

A silhouette of a wind farm with several wind turbines against a blue sky with light clouds.

Technical update

Private & Entrepreneurial Clients

Federal Government responds

Further measures taken to help Australian small businesses cope in current financial climate

This measure will provide some welcome cash flow relief for small businesses.

The Federal Government has taken further action to help Australian small businesses cope in the current financial climate. By reducing the quarterly PAYG instalment (due in February 2009 for small businesses) and by providing real incentives for businesses to bring forward capital expenditure into the next 6 months.

Pay as you go (PAYG) instalment reduction for small businesses

The Treasurer announced in a press release dated 12 December 2008 that the Federal Government is allowing small businesses to reduce their PAYG instalment due in February 2009 by 20%.

The reduction applies to the PAYG instalment payable on 21 January 2009 (for monthly reporters) or 28 February 2009 (for quarterly reporters) in respect of the Business Activity Statement (BAS) for the quarter ending on 31 December 2008.

This means that small businesses only need to pay 80% of the instalment amount shown on the December quarter BAS. Of course, the full tax payable for the year will be due once the 2009 tax return is lodged. Therefore, this concession may only be a deferral of tax payable.

In accordance with the tax law, an entity is a small business entity where it carries on a business and satisfies the \$2 million aggregated turnover test.

Please note that this reduction does not apply to taxpayers who calculate their instalment based on the instalment rate notified by the

Taxpayers considering capital expenditure have an incentive to make that purchase in the next six months.

Australian Taxation Office (ATO). For these entities, their instalments will automatically adjust in response to slowing economic activity when they apply the given rate to their turnover.

The administrative details in relation to 20% reduction have not yet been finalised by the ATO.

10% investment allowance

The Government has announced an investment allowance for the purchase of new plant and equipment, vehicles and other assets used in carrying on a business which cost in excess of \$10,000.

The investment allowance is received by way of an additional tax deduction equal to 10% of the value of the purchase and is in addition to any of the usual depreciation deductions.

The deduction is available on the purchase of any new tangible depreciating assets acquired from 13 December to 30 June 2009. Plant and equipment requiring installation will need to be installed and ready for use by 30 June 2010 in order for the investment allowance to be claimed.

You will need to keep track of relevant contracts and expenditure to allow you to assess whether new purchases meet the requirements of the legislation.

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