

Coalition election announcements

The unofficial federal election campaign is now well under way, with Opposition Leader Peter Dutton announcing a couple of tax policies while out on the hustings in Queensland on 19 January.

We're drawing these developments to your attention in order to keep you informed about what the tax landscape might look like post-election after announcements from the major parties. We appreciate that people make their voting decisions for all sorts of reasons, and small business tax policy is unlikely to affect the election result in one way or another. And we would never suggest how you should direct your votes – that's none of our business.

Entertainment expenses – return of the boozy lunch?

In an effort to boost the hospitality sector, the Coalition promises full deductibility and no FBT for up to \$20,000 a year spent on the cost of food and entertainment at clubs, pubs and restaurants, but not for the cost of alcohol. Intriguingly, the announcement states that the new policy will run for an initial two-year period, perhaps suggesting that the Coalition may be open to extending it beyond two years.

The proposal will apply to businesses with an annual turnover of up to \$10 million. The policy has not been costed, at least not publicly – that will presumably come later in the campaign.



So, what's being proposed is not a switching off of the non-deductible entertainment rules across the board. Football, tennis and theatre tickets and the like will remain non-deductible and/or subject to FBT where employees are involved. This is a carve-out for meals and associated entertainment only.

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This information has been prepared without taking into account your objectives, financial situation or needs. Because of this, you should, before acting on this information, consider its appropriateness, having regard to your objectives, financial situation or needs.

COALITION ELECTION ANNOUNCEMENTS

The alcohol exclusion is a win for sobriety, but in any case, workplace practices have changed since the 1980s and 1990s, with many workplaces having testing protocols with a zero tolerance for drugs and alcohol. Some older readers may look back nostalgically to the lunchtime exploits of yesteryear, but for the most part societal attitudes have moved on.

Whether this policy would be the shot in the arm the Coalition is hoping for remains to be seen. When the entertainment regime was first announced in 1985, many were predicting the swift demise of the hospitality industry, only to be proven wrong as business adjusted pretty quickly to the new rules. And there were still plenty of long lunches in the late 80s and 90s. The reverse is entirely possible – that the slight loosening up of the rules will not do very much to change business behaviour.

But every little bit helps, and it is likely this two-year boost in deductibility for meals and entertainment will be welcomed by small businesses.

Instant asset write-off (IAWO) threshold

Another point of differentiation is the IAWO threshold, which is the amount below which small businesses (annual turnover up to \$10 million) can take an immediate tax write-off for the cost of acquiring a depreciating asset.

The Coalition is proposing to set the threshold at \$30,000 and importantly, to make it a permanent feature of the tax law. As things currently stand, the existing \$20,000 has to be legislated on a year by year basis, otherwise the threshold reverts to \$1,000. The legislation establishing the \$20,000 threshold for the 2023-24 income year was only passed days before 30 June 2024, which may have dampened its incentive effect.

The announcement does not include a start date for the \$30,000 regime. If the Coalition were to be elected this year and legislation was introduced speedily, it could apply to assets acquired in the 2024-25 income year, although commencement seems more likely to slip one year to the 2025-26 year.

On any objective basis, \$30,000 is better than \$20,000. Let's hope this announcement sets off a small business tax bidding war. 🏆

YET MORE RENTAL DATA MATCHING BY THE ATO

Issues that could be raised on audit include:

■ The repairs vs improvement issue

There can be a fine line between work carried out that is a genuine repair (and tax deductible up front) and an improvement (generally deductible over time). Even where something is a genuine repair, it may not be deductible if the work is carried out immediately after acquiring the property and before any tenants are put in.

■ Bond retentions

Where part of the bond is retained at the end of a tenancy because of damage caused by the tenants, the amount retained needs to be disclosed as assessable income. The cost of any associated repairs would generally be deductible.

■ Interest deductibility

Where you have a mortgage over an investment property and the loan was used to acquire the property (or any other income-producing asset), interest will be deductible, provided the property is being let or is available to let. But where you already own an investment property free and clear and borrow against it to pay off the mortgage on your main residence or use the money to buy a car or fund a holiday, the interest is non-deductible. It's the use of the borrowed funds that determines interest deductibility.

■ Is that holiday house genuinely available for rent?

Unless your beach house is exclusively used for rental purposes, and is never used by family members or friends free of charge or below market value, there are always issues around the apportionment of expenses. Advertising the property at an unrealistic price is not regarded as making it genuinely available for rent, which will affect apportionment.

■ Inherited property

There is a myriad of CGT issues around the sale of an inherited property, including where it has been used for rental purposes.

 We're happy to help you review any of these issues. 

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