

# Investment Allowance Traps...

The Investment Allowance (or tax break) was part of the Government's stimulus package designed to ensure that business investment remained consistent, despite the dwindling economy.

Unfortunately, a lot of time passed between when the Government first announced the tax break and the rules being enacted by Parliament. As a result, there was little guidance on exactly how the Investment Allowance would apply in real life despite being heavily utilised and promoted. Since the release of the enacting legislation, the ATO have clarified many of the points of concern to business.

## **Where the asset is used for personal as well as business use**

To qualify for the Investment Allowance, an asset needs to be for the "principal purpose of carrying on a business." There has been a lot of confusion around what "the principal purpose of carrying on a business" really means, particularly for assets like cars where the asset might be used for personal as well as business use.

The Tax Commissioner has since concluded that where a taxpayer is expected to use an asset for more than 50% of the time for the purpose of carrying on a business, this will meet the eligibility criteria for the Investment Allowance.

## **Hire purchase agreements**

To qualify for the Investment Allowance the "investment commitment time" must occur after 12.01am, 13 December 2008 and before 1 January 2010. Also, in order for a non-small business entity to qualify for the 30% Investment Allowance, the investment commitment time must have occurred before 1 July 2009.

When it comes to hire purchase agreements, the Tax Commissioner has stated that the "investment commitment time" is the time at which the hire purchase agreement was entered into. It is not when the deposit was paid or order placed. So, be careful you have the right dates in place if you are claiming the Investment Allowance.

## **Demonstrator vehicles**

Generally, the Investment Allowance only applies to new cars. The exception is where the car has been used as a demonstrator vehicle held for "testing and trialling". But be careful, just because the dealer calls it a demonstrator vehicle doesn't mean the tax office will accept their definition. To qualify you need to prove that the car was only held for a reasonable period of testing and trialling. As a general rule, the ATO have stated that a demonstrator vehicle will be considered 'new' where it has been used for demonstration purposes for a period up to three months.

*For assistance on how to use the Investment Allowance in your business, contact your adviser today.*

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