

# Backing business investment – accelerated depreciation

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*This page includes information on recent changes to the backing business investment – accelerated depreciation rules made by the [Treasury Laws Amendment \(2020 Measures No. 6\) Bill 2020](#) which is awaiting royal assent.*

Eligible businesses, for the 2019–20 and 2020–21 income years, may be able to deduct the cost of new depreciating assets at an accelerated rate using the backing business investment – accelerated depreciation rules.

For each new asset, the backing business investment – accelerated depreciation deduction applies in the income year that the asset is first used or installed ready for use for a taxable purpose.

You claim the deduction when lodging your tax return for the income year. The usual depreciating asset arrangements apply in the subsequent income years that the asset is held.

If you are eligible for backing business investment – accelerated depreciation, you can choose to not apply these rules to an asset. The choice can be made on an asset-by-asset basis but cannot be changed once made. You make the choice in your tax return and you must notify us by the day you lodge your tax return for the income year in which the choice relates.

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## Eligible businesses

Businesses are eligible for the backing business investment – accelerated depreciation deduction if they have an **aggregated turnover** of less than \$500 million in the year they are claiming the deduction. The deduction is available in the 2019–20 and 2020–21 income years.

## Eligible assets

To be eligible to apply the accelerated rate of deduction under backing business investment, the depreciating asset must:

- be new and not previously held by another entity (other than as trading stock)
- be first held on or after 12 March 2020
- first used or first installed ready for use for a taxable purpose on or after 12 March 2020 until 30 June 2021
- not be an asset to which an entity has applied either
  - temporary full expensing
  - the instant asset write-off rules.

There is no limit on the number of eligible assets that you can apply accelerated depreciation to in an income year under backing business investment.

Eligible assets do not include:

- second-hand depreciating assets
- some specific Division 40 assets subject to low value and software development pools
- certain primary production assets (water facilities, fencing, horticultural plants or fodder storage assets), unless you are a small business entity that chooses to apply the simplified depreciation rules to these assets
- buildings and other capital works for which you can deduct amounts under Division 43
- assets that
  - will never be located in Australia, or
  - will not be used principally in Australia for the principal purpose of carrying on a business

- other specific capital asset and expense deductions
- assets you were committed to acquiring before 12 March 2020

There is no limit on the cost of an eligible asset, unless it is a passenger vehicle.

If you are eligible for backing business investment – accelerated depreciation, you can choose not to apply these rules to an asset. The choice can be made on an asset-by-asset basis. You cannot revoke your choice once it is made for an asset. You make the choice in your tax return and you must notify us by the day you lodge your tax return for the income year in which the choice relates.

If you choose not to apply backing business investment – accelerated depreciation to an asset, you apply the general depreciation rules to that asset.

You cannot claim a backing business investment – accelerated depreciation deduction if you use temporary full expensing or instant asset write-off for the same asset.

## Working out your deduction

Different rules apply when working out your deduction, depending on whether you are using the simplified depreciation rules for small businesses.

### Small business entity

If you are a small business with an aggregated turnover less than \$10 million, and you use the simplified depreciation rules, you add to your general small business pool assets that:

- cost \$150,000 or more (instant asset write-off applies to assets costing less than this)
- are eligible for backing business investment – accelerated depreciation
- are not eligible for temporary full expensing.

You then deduct an amount equal to 57.5% (rather than 15%) of the business portion of a new depreciating asset in the year you add it to the pool. In later years the asset will be depreciated under the general small business pool rules.

Normal rules apply to assets allocated to the general small business pool that are not eligible for backing business investment – accelerated depreciation.

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### Example 1 – Small business benefits from backing business investment – accelerated depreciation

NC Transport Solutions Pty Ltd operates a haulage business in New South Wales. NC Transport Solutions Pty Ltd has an aggregated turnover of \$8 million for the 2019–20 income year. On 1 May 2020, NC Transport Solutions Pty Ltd purchases a new truck for \$260,000, exclusive of GST. For the 2019-20 income year, the truck was only used for business purposes.

Under past tax arrangements, NC Transport Solutions Pty Ltd would depreciate the truck using its general small business pool. This means that NC Transport Solutions Pty Ltd would deduct 15% of the truck's value when it added the asset to the pool, leading to a tax deduction of \$39,000 for the 2019–20 income year (assuming there are no other assets in the pool).

Under the new backing business investment – accelerated depreciation, NC Transport Solutions Pty Ltd will instead claim a deduction of 57.5% when it adds the truck to the pool, leading to a deduction of \$149,500 for the 2019–20 income year.

See also:

- [Work out if you are a small business entity](#)
- [Simpler depreciation for small business](#)
- [Passenger vehicles](#)

## Other business entities

If you are an entity with aggregated turnover less than \$500 million in the income year and do not use the simplified depreciation rules, you may be eligible to deduct an amount under backing business investment - accelerated depreciation if the asset is an eligible asset and you cannot or have chosen not to apply temporary full expensing to that asset.

The amount your entity can deduct in the income year the asset is first used or installed ready for use is:

- 50% of the cost (or adjustable value where applicable) of the depreciating asset
- plus, the amount of the usual depreciation deduction that would otherwise apply but calculated as if the cost or adjustable value of the asset were reduced by 50%.

Effectively, the backing business investment - accelerated depreciation deduction applies to eligible assets with a cost (or adjustable value if applicable) of \$150,000 or more in the:

- 2019–20 income year, if the eligible asset is first held on or after 12 March 2020 and first used or first installed ready for use for a taxable purpose in the 2019–20 income year
- 2020–21 income year, if the eligible asset is first committed to or held on or after 12 March 2020 and first used or first installed ready for use for a taxable purpose in the 2020–21 income year.

