

Be patriotic and pay less tax! Buy and be stimulated this year

Over past months the federal government has announced a number of measures to help stimulate the Australian economy in the face of global recession. One measure of particular value to farming businesses – but one that has not received a lot of attention – is a proposed 10, 30 or 50 per cent investment tax break.

The temporary business tax breaks are only available this year with cut-off dates and the amount of tax break you are eligible for, depending on your business size.

Small businesses with a turnover of \$2 million a year or less can claim an additional 50 per cent tax deduction for eligible assets costing \$1000 or more that they acquire from December 13, 2008 to December 31, 2009, and install by December 31, 2010.

This deduction can be claimed when lodging the business income tax return and is in addition to the usual depreciation deduction in respect of the asset. The date of delivery or installation determines the financial year in which you can claim the tax deduction.

Businesses with larger turnovers (more than \$2 million per year) can receive a 30 per cent deduction for eligible assets greater than \$10,000 purchased between December 13, 2008 and June 30, 2009 and installed by June 30, 2010.

A smaller 10 per cent investment allowance for larger businesses, is available for eligible assets purchased between December 13, 2008 and December 31, 2009 and installed ready for use by the end of December 2010.

Eligible assets

Assets eligible for the temporary allowances are new tangible depreciating assets, and new expenditure on existing assets, used in carrying on a business in Australia.

Under the relevant tax legislation, they are assets for which a deduction is available under the core provisions of Div.40.

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

A worked example

A large farm business (more than \$2 million turnover per year) entered into a binding contract to acquire a new backhoe on May 20, 2009 at an all inclusive cost of \$60,000 (ex GST). The backhoe is delivered and ready for use on June 20, 2009.

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 tax deduction;
- The asset exceeds the expenditure threshold of \$10,000;
- The business started to hold the asset between December 13, 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 – that is, \$18,000.

If the farm had delayed this investment until, for example, September 1, 2009 but

had the backhoe ready for use before the end of December 2010, the 10 per cent rate would apply – a deduction of \$6000.

SOME FREQUENTLY ASKED QUESTIONS

What does 'new' mean?

The tax break will be available for new, tangible depreciating assets or new expenditure on existing assets. 'New' refers to assets that have not been used before by anyone, anywhere.

Do cars qualify?

New motor vehicles used for business purposes are an example of the kind of assets that could qualify for the tax break (provided all the criteria are met).

Demonstrator vehicles can qualify as 'new' assets provided they have only been used for reasonable testing and trialling.

Does computer software qualify?

No, the assets must be tangible.

Will assets held under leases qualify?

Provided the asset being held under lease is a new, tangible, depreciating asset (for which a deduction is available under Div.40), then the asset will be eligible.

Div.40 provides a framework for determining who in a leasing arrangement is able to claim depreciation deductions in respect of the asset and hence would be entitled to claim the bonus deduction in a leasing situation.

As is currently the case with capital allowance deductions, how the tax break is



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Purchase of a new business asset prior to December 31 can qualify for a 50 per cent tax break (for businesses with less than \$2 million turnover).

factored into lease prices will be a matter for commercial negotiations.

In general, the finance company providing the lease would claim the investment allowance and pass on all or some of the tax benefit to the customer by way of a reduced lease interest rate.

Do buildings qualify?

No.

Are primary production assets, depreciated under subdivision 40-F (for example, water conservation facilities) eligible?

No. Assets that already receive concessional capital allowance deductions under

other subdivisions – such as 40-F – will not qualify.

What if I don't meet the June 2010 installation deadline?

If you are a large business and acquire or start to hold an eligible asset between December 13, 2008 and the end of June 2009 and miss the end of June 2010 installation deadline, you will miss out on the 30 per cent deduction.

But provided the asset is installed by the end of December 2010 you will still qualify for the 10 per cent bonus deduction.

Will the tax break be reduced for non-business use?

The tax break will not be apportioned for any non-business use of the asset.

But a taxpayer must be able to demonstrate that at the time they started to use the asset or had it installed ready for use, the asset was to be used in Australia and for the principal purpose of carrying on a business.

Will the tax break bring forward the deductions I would normally claim over the asset's effective life or is it on top of these deductions?

The tax break will provide a bonus deduction rather than bringing forward normal deductions for an asset's decline in

value. This means that, over time a taxpayer – depending on business turnover – could effectively claim deductions of up to 150 per cent of the asset's value.

The tax break will not impact on balancing adjustment events. For example, the tax break will not affect the tax treatment of an asset upon disposal.

Will the luxury car limit apply to the tax break?

Luxury cars have their cost reduced to the car limit for the purpose of calculating capital allowance deductions.

And as the tax break relies on the core provisions of Division 40, the car limit will apply to eligible luxury cars.

This means that a taxpayer who is eligible to claim the tax break for a luxury car will have to use the car limit when working out the amount of their deduction.

The car limit for 2008–09 is \$57,180 so this means that, at the 30 per cent rate, the maximum bonus deduction available for a car this financial year is \$17,154.

*** The business tax break is subject to parliamentary approval and eligibility will depend on individual circumstances.**

Thanks to Greg Kelly, Williams & Partners Chartered Accountants, Brisbane (Ph: 07 3221 2416) for his professional review of this article. ■

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