

This article will explain the tax incentives available for small and medium enterprises, including lower tax rates, offsets and asset write-offs.



The Australian Government understands the value of small and medium enterprises, and as such offers certain incentives to help small and medium businesses succeed.

## **A. WHAT IS CONSIDERED A SMALL BUSINESS?**

Different government agencies have their own definition of 'small business'. The Fair Work Ombudsman deems a small business to have under 15 employees, while the Australian Bureau of Statistics defines a small business as having under 20 employees.

The Australian Securities and Investments Commission (ASIC) define 'small business' after 1 July 2019 as a business with an annual revenue of less than \$50 million, less than 100 employees and/or assets worth less than \$25 million.

However, most relevant to this article is the definition by the Australian Taxation Office (ATO). The ATO defines a small business as a company with an aggregate turnover rate of less than \$10 million.

This is different to a base rate entity, which is defined below.

## **B. WHAT TAX BENEFITS DO SMALL BUSINESSES HAVE?**

### **B.1. TAX RATES**

The full company tax rate is 30%; however, the government provides a lower company tax rate of 27.5% to businesses that qualify for it. This lower company tax rate is called the 'Base rate entity company tax rate,' and does not only cater for small businesses.

For a company to qualify as a base rate entity it must:

- Have an aggregate turnover (meaning a total income) of less than the aggregate turnover threshold, which in the 2018/19 income year is \$50 million; and
- Have 80% or less of their assessable income as base rate entity passive income.

Base rate entity passive income refers to income such as royalties, rent, interest income and corporate distributions.



If a company qualifies as a base rate entity they will pay the lower tax rate of 27.5%.

This rate is to be progressively reduced over the coming years to 25.0%, as displayed in the **below** table.

Income Year	Aggregated turnover threshold	Tax Rate for Base rate entities under the threshold	Tax Rate for all other companies
2017-18	\$25 million	27.5%	30.0%
2018-19 to 2019	\$50 million	27.5%	30.0%
2020-21	\$50 million	26.0%	30.0%
2021-22	\$50 million	25.0%	30.0%

### B.2. SMALL BUSINESSES INCOME TAX OFFSET

The small business income tax offset delivers a rate of offset up to a maximum of \$1,000.00.

The rate of offset is to be progressively increased in the coming years to 16%, as displayed in the **below** table.

Income Year	Aggregated turnover threshold	Rate of offset	Maximum offset
2015-16	\$2 million	5%	\$1,000.00
2016-17 to 2019-20	\$5 million	8%	\$1,000.00
2020-21	\$5 million	13%	\$1,000.00
2021-22 and onwards	\$5 million	16%	\$1,000.00

To be eligible for this tax offset you must be operating a small business as a sole trader, or have a share of small business income from a partnership of trust.

The small business must also earn below the aggregated turnover threshold for that year, which from 2016-17 is \$5 million.

Those eligible for the tax offset do not need to apply for it, as the ATO automatically calculates the offset from their tax returns.

### B.3. INSTANT ASSET WRITE-OFF

The instant asset write-off provides an incentive to small and medium businesses to invest in assets that may help their business grow and succeed.

As from 7:30 pm (AEDT) 2 April 2019, the instant asset write-off threshold increased from \$25,000.00 to \$30,000.00. This is due to be reviewed in June 2020.

Also from 2 April 2019, the eligibility of the write-off was expanded to include businesses with an annual turnover of less than \$50 million, rather than less than \$10 million.

This means that a business with an income of less than \$50 million can claim any asset purchased (up to \$30,000.00) as a write-off. This deducts the cost of the asset from their assessable income, lowering their tax payable.

Assets that are eligible are those that directly relate to producing your business' income, such as computers, tools, phones and vehicles.

Comasters is able to advise clients on corporate matters, such as tax incentives and SMEs.

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