New Depreciation Rules

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Yes you should definitely buy that new bit of gear!

This is the answer that most clients want to hear, but like all things in business and life, tax should always be a secondary consideration to firstly making a good business decision!

This might be a bit of a boring topic for some, but for a lot of clients it's been a bit of a hot topic with the recent announcements about the new depreciation rules.

The main message to clients is that the end tax outcome is the same, whether it's under the old rules or the new rules. Overall you still get to claim exactly the same amount. It's just the under the new rules you are getting the tax saving a lot quicker.

A quick recap of the new rules for the new Instant Asset Write Off and the Accelerated Depreciation rules are:

Instant Asset Write Off

1. Threshold increased from $30,000 to $150,000 (GST exclusive) from 12/03/2020 to 30/06/2020.
2. Applies to new or second hand items.
3. Applies to multiple assets.

As an example, if Bill purchases a S/H tractor for $120,000 before 30/06/2020, he claims the entire tax deduction in the 2019/20 year. If Bill's tax rate is 30%, he saves $36,000 in tax. If Bill purchases this next year, he still eventually claims the full $120,000 purchase, it's just over a number of years.

Accelerated Depreciation

1. Applies to new assets only, from 12/03/2020 to 30/06/2021.
2. The contract cannot be entered into before 12/03/2020.
3. Upfront depreciation on 50% of the cost of the asset.
4. You then claim normal depreciation on the balance.

As an example, if Tom purchases a new Sprayer for $500,000 this year and meets the above tests, assuming Tom is on the Small Business Entity system, he claims 57.5% as a tax deduction in the 2019/20 year, being $287,500. If Tom's tax rate is 30% he saves $86,250 in tax. Tom then claims the balance of depreciation on the remaining $212,500 over a number of years.

The advantage to the immediate tax saving of $86,250 is that it might fund all or most of the 1st yearly repayment, depending on any trade-in and its value.

Again, if Tom was to purchase this after the new rules have finished, he still eventually claims the full $500,000 purchase; it's just over a number of years.

So in summary you still need to make a good business decision on the machinery upgrade and replacement first, and then the tax saving should really just be the incentive that might either bring this decision forward or help fund it from a cashflow point of view.

Make sure you talk to your accountant, and make this decision in conjunction with your tax planning and position. As always it is important that you get good proactive tax planning advice well before June, tailored to you and your business, even if it's a low production year. Never be hit with a surprise tax bill, this is leaving things to chance and leaving dollars on the table! And don't leave it to the last 2 weeks in June – this should just be a final check or revision to your already well thought out plans!