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Growing jobs and small business – expanding accelerated depreciation for small businesses

New laws have passed that allow small businesses to claim an immediate deduction for assets they start to use – or have installed ready for use – provided each depreciable asset costs less than \$20,000. This will temporarily replace the previous instant asset write-off threshold of \$1,000.

This measure starts 7.30pm (AEST) 12 May 2015 and will end on 30 June 2017.

The balance of the general small business pool is also immediately deducted if the balance is less than \$20,000 at the end of an income year that ends on or after 12 May 2015 and on or before 30 June 2017 (including existing general small business pool).

The current 'lock out' laws will also be suspended for the simplified depreciation rules (these prevent small businesses from re-entering the simplified depreciation regime for five years if they have opted out) until the end of 30 June 2017.

Assets excluded from these depreciation rules include horticultural plants and in-house software allocated to a software development pool. In most cases specific depreciation rules apply to these excluded assets.

Assets that cost \$20,000 or more (which can't be immediately deducted under other provisions) are deducted over time using the general small business pool. Under the pooling mechanism a deduction for 15 per cent of the cost is

allowed in the first income year with a diminishing value rate of 30 per cent deduction on the opening pool balance allowed for each income year thereafter.

The new laws also include changes to allow primary producers to immediately deduct capital expenditure on fencing and water facilities such as dams, tanks, bores, irrigation channels, pumps, water towers and windmills.

Legislation and supporting material

[Tax Laws Amendment \(Small Business Measures No.2\) Act 2015](https://www.comlaw.gov.au/Details/C2015A00067)
(<https://www.comlaw.gov.au/Details/C2015A00067>)



Find out more

- [Media release \(http://jbh.ministers.treasury.gov.au/media-release/041-2015/\)](http://jbh.ministers.treasury.gov.au/media-release/041-2015/) issued on 12 May 2015 by the Treasurer.
- Budget 2015-16 Budget paper No. 2 - [Revenue Measures page 19 \(http://budget.gov.au/2015-16/content/bp2/html/bp2_revenue-07.htm\)](http://budget.gov.au/2015-16/content/bp2/html/bp2_revenue-07.htm)
- [Small business website \(http://www.business.gov.au/small-business/Pages/default.aspx\)](http://www.business.gov.au/small-business/Pages/default.aspx)
- [Jobs and Small Business package \(http://www.business.gov.au/small-business/Pages/jobs-and-small-business-package.aspx\)](http://www.business.gov.au/small-business/Pages/jobs-and-small-business-package.aspx)
- [Budget highlights - Jobs and Small Business - including accelerated depreciation examples \(http://budget.gov.au/2015-16/content/highlights/jobsandsmallbusiness.html\)](http://budget.gov.au/2015-16/content/highlights/jobsandsmallbusiness.html)
- [Examples of how the changes affect small business \(http://www.budget.gov.au/2015-16/content/highlights/jobsandsmallbusiness.html?anchor=depreciation#depreciation\)](http://www.budget.gov.au/2015-16/content/highlights/jobsandsmallbusiness.html?anchor=depreciation#depreciation)
- [Accelerated depreciation for primary producers \(/General/New-legislation/In-detail/Direct-taxes/Income-tax-for-businesses/Accelerated-depreciation-for-primary-producers/\)](/General/New-legislation/In-detail/Direct-taxes/Income-tax-for-businesses/Accelerated-depreciation-for-primary-producers/)

Is the measure law yet?

Yes. The law commenced 7.30pm AEST 12 May 2015 and will cease on 30 June 2017.

Who is eligible?

Any business that meets the definition of a small business entity, that is one with an aggregated turnover less than \$2 million, may be eligible to claim an immediate deduction for the cost of depreciating assets acquired for less than \$20,000.

What was the previous law?

Small businesses could elect to use the 'simplified depreciation rules'. From 1 January 2014 these rules allowed small businesses to claim an immediate deduction for the cost of assets acquired for less than \$1,000. Assets that cost \$1,000 or more were added to the general small business pool with a percentage of the pool balance at year end being deducted. 15 per cent of the cost of assets added to the pool during an income year is deductible in that year, with 30 per cent diminishing value rate of the opening pool balance being deductible for each year thereafter.

You claim the deduction in the year in which the asset is first used or installed ready for use. Businesses also need to ensure that they only claim a deduction to the extent to which the asset is used in an income earning activity for a taxable purpose.

What has changed?

The threshold for immediate deductibility has increased to \$20,000 from 7.30pm (AEST) 12 May 2015. The increased threshold will apply until 30 June 2017. The threshold for the low pool value rules will also be increased to \$20,000 until the end of June 2017.

You will continue to claim the deduction in the year in which the asset is first used or installed ready for use.

What does this mean?

This means that a small business will be able to claim an immediate deduction for the cost of each and every depreciating asset that they purchase for less than \$20,000.

