



## Government to replace entrepreneurs' tax offset with \$5,000 car tax break

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Tax experts are divided over the Government's plan to scrap the Entrepreneurs' Tax Offset and replace it with an across-the-board deduction of \$5,000 for purchasing new cars, with some saying the decision will come at the expense of start-ups.

However, others say the ETO was a disincentive for growth and poorly targeted.

The plan, which was announced by Treasurer Wayne Swan yesterday, was decided upon after the Future Tax System Review recommended the ETO be scrapped due to high compliance costs and poor targeting.

It is expected the cut will see the Government save \$365 million over four years, while \$350 million of that will be pumped into the new \$5,000 vehicle deduction.

"AFTS concluded that ETO provided a disincentive for businesses to grow because the benefit available started to decline at \$50,000 of annual turnover and cut out completely at \$75,000," Swan said in the release.

"The ETO was also only available to individuals with incomes under \$70,000 and its poor targeting and complexity meant 2.3 million small businesses missed out on any benefit."

The ETO provided small businesses with turnover under \$50,000 a tax offset equal to 25% of the income tax payable on business income. The benefit was phased out and stops once the business income hits \$70,000.

The latest statistics from the Australian Taxation Office found 397,787 businesses claimed the deduction in 2007-08, while that number jumped to 402,485 in 2008-09, accounting for \$177 million in deductions.

However, Sue Prestney, principal of accounting firm MGI Melbourne, points out that because the offset became means-tested from July 1, 2009, the number of businesses using the ETO from that date is likely to be less – although ATO stats are not yet available for that period.

But Prestney says while the ETO was not necessarily targeted well, the Government should still think twice about taking away early-stage assistance.

"It's a strange thing, this offset. I would think it isn't terribly targeted, it just sort of rewards people for having low turnover. While it's nice to give people a bit of a leg-up when they're starting out in business, I'm not sure this was the best way of doing that."

"Having said that, any assistance you get when you're starting up is worthwhile, and you would not like to lose this and not get compensated somehow. I'm not sure that giving \$5,000 deductions to buy a car is actually the sort of assistance that's going to get SMEs up and running."

Paul Drum, CPA Australian spokesman, says while the majority of small businesses wouldn't qualify for the benefit, those businesses which were eligible found the scheme to be quite supportive.

"It was seen by many as putting a ceiling on growth. But I don't know if that's a valid argument in all circumstances either, and I think too much has been made of that."

He also counters the argument that it was too complex, saying most businesses already use tax agents and the system was far less confusing than other deductions and tax savings available for entrepreneurs.

The Government's new initiative will provide businesses with an instant write-off of the first \$5,000 of any vehicle purchased from 2012-13. It will combine with other initiatives announced during the Henry Tax Review, which include an immediate write-off of all assets valued at under \$5,000, and a reduction in the company tax rate to 29%.

Tax expert Greg Hayes says while the entrepreneurs' tax offset did only service a small portion of the business community, the deduction for vehicle purchases will similarly only provide benefits for SMEs in the position to buy a car.

"It helps small business, and it helps the motor vehicle industry, but it's one of those situations where if you need to replace a vehicle, then it's great, but if you've already replaced it you'll be wondering why this wasn't brought in awhile ago."

"The difficulty with these targeted incentives is they tend to create a polarisation between the haves and the have nots. It's nice to see businesses getting a little something but it's definitely not pitched towards the entire marketplace."

However, HLB Mann Judd tax consulting partner Peter Bembrick says in his experience the tax offset isn't something widely taken up.

"The threshold is pretty small, and most of our clients are not going to use it. It only had a fairly limited application, and if they're saying they'll replace it with something across the board, then that would be welcome."

"There may be pockets of the business community where it is widely applied, but I believe it's relative to how many people actually benefit from it."

Prestney says despite the small number of businesses using the offset, the Government should still replace it with start-up assistance.

"They need assistance for setting up accounting programs and getting their books together, all the non-sexy stuff that costs money. That's what they need assistance for."

"We're taking a generally available concession away to get a restricted concession for something else that I'm not quite sure is the right way of doing things."