

Tax Brief

5 February 2009

Investment Allowance Mk II

On 12 December last year, the Treasurer announced an investment allowance as part of the first economic stimulus package.

On 3 February this year, the Treasurer announced an investment allowance as part of the second economic stimulus package.

So, will we have just one investment allowance or two? And if there is to be just one, will it be the first, the second or an amalgam of the two? If there are to be two, must one choose between them or can a taxpayer “double dip”? Unfortunately none of the Bills introduced into Parliament yesterday to enact the second economic stimulus package answer these questions – they deal only with the various cash payments for individuals and families.

Our best guess – in the absence of anything from an authoritative source – is that only the second announcement will be enacted. We have taken this view because the second announcement appears effectively to incorporate what was already proposed – the second announcement captures the detail of the first announcement, and extends rather than contradicts what was already there. In short, it varies the original incentive in three ways:

- the **amount** of the incentive is increased from an additional 10% of the cost of acquiring or improving an asset to an additional 30% of the amount, but only if assets are acquired or construction commences on or before 30 June 2009;
- the **threshold** for access to benefits has been reduced for small businesses with an annual turnover of \$2m or less – an incentive is available to small businesses for expenditure of \$1,000 or more. For other businesses the threshold for access to an incentive is unchanged at expenditure of \$10,000 or more; and
- the **duration** of the original (10%) benefit is extended by 6 months – the asset must now be acquired or construction must commence on or before 31 December 2009 (rather than 30 June 2009) and it must be installed ready for use by 31 December 2010 (rather than 30 June 2010).

Other important features outlined in the new proposal remain the same as in the first announcement [see our Tax Brief on the 12 December proposal for more details http://www.gf.com.au/477_714.htm]

- the incentive is delivered in the form of an additional allowable deduction of a percentage of the amount spent. The amount is deducted in the year in which the asset is installed ready for use. This makes the value of the incentive depend upon the taxpayer's marginal tax rate in that year;
- this deduction does not affect the taxpayer's deduction for depreciation. It is not clear whether the deduction affects the cost of the asset when computing a balancing charge on disposal or when it is scrapped;
- the incentive is only available for expenditure on tangible depreciating assets (including cars) which qualify for depreciation deductions under Division 40;
- the incentive is given to the entity which is entitled to claim depreciation. There is no indication that the incentive will not be available for leased assets and so equipment lessors should be entitled to the deduction;
- the incentive is available for both the cost of acquiring additional depreciating assets and for the cost of making non-deductible improvements to existing assets;
- for large businesses, the amount spent on acquiring or improving the asset must be \$10,000 or more to qualify for any incentive; and
- the starting date of the measures – even the new enhancements – is backdated to 13 December 2008. That is, the relevant assets must have been acquired under a contract entered into, or construction must commence, on or after 13 December 2008.

Some of the relevant permutations and combinations for a large business are set out below in summary form:

Large business incurs expenditure of \$10,000 or more acquiring or improving a tangible depreciating asset		
<i>Contract entered or construction commences</i>	<i>Asset is installed ready for use</i>	<i>Amount of the incentive is ...</i>
After 12 December 2008 and before 1 July 2009	Before 1 July 2010	30% of the expenditure
After 12 December 2008 and before 1 July 2009	On or after 1 July 2010 and before 1 January 2011	10% of the expenditure*
After 30 June 2009 and before 1 January 2010	Before 1 January 2011	10% of the expenditure
On or after 1 January 2010	At any time	Nil
At any time	On or after 1 January 2011	Nil

* Note that this situation is not elaborated in the text of the announcement, but appears to us to be the most likely eventuality..

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These notes are in summary form designed to alert clients to tax developments of general interest. They are not comprehensive, they are not offered as advice and should not be used to formulate business or other fiscal decisions.

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