Stimulus Package - Intant Asset Write Off

An Immediate deduction for the full cost of depreciating assets has been increased from $30,000 to $150,000 purchased and installed from 12 March 2020 to 30 June 2020.

The instant asset write-off will now also apply to businesses that have an aggregated turnover of less than $500 million. However, it will only apply to these businesses for the period 12 March 2020 to 30 June 2020.

This means that there will be two periods that accountants/tax agents must think about in relation to purchases of assets in the year ending 30 June 2020. The first period is from 1 July 2019 to 11 March 2020. Eligible assets costing less than $30,000 can be written off completely in this period by businesses that have an aggregated turnover of less than $50 million. From 12 March 2020 to 30 June 2020, eligible assets costing less than $150,000 (GST exclusive), can be written off by businesses that have an aggregated turnover of less than $500 million.

It should be noted that from 1 July 2020, the instant asset write-off threshold will revert to its original level of $1,000 and will only be applicable for businesses with an aggregated turnover of less than $10 million. Accordingly, the coronavirus measures offer a strong incentive for most businesses to obtain a significant tax deduction that will no longer exist in the new financial year.

These incentives will be factored in when preparing the income tax return for the 2020 and 2021 financial years.

Example 1 — Business benefits from increased asset threshold

Owen owns a company, ON Point Farms Pty Ltd, through which he operates a farming business in the Central Wheat Belt of Western Australia. ON Point Farms Pty Ltd has an aggregated annual turnover of $25 million for the 2019-20 income year. On 1 May 2020, Owen purchases a second hand tractor for $140,000, exclusive of GST, for use in his business.

Under existing tax arrangements, ON Point Farms Pty Ltd is not able to immediately deduct assets costing more than $30,000 and instead would depreciate the tractor using an effective life of 12 years. Choosing to use the diminishing value method, ON Point Farms Pty Ltd would claim a tax deduction of $3,899 for the 2019-20 income year. Under the new $150,000 instant asset write-off, ON Point Farms Pty Ltd would instead claim an immediate deduction of $140,000 for the purchase of the tractor in the 2019-20 income year, $136,101 more than under existing arrangements. At the company tax rate of 27.5 per cent, Owen will pay $37,427.78 less tax in 2019-20. This will improve ON Point Farms Pty Ltd’s cash flow and help his business withstand and recover from the economic impact of the Coronavirus.

Example 2 — Business benefits from increased turnover threshold

Samantha owns a company, Sam's Specialty Roasters Pty Ltd, through which she operates 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 existing tax arrangements, Sam's Specialty Roasters Pty Ltd is not eligible for the instant asset write-off and instead would depreciate the conveyor belts using an effective life of 15 years. Choosing to use the diminishing value method, Sam's Specialty Roasters Pty Ltd would claim a total tax deduction of $4,456 for the 2019-20 income year.

Under the new $150,000 instant asset write-off, Sam's Specialty Roasters Pty Ltd would instead 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 existing arrangements. At the company tax rate of 30 per cent, Samantha will pay $58,663.20 less tax in 2019-20. This will improve Sam's Specialty Roasters Pty Ltd's cash flow and help her business withstand and recover from the economic impact of the Coronavirus.