

## Temporary Investment Allowance FAQs

### 1. Who is eligible?

The temporary investment allowance is available to all business taxpayers.

The minimum threshold differs depending on whether the business is a small business entity or a non-small business entity. A small business entity is defined as having an annual turnover less than \$2 million.

A small business entity needs to spend a minimum of \$1,000 per asset to qualify for the bonus. All other business entities will need to meet the minimum capital expenditure threshold of \$10,000 per asset to qualify for the tax break.

To reach these thresholds businesses can aggregate their investment in batches of assets that are identical, or substantially identical, and in sets of assets.

### 2. Eligible Assets

To qualify for the allowance, the asset must be a tangible asset and used primarily for business purposes by the taxpayer.

Below is a summary of eligible and excluded assets:

| Eligible Assets  | Excluded Assets   |
|--|---|
| <p>Tangible depreciating assets for which a deduction is available under Subdivision 328-D40-25 ITAA 97 for small business entities including:</p> <ul style="list-style-type: none"> <li>• Machinery</li> <li>• Equipment</li> <li>• Motor Vehicles (excluding cars subject to the cents per kilometre method)</li> </ul> <p>Depreciating assets used for eligible R&amp;D activities</p> | <p>Intangible assets including:</p> <ul style="list-style-type: none"> <li>• Purchased computer software</li> <li>• In-house computer software</li> <li>• Motor vehicles using the cents per kilometre method</li> <li>• Land</li> <li>• Capital works including buildings and construction expenditure</li> <li>• Trading stock</li> <li>• Horticultural plants</li> <li>• Establishment costs of carbon sinks</li> </ul> <p>Certain second hand goods</p> |
| <p>Tangible depreciating assets for which a deduction is available under section 40-25 ITAA 97 for non-small business entities including:</p> <ul style="list-style-type: none"> <li>• Machinery</li> <li>• Equipment</li> <li>• Motor vehicles (excluding cars subject to the cents per kilometre method)</li> </ul> <p>Depreciating assets used for eligible R&amp;D activities</p>      |   |

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### **3. Do Second Hand Assets Qualify?**

No. The tax break does not apply to second hand assets.

### **4. What does new mean?**

'New' refers to assets that have not been used before by anyone, anywhere.

### **5. Are Demonstrator vehicles new or second hand?**

Demonstrator vehicles may qualify as new assets provided they have only been used for reasonable testing and trialling.

### **6. Does the luxury car tax apply to the tax break?**

Yes. Where the taxpayer is eligible to claim the temporary investment allowance for a luxury vehicle, the allowance is capped at the luxury car limit.

For the 2008-2009 year, the luxury car limit is \$57,180. This means the maximum allowance available for the 2008-2009 year will be:

- Small Business Entity: \$28,590
- Other Business Entity: \$17,154

The luxury car limit is indexed annually in line with the Consumer Price Index ("CPI").

### **7. Will assets held under lease qualify?**

Yes. Tangible assets held under a leasing arrangement may qualify for the allowance.

However, the bonus deduction is available to the entity in a leasing arrangement that would be eligible to claim a capital allowance deduction under Subdivision 40-B ITAA 1997. This will generally mean it's the lessor who will be entitled to the tax break rather than the business lessee.

Where a luxury motor vehicle is subject to a lease arrangement, the lessee will be eligible to claim the tax break.

### **8. Is the Maximum Bonus 50%, 30% or 10%?**

The maximum rate of bonus deduction for a small business entity is 50% for assets where there is a commitment to invest in the asset between 13 December 2008 and 31 December 2009 and installed ready for use by 31 December 2010.

Other business entities may be eligible for:

- 30% deduction where they have committed to investing in an asset between 13 December 2008 and 30 June 2009 and install it ready for use by 30 June 2010.
- 10% deduction where they have committed to investing in an asset between 1 July 2009 and 31 December 2009 install it ready for use by 31 December 2010.
- 10% where they have committed to investing in an asset between 13 December 2008 and 30 June 2009 and install it ready for use between 1 July 2010 and 31 December 2010.



## **10. Do Buildings Qualify?**

No. Capital expenditure covered under Division 43 ITAA 97 (capital works) is specifically excluded from the temporary investment allowance provisions.

## **11. Does Computer Software Qualify?**

No. Computer software is not regarded as a tangible asset and is specifically excluded from the tax break.

## **12. Does the allowance bring forward allowable deductions normally claimed over the asset's effective useful life?**

The tax break is a one-off bonus tax deduction and applies in addition to the Subdivision 40-B capital allowance deductions available for an asset's decline in value.

The tax break effectively provides a deduction of up to 150% of the asset's value for small business entities or 130% for other business entities.

## **13. What happens if the asset is sold?**

The temporary investment allowance will not affect the income tax treatment of an asset on disposal. Therefore, the normal balancing adjustment provisions apply to calculate the income tax position on disposal.

## **14. Are primary production assets eligible for the temporary investment allowance?**

Assets acquired for use in primary production business operations may not be eligible for the temporary investment allowance. Certain primary production assets receive concessional capital allowance deductions under Subdivision 40-F.

## **15. Will the allowance be reduced for non-business use?**

The tax break will not be apportioned for any non-business use of the asset. However, you must be able to demonstrate that at the time the asset was first installed ready for use:

- The asset was to be used in Australia; and
- for the principal purpose of carrying on a business.

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