For example, Pamela bought a second hand skid steer loader for \$17,000 on 28 May 2015 which is used solely in her landscaping business. As the depreciating asset cost less than \$20,000, Pamela will be able to claim an immediate deduction for this asset.

For depreciating assets costing \$20,000 or more, small businesses can elect to use the pooling arrangements and depreciate the cost of such assets at 15 per cent in the first year and a diminishing value rate of 30 per cent on the opening pool value each year thereafter.

For example, Owen bought a new hydraulic press for \$40,000 on 28 May 2015 which is used solely in his manufacturing business. As the depreciating asset costs at least \$20,000, Owen cannot claim an immediate deduction for this asset. Owen will add the asset to his general small business pool.

The low pool value threshold will also increase to \$20,000. This means that an immediate deduction is applied if the pool balance is less than \$20,000 at the end of an income year that ends on or after 12 May 2015 and on or before 30 June 2017.

These changes will apply to assets acquired between 7.30pm (AEST), 12 May 2015 and 30 June 2017.

How will the change be monitored?

The rules around asset eligibility do not change. That is, if a depreciating asset was eligible for immediate deductibility under the \$1,000 threshold applicable prior to 7.30pm (AEST), 12 May 2015, it will continue to be deductible under the new \$20,000 threshold that is applicable for the period between 7.30 PM 12 May 2015 and 30 June 2017.

To ensure the proposal operates as intended, the ATO will engage with small businesses based on their behaviour and choices. This will include providing clear guidance so that businesses intending to utilise the simplified depreciation provisions find it as easy as possible to do so.

If small businesses exhibit behaviours that indicate a high level of risk, they can expect a higher level of interaction with the ATO. The ATO has a risk-based program to identify taxpayers that are not meeting their obligations and will take measured approaches to influence taxpayer behaviour.

Are all assets eligible?

All depreciating assets (including new and second hand) are eligible, except for a small number of exclusions which receive different depreciation treatment.

Excluded assets include:

- Horticultural plants - subject to their own 'uniform capital allowance' rules (UCA);
- Capital works – subject to their own 'capital works' depreciation rules;
- Assets allocated to a low-value pool or software development pool - subject to the deduction rates applicable under those rules;
- Primary production assets for which the entity has chosen to use the normal depreciation rules rather than the simplified depreciation rules; and
- Assets leased out to another party on a depreciating asset lease.

Businesses need to ensure that they only claim a deduction in the year in which the asset is first used or installed ready for use and to the extent to which the asset is used in an income earning activity for a taxable purpose.

Are old/second hand assets eligible?

Yes, both new and old/second hand assets remain eligible for the simplified depreciation rules.

GST inclusive or exclusive?

If the entity is registered for GST, then the GST exclusive amount is taken to be the cost of the asset.

Where the entity is not registered for GST, then the GST inclusive amount is taken to be the cost of the asset.

What does this mean for businesses from 7.30pm (AEST) 2015 that have opted-out of the simplified depreciation rules?

To ensure fairness and maximum eligibility for the increased simplified depreciation thresholds, as a once off, small business entities that have previously elected out of the simplified depreciation rules will no longer be subject to the 'lock-out' rule. These entities will be able to re-elect to use the simplified depreciation rules, now with the higher \$20,000 threshold, if they choose to do so.

Retail fuel sales

For the purposes of calculating the aggregate turnover of an entity, disregard any income derived from the sale of retail fuel. This recognises that entities involved in the sale of retail fuel will often have high levels of turnover with a very low margin, so that the ordinary turnover figure would not be a true indicator of the size of the entity.

To find out more, refer to [Retail fuel sales \(/Business/Small-business-entity-concessions/In-detail/Eligibility/Am-I-eligible-for-the-small-business-entity-concessions-/?page=5#Retail_fuel_sales\)](#).

Software

An eligible small business from 7.30pm (AEST) 12 May 2015 can claim an immediate deduction for any software purchased off the shelf, costing less than \$20,000 that is used exclusively in the business.

An eligible small business can also claim an immediate deduction for the cost of developing software for use exclusively in its business where the cost is less than \$20,000. An exception applies if the entity has previously chosen to claim deductions for in-house software under the software development pool rules. In these cases the costs need to continue to be allocated to a software development pool.

How can I find out more about the new instant asset write-off threshold and eligible assets?

For information about the operation of the new instant asset write-off threshold and assets that are eligible to be deducted you can ring **13 28 66**.

Can I choose between the new accelerated depreciation for primary producers and these instant asset write-off changes

Yes. You will be able to choose whichever rules benefit you the most. This can be done on an asset by asset basis.

What happens if my deductions exceed my income?

Sole traders and partnerships may be impacted by non-commercial loss rules. These will only apply if all the deductions from the business activity for the year exceed the income from that activity. See the [Non-commercial loss \(/business/non-commercial-losses/\)](#) rules for more information.

Last modified: 24 Jul 2015

QC 45094

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