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new \$5,000 tax break for SME's

The Australian Federal Government has announced that SME's with a company structure will be able to write off assets worth up to \$5,000 in the year of purchase from 1 July 2012. They will also be able to depreciate all other assets (besides buildings) in a single pool at the rate of 30%.

Currently small items worth less than \$1,000 can be immediately written off, and others allocated to one of two depreciation pools of either 30% or 5% rate depending on the life of the asset.

Pros and cons of the new tax breaks

Simon Allsop, Managing Director of *myaccounts* says there are advantages and disadvantages to the new system.

"The government has been experimenting with ways to boost small business cash flow throughout the GFC in order to stimulate the economy," he says. "This new move will certainly be popular with SME's and their bookkeepers and accountants and it means it may be worth putting off any major purchase you may be planning until next year. But if profit margins matter to your business it's important to be aware that claiming the new deductions will result in a much reduced profit margin."

Simon says that anyone who needs to seriously demonstrate the profitability of their business and show the best possible results should write off assets over their useful life. This is the only way to properly locate the cost of an asset over the years that it contributes to the earning capacity of the business.

This involves more work but it makes financial statements and profit margins more meaningful and allows businesses to maximize their value for sale.

"Putting the issue of on-paper profit margins aside, the new system certainly does mean that thousands of SME's will be much better off each year," says Simon.

The new tax cut can be used to claim any kind of equipment, machinery, furniture or fittings – any kind of asset that is necessary to a business and will depreciate in value.

"Cutting tax and increasing the depreciation rate is all about giving SME's an incentive to get out there and spend money," says Simon. "It's just important to remember that it is not available to sole traders or partnerships, and it will impact on your profit margins. Other than that, it's certainly great news for small businesses."

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