batallion legal

keepin' it simple

A $90 cash discount on a $1,000 computer - would you buy it?

Luis Batalha, Director

9 February 2009

The fiscal stimulus package announced by the Rudd Government on 3 February 2009 has been heralded by some as the miracle cure for Australia's economy.

While aspects of the package could no doubt be beneficial to our economy, the package makes a joke of small business in these tough economic times. While the so-called "$600 bonus tax deduction for computers" has been thrown around as the key to stimulating growth and safeguarding jobs in the small business sector, in net cash flow terms, the saving on a $1,000 computer, for a small business company operator, may be as little as $90 (**not** $300). This is equivalent to a 12.85% discount on the purchase of a computer, not a 30% discount.

This is the type of discount that as a small business, you should be able to achieve through assertive, or perhaps aggressive, bargaining at a local store in the current business environment. So, as a small business operator myself, I would say "thanks Mr Rudd, but no thanks". Accordingly, it is difficult to see what impact if any the so called bonus tax deduction will have on the Australian economy.

The cash flow example

Most small businesses operate as companies. They are therefore taxed at the 30% tax rate.

Accordingly, in very simple terms, let us assume a business buys a computer 100% for business purposes for $1,000 (GST-exclusive), taking into account the new 30% bonus tax deduction and not taking into account the new tax deduction, the cash flow effect is as follows:

	Without new deduction	**With new deduction**
Cost of computer	$1,000	$1,000
Less: Tax deduction (usual)	$1,000 x 30% = $300	$1,000 x 30% = $300
Less: Bonus tax deduction		$300 x 30% = $90
Net cash outflow	$700	$610
Total cash saving		**$90**
% discount		**12.85%**

As shown in the above table for a $1,000 computer the total net cash saving resulting from the so-called bonus tax deduction of $300 is only $90. For a $2,000 purchase, it turns into a cash saving of $180 (still a 12.85% discount).

In these tough times, therefore, having regard to its cash flow position, should a small business bring forward their investments? Would you outlay around $700 now to save yourself $90 is cash? Would it be a simpler solution to allow small businesses the opportunity to choose for themselves what they would like to do with an extra $90 cash, without having to outlay $700, if this is all the Government intends by introducing the measure?

Details of measure

If any small business is still interested in the details of the measure, we discuss them below.

As announced, small business entities will be able to claim a bonus deduction of 30% 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.

Or, alternatively, for expenditures incurred on or after 1 July 2009, small businesses will be able to claim a bonus deduction of 10% 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 apply to businesses other than small business entities.

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 of the *Income Tax Assessment Act* 1997 (Cth). 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 section 40-30(2), (5) and (6) of the ITAA 1997.

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 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% or 10%) 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.

Conclusion

Tough economic times call for cost effective and efficient tax measures. Responses driven by panic are generally ill considered. Small businesses should call for tax reform with measurable and real cash benefits. The so-called $600 tax deduction for small business computers simply does not stack up. It simply makes a mockery out of the engines of the Australian economy.