

Instant Asset Write-Off and Accelerated Depreciation

SIDCOR[®]

Tax Experts. Business Strategists.
Proactive Accountants.

50 Hunter Street,
PO Box 831,
Newcastle NSW 2300
Phone: 02 4926 5299
Email: info@sidcor.com.au

UPDATED: 2ND APRIL 2020

INCREASE AND EXTENSION OF THE INSTANT ASSET WRITE-OFF

Date	Assets acquired after the applicable date and first used or installed ready for use for a taxable purpose between 12 March 2020 and 30 June 2020
Applies to	Businesses with aggregated turnover less than \$500m

Eligibility

To access the new instant asset write-off threshold of \$150,000 your business needs to:

- **Be a trading business** (the entity buying the assets needs to carry on a business in its own right), and
- **Have an aggregated turnover under \$500 million.** Aggregated turnover is the annual turnover of the business plus the annual turnover of any "affiliates" or "connected entities". The aggregation rules are there to prevent businesses splitting their activities to access the concessions. Another entity is connected with you if:
 - You control or are controlled by that entity; or
 - Both you and that entity are controlled by the same third entity.

In order for a small business with aggregated turnover of less than \$10 million to access the \$150,000 threshold the asset needs to have been acquired after 7.30pm (AEST) on 12 May 2015 and it needs to have been first used or installed ready for use for a taxable purpose by 30 June 2020.

If the business has aggregated turnover of \$10 million or more, then the \$150,000 threshold only applies if the asset was acquired after 7.30pm (AEDT) on 2 April 2019 and it needs to have been first used or installed ready for use for a taxable purpose by 30 June 2020.

The write-off only applies to certain assets you buy. The instant asset write-off only applies to certain **depreciable assets** such as a concrete tank for a builder, a tractor for a farming business, and a truck for a delivery business. There are some assets that don't qualify although the restrictions are slightly different

depending on whether the business has aggregated annual turnover of less than \$10 million or not. For example, small business entities cannot apply these rules to assets such as horticultural plants or assets leased to another party on a depreciating asset lease, etc. The rules cannot apply to capital works (building construction costs etc.) regardless of the turnover level of the business.

You will also need to ensure that there is a relationship between the asset purchased by the business and how the business generates income. You can't for example claim deductions for television sets if they have no relevance to your business.

How is the support calculated?

The instant asset write-off enables your business to claim an upfront deduction for the full cost of depreciating assets in the year the asset was first used or installed ready for use for a taxable purpose.

For example, if your company's turnover is under \$50m and you purchase an eligible asset for \$140,000 (GST-exclusive) on 1 June 2020 (and install it ready for use by 30 June 2020), then a deduction of \$140,000 can be claimed. If the company is subject to a tax rate of 27.5% then this should reduce the tax payable by the company for the 2020 income year by \$38,500.

If your business is likely to make a tax loss for the year, then the instant asset write-off is unlikely to provide a direct short-term benefit to you. However, if this measure is likely to reduce the taxable income of the business for the year then it may be possible to vary upcoming PAYG instalments to improve cash flow.

If the asset is a luxury car then the deduction will be limited to the luxury car limit. The business use percentage of the asset also needs to be taken into account in calculating the deduction. For example, if a sole trader acquires an asset for \$40,000 but only expects to use it 80% in the business then the immediate deduction would be \$32,000.

The increase to the instant asset write-off threshold in the stimulus package is the fourth increase or extension and businesses will need to be wary of what they are claiming and when:

Instant asset write-off thresholds	Small business*	Medium business**	Large business***
1 July 2018 - 28 January 2019	\$20,000	-	-
29 January 2019 - 2 April 2019	\$25,000	-	-
2 April 2019 - 12 March 2020	\$30,000	\$30,000	-
12 March 2020 - 30 June 2020	\$150,000	\$150,000	\$150,000

* aggregated turnover under \$10 million

** aggregated turnover under \$50 million

***aggregated turnover under \$500 million

At this stage it is expected that the instant asset write-off threshold will reduce back to \$1,000 from 1 July 2020.

How is the support provided?

The instant asset write-off is a tax deduction that reduces the tax liability of your business. It is triggered when you lodge the business's 2019-20 tax return.

Example

Samantha owns a company, Sam's Specialty Roasters Pty Ltd, a large food processing business in Brisbane. Sam's Specialty Roasters Pty Ltd has an aggregated annual turnover of \$150 million for the 2019-20 income year.

On 1 May 2020, Samantha purchases five new conveyor belts for her production facility for \$40,000 each, exclusive of GST, for use in her business.

Under the \$150,000 instant asset write-off, Sam's Specialty Roasters Pty Ltd can claim an immediate deduction of \$200,000 for the purchase of the conveyor belts (i.e., \$40,000 for each conveyor) in the 2019-20 income year (\$195,544 more than under the previous rules). At the company tax rate of 30%, this will reduce the tax payable by Sam's Specialty Roasters by \$60,000 (assuming the company is in a tax payable position for the year).

If the business has paid PAYG instalments and these exceed the tax payable for the year, then the excess should be refunded to the company or applied against other tax debts owed to the ATO.

