

What the Federal Government Investment Allowance means to IT buyers

Prepared for IBM Australia

6 April 2009



Investment Allowance - Why it's important to you

What is it?

The Government has released draft legislation to provide a temporary tax break – the investment allowance (IA) – for Australian businesses to encourage economic activity

The IA is a bonus 30% or 10% tax deduction for certain new investment in tangible depreciating assets made within limited timeframes – this equates to a benefit of up to \$9 for every \$100 spent

For IT buyers, the IA may reduce the overall cost (for a limited time only) of acquiring or upgrading to the latest business technology – the IA should be considered immediately

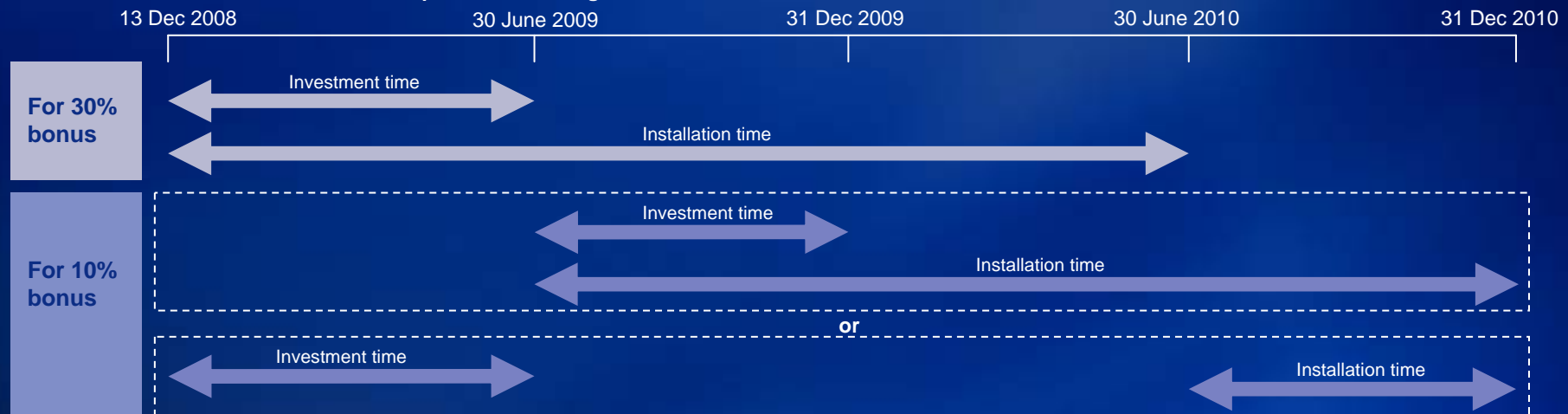
What's likely to be in and out?

New hardware costing \$10,000+	✓
Batches of substantially identical new hardware totalling \$10,000+	✓
Sets (eg interdependent assets or marketed as a set) of new hardware totalling \$10,000+	✓
Upgrades costing \$10,000+ of existing hardware	✓
Software	x
Trading stock	x
Second hand assets	x

(Note: Small businesses have a reduced threshold of \$1,000+)

What are the limited timeframes?

The IA depends on meeting limited timeframes – the “investment time” and the “installation time”



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When is the investment time?

The investment time refers to:

- When you enter into a contract to hold the asset; or
- When you start to construct the asset

Actual payment by the cut-off date is unlikely to be needed – a binding purchase order may be sufficient

When is the installation time?

The installation time refers to:

- When the asset must be first used or installed ready for use; or
- When the asset is modified or improved

How is it claimed (owned assets)?

The benefit of the IA is claimed as an additional tax deduction in the income tax return

This means that the tax profile of your business will be relevant to determining the extent of the benefit of the IA (eg a business in a tax loss may not enjoy any short term benefit)

The benefit of the IA is likely to be “below the line” for owned assets

How is it claimed (leased assets)?

The benefit of the IA may be passed onto the lessee for new assets (excluding hire purchases) as lower lease payments

The benefit of the IA is likely to be “above the line” for leased assets. This may mean more spending power without increasing your business' IT budget

What you should do now?

- Determine whether the type of expenditure qualifies for the IA (eg software vs hardware)
- Review forecast capital expenditure program to determine what expenditure will qualify for the IA
- Revisit cost/benefit analysis for recently shelved capital expenditure programs in light of the IA
- Review all post 13 December 2008 capital expenditure and upgrades, repairs and maintenance on existing eligible assets to determine if existing spend qualifies for the IA
- Establish how the benefit of the IA will be dealt with in your organisation (eg expanded IT budget)
- Consider your business' tax profile to determine the extent of the IA benefit (whether to lease or buy)
- Develop systems to ensure that key installation times are met and benefits are captured

As there are many considerations associated with the IA rules, you should discuss these with your IT vendor and tax advisor



Important notes

At the date of publication, the Tax Laws Amendment (Small Business and General Business Tax Break) Bill 2009 has not yet been enacted. The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation

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