CAFBA
Commercial Asset Finance Brokers
Association of Australia

Committee Secretary
Standing Committee on Economics
PO Box 6021
Parliament House
Canberra ACT 2600

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INQUIRY INTO INCOME TAX DEDUCTIBILITY

The **Commercial Asset Finance Brokers Association of Australia Limited (CAFBA)** welcomes the opportunity to comment on the Inquiry into Interest Tax Deductibility by the Standing Committee on Economics.

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 arrange in excess of $7bil of new commercial equipment finance for their clients annually. 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.

CAFBA members assist businesses to finance equipment to be used in their businesses to earn assessable income. Currently the interest applicable to the loan is tax deductible, which is a major incentive for the business to make the decision to purchase capital equipment. Currently in Australia a significant proportion of all new equipment purchased by businesses is financed. It is pointed out that most of Australia's trading partners allow the interest expense to be deducted in calculating taxable income. It is a fundamental premise to business that expenses incurred in deriving income is a legitimate deduction.

Under consideration by the Inquiry is to make current interest expenses relating to business acquiring equipment non-deductible for tax. This is the interest on the borrowing to acquire the equipment, which would be a major disincentive to purchase the equipment.

Financial institutions also have large debt levels, and would therefore be denied deductions on the interest payable. The flow-on effect of this is that these financial institutions would be required to substantially increase interest rates to customers to compensate for the loss of this deduction.

Additionally, the equipment supplier would also be denied interest deductions on the borrowing to hold stock and finance inventory, which would cause the cost of equipment to increase. The flow on effect of this is clearly enormous, as it affects not only the businesses that need the equipment, but also those who supply and service it.

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Therefore the small business owner now has no incentive to purchase additional equipment for their business, because both the cost of the equipment and the cost of borrowing has made the capital equipment purchase out of their reach. As stated, this affects many corners of the economy.

A key component of the Government's recent Innovation Statement is the desire for Australia to be at the forefront of countries to entice new businesses to start up, and existing businesses to grow. This would be difficult if borrowing costs and equipment financing is more expensive. It is recognised that a platform of this Inquiry is to offset these deductions by lowering marginal tax rates. Start-up businesses rarely produce sufficient income in the first few years to pay tax in view of the substantial initial investment costs, so the lowering of tax rates would be meaningless to the start up. This would be a huge disincentive to start a new business, in many cases making it not viable.

A further component of the Government's Innovation Statement was the use of the Fintech market in funding start-up businesses and providing additional sources of finance to the existing market. If businesses can't claim interest as a tax deduction then the emerging Fintech market in Australia will be severely hampered as this will be a block to innovation.

In the current economic climate businesses need incentives to both purchase additional equipment and also finance it. The Government's incentive of the $20,000 instant asset write off was welcomed by **CAFBA** as a positive move (although **CAFBA** would argue further incentives are needed, like an investment allowance).

To deny the legitimate deduction of an interest expense is not the way to kick start the economy, and it is **CAFBA**'s strong view that this should be rejected. We appreciate the opportunity to comment, and should you require further information please do not hesitate to contact the undersigned.

Yours Faithfully

David Gandolfo
President

Kathryn Bordonaro
Vice President

PO Box 576 Crows Nest NSW 1585
T: 02 9431 8656 E: info@cafba.com.au W: www.CAFBA.com.au