



## Delivering support for business investment

The Government is backing businesses to invest to help the economy withstand and recover from the economic impact of Coronavirus. The two business investment measures in this package are designed to assist Australian businesses and economic growth in the short-term, and encourage a stronger economic recovery following the Coronavirus outbreak.

These measures will support over 3.5 million businesses (over 99 per cent of businesses) with aggregated annual turnover of less than \$500 million employing more than 9.7 million employees.

### INCREASING THE INSTANT ASSET WRITE-OFF

#### Summary

The Government is increasing the instant asset write-off (IAWO) threshold from \$30,000 to \$150,000 and expanding access to include all businesses with aggregated annual turnover of less than \$500 million (up from \$50 million) until 30 June 2020. In 2017-18 there were more than 360,000 businesses that benefited from the current IAWO, claiming deductions to the value of over \$4 billion.

#### The IAWO threshold

The higher IAWO threshold provides cash flow benefits for businesses that will be able to immediately deduct purchases of eligible assets each costing less than \$150,000. The threshold applies on a per asset basis, so eligible businesses can immediately write-off multiple assets.

The IAWO is due to revert to \$1,000 for small businesses (turnover less than \$10 million) from 1 July 2020.

#### Eligibility

The Government is expanding access so that more businesses can take advantage of the IAWO. The annual turnover threshold for businesses is increasing from \$50 million to \$500 million. Expanding the threshold will mean an additional 5,300 businesses who employ around 1.9 million Australians will be able to access the IAWO for the first time.

#### Timing

This proposal applies from announcement until 30 June 2020, for new or second-hand assets first used or installed ready for use in this timeframe.

#### Budget impact

This measure is estimated to have a net cost of \$700 million over the forward estimates. It will support business investment and is estimated to lower taxes paid by Australian businesses by \$2.5 billion over the next two years.

### **Example 1 — Business benefits from increased asset threshold**

Owen owns a company, ON Point Farms Pty Ltd, through which he operates a farming business in the Central Wheat Belt of Western Australia. ON Point Farms Pty Ltd has an aggregated annual turnover of \$25 million for the 2019-20 income year. On 1 May 2020, Owen purchases a second hand tractor for \$140,000, exclusive of GST, for use in his business.

Under existing tax arrangements, ON Point Farms Pty Ltd is not able to immediately deduct assets costing more than \$30,000 and instead would depreciate the tractor using an effective life of 12 years. Choosing to use the diminishing value method, ON Point Farms Pty Ltd would claim a tax deduction of \$3,899 for the 2019-20 income year.

Under the new \$150,000 instant asset write-off, ON Point Farms Pty Ltd would instead claim an immediate deduction of \$140,000 for the purchase of the tractor in the 2019-20 income year, \$136,101 more than under existing arrangements. At the company tax rate of 27.5 per cent, Owen will pay \$37,427.78 less tax in 2019-20.

This will improve ON Point Farms Pty Ltd's cash flow and help his business withstand and recover from the economic impact of the Coronavirus.

### **Example 2 — Business benefits from increased turnover threshold**

Samantha owns a company, Sam's Specialty Roasters Pty Ltd, through which she operates a large food processing business in Brisbane. Sam's Specialty Roasters Pty Ltd has an aggregated annual turnover of \$150 million for the 2019-20 income year. On 1 May 2020, Samantha purchases five new conveyor belts for her production facility for \$40,000 each, exclusive of GST, for use in her business.

Under existing tax arrangements, Sam's Specialty Roasters Pty Ltd is not eligible for the instant asset write-off and instead would depreciate the conveyor belts using an effective life of 15 years. Choosing to use the diminishing value method, Sam's Specialty Roasters Pty Ltd would claim a total tax deduction of \$4,456 for the 2019-20 income year.

Under the new \$150,000 instant asset write-off, Sam's Specialty Roasters Pty Ltd would instead claim an immediate deduction of \$200,000 for the purchase of the conveyor belts (i.e. \$40,000 for each conveyor) in the 2019-20 income year, \$195,544 more than under existing arrangements. At the company tax rate of 30 per cent, Samantha will pay \$58,663.20 less tax in 2019-20.

This will improve Sam's Specialty Roasters Pty Ltd's cash flow and help her business withstand and recover from the economic impact of the Coronavirus.

## 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 6 $\frac{2}{3}$  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 *BBI*, 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](https://treasury.gov.au/coronavirus).