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Tax + Business + Wealth

TAX OFFICE SOLUTIONS- Instant Asset Write Off

"Tom, you're an asset to the company.
It's just that you're depreciating."

Instant asset write-off and simplified depreciation

As part of its 2013 election commitments, the government announced changes to the instant asset write-off provisions for small business. The changes are expected to come into effect from 1 January 2014.

From the 2012–13 income year small businesses have been able to write-off depreciating assets costing less than $6,500 in the income year in which they start to use the asset, or have it installed ready for use. They can also depreciate most other assets in the general small business pool at a rate of 15% in the first year and 30% thereafter.

If the proposed changes are enacted, the threshold will change and only assets costing less than $1,000 (acquired and installed ready for use after 31 December 2013) will be eligible for immediate write-off under the general Small Business Entity provisions. Assets costing $1,000 or more will need to be depreciated in the general small business pool.

Assets costing less than $6,500, acquired and installed ready for use by the small business between 1 July 2013 and 31 December 2013, will still be eligible to be immediately written-off.

For the 2012-13 income year onwards, small businesses that purchase a vehicle can now also claim an additional deduction of up to $5000 in the income year it is purchased.

This changes the way the depreciation deduction for a motor vehicle is calculated in its first year.

The change effectively brings forward the depreciation deduction to earlier in the vehicle’s life.

Where the vehicle is used exclusively for business and has not been written off immediately under the instant asset write off, the cost of the motor vehicle is added to the general small business pool and the deduction is made of up of $5000 plus 15 per cent of the vehicles remaining value.

For example, if a motor vehicle costs $20,000 and is used exclusively in your business then under the new rules the deduction in the first income year will be $7,250. That is $5,000 plus 15 per cent of the $15,000 remaining value. Under the old rules the deduction would have been $3,000 in the first year.

What is even better, is the long life pool no longer exists. This means that if you had a long-life pool, its closing balance is rolled over to form part of the opening balance of the general small business pool for the 2012–13 income year. The general small business pool is depreciated at a rate of 30 per cent. Newly acquired assets are deducted at 15 per cent (half the pool rate) for the first income year.

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