

Budget Policy Division  
The Treasury  
Langton Crescent  
PARKES ACT 2600

3rd January, 2017

## **2016-17 Pre-Budget Submission**

### **THE NEED FOR AN INVESTMENT ALLOWANCE**

On 8 December 2016 the Minister for Small Business called for pre-Budget submissions regarding priorities for the 2017-18 Budget. The **Commercial Asset Finance Brokers Association of Australia Limited (CAFBA)** welcomes the opportunity to provide a submission to Treasury to consider when formulating the Budget for 2017-18.

**CAFBA** is the peak national body of commercial equipment finance brokers, whose prime area of business is the distribution of commercial equipment finance facilities to their clients. **CAFBA** members are career professionals who adhere to strict professional standards, with recent studies showing that approximately 61% of new commercial equipment finance is arranged through finance brokers. Our members and their clients are predominantly small businesses, and operate in the commercial finance market. The total receivables in the Australian equipment finance market is approximately \$100 billion, so it is an important component of the Australian economy.

In 2016 CAFBA congratulated the government on the initiatives introduced in the Budget, many of which were called for in CAFBA's 2016 pre-Budget submission. These included:

- **Increasing the small business definition to annual turnover less than \$10 million** and
- **Extending access to the \$20,000 instant asset write off from 1 July 2016** for businesses with annual turnover of less than \$10 million

Whilst these initiatives are appreciated by small business, CAFBA believes these now provide the platform to build on and provide further incentive to provide stimulus to the economy.

The government is very aware of the importance of small business to the economy, but it is worth reiterating that:

- There are now 2,066,523 small businesses in Australia (Source: ABS 8165)
- In 2015, small business provided employment for around 4.8 million people.
- In 2015, small business accounted for around \$379 billion worth of industry value added.

**CAFBA** believes that a business **Investment Allowance** is required to further stimulate the economy and boost market confidence. The most recent version of an investment allowance in Australia was in

2009 as part of a temporary package to limit the impact of the global financial crisis. That investment allowance was set at 50% of the asset cost. This had an immediate effect.

## **The benefits of an Investment Allowance**

The economy needs a stimulus package to further boost business confidence and activity. An investment allowance will increase purchases across the economy.

There are some 2.1 million small businesses in Australia and the more of them that are purchasing goods the greater the movement of cash through the economy and the better the business returns. In turn this creates additional revenue for the government due to increased GST revenue from the increased spending.

## **A positive impact on employment**

Reduced company tax allows employers to allocate funds towards employment, and there will be an increase in revenue for the government from PAYG from the extra people employed.

## **Increase in confidence in the small business community**

Small businesses need to be confident of the future before considering purchasing additional equipment. Business investment is a big decision. Additional equipment purchases will enable business owners to concentrate on growth and taking their business to the next level, while upgrading equipment significantly lifts productivity and long term profitability. A tax incentive such as an investment allowance will greatly assist the confidence of a business owner to embark on growth.

## **CAFBA's recommendation on the form of an Investment Allowance**

CAFBA believes that a new Investment Allowance should be available to a business with a turnover of less than **\$10 million, to be indexed annually**. The investment allowance should have the following criteria:

- Additional 50% tax deduction available for capital purchases
- Eligible assets will be tangible and depreciable
- Commitment to invest must be made between certain dates
- Eligible assets must be installed and ready for use by a certain date
- Eligible assets must cost between \$1,000 and \$2,000,000 (excluding GST)
- Eligible assets may be new or used.

Previous investment allowances have applied to new (or demonstrator) plant, equipment and motor vehicles. However we believe any new allowance should apply to both new and used plant, equipment and motor vehicles, as used assets are usually purchased in Australia from Australian suppliers, which assists the Australian economy rather than offshore suppliers. An allowance that applies only to new assets could result in offshore purchases and could seriously disadvantage local second-hand sales.

This form of temporary investment allowance is an additional tax deduction, which is easily quantifiable and has immediate effect. **CAFBA** believes it will have a greater incentive value than a

small reduction in company tax, which is difficult to quantify and has far less impact on day to day operations.

CAFBA believes an investment allowance will have the necessary positive impact on the economy to increase capital expenditure, with the flow on effect of increasing employment and therefore government revenue.

However if the government decides against an Investment Allowance at this time, it should as a minimum

- **Extend the Instant Asset Write-Off beyond its current expiry of June 2017 and**
- **Increase the single asset value from \$20,000 to \$50,000**

With a cash rate of 1.5%, it leaves very little that can be achieved by Monetary Policy as the economy slows, which only leaves Fiscal Policy as a means by which to stimulate spending and regenerate wealth.

**CAFBA** appreciates this opportunity to provide input into Budget policy. As an Association we are in the unique position of having Members who are small business owners, and whose many hundreds of thousands of clients are also predominantly small businesses. It is from this position that provides us an insight into the grassroots economy, and therefore believe that the introduction of an investment allowance would provide small business a tremendous incentive to grow and commit to Australia's future.

Should you require further information or wish to discuss please do not hesitate to contact us.

Yours Faithfully



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