Deductions give small business a boost

Adelaide accountant Theo Marinis with his new sign that ‘can be seen from miles away’. Picture: Kelly Barnes

WORDS TIMOTHY BOREHAM

Adelaide accountant and financial planner Theo Marinis knows first hand about the benefit of the immediate deductibility of $20,000 of eligible business items for small enterprises, extended in last week’s federal budget for another 12 months.

At a cost of $6000, he replaced the street signage for his Norwood firm with a “brand spanking new aluminium one that lights up at night and can be seen from miles away”.

The aim, of course, is to attract more customers to the firm, to drive new revenues and, ultimately, more profits and more taxes for Treasury’s coffers.

“The ATO is subsidising my practice,’’ Marinis says. “But it is also encouraging people to generate more business and profits so ultimately it will benefit in the long run.”

In the budget, the three-year-old measure was extended for 12 months, with the turnover threshold increased from $2 million to $10m to embrace 90,000 additional entities.

In extending the measure, the government has acknowledged its popularity and presumably the flow-on stimulatory effect on a retail sector in need of a fillip.

Institute of Public Accountants CEO Andrew Conway says feedback from the IPA’s 35,000 member firms is that their clients “love” the concession. He notes the high-level Henry review into the taxation system — carried out by former treasury chief Ken Henry — also recommended the measure be maintained permanently.

“Any measure to encourage small business to acquire more equipment can only be good for the economy,’’ he says. “The best indicator of success is that Treasury continues to support it and for three budgets now it’s been held up as a good measure.”

A salient (but often overlooked) consideration is that the enterprise needs to be generating income to take advantage of it.

“Some people think ‘great, there’s $20,000 in my back pocket’, but it doesn’t work that way,” says Conway. “The business needs to be making a profit because it offsets profits.”

While these items have always been deductible, it’s been over a depreciation schedule typically of three to five years.

For example, power tools are usually depreciable over three years. But cooking appliances such as hot food displays and agricultural equipment such as sprayers and bagging machines are deemed to have an effective life of 10 years.

Thus, those cheering the concession hardest are farmers and cafe owners.

In 2018-19, the instant deductibility threshold reduces back to $1000. There’s a chance the measure will be extended again, but tax experts warn not to count on that.

Pitcher Partners tax partner Scott Treatt says it’s likely to be discontinued in favour of other lures for the SME sector heading into an election year. For eligible enterprises — and they don’t have to be incorporated — the message is to take advantage of the benefit while you can.

Meanwhile, the government has confirmed the small business tax cuts, part of the broader corporate tax reduction plan opposed by the Senate before a deal with the cross benchers was thrashed out in March.

The government’s Ten Year Enterprise Tax Plan — which sounds more like a Chinese politburo pronouncement than a free world initiative — looks like this.

Initially, companies with a turnover of less than $10m will see their tax rate reduced from 28.5 per cent to 27.5 per cent this financial year. In 2017-18 the threshold is increased to $25m and then $50m in 2018-19. Over time, the tax rate will progressively reduce to 25 per cent.

For unincorporated business, a benefit equivalent to up to $1000 — an “unincorporated tax discount” of 8 per cent — applies. “Whether you are incorporated, a partnership or a sole trader, you pay less tax,” Marinis says.

Conway, who co-authored the Australian Small Business White Paper, says research suggests that unincorporated enterprises in start-up phase are the most active hirers.

“The vast number of enterprises are unincorporated, so are in start-up phase, and they’re more likely to employ than a small business more than five years old.”

Marinis urges enterprises approaching or exceeding the $10m to pay close attention to their corporate structure. “Some careful planning is required,” he says. “I’m not talking about creative accounting. But you may have to consider selling off part of your business.”

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On a sourer note, the government has also flagged a "tightening" of small business capital gains tax rollover provisions. While details are sparse, the tightening looks to be aimed at high net worth individuals structuring their affairs artificially.

Currently, the concession can be applied to assets unrelated to the actual small business. For example, an owner can restructure affairs to ensure an interest in a larger business does not count towards the small business threshold.

"It looks like an anti-avoidance provision." Marinis says. "From my limited understanding it is to make sure those concessions hit the intended target market."

Treasury has also flagged a blitz on compliance in the courier and cleaning industries, applicable from July next year.

This is being done by extending the taxable payments reporting system (which currently applies to the building and construction industry) to courier and cleaning contractors.

In effect, businesses need to report payments made to contractors to the ATO, in the same way any business needs to report wages.

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