



STRENGTH IN NUMBERS

client alert

Small business PAYG cut and a temporary investment allowance introduced

22 December 2008

The Government announced details of a \$4.7bn "nation building package" on 12 December 2008 that involves new spending on infrastructure (roads and rail) and universities and TAFEs, plus 2 major tax changes outlined below.

Investment allowance

The (temporary) investment allowance will be equal to 10% of the cost of qualifying assets and will be available to businesses who acquire new tangible depreciating assets which cost more than \$10,000. Tangible depreciating assets include most types of plant and equipment, vehicles and other assets which are used by businesses e.g. harvesting equipment, cranes, aircraft, drilling equipment and bulldozers.

- the investment allowance will be confined to new assets, and new expenditure on existing assets, used in Australia;
- the assets must be acquired, held under a contract or constructed after 12:01am AEDT on 13 December 2008 and before the end of 30 June 2009. These assets need to be installed and ready for use by the end of June 2010 in order for the investment allowance to be claimed.
- the allowance will apply to tangible assets used in carrying on a business, for which a deduction is available under the core asset depreciation provisions, and this will include cars;
- exclusions:
 - assets that have previously been used or held for use will be excluded (for example second hand assets);
 - land and trading stock are excluded from the definition of depreciating assets, and will not qualify for the investment allowance;
 - capital works for which amounts can be deducted under the tax law will not qualify for the investment allowance;
 - assets for which deductions can be obtained under other Subdivisions will not qualify for the investment allowance.
- claiming:
 - the allowance will be claimed through the income tax return in which the first depreciation claim is made for the asset;

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- a minimum expenditure threshold of \$10,000 will apply. Where an asset is partly used for private or non-taxable purposes, only the portion that is used for a taxable purpose in carrying on a business will count toward meeting the threshold;
- the investment allowance will be paid at a rate of 10% of the asset's first element of cost, to the extent that the asset will be used for a taxable purpose in carrying on a business. Expenditures above the threshold which are capitalised into an existing asset as a second element of cost will also qualify for the investment allowance.
- The investment allowance is a claim on top of the normal depreciation claim, similar in effect to the Research and Development tax concession. As a result, the claiming of the allowance by Companies can result in unfranked dividends as tax profits will be lower than accounting profits by the amount of the investment allowance claimed.

Example

On 10 February 2009, a bakery enters into a contract to purchase a new oven at a total cost of \$50,000 and with an effective life of 20 years. The oven is installed ready for use on 10 August 2009.

When the business lodges its 2009-10 income tax return, the taxpayer will be able to claim a total deduction of \$7,500 in respect of the oven:

- the first depreciation deduction of \$2,500 ($\$50,000/20$) using the straight line method; plus
- the investment allowance of \$5,000 ($\$50,000 \times 0.1$).

Small business PAYG instalment cut

There will be a 20% cut in the next quarterly PAYG tax instalment for 1.3m small businesses. This is achieved by cutting the December 2008 quarter income tax instalment by 20%.

- The cut will be available to "small business entities" as defined in the tax law.
- In general a "small business entity":
 - carries on a business; and
 - satisfies the \$2m aggregated turnover test.
- The 20% reduction applies to the instalment amount shown on the BAS dispatched by the ATO in December 2008 for the quarter ending on 31 December 2008.
- This instalment amount is due on or before 28 February 2009 (which will be extended to 2 March 2009 as 28 February 2009 falls on a weekend) for most small business taxpayers.
- For some small business taxpayers (e.g. small businesses which elect to report and pay GST tax on a monthly basis), this due date is 21 January 2009.
- As a result, for the quarter ending 31 December 2008, small business entities are only required to pay 80% of the instalment amount shown on the BAS on 21 January 2009 or 2 March 2009.

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- Note that the 20% reduction does not apply to taxpayers who calculate their instalments based on the instalment rate notified by the ATO. Their payments will automatically adjust when they apply the given rate to their actual income for the quarter.
- This is not a tax cut, it is just a reduction in instalments. The full years tax will be payable on lodgement of the 30 June 2009 income tax return.

Example

Assuming the average PAYG instalment amount for the 2008-09 income year is \$21,600, \$5,400 would be payable quarterly.

With the 20% annual reduction in the PAYG instalment occurring on 28 February 2009, the small business will pay \$1,080 less for this instalment.

Please do not hesitate to contact us to determine how the NSW Mini Budget affects you.

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