earner. The payments, which will be made automatically by Centrelink in the fortnight commencing 11 March 2009, will be non-taxable and will not be counted as income for social security purposes.

Families, who claim FTB-B as a lump sum, will receive their one-off payments from Centrelink in 2009-10 and 2010-11 after their 2008-09 tax returns have been processed by the Australian Taxation Office.

Families who are eligible for FTB-B on 3 February 2009 will receive the Single Income Family Bonus.

Farmer's Hardship Bonus

A bonus payment will be made to farmers and rural-dependent small business owners receiving exceptional circumstances related income support.

A lump-sum payment of \$950 will be made to people who, on 3 February 2009, are receiving:

- Exceptional Circumstances Relief Payment for Farmers;
- Exceptional Circumstances Relief Payment for Small Business;

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- Interim Income Support for Farmers;
- Interim Income Support for Small Business;
- Transitional Income Support; or
- Farm Help Income Support.

The payments will be made in the fortnight commencing 24 March 2009. These bonus payments will not be taxable and will not be counted as income for social security purposes.

Back to School Bonus

A bonus to be paid to families eligible for Family Tax Benefit Part A (FTB-A) on 3 February 2009 for each eligible child of school age (aged 4 to 18 on 3 February 2009). This is in addition to and separate from the Education Tax Refund.

Training and Learning Bonus

A bonus will be paid to eligible students to assist with the costs for the 2009 academic year. It also provides a temporary (until June 2010) additional incentive for social security recipients to return to education and training.

The Training and Learning Bonus consists of two categories:

Category 1

- A one-off \$950 bonus for recipients of: Youth Allowance (students and apprentices); Austudy; ABSTUDY and related payments
- The one-off bonus will also be available to recipients of Sickness Allowance and Special Benefit (under age pension age).
- If a student attracts the Government's Back to School Bonus they are not eligible for the one-off \$950 Learning and Training Bonus.

Category 2

- A temporary supplement (from 1 January 2009 to 30 June 2010) to the Education Entry Payment (EdEP) of \$950. This is in addition to the existing EdEP payment of \$208, which provides assistance with the costs of training courses, for income support recipients who are returning to study.
- A temporary extension (from 1 January 2009 to 30 June 2010) of the EdEP to Youth allowance (other); and
- A temporary relaxation (from 1 January 2009 to 30 June 2010) of the requirement that recipients must have been receiving social security payments from 12 months to 1 month.

Please do not hesitate to contact either myself or your Client Relationship Manager should you require further details.

Darren Shone
Taxation Principal

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