Full expensing of depreciating assets

Correct as of 15 October 2020

All legislative references are to the *Income Tax Assessment Act 1997* unless otherwise stated

Reference is also made to the *Income Tax (Transitional Provisions) Act 1997* (ITTPA)

The full expensing of depreciating assets (FEDA) measure is contained in new Subdiv 40-BB of the ITTPA

TABLE 1: Existing instant asset write off (IAWO) and new full expensing of depreciating assets (FEDA)

Aggregated turnover[1]	Date asset acquired (IAWO) or first held (FEDA)	Date asset first used or installed ready for use	Asset threshold (cost[2])
IAWO: Small business entity (SBE)[3] **Less than $10 million**	Before 7:30pm on 12 May 2015	Before 7:30pm on 12 May 2015	< $1,000
	Acquired from 7:30pm on 12 May 2015 to 31 December 2020	From 7:30pm on 12 May 2015 to before 29 January 2019	< $20,000
		29 January 2019 to before 7:30pm on 2 April 2019	< $25,000
		From 7:30pm on 2 April 2019 to before 12 March 2020	< $30,000
		12 March 2020 to 30 June 2021	< $150,000
	Acquired from 1 January 2021	Practically, not relevant until after 30 June 2022	< $1,000
IAWO: Medium sized business[4] **$10 million to less than $50 million**	Acquired from 7:30pm on 2 April 2019 to 31 December 2020	From 7:30pm on 2 April 2019 to before 12 March 2020	< $30,000
		12 March 2020 to 30 June 2021	< $150,000

1 Includes annual turnovers of entities connected with, and affiliates of, the entity — see s 328-125 and s 328-130.
2 Cost excludes any GST credits to which the entity is entitled, and is subject to the car limit (**$59,136** in 2020–21).
3 See s 328-180 for entitlement of small business entity to claim the IAWO. See also s 328-180 of the ITTPA.
4 See s 40-82(4) for entitlement of medium sized business to claim the IAWO.

TABLE 1: Existing instant asset write off (IAWO) and new full expensing of depreciating assets (FEDA)

continued

Aggregated turnover[1]	Date asset acquired (IAWO) or first held (FEDA)	Date asset first used or installed ready for use	Asset threshold (cost[2])
IAWO: Large business[5] **$50 million to less than $500 million**	Acquired from 7:30pm on 2 April 2019 to 31 December 2020	12 March 2020 to 30 June 2021	< $150,000
FEDA: All businesses **Less than $5 billion[6]**	First held from 7:30pm on 6 October 2020 to 30 June 2022	By 30 June 2022	No limit

General small business pools — Low pool value[7]

SBEs must deduct the low pool value if it meets the conditions set out in **Table 2** at the end of the income year.

Calculation of low pool value — s 328-210(2)

STEP 1 Opening balance of general small business pool for the income year

STEP 2 **Add:** Taxable purpose proportion of cost of additions to the pool during the year (acquisitions)

STEP 3 **Less:** Taxable purpose proportion of termination values of assets for which a balancing adjustment event occurred during the year (disposals)

STEP 4 Result = Low pool value

Note:

- Disregard decline in value in this calculation.
- Writing off the low pool value when it meets the conditions set out in Table 2 is not optional.

TABLE 2: Low pool value

End of income year	Must deduct low pool value if:
2013–14	Less than $1,000
2014–15 to 2017–18	Less than $20,000
2018–19	Less than $30,000
2019–20	Less than $150,000
2020–21 and 2021–22	More than $0[8]
From 2022–23	Less than $1,000[9]

5 See s 40-82(4A) for entitlement of large business entity to claim the IAWO.
6 See new Subdiv 40-BB of the ITTPA.
7 See s 328-210.
8 See s 328-181(5) of the ITTPA.
9 Subject to any future legislative amendments.

