

Issue

On 3 February 2009, the Australian Government announced they would be funding a \$2.7 billion Business Tax Break for all Australian businesses. Small businesses can claim an additional 30 per cent tax deduction for eligible assets costing \$1,000 or more that they acquire from 13 December 2008 to 30 June 2009, and install by 30 June 2010. For eligible assets costing \$1,000 or more that they acquire from 1 July 2009 to 31 December 2009, they can claim an additional 10 per cent deduction where they are installed by 31 December 2010.

Background

This \$2.7 billion Business Tax Break is a part of the Government's \$42 billion Nation Building and Jobs Plan to support up to 90,000 Australian jobs. The Government is attempting help Australian businesses boost business investment and inturn bolster economic activity and create jobs.

Australia, while faring much better than most Western economies, has been heavily affected by the global financial crisis which started in September 2008 following the bankruptcy of American firm, Lehman Brothers. This bankruptcy triggered a massive re-appraisal of risk, and ushered in a period of the most intense financial turmoil seen in decades. As a result, Governments around the world have been supporting key institutions, supplying huge quantities of liquidity and offering guarantees on various obligations of banks, in an attempt to stabilise what could have been a catastrophic loss of confidence in the global financial system.

The Australian Government, with the support of the Reserve Bank of Australia ('RBA'), has developed a number of initiatives (e.g. guaranteeing bank deposits, cutting interest rates and increasing the first home owners grant) in an attempt to revitalise the Australian economy. In February, the Government struck deals with the Greens and Independent Parties following the Coalition's outspoken opposition to the package. The Government is attempting to stimulate the economy through short term instant spending measures (the Government has announced approximately \$12 billion in \$900 bonuses to be given to millions of Australians) as well as more long term infrastructure spending (\$28.8 billion plan to invest in schools, housing, energy efficiency, community infrastructure, roads and support to small business). Treasury estimates suggest the plan will support up to 90,000 jobs over the next two years to assist the economy which is now expected to grow at under 1% this year (down from 2.75 per cent in the May 2008 Budget).

Points of particular interest

1. Drought hardship grant measure:
 - The government will make a one-off payment of \$950 to assist farmers experiencing hardship due to drought conditions and others receiving Exceptional Circumstances related income support.
 - The payment will provide immediate financial support to farmers who are most in need and may not have sufficient taxable income to benefit from the Tax Payment.
 - It is estimated that this measure will benefit around 21,500 farm families and small businesses currently in receipt of drought relief related income support.
 - Eligible recipients will be those who on 3 February 2009 are in receipt of:
 - o Exceptional Circumstances Relief Payment for Farmers;
 - o Interim Income Support for Farmers;
 - o Exceptional Circumstances Relief Payment for Small Business;

- Interim Income Support for Small Business;
 - Transitional Income Support; and
 - Farm Help Income Support.
- A single payment of \$900 will be paid to eligible households, irrespective of whether the eligible payment they receive is paid at a single or couple rate. The payment will not be taxable or counted as income for income support purposes.
 - The Farmer's Hardship Payment is payable in addition to other payments made under the Household Stimulus Package, with the exception of the Training and Learning Bonus. That is, the Training and Learning bonus and the Farmer's Hardship Payment are mutually exclusive – you cannot receive both payments. The payment will be made automatically by Centrelink in the fortnight commencing 24 March 2009.
 - Those farm families who received an Economic Security Strategy payment in December 2008 will be eligible for the Farmers Hardship Payment provided they meet the other eligibility criteria for the Farmers Hardship Payment. That is, receiving a previous Economic Security Strategy payment will not preclude anyone from this new payment.

2. Regional Infrastructure:

- \$150 million to repair regional roads,
- \$90 million over 2 years for the black spot program,
- Bring forward the installation of 200 new boom gates at unsafe level crossings,
- Expand the regional and local community infrastructure program by \$500 million;
- School funding upgrades for every school in the country up to \$200,000 based on the size of the school, for maintenance and minor building works, and
- \$150 million worth of critical maintenance work on national highways.

3. Tax break for small business:

- \$2.7 billion for temporary tax breaks for small business,
- Small businesses will be able to claim a bonus deduction of 10-30% (depending on timing of the purchase) on eligible assets costing \$1000 or more. To benefit from the full provision business need to have a turnover of \$2 million or less,
- In addition to the investment allowance, businesses would also claim the normal depreciation deductions over the effective life of the asset.

4. Water Buy back acceleration

- \$500 million brought forward for water buybacks (this may be a problem for NSW, as water is likely to be purchased from our irrigators for sale to South Australia. We do not support this element),
- \$200 million in grants to assist local communities save water and to plan for a future with less water, and
- \$200 million on stormwater harvesting projects.