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A LIFT IN BENEFIT: RECENT MEASURES FOR DEPRECIATING ASSETS USED FOR R&D PURPOSES

Over the past 12 months, including due to the COVID-19 economic downturn, a number of measures have been introduced by the Federal Government to provide greater access to tax deductions relating to depreciating assets. The manner in which the new legislation has been introduced potentially modifies the amounts allowable for the R&D Tax Incentive for tangible depreciating assets and increases the amounts claimable in earlier years of the asset (including instant write-off).

Prior to the recent measures, it has been well established that tangible depreciating assets used in R&D will generally only attract benefits relating to the decline in value of such assets and will not attract the benefits associated with instant asset

write-offs (whether or not the entity is a Small Business Entity). The new measures potentially provides an avenue for accelerated notional deductions under the R&D Tax Incentive program, where a company purchases tangible depreciating assets for R&D purposes. It is noted that there are no modifications to the balancing adjustment rules (e.g. on selling the asset).

Subject to all of the detailed eligibility rules, the table below provides key summaries of potential opportunities for **R&D related tangible depreciating assets acquired by small and medium sized businesses**. Intangible assets are already able to be claimed upfront in many instances for the purpose of the R&D Tax Incentive.

Type of benefit	Entity type	OLD LAW		NEW LAW	
		Pre 2 April 2019	2 April 2019 – 11 March 2020 (pre-COVID-19)	12 March – 30 June 2020	1 July 2020 – 30 June 2021
Instant asset write-off	Small Business Entity (less than \$10m aggregated turnover)	Not available	Not available	Not available	Not available
	Medium Sized Business (\$10m to \$50m aggregated turnover)	Not available	Available up to \$30k cost per asset.	Available up to \$150k cost per asset.	Not available
	Medium Sized Business (\$50m to \$500m aggregated turnover)	Not available	Not available	Available up to \$150k cost per asset.	Not available
Accelerated depreciation measures	Small Business Entity (less than \$10m aggregated turnover)	Not available	Not available	Available with no limit on cost per asset. Integrity rules apply.	Available with no limit on cost per asset. Integrity rules apply.
	Medium Sized Business (\$10m up to \$50m aggregated turnover)	Not available	Not available	Available with no limit on cost per asset. Integrity rules apply.	Available with no limit on cost per asset. Integrity rules apply.
	Medium Sized Business (\$50m up to \$500m aggregated turnover)	Not available	Not available	Available with no limit on cost per asset. Integrity rules apply.	Available with no limit on cost per asset. Integrity rules apply.

DETAILED ANALYSIS YEAR-BY-YEAR

Year ended 30 June 2019

Eligibility item	Requirement
Aggregated turnover and access requirement	At least \$10m up to \$50m . Small Business Entities under \$10m turnover unlikely to be able to access this measure
Asset use date, or "installed ready for use"	Between 2 April 2019 and 30 June 2019
Use requirement	At least some use of asset on eligible R&D activities, integrity rules apply
Limit on cost per asset	Less than \$30,000
Permanency of measure	Temporary – up until 30 June 2020
Benefit and opportunity	Able to be immediately written off for the purpose of the R&D Tax Incentive for portion relating to R&D use

Year ended 30 June 2020

Eligibility item	1 July 2019 to 11 March 2020	12 March to 30 June 2020 – Instant asset write-offs	12 March to 30 June 2020 – Accelerated depreciation
Aggregated turnover and access requirement	At least \$10m up to \$50m . Small Business Entities under \$10m turnover unlikely to be able to access this measure.	At least \$10m up to \$500m . Small Business Entities under \$10m turnover unlikely to be able to access this measure.	All entities satisfying Small Business Entity definition with modified aggregated turnover requirement of up to \$500m . A key difference here is that entities under \$10m turnover will also likely be able to access this. Entities not able to access the Instant Asset Write-off should be able to rely on this measure instead.
Asset use date, or "installed ready for use"	Between 1 July 2019 and 11 March 2020	Between 12 March 2020 and 30 June 2020	Between 12 March 2020 and 30 June 2020 (for clarity, accelerated depreciation measures are also applicable in the below table for the year ending 30 June 2021).
Use requirement	At least some use of asset on eligible R&D activities, integrity rules apply.	At least some use of asset on eligible R&D activities, integrity rules apply.	At least some use of asset on eligible R&D activities, integrity rules apply, such as exclusions on pre-12 March 2020 arrangements to hold the asset, or construction of that assets or an identical or substantially similar asset.
Limit on cost per asset	Less than \$30,000	Less than \$150,000	No limit
Permanency of measure	Temporary – up until 30 June 2020	Temporary – up until 30 June 2020	Temporary – up until 30 June 2021
Benefit and opportunity	Able to be immediately written off for the purpose of the R&D Tax Incentive for portion relating to R&D use.	Able to be immediately written off for the purpose of the R&D Tax Incentive for portion relating to R&D use. The opportunity can now be for assets costing up to \$150,000.	Allows 50% immediate deduction up front (no pro-rata required even if asset not held for full year) plus the remaining 50% of cost depreciated using standard Division 40 methods (i.e. greater than 50% of cost can be immediately deducted). R&D Tax Incentive available on the portion relating to R&D use.

Year ended 30 June 2021

It is noted that the instant asset write-off measures are legislated to conclude on 30 June 2020 and therefore are not available following 30 June 2020. The below table outlines the operation of the accelerated depreciation measures.

Eligibility item	Requirement
Aggregated turnover and access requirement	All entities satisfying Small Business Entity definition with modified aggregated turnover requirement of up to \$500m . A key difference here is that entities under \$10m turnover will also likely be able to access this. Entities not able to access the Instant Asset Write-off should be able to rely on this measure instead.
Asset use date, or "installed ready for use"	Between 1 July 2020 and 30 June 2021
Use requirement	At least some use of asset on eligible R&D activities, integrity rules apply, such as exclusions on pre-12 March 2020 arrangements to hold the asset, or construction of that assets or an identical or substantially similar asset.
Limit on cost per asset	No limit
Permanency of measure	Temporary – up until 30 June 2021
Benefit and opportunity	Allows 50% immediate deduction up front (no pro-rata required even if asset not held for full year) plus the remaining 50% of cost depreciated using standard Division 40 methods (i.e. greater than 50% of cost can be immediately deducted). R&D Tax Incentive available on the portion relating to R&D use. As there is no cap on cost, this opportunity is most beneficial for businesses wishing to invest in significant cost capital assets.