How To Use The Unlimited Instant Asset Write Off Scheme

If you are a business owner who is in need of upgraded equipment, tools, or even new vehicles, the government's extended instant asset write off initiative may help you.

It allows you to claim an **immediate deduction** of the full value of the new eligible depreciable assets of any value that are used or installed for use between 7.30pm AEDT on 6 October 2020 and 30 June 2022.

Over the years, the instant asset write off threshold increased from $30,000 to $150,000 – but now it is UNLIMITED!

This temporary tax incentive is available to businesses with annual turnover of up to $5 billion.

The major benefit of the scheme is that you may claim the full amount of the business portion of the eligible new asset as a tax deduction immediately, thus reducing the amount of tax that your business must pay. It is best explained with case studies:

Case study 1

A business owner with a company structure buys office equipment in January 2021 worth $20,000 and a new business vehicle worth $55,000 during March 2021 (in the same financial year).

The business owner will be able to claim both the equipment and vehicle totalling $75,000 as a tax deduction in the 2020/21 financial year.

If this business has a turnover of $550,000 and its net taxable income is $200,000, the tax payable would be $52,000 (the base rate entity company tax rate in the 2020/21 financial year is 26%).

However, as the company purchased these assets during the 2020/21 financial year, it will be able to immediately write them off **creating an initial additional cash flow in the business of $18,184.**

Case study 2

A business sole trader pays marginal rates of tax based on their individual taxable income. If the taxable income is $160,000, their total tax bill will be $44,267.

Taxable income	Tax on this income
0 – $18,200	Nil
$18,201 – $45,000	19 cents for each $1 over $18,200
$45,001 – $120,000	$5,092 plus 32.5 cents for each $1 over $45,000
$120,001 – $180,000	$29,467 plus 37 cents for each $1 over $120,000
$180,001 and over	$51,667 plus 45 cents for each $1 over $180,000

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$29,467 + 0.37 x ($160,000 - $120,000)

= $29,467 + (0.37 x $40,000)

= $29,467 + $14,800

= $44,267

However, if they purchase and claim $25,000 worth of assets purchased in the financial year, the taxable income will reduce to $135,000. The total tax bill will then be:

$29,467 +0.37 x ($135,000 - $120,000)

= $29,467 + (0.37 x $15,000)

= $29,467 + $5,550

= $35,017

$44,267 - $35,017 = $15,750
Thus reducing the cash outflow by $15,750.

If your business needs to purchase essential equipment or vehicles, this scheme could potentially save your business thousands of dollars in tax for that financial year.

It is important to check eligibility, along with the tax and financial implications for your business, prior to any purchase decisions.

If your business can't currently afford to purchase the required asset upfront, you could potentially borrow the funds and still claim the write-off.

CONTACT US TODAY to discuss your business finance options.

CHASE finance

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