

\$150,000 Instant Asset Write Off limit extended to 31st December 2020

The Federal Government has announced that the \$150,000 Instant Asset Write Off limit will be extended for another six months to 31st December 2020, for businesses with annual turnover of less than \$500 million.

Without this extension, the limit was due to revert back to \$1,000 on 1st July, and be available only for businesses with turnover of less than \$10 million per year.



The limit had been moving gradually up for a number of years and was sitting at \$30,000 at the beginning of this year. In response to the rapidly escalating COVID-19 pandemic and its impact on business, the Government announced a range of stimulus measures, one of which was a significant increase of this limit to \$150,000 per asset, as well as an increase in the eligibility threshold to businesses with annual turnover of up to \$500 million. This allows eligible business to immediately deduct the purchase price of assets costing less than \$150,000 in the first year, rather than depreciating them over their useful life. The increased limit was due to expire on 30th June 2020.

In total there is no additional deduction but the measure provides a cash flow benefit to business in bringing forward future deductions into the current year, and no doubt helps to stimulate the economy somewhat by encouraging business owners to go out and buy equipment, knowing they will receive the entire tax benefit of the purchase in the first year.

There was, however, one significant limitation to the increase as it was originally announced - to claim the deduction, an eligible asset had to be *installed and ready for use* by 30th June 2020. It wasn't sufficient to have merely ordered or even paid for it by that date. More costly equipment isn't always the kind of thing a business owner simply ducks out to the shops to pick up, and often needs to be ordered in advance, sometimes with long lead times (think motor vehicles, for example). Given that the announcement to increase the limit was only made in March, and was due to expire at the end of June, the window to take advantage of the measure was tight in many cases. This extension to 31st December not only provides additional stimulus for a longer period of time, but gives some breathing room for businesses trying to access it now but finding that their equipment is on prolonged back order.

As always, whenever an increase to the Instant Asset Write Off limit is announced, we caution that business owners should give consideration to the needs of the business and whether current cash flow is sufficient to fund the purchase (or service the finance obligation). That is, use your normal assessment criteria for making a decision on a significant investment in equipment. This benefit, while welcome, remains only one of timing, and even then there is still a net cash outflow. For example, in simple terms, buying an asset valued at \$150,000 in a company that pays tax at 27.5% will still cost that business \$108,750. The benefit is effectively a discount brought forward on the purchase of an asset.

If you have any questions or need any help, please [contact us](#) for further information or assistance.

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