If this additional deduction pushes the company into a tax loss position then this will be carried forward to future income years, subject to some loss recoupment tests.

Adapted from Treasury Fact sheet: Delivering support for business investment

Low general pool balances for small business entities

The changes also ensure that a \$150,000 threshold applies in determining whether the balance of a small business entity general pool is deducted in full in the year ending 30 June 2020.

That is, the rules ensure that the entire pool balance is written off if the business has a SBE pool and the result of the formula below is less than \$150,000 as at 30 June 2020:

- Start with the opening balance of the pool for the year;
- Add the business use percentage of any assets added to the pool for the year;
- Less the business use percentage of any assets disposed of during the year.

If the result of the formula above is less than \$150,000 then the business claims a deduction for that amount in the 2020 tax return and the pool balance becomes nil. Note that the formula above does not take into account the current year depreciation deduction amount for the pool.

ACCELERATED DEPRECIATION DEDUCTIONS

Date	New assets acquired from 12 March 2020 and first used or installed ready for use for a taxable purpose by 30 June 2021
Applies to	Businesses with aggregated turnover less than \$500m

Eligibility

Businesses with a turnover of less than \$500 million can access accelerated depreciation deductions for assets that don't qualify for an immediate deduction.

This incentive is only available in relation to:

- New depreciable assets
- Acquired on or after 12 March 2020 that are first used or installed ready for use for a taxable purpose by 30 June 2021.

It does not apply to second-hand assets or buildings and other capital works expenditure. The rules also won't apply if the business entered into a contract to acquire the asset before 12 March 2020.

How is the support calculated?

Businesses will be able to deduct 50% of the cost of a new asset in the year of purchase. They can then also claim a further deduction in that year by applying the normal depreciation rules to the balance of the cost of the asset.

Accelerated depreciation deductions will apply from 12 March 2020 until 30 June 2021. This will bring forward deductions that would otherwise be claimed in later years.

For example, let's assume that a business purchases a new truck for \$250,000 (exclusive of GST) in July 2020. In the 2020-21 tax return the business would claim an upfront deduction of \$125,000. The business would also claim a further deduction for the depreciation on the balance of the cost. If the business is a small business entity and using the simplified depreciation rules, this would mean an additional deduction of \$18,750 (i.e., 15% x \$125,000). The total deduction in the 2020-21 tax return would be \$143,750. Without the introduction of accelerated depreciation, the business would have claimed a deduction of \$37,500 (i.e., 15% x \$250,000).

How is the support provided?

The accelerated depreciation rules provide a tax deduction, which reduces taxable income and the tax liability of the business. It is triggered when you lodge the business's 2019-20 or 2020-21 tax return. The initial deduction is claimed in the tax return for the year in which the asset is first used or installed ready for use for a taxable purpose.

Example

J Construction Solutions Pty Ltd has an aggregated annual turnover of \$200 million for the 2020-21 income year.

On 1 July 2020, J Construction Solutions Pty Ltd installs a \$1 million truck mounted concrete pump for use in the business. Under the new rules, J Construction Solutions Pty Ltd can claim a depreciation deduction of \$650,000 in the 2020-21 income year. This consists of 50% of the concrete pump's value (\$500,000) plus 30% of the remaining \$500,000 under existing depreciation rules (\$150,000). This is \$350,000 more than under the previous rules.

At the 30% company tax rate, this deduction will reduce the tax liability of J Construction Solutions Pty Ltd by \$195,000 for the 2020-21 income year, assuming it is in a tax payable position.

If the business has paid PAYG instalments and these exceed the tax payable for the year, then the excess should be refunded to the company or applied against other tax debts owed to the ATO.

If this additional deduction pushes the company into a tax loss position then this will be carried forward to future income years, subject to some loss recoupment tests.

Adapted from Treasury Fact sheet: Delivering support for business investment

We will continue to update this document and links as announcements are made. Please see our [website](#).

Please **contact us** to discuss how these initiatives can support you and your business.

Disclaimer

The COVID 19 Stimulus & Support Measures Guide contained herein is provided on the understanding that it neither represents nor is intended to be advice or that the authors or distributor is engaged in rendering legal or professional advice. Whilst every care has been taken in its preparation no person should act specifically on the basis of the material contained herein. If assistance is required, professional advice should be obtained.

The material contained in the COVID 19 Stimulus & Support Measures Guide should be used as a guide in conjunction with professional expertise and judgement. All responsibility for applications of the COVID 19 Stimulus & Support Measures Guide and for the direct or indirect consequences of decisions based on the COVID 19 Stimulus & Support Measures Guide rests with the user.

Knowledge Shop Pty Ltd, SiDCOR chartered accountants, directors and authors or any other person involved in the preparation and distribution of this guide, expressly disclaim all and any contractual, tortious or other form of liability to any person in respect of the COVID 19 Stimulus & Support Measures Guide and any consequences arising from its use by any person in reliance upon the whole or any part of the contents of this guide.

April 2020 © Knowledge Shop Pty Ltd, SiDCOR chartered accountants