Below is an UPDATED PLAIN SPEAK table & summary of the* Temporary Full Expensing of Depreciating Assets *tax incentives announced in the Federal Government's 2020 Budget on 6th October 2020 and extended in the May 11th 2021 Budget

Temporary Full Expensing of Depreciating Assets (TFEDA)

Business Turnover (per year)	July 1 – June 30 2021	July 1 – June 30 2022	July 1 – June 30 2023	Case Study Example
Up to $10 million	SIMPLIFIED DEPRECIATION POOL Write-off 100% of the balance…	SIMPLIFIED DEPRECIATION POOL Write-off 100% of the balance	SIMPLIFIED DEPRECIATION POOL Write-off 100% of the balance	Scroll down to pages 3 and 4 for examples
Up to $50 million	Unlimited $$ (New or Used)	Unlimited $$ (New or Used)	Unlimited $$ (New or Used)	Scroll down to pages 3 and 4 for examples
Up to $5 billion	Unlimited $$ (New ONLY)	Unlimited $$ (New ONLY)	Unlimited $$ (New ONLY)	Scroll down to pages 3 and 4 for examples

- The Government will support businesses by enabling them 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 2023**.
- Full expensing in the year of first use will apply to new depreciable assets **and the cost of improvements** to existing eligible assets. For SMEs (with turnover < $50m pa), full expensing **also applies to second-hand assets**.
- Businesses (turnover $50 – $500m pa) can still deduct 100% of eligible second-hand assets costing < $150K ex GST that are **purchased by 31 December 2020** and first **used or installed by 30 June 2021.**
- Small businesses (turnover < $10m pa) **can deduct the balance of their simplified depreciation pool** at the end of 2021, 2022 and/or 2023. 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.

If you would like to know more, the Government Fact sheet link here has excellent explanation with examples (see pages 9-12) **https://budget.gov.au/2020-21/content/factsheets/download/tax_fact-sheet.pdf**

Below is a PLAIN SPEAK table & summary of the new Loss Carry Back opportunities as announced in the Federal Government's 2020 Budget on 6th October 2020.

<u>Temporary Loss "Carry Back" opportunities</u>

Business Turnover (per year)	Year End June 30 2020	Year End June 30 2021	Year End June 30 2022	Year End June 30 2023
Up to $5 BILLION MUST BE A CORPORATE TAX ENTITY TO BE ELIGIBLE (i.e. <u>excludes</u> Sole Traders, most Partnerships & Trusts)	If a Tax LOSS ... can be offset against Taxed Profit for Financial Year Ending... 2019	If a Tax LOSS ... can be offset against Taxed Profit for Financial Years Ending... 2019 2020	If a Tax LOSS ... can be offset against Taxed Profit for Financial Years Ending... 2019 2020 2021	If a Tax LOSS ... can be offset against Taxed Profit for Financial Years Ending... 2019 2020 2021 2022

- The Government will allow eligible companies to **carry back tax losses from the 2019-20, 2020-21, 2021 – 22 or 2022-23 income years** to offset previously taxed profits in 2018-19 or later years.
- **Corporate tax entities** with turnover < $5 billion pa 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**.

<u>Franking Account Deficit?</u>

- That is, the loss carry-back tax offset cannot > value of past taxes paid that have not already been distributed to shareholders as franking credits via Dividends
- This is ***designed to avoid the past payment of tax providing a double benefit. This double benefit could otherwise arise because shareholders received an imputation credit in relation to company tax that, because of loss carry-back, the company had effectively no longer paid.***
    - The tax refund will be available on election by eligible businesses when they **lodge their tax returns for 2020-21, 2021-22 & 2022 -23 income years**.
    - 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.**

If you would like to know more, the Government Fact sheet link here has excellent explanation with examples (see pages 9-12) **https://budget.gov.au/2020-21/content/factsheets/download/tax_fact-sheet.pdf**

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To simplify and provide clarity on the **Temporary Full Expensing of Depreciating Assets** & **Loss Carry Back tax incentives** *announced in the Federal Government's 2020 Budget on 6th October 2020 and extended by an extra year in the May 11 2021 budget, the following brief case studies may assist.*

Below are ***3 PLAIN SPEAK "HYPOTHETICAL" EXAMPLES*** *of the potential outcomes for a range of company profiles in 3 distinct annual turnover bands.*

Simplified Depreciation Pool (for business with Turnover up to 10 million) & Loss Carry Back

