

Small Business- Important Changes to Asset Write Offs

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Issue

Repeal of the \$6,500 instant asset write-off threshold and the \$5,000 first year deduction for motor vehicles.

Discussion

The previous Labour Government made amendments to the small business depreciation provisions in two very favourable ways. These changes only applied to small business entities that chose to use pooling in respect of claiming depreciation tax deductions. The first change was to increase the small business instant asset write-off threshold to \$6,500. The second was to provide a once-off deduction of \$5,000 in respect of motor vehicles costing more than \$6,500 (GST exclusive) in the first year of purchase.

The current Government proposes to reduce the \$6,500 threshold to \$1,000 and to repeal the special write-off for motor vehicles. The Government has released exposure draft legislation that is part of the group of bills that are intended to repeal the Minerals Resource Rent Tax.

The important point to note is that if your clients, who are using the small business pooling method of depreciation, want to take advantage of the current legislation, they have until 31 December 2013 to take action.

The amendments to reduce the threshold from \$6,500 to \$1,000 are to take effect in relation to assets that are first installed ready for use, for a taxable purpose, on or after 1 January 2014. Alternatively, the changes will apply to an asset that was first used, for a taxable purpose, on or after 1 January 2014, but was not installed ready for use prior to that date. Accordingly, an asset must be installed ready for use prior to 1 January 2014 for the current law to have operation.

With regard to motor vehicles, a similar provision is proposed to apply. The vehicle must be installed ready for use prior to 1 January 2014.

There are other proposed changes in the draft legislation which I have not covered here. Please note that this is proposed legislation. After it has been finalised, it must be introduced into federal parliament and be passed by both houses before being effective. Given the make-up of the current Senate, there is considerable doubt that these changes will be passed before the changes to the Senate that will occur from July 2014. Nevertheless, if the proposed changes are finally enacted, they will probably apply from 1 January 2014 as set out in the draft legislation.



Action required

Small business clients using the pooling method of depreciation:

- Need to have assets costing less than \$6,500 (GST exclusive) installed and ready to use by midnight on 31 December 2013 in order to claim the full cost as a tax deduction in the current financial year.
- Need to have a motor vehicle that costs more than \$6,500 (GST exclusive) installed ready to use by midnight 31 December 2013 in order to claim the first year tax deduction of \$5,000.
- It may be necessary to prove to the ATO, in the future, that the asset was installed and ready to use by midnight on 2013. Good documentation and photographs of the asset being used are recommended.