Small Business Asset Accelerated Depreciation write-off up to $20,000 per year

With some sense of déjà vu, the Budget announced that small businesses (aggregate annual turnover less than $2 million) would be able to immediately write off assets they start to use or install ready for use, provided the asset costs less than $20,000. (The existing write-off threshold is $1000 after being reduced from the previous $6,500). Eligible assets could include things like cars, van, kitchens, machinery, etc.

This will apply for assets acquired and installed ready for use between 7:30pm(AEST) 12th May 2015 and 30th June 2017.

It should also be remembered that the threshold applies on a per asset basis, so several assets each costing up to $20,000 would qualify for the write-off if installed ready for use before 30th June 2017. Assets valued at $20,000 or more (which cannot be immediately deducted) can continue to be placed in the small business simplified depreciation pool and depreciated at 15% in the first income year and 30% each income year thereafter. The pool can also be immediately deducted if the balance is less than $20,000 over this period (including existing pools)

The Government will also suspend the current “lock out” laws for the simplified depreciation rules (these prevent small businesses from re-entering the simplified depreciation regime for 5 years if they opt out) until 30th June 2017. These changes are expected to improve cash flow for small businesses and provide a boost to small business activity and investment. Small businesses can access accelerated depreciation for the majority of capital asset types. Only a small number of assets are not eligible (such as horticultural plants and in-house software). In most cases, specific depreciation rules apply to these assets. From 1st July 2017, the thresholds for the immediate depreciation of assets and the value of the pool will revert back to existing arrangement. The measure is estimated to have a cost to revenue of $1.8 billion over the forward estimates period.

Example A : A bakery is run as a Company. The business purchases a new oven for $13,750 and a new proofing cabinet for $3,500 to replace its old, worn-out equipment. Under current law, because these assets each exceed the current $1000 threshold, they would be included in the accelerated depreciation pool. Of their combined $17,250 cost only 15% or $2,588 would be depreciated in the first year. With a Company tax rate of 30% this means that the Company would only get $776 back on its tax in the first year.

Under the new $20,000 threshold, the Company will be able to claim an immediate deduction for both the new oven and the new proofing cabinet, giving an immediate deduction of $17,250. With the new small business Company tax rate of 28.5% from 1st July 2015, the Company will get $4,916 back on its tax.

So, under the new $20,000 threshold for accelerated depreciation, the Company would receive an additional cash flow benefit of $4,140.

The Australian Chamber of Commerce and Industry (ACCI) have welcomed the move, saying accelerated depreciation of up to $20,000 a year will help small businesses invest in important equipment, from things like a laser printer for a home office or business to a coffee maker for a café, or a set of tools for a tradie.

source: Budget Paper no2 (p19)

http:/pubacct.informz.net/pubacct/data/images/Tech%20Ad%202015%Budget%Edition.pdf