

The \$150k Immediate Write Off – Clever Trick



Time to start thinking about whether you would like to take advantage of the \$150,000 (increased from \$20,000 on 29th January, 2019) immediate tax deduction before the end of the financial year. Though it will still be available up to 30th June, 2023.

The threshold varies depending on the invoice date and is net of GST if you qualify to claim GST back.

There was a frenzy of activity in this regard around the election so here are the dates and thresholds:

1st July 2018 to 28th January 2019	\$20,000
29th January 2019 to 1st April 2019	\$25,000
2nd April 2019 to 11th March 2020	\$30,000
12th March 2020 to 5th October 2020	\$150,000
6th October 2020 to 30th June 2023	Unlimited

The full detail on how this works is below but let's start with a great trick to get your interest.

The basic rule is if you buy, for less than \$150,000, a piece of plant or equipment to use in your business then you are entitled to an immediate tax deduction for the amount it cost you multiplied by the percentage of business use this financial year. It

does not matter how the plant or equipment is used after that. The only tax recovery point is when you sell it and that improves the more you use it for private purposes.

When you sell an item that has qualified for the immediate write off then the sale proceeds are considered income but only to the extent that the item has been used in a business over the whole time you have owned it.

Secret Plan and Clever Trick!

This means a sole trader that qualifies as a small business, could buy a car, keep a logbook showing 100% business use and claim an immediate tax deduction for the full costs of the vehicle. The following year it might not be used in the business at all, this has no effect. It is only once the car is sold that taxable income is triggered because of the immediate write off. When the vehicle is sold a percentage of the sale price is considered income. This percentage is determined by the use of the car over the whole period of ownership. The way the formula works is that the more private use of the car after the first year the less of the selling price that is included as income. Of course, the longer you keep it, the less it is worth when you sell it, the better the outcome for you.

It doesn't even matter if the business ceases (though careful here there may be GST issues) because you were a sole trader the car does not change hands and it is only a change of ownership that is going to trigger any payback.

You could even use the car, or a laptop for that matter, in your business for the first year and then give it to your child to use. They would even be entitled to claim a tax deduction for the car for any work related use under the kilometre method as long as they pay all the operating costs because a family member owns the car, but they have taken full responsibility for it.

The Fine Print

Note it does not work this well for items that qualify for the small business pool, that is items costing more than \$150,000. The immediate write off is allowed under section 328-180 ITAA 1997 and the loop hole I refer to here is in section 328-215(4) ITAA 1997. The rest of that section is about the low value pool it is only subsection 4 that applies to the immediate write off and it very simply says the business use portion of the sale proceeds is income.

Before you race out and purchase check with your Accountant to make sure you have enough taxable income to utilise the immediate write off effectively and go through all the traps to make sure you qualify. Consider the following

- The threshold is GST exclusive if you are entitled to claim GST input credits or GST inclusive if you are not entitled to claim the input credits. Private use of the vehicle, as a sole trader, will limit the amount of input credits you are entitled to claim.
- The threshold is the whole amount, it is not reduced by the fact you cannot claim a write off for the non-business use of the equipment.
- The value of a trade in does not reduce the price of the car for the purposes of the threshold.
- If you are thinking of buying a car be aware that the luxury car limit goes up from \$57,581 for 2019/2020 to \$59,136 2020/2021.
- You must be a small business, that is your turnover is less than \$50 million and \$500 million for the period 12th March 2020 to 5th October, 2020 and item must be installed ready for use by 30th June 2020

- For items ordered after 5th October, 2020 they must be installed ready for use by 30th June 2023 and the turnover threshold has increased to \$5 billion
- Business with a turnover of under \$50 million can include second hand assets.