

Small business and general business tax break

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Issued by the Australian Federal Government

To support jobs and Australian businesses – especially small businesses - the Government will fund an investment tax break for all Australian businesses.

This temporary business tax break will help Australian businesses boost business investment, bolster economic activity and support Australian jobs.

Businesses in Australia – especially small businesses - are the engine of the Australian economy and deserve direct support during a global recession.

This \$2.7 billion Business Tax Break is a key element of the Government's \$42 billion Nation Building and Jobs Plan to support up to 90,000 Australian jobs.

The *Small Business and General Business Tax Break* will mean;

- A small business that buys and installs a \$2,000 computer before the end of June 2009 can claim an additional \$600 deduction in its 2008-09 tax return.
- A business that buys and takes possession of a \$60,000 backhoe by the end of June 2009 can claim an additional \$18,000 deduction in its 2008-09 tax return.

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 receive the same deductions for eligible assets greater than \$10,000.

This will further boost business investment and confidence in the Australian economy in the face of the global recession.

Assets eligible for the allowance are new tangible depreciating assets and new expenditure on existing assets used in carrying on a business for which a deduction is available under the core provisions of Division 40 (Capital Allowances) in the *Income Tax Assessment Act 1997*.

More detailed information is provided below. Treasury will also release draft legislation for public consultation.

Small Business and General Business Tax Bonus – Detailed Information

Small businesses will be able to claim a bonus deduction of 30 per cent for eligible assets costing \$1,000 or more that they:

- 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.

Small businesses will be able to claim a bonus deduction of 10 per cent for eligible assets costing \$1,000 or more that they:

- 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.

A minimum expenditure threshold of \$10,000 will still apply to all other businesses.

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).

- 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.

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

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 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:

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.