How To | Invest the Government's $20K instant asset write off in your small business

FACT SHEET June 2016

Many small business owners will be able to benefit from the $20,000 instant asset tax write-off on business equipment that will continue for at least another year. The instant asset tax write-off can be a real benefit to small businesses that are planning on purchasing assets in the near future. How can small businesses identify growth opportunities and use the tax write off to their advantage? If you don't have the cash-flow to make an asset purchase now, a business loan can help.

What you need to know

Cash-flow is a major concern for any small business. The instant tax deduction helps small businesses by enabling deductions to be brought forward that otherwise couldn't have, and therefore use the extra cash in the business.

What is the instant tax deduction?

- ✓ The instant tax deduction is for assets costing less than $20,000.
- ✓ Assets that cost $20,000 or more must be deducted over time.

When does it end?

- ✓ It applies to assets purchased from now until June 30, 2017.

Who qualifies?

- ✓ It applies to businesses with turnover under $2 million in FY16.
- ✓ It has been extended from FY17 to businesses with turnover under $10 million.

How does it work?

- ✓ A small business can purchase assets up to the value of $20,000 and get an immediate tax deduction, rather than having to write them down over several years.

Ways to invest $20k to grow a small business

1. **Automate systems**

   To boost revenue and profits a small business owner almost always needs to scale up. Technology has made it easy to automate activities such as accepting bookings, sending out invoices and rostering staff. While the return on investment will obviously vary, automation can have a big impact on the bottom line. A 2015 survey found businesses saw a 34 per cent average increase in sales revenue after automating their marketing.

2. **Buy equipment**

   There has never been a better time to update equipment and ensure processes run more smoothly. Examples of qualifying items include:

   - ✓ IT hardware including desktop computers, printers, scanners, photocopiers.
   - ✓ Office and shop fittings including new café tables, display and shelving, kitchen equipment, signage, air conditioners and lighting.
   - ✓ Work vehicles including utes, forklifts
   - ✓ Tradesmen's tools including machinery, lathes, hoists, plant and other equipment, sheds and storage containers for equipment.

   The new laws also include changes to allow primary producers to immediately deduct capital expenditure on fencing and water facilities such as dams, tanks, bores, irrigation channels, pumps, water towers and windmills.

What to watch out for

- ✓ Small business owners must check with their tax advisor before buying an asset to ensure they and the asset are eligible
- ✓ Assets excluded include horticultural plants and in-house software allocated to a software development pool. In most cases specific depreciation rules apply to these excluded assets
- ✓ If a business isn't making any profit then a tax deduction is of no use (you should wait until the business is making a profit to use it)
- ✓ Keep to the rules. Any business should be prepared to be audited
- ✓ Be careful of the definition of 'small business', especially if you are part of a group of companies. In order to qualify for these concessions, businesses must align with the Australian Taxation Office (ATO) definition of a small business, which is an individual, partnership, trust or company with an aggregated turnover of less than two million dollars.

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Scenario

A small business owner will make a profit in FY16 and wants to spend $10k on purchasing a piece of eligible equipment. By spending $10k inc GST they can instantly claim the tax back (in this case a 30% company tax rate or a rebate of $3k) and will own the item outright on purchase.

It gets better! The interest and any costs associated with a business loan are also tax deductible, so 30% of the interest on the loan taken out to buy the equipment can also be claimed. This means the small business owner can knock a further $810 off their tax bill, and deduct the GST component of $909, leaving a total net cost for the $10k asset of $7,981.

This compares to an equipment lease over 3 years for a $10k item, inc GST. The cost of the lease can only be claimed back over the period of the lease (e.g. 3 years) and the small business will not own the equipment and will not be able to re-sell if desired. The GST component of the lease plus interest can also be deducted here. The total net outlay is $8,400 or $419 more than using the unsecured business loan.

	Unsecured business loan for outright purchase	Equipment Lease
Cost of equipment	$10,000 incl. GST	$10,000 incl. GST
Instant tax write-off	-$3,000	✗
GST claim	-$909	-$1,200
Interest cost	+$2,700	+$3,200
Tax concession	-$810 (instant)	-$3600 ($100/month over 3 yrs)
TOTAL NET COST	$7,981	$8,400
Asset ownership and ability to re-sell	✓	✗

Call us about using finance to take advantage of the $20,000 instant asset tax write-off.

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