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Investment Allowance to Boost Business Investment

Written by Wayne Swan



Today I am pleased to announce further action by the Rudd Government to boost economic activity and support jobs with a 10 per cent temporary investment allowance - in the form of an additional tax deduction - which will encourage important capital investment by Australian businesses.

Today's announcement will give businesses confidence to continue to plan positively and invest for the future, providing crucial support to growth and jobs during these difficult economic times.

By boosting business confidence and encouraging business investment, this measure will provide an important short term stimulus to the Australian economy in the face of the global financial crisis.

The investment allowance is in addition to the Rudd Government's \$10.4 billion Economic Security Strategy designed to bolster households and businesses, strengthen the economy and support jobs during the global financial crisis.

It will also complement the major investments in infrastructure that the Government is undertaking.

The allowance will be in the form of an additional tax deduction equal to 10 per cent of the cost of an eligible asset. The allowance will be applicable to most new tangible depreciating assets - which includes

most items of plant and equipment - over \$10,000 which are acquired or ordered by the end of the current financial year.

This means a business can receive an additional 10 per cent tax deduction - available immediately - for investment brought forward and in place by 30 June 2010. In practical terms, this is an added incentive for businesses to proceed with their investment plans in this difficult environment.

The measure is estimated to cost \$1.6 billion over the forward estimates period.

The investment allowance will be available for businesses who start to hold or start to construct the asset after 12.01am AEDT 13 December 2008 and before the end of June 2009. Assets must be ready for use by the end of June 2010.

The attachment provides detailed information for taxpayers on the investment allowance. This information is also available from the ATO on 132 866.

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12 December 2008

ATTACHMENT A

Investment Allowance - Detailed Information

http://www.australia.to/index.php?option=com_content&view=article&id=2045:inves... 26/03/2009

The investment allowance will apply from 12.01am AEDT 13 December 2008 until the end of 30 June 2009. To be eligible for the investment allowance, a taxpayer must start to hold the asset under a contract entered into between those times, or start to construct the asset between those times. Assets must also be installed ready for use by the end of 30 June 2010.

The investment allowance will be confined to new assets and new expenditure on existing assets, used in Australia. Assets that have previously been used or held for use will be excluded.

The investment allowance will apply to tangible assets used in carrying on a business, for which a deduction is available under the core provisions of Division 40 (Capital Allowances) in the *Income Tax Assessment Act 1997* (ITAA97) - specifically depreciating assets under section 40-30 that qualify for capital allowances under Subdivision 40-B, except for intangibles and rights that would otherwise be included by subsections 40-30(2), (5) and (6). Cars will not be disqualified from the allowance merely because they use the 12 per cent method.

Land and trading stock are excluded from the definition of depreciating assets, and will not qualify for the investment allowance.

Assets to which Division 40 does not apply will not qualify for the investment allowance. This means capital works for which you can deduct amounts under Division 43 of the ITAA97 will not qualify for the investment allowance.

Assets for which deductions can be obtained under other Subdivisions will not qualify for the investment allowance. These assets are already subject to special treatment.

The investment allowance will be available to the taxpayer who is entitled to the capital allowance deduction under Division 40.

The allowance can be claimed through the income tax return in which the first capital allowance is claimed for the asset.

A minimum expenditure threshold of \$10,000 will apply. Where an asset is partly used for private or non-taxable purposes, only the portion that is used for a taxable purpose in carrying on a business will count toward meeting the threshold.

The investment allowance will be paid at a rate of 10 per cent of the asset's first element of cost (in terms of Subdivision 40-C), to the extent that the asset will be used for a taxable purpose in carrying on a business.

Expenditures above the threshold which are capitalised into an existing asset as a second element of cost will also qualify for the investment allowance.

Other measure designed to boost the economy include cutting the quarterly pay-as-you-go (PAYG) instalment payable on 21 January 2009 or 28 February 2009 by 20 per cent.

Small business is the backbone of our economy, and today's announcement by the Rudd Government will offer some much-needed relief to around 1.3 million small businesses - many of them doing it tough due to the global financial crisis.

This 20 per cent cut in the February instalment will more accurately reflect small businesses' average actual profit growth in the current economic environment. It will provide immediate and much-needed cash flow relief to small businesses and encourage small business confidence.

While there is a tolerance in the existing provisions that allows taxpayers to vary instalments down of their own accord, many small businesses are reluctant to do so, especially those with unpredictable income streams. This action by the Government will reduce uncertainty for those small business taxpayers and relieve them of the cost of doing their own calculations.

This 20 per cent reduction will be available to small business entities - generally those with aggregated turnover of \$2 million per annum or less.

Details of the PAYG instalment reduction are attached.

The cost of the initiative is estimated to be \$440 million for 2008-09. This consists of bringing forward the expected lower revenue collection from small businesses in 2009-10 caused by the current economic conditions. However there will be no net cost to the Commonwealth over the full forward estimates period.

Today's announcement - along with our \$10.4 billion Economic Security Strategy to strengthen the economy, boost confidence and support jobs - shows the Rudd Government is determined to act decisively to bolster small business in the face of the global financial crisis.

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12 December 2008

ATTACHMENT A

Who will receive the reduction?

The 20 per cent PAYG instalment reduction applies to 'small business entities' as defined in the tax law. In general a 'small business entity':

carries on a business;
and satisfies the \$2 million aggregated turnover test.

How will it apply?

The 20 per cent reduction applies to the instalment amount shown on the Business Activity Statement (BAS) dispatched by the Australian Taxation Office (ATO) in December 2008 for the quarter ending on 31 December 2008. This instalment amount is due on or before 28 February 2009 (which will

be extended to 2 March 2009 as 28 February 2009 falls on a weekend) for most small business taxpayers. For some small business taxpayers (for example, small businesses which elect to report and pay the goods and services tax on a monthly basis), this due date is 21 January 2009. As such, for the quarter ending 31 December 2008, small business entities are only required to pay 80 per cent of the instalment amount shown on the BAS on 21 January 2009 or 2 March 2009.

Small businesses can further vary their instalments based on the reduced amount in accordance with the existing law.

This reduction does not apply to taxpayers who calculate their instalments based on the instalment rate notified by the ATO. Their payments will automatically adjust when they apply the given rate to their actual income for the quarter.

Further information

Further information on this reduction can be obtained by contacting the ATO on 132 866.

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