

SMALL BUSINESS: INVEST NOW FOR TAX BENEFITS

The result of the Senate Economics Legislation Committee's recommendation on 2nd December is that small business now has some time-critical tax issues that need to be addressed before year's end. Essentially these are concerned with the decision to acquire **new equipment** or **motor vehicles** prior by **31st December 2013**.

Purchase before New Year

Based on the bill in its current form, there are substantial tax advantages for small business to invest in:

- New plant and equipment
- Motor Vehicles

provided the investment takes place by 31st December 2013 and the asset or motor vehicle is **installed ready for use** by this time.

In order to qualify for this concession, generally businesses need to have aggregated turnover of less than \$2 million.

What are the benefits?

Depreciating assets acquired and installed ready for use by Small Business Entities by 31st December 2013 costing less than \$6,500 may be written off in full. This could include assets such as cash registers, security cameras, hand tools and removable floor coverings and air conditioners. One of the big advantages of this provision is that there are no grouping rules that apply to sets of assets. On this basis, a hotel could potentially purchase new mattresses or a café, new tables and chairs and they wouldn't be grouped for the purposes of the \$6,500 threshold.

There are also benefits for "second element" costs. These are costs expended by business in improving or transporting assets. Some businesses may consider expenditure where total asset expenditure is greater than the \$6,500 threshold but they are able to write off "second element" costs because these particular costs are lower than the \$6,500 threshold. An example could be the installation of a compressor or pump that cost more than the threshold but cost \$6,000 to install.

Up to \$5,000 of the cost of Motor Vehicles may be written off in full. The remainder of the purchase cost is then depreciated as part of the general small business pool at 15% in the first year and 30% in later years. In general, this will result in an on-going benefit for small business owners as motor vehicles are generally required to be depreciated over 8 years.

Examples of eligible motor vehicles include:

- Cars
- SUVs and Four Wheel Drives
- Vans and Certain Trucks
- Utes
- Motorbikes
- Scooters

Conditions

Importantly, for assets to qualify for the concessions they must be used or installed ready for use by 31st December 2013. This means that if they are not actually being used in your business by year's end, they must be fully assembled and ready to go. If your business closes down over the holiday period, you should be ready to use the new equipment immediately after the break or when dictated to by operational requirements.

Loss Carry-Back

As expected, the bill also repeals the loss carry-back measure for small business. A one-year loss carry-back will now apply for 2012-13 only. If tax losses are incurred in that year, the loss can be carried back and offset against tax paid in 2011-12 with cash benefits of up to \$300,000 available, depending on the extent of the losses and the amount of tax paid in the previous year.

Anyone that lodged their 2012-13 tax return without carrying back and recouping losses against tax paid in 2011-12 should lodge an amendment. The Tax Office has advised that interest on overpayment will be paid where applicable.

Act Now

The Committee also tabled a dissenting report from Labor members. The dissenting report recommended that the bill not proceed. This means that depending on how the Senate votes, it may take some time before Royal Assent is achieved. Nevertheless, our clients should act conservatively and assume that the date of effect of the measures in the bill will be as indicated above. This means that planned capital expenditure should generally be brought forward where it satisfies the criteria indicated above. For more information, talk to us today.

JAS Partners ABN 63 169 540 922

184 Mt Dandenong Road, Ringwood East 3135

Telephone: 9879 7500

Fax: 9879 2507

Email: team@jaspartners.com.au