



Stimulus Package - 50% Accelerated Depreciation Business Investment Incentive

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This provides a temporary incentive for businesses with aggregated turnovers of less than \$500 million a year to claim an additional 50% of the cost of an asset in the first year. This will be in addition to the normal depreciation that is claimed on the cost of the asset after deducting the 50% amount.

Example 1

A business has a turnover of \$200 million in the 2020-21 income year. On 1 July 2020, the business purchases an asset for \$1 million. Normally, a 30% depreciation rate would apply to this asset. Under the new rules, the business can claim a depreciation deduction of \$650,000 in the 2020-21 income year. This consists of 50% of the asset's value (\$500,000) plus 30% of the remaining \$500,000 (\$150,000) under existing depreciation rules.

Example 2

A company has a turnover of \$8 million (therefore a small business). It purchases on 1 May 2020 an asset for \$260,000. The instant asset write-off is not applicable because the cost of the asset is more than \$150,000. Under existing rules, depreciation at the rate of 15% would be claimed on the asset. Under the new rules, depreciation of $(260,000 \times 50\%) + (130,000 \times 15\%) = \$149,500$ is claimable as a tax deduction.

Eligibility

Generally, to be eligible to apply the accelerated rate of deduction, the depreciating asset must satisfy a number of conditions, including that the asset:

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

Example 3 — Middle-sized business benefits

J Construction Solutions Pty Ltd has an aggregated annual turnover of \$200 million for the 2020-21 income year. On 1 July 2020, J Construction Solutions Pty Ltd installs a \$1 million truck mounted concrete pump for use in the business. Under existing tax arrangements, J Construction Solutions Pty Ltd could claim 30 per cent depreciation in the first year (based on the asset's effective life of 62/3 years).

Under this new incentive, J Construction Solutions Pty Ltd can claim a depreciation deduction of \$650,000 in the 2020-21 income year. This consists of 50 per cent of the concrete pump's value under the new incentive (\$500,000) plus 30 per cent of the remaining \$500,000

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under existing depreciation rules (\$150,000). This is \$350,000 more than under existing tax arrangements. At the company tax rate of 30 per cent, J Construction Solutions Pty Ltd will pay \$105,000 less tax in the 2020-21 income year (30 per cent of \$350,000).

This extra tax benefit is worth \$14,000 to J Construction Pty Ltd over the asset's life (at an interest rate of 5 per cent). This will improve J Construction Solutions Pty Ltd's cash flow and lower the after tax cost of the concrete pump to the business.

Example 4 — Small business benefits

Joan and Bruce own a company, NC Transport Solutions Pty Ltd, through which they operate a haulage business on the North Coast of New South Wales. NC Transport Solutions Pty Ltd has an aggregated annual turnover of \$8 million for the 2019-20 income year. On 1 May 2020, Joan and Bruce purchase a new truck for \$260,000, exclusive of GST, for use in their business.

Under existing tax arrangements, NC Transport Solutions Pty Ltd would depreciate the truck using their small business simplified depreciation pool. Under the pooling rules, NC Transport Solutions Pty Ltd would deduct 15 per cent of the asset's value upon entry to the pool, leading to a tax deduction of \$39,000 for the 2019-20 income year.

Under the new incentive, NC Transport Solutions Pty Ltd would instead claim an up-front deduction of 50 per cent of the truck's value (\$130,000) before placing the asset in their small business simplified depreciation pool. Joan and Bruce would then claim a further 15 per cent deduction on the depreciated value of the truck (\$19,500). As a result of the two deductions, Joan and Bruce are able to claim a deduction totalling \$149,500 in the 2019-20 income year, \$110,500 more than under existing arrangements.

At the company tax rate of 27.5 per cent, Joan and Bruce will pay \$30,387.50 less tax in the 2019-20 income year. This will improve NC Transport Solutions Pty Ltd's cash flow and help Joan and Bruce's business withstand and recover from the economic impact of the Coronavirus.

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