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Have all the facts when buying and selling Plant and Equipment.

In these times when payout predications are volatile and there is not much room in the budget the decision of whether to buy or not to buy capital equipment, or even to sell equipment is more important than ever

As well as affecting immediate cashflow, these decisions will have longer term effects on cashflow due to Income Tax, and GST implications.

The first consideration being whether to buy versus making do with the old and maintaining it. Repairing a small problem before it grows into something larger is always prudent.

However, sometimes the cost of repairing an existing piece of equipment is just not economical especially if it is often breaking down and you are having expensive repair bills as well as down time. To purchase could be the better option even if it means a large financial outlay in a time of poor cashflow.

There are several financing methods available, the most obvious being purchase by bank loan or overdraft. Using a Hire Purchase finance option through the dealer is becoming increasingly common. Shopping around can result in deals at very low interest rates often well under bank interest rates. The catch is in making sure you are aware of the terms of the agreement, including interest rate and any hidden costs if you wish to pay off the debt before maturity date.

Leasing is a common arrangement used especially for utes and computers. The monthly payments may be lower than for purchasing the equipment, but be aware that you will not own the equipment at the end of the lease period.

When filing GST on a payments basis usually GST cannot be claimed until the money is actually paid. However, with a Hire Purchase, GST can be claimed in the period covering the date the agreement is entered into. This can be a common omission for those completing their own GST returns.

A fixed asset is generally a new or second hand piece of plant or equipment costing over $500 or an improvement to an asset beyond its original state. For taxation purposes, the full cost of purchasing these assets cannot be deducted from your taxable income in the year of purchase. You can however, claim depreciation. The depreciation rates are set by the IRD and usually closely align with the actual wear and tear of the asset. Rates for second hand items are the same as brand new items. Depreciation can only be claimed from the first day of the month in which the asset was purchased, not the beginning of the year as some people think.

When selling a capital item, if the sale price is greater than the book value, (the book value being the original cost less accumulated depreciation claimed) there can be a potential Income Tax liability known as depreciation recovery. This is simply paying back the tax that has been claimed in the past, but can hurt at the time of sale if one is not aware of the rules. However, if the sale price is above the original cost, this difference will not be taxable.

On the other hand, if the sale price is less than the book value there will be a deductible expense against your Income Tax.

There are many consequences of buying and selling fixed assets. Talk to your accountant to understand the tax implications of each option to help you make the best decision in your business.

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