YOUR Knowledge

The best way to buy

If you need to buy depreciating assets in your business – computers, machinery, cars, etc., - we're about to give you a whole lot of reasons to go shopping.

We're often asked about the best way to acquire different types of assets. In this case we're talking about plant & equipment, depreciating assets purchased for use in the business. New rules that came in on 1 July 2012 provide significant tax advantages for small business. The new rules mean that, in some cases, a small business can claim the whole amount of the asset purchased as a tax deduction in the year of purchase. Normally, assets purchased in a business are depreciated over a number of years, or their effective life.

To access these simplified depreciation rules the entity needs to be in business (so, is trading rather than just holding investments) and, has an aggregated annual turnover of less than $2 million. Bear in mind that the aggregated turnover test not only looks at your turnover but the turnover of any entities connected to you, such as a trust.

Buying assets under $6,500

If your business qualifies as a small business and can access the simplified depreciation rules, any depreciating assets you purchase below $6,500 can be written off in the year of purchase. If your business is registered for GST the $6,500 is GST exclusive, if not, the $6,500 is the GST inclusive amount.

Let's say your office computers are getting a bit old and need replacing. You buy 3 new computers this financial year (2012/2013) at a cost of $4,500 each (GST ex). As each laptop costs less than $6,500, they can be written off immediately. The total deduction that can be claimed in the 2013 tax return is $13,500.

The $6,500 threshold applies on an asset by asset basis, so you can claim the immediate deduction on more than one asset.

As well as being able to claim an immediate deduction for assets with an initial cost of less than $6,500, in some circumstances it is also possible to claim an immediate deduction for additions or improvements to these assets in a later income year. For example, lets say you run a printing business and buy a digital printer for $6,200 in 2012/2013. In the following financial year, 2013/2014, you buy a component to improve the printer at a cost of $2,000. The initial purchase of the printer is deductible in 2012/2013 and the printer component is deductible in the 2013/2014 year. However, it is only possible to claim an immediate deduction for the first additions or improvements. Any additions or improvements beyond the first component are not immediately deductible but depreciated over a period of time. *Continued over….*

Did you know Shakespeare was a tax dodger?

If you've even been on the wrong side of a tax office debt you have something in common with Shakespeare. In the King's Remembrancer Subsidy Roll in 1597, Shakespeare was listed as a defaulter in the Bishopgate ward - he failed to pay 5*s*. He was again listed as a defaulter in 1598 for failing to pay 13*s*.4*d*. Later that year he moved out of the district!

R&D Tax incentives – important reminder

With a 45% refundable tax offset (equivalent to a 150% deduction) up for grabs it's a wonder why more businesses don't claim the R&D Tax incentive. This generous tax deduction is available to businesses with a turnover below $20 million (a 40% tax offset, equivalent to a 133% deduction is available to all other eligible entities).

Let's say your business makes organic fertilisers. Your annual turnover is $10 million but has a tax loss. The company has spent $1 million on research and development in 2011/2012. Assuming the research and development undertaken by the business meets the criteria, the organic fertiliser business will receive a refund of $450,000 when it lodges its 2013 tax return.

But, there are a couple of things you need to do first. You need to apply to access the R&D Tax Incentive through AusIndustry **before 30 April 2013**. Once AusIndustry processes the registration, a number is issued that will be disclosed on the company tax return. The business's tax return cannot be lodged before the claim is made.

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Buying motor vehicles

If you need to buy a motor vehicle you can claim an immediate deduction for the first $5,000 on new and second hand vehicle purchased from 1 July 2012. The balance of the vehicle's cost price is depreciated at 15% in the first year.

A motor vehicle is any motor powered on-road vehicle including four wheel drives. Graders, tractors, harvesters etc., don't qualify as their primary purpose is not on public roads.

Let's say you run a landscaping business. You buy a dual cab 4WD ute for $46,000 (GST ex) in March 2013 and only use it in the business. In the businesses next tax return, you can claim a tax deduction of $5,000 for the ute with the remaining $41,000 depreciated at 15% in the same year.

Limits apply to the deduction you can claim for the vehicle you buy. If it's a luxury vehicle, regardless of how much you paid, the cost for depreciation purposes is reduced to $57,466 - the luxury car limit.

What does 'immediate deduction' mean?

An immediate deduction means that you can claim the full tax deduction when your business lodges its next tax return. So, it's not immediate in the sense that you get to make the claim straight away and the tax office sends you a cheque, but immediate in that the tax deduction is available all at once and not over a number of years.

The deduction is offset against your assessable income and reduces the overall tax you pay. The deduction will be at your applicable tax rate – so, 30% for companies and your applicable marginal tax rate for unincorporated entities. Like all other tax deductions, keep in mind that even if you get a 100% tax write-off, you still need to be able to fund the after tax cash cost.

What about other assets?

What happens if the asset you need to buy is over $6,500 (and is not a car)? Small businesses are able to pool all other assets at 15% for the first year the asset is in the pool and 30% for each subsequent year. If the value of the pool drops to below $6,500, then the whole pool can be written off.

Before you go on a spending spree….

Before going on a spending spree it's important to take a look at the cash flow of the business.

Know your cash position and whether or not you have sufficient cash reserves to commit funds to capital purchases. If not, you may need to finance the purchase. Never purchase an asset simply for the tax benefit. Buy what you need to operate your business and manage your purchases to achieve the best tax outcome.

Give us a call before you buy new assets for your business. We can help you achieve the best outcome.

Quote of the month

"It is not in the stars to hold our destiny but in ourselves."

William Shakespeare

SMSFs: failing to pay the minimum pension

The tax office recently clarified what happens when the trustees fail to pay the minimum pension for a member for the financial year. Where this occurs, the pension is considered to cease from the START of that financial year. This means that any amounts that may have been taken during the year will be treated as superannuation lump sums for both income tax and SIS Regulations purposes. The fund will not be entitled to treat income or capital gains as Exempt Current Pension Income (ECPI) for the year.

If the pension standards are met in the following income year, then this will result in the commencement of a new pension in the following year. The trustee will need to revalue assets at market value and recalculate the minimum pension payment required at the start of that year. The trustees may also be required to recalculate the tax components of the member's account.

The Tax Commissioner has some discretion where the trustees made a genuine mistake and the underpayment was small - no more than 1/12th of the minimum required or, where the matter was outside of the hands of the trustee. For the Commissioner to give his discretion the trustees need to make a catch up payment as soon as practicable and treat the payment as if it had been made in the previous financial year.

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