MAXIMISE YOUR TAX SAVINGS
WITH ASSET FINANCE

Asset finance isn't just about getting your hands on that shiny new equipment or expanding your business. It can also be a smart way to reduce your tax bill and free up cash flow.

But how does it work?

Let's take a look at the tax benefits associated with asset finance.

Claiming back the wear and tear

Depreciation is like getting a refund for the wear and tear on your business assets. It's a tax deduction that allows you to claim a portion of the asset's cost each year over its effective life. The ATO recognises that assets lose value over time and depreciation is a way to account for that.

When you finance an asset, you can usually claim depreciation deductions even though you don't own it outright. The amount you can claim depends on the type of asset, its cost and the depreciation method you use.

In Australia, there are two main methods of depreciation for assets used in a business:

1. **Prime Cost (Straight Line) method**
   This method depreciates the asset's value by the same amount each year over its effective life. It's the simplest method and is often used for assets that wear and tear evenly over time.
2. **Diminishing Value method**
   This method depreciates the asset's value by a percentage each year with larger deductions in the early years and smaller deductions in later years. It's generally used for assets that lose value more quickly in the beginning, such as cars or computers.

In addition to these two methods, there's also the **instant asset write-off** that allows eligible businesses to immediately deduct the full cost of assets under a certain threshold. The threshold amount can change from year to year, so it's important to check the current rules with the Australian Taxation Office (ATO).

Remember, though, that you can only claim depreciation if you're using the asset for business purposes. So if you're planning to use that new ute for weekend camping trips, you'll need to keep track of how much it's used for business versus personal use.

Here's a quick comparison of the methods

Method	How it works	When to use
Prime Cost (Straight-Line)	Equal depreciation deductions each year over the asset's effective life	Assets that wear and tear evenly, such as buildings or furniture
Diminishing Value	Larger deductions in the early years, decreasing over time	Assets that lose value quickly, such as cars or computers
Instant Asset Write-Off	Immediately deduct the full cost of eligible assets up to a certain threshold	Eligible businesses with assets under the threshold amount

It's crucial to choose the right depreciation method for your assets as it can significantly impact your tax deductions. It's recommended to consult with a tax professional or accountant to determine the most appropriate method for your specific situation.

You can also save on the cost of borrowing with interest deductibility

The interest you pay on your asset finance loan is generally tax-deductible, meaning you can claim it as an expense and reduce your taxable income. This can be a significant saving, especially if you're borrowing a large amount.

However, there are a few things to keep in mind:

- You can only claim the interest that relates to the business use of the asset. So, if you're using that new truck for personal deliveries as well, you'll need to apportion the interest accordingly.
- The amount of interest you can deduct may be limited if you're using certain types of asset finance products, such as a finance lease.

A word of caution as tax laws can be tricky

While the tax benefits of asset finance can be substantial, it's important to remember that tax laws can be complex and change over time.

It's always best to seek advice from a qualified tax professional to ensure you're claiming the right deductions and complying with all the relevant regulations.

Asset finance can be a powerful tool for growing your business and reducing your tax bill. By understanding tax implications, you can make informed decisions that will set up your business for success.

So, don't be afraid to chat with your accountant or tax advisor to find out how asset finance can work for you.

Disclaimer: This article provides general information only and has been prepared without taking into account your objectives, financial situation or needs. We recommend that you consider whether it is appropriate for your circumstances. Your full financial situation will need to be reviewed prior to acceptance of any offer or product. It does not constitute legal, tax or financial advice and you should always seek professional advice in relation to your individual circumstances. ©2024