TABLE 3:

Exclusion of assets from full expensing under new Subdiv 40-BB of the ITTPA

Assets excluded from FEDA	Aggregated turnover: < $50 million	Aggregated turnover: $50 million to < $5 billion	Aggregated turnover: $5 billion or more
Asset mentioned in s 40-45:[10] ■ Eligible work related items under s 58X of the *Fringe Benefits Tax Assessment Act 1986* where the benefit is provided as an expense payment benefit or a property benefit ■ Div 43 capital works ■ Certain film assets	✗	✗	✗
Asset not used or located in Australia[11]	✗	✗	✗
Asset[12]: ■ allocated to a low-value pool or software development pool covered by Subdiv 40-E ■ for which the taxpayer has deducted, or can deduct, amounts under Subdiv 40-F (certain primary production assets[13])	✗	✗	✗
Eligible new asset	✓	✓	✓
Eligible second hand asset[14]	✓	✗	✗
Cost of improving existing asset	✓	✓	✓
Subject to exclusion for pre-existing commitments (before 7:30pm on 6 October 2020)[15]	✓	✗	✗

✗ Cannot fully expense

✓ Can fully expense

[10] See s 40-150(2) of the ITTPA.

[11] See s 40-150(3) of the ITTPA.

[12] See s 40-150(4) of the ITTPA.

[13] A water facility, horticultural plant, fodder storage asset or fencing asset.

[14] See s 40-165(7)–(9) of the ITTPA.

[15] See s 40-165(2)–(6) of the ITTPA

TABLE 4:

Interaction of FEDA with Backing business investment — accelerated depreciation measure[16]

(aggregated turnover must be less than $500 million)

Cost of the asset	Asset first held from 12 March 2020 to before 7:30pm on 6 October 2020	Asset first held from 7:30pm on 6 October 2020
Less than $150,000	Eligible for instant asset write off	New FEDA rules in Subdiv 40-BB apply — asset is fully expensed (unless the aggregated turnover is $5 billion or more or the asset is an excluded type: see Table 3)
$150,000 or more	■ If asset is allocated to a general small business pool — the low pool value must be fully deducted: ■ on 30 June 2020 if less than $150,000; or ■ otherwise on 30 June 2021. ■ If asset is not allocated to a general small business pool — claim under Div 40 (50% in the year of first use or installation, then balance spread over the effective life including the first year's decline in value)	

Note:

- Asset cannot be an excluded asset, such as second hand assets, buildings, Div 43 capital works, assets held under a commitment entered into before 12 March 2020, and assets covered by Subdiv 40-E, Subdiv 40-F and Subdiv 40-K.
- Asset not eligible for accelerated depreciation under s 40-120 of the ITTPA if the decline in value of the asset has already been deducted under s 40-82.

TABLE 5: Meaning of terms

Term	Legislative reference	Term	Legislative reference
Adjustable value	s 40-85	**IAWO: Small business entity**	s 328-110
Balancing adjustment event	s 40-295	**IAWO: Medium sized business**	s 40-82(4)
Car limit	s 40-230	**IAWO: Large business**	s 40-82(4A)
Cost	Subdiv 40-C	Low pool value	s 328-210
Depreciating asset lease	s 995-1	Non-taxable use	s 40-25(2)
Full expensing of depreciating assets (FEDA)	Subdiv 40-BB of the ITTPA	Termination value	s 40-300
Hold a depreciating asset	s 40-40		

[16] See s 40-120 in Subdiv 40-BA of the ITTPA.

TABLE 6:

