



The May 2006 Budget Press Release and subsequent changes to Legislation (effective 1/6/07) have heralded a new era of fair tax treatment and certainty for charter boat owners.

The press release contained within the May 2006 Budget (see link) heralded the commencement of a fair tax treatment for Charter boat owners by setting a **minimum** base level of tax deductibility **whilst still maintaining the opportunity of total deductibility** for owners who are able to fully satisfy the business test as set down in the Charter Boat Ruling issued in May 2003 - TR 2003/04 Income Tax "Boat Hire Arrangements".

This press release and subsequent legislative changes (effective 1/7/07) introduced a 2nd tier or base level of deductibility which allow owners to claim annual charter boat expenses to level of their annual charter boat income, with any surplus expenses quarantined and carried forward to be offset against any future income from the charter boat business.

Having established this minimum level of deductibility, full deductibility is still available where businesses fully satisfy the business tests as set out in TR 2003/04, allowing annual charter boat expenses which exceed the annual charter boat income to be offset against other applicable, assessable income within that year.

The statements contained within this document are not to be construed as formal tax advice and potential Charter Boat Owners should seek qualified,

independent and expert advice in this area.

For further information go to the ATO web site and simply type in "boat hire arrangements" as a key word search or to view the press release from the Hon Peter Dutton – Minister for Revenue and the Assistant Treasurer please see the article below.

Charter Boat Business Model

As a part of the process for Potential Charter Boat Owners to assess where their proposed charter boat business would sit in relation to the above circumstances i.e. complying to the minimum base level of tax deductibility or able to fully satisfy the business test as set down in the Ruling TR 2003/04 Income Tax "Boat Hire Arrangements", the potential business needs to be viewed as a Financial Model.

To assist in this, in 2003, Finlease created and provided a series of linked spreadsheets (CHARTER BOAT BUSINESS MODEL) to the Charter Boat Industry Survival Campaign (CBISC). This basic series of linked excel spreadsheets (which have recently been updated) may greatly assist Potential Charter Boat Owners in modeling the structure and outcomes of their future income and expense projections as a part of their overall business models.

These spreadsheets (CHARTER BOAT BUSINESS MODEL) provide a template to test the feasibility of a prospective charter business. Potential Owners simply insert the criteria of their expected circumstances into a general spreadsheet and view the results. These spreadsheets allow for a wide

range of scenarios including % financed, gross & net income levels, private use etc to be tested.

Availability of the Charter Boat Business Model

If you'd like to obtain an interactive version of the **CHARTER BOAT BUSINESS MODEL** as well as further background on the recent Legislative changes, simply email your request to mark@finlease.com.au or phone Mark O'Donoghue on 02 9959 3122.



Disclaimer - The spreadsheet templates have been produced on a best-endeavours basis by Finlease for CBISC and Potential Charter Boat owners as an aid to the industry. No warranty, guarantee or assurance is implied or given by Finlease, CBISC, its committee, personnel or professional partners on these spreadsheets.

Potential Charter Boat Owners should seek qualified, independent and expert advice prior to commencing a Charter Boat Business.

**PETER DUTTON**

Minister for Revenue and the Assistant Treasurer

27 January 2006 - 3 December 2007

**Media Release of 09/05/2006
No.022**

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TAX TREATMENT FOR BOAT HIRE ARRANGEMENTS

The Government has announced that it will amend the tax treatment of boat hire arrangements to allow taxpayers who cannot demonstrate that they are actually carrying on a business using a boat to claim deductions for costs related to their boating activity.

The current law imposes a test for allowing deductions that are related to income-earning activities associated with the use of boats whereby a taxpayer must be actually carrying on a business using the boat and not merely generating passive income.

The measure will allow taxpayers who cannot demonstrate that they are carrying on a business using a boat to:

- deduct expenditure relating to their boating activity up to the level of income generated from their boating activity; and
- allow any excess deductions to be carried forward and deducted against income from that boating activity in future years.

The measure will ensure that where taxpayers generate an income stream using their boat, they are not unfairly taxed while maintaining the restrictions on using the tax system to subsidise private use of boats.

The measure will have effect from the first income year after the date of Royal Assent of the enabling legislation.

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Supporting Information

Why is this important?

- The measure will ensure that where taxpayers generate an income stream using their boat, they are not unfairly taxed while maintaining the restrictions on using the tax system to subsidise private use of boats.

Who will benefit?

- The proposal will benefit boat owners who cannot meet the business test, whilst taxpayers who are able to satisfy the business test will remain unaffected.

What funding is the Government committing to the initiative?

- The total cost to revenue of implementing this proposal is estimated at \$17 million over the forward estimates period.

What have we done in the past?

- The current income tax law imposes a test for allowing deductions that are related to income-earning activities associated with the use of boats. A taxpayer must be actually carrying on a business using the boat and not merely generating passive income. Currently, where a business cannot be demonstrated, all receipts from the activity must be returned as income and no expenses can be offset against that income.

When will the initiative conclude?

- The proposal is ongoing.