

SAYWELLS

Chartered Accountant – Registered Tax Agent - Business Advisor

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Making the Most of the Investment Allowance

Almost every business operator is interested in how to use the 30% investment allowance announced by the Government in the economic stimulus package.

The allowance works like this: Your business can claim a bonus 30% deduction for eligible assets purchased between 13 December 2008 and 30 June 2009, and installed by 30 June 2010.

If your business purchases the asset between 1 July 2009 and 30 December 2009, and installs the asset before 31 December 2010, you can claim a bonus 10% deduction.

If your business has a turnover below \$2 million, then the asset purchased needs to be \$1,000 or more. If your turnover is \$2 million or more, the asset purchased needs to be \$10,000 or more.

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The Rise of the Bargain Hunter

The global economic crisis has become such a part of our lives that it has its own acronym, GEC. Hand in hand with the changing dynamics of the economy is a new consumer trend; the rise of the bargain hunter.

The general view is that markets are under pressure and it is a buyers' market. This is not simply a consumer sentiment. Consumer, business to business or investor – everyone believes that vendors are under pressure and goods, services and assets can be acquired at a lower price. Supply exceeds demand in most cases and economic theory says that this will drive prices down. This psychology is the reality for 2009. Enter the bargain hunter – everything can be bought for less than face price.

The consumer market has led the charge. Spending has slowed and most retailers have responded by slashing prices and margins. The real estate market followed suit with sales slowing and prices easing. Many agents simply are talking about price needing to meet the market. And, whilst sales continue, most are at a reduced price. Even the sale of businesses is being influenced by market sentiment. Where there are buyers they expect to acquire at a discount. We have also recently seen more overseas investors looking for businesses they can acquire in Australia. The common theme is that good assets can be bought for less.

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“...The consumer market has led the charge ...”

Making the Most of the Investment Allowance *continued from page 1*

In general, the investment allowance applies to tangible depreciating assets that you would ordinarily acquire in the course of your business.

For example, Cathy runs a cafe business through her company, Roma Pty Ltd. The annual turnover of Roma is less than \$2m and the company is a small business entity for tax purposes.

Roma purchases a brand new oven on 1 May 2009 for \$6,600 (GST inclusive). The supplier installs the oven on 15 May 2009 for \$550 (GST inclusive). Roma is entitled to claim GST credits of \$650 and the cost of the oven for tax depreciation purposes is \$6,500.

As Roma is a small business entity the expenditure threshold is met and the company is entitled to the 30% tax break. Roma can claim a bonus tax deduction in its 2009 tax return of \$1,950. Roma will also be able to claim depreciation deductions based on the cost of the oven so that the total deductions claimed by the company will amount to \$8,450 (i.e., \$6,500 depreciation deductions plus \$1,950 bonus deduction). The investment allowance is accessible to business entities that carry on a business in Australia where the asset is used in the course of carrying on that business. It is not available for other forms of investment.

In addition to the investment allowance, businesses would also claim the normal depreciation deductions over the effective life of the asset.

The allowance will be claimed as an additional deduction in the tax return for the year in which the asset is first used or installed.

All of this is designed to prevent business investment stalling and keep the economy ticking over. We have already seen business confidence drop significantly in the current climate. A recent Australian Chamber of Commerce and Industry survey reported that investment in plant and equipment had fallen to a new historic low. All three business sizes experienced negative investment growth with small business having the biggest reduction in investment.

The legislation enabling the investment allowance has not passed Parliament as yet so some of the detail of the package may change.

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“...In addition to the investment allowance, businesses would also claim the normal depreciation deductions ...”

The Rise of the Bargain Hunter *continued from page 1*

The greatest challenge for many businesses in 2009 will be to achieve their sales and revenue targets. Business is competing for fewer buyers, who are less inclined to spend and who believe that there is likely to be a better deal just around the corner.

They are under less pressure to buy and in many cases believe that time is on their side. In some cases, they ‘smell fear’ in the market and they are prepared to take advantage of it.

So how do you operate in this type of market? The answer may depend on whether you are a buyer or seller. Most SMEs are both and you should modify the way you deal to manage market conditions.

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Making the Most of the Investment Allowance *continued from page 2*

Here are a few common questions (please note that these questions are for information purposes only and you should not act on this information without checking your individual circumstances):

Q: Can I buy second hand equipment and still claim the investment allowance?

A: The investment allowance does not apply to an investment in second hand goods unless the item is a demonstrator model (where the asset has only been used for reasonable testing and trialling by an entity). An asset is new if it has never been used or installed ready for use by anyone, anywhere.

