

Small business tax cut in australia



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Introduction

A number of interesting developments has been introduced by 2015-2016 Federal Budgets to the tax landscape of Australia. Number of incentives including two significant tax cuts has been introduced by the Australian government to allow small business to improve their cash flows, encourage competition and growth, and allow for hiring of additional employees.

The first is Abbott Government hands 1.5% tax cut to the companies with an aggregated annual turnover of less than 2 million which are said to be the small business companies. This means that small companies will have their tax lowered from 30% to 28.5% that is the lowest small business tax rate in more than 50 years. It is expected to be applied from 2015-16 income year.

The second is the individual tax payers with business income from an unincorporated business will get a small business tax discount. These are for business that has an aggregated annual turnover of less than 2 million. 5% of the income tax payable on the business income received from an unincorporated small business entity will be the discount. The discount will be delivered as a tax offset and capped at 1000\$ per individual for each income year.

Australian government understand the feelings of people in small business. They are the heart of the economy and feel disadvantaged as compared to big business entrepreneurs. Small businesses employ nearly half of Australia's private sector workers. Small businesses are the part of the community in a way that big businesses can never be. For all companies, maintaining the existing arrangements for investors, including self-funded

retirees, the current maximum franking credit rate for a distribution will remain at 30%.

“ Australia is among the fastest growing economies in this era of developed world. Despite the whole series of unexpected challenges over the past twelve months (example- sharp falls in iron ore price, drought in large parts of New South Wales and Queensland etc.) Budget and economic position has improved in Australia” says the Finance Minister. Despite the fact that in expected tax revenue the country has lost \$90 billion, the Budget Surplus is unchanged from last year. He also said that they are reducing the size of the government as a share of the economy.

Along with the tax cut, tax deductions were also extended by the government to drought ravaged farmers for water facilities and fencing. The Treasurer said “ this is about getting on with it, getting people to have a go”. In his opinion if it works then he would predict that the businesses just needed that trigger to go out and buy things and they already had cash ready.

Prime Minister’s Opinion

Mr. Abbott said that only the incorporated entities will receive the small business tax cut. The small business tax cut will be effective in many ways as it will boost productivity, stimulate investment, make existing jobs more secure and also generate more jobs. Also the offsetting effect of all new spending would be responsible and fair savings. The push to extend the new 28. 5% tax rate to the first \$5 million of profit for all companies is rejected by

the Abbott's government. Top corporate tax rate will still be paid by big businesses on every dollar they earn.

According to the Prime Minister, part of the jobs package will be formed by the tax cut for small business. "The small businesses of today are likely to start the new industries of tomorrow. The best antidote to sunset industries is sunrise ones and these are most likely to emerge from an enterprising small business" said the PM. Of the two tiered structure he said it would be fundamentally popular and good for employment and also it won't cost the budget too much.

What does tax reduction mean for small business?

A small business with \$50000 profit could save roughly \$5700 a year. This is the combined effect of two measures that is 28.5% tax rate and tax deduction

The number fewer than 20 are defined as small business. But here these cuts can only be accessed by businesses turning over upto \$2 million. Even if much profit doesn't arise from a business and profit is just a fraction of 2 million, this tax cut could add up to thousands of dollars per year.

Treasurer's wants the small businesses to grow and a step can be taken towards it by using these thousands of dollars a year. For Example meeting interest payments and borrowing money.

What people think?

“ After the Reserve Bank cut interest rates the Treasurer said now is the time to have a go, to borrow some money and invest whether you are a household or small business.”

“ None of my people get excited about the tax break” said the Council of Small Business of Australia executive Peter Strong. He says reintroduction of an investment allowance is what the Council wants to see and it’s all about spending. The average small business considers it to be more meaningful. 50% of the cost off the tax bill could be claimed by businesses in the last investment allowance which was basically a tax deduction and not a tax cut in late 2009. Under that, deductions could be claimed for essential equipment worth over \$1000.

Info about the budget that Australian small businesses need to know

Australian small businesses are expected to fulfil the hopes of the government which is banking on them to boost the economic growth of the country over the next few years.

Tax cuts for company owners and companies

Tax cut of 1.5% was announced before the budget but it was not well known that same reduction will be provided to the business owners on the personal income tax they pay on the earnings from their company.

When a business owner’s income tax is calculated, the same tax credit is received that they would have received if instead of 28.5 cents that they actually paid their company had paid 30 cents in the dollar is the effect of

this. This is because the franking credit rate will remain at 30%. So the 1.5% tax cut will be pocketed by the business owner.

