

Tax planning - year ended 30 June 2009

The entrepreneurs' tax offset (ETO)

The entrepreneurs' tax offset (ETO) is a tax offset equal to 25% of the income tax payable on your business income if you have aggregated turnover of \$50,000 or less.

If your aggregated turnover is more than \$50,000, the ETO is phased out so that the offset stops once your turnover reaches \$75,000.

Entrepreneurs' tax offset - family income test

In the 2008 Budget, the government announced that an additional income test will apply to the Entrepreneurs' tax offset (ETO). For most taxpayers the change will apply from the 2008-09 income year and will further restrict access to the ETO for taxpayers with high alternative sources of income.

The Government will apply a family income test to the eligibility criteria for the entrepreneurs' tax offset (ETO) to more appropriately target the offset towards genuine small, micro and home-based businesses.

Currently, the ETO is claimed by many taxpayers for whom business is not a primary source of income and who have other, more significant, forms of income. The family income test will restrict access to the ETO for businesses with high alternative sources of household income.

The family income test will further limit access to the ETO by restricting eligibility for singles from \$70,000 and families from \$120,000 adjusted taxable income per year.

This measure will apply from 1 July 2008.

If you carried on more than one business activity (as a sole trader or within the same entity), to work out

your net small business income you need to:

- combine your small business turnover from all business activities, and
- reduce that amount by the deductions attributable to that turnover.

The ETO can only reduce the amount of tax you must pay this year. That is, we cannot:

- refund any unused tax offset
- defer it to reduce your tax in a later income year, or
- transfer it to another taxpayer to reduce their tax.

Investment Allowance

The Government has announced an investment tax break for business.

The tax break, in the form of an investment allowance will provide:

Small business entities (turnover of less than \$2 million a year):

An additional tax deduction of 50 per cent of the cost of eligible new tangible depreciating assets where the business commits to investing in the asset between 13 December 2008 and 31 December 2009 and first uses the asset, or installs it ready for use, or (in the case of new investment in an existing asset) brings the asset to its modified or improved state on or before 31 December 2010.

Other business entities (turnover of \$2 million or more a year):

an additional tax deduction of 30 per cent of the cost of eligible new tangible depreciating assets where the business commits to investing in the asset between 13 December 2008 and 30 June 2009 and first uses the asset, or installs it ready for use, or brings the asset to its modified or improved state on or before 30 June 2010.

an additional tax deduction of 10 per cent of the cost of eligible new tangible depreciating assets where the business commits to investing in the asset between 13 December 2008 and 30 June 2009 and first uses the asset, or installs it ready for use, or brings the asset to its modified or improved state between 1 July 2010 and 31 December 2010.

an additional tax deduction of 10 per cent of the cost of eligible new tangible depreciating assets where the business commits to investing in the asset between 1 July 2009 and 31 December 2009 and first uses the asset, or installs it ready for use, or brings the asset to its modified or improved state on or before 31 December 2010.

Who can claim the Tax Break?

Provided all of the eligibility criteria are met, the Tax Break is to be claimed by the taxpayer that holds the asset for the purposes of Division 40. That is, the same person who claims capital allowance deductions in relation to the asset.