



Delivering support for business investment

The Government is backing businesses to invest to help the economy withstand and recover from the economic impact of Coronavirus. The two business investment measures in this package are designed to assist Australian businesses and economic growth in the short-term, and encourage a stronger economic recovery following the Coronavirus outbreak.

These measures will support over 3.5 million businesses (over 99 per cent of businesses) with aggregated annual turnover of less than \$500 million employing more than 9.7 million employees.

INCREASING THE INSTANT ASSET WRITE-OFF

Summary

The Government is increasing the instant asset write-off (IAWO) threshold from \$30,000 to \$150,000 and expanding access to include all businesses with aggregated annual turnover of less than \$500 million (up from \$50 million) until 30 June 2020. In 2017-18 there were more than 360,000 businesses that benefited from the current IAWO, claiming deductions to the value of over \$4 billion.

The IAWO threshold

The higher IAWO threshold provides cash flow benefits for businesses that will be able to immediately deduct purchases of eligible assets each costing less than \$150,000. The threshold applies on a per asset basis, so eligible businesses can immediately write-off multiple assets.

The IAWO is due to revert to \$1,000 for small businesses (turnover less than \$10 million) from 1 July 2020.

Eligibility

The Government is expanding access so that more businesses can take advantage of the IAWO. The annual turnover threshold for businesses is increasing from \$50 million to \$500 million. Expanding the threshold will mean an additional 5,300 businesses who employ around 1.9 million Australians will be able to access the IAWO for the first time.

Timing

This proposal applies from announcement until 30 June 2020, for new or second-hand assets first used or installed ready for use in this timeframe.

Budget impact

This measure is estimated to have a net cost of \$700 million over the forward estimates. It will support business investment and is estimated to lower taxes paid by Australian businesses by \$2.5 billion over the next two years.

Example 1 — Business benefits from increased asset threshold

Owen owns a company, ON Point Farms Pty Ltd, through which he operates a farming business in the Central Wheat Belt of Western Australia. ON Point Farms Pty Ltd has an aggregated annual turnover of \$25 million for the 2019-20 income year. On 1 May 2020, Owen purchases a second hand tractor for \$140,000, exclusive of GST, for use in his business.

Under existing tax arrangements, ON Point Farms Pty Ltd is not able to immediately deduct assets costing more than \$30,000 and instead would depreciate the tractor using an effective life of 12 years. Choosing to use the diminishing value method, ON Point Farms Pty Ltd would claim a tax deduction of \$3,899 for the 2019-20 income year.

Under the new \$150,000 instant asset write-off, ON Point Farms Pty Ltd would instead claim an immediate deduction of \$140,000 for the purchase of the tractor in the 2019-20 income year, \$136,101 more than under existing arrangements. At the company tax rate of 27.5 per cent, Owen will pay \$37,427.78 less tax in 2019-20.

This will improve ON Point Farms Pty Ltd's cash flow and help his business withstand and recover from the economic impact of the Coronavirus.

Example 2 — Business benefits from increased turnover threshold

Samantha owns a company, Sam's Specialty Roasters Pty Ltd, through which she operates a large food processing business in Brisbane. Sam's Specialty Roasters Pty Ltd has an aggregated annual turnover of \$150 million for the 2019-20 income year. On 1 May 2020, Samantha purchases five new conveyor belts for her production facility for \$40,000 each, exclusive of GST, for use in her business.

Under existing tax arrangements, Sam's Specialty Roasters Pty Ltd is not eligible for the instant asset write-off and instead would depreciate the conveyor belts using an effective life of 15 years. Choosing to use the diminishing value method, Sam's Specialty Roasters Pty Ltd would claim a total tax deduction of \$4,456 for the 2019-20 income year.

Under the new \$150,000 instant asset write-off, Sam's Specialty Roasters Pty Ltd would instead claim an immediate deduction of \$200,000 for the purchase of the conveyor belts (i.e. \$40,000 for each conveyor) in the 2019-20 income year, \$195,544 more than under existing arrangements. At the company tax rate of 30 per cent, Samantha will pay \$58,663.20 less tax in 2019-20.

This will improve Sam's Specialty Roasters Pty Ltd's cash flow and help her business withstand and recover from the economic impact of the Coronavirus.