

Last chance – investment allowance ends 31 December

If you run a small business with a turnover below \$2 million, you only have a few weeks left to take advantage of the Government's 50% investment allowance. The same deadline also applies to the 10% investment allowance for businesses with turnover above \$2 million.

As you no doubt already know, for small businesses the investment allowance gives you a 50% extra deduction on assets that cost more than \$1,000 (GST ex) assuming the eligibility criteria are met. For other businesses, the investment allowance gives you a 10% extra deduction on assets that cost more than \$10,000 (GST ex) assuming the eligibility criteria are met.

To take advantage of the investment allowance you need to:

- Make sure the asset is intended for use in a business in Australia
- Make a commitment to purchase or construct the asset before midnight on 31 December 2009. This commitment could be an order or the signing of a contract but BEWARE; if a hire purchase or certain chattel mortgages are used to finance the purchase or construction of the asset, these financing arrangements (as well as the order/contract) must be in place by midnight on 31 December 2009
- Use or install the asset ready for use before 31 December 2010
- Make sure the asset is a tangible, depreciable asset
- Make sure the asset is new – if the asset has been used previously, it can only be for a 'reasonable' trailing and testing. Not everything labelled as 'demonstrator' will pass this test.

You can purchase a huge range of items using the investment allowance such as business vehicles, computers, furniture, tools and equipment.

You can also use the investment allowance to upgrade an existing asset in certain circumstances (but not repairs). For example, if you want to make modifications to existing equipment or buy additional items for the equipment.

Plus, if you are looking to buy a series of items that are 'identical' or 'substantially identical', you can group the total cost of the assets to meet the threshold. Remember, the investment allowance is available for people and entities 'carrying on a business'; it is not available for passive investments such as rental properties. *Continued over the page.*



Merry Christmas

We wish you and your family a happy and safe Christmas.

We look forward to working with you in 2010 and helping you to make it a great year.

Business scruples

I'm feeling generous towards my employees but I don't want to give the Tax Office a Christmas bonus. What's the best way to manage Christmas parties and gifts?

You can do whatever you like but if you do it the wrong way, you will be hit with FBT, which can significantly elevate the costs of Christmas, or leave you unable to claim the festive expenses as a deduction. Not even Christmas escapes the Tax Office! Baah humbug.

The good news is that if you know the rules, with a bit of planning you should be able to avoid the tax pitfalls.

Christmas parties

The rules are different depending on whether the party is held on your business premises or externally.

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Quote of the month

"Christmas is a time when kids tell Santa what they want and adults pay for it. Deficits are when adults tell the government what they want - and their kids pay for it." Richard Lamm

Business scruples *continued*

If the party for employees is held on your business premises on a working day, the provision of food and drink to employees is classified as an 'exempt property benefit', so it is not counted for FBT purposes.

This rule does not apply to family members, so FBT will be triggered if they attend but your business should be entitled to deductions and GST credits for part of the cost.

If you hold the party at a restaurant or somewhere away from the business premises then you are inside the FBT net but you still may be able to avoid any liability. Under the minor benefits exemption, provided the total cost per person is less than \$300 then the benefit will not be counted for FBT purposes. If your staff are bringing partners or family to the party this exemption extends to them.

The bad news is that if you avoid paying FBT on the Christmas party, you cannot claim GST credits or a deduction for the expense.

If your party costs more than \$300 per person then you will be caught by FBT but you can at least claim GST credits and a deduction.

The cost of providing a Christmas party for clients is not deductible (and not subject to FBT).

Gifts for your team

If you are really taken with the Christmas spirit and decide to provide your staff with a gift then the minor benefit exemption also applies to this gift. So, if you give your team a gift with a value of less than \$300 this would generally be exempt from FBT. Gifts of \$300 or more will generally be subject to FBT in the hands of the employer. The \$300 threshold for gifts applies in full even if the gift is provided at a Christmas party.

Employers can generally claim deductions and GST credits for the cost of gifts that are provided to employees. The main exception is where the gift relates to entertainment (e.g., theatre or sporting tickets, holiday accommodation etc). If the gift relates to entertainment, the business can only claim deductions and GST credits if the gift is subject to FBT.

Gifts to clients

Gifts to clients should be deductible and should give rise to GST credits if the business expects that:

- The gift will promote the business and create goodwill, leading to further business being generated in future; or

- The gift will motivate the client to refer the business to others.

Businesses cannot claim deductions or GST credits if the gifts relate to entertainment. Gifts to clients should not be subject to FBT.

To avoid any FBT liability simply plan your Christmas celebrations around these minor benefit numbers and, as with all things, make sure you keep the paperwork to support your calculations. This should include details of the cost of the party plus a list of attendees so you know the total number you can apply the minor benefit exemption to. Armed with this information, Scrooge, in the form of the Tax Commissioner, will not spoil your party.

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continued

You can use the asset purchased for personal use and still claim the investment allowance as long as the purchase is principally for business purposes (over 50% of the use is in the business).

This is just a summary of what you need to be aware of to qualify for the investment allowance and does not cover every circumstance or all the criteria that might apply to you. If you are uncertain about the investment allowance, the impact of any investment on your cash flow, or how best to manage any intended investments, contact us on t: 07 5593 3555 or e: info@marzoholloway.com.au