

B BARTONS

INSTANT ASSET TAX WRITE OFF

Dont wait - Ends June 30 2020

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What's the instant asset write-off price limit for cars?

"As part of the government's economic response to COVID-19, the instant asset write-off threshold for 2019-20 financial year has increased to \$150,000 (from \$30,000)," the ATO spokesperson says. However, that \$150k price threshold is also subject to a 'car cost limit', otherwise known as the limit on what you can actually claim back. For cars, which are defined as those that are "designed to carry a load less than one tonne and fewer than nine passengers," the total amount you're allowed to claim is \$57,581 and anything beyond that point "cannot be claimed under any other depreciation rules," the ATO explains. However, for vehicles up to \$150,000 in price that can carry more than one tonne or more than nine passengers, you can claim the full purchase price back.

So if a business owner purchases a passenger car for \$140,000, and the car is used for 90 per cent business and 10 per cent personal use, then the total deduction would be 90 per cent of \$57,581 – or \$51,822. Meanwhile, if a business owner purchases a one-tonne ute for \$140,000, they can claim the entire purchase price back. Remember, you can only buy that costs less than the \$150,000 threshold, so cars that cost \$150,000 or more are ineligible for the instant asset write-off scheme.

AUTOMOTIVE TAX SAVINGS* READY RECKONER (financial year ended 30 June 2020)
*Small/medium/large business entity is a company (registered for GST) and the vehicle is used 100% for business purposes.

Vehicle cost (incl. GST)	Vehicle cost (excl. GST)	GST input tax credit	Immediate income tax deduction	Income tax savings (D x 27.50%)	Income tax savings (D x 30.00%)	Net vehicle cost (A-C-E) 27.50%	Net vehicle cost (A-C-F) 30.00%
A	B	C	D	E	F	G	H
\$11,000	\$10,000	(\$1,000)	\$10,000	(\$2,750)	(\$3,000)	\$7,250	\$7,000
\$16,500	\$15,000	(\$1,500)	\$15,000	(\$4,125)	(\$4,500)	\$10,875	\$10,500
\$22,000	\$20,000	(\$2,000)	\$20,000	(\$5,500)	(\$6,000)	\$14,500	\$14,000
\$27,500	\$25,000	(\$2,500)	\$25,000	(\$6,875)	(\$7,500)	\$18,125	\$17,500
\$33,000	\$30,000	(\$3,000)	\$30,000	(\$8,250)	(\$9,000)	\$21,750	\$21,000
\$38,500	\$35,000	(\$3,500)	\$35,000	(\$9,625)	(\$10,500)	\$25,375	\$24,500
\$44,000	\$40,000	(\$4,000)	\$40,000	(\$11,000)	(\$12,000)	\$29,000	\$28,000
\$49,500	\$45,000	(\$4,500)	\$45,000	(\$12,375)	(\$13,500)	\$32,625	\$31,500
\$55,000	\$50,000	(\$5,000)	\$50,000	(\$13,750)	(\$15,000)	\$36,250	\$35,000
\$60,500	\$55,000	(\$5,500)	\$55,000	(\$15,125)	(\$16,500)	\$39,875	\$38,500
\$63,339	\$57,581	(\$5,758)	\$57,581	(\$15,835)	(\$17,274)	\$41,746	\$40,307
A "CAR" above \$57,581 excluding GST will be limited to the GST Input Tax Credit and Income Tax Saving shown on the line immediately above.							
A "COMMERCIAL VEHICLE" above \$57,581 excluding GST will be able to claim further Input Tax Credits and Tax Savings as shown below.							
\$66,000	\$60,000	(\$6,000)	\$60,000	(\$16,500)	(\$18,000)	\$43,500	\$42,000
\$77,000	\$70,000	(\$7,000)	\$70,000	(\$19,250)	(\$21,000)	\$50,750	\$49,000
\$88,000	\$80,000	(\$8,000)	\$80,000	(\$22,000)	(\$24,000)	\$58,000	\$56,000
\$99,000	\$90,000	(\$9,000)	\$90,000	(\$24,750)	(\$27,000)	\$65,250	\$63,000
\$110,000	\$100,000	(\$10,000)	\$100,000	(\$27,500)	(\$30,000)	\$72,500	\$70,000
\$121,000	\$110,000	(\$11,000)	\$110,000	(\$30,250)	(\$33,000)	\$79,750	\$77,000
\$132,000	\$120,000	(\$12,000)	\$120,000	(\$33,000)	(\$36,000)	\$87,000	\$84,000
\$143,000	\$130,000	(\$13,000)	\$130,000	(\$35,750)	(\$39,000)	\$94,250	\$91,000
\$154,000	\$140,000	(\$14,000)	\$140,000	(\$38,500)	(\$42,000)	\$101,500	\$98,000
\$165,000	\$150,000	(\$15,000)	\$150,000	(\$41,250)	(\$45,000)	\$108,750	\$105,000

Which cars are eligible for the instant asset write-off?

