



MONEY DUE REWARDS:



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Fuel for the Fire

If the Australian economy is like a fire that's just been doused by the thunderstorm of the global financial crisis, then the Australian government's recent actions are like piling on extra firewood in a bid to get it started again. The controversial \$42 billion stimulus package recently passed by the Senate will certainly put money in some people's pockets. But will it actually revive the economy? Many people have strong opinions about this, but of course nobody actually knows.

The controversial spending package is only one part of the government's policy response, however. For business people, another key policy is the recently announced investment allowance for new purchases of depreciable plant after 13 December 2008.

Simply put, the investment allowance is simply an additional tax deduction which a business is able to claim if it invests in additional plant or equipment for the business. Generally, if the purchase contract happens before 30 June 2009, the extra tax claim is for 30% of the price, but is reduced to only 10% where the contract is in the following six months. There are also requirements as to when the asset has to be installed and ready to use. For small businesses, the purchase has to be worth at least \$1,000 while a larger business needs to spend more than \$10,000.

Take Justin, for example, who runs a sheep/wheat farm near Junee, and is thinking of investing in a new harvester for this year's crop. Hearing about the new tax allowance, he enters into a contract before 30 June 2009 to buy the new machine for \$330,000 (including GST), and to take delivery in November. He finances the deal using a goods mortgage, with annual payments commencing the following February.

Being a small business taxpayer, Justin will be able to claim the following:-

- A GST credit for \$30,000 on the purchase
- The usual tax deductions of \$45,000 in the first year, and 30% of the remaining pool in subsequent years, and
- An additional tax deduction of \$90,000, due to the government's new investment allowance.

Clearly, all these deductions won't be much use if Justin is making losses and doesn't pay tax anyway, however for any business which trades profitably and pays a substantial amount of tax, this could well be a good opportunity. This is especially true in circumstances where the investment will have to happen anyway, or when there are substantial future benefits in having the use of the additional equipment.

In introducing this policy, the government is hoping to motivate a significant number of both small and large businesses in Australia to invest, particularly over the next few months. This would provide additional stimulation to our battered economy, and perhaps help to avert the recession that so many are dreading.

Speak to a professional accountant if you would like more detail about the new investment allowance and how it could be utilised in your business.

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