- Barry owns AAA Crane Hire Pty Ltd (AAA) which has an annual turnover of $8mil.
- Over the years Barry has bought many cranes as well as other support vehicles and has depreciated all of those assets using the simplified depreciation pool (claiming 30% diminishing value depreciation each year).
- The closing balance on this depreciation pool as at 30 June 2020 was $3mil.
- Despite the challenges of the COVID environment, AAA has had a busy year with infrastructure projects in their local area which has resulted in a trading profit of $1mil for the year ended 30 June 2021.
- This result would have usually created a tax bill of $260,000 (26% company tax rate for 2021), however under the new tax incentives**, Barry has an option to claim a 100% full expensing of the entire depreciation pool balance of $3mil** equaling the total Written Down Value (WDV) of all cranes and support vehicles.
- This 'one off' tax incentive has allowed AAA to show an actual LOSS for tax purposes of $2mil in 2021 ($1mil profit less the $3mil tax write off).
- Not only does this mean that AAA will not have to pay the $260,000 tax bill for 2021, Barry will also be able to 'carry back' the $2mil tax loss on any tax AAA may have paid on profits for the prior 2 financial years (2019 & 2020).
- As AAA did in fact make profits of $1mil in both the 2019 & 2020 financial years, the "temporary loss carry back" incentive, provides the opportunity for the total tax paid for those 2 years ($550K) to be repaid as a refund once AAA has concluded their 2021 Tax Return.

**Care – if Barry had claimed any franking credits from 2019 &/or 2020 where he received a credit for the 27.5% company tax already paid by AAA, this would need to be adjusted against the above refund.*

- In the event that AAA did not have sufficient losses in 2021 to fully recapture the prior 2 years of tax paid, AAA also has until June 30th 2023 to do so.
- Alternately, if the tax losses in 2021, 2022 & 2023 were not fully utilised through any "carry back" opportunities, those tax losses would simply be carried forward to offset future profits.

Temporary full expensing of depreciating assets (for business with Turnover up to $50 million) & Loss Carry Back

- Dave owns DDD Demolition & Excavations Pty Ltd which has annual turnover of $20mil.
- Despite the challenges of the COVID environment, DDD has just been awarded several significant projects which require a large amount of additional equipment.
- Due to the short supply of new machines, DDD will spend around $3mil on **new and used machines & support vehicles** in the 2021 financial year.
- As the DDD annual turnover is below $50mil they will be able to fully expense 100% of the cost of **BOTH NEW & USED** assets being purchased.
- As DDD is likely to show a trading profit of around $1mil in 2021, the 100% expensing of the $3mil in equipment purchases will result in DDD showing a $2mil loss on their 2021 Tax Return.
- Not only does this mean that DDD will not have to pay the $260,000 tax bill for 2021 (26% company tax rate for 2021), DDD will also be able to 'carry back' the $2mil tax loss on any tax DDD may have paid on profits for the prior 2 financial years (2019 & 2020).
- As DDD also made $1mil profits in both the 2019 & 2020 financial years, the "temporary loss carry back" incentive, provides the opportunity for the total tax paid for those 2 years ($550K) to be repaid as a refund once DDD has concluded their 2021 Tax Return.

**Care – if Dave had claimed any franking credits from 2019 &/or 2020 where he received a credit for the 27.5% company tax already paid by DDD, this would need to be adjusted against the above refund.*

- In the event that DDD did not have sufficient losses in 2021 to fully recapture the prior 2 years of tax paid, DDD also has until June 30 2023 to do so.
- Alternately, if the tax losses in 2021, 2022 & 2023 were not fully utilised through any “carry back” opportunities, those tax losses would simply be carried forward to offset future profits.

Temporary full expensing of depreciating assets (for business with Turnover up to $5 billion) & Loss Carry Back

- Andrew owns XYZ Shoring and Piling Services Pty Ltd and has an annual turnover of $70mil.
- Despite the challenges of the COVID environment, XYZ has just been awarded several significant projects which require a large amount of additional equipment.
- XYZ will spend around $8mil on NEW machines in the 2021 financial year.
- As their annual turnover is more than $50mil, XYZ will be able to fully expense 100% of the cost of **NEW Equipment** purchased, (although any used equipment is also eligible provided each item is less than $150k and is purchased BEFORE this December 31st 2020).
- As XYZ is likely to show a trading profit of around $4mil in 2021, the 100% expensing of the $8mil in NEW equipment purchases will result in XYZ showing a $4mil loss on their 2021 Tax Return.
- Not only does this mean that XYZ will not have to pay the $1.04mil tax bill for 2021 (26% of $4mil at the new company tax rate for 2021), XYZ will also be able to ‘carry back’ the $4mil tax loss on any tax XYZ may have paid on profits for the prior 2 financial years (2019 & 2020).
- As XYZ did in fact post $2mil profits in both the 2019 & 2020 financial years, the “temporary loss carry back” incentive, provides the opportunity for the total tax paid for those 2 years ($1.1mil) to be repaid as a refund once XYZ has concluded their 2021 Tax Return.

**Care – if Andrew had claimed any franking credits from 2019 &/or 2020 where he received a credit for the 27.5% company tax already paid by XYZ, this would need to be adjusted against the above refund.*

- In the event that XYZ did not have sufficient losses in 2021 to fully recapture the prior 2 years of tax paid, XYZ also has until June 30 2023 to do so.
- Alternately, if the tax losses in 2021, 2022 & 2023 were not fully utilised through any “carry back” opportunities, those tax losses would simply be carried forward to offset future profits.

Disclaimer

The above information is provided at a conceptual level and is not provided as formal tax advice. We advise all business owners to seek independent tax advice with respect to these matters.

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