Information Sheet

We care about your future

Depreciation Tax Concessions

Brentnalls | SA
Chartered Accountants and Advisors

Temporary Full Expensing of Depreciating Assets

The Government has made changes to the depreciation rules, allowing businesses with a turnover less than $5 billion to immediately write-off the full cost of eligible assets acquired from 7.30pm 6 October 2020 and first used by 30 June 2022. This applies to new depreciating assets with no threshold cap on the value of the asset. This new regime is known as "Temporary Full Expensing of Depreciating Assets".

Small and medium businesses, with turnover less than $50 million, are also able to immediately write-off second-hand assets.

Businesses with turnover greater than $50 million are only able to immediately write-off eligible second-hand assets less than $150,000 purchased by 31 December 2020. From 1 January 2021 to 30 June 2022, the assets for these larger businesses must be new to qualify.

This is summarised on the table below:

		AGGREGATED TURNOVER THRESHOLD			
Acquisition Date	**Asset Cost Threshold**	**Small Business <$10m**	**Medium Business <$50m**	**Medium Business >$50m<$500m**	**Large Business >$500m <$5b**
2 April 2019 to 11 March 2020	<$30,000	100% write-off	100% write-off	N/A	N/A
12 March 2020 to 6 October 2020	<$150,000	100% write-off	100% write-off	100% write-off	N/A
	>$150,000 *(Backing Business Investment Incentive)*	57.5% for SBE using pooling (first year)	50% + regular depreciation on balance (first year)	50% + regular depreciation on balance (first year)	N/A
6 October 2020 to 30 June 2022 *(Temporary Full Expensing of Depreciating Assets)*	New Asset No threshold	100% write-off	100% write-off	100% write-off	100% write-off
	2nd Hand Asset No threshold	100% write-off	100% write-off	N/A	N/A
	SB Pool Balance No threshold	100% write-off	100% write-off (if applicable)	100% write-off (if applicable)	100% write-off (if applicable)

Note: *Capital works, including building and structural improvements, cannot be immediately written off. An exception to this is certain structural improvements (i.e. fencing and sheds) for farming businesses which may be claimable by primary producers.*

2021 Budget

In May 2021, the Government proposed to extend the end date of this measure until 30 June 2023. This is yet to be legislated.

Asset Acquisition Dates

It is not a requirement that the asset was ordered or invoiced during the acquisition date timeframe, just that it is **first used or installed ready for use**. For example, if you ordered a piece of equipment costing $200,000 in September 2020 and it is delivered to you in November 2020 ready to use, you will be eligible for the full $200,000 deduction.

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Purchasing a New Car

It's important to note if you're purchasing a passenger vehicle for business use, the purchase may be subject to the depreciation car limit which is currently **$59,136** for the 2020-21 financial year. This is the maximum deduction you can claim on the purchase of your vehicle.

If the car limit applies to your vehicle, you can only claim a deduction for the business portion of the car limit.

This limit does not apply to vehicles with a carrying capacity over one tonne or greater than 8 passengers.

Plant & Machinery Hire Businesses

Assets that are leased out are specifically excluded from the simplified depreciation rules (Instant Asset Write-Off and Small Business Pooling), however they are not specifically excluded from the Backing Business Investment Incentive and Temporary Full Expensing of Depreciating Assets rules.

Therefore, from 12 March 2020, when the Backing Business Investment Incentive became available, leased assets greater than $150,000 are eligible for accelerated depreciation of 50%, plus regular depreciation on the balance, in the first year of acquisition.

Then from 6 October 2020, when the Temporary Full Expensing of Depreciation Assets became available, leased assets purchased can be immediately written off. This will apply up to 30 June 2022.

To utilise these rules you must be carrying on a business.

Opt-out of Temporary Full Expensing of Depreciating Assets/ Backing Business Investment Incentive

Businesses have the option to opt out of the Temporary Full Expensing of Depreciating Assets and Backing Business Investment Incentive regime on an asset-by-asset basis. If choosing to opt-out, then the general depreciation rules would apply to the asset. This choice cannot be changed.

The choice to opt-out is **not** available to businesses with turnover less than $500m who use the simplified depreciation rules (Instant Asset Write-Off and Small Business Pooling). Businesses who utilise the simplified depreciation rules can only choose to opt-up of the rules entirely for all assets i.e. do not have the choice on an asset-to-asset basis.

For example, a company with turnover of $100m purchased an asset for $120,000 on 1 August 2020 and claimed a 100% tax deduction under the Instant Asset Write-Off regime. They purchased another asset on 7 October 2020 for $200,000. Since they have previously utilised the simplified depreciation rules, they cannot opt-out of full expensing and will need to claim a $200,000 deduction for the new asset purchase.

If a business chooses to opt-out, their small business general pool will remain and continue to depreciate according to pooling rules.

Deferral of the Small Business Entity Lock-Out Rules

Normally, a taxpayer who opts-out of simplified depreciation (Instant Asset Write-Off and Small Business Pooling), even though they are eligible to do so, must stay out of the regime for five years.

These rules have been suspended from May 2015 until 30 June 2022.

If you have any questions, please contact Brentnalls SA and ask to speak to one of our advisors.

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