Obviously, eligible cars will also need to cost less than \$150,000 once you factor in stamp duty, LCT, on-roads and delivery costs. "Generally speaking cars that used for business purposes are eligible for the instant asset write-off," explains Mr Drum. "But it's not all plain sailing as there are limits so make sure to check the simplified depreciation rules including the car limit."

*Based on a car purchase price of \$30,000

When do I have to have purchased the car to be eligible?

To be eligible, an asset has to be installed and ready for use between March 12, 2020, and June, 2020. That means that even if you purchased and paid for a car back in January and you've been using it for the last few months, you're still able to claim. Technically, that also means you could buy an eligible car before June 30 and still claim, but only if you're able to have the car in use before June 30. So if you buy a car that is only available to ship after June 30, then you may not be eligible to claim under current rules.

Some examples of cars that are eligible and ineligible for the instant asset write-off...

ELIGIBLE: An independent tradie purchases a one tonne ute for \$145,000 that's 100 per cent business use = they will be able to claim the full \$145,000 back under the instant asset write-off scheme.

INELIGIBLE: A business owner buys a luxury car for 50 per cent business use that costs \$120,000 but the luxury car tax adds 33 per cent making the total price \$159,600 = they are ineligible for the luxury car tax because they are above the \$150k threshold.

ELIGIBLE: A florist buys a 100 per cent business use van and adds several accessories for a total of \$40,000, plus insurance and registration for another \$2500 = the florist can claim the total purchase price of the van and accessories back, but not the insurance and registration costs.

ELIGIBLE: A sole trader buys a \$30,000 hatchback and finds that they use it for 75 per cent business purposes and 25 per cent personal use = they can claim back 75 per cent of the total purchase price, meaning they are able to write off a total of \$22,500.

ELIGIBLE: A business owner buys a Mercedes-AMG CLA45 for \$115,000 to drive to and from clients during the week and keeps a logbook that reveals it's used for 30 per cent business use = they can claim 30 per cent of the luxury car limit of \$57,581.

INELIGIBLE: A business owner buys a \$50,000 ute for business use on June 25, 2020, but with shipping delays it will arrive on July 30, 2020 = they are ineligible for the instant asset write-off because the car is not installed and ready for use between March 12 and June 30, 2020.

INELIGIBLE: The florist's employee owns a \$25,000 hatchback that he uses to ferry flowers around in business hours = he is ineligible for the instant asset write-off scheme because he is an employee and not a business owner or sole trader.

INELIGIBLE: A business owner buys a car for exactly \$150,000 = they are ineligible because the car must be less than the \$150,000 threshold.

So wait, does that mean I can buy a \$150,000 ute and get \$150,000 back in cash?

Mark Porta, partner at accounting firm Hamilton Morello, explains: "The misconception is that a claim back means you get the equivalent back in tax. This would mean that asset purchases are free as the tax system would be paying for it."

"The actual operation is based on marginal tax rate of a taxpayer. For example, sole trader has business profit of \$90,000. Therefore they are at the top of the tax bracket of 32.5 per cent plus the Medicare levy of 2 per cent. Now, if this sole trader buys a ute for 100 per cent business use for \$30,000 (excluding GST) between 12 March 2020 and 30 June 2020, they have satisfied the instant asset write-off rules and they would get an instant asset deduction of \$30,000.

"This would reduce their taxable income to \$60,000 and they would save 34.5 per cent in tax on the \$30,000 spend, equalling \$10,350. This saving would be delivered via the taxpayers tax return when they lodge the 2020 income tax return."

Who is eligible to apply for the instant asset write-off scheme?

