

The instant asset write-off



The instant asset write-off threshold increased from \$1,000 to \$20,000 for 2023-24. Here's what it means:

The increase to the instant asset write-off threshold provides a major cashflow advantage by enabling small businesses to claim an immediate tax deduction for certain assets in the year of purchase, instead of spreading the deduction over a number of years.

Remember that the deduction is not a refund, it will only reduce the taxable income of the business entity, or in some cases, it will create or increase a tax loss that needs to be carried forward to future years. For example, if your business operates through a company structure, the economic benefit of the write-off is limited to the relevant company tax rate (25% for base rate entities, 30% for other companies). If your business is likely to make a tax loss for the year, then a larger deduction might not provide any short-term benefit.

Questions?

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Eligibility

Eligibility to access the instant asset write-off looks at both your business entity and the asset.

To utilise the instant asset write-off, your **business entity** must:

- Be carrying on a business under general principles in the 2024 income year;
- Have an aggregated annual turnover of less than \$10m (the businesses annual turnover, plus the annual turnover of any connected business entities or affiliates) in the 2024 income year or 2023 income year;
- Choose to apply the simplified depreciation rules for the 2024 income year. If your business does not choose to apply the simplified depreciation rules for the 2024 income year, then it won't have access to the instant asset write-off rules, regardless of whether the other basic conditions can be met.

And, for an **asset** to be eligible, it must:

- Fall within the scope of the depreciation provisions. There are some assets, like horticultural plants, capital works (building construction costs etc.),

assets leased to another party on a depreciating asset lease, etc., that don't qualify.

- Cost less than \$20,000. If your business is registered for GST, the cost of the asset needs to be less than \$20,000 after GST credits have been subtracted. If your business is not registered for GST, it is \$20,000 including GST; and
- Be first used, or installed ready for use, for a taxable purpose between 1 July 2023 and 30 June 2024. This prevents business operators from stockpiling purchases and claiming tax deductions for goods they have no intention of using in the short-term. So, if your business purchased an asset on 20 May 2024, it had to be used or installed and ready to use by 30 June 2024 to qualify for the immediate deduction in 2023-24.
- Be for a business use. Ensure that there is a relationship between the asset purchased and how your business generates income. A business can't, for example, claim deductions for multiple television sets if the sets have no relevance to the business.

The provisions that prevent small business entities from re-entering the simplified depreciation regime for five years if they opt-out will continue to be suspended until 30 June 2024 (the lock-out rules).

What happens when assets cost more than \$20,000?

If your business is a small business entity and chooses to apply the simplified depreciation rules, then assets costing \$20,000 or more (that cannot be immediately deducted) can continue to be placed into the small business general pool and depreciated at 15% in the first income year and 30% each income year thereafter.

The increased instant asset write-off threshold also means that a \$20,000 threshold applies for the purpose of determining whether the full pool balance is written off in the 2024 income year. Just remember that when you are applying these rules, you don't look at the closing pool balance, you are looking at what the pool balance would have been if you ignored the current year depreciation deductions for the pool for the 2024 year.

How many assets can be purchased?

The write-off threshold applies per asset, so a small business entity can potentially deduct the full cost of multiple assets. Assuming all the other conditions are met, an immediate deduction should be available for each individual item costing less than \$20,000 - just be careful of cashflow.

What about second-hand goods?

The instant asset write-off does not distinguish between new or second-hand goods. For example, second hand machinery may qualify if it meets the other requirements.

Extension until 30 June 2025

In the 2024-25 Federal Budget, the Government announced an extension to the increased instant asset write-off threshold to 30 June 2025. A Bill is currently before Parliament to enact this change.

Note: The material and contents provided in this publication are informative in nature only. It is not intended to be advice and you should not act specifically on the basis of this information alone. If expert assistance is required, professional advice should be obtained. Current as of June 2024.