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## Business Update

### Small Business Loans

The state governments have introduced special loans for small businesses or assistance, by way of subsidy, on interest payments, to assist small businesses.

Maximum loans vary from \$130,000, \$200,000 to \$250,000 and interest subsidy payments are generally available up to \$6,000 (4% on a loan of \$150,000).

The general conditions of the loans or subsidized interest assistance are similar. Loans are only available for small businesses which have been significantly damaged by an eligible natural disaster and unable to obtain commercial finance, but nevertheless have sound prospects of long-term viability. Loans are not intended to compensate for loss of income suffered as a result of the eligible natural disaster.

The amount of funding under a loan is the cost of the disaster to be met by the loan, less any insurance recoveries.

Requirements for an eligible small business for a loan include the following:

- A sole owner, partnership or proprietary company;
- Need to demonstrate that the applicant has used up all of their liquid assets and normal credit sources;
- Demonstrate that they've taken reasonable precautions to avoid, or minimise, loss or damage from the disaster;
- Demonstrate that, with the assistance of the loan, there are reasonable prospects of re-establishing the business on a viable basis.

Terms of repayment of the loans vary from 5-years to 10-years. In all cases, security has to be supplied for a loan. Applications need to be lodged to the appropriate agency in each state.

We can supply you with the paper relative to the conditions of loans to small business, relating to events from a declared natural disaster and we can assist you in the completion of the application form.

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## Small Business Grants

Similar conditions apply for each of the small business grants, including:

- The assistance is not intended to compensate for loss of income suffered as a result of the flood event;
- All claim payments are for the net amount after any insurance recoveries;
- Assistance is generally available to assist eligible small businesses cover costs associated with cleaning and restoring business activities.

The maximum amount that can be claimed, under any of the grant schemes is \$25,000, however in some states; the maximum grant is \$15,000.

- The definition of "*eligible small business*" varies slightly from state to state, but in general:
- Applicants for assistance should hold an Australian Business Number;
- For the purpose of these grants, "small business" is generally defined as being a business that employs less than 20 fulltime employees or less than 20 equivalent fulltime employees;
- The business must be owned and operated as a small business by a sole owner, in partnership or as a private company;
- The small business must have suffered direct damage as a result of the declared disaster event;
- The applicant must have been engaged in conducting the small business when affected by the disaster event.

Applications generally have to be lodged with the applicable state government agency within 6-months of the disaster event.

We have a paper summarising the grant applicable to small business operators. If you'd like a copy of the paper, please contact us.

## Taxation Treatment of Grants/Loans

With all the natural disasters occurring throughout our country, now is a timely reminder to review the taxation implications of the various schemes and assistance programmes currently operating. The Federal Government has recently announced that Disaster Income Recovery Subsidy payments are available where any person is unable to receive their ordinary income because of a natural disaster.

Small businesses and primary producers are being offered additional grants and low interest loans from various state and federal government bodies to help them cope with the interruption that these natural disasters have caused and encourage them to reopen for business as soon as possible. The federal government has announced that the grants will not be treated as assessable income for businesses. The low interest loans are not assessable income; however the loan interest amounts are below commercial rates and are claimable as an income tax deduction.

This treatment of grants as being tax exempt is abnormal. Normally these types of grants are taxable income.

