

THE SMALL BUSINESS INSTANT ASSET WRITE-OFF

WHAT YOU NEED TO KNOW BEFORE YOU SPEND BIG ON YOUR BUSINESS

The SME instant asset write-off is designed to encourage business to business transacting, leading to increased employment and productivity in the vital SME economy and related industries. While that's a positive, business owners still need to be cautious not to extend themselves beyond their financial capacity.

ABOUT THE INSTANT ASSET WRITE-OFF SCHEME

- Since the start of the 2016-2017 financial year, the thresholds and eligibility rules for the instant asset write-off have changed a number of times – see the table below.
- The instant asset write-off in its current form is available until **30 JUNE 2020** to any business, regardless of structure, with an aggregate annual turnover below \$500 million.
- An eligible business can purchase depreciating business assets up to the threshold limit (see table below) and claim a full tax deduction in the financial year in which the asset is acquired or installed ready for use.
- The number of assets a business can claim an immediate tax deduction for is unlimited.
- New and old/second-hand assets purchased are eligible for the immediate tax deduction.
- In the case of a business that is registered for GST, the GST-exclusive amount is considered to be the cost of the asset. A business that is not registered for GST will apply the GST-inclusive amount as the cost of the asset.
- A depreciating asset is one that is used for business purposes, has a limited effective life and is expected to decline in value over the term of use. Land, premises, trading stock and certain intangible assets (eg. goodwill) are not depreciating assets.
- Computer software less than the threshold limit is an eligible asset in some cases – software purchased off-the-shelf and used exclusively in the business, as well as software developed exclusively for the business.

...continued over

FROM 01/07/2016
UNTIL 28/01/2019

\$20,000

Small businesses with annual turnover of less than \$10m are eligible.

Instant asset write-off is up to \$20,000 for each eligible asset.

FROM 29/01/2019
UNTIL 02/04/2019*

\$25,000

Small businesses with annual turnover of less than \$10m are eligible.

Instant asset write-off is up to \$25,000 for each eligible asset.

*Before 7.30pm on 02/04/2019 (ACT time)

FROM 02/04/2019**
UNTIL 12/03/2020

\$30,000

Up to businesses with annual turnover of less than \$50m are eligible.

Instant asset write-off is up to \$30,000 for each eligible asset.

**From 7.30pm on 02/04/2019 (ACT time)

FROM 12/03/2020
UNTIL 30/06/2020

\$150,000

Up to businesses with annual turnover of less than \$150m are eligible.

Instant asset write-off is up to \$150,000 for each eligible asset.

2020/03

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Learn more at www.peakpartnership.com.au



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CHARTERED ACCOUNTANTS



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TIPS TO HELP YOUR BUSINESS

- Be clear on the definitions of an eligible business under the incentive, especially with the introduction of the Economic Stimulus Package in response to the Coronavirus pandemic.
- Under this Stimulus Package and effective from 12 March 2020, trading companies, trading trusts, partnerships and sole traders with turnover of less than \$500 million qualify, but if your business is part of a group of entities the aggregate turnover may exclude your business.
- Always check with your Peak Adviser before committing to a significant business purchase.
- In addition to the instant asset write-off, individuals receiving income from an unincorporated small business such as a sole trader, partnership or trust may be eligible for the small business tax discount. This allows an eight per cent discount of the income tax payable on the business income received by an unincorporated small business entity, up to an annual turnover of less than \$5 million. This discount is capped at \$1,000 per individual for each income year and delivered as a tax offset.

CASH FLOW MUST BE PRIORITY #1

Anyone running a business of any size knows that maintaining cash flow is critical for growth and profitability, not to mention keeping stress levels in check. The current instant asset write-off measures essentially mean that a business can bring forward tax deductions in full for certain assets in the financial year in which the asset is acquired.

A key point is that a business needs to have the financial resources available to acquire a business asset – either cash in the bank or loan funding that can be repaid – without putting undue pressure on cash flow. You need to have the money available to buy the asset, irrespective of any tax incentive – and still have enough cash flow to operate the business as normal.

IN SUMMARY

The \$150,000 instant asset write-off for businesses with an aggregated annual turnover of less than \$500 million is expected to be a short-term temporary measure under the Coronavirus Economic Stimulus Package, but will still be subject to taxation laws.

That said, taxation laws are complex and there can be many variations in the way the rules are applied. For instance, there may be different interpretations and application of the tax law where business vehicles are traded in, or where an asset is used for business and private use. As always, it's best to consult with your Peak Adviser before making larger business purchases.

Lastly, some SME owners have previously mistaken the instant asset write-off as a green light to spend up big for free, thinking it's some form of investment allowance or grant.

Remember, it's not free money!



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