Government Stimulus Measure: Depreciation
Prepared by Brentnalls National Affiliation Member – Sally Storey of Brentnalls SA

What is the stimulus/relief?

In the recent government stimulus package, two measures were announced regarding business investment in plant and equipment. Both measures apply to businesses with aggregated turnover less than $500 million.

Firstly, they have increased the instant asset write off threshold to $150,000 (GST exclusive) until 30 June 2020. Secondly a deduction of 50% of the cost of an eligible assets where the instant asset write off cannot be used until 30 June 2021.

What is aimed to do?
To stimulate spending by businesses by offering accelerated tax deductions.

Who is eligible?
Businesses with turnover less than $500 million who acquire depreciating asset. Grouping provisions apply on turnover. Eligibility based on timing of acquisition and use- see details below.

How do I get it?
The claim is included in your 2020 or 2021 tax return.

Who should use this stimulus/other considerations?

The deduction is only beneficial if you would otherwise have had taxable income and been liable for income tax.

Cash flow should also be considered along with the business' need for the investment.

What are the details?

The $150,000 instant asset write off

The increase to instant asset write off threshold applies from 12 March 2020 until 30 June 2020, for new or second-hand assets first acquired and used or installed ready for use in this timeframe. The asset must be both acquired (e.g. when purchased under a contract) and used or installed ready for use within the timeframe given.

Equipment ordered before 12 March 2020 is not eligible, nor is equipment first used or installed after 1 July 2020.

The limit of $150,000 is per asset and is GST exclusive. It is only available to business entities with turnover below the $500 million threshold. It is not available for equipment purchased in a related entity such as a machinery hire company or a service trust which on-charges the operating business for use of the asset.

This applies to depreciating assets which are plant and equipment. It is not available for capital works such as roads and structures.

Motor vehicles are included in these measures but are subject to the depreciation cost limit. This means for the 2020 financial year, the maximum depreciation claim is $57,581.

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Summary Instant asset write-off tables – based on entity's aggregated turnover

Assessable income $10m and under	
Timeframe	**Instant asset write-off limit**
12 May 2015 to 28 January 2019	$20,000
29 January 2019 to 2 April 2019 7:30pm (AEDT)	$25,000
2 April 2019 7:30pm (AEDT) to 11 March 2020	$30,000
12 March 2020 to 30 June 2020	$150,000
From 1 July 2020	$1,000
Assessable income between $10m and $50m	
Timeframe	**Instant asset write-off limit**
2 April 2019 7:30pm (AEDT) to 11 March 2020	$30,000
12 March 2020 to 30 June 2020	$150,000
Assessable income between $50m and $500m	
Timeframe	**Instant asset write-off limit**
12 March 2020 to 30 June 2020	$150,000

50% Accelerated Depreciation

The second measure of a 50% deduction applies from 12 March 2020 until 30 June 2021 and is only available to new assets (not second hand). It applies where the first measure above is not available either due to the asset costing more than $150,000 or being first used or ready for use after 1 July 2020.

This applies to depreciating assets which are plant and equipment. It is not available for capital works such as roads and structures. This measure also excludes water facilities, horticultural plant, fodder storage and fencing as existing concessional depreciation is available for these.

It is only available to business entities with turnover below the $500 million threshold. It is not available for equipment purchased in a related entity such as a machinery hire company or a service trust which on-charges the operating business for use of the asset.

The 50% deduction is available in the year of installation with the remainder of the asset's cost being depreciation under the usual depreciation rules. For example, a piece of equipment acquired for $1 million on 1 July 2020 that would normally be depreciable at 20%, would previously have received a year-one deduction of $200,000. Under the new rule, this deduction will be $600k (being 50% of $1million, and 20% depreciation on the remaining $500,000 cost).

Avoidance Provision

The new laws specifically include anti-avoidance measures to prevent a claim if the asset was ordered or construction had started prior to 12 March 2020 and the taxpayer had done something (such as cancelling the order and reordering) to fall within the required dates.

What next?

The government is moving quickly and things are changing daily with regards to the response to COVID-19. Should you have any queries regarding this measure or any Government measure announced in relation to COVID-19, please contact your Brentnalls Tax Specialist.