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Monthly Information Newsletter – Tax & Super

May 2020

COVID-19 instant asset write off and accelerated depreciation

While many of the COVID-19 stimulus changes such as the JobKeeper payment are grabbing headlines, it is easy to overlook the significance of the $150,000 instant asset write off provisions.

The key changes for the instant asset write off include the following.

- Certain business entities can access an immediate deduction for the full cost of depreciating assets costing up to $150,000 (GST exclusive).
- The asset must be first used, or installed ready for use, for a "taxable purpose" during the period 12 March 2020 to 30 June 2020.
- The write-off will be available to businesses with an "aggregated turnover" of less than $500 million.

Note that for a car that costs above the luxury car cost limit, only the cost limit of the car can be claimed as an immediate tax deduction in the period to 30 June 2020. This is because the relevant provisions refer to the "adjustable value" of the asset and the first element of the cost of a car is reduced to the car limit if the cost exceeds that limit.

The instant asset write-off threshold will also be increased to $150,000 for amounts included in the second element of an asset's cost (typically, subsequent capital expenditure) provided:

- the cost of the related asset was subject to the instant asset write-off in an earlier year; and
- the amount is included in the second element of the asset's cost during the period from 12 March 2020 to 30 June 2020.

The threshold will also be increased to $150,000 for the balance of an entity's general small business pool that can be claimed as a deduction at the end of an income year for income years that end on or after 12 March 2020, but before 1 July 2020.

Note: From 1 July 2020, the instant asset write-off threshold will revert to its original level of $1,000 (unless legislative changes are made in the meantime) and will only be applicable for businesses with an aggregated turnover of less than $10 million.

Accelerated depreciation

Businesses with an aggregated turnover of less than $500 million in an income year can deduct capital allowances for a qualifying depreciating asset at a rate of 50% of its cost. This is in addition to the normal depreciation that is claimed on the cost of the asset after deducting the 50% amount.
A qualifying depreciating asset must satisfy several conditions, including:

- it must be new and not have been previously held by another entity (other than as trading stock or for testing purposes),
- it is an asset for which an entity has not claimed depreciation deductions, including under the instant asset write-off rules, and
- it is first held, and first used or installed ready for use, for a taxable purpose between 12 March 2020 and 30 June 2021.

It should also be noted that a small business entity (that is, an entity with turnover below $10 million using the simplified depreciation rules) can deduct depreciation at the rate of 57.5% for the "taxable purpose" proportion of the cost (or the adjustable value) of a "qualifying depreciating asset" where it is added to the general small business pool and it is held and used, or installed ready for use, between 12 March 2020 and 30 June 2021 (inclusive).