Faster Depreciation

Immediate tax deduction will be given to all small business for individual assets that they buy costing less than \$20000 each.

Previously only the assets that cost less than \$1000 were covered under this. Rather than spreading the deductions over several years as previously, full tax deductions for vehicles, tools, IT equipment and so on will be received by the business for the year they're purchasing. Businesses can reinvest this money in growth or pass on to the owners. Also the businesses can claim unlimited number of purchases.

Less tax for sole traders

Small businesses operate as a sole trader, as a trust or as a partnership instead of operating as companies. This is recognized by the government which is also providing tax cuts to unincorporated businesses with annual turnover less than \$2 million.

For Example -A sole trader would be entitled to receive a discount of 5 per cent coming to \$800 if he pays \$16000 in tax. Therefore, 5 per cent of the tax they pay, capped at \$1000, will be received by these businesses which can be claimed as a tax credit in their tax return.

Share Schemes

Even if the employees had not made any money and sometimes even if shares are worthless, it was essential to pay the income tax on the options to buy shares that the employees received as soon as they received them under the old tax laws. Therefore, the share schemes were unworkable.

But under the new transformed budget, if the employees can realise a benefit from their options, by using them to buy shares only then they will have to pay tax.

Offering shares in the business is the best way for a start-up without much cash to attract top-talent.

Digital Upgrades

Over the next four years, \$255 million is decided under the government plan for updating its computer systems and the way it interacts with businesses and individuals. This will be good news for the small businesses which often indulge in an interaction with the government online to do things (example- paying taxes, registering a business name, etc.)

With the pace of program progresses over the coming years, these things should also get faster and easier.

Start-up Costs Deductions

For many of the professional expenses immediate deduction can be received by new businesses for setting up new businesses such as legal, professional and accounting advice.

Currently for these new enterprises, the changes should provide the much needed cash flow and deduction is required from some of these costs over the next five years.

Wage Subsidy

To employ the young, the old and the long-term unemployed, about \$1.2 billion will be provided in wage subsidies to help businesses. According to the government, to meet employer demands there will be more flexibility for the job seekers even if it replaces several other wage subsidy programs of that total the same amount.

\$6500 is the subsidy for employing a young job seeker and \$10000 is the subsidy for the mature-aged job seeker.

Crowd Funding

By seeking small amounts of capital from a large number of investors online, a new way of raising funds is called crowd funding. It is often for a specific purpose such as new product development. Now small businesses can access a wider pool of investors to help them to grow. Many of the restrictions and red tape associated with crowd sourced equity funding are removed by the new laws introduced in the budget.

GST on Digital Imports

The goods and services tax will also be imposed by the government on the digital products and services that are bought from overseas. It will also be applied to the software, so the businesses need to be aware. They will be

able to claim most of the GST that they pay. For common people it will apply to the movies, games and songs that they buy from overseas companies.

Tax Relief for Changing Business Structure

The capital gains tax will no longer have to be paid by the small businesses which change their legal structure. The capital gains tax can potentially hit the small business such as a partnership or a company when it changes its legal structure under current laws. Now without incurring a capital gains tax bill these businesses can easily change their legal structure. Established businesses now have a chance to assess their current business structure whether it is best for tax and succession planning or not so that they can change it.

Conclusion

The policies of the old parties invariably promote the interests of the big business and their lobbyists. The small business sector is always taken for granted by these parties.

Tax cut will benefit in several ways:

- Acknowledge the administrative costs for small business.
- Encourage growth in the small business sector.
- Free up extra income for investment, innovation and business expansion.
- Small businesses will be relieved from pressure.

Australian government recognises that strong Australian economy lies in healthy small business sector. It is completely feasible to lower the tax rate for small businesses. Countries like Belgium, Canada, France, Japan, UK, South Korea, US, Netherlands and Spain already have a lower company tax rate for small businesses than big businesses. Australia's unemployed will have the skills and they will get the support that they need to move in future careers. A further boost to energise small business growth and employment will be provided by the budget's small business and job package. Therefore, the people behind the small businesses will get a fairer go by the government's decision to lower the company tax for small businesses.

There is a fully cost plan for a tax cut for small businesses including being up-front about how it will be paid. The government is prepared to stand up to big businesses and raise the revenue to support the people behind small businesses by taxing the record profit-making big banks and the mining corporations which are mostly overseas owned.