

Under the previous investment allowance Division 40 allowed the lessor to transfer their whole entitlement to the investment allowance to the lessee.

Under the proposed legislation for this new investment allowance such a transfer does not appear to be possible.

The explanatory memorandum intimates that market forces may work so that finance companies may pass on their tax saving from the Investment Allowance in the form of reduced interest rates.

“As is currently the case with capital allowance deductions, how the Tax Break is factored into lease prices will be a matter for commercial negotiations.”

There is no guarantee that finance companies will pass on this benefit by offering reduced rates to lessees. For example a \$100,000 new item qualifies for a \$30,000 bonus tax deduction to the lessor, if the lessor is a company then this equates to a bonus tax saving of \$9,000 (30% x \$30,000). The total interest payable on a \$100,000 3 year lease is approximately \$10,000 based on current rates. In reality I cannot see the finance company passing all of their \$9,000 saving on as they would have to charge close to nil interest to do so.

The \$30,000 investment allowance may be worth more than \$9,000 to the lessee if their applicable tax rate is more than 30 cents in the dollar. Therefore a business contemplating financing under a lease facility (a popular form of equipment finance) may not get any benefit from the investment allowance. This will mean **that small and other businesses will be restricted in their financing options** as they will not want to effectively lose some or possibly all of any financial/tax benefit attached to the investment allowance. It is a difficult climate to obtain any form of finance at the moment so businesses need every viable option that they can access.

I would propose that the new legislation be reconsidered and that the transfer of the investment allowance to the lessee be allowed as it was for the previous investment allowance. This necessary legislation for transfer of the old investment allowance already exists so it should be a simple matter of amending the text to refer to the new investment allowance.



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