



## INCREASING THE INSTANT ASSET WRITE-OFF TO ITEMS UNDER \$150,000

RSM is pleased to provide this information sheet with details of the increased instant asset write-off available to small and medium sized businesses.

### Instant write-off for small and medium businesses

Small and medium businesses are able to claim an immediate tax deduction for each asset that costs less than **\$150,000** (net of GST credits), to the extent the asset is used for tax-deductible purposes.

This new threshold of \$150,000 applies for a limited time only for depreciating assets first used or installed ready for use between **12 March 2020 and 30 June 2020**. After 30 June 2020, the threshold will reduce to \$1,000.

Provided the asset is first used or installed between 12 March 2020 and 30 June 2020, the asset could have been acquired any time after:

- 7.30pm (ACT time) on 12 May 2015 for small business entities, or
- 7.30pm (ACT time) 2 April 2019 for medium business entities

Assets that cost \$150,000 or more will not be eligible for the immediate deduction. Instead, they may be eligible for the backing business investment (BBI) concession, see over page.

### Small and medium business entities

Only small and medium businesses that meet the definition of a small business entity (SBE) or medium business entity (MBE) will be eligible for the instant write-off.

SBEs are broadly all those businesses with an aggregated turnover of less than \$10m. MBEs are broadly all those businesses with an aggregated turnover of \$10m or more, but less than \$500m.

Aggregated turnover includes the turnover of connected and affiliate entities and persons.

### Does the \$150,000 threshold include or exclude GST?

The \$150,000 cost threshold is net of any GST credits the business can claim. This means the price of each asset can be \$149,999 plus GST if the small or medium business is registered for GST and can claim a credit for the GST on their business activity statement.

### New and second hand assets

Both **new and second hand assets** can be eligible for the instant write-off.

### Are all assets eligible?

Most tangible assets that decline in value over time will be eligible for the instant write-off, except a small number of exclusions. Among the excluded assets are trading stock items, land, non-farming buildings and capital works, horticultural plants, water facilities, fodder storage assets and farm fencing. These items all have their own tax treatment.

Motor vehicles will be eligible assets however the car cost limit (\$57,581 for 2019-20) will still apply to cap deductions for 'cars', being a vehicle mainly designed to carry passengers and designed to carry a load of less than one tonne and fewer than nine passengers.

There are also restrictions for SBEs where they lease the asset to another entity or claim an R&D tax offset relating to the asset. Your tax advisor can assist you with appropriate structuring if these situations apply to you.

## CASE STUDY

Always Fresh Pty Ltd carries on a food manufacturing business and wishes to upgrade its vehicle fleet in addition to installing a new industrial packaging robot. It decides to purchase two new vans each at a cost of \$50,000 plus GST. It has also found a second hand industrial robot for a cost of \$149,000 plus GST. The company has an aggregated turnover of \$100m and is registered for GST.

The company will be able to claim an immediate tax deduction for the cost of each vehicle and the robot. They will also be able to claim an input tax credit for the GST. No further depreciation deductions will be available over the life of the assets.

The immediate deduction will significantly reduce the taxable income of the company thereby reducing the amount of any tax payable in the applicable year. This will provide the company with a short term cash flow benefit from the tax shelter provided by the deduction compared with previous arrangements.

### Backing business investment (BBI) deduction

There is another tax incentive for small and medium businesses that acquire assets that do not fit within the cost limit or time frame of the instant asset write-off.

Small and medium businesses are able to claim an immediate deduction of 50% of the cost of each new asset located in Australia on installation, with existing depreciation rules applying to the balance of the asset's cost.

The asset must be a **new asset** and must be first held and first used or installed for a taxable purpose between **12 March 2020 and 30 June 2021**.

The BBI will therefore last one year longer than the increased instant asset write-off.

There is **no cost limit**, however the usual car limit will still apply to cap deductions for a car.

The restrictions for SBEs where the asset is leased to another entity or the SBE is claiming an R&D tax offset relating to the asset may also be applicable to the BBI.

The BBI applies to the same types of assets as the instant asset write off, however unlike the instant asset write-off the BBI only applies to new assets (i.e. not a second-hand asset).

An asset is not eligible if the asset was acquired before 12 March 2020 or there was a commitment to hold the asset before 12 March 2020 (e.g. a contract to acquire the asset entered before 12 March 2020).

## CASE STUDY

Tom and Lisa own and operate a transport & logistics business through a family trust that is registered for GST. The trust acquires a new prime mover costing \$225,000 plus GST with a business usage of 100%. The trust has an aggregated turnover of \$5m.

The trust will be classified as a small business entity and will therefore have access to the small business pool, which usually provides a deduction for 15% in the first year and 30% on a reducing balance basis each year thereafter, until the cost is fully deducted. Under the BBI, the deduction in the first year will be 57.5% of the cost (being 50% of the cost plus 15% on the remainder of the cost) and 30% on a reducing balance basis each year thereafter until the cost is fully deducted.

If the trust instead had aggregated turnover of \$400m it would be classified as a medium business entity. In that case, it would be able to claim a deduction in the first year equal to 50% of the cost plus existing depreciation on the remaining 50% of the cost. It will then continue to deduct the remaining cost component using the existing depreciation rules.

In addition, in either case, the trust will be able to claim a GST input tax credit for the GST associated with the purchase of the new tractor.

## OUR COMMENTS

If you have any queries in relation to the instant write-off or backing business investment deduction for small or medium businesses, please contact your local RSM advisor who will be pleased to assist you.

The information contained in this information sheet is general in nature and should not be taken as taxation or financial advice. Any cash flow and tax benefit that may be available will be subject to your own particular circumstances. You should seek professional advice in relation to your own circumstances.



For more information please contact one of our advisers at [rsm.com.au/offices](https://rsm.com.au/offices)