BRIEFINGS

WATERHOUSE
CHARTERED ACCOUNTANTS

EDITION #20 AUGUST 2015

Top Q&A's re Small Business $20,000 Deduction

In a recent speech, Small Business Minister Bruce Bilson stated that a lot of his time talking about the $20,000 immediate deduction for small business was convincing people it was not a handout.

"I have spent a lot of my time explaining that asset write-off mechanisms aren't grants, they are not gifts, they are not cash backs. They are a way of expensing a purchase in an asset that can contribute to a functioning business. Now, if you are not making any income there is not a huge benefit in you being able to write-off additional expenses at a faster rate."

Here are some of the common questions we are asked to help clear confusion.

If I spend $20,000 how much will I get back?

The instant asset write-off is a tax deduction that reduces the amount of tax your business has to pay. It enables small business entities (businesses with annual aggregated turnover below $2 million) to claim a deduction for depreciating assets of less than $20,000 in the year the asset was purchased and used (or installed ready to use). For example, if your business is in a company structure the most you will get back" (reduce your tax by) is 30% (in 2014-15) or 28.5% (in 2015-16) of the cost of the asset. If the business made a $19,000 purchase in June 2015, the most the business would reduce its tax bill by is $5,400. It's a much better deal than the previous $1,000 immediate deduction limit, but there are still cash flow issues for the business that need to be considered. Remember also that the business would have been able to deduct the purchase anyway, just over a longer period of time.

If I signed a contract before Budget night, but didn't pay for the asset or receive it until after the Budget, can I still claim the deduction?

To be able to claim the immediate deduction, you had to "acquire" the asset on or after 7.30 pm AEST on Budget night (12 May 2015) and use it (or install it ready for use) before 30 June 2017. Contracts are often tricky because the date you acquired the asset really depends on what the contract says and how it's structured. Generally, if you signed the contract before Budget night and the contract made you the owner of the asset, then the asset would not qualify for the $20,000 immediate deduction.

We've invested in new equipment for just under $18,000. How soon can we claim the immediate deduction?

"Immediate deduction" is a bit of a misnomer. Immediate in this context means that your business can claim a tax deduction for the asset in the same income year that the asset was purchased and used (or installed ready for use). The deduction is claimed on the business's tax return.

Requiring the asset to be used or installed ready to use is an interesting catch. It means that businesses cannot stockpile assets and claim the immediate deduction for those assets. For example, if a restaurant business bought three ovens in June 2015, those ovens would need to be in use or installed ready to be used before the tax deduction could be claimed. If only one oven was used or installed before the end of the financial year, then the business could only claim the immediate deduction for one oven in their tax return. Assuming the other ovens are used before 30 July 2017, the immediate deduction could be claimed in the year they were first used or installed ready for use on the business's tax return.

Can I buy multiple items and claim the immediate deduction even though the total being claimed is more than $20,000?

Yes. As long as you acquired the asset on or after 7.30 pm AEST on Budget night (12 May 2015) and use it (or install it ready for use) before 30 June 2017, then an immediate deduction should be available if each individual item costs less than $20,000.

Don't forget about the cash flow implications. Depending on when you purchase the assets it might be another year before you can claim the deduction.

What sorts of assets can I claim an immediate deduction for?

To be able to claim the $20,000 immediate deduction, the asset needs to be a depreciating asset. A depreciating asset is an asset whose value you expect to decline over time. Examples include computers, furniture and motor vehicles. So no investment assets.

We've had some very interesting questions from people wanting to know what they can and can't claim the immediate deduction for. Take artwork being advertised by a local art gallery. The gallery tells you that your business can buy anything up to $20,000 and claim an immediate deduction for it. Is this correct? The answer is, it depends.

There has to be a connection between the artwork and your business for it to be a depreciating asset. For example, the artwork could be displayed in your office reception or waiting area.

The Tax Office says that the life of an artwork for tax purposes is 100 years. So deducting the artwork immediately is a big tax bonus.

The same principle applies to items that relate to an existing asset, like machinery. If what you are purchasing qualifies as a depreciating asset in its own right, then you can claim it.

Whatever the asset is, the same principles apply. Your business needs to qualify as a small business entity, the asset needs to be purchased and used (or installed) after Budget night and before 30 June 2017, the asset must cost less than $20,000, and the asset must be a depreciating asset. Not everything will qualify.

Tax for Non-Residents

If you are not an Australian resident for tax purposes, you are excluded from many of the tax breaks available to residents and an increasing target of the Australian Taxation Office. We explore the widening gap between residents and non-residents.

Scrutiny of Australian Investments

With residential property prices soaring, foreign investment and ownership is in the spotlight.

However, foreign residents and temporary visa holders cannot buy established residential property – they can only invest in property where that investment adds to the housing stock (including) vacant land for development. And only foreign companies with a sizeable interest in Australia can buy residential real estate for Australian based staff. Temporary residents can buy one established property to live in (with approval) which they have to sell when they are no longer living in the property.

Investment in Agricultural Land

Foreign ownership of agricultural land has come under scrutiny lately, resulting in a number of changes. From 1 July 2015 all new foreign interests in agricultural land must be registered with the Australian Tax Office and all existing interests registered by 31 December 2015. In addition, the threshold at which foreign investors must get approval for an investment in agricultural land dramatically reduced from $252 million to $15 million in March this year.

Tax Rates and Tax Benefits

Tax Rates

Unlike Australian resident taxpayers, non-resident taxpayers pay tax on every dollar of taxable income earned in Australia starting at 32.5%. There is no tax-free threshold.

Tax on Investments

The 50% general discount on capital gains tax (CGT) that applies to Australian residents is no longer available to non-residents; meaning that non-residents pay the full amount of CGT on any gains made. Impending new laws also seek to apply a 10% withholding tax on the sale of real property by foreign residents where the property is valued at $2.5 million or more.

Superannuation

Self-managed superannuation funds have strict residency rules and must meet three separate tests to continue to be a complying fund and access the tax concessions that come with complying status:

- The fund must be established in Australia or have an asset located in Australia;
- The management and control of the fund must ordinarily be in Australia - generally this means that trusteeship should be in Australia; and
- Contributions to the SMSF should only be made by members residing in Australia. If overseas members want to contribute to the fund then at least half the fund's assets need to be held by members who reside in Australia and also make contributions.

This is not an exhaustive list and residency can be a very complex issue. If you are concerned about your residency status, please give us a call.

WCA Staff

There have recently been some staff changes at Waterhouse Chartered Accountants.

We are pleased to announce the commencement of two new staff:

Kylie Symonds is a Supervisor and joined us at the end of June. She has over 20 years' accounting experience, and enjoys many outdoor sports. Her email address is kylies@waterhouseca.com.au.

Belinda Adams is a Senior Accountant and joined us in mid-July. She has 8 years' accounting experience following 17 years' working with the Commonwealth Bank. Her email is belindaa@waterhouseca.com.au.

And on the other hand its been sad to say farewell to two staff:

Natasha Salevski has moved to New York to be with her fiancé. We hope she can convince him to move to Australia soon.

Maria Belousova is also travelling to the other side of the world – she's moving back to Russia to be closer to her family.