

# Temporary full expensing of depreciating assets

By Nicholas Biscontin

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The Federal Treasury announced as part of the 2020-21 Federal Budget that businesses with an aggregated turnover of less than \$5 billion can immediately deduct the cost of eligible new depreciating assets in the first year they are used.

As is often the case with tax laws, the final legislation is complex, and it is important for taxpayers to obtain tailored advice. The following is a broad general overview of the new opportunity provided in the Federal Budget.

Full expensing in the year of first use or installation ready for use applies to the following:

- New depreciating assets;
- The cost of improvements to existing eligible assets; and
- Second-hand assets acquired (only for eligible businesses with an aggregated annual turnover of less than \$50 million).

This temporary measure applies to the business portion of assets acquired, or the cost of improvements to eligible depreciating assets, from **7.30pm AEDT on 6 October 2020 to 30 June 2022**.

### **Eligible Assets (under new full expensing measures)**

#### ***New depreciating assets***

New assets acquired and used in Australia that directly relate to the business earning assessable income, first held ready for use by the business between 7.30pm AEDT on 6 October 2020 and 30 June 2022.

#### ***The cost of improvements to existing eligible assets***

For existing assets, you can claim an immediate deduction for the business portion of the cost of improvements incurred between 7.30pm AEDT on 6 October 2020 and 30 June 2022.

If costs are incurred to improve an existing asset in an income year, the costs of improvements in that income year can be deducted if you:

- Start to use the asset or had it installed ready for use for a taxable purpose in that income year; or
- Started to use the asset or had it installed ready for use for a taxable purpose in an earlier income year.

*Note: If you deducted the existing asset cost under the Instant Asset Write Off (IAWO) method in an earlier income year, you can still deduct the improvement costs in a later year under the new temporary full expensing measures.*

#### ***Second-hand assets acquired***

If your business' aggregated turnover is less than \$50 million and you start to hold and use an eligible second-hand asset, the business portion of the cost of that asset can be deducted in full under the new temporary full expensing measures. The cost of the asset includes improvements to second-hand assets incurred in the same income year.

### **How it applies**

#### **New Full Expensing of Depreciating Assets (FEDA)**

| <b>Aggregated<br/>Turnover</b>          | <b>Date asset acquired or first held</b>                    | <b>Date asset first used or installed<br/>ready for use</b> | <b>Asset threshold<br/>(cost)</b> |
|---|---|---|-----------------------------------|
| <b>All businesses</b>                   | First held from 7.30pm on 6 October 2020<br>to 30 June 2022 | By 30 June 2022   | No limit*                         |
| <b><i>Less than \$5<br/>billion</i></b> |   |   |                                   |

Please note the Car cost limit for depreciation remains in place, refer below.

### **Excluded Assets not eligible for Full Expensing Depreciation**

Assets that are not eligible for FEDA include:

- Assets allocated to a low-value depreciation pool or software development pool;
- Certain primary production assets (i.e. water facilities, fencing, horticultural plants, or fodder storage assets), unless you are a small business entity who choose to apply the simplified depreciation rules to these assets;
- Buildings and other capital works for which you can deduct amounts under Division 43;
- Assets subject to exclusion for pre-existing commitments (before 7.30pm on 6 October 2020 - aggregated turnover >\$50 million); and
- Assets that will never be located in Australia or will not be used principally in Australia for the principal purpose of carrying on a business.

### **Disposal and termination of eligible assets expensed in full under FEDA**

#### **Consideration received for disposal of asset**

Where an asset has been deducted in full under FEDA and then subsequently disposed, the termination value is included in the entity's assessable income for that financial year. Where an eligible asset is disposed of during the financial year that it has been fully expensed, then a deduction is only allowed for the difference between the initial asset cost and termination value.

#### **Disposal of asset – ceases to be used for any purpose**

Where an asset has been deducted in full under FEDA and ceases to be used for **any** purpose, the termination value is the market value of that asset at that time. Where an asset is considered worthless at the end of its effective life, then the termination value may be nil. Clients should be wary when making a determination that an asset is worthless, as market value substitution rules can apply, for example, when assets that are no longer of use to the business are taken for personal use.

### **Business Related Cars**

The ATO defines a car as a passenger vehicle, van or tractor designed to carry a load of less than one tonne and fewer than nine passengers. The maximum value you can use for calculating the depreciation claim, depends on the year in which you first used or leased the car.

- For the year ended 30 June 2020: \$57,581
- For the year ended 30 June 2021: \$59,136

Should you have any queries or wish to discuss this further, please contact your [Fordham Partner](#).

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