

BACKING BUSINESS INVESTMENT (BBI)

Summary

The Government is introducing a time limited 15 month investment incentive to support business investment and economic growth over the short-term, by accelerating depreciation deductions.

The key features of the incentive are:

- *benefit* — deduction of 50 per cent of the cost of an eligible asset on installation, with existing depreciation rules applying to the balance of the asset's cost;
- *eligible businesses* — businesses with aggregated turnover below \$500 million; and
- *eligible assets* — new assets that can be depreciated under Division 40 of the *Income Tax Assessment Act 1997* (i.e. plant, equipment and specified intangible assets, such as patents) acquired after announcement and first used or installed by 30 June 2021. Does not apply to second-hand Division 40 assets, or buildings and other capital works depreciable under Division 43.

Eligibility

Businesses with aggregated turnover below \$500 million, purchasing certain new depreciable assets.

Timing

Applies to eligible assets acquired after announcement and first used or installed by 30 June 2021.

Budget impact

This measure is estimated to have a cost of \$3.2 billion over the forward estimates. It will support business investment and is estimated to lower taxes paid by Australian businesses by \$6.7 billion over the next two years.

Example 3 — Middle-sized business benefits from the BBI

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 6½ years).

Under the new *BBI*, 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 *BBI* (\$500,000) plus 30 per cent of the remaining \$500,000 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 from the BBI

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 *BBJ*, 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.

FURTHER INFORMATION

For more information on the Australian Government's Economic Response to the Coronavirus visit treasury.gov.au/coronavirus.