BARKER & JENNINGS
CHARTERED ACCOUNTANTS

Why using the 20k Budget tax deduction might be the wrong decision

So, your business has a turnover under $2 million and you want to know how to use the $20,000 immediate tax deduction that's been all over the news?

Before you start spending, there are a few things you need to know.

Does your business make a profit?

Deductions are only useful to offset against tax. If your business makes a loss then a tax deduction is of limited benefit because you're not paying any tax. Losses can often be carried forward into future years but you lose the benefit of the immediate deduction.

Small businesses with a turnover of $2m or below make up 97.5% of all Australian businesses. The latest Australian Taxation Office (ATO) statistics show that well under half of these businesses paid net tax. That means that the $20,000 instant asset write-off is useful to less than half of the Australian small businesses targeted.

So, if your business makes a loss and you start spending to take advantage of the immediate deduction, all you are likely to do is to increase the size of your losses with no corresponding offset.

Immediate deduction not yet law

The $20,000 instant asset write-off is not yet law. The ATO only has the capacity to assess on current law not announcements. Don't forget that many of last year's Budget measures have not been enacted. While we think it is highly unlikely that the other political Parties will block this measure, there is always a small risk that things will change. So don't spend more than your business can afford.

Cashflow first!

Cashflow is more important than an immediate deduction. Assuming your business qualifies for the deduction, the most important consideration is your cashflow. If there are purchases and equipment that your business needs, that equipment has an immediate benefit to the business, and your cashflow supports the purchase, then go ahead and spend the money. The $20,000 immediate deduction applies as many times as you like so you can use it for multiple individual purchases.

But, your business still needs to fund the purchase for a period of time until you can claim the tax deduction and then, the deduction is only a portion of the purchase price.

Let's take the example of a small bakery. The bakery is in a company structure and has a taxable income for 2014/2015 of $49,545. The owner purchases a new $13,750 oven on 2 June 2015 and installs it straight away. The cost of the oven is claimed in the bakery's 2014/2015 tax return resulting in a tax deduction of $13,750.

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Knowledge

What will change on 1 July 2015

For Business

- Small business tax cut - 1.5% for companies and 5% tax discount for unincorporated small businesses under $2m (capped at $1,000)*
- Employee share scheme rule changes to make the schemes more attractive particularly to start-ups (covered in our April update)*
- 'Fly in fly out' and 'drive in drive out' (FIFO) workers will be excluded from the Zone Tax Offset (ZTO) where their normal residence is not within a 'zone'*
- Start-ups able to immediately deduct a range of professional expenses required to start up a business – such as professional, legal and accounting advice.*
- The way work related deductions for car expenses are calculated will change. The '12% of original value method' and the 'one?third of actual expenses method' will be removed. The 'cents per kilometre method' will be modernised, replacing the three current engine size rates with one rate set at 66 cents per kilometre to apply for all cars.

Superannuation

- The terminally ill will be able to access super earlier*
- Employers with 20 employees or more must use SuperStream for employee contributions.

Individuals

- Changes to family tax benefits – income test changes, add on child payment removed, and changes to large family supplement.

** announced change not yet law.*

Quote of the month

"You only live once, but if you do it right, once is enough."
Mae West