

Budget break is a real headache

THE Small Business Tax Break - aka the Small Business Investment Allowance - might be proving popular with small business owners in the lead-up to the end of the financial year, but not so with the nation's accountants.

The investment allowance is making their traditionally busy June even busier, if that's possible.

"I've had a ridiculous number of calls about it," says Adelaide-based chartered accountant and tax agent, Chris Shaw. "Every single one of my small business clients has asked me about the investment allowance. They all want to race out and buy something."

In the May Federal Budget, the Small Business and General Business Tax Break - a one-off 30 per cent tax deduction for depreciable assets bought prior to June 30 - was increased to 50 per cent. Under the measure, businesses can buy cars, computers and other depreciable assets costing \$10,000 or more, and gain a deduction for half the asset's cost.

Businesses deemed to be a small business entity (SBE) - those with established turnover of less than \$2 million - can buy assets costing \$1000 or more, and gain the same deduction.

Shaw says many small business owners are "tempted to splurge" on equipment to get the deduction. "I'm finding that laptop computers especially are popular: people seem to be

treating the investment allowance as a bonus, and convincing themselves that they need a new computer. They're thinking: 'Why not pick one up while getting help with minimising tax?'

"But that can cause cashflow problems, which is why I'm also advocating careful management of their cashflow situation, because I find that people want to jump in to pick up the tax deduction, but they can find that they actually can't afford it, and it can have a negative effect on their business.

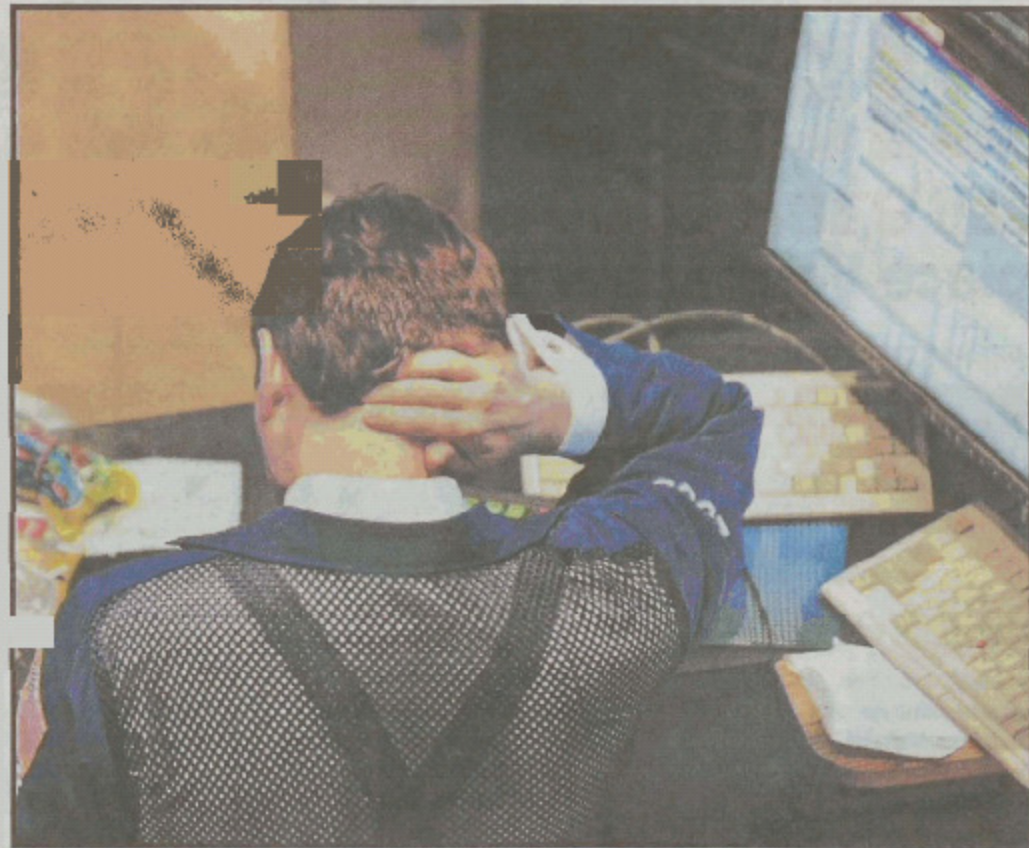
"Using the investment allowance goes hand in hand with the more traditional concepts of business tax planning."

But there is a catch: to claim the 50 per cent deduction in the current tax year, the asset has not only to be bought by June 30, it must be delivered by June 30.

"If you don't actually receive the assets until July 1 or after, you can't claim it until next year's tax return," says Adrian Raftery, director of accounting firm Adrian Raftery Wawrzyniak.

"You might have paid for a car before June 30 and put the claim in for the investment break, but if the car is not delivered in this tax year, you'll have to wait until the next tax return. It makes a difference of 12 months in the timing of the cash flow."

Raftery says there has been confusion among small business operators over the investment allowance: "I've seen quite a few business



owners who are under the impression that it's a straight 50 per cent rebate, whereas it's an extra tax deduction for them. You have to multiply by your marginal tax rate.

"If you're only paying 16.5 per cent tax, you will only get 8.25 per cent rebate back."

Sydney and Five Dock chartered accountant Robert Barbariol agrees that bringing forward purchasing decisions to get the investment allowance is a suddenly popular small business

strategy. "It's probably getting a bit late in the piece for a vehicle, but other small business assets - computers, maybe a generator - you can buy \$10,000 worth of equipment pretty readily at the retail level, and obtain an immediate write-off.

"That improves your cash flow at a later stage, in the sense that you get the tax reduction. But not every small business is going to be in a position to do that," says Barbariol.