

# ATO clearance sale on deductions

## Small business

David Potts

The Australian Taxation Office is holding a once-only pre-June 30 clearance sale, with some taxes marked down by 30 per cent. Refurbish the office, upgrade your computer or buy a new company car in the next few weeks and your business will get a 30 per cent tax deduction.

A business with turnover of less than \$2 million has to invest at least \$1000, but it isn't restricted to a single purchase.

"Bundles of things, such as a fit-out of the office including desks, computers and so on can all be aggregated to reach the limit," says

Tony Fittler, tax director of accountants HLB Mann Judd. That's everything but the building itself or anything that can be classified as intangible, such as a software upgrade for the computer. The equipment or furniture must have been ordered after December 13 and before June 30, but there are three periods when you can claim the 30 per cent deduction.

If it's ready to use by June 30, it can be claimed this financial year; for installation some time in 2009-10, it can be claimed in that year; or for an order made in the second half of this year, you have until December 31 next year to install it, but you will only get a 10 per cent deduction. The investment allowance is on top of

the normal depreciation tax break. So on a \$1000 laptop, the 30 per cent deduction of \$300 plus the \$667 depreciation in the first year (using the diminishing value method) would save almost \$300 with a corporate tax rate of 30 per cent.

Any borrowings are also deductible, except for leasing. Even then, you can negotiate a deal with the lessor who will be getting it.

"If you're thinking of upgrading your computer system you may as well do it now and get the 30 per cent deduction," says Sue Prestney, spokeswoman for the Institute of Chartered Accountants and partner of MGI Chartered Accountants.

Note the deduction does not apply to second-hand equipment, except demonstration vehicles, and

is limited to cars worth no more than \$57,180.

Another critical decision needed before June 30 is writing off bad debts. These can be claimed only when they've been written down, Prestney warns.

"You have to write it out of the ledger by June 30 to get a deduction," she says. "It has to be done properly and written out of the debtors' ledger."

Nor is a build-up in stocks, likely to be a common theme this year, an automatic deduction. It needs to be written off as obsolete or slow-moving.

Another complication is the rising dollar, which could even mean reporting a profit that you haven't made. The stronger dollar may have driven the replacement

cost of an asset below book value.

"This requires a policy for the write-down which is based on what the stock is doing. You'll need to see an accountant before June 30 to get the deduction," says Prestney.

It can also pay to revisit forward cover or deferred repayments so a gain is not realised this financial year. The recession could pose problems for many cash-based businesses, which will need to be addressed before June 30.

The trap is tax adjustments carried forward from the previous year from booming profits not booked because payment has not yet been made.

That could result in a tax bill this year — even though the business is running at a loss.