Small Business Budget Update

Temporary "Full Expensing" Deduction For Businesses

Businesses with aggregated annual turnover of less than $5 billion will be able to deduct the full cost of eligible capital assets acquired from 7:30pm AEDT on 6 October 2020 (Budget night) and first used or installed by 30 June 2022.

"Full expensing" in the year of first use will apply to new depreciable assets and the cost of improvements to existing eligible assets. For small- and medium-sized businesses (with aggregated annual turnover of less than $50 million), full expensing also applies to second-hand assets.

Businesses with aggregated annual turnover between $50 million and $500 million can still deduct the full cost of eligible second-hand assets costing less than $150,000 that are purchased by 31 December 2020 under the existing instant asset write-off. Businesses that hold assets eligible for the existing $150,000 instant asset write-off will have an extra six months, until 30 June 2021, to first use or install those assets.

Small businesses (with aggregated annual turnover of less than $10 million) can deduct the balance of their simplified depreciation pool at the end of the income year while full expensing applies. The provisions which prevent small businesses from re-entering the simplified depreciation regime for five years if they opt out will continue to be suspended.

In a nutshell, this means that businesses can now immediately deduct the full cost of all purchases of items such as:

- Plant and machinery
- Fixtures and fittings (such as shop fitouts)
- Technology, such as laptops, computers, EFTPOS systems and security equipment
- Motor vehicles such as utes, vans and most cars (excluding cars costing over $59,136

Some assets will be excluded such as capital works (ie, the costs of buying or constructing a building) and assets allocated to a software development pool.

Whilst this measure is undeniably generous (and potentially expensive for the Government), it does suffer from the same problem as the existing instant asset write-off; to benefit, businesses need either the cash or borrowing capacity to invest in new capital assets in order to benefit from the tax break. With many businesses currently cash strapped and unable or unwilling to borrow, initial take-up may be limited, at least until some semblance of business confidence is restored.

Temporary Loss Carry-Back for Companies

The Government will allow eligible companies to carry back tax losses from the 2019-20, 2020-21 or 2021-22 income years to offset previously taxed profits in 2018-19 or later income years.

Under these measures, corporate tax entities with an aggregated turnover of less than $5 billion can apply tax losses against taxed profits in a previous year, generating a refundable tax offset in the year in which the loss is made. The tax refund would be limited by requiring that the amount carried back is not more than the earlier taxed profits and that the carry-back does not generate a franking account deficit.

The tax refund will be available on an election basis by eligible businesses when they lodge their 2020-21 and 2021-22 tax returns.

Currently, companies are required to carry losses forward to offset profits in future years. Companies that do not elect to carry back losses under this measure can still carry losses forward as normal.

This measure is intended to promote economic recovery by providing cash flow support to previously profitable companies that have fallen into a tax loss position as a result of the COVID-19 induced recession.

The loss carry-back measure applies only to companies. Businesses that operate through different structures, including sole traders, partnerships and trusts cannot take advantage of this measure. Sole traders, for instance, can only apply the existing loss measures available to individuals which essentially say that a loss can be offset against other income in the same year (subject to anti-avoidance measures) or can be carried forward and offset against income in future years. There is no facility to carry back losses.