## Passenger vehicles

A car limit applies to any sized business that purchases a passenger vehicle (except a motorcycle or similar vehicle) designed to carry a load of less than one tonne and fewer than 9 passengers. You must reduce the cost of the vehicle to the car limit before calculating your depreciation. You cannot claim the excess cost of the vehicle above the car limit under any other depreciation rules.

The car limit is:

- \$57,581 for the 2019–20 income year

- \$59,136 for the 2020–21 income year

See [example 3](#) for when the car limit applies.

A vehicle's cost (before applying the car limit, if applicable):

- does not include the value of a trade-in
- excludes the GST amount if you are registered for GST
- includes the GST amount if you are not registered for GST.

The one tonne limit is the maximum load your vehicle can carry, also known as the payload capacity. The payload capacity is the gross vehicle mass (GVM) as specified on the compliance plate by the manufacturer, reduced by the basic kerb weight of the vehicle.

The basic kerb weight is the weight of the vehicle with a full tank of fuel, oil and coolant together with spare wheel, tools (including jack) and factory-installed options. It does not include the weight of passengers, goods or accessories.

$$\text{Payload capacity} = \text{GVM} - \text{basic kerb weight}$$

## Research and development

If backing business investment – accelerated depreciation is to be applied to the purchase of an asset used for research and development (R&D) purposes, you can only claim the R&D tax offset for the portion of the decline in value that is for R&D use. In working out the amount for R&D use, you must subtract any non-R&D use (including the taxable purpose portion and private use portion).

If you are a small business and you have used your asset for R&D activities, you cannot claim the backing business investment – accelerated depreciation for that asset under the simplified depreciation rules. The normal depreciation rules will apply.

Find out about:

- [Uniform capital allowance system: low-value pools](#)
- [Low-value assets \(pool\)](#)
- [In-house software](#)
- [Primary production](#)
- [Capital works deductions](#)
- [Car limit](#)
- [Eligible expenditure under the R&D tax incentive](#)

## Examples

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### Example 2 – Medium sized business benefits from backing business investment – accelerated depreciation

J Construction Solutions Pty Ltd has an aggregated turnover of \$200 million for the 2020–21 income year. On 1 July 2020, J Construction Solutions Pty Ltd installs a \$1 million truck mounted concrete pump. For the 2020–21 income year, the pump was only used for business purposes.

The concrete pump was held before 2020 budget time so does not qualify for temporary full expensing. However, it does qualify for backing business investment – accelerated depreciation.

Under past tax arrangements, in the first year J Construction Solutions Pty Ltd could claim 30% depreciation when using the diminishing value method (based on the asset's effective life of six and two thirds years).

Under the backing business investment –accelerated depreciation, J Construction Solutions Pty Ltd can claim a depreciation deduction of \$650,000 in the 2020–21 income year. This consists of 50% of the concrete pump's value under the backing business investment – accelerated depreciation (\$500,000) plus 30% of the remaining \$500,000 under existing depreciation rules (\$150,000).

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### Example 3 – Medium sized business committed to acquiring asset prior to 2020 budget time

F Pty Ltd has an aggregated turnover of \$150 million for the 2020–21 income year. On 1 October 2020, it entered into a contract to purchase a new asset for \$200,000. The contract was not completed until November 2020, post 2020 budget time, when the asset was delivered and installed ready for use, solely for taxable purposes.

As F Pty Ltd has an aggregated turnover of \$50 million or more and the asset purchase was committed to prior to 2020 budget time, F Pty Ltd is ineligible to apply temporary full expensing to the asset. However, as the purchase and installation meet the requirements for backing business investment – accelerated depreciation, F Pty Ltd can claim an accelerated depreciation deduction under backing business investment.

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### Example 4 – Medium sized business acquired asset in 2020-21 and improved the asset both before and after 2020 budget time

K Pty Ltd has an aggregated turnover of \$60 million for the 2020–21 income year. It acquired a new depreciating asset for \$160,000 on 1 July 2020 and immediately began using the asset solely for a taxable purpose.

On 28 September 2020, K Pty Ltd carried out some improvements on the asset, incurring costs of \$25,000. These costs were included in the asset's second element of cost at that time.

On 20 November 2020, K Pty Ltd makes further improvements to the asset incurring another \$30,000 in costs.

K Pty Ltd must work out its decline in value for the income year. K Pty Ltd uses the temporary full expensing rules to work this out because some part of the asset's cost is eligible for temporary full expensing (the further improvements costing \$30,000 incurred post 2020 budget time).

In working out the decline in value for the 2021 income year under temporary full expensing, K Pty Ltd must work out a component for its pre-budget time cost by using the backing business investment – accelerated depreciation rules.

For the 2020–21 income year, K Pty Ltd can claim the following:

- \$92,500 – which is the amount worked out under backing business investment – accelerated depreciation, that is 50% of
  - the \$160,000 cost of acquisition
  - the \$25,000 cost of the pre-2020 budget time improvement to the asset.
- plus \$30,000
  - which is all its expenditure during the temporary full expensing period (post 2020 budget time and before 30 June 2022).
- plus the depreciation
  - which could be claimed under Division 40 on the balance of the cost of the asset
  - that is, \$92,500 (the total amount spent on the asset, less the amounts claimed under backing business investment – accelerated depreciation and temporary full expensing).

Alternatively, K Pty Ltd could choose not to apply temporary full expensing and could work out and claim its decline in value deduction under backing business investment – accelerated depreciation or the general depreciation rules.

## See also:

- [Temporary full expensing](#)
- [Instant asset write-off for eligible businesses](#)
- [Depreciation and capital allowances tool](#)
- [Car limit](#)
- [The Australian Government's economic response to coronavirus](#)