Everyone loves a tax reduction

Considering the purchase of a vehicle or any asset purely for the purpose of reducing your taxable income isn't a good idea. There are a number of other important considerations. If you plan on making a vehicle purchase, speak to your accountant or tax professional first to understand the benefits and impacts on your taxation position and your short-term cash flow.

How does the instant asset write-off work?

If you are a business owner considering investing in or upgrading a motor vehicle, the instant asset write-off scheme can be helpful.

Here is an example of how it works:

A gym equipment business has an annual turnover of $750,000 and a taxable income of $220,000.

Turnover of the business is less than $25 million.

The business will be subject to paying the Australian company tax rate of 25%.

In this case, the total tax liability is $55,000 ($220,000 x 25%).

If the company purchases a light commercial van costing $45,000, the total value of the purchase can be deducted from the company's net taxable income during that financial year.

Profit will be reduced to $175,000 ($220,000 - $45,000) resulting in a reduced tax bill of $43,750, or a saving of $11,250.

TAXABLE INCOME	$220,000
TAX @ 25%	$55,000

TAXABLE INCOME	$220,000
Value of vehicle deducted	-$45,000
NEW TAXABLE INCOME	$175,000
TAX @ 25%	$43,750
TAX SAVINGS ($55,000 - $43,750)	**$11,250**

It is important to understand that to receive these benefits, you must meet the eligibility criteria for the instant asset write-off scheme. To claim the full benefit the vehicle must be 100% business usage.

If the vehicle is used for business and personal use, only the business portion of the cost can be claimed as a write-off.

There is no need to submit an application to receive the tax benefits of the instant asset write-off scheme. Your accountant will simply add the tax deduction to your tax return for that financial year.

DID YOU KNOW???

It could just be the best time for you to buy an electric vehicle or plug-in hybrid.

The fringe benefits tax exemption for employers providing select electric vehicles for staff to use for business purposes has plenty of upside for EV buyers, but as always where there are benefits there are always rules you need to follow.

Contact us for our BONUS article on electric cars exemption.


Electric cars exemption

What do you need to consider when purchasing an additional vehicle?

Business owners and directors need to consider if the vehicle will add value to the business. For example, will it be used in a capacity to generate income?

Traditionally these vehicles are 100% business use and may include:

Cars (for income tax purposes) are defined as motor vehicles (including four-wheel drives) designed to carry both:

- a load less than one tonne
- fewer than nine passengers.

Other vehicles include:

- motorcycles
- vehicles designed to carry either:
  - one tonne or more (such as a utility truck or panel van)
  - nine passengers or more (such as a minivan).

Purchasing a vehicle for a business owner's personal use or use by other family members not working in the business does not add to a business income stream and therefore should not be considered for the instant asset write-off scheme.

As well as the instant asset write-off, the Australian Tax Office (ATO) provides guidance in a video on other motor vehicle related expenses that can be claimed as business expenses.

To watch the video visit *www.ato.gov.au/Business/Income-and-deductions-for-business/Deductions/Deductions-for-motor-vehicle-expenses/*

Considerations when purchasing a replacement vehicle

Purchasing a replacement for an aging vehicle has many advantages, especially if the vehicle is in need of repairs or has simply travelled a large number of kilometres.

Benefits of purchasing new vehicles can be:

- Warranties of up to 5 years
- More fuel efficient
- Eco friendly electric vehicles (also now exempt from fringe benefits tax)
- In some states inspection fees are not required for the first 4 or 5 years
- Less maintenance and repairs
- GST can be claimed back on the first Business Activity Statement (BAS) after purchase.

So to make an informed decision about whether to purchase a new replacement vehicle, a business owner or director needs to compare the costs of maintaining an aging and depreciating vehicle against the potential savings of a new one.

Cash flow considerations

Good cash flow management is essential to the viability of any small business and we understand that sometimes you may not have spare cash for a vehicle purchase.

Obtaining finance can be a good way to purchase your essential vehicles. Many loans for vehicles will cover 100% of purchase price and include registration and GST. While the GST can be claimed back, it can be used towards repayments or decrease the loan amount or it can used as cash for your business.

Trade in

Trading the old vehicle can reduce the changeover price, or again these funds can help boost cash flow.

As with any vehicle or asset finance, you need to ensure that the product suits your business requirements and allows you to claim all the benefits you are entitled to.

Remember you should obtain advice from your accountant on the type of finance that would be best suited for you to take advantage of any purchase.

Don't try to work out the finance options by yourself. We have access to many lenders who can help you finance your vehicles.

Remove the stress and confusion by chatting with our finance team to close that cashflow gap.

Contact us to read
'Understanding the instant asset write-off requirements'

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