# Monthly Information Newsletter – Tax & Super

February 2022

## What does Temporary Full Expensing (TFE) of assets mean for me?

As Australia looks to get back to work and continue its recovery, the Temporary Full Expensing (TFE) measures are available to support business and encourage investment.

Eligible businesses can claim an immediate deduction for the business portion of the cost of most assets in the year they are first used or installed ready for use.

Businesses (in this case with an aggregated turnover less than $5 billion) can deduct the full cost of eligible assets acquired after 6 October 2020 (Budget night) in the 2020-21 and 2021-22 income years. Legislation is currently before Parliament to extend this to the 2022-23 income year as well. Small businesses that use the simplified depreciation rules will also claim a deduction for the balance in their small business pool during this time.

### Can I deduct any assets?

There are some assets that are excluded from the TFE measures, the main ones being:

- certain assets in low-value or software development pools
- capital works (building improvements) that are deducted under Division 43, and second-hand assets used to produce income from residential property
- Primary production assets that fall under Subdivision 40-F and 40-G and horticultural plants
- assets leased on long term hire arrangements
- trading stock and CGT assets, and
- assets not used or located in Australia.

### How does it work?

Consider the following example of a tour bus business:

***EXAMPLE***

*On 1 February 2021 it purchases a coach for $160,000. The business can claim the entire amount as a deduction under TFE.*

*In March 2021 it constructs a customer wait lounge at its office for $50,000. Because the expenditure is on capital works, the business can't claim a deduction under TFE (it will be subject to a claim under Division 43 instead).*

*On 15 April 2021 it incurs $10,000 while improving an existing depreciating business asset. The business can claim a deduction for these costs under TFE.*

*On 20 June 2021 it purchases a work vehicle (SUV) for $65,000 which will be used solely for business use. This asset is eligible for TFE, but the deduction will be subject to the car limit ($59,136 in the 2020-21 income year). The excess is not available as a tax deduction. This is in contrast to the earlier example where a $160,000 coach was purchased. Such a vehicle is not a car for depreciation purposes and therefore a full deduction can be claimed because it is not subject to the car limit.*

*At the end of the 2020-21 income year, it had a balance in its small business pool of $100,000.*

*The business will deduct the balance of the pool under TFE.*

### What's my benefit?

As these examples show, the brought-forward deductions available under TFE can be substantial.

It's important to note though, that the main benefit to businesses of TFE is one of timing. It brings forward the deduction on assets that would normally be spread over several years. This means the business may pay less tax, or no tax, now (but more in the future). All told, the immediate benefit is that TFE can assist cash flow.

The business can then potentially use that extra cash flow to make further investment or support operations.

We note that it is possible for some businesses to opt out of TFE (for example, for a number of reasons, it may not be advantageous from a tax perspective to generate substantial tax losses that TFE may generate). Ultimately, any decision to opt out will usually rest with you and your accountant.