

Kevin Rudd and Labor

A New Way



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BOOSTING INVESTMENT BY SMALL BUSINESSES

Summary

The *Small Business Boost* expands the incentive for small businesses to invest in their business and create jobs. This will help small businesses across all sectors of the economy to be competitive and thrive, and make the most of new opportunities in Asia.

Under the *Small Business Boost*, businesses will be able to immediately deduct against their tax the cost of assets they purchase that are valued at less than \$10,000, such as IT equipment like computers and servers, photocopiers, fridges and workshop tools.

The instant asset write-off provides immediate up-front cash flow benefit to businesses, rather than making them wait to deduct the asset over a longer period. This makes it more attractive to businesses to make the investments they need to grow their business.

Who benefits from this measure?

These changes will be available to around 3.2 million small businesses with an annual turnover of less than \$2 million.

This benefits small businesses irrespective of whether they operate as a company, sole trader, as a partnership or through a trust.

When does the Boost apply?

Eligible assets purchased between 8 September 2013 and 30 June 2015 will qualify for the immediate deduction.

The Boost is temporary, providing small businesses with an incentive to invest in the near term to remain competitive and helping them adjust to the challenges arising from the end of the China resources boom. Beyond this the existing level of assistance continues.

How is this different from existing support?

Since 1 July 2012, small businesses with an annual turnover of less than \$2 million have been able to immediately write-off business assets costing less than \$6,500. (Prior to 2012-13 small businesses could only write-off assets costing less than \$1,000)

This announcement temporarily increases this amount that can be immediately deducted up to \$10,000. After 1 July 2015, small businesses will be able to write-off business assets costing less than \$6,500.

Assets qualifying for an instant asset write off under various policies

Value of asset purchased	Under Coalition	Under Labor - Ongoing arrangement	Under Labor – Small Business Boost
\$1,000 to <\$6,500	x	✓	✓
\$6,500 to <\$10,000	x	x	✓

Worked examples

Small business investment boost – example of benefits compared to current arrangements:

Café owner

A café owner buys a commercial fridge at a cost of \$7,450. Under the *Small Business Boost*, the café owner will be able to claim the full \$7,450 cost of the fridge as a tax deduction in the first year. The café owner will get a \$2,235 tax benefit in the first year from this deduction. Under current arrangements, the café owner would only be able to deduct \$1,118 in the first year (that is, 15%), getting \$335 back.

So under the *Small Business Boost*, the café owner gets \$1,900 more cash in their pocket in the first year. That's \$1,900 more cash to get on with running their business.

Ongoing \$6,500 instant asset write-off – example of benefits compared to under the Coalition:

Bookshop

A bookshop buys a computer for \$1,600. Under the *instant asset write-off*, the bookshop owner will be able to claim the full \$1,600 cost of the computer as a tax deduction in the first year. The bookshop owner will get a \$480 tax benefit in the first year from this deduction. Under the Coalition's cuts to small business, the bookshop owner would only be able to deduct \$240 in the first year (that is, 15%), getting only \$72 back.

So under the ongoing instant asset write-off, the bookshop owner gets \$408 more cash in their pocket in the first year.

Builder

A builder buys a scissor lift for \$6,400. Under the *instant asset write-off*, the builder will be able to claim the full \$6,400 cost as a tax deduction in the first year. The builder will get a \$1,920 tax benefit in the first year from this deduction. Under the Coalition's cuts to small business, the builder owner would only be able to deduct \$960 in the first year (that is, 15%), getting only \$288 back.

So under the ongoing instant asset write-off, the builder gets \$1,632 more cash in their pocket in the first year.

These examples assume a 30 per cent tax rate – the tax rate for companies. Many small businesses operate a sole trader, or through a partnership or trust – so the tax benefit may be higher for them. For more information about the benefits of the \$6,500 instant asset write-off and other simplification reforms implemented by the Labor Government, see: www.taxwriteoff.gov.au

How does this build on other assistance for small business?

During the GFC, Labor supported small business to keep their doors open and their employees in work – and many businesses continued to grow in this period.

The Rudd Labor Government is delivering around \$5.4 billion in tax reform to assist small business including:

- Increasing the small business instant asset write-off threshold from \$1,000 to \$6,500 allowing small businesses to immediately write-off eligible business assets costing less than \$6,500 – which is now being expanded. Other eligible assets costing \$6,500 or more can be depreciated in a single pool saving time, money and paperwork.
- Enabling small businesses to claim up to \$5,000 as an immediate deduction for motor vehicles (new or used) costing \$6,500 or more.
- Introducing loss carry-back arrangements that allows companies to carry back a tax loss to get a refund against tax paid in the two previous income years.

In addition, small businesses have benefited from:

- Tripling the tax free threshold providing a benefit to around 1.4 million small business owners who are sole traders or hold an interest in a partnership or operate through a trust.
- The new research and development tax incentive that doubles the rate of assistance available to small and medium sized businesses and improves cash flow by providing a 45 per cent refundable tax offset.
- Investing in skills and trades training after years of neglect by the former Coalition Government which left small businesses across the country struggling to find workers to fill jobs.

The Rudd Labor Government is also cutting red tape for small and medium businesses by:

- Cutting GST red tape by allowing 1.35 million small and medium businesses with a GST turnover under \$20 million to lodge GST returns once a year rather than four times a year (they will be able to make GST instalments during the year with minimal paperwork).
- Expanding access to the free Small Business Superannuation Clearing House to businesses with less than 100 employees from 1 July 2014.
- Streamlining administrative arrangements for more than 700,000 small businesses by removing the requirement for businesses with fewer than 20 employees to administer Government-funded PPL payments for their long-term employees.

How is this funded?

The *Small Business Boost* costs \$200 million over the forward estimates.

The cost of this measure will be met by returning \$111.0 million in funding to the Education Investment Fund from the budget (this will ensure the total funding in the EIF remains available for future rounds); reducing the Economic Competitiveness Fund by \$68.9 million; and reducing the Building Stronger Communities Fund by \$20.1 million.