Temporary Full Expensing of Depreciating Assets

The Treasury Laws Amendment Bill 2020 amends income tax law to allow businesses to deduct the full cost of eligible depreciating assets.

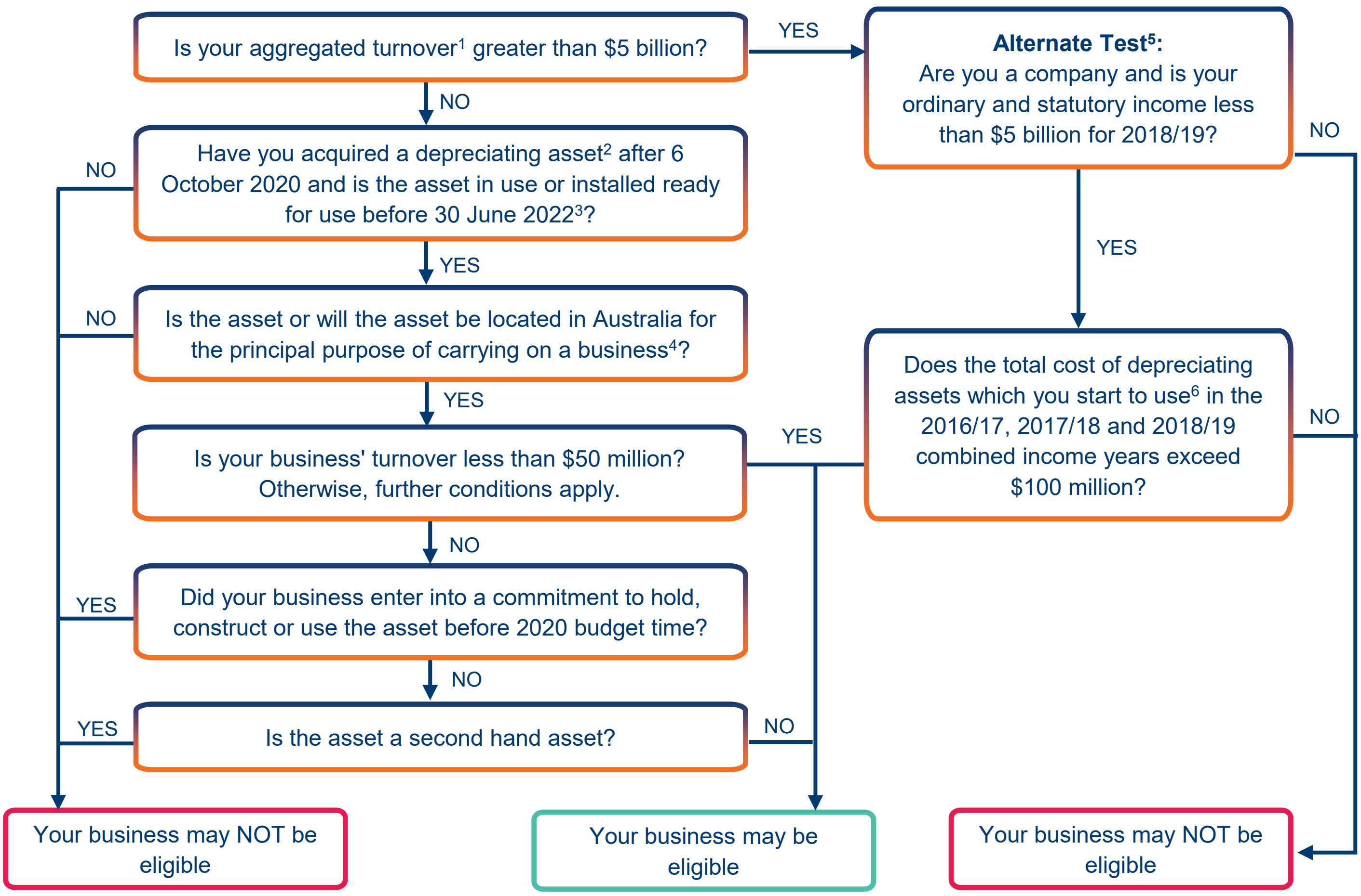
18 December 2020

This applies to assets first held and used or installed ready for use **after 6 October 2020** (budget time 2020) and **before 30 June 2022**. Additionally, businesses are able to deduct the full cost of improvements to such eligible assets as well as any improvements to existing eligible assets during this period.

There are a series of conditions that must be met in order for a business to be eligible. There are also several exclusions that may make a business ineligible. The relevant conditions are depicted in Figure 1 and explained below.

Businesses now have the choice of opting out of the temporary full expensing method on an asset by asset basis. Once the opt-out choice is made, it cannot be revoked. The choice to opt-out must be submitted by the date of lodgement of the income tax return for the first income year the opt-out applies to.

Figure 1. Eligibility Flowchart



ShineWing AUSTRALIA
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Please note:

1. The term aggregated turnover will include group companies located within and outside of Australia. Your global consolidated annual report will be a good starting reference point.
2. A depreciating asset is an asset that is covered under Division 40 of the Income Tax Assessment Act 1997 e.g. Plant and equipment, office furniture, motor vehicles and certain intangible assets. The asset cannot be a capital works asset (e.g. buildings and structural improvements), certain primary production assets or asset that has been allocated to a low-value pool or software development pool.
3. Where an entity is not eligible for temporary full expensing of the acquisition costs of the asset due to having acquired the asset before 6 October 2020, it may still be eligible for temporary full expensing of the second element costs (e.g. costs to improve the asset or to relocate the asset) if those improvements occurred after 6 October 2020 and before 30 June 2022.
4. Having a rental property by itself may not qualify as a business.
5. If using the Alternative test, the following assets are ineligible for temporary full expensing: intangible assets, assets previously held by your associates, and assets available for use, at any time in the income year, by your associates or entities that are foreign residents.
6. The costs include costs to acquire or improvements to the assets. The better view is that costs incurred before the 2016/17 income year could be included. However, the asset must be first used or held ready for use in those three income years.

Contact us

Reach out to one of our ShineWing Australia experts below to discuss how these changes might present an opportunity for your business.

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