Q: Can I use the investment allowance for leased equipment?

A: Whether or not you can claim the investment allowance on leased equipment comes down to who the law defines as holding the asset. If you hold the asset and are able to claim a depreciation deduction for the asset then it is likely you can claim the investment allowance (assuming you meet the other criteria). Broadly, where the depreciating asset (not a luxury car) is subject to a lease and the lessor has the right to recover the asset, the lessor is taken to be the "holder" of the depreciating asset. However, in some cases, the economic owner, not the legal owner will be the "holder" of the depreciating asset. This is something that needs to be reviewed case by case.

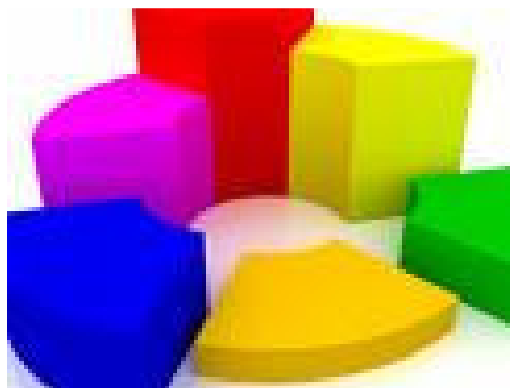
Q: Can I purchase an asset from overseas and claim the investment allowance or does it only apply to assets purchased and used in Australia?

A: As long as the asset is used in your business in Australia the investment allowance is likely to be available to a new asset purchased from overseas. This is assuming that the asset meets the definition of a depreciating asset and the other criteria for eligibility.

Q: I want to update a piece of equipment but cannot get the model I want. If I buy an available model to get me by and then replace it down the track when the model I want becomes available (and sell the original model), can I still claim the investment allowance or does the new equipment have to be held for a certain period of time?

A: Provided the acquisition of the current model is required on commercial grounds and provided the later acquisition is justified on commercial grounds then it is likely that you can claim the investment allowance (assuming you meet the other criteria).

If the asset is sold soon after it is purchased you need to ensure you can commercially justify the quick sale and have the documentation to support your case. Your risk is that with holding the asset for a short period, the Tax Office may consider the acquisition and quick sale a 'scheme' to which the anti tax avoidance rules come into play (and the investment allowance denied). With everyone looking to maximise this allowance it will no doubt be an area of review by the Tax Office.



The Rise of the Bargain Hunter *continued from page 2*

Here are a few suggestions:

5. **Recognise the market conditions.** There is no point refusing to accept that they exist. Follow market sentiment. It is likely to get worse before it gets better. Most commentators are predicting that an upturn will not arrive until 2010.
6. **If you are a buyer, be prepared to bargain on price.** Don't necessarily accept face price as being the best price that you can buy for. You may be surprised at the number of companies that will discount price if the question is put to them. Having said that, there are some businesses that are not playing the discount game. It all comes down to strength of position.
7. If you are a seller then you need to know:
 - a. **How your pricing compares in the market.** The price of your competitors may at least influence the expectation of your customers.
 - b. **Your margins and your break-even point.** If you are going to negotiate on price then knowing the impact on your profitability is essential.
 - c. **What your options are.** Is there a way to position yourself so that you are seen as being different in the market and where your price differential can be justified?
8. **Differentiating your business in the current market is more important than ever.** Me too businesses will be under price pressure. And, most SMEs do exactly that. You can differentiate your business in a number of ways. Your product format, packaging, delivery methods and service arrangements can all differentiate your business from the competition. The more you can differentiate your business in ways where there is perceived value the more you separate yourself from your competition. And, when you can do this price is less comparable.

The market will continue to pay for quality and value. Position your product and your business so that it has a clear value proposition to your market and it will continue to maintain its value. All of this means that your business strategy will be increasingly important in 2009. Just turning up and working hard may not be enough. The winners in 2009 will be the smart businesses that understand that we are in a different market and have positioned their business for this market.

We've Moved To: 12 Vincent Street, Cessnock

Many will remember this building as the old Cessnock Post Office or more recently as Furniture One. We look forward to welcoming you to our new office, where we have:

- Easy access from Vincent St•
- Client Parking at rear
- More meeting rooms
- Roomier office and storage areas
- The same great staff

Quote of the month

"The ultimate measure of a man is not where he stands in moments of comfort and convenience, but where he stands at times of challenge and controversy".

Martin Luther King, Jr.

Want to know more? Talk to us if you are concerned or want to know more about any of the areas covered.

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