

Tax Consulting Information Sheet

July 2009



The Special Investment Allowance

In order to help combat falls in private business investment, the Rudd Government announced \$2.7 billion in temporary tax benefits for capital investment by Australian businesses.

What is the Special Investment Allowance?

Small Business Entities

The Special Investment Allowance provides an additional tax deduction for small businesses that acquire assets between 13 December 2008 and 31 December 2009, where the asset is also installed before 31 December 2010. The deduction will be equal to 50 per cent of the asset's cost.

Other Business Entities (turnover of \$2 million or more a year)

For entities that acquire assets between 13 December 2008 and 30 June 2009, and where the asset is installed by 30 June 2010, the deduction will be equal to 30 per cent of the asset's cost. Where the asset is installed between 1 July 2010 and 31 December 2010, the deduction will be equal to 10 per cent.

Alternatively, where the asset is acquired between 1 July 2009 and 31 December 2009, and where the asset is installed before 31 December 2010, the deduction will be equal to 10 per cent.

As the allowance provides an additional tax deduction, the value of the allowance will be based upon the taxpayer's marginal rates and will vary between taxpayers.

Who can access the Investment Allowance?

Taxpayers who carry on a business and use the asset in their business will be able to access the Allowance.

Which assets are eligible?

The tax breaks will be available for:

- Small businesses for new assets costing \$1,000 or more.
- For all other businesses for new assets costing \$10,000 or more.

Note that it is only the business use portion of the cost that will be considered in meeting the thresholds.

Additionally, the asset must also be a depreciating asset under the core Capital Allowances provisions of Division 40 in the *Income Tax Assessment Act 1997* (i.e., Capital Works deducted under Division 43 will not qualify for the allowance).

As such, land, trading stock and intellectual property **will not** qualify for the investment allowance as they are not considered to be depreciating assets.

However, expenditure which is capitalised into an existing asset will also qualify for the investment allowance provided deductions are available for the additional expenditure under Division 40.

How to claim the benefit

To claim the allowance, the additional deduction will need to be included in the taxation return in the income tax year for which the asset is first depreciated (i.e. the year in which it is installed ready for use).

The logo for Perks, featuring the word "Perks" in a bold, blue, sans-serif font. The letter "P" is significantly larger and partially overlaps the "erks".

Integrated business services

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Investment Allowance Examples

Example One

Tom is a beekeeper (with an aggregated annual turnover below \$2 million) operating on the NSW North Coast producing premium honey.

He entered into a contract to purchase a new processing plant on the 2nd March 2009 with an effective life of 20 years and costing \$7,000. The plant was installed ready for use by the beginning of July 2009.

When Tom lodges his 2009-2010 income tax return, he can claim the normal depreciation deduction as well as a special investment allowance deduction of \$3,500 (50% of \$7,000).

- The car will be used in the carrying on of his business; and
- The portion of the expenditure relating to business use exceeds \$10,000 ($\$20,000 \times 75\% = \$15,000$); and
- The car is a depreciating asset and would be eligible for deductions under Division 40. Cars are not excluded from the allowance purely because they use the 12% method.

The amount of the tax deduction available to Dennis would be:

12% of Original Value	\$598.36	$(\$20,000 \times 12\% \times 91\text{days}/365)$
Investment Allowance	\$4,500.00	$(\$15,000 \times 30\%)$
Total Deduction	\$5,098.36	

Example Two

Dennis purchases a car for \$20,000 on the 1st of April 2009. The car will be used 75% in the carrying on of his business and 25% for private use. Dennis' business has an annual aggregated turnover exceeding \$2million. Dennis decides to claim his car expenses using the '12% of original value' method.

The asset will be eligible for the investment allowance because:

- Dennis has started to hold the car within the eligible timeframe; and

Dennis would be able to claim the total tax deduction in his income tax return for the 2008-2009 income year.

Investment Allowance Decision Tool

