



Investment Allowance – The Real Story....

By Ben Cameron, Director, Bentleys

I note with interest the advertising slant being used by vendors on the recently announced "Investment Allowance" to attract buyers for their plant and equipment. There are many myths being conveyed in the market place about this Federal Government's investment tax break for businesses .

In an attempt to encourage business spending to help kick-start the economy the Investment Allowance will provide:

- an additional tax deduction of 30% of the cost of eligible new depreciating assets. This is those assets acquired under a contract, or started to be constructed, after 13 December 2008 and before the end of June 2009, and installed ready for use by the end of June 2010.
- an additional tax deduction of 10% of the cost of eligible new depreciating assets. This is those assets acquired under a contract, or started to be constructed, between 1 July 2009 and 31 December 2009 and installed ready for use by the end of December 2010.

New expenditure on existing assets may also qualify. For example, an extension built onto a existing machinery shed would qualify for the Investment Allowance.

For both periods mentioned above small businesses will be able to claim a deduction for eligible assets costing \$1,000 or more. Small business must have a turnover of less than \$2 million a year to qualify. For all other businesses, a minimum expenditure threshold of \$10,000 applies.

The allowance applies to tangible assets used in Australia in carrying on a business for which a depreciation deduction is available. It is important to note it will not include capital works, such as land and buildings (e.g. homesteads), trading stock (e.g. cattle), and water improvements (e.g. new bore) for which the normal three (3) year write-off applies.

An example of how the tax savings are passed onto the business owner is as follows:

	Small Business Taxpayer	Other Business Taxpayer
Cost of New Motorbike (excl. GST) - 100% business	\$6,000	Not eligible
Cost of New Header (excl. GST)	\$400,000	\$400,000
Total Eligible Expenditure (1)	\$406,000	\$400,000
Additional Tax Deduction of 30% Investment Allowance	\$(121,800)	\$(120,000)
Taxpayers Marginal Rate of Tax	31.5%	30%
Tax Saving (2)	\$38,367	\$36,000
Discounted cost of plant (1) – (2)	\$367,633	\$364,000
Percentage reduction to original price	9%	9%



The assumptions used for the above example are that the equipment was purchased in May 2009 and delivered ready for use prior to 30 June 2009. We emphasise that the equipment must be new (as opposed to second hand) to be eligible for the Investment Allowance.

For those in a tax paying position the saving will be realised when your 2009 income tax return is assessed. Put simply, the Investment allowance will reduce the cost of the plant by approximately 9% for those eligible taxpayers on the above tax rates, and up to 14% for those on the highest marginal tax rate of 46.5%.

Another important issue for you to consider is that if you intend to finance the acquisition of eligible assets using equipment finance, the Investment Allowance is only available if you "own" the asset. That is, if you use an equipment loan, chattel mortgage or hire purchase you are considered to own the asset (for tax purposes) therefore your capital expenditure will be eligible for the Investment Allowance.

On the other hand if you lease the plant, you do not legally own the asset (the financier does) and therefore it is the financier that is eligible to claim the Investment Allowance. Some of the financial institutions are recognising this by offering a reduced interest rate to indirectly pass the investment allowance onto the customer.

The Investment Allowance means that the total cost of your new asset is between 9% and 14% cheaper than list price (excl. GST) depending on your marginal rate of tax.

Whether this is sufficient to entice you to spend in this economic downturn is questionable and depends on your personal circumstances. However it may entice you to bring forward already planned capital expenditure.

Bentleys is an association of independent accounting firms in Australia that specialises in developing long term strategic partnerships with clients. Bentleys offers a broad range of services including business advisory, taxation, corporate recovery and audit.

Please [contact us](#) today to discuss your business needs.