Business owners or sole traders are eligible. If you're an employee of a business, you are not eligible. Until June 30, eligible businesses include those with an aggregated turnover of less than \$500 million (usually it's less than \$50 million). Aggregated turnover is your annual turnover (all ordinary income you earned in the ordinary course of running a business for the income year) plus the annual turnover of any business connected or affiliated with you, whether in Australia or overseas. This expanded criteria will change at the EOFY. "From 1 July 2020 the instant asset write-off will only be available for small businesses with a turnover of less than \$10 million," an ATO spokesperson explains.

Does the 1 tonne load limit include passengers and fuel?

No. "The 1 tonne limit references the maximum load your vehicle can carry (commonly referred to as payload capacity) and is usually specified by the manufacturer," an ATO spokesperson explains. "The payload capacity of a motor vehicle is to be taken as the gross vehicle weight as specified on the compliance plate by the manufacturer, reduced by the basic kerb weight of the vehicle. "For this purpose, 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 installed options. It does not include the weight of goods or occupants."

Is the car threshold amount inclusive or exclusive of GST?

It depends. "Whether the threshold is GST exclusive or inclusive depends on if the business is registered for GST," an ATO spokesperson explains. "If the business is registered for GST and can claim the GST credit, they exclude the GST amount when calculating the depreciation amounts (and their instant asset write-off threshold is exclusive of any GST). "If the business is not registered for GST, they include the GST amount in the depreciation calculations (and their instant asset write-off threshold is inclusive of any GST)."

Does the car threshold amount include on-road costs, LCT, insurance and registration?

Stamp duty, luxury car tax, any accessories, on-road costs and delivery costs are included in the threshold price, but not insurance and registration. "Costs that are recurring in nature, like insurance and registration, are business operating costs that are immediately deductible under the general deduction provision rather than included in the cost of the car," an ATO spokesperson explains. "For consumers that purchase a car above the luxury car tax limit, the luxury car tax is factored to the cost of the vehicle. [Additionally] one-off elements of the purchase price like stamp duty and delivery costs are included in the cost of the car."

How do I work out how much my car is used for business purposes?

"To work out the amount a business can claim, they must subtract any private use portion," an ATO spokesperson explains. If your car's predominant use is to carry a load (like a tradesperson's ute) rather than to carry passengers, you can usually classify that as 100 per cent business use, thereby claiming up to the full \$57,581 limit (although always double check before proceeding with a purchase on this basis).

However, if you've purchased a passenger car, the best way to ascertain how much of it is used for business purposes is to keep a logbook. According to Mark Porta, partner at accounting firm Hamilton Morello, this logbook must be kept over a 12-week period, starting from when the vehicle is functional. "If you've kept a logbook previously for another vehicle, that can carry over to the new car as long as your role and the travel you do has not changed," Mr Porta says. If your 12-week logbook period spills into the next financial year, it's advisable to speak to an accountant to see if you can still claim the relevant 2019-2020 amount.

Are lease and finance products eligible for the instant asset write-off scheme?

"A hire purchase lease is ok, but other leases (e.g. operating and finance leases) will not normally qualify," says Tony Sloan, Tax Partner at BDO Australia. "The way an asset purchase is financed (e.g. a business loan or personal loan) is not relevant to the instant asset write off - the purchase will qualify for the instant asset write-off as long as the asset is used in the business."

What does the ATO classify as 'business use' when it comes to a car?

Contrary to popular belief, your daily commute does not count as "business use". According to Mr Porta, business use can include things like driving to and from suppliers, visiting a client, driving to the bank or post office to carry out business-related activities or driving to clients or suppliers to view product. The key criteria for these trips is that they're conducted from the office and back to the office (but if you work from home, this can count as your office). Unplanned trips to see clients or meet suppliers that require you to travel straight from home to the work-related location can also qualify, as long as they weren't pre-organised. Tricky, right? That's why keeping a log book and consulting with an accountant can help you work through the grey areas.

How do I apply for the instant asset write-off scheme?

"You don't need to apply as such," Mr Drum says. "Under Australia's tax self-assessment system claims are made via the relevant income tax return at year end."

What if I'm an employee using my car for business purposes?

Employees aren't eligible for the instant asset write-off scheme, but they may be able to claim back some of their own car usage on a cents per kilometre basis. According to Mr Porta: "If you're an employee and you have a vehicle you use for work, you can use a cents/km diary and tally it up and you're able to claim up to 5000km for the year and it's about 68 cents per kilometre." "If the employee uses their car for a lot of business purposes – like a travelling sales person – it would be worthwhile preparing a logbook because you could potentially claim a significant % of business use."