

Why 90,000 more businesses can access the \$20k instant asset write-off this year

The popular \$20,000 instant asset write-off for small business ends on 30 June 2017. This concession enables small businesses to immediately write-off depreciable assets which cost less than \$20,000.

Until recently, this instant write-off was only accessible to businesses with an aggregated turnover of less than \$2 million. But, a last minute deal struck between the government and Senator Nick Xenophon to pass the enterprise tax Bill - containing amongst other things the tax cuts for business and a change in the small business threshold - will see up to 90,000 more businesses access the instant write-off.

While the Bill containing these changes is not yet law, I expect that it will be passed when Parliament next sits.

For those businesses that have not accessed this concession previously, it's important to understand how you can take advantage of it before 30 June 2017.

What is the \$20,000 instant asset write-off?

A deduction is generally available for purchases your business makes. The instant asset write-off however changes the speed at which you can claim a deduction. Since 7.30pm, 12 May 2015, small businesses have been able to immediately deduct business assets costing less than \$20,000. On 30 June 2017, this \$20,000 deduction limit reduces back to \$1,000. When I say

"immediately deductible" I mean that your business can claim a tax deduction for the asset in the same income year that the asset was purchased and used (or installed ready for use). The deduction is claimed on the business's tax return.

If your business is registered for GST, the cost of the asset needs to be less than \$20,000 exclusive of GST. If your business is not registered for GST, it is \$20,000 including GST.

Assets costing \$20,000 or more can be allocated to a pool and depreciated at a rate of 15% in the first year and 30% for each year thereafter.

The instant asset write-off only applies to certain depreciable assets. There are some assets, like horticultural plants, capital works (building construction costs etc.), assets leased to another party on a depreciating asset lease, etc., that don't qualify - check first if you are uncertain.

Also, you need to be sure that there is a relationship between the asset purchased by the business and how the business generates income. You can't for example just go and purchase multiple television sets if they have no relevance to your business.

How can you access the \$20,000 instant asset write-off

There are a few issues to be aware of if you want to utilise the instant asset write-off:

Does your business qualify?

To access the instant asset write-off, your business needs to be a trading business (the entity buying the assets needs to carry on a business in its own right). It also needs to have an aggregated turnover under \$10 million. Aggregated turnover is the annual turnover of the business plus the annual turnover of any "affiliates" or "connected entities". The aggregation rules are there to prevent businesses splitting their activities to access the concessions. Another entity is connected with you if:

- You control or are controlled by that entity; or
- Both you and that entity are controlled by the same third entity.

Should you spend the money now?

If there are purchases and equipment that your business needs, that equipment has an immediate benefit to the business, and your cashflow supports the purchase, then in many cases it will make sense to go ahead and spend the money – you have until 30 June 2017 before the deduction threshold drops back to \$1,000.

The \$20,000 immediate deduction applies as many times as you like so you can use it for multiple individual purchases. But, your business still needs to fund the purchase for a period of time until you can claim the tax deduction and then, the deduction is only a portion of the purchase price.

Assets must be ready to use

If you want to access the \$20,000 immediate deduction, you have to start using the asset in the financial year you purchased it (or have it installed ready for use). This prevents business operators from stockpiling purchases and claiming tax deductions for goods they have no intention of using in the short term. So, if your business purchases an asset on 20 May 2017, it

" For eligible small businesses, the \$20,000 immediate deduction is a great initiative that allows the business to acquire any necessary depreciable assets before 30 June 2017 and get the tax benefit of these assets straight away, rather than over the life of the asset. I just have two warnings. One, only buy assets the business genuinely needs – it isn't worthwhile to buy something just for a tax deduction. And two, don't spend money the business doesn't have – make sure the business can afford the impact to cashflow of buying the assets."



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needs to be used or installed and ready to use by 30 June 2017 to qualify for the immediate deduction.

Second hand goods qualify

The instant asset write-off does not distinguish between new or second hand goods. For example, second hand machinery may qualify if it meets the other requirements.

The immediate deduction can be used more than once

Assuming all the other conditions are met, an immediate deduction should be available for each individual item costing less than \$20,000. Just be careful of cashflow.

Be careful of contracts

You need to ensure that any contract you sign makes your business the owner of the asset and that the asset can be used or installed and ready to use by the business on or before 30 June. The rules require you to "acquire" the asset before 30 June so the wording of the contract will be important.

Assets for business and pleasure

Where you use an asset for mixed business and personal use, the tax deduction can only be claimed on the business percentage. If you buy an \$18,000 second hand car and use it 80% for business and 20% for personal use, only \$14,400 of the \$18,000 is deductible.

You don't get \$20,000 back on tax as a refund

The instant asset write off is a tax deduction that reduces the amount of tax your business has to pay. It enables your business to claim a deduction for depreciating assets in the year the asset was purchased and used (or installed ready to use). For example, if your business is in a company structure the most you will 'get back' is 27.5% (in 2016-17). If your business is likely to make a tax loss for the year then the bigger deduction might not provide any short-term benefit to you.