Vehicles and new accelerated depreciation under 'Backing business investment'

- Tax
- 14 July, 2020, 1 month ago

Introduced last March to aid businesses through the COVID-19 troubled market environment, the stimulus measure *Backing business investment* includes an incentive for entities in the 2019-20 and 2020-21 income years, with aggregated turnover up to $500 million, to deduct the cost of depreciating assets at an accelerated rate.

For the period 12 March 2020 until 30 June 2021, assets first used or installed ready for use qualify (although the beefed-up instant asset deduction can't be used as well). Other qualifying conditions can be found listed on this ATO web page.

However one area of the accelerated depreciation measure that has initiated a lot of questions from taxpayers centres on vehicles — so much so that the ATO felt compelled to issue a document to answer the more common questions it has been asked (you can download a copy for your clients here).

First of all, and to clear up what could be deemed obvious, but needs to be cleared away from the outset, the following applies:

- As mentioned, there's no claiming the instant asset write-off and accelerated depreciation for the same vehicle
- The car must be received (not just ordered and/or paid for) before the end of the relevant income year
- No second-hand vehicles (but this is okay for the instant asset write-off)
- Vehicle cost excludes GST if the entity is registered for GST, and includes GST if not registered
- The vehicle cost does not include trade-in value.

There is a limit to the value that can be depreciated, which is $57,581 for 2019-20 and $59,136 for 2020-21 (unless the vehicle has a load capacity of more than one tonne or nine passengers, which allows a full cost depreciation).

If your client is a small business using the simplified depreciation rules, an eligible new vehicle can be added to the small business pool, deducting an amount equal to 57.5% (rather than 15%) of the business portion of the vehicle in the year it is added to the pool.

If the less than $500 million turnover entity does not use simplified depreciation, they can immediately deduct 50% of the cost of the vehicle (within limit), plus depreciate the balance. Anything over the limit is not covered.

[COVID-19], [tax]

Maria Grant
[July 17th, 2020 Reply]

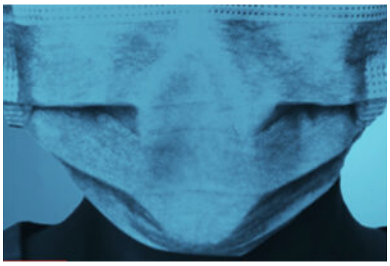
That is very confusing advice, not originally mentioned by the ATO, especially the 57.5% rate.
If the purchase of the vehicle leads to a loss situation, can the full amount of deduction still be claimed?

Naomi
[July 17th, 2020 Reply]

I'm a little confused. Any car would be under the $150K instant asset write off threshold wouldn't they, and hence be fully written off? Or are you able to choose between these two?

Chris
[July 17th, 2020 Reply]

Naomi
Max possible to be written off for a car is $57581, net of GST due to the luxury car depreciation cost limit. How this is achieved will depend upon business structure used



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- 15 August, 2020
- Tax
- 3

Client's super fund covers insurance needs? With COVID-19, maybe not (even some SMSFs)

- 10 August, 2020
- Super
- 3

A re-set on the recent changes to JobKeeper eligibility conditions

- 10 August, 2020
- Tax
- 3