Rules on asset disposals, terminations, and changes in extent of taxable use

	A balancing adjustment event happens to an asset — disposal case	A balancing adjustment event happens to an asset — ceases to be used for any purpose	Taxable use of an asset subsequently changes (to a lesser proportion or starts to be used for a wholly private purpose)
Asset added to the general small business pool under Subdiv 328-D	The taxable purpose proportion of the asset's termination value is subtracted from the pool balance under Step 2(a) of the method statement in s 328-200	The taxable purpose proportion of the asset's termination value (i.e. market value) is subtracted from the pool balance under Step 2(a) of the method statement in s 328-200	An adjustment to the pool balance is required under s 328-225
Asset deducted under IAWO under s 328-180 (SBEs only)	The taxable purpose proportion of the asset's termination value is included in the entity's assessable income under s 328-215(4)	The taxable purpose proportion of the asset's termination value (i.e. market value) is included in the entity's assessable income under s 328-215(4)	There is currently no apparent adjustment to the amount of the deduction claimed under the IAWO (all eligible entities) or FEDA where the proportion of taxable use subsequently changes. This is because no balancing adjustment event happens under s 40-295 where the asset is used for a lesser taxable purpose or begins to be used for a wholly private purpose after the asset is fully expensed. However, Part IVA of the ITAA 1936 could apply if a scheme is entered into with the sole or dominant purpose of fully expensing an asset, with an intent that the taxable use of the asset would subsequently be reduced or be used for a wholly private purpose.
Asset eligible for: ■ IAWO under s 40-82 (non-SBEs); or ■ FEDA under Subdiv 40-BB	Where an asset has been deducted in full under s 40-82 (IAWO for entities other than SBEs) or Subdiv 40-BB (FEDA), and the asset is disposed of, a balancing adjustment event happens. The termination value, adjusted for any non-taxable use, is included in the entity's assessable income due to the operation of s 40-285(1) and s 40-85 (which reduces the adjustable value of the asset to nil where it is fully expensed). There is no equivalent of s 328-215(4) for non-SBEs, or where the asset is fully expensed under s 40-82 or Subdiv 40-BB.	Where an asset has been deducted in full under s 40-82 (IAWO for entities other than SBEs) or Subdiv 40-BB (FEDA), and the asset ceases to be used for **any** purpose, a balancing adjustment event happens. The termination value, adjusted for any non-taxable use, is the market value of the asset at that time. The termination value is included in the entity's assessable income due to the operation of s 40-285(1) and s 40-85 (which reduces the adjustable value of the asset to nil where it is fully expensed). There is no equivalent of s 328-215(4) for non-SBEs or where the asset is fully expensed under s 40-82 or Subdiv 40-BB.	

Points to note

1. Australian businesses with a domestic turnover of less than $5 billion may be ineligible for FEDA if their aggregated turnover is $5 billion or more as a result of foreign interests held in the Australian entity of 40% or more or affiliates (due to the operation of s 328-115, s 328-125 and s 328-130).
2. The requirement to fully expense the asset may result in some entities making a loss. This may not be desirable in a trust or where the taxpayer would prefer to spread the deduction for the decline in value over multiple income years. However, the taxpayer does not have a choice not to apply FEDA in respect of eligible depreciating assets (where the conditions in Subdiv 40-BB are met).
3. The five-year opt out restriction in s 328-175(10) is suspended until 30 June 2022. Previously a SBE could choose to opt out of using Subdiv 328-D to work out the decline in value if, for example, they did not wish to apply the IAWO and generate a loss. However, under the new rules, while an SBE can still choose to opt out of Subdiv 328-D, this will not prevent the entity from having to deduct eligible assets in full under Subdiv 40-BB.

Working out the decline in value

4. When an SBE adds an asset to the general small business pool, the taxable purpose proportion of the asset's cost is added to the pool so the decline in value calculation is already adjusted for non-taxable use. In contrast, a deduction under Div 40 must be reduced by that part of the asset's decline in value that is attributable to the use of the asset (or having it installed ready for use) for a purpose other than a taxable purpose. So, under Div 40, the decline in value is calculated before reduction for any non-taxable use.
5. Subject to further legislative amendments, after 30 June 2022, an asset's decline in value is worked out under the normal rules in Div 40, or Subdiv 328-D for SBEs that choose to apply the simplified depreciation rules.
6. An SBE cannot deduct amounts for an asset under Subdiv 328-D if:
   - the asset is let predominantly on a depreciating asset lease;
   - the asset is allocated to a low-value pool or software development pool covered by Subdiv 40-E;
   - the entity is entitled under s 355-100 to an R&D tax offset for the asset.
7. While R&D assets cannot be deducted under Subdiv 328-D where a tax offset is available under s 355-100 for a deduction under s 355-305 for the asset, there is no similar exclusion under FEDA.
8. If the SBE is a primary producer and can deduct amounts for the asset under Subdiv 40-F or Subdiv 40-G, the entity can choose whether to deduct an amount under Subdiv 40-F or Subdiv 40-G, or Subdiv 328-D.
9. If the asset is let predominantly on a *depreciating asset lease*, amounts cannot be deducted for the asset under Subdiv 328-D. However, there is no exclusion for these assets under FEDA.

Further information

- Treasurer's media release 6 October 2020
- Treasury Laws Amendment (A Tax Plan for the COVID-19 Economic Recovery) Act 2020