

Summary: Depreciating asset pooling rules

Federal Budget 2020–21

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All legislative references are to the *Income Tax Assessment Act 1997* unless otherwise stated.

The full expensing of depreciating assets (**FEDA**) measure is contained in Subdiv 40-BB of the *Income Tax (Transitional Provisions Act) 1997*.

Small business entities (**SBEs**)

(Aggregated turnover¹ less than \$10 million)

TABLE 1: General small business pool rules²

Issue	Rule
Rates ³	<ul style="list-style-type: none"> ■ If an asset is added to the general small business pool (GSBP) during the year — 15%. ■ If an asset is in the opening pool balance — 30%.
Mandatory?	<ul style="list-style-type: none"> ■ If entity chooses to apply Subdiv 328-D, it must use the GSBP where the instant asset write-off (IAWO)/FEDA does not apply.
Not wholly taxable use	<ul style="list-style-type: none"> ■ Only include the taxable purpose proportion of the cost⁴ of the asset in the GSBP.⁵ ■ If the taxable purpose proportion of the asset changes, an adjustment must be made to the balance of the GSBP.⁶
Car limit ⁷	<ul style="list-style-type: none"> ■ The cost of a car is reduced to the car limit (\$59,136 in 2020–21)

¹ Section 328-115.

² Subdiv 328-D.

³ Section 328-190.

⁴ Cost excludes any GST credits to which the entity is entitled and is subject to the car limit (**\$59,136** in 2020–21).

⁵ Section 328-200.

⁶ Section 328-225.

⁷ Section 40-230.



Issue	Rule
Closing balance ⁸	Calculated as the sum of: <ul style="list-style-type: none">Opening balance of the GSBP for the income year
PLUS:	<ul style="list-style-type: none">Taxable purpose proportion (TPP) of assets added to the GSBP (i.e. acquisitions)TPP of cost addition amounts (i.e. second element of cost) for assets allocated to the GSBP
LESS:	<ul style="list-style-type: none">TPP of termination values⁹ of assets allocated to the GSBP for which a balancing adjustment event occurs during the year (i.e. disposals)Deduction at 30% for assets allocated to GSBP in a previous income year (i.e. in opening balance)Deduction at 15% for assets allocated to GSBP during the income year (i.e. acquired during the year)Deduction at 15% for cost addition amounts for assets allocated to GSBP
Low pool value ¹⁰	Calculated as the sum of: <ul style="list-style-type: none">Opening balance of the GSBP for the income year
PLUS:	<ul style="list-style-type: none">TPP of assets added to the GSBP (i.e. acquisitions)TPP of cost addition amounts for assets allocated to the GSBP
LESS:	<ul style="list-style-type: none">TPP of termination values¹¹ of assets allocated to the GSBP for which a balancing adjustment event occurs during the year (i.e. disposals)

⁸ Section 328-200.

⁹ If the termination values exceed the closing balance, the GSBP is reduced to nil and the excess is assessable.

¹⁰ Section 328-210. The low pool value is not the same as the closing balance of the GSBP as it does not take into account any decline in value of the assets allocated to the GSBP.

¹¹ If the termination values exceed the low pool value, the GSBP is reduced to nil and the excess is assessable.

TABLE 2: Assets excluded from the general small business pool

Excluded asset	Explanation
Assets mentioned in s 40-45 ¹²	<p>Assets cannot be depreciated under Subdiv 328-D if they are:</p> <ul style="list-style-type: none"> ■ Eligible work related items under s 58X of the <i>Fringe Benefits Tax Assessment Act 1986</i> where the benefit is provided as an expense payment benefit or a property benefit ■ Div 43 capital works ■ Certain film assets
Primary production assets ¹³	<ul style="list-style-type: none"> ■ If the entity could deduct amounts for an asset under Subdiv 40-F (certain primary production assets¹⁴) or Subdiv 40-G (about capital expenditure of primary producers and other landholders¹⁵), the entity may choose whether to deduct amounts under Subdiv 40-F or Subdiv 40-G, or under Subdiv 328-D. ■ This choice does not apply to horticultural plants (including grapevines), which cannot be depreciated under Subdiv 328-D.
Depreciating asset lease ¹⁶	<ul style="list-style-type: none"> ■ An asset cannot be depreciated under Subdiv 328-D if it is being, or might reasonably be expected to be, let predominantly on a depreciating asset lease.¹⁷
Low-value or software development pool ¹⁸	<p>An asset cannot be depreciated under Subdiv 328-D if it:</p> <ul style="list-style-type: none"> ■ was allocated to a low-value pool (LVP) covered by Subdiv 40-E during an income year when the entity: <ul style="list-style-type: none"> ■ was not an SBE; or ■ had chosen not to use Subdiv 328-D; or ■ is allocated to a software development pool covered by Subdiv 40-E.

¹² Section 328-175(2).

¹³ Section 328-175(3) and (5).

¹⁴ A water facility, horticultural plant, fodder storage asset or fencing asset.

¹⁵ Landcare operations, and electricity connections or telephone lines.

¹⁶ Section 328-175(6).

¹⁷ A **depreciating asset lease** is an agreement (including a renewal of an agreement) under which the entity that holds the depreciating asset grants a right to use the asset to another entity. However, a depreciating asset lease does not include a hire purchase agreement or a short-term hire agreement (see s 995-1).

¹⁸ Section 328-175(7).



Excluded asset	Explanation
R&D assets ¹⁹	An asset cannot be depreciated under Subdiv 328-D if the entity is entitled under s 355-100 to a tax offset for a deduction under s 355-305 for the asset for the same or an earlier period.
Residential rental property assets ²⁰	An asset cannot be depreciated under Subdiv 328-D to the extent that s 40-27 ²¹ prevents the entity from deducting any decline in value for the asset.
5-year lock out	<ul style="list-style-type: none"> ■ Normal rule — if the entity chooses to use Subdiv 328-D for an income year, then chooses not to use Subdiv 328-D in a later income year, it cannot choose to use Subdiv 328-D again until at least 5 years after the first year the entity chose not to use Subdiv 328-D. <p style="margin-left: 40px;"><i>Example:</i> a choice not to use Subdiv 328-D in 2022–23 locks the entity out of choosing Subdiv 328-D again until 2028–29.</p> ■ Modified rule — this rule is temporarily suspended for the 2014–15 to 2021–22 income years

TABLE 3: Must write-off general small business pool balance

End of income year	Must deduct the low pool value if it is:
2013–14	Less than \$1,000
2014–15 to 2017–18	Less than \$20,000
2018–19	Less than \$30,000
2019–20	Less than \$150,000
2020–21 and 2021–22	More than \$0 ²²
From 2022–23	Less than \$1,000 ²³

¹⁹ Section 328-175(9).

²² See s 328-181(5) of the ITTPA.

²³ Subject to any future legislative amendments.



Low-value pools for non-SBEs

(Aggregated turnover²⁴ \$10 million or more)

TABLE 4: Low-value pool (LVP) rules²⁵

Issue	Rule
Rates ²⁶	<ul style="list-style-type: none">■ If an asset is added to an LVP during the year — 18.75%.■ If an asset is in the opening pool balance or is a low-value asset allocated to an LVP for the income year — 37.5%.
Mandatory?	<ul style="list-style-type: none">■ The entity can choose to allocate a low-cost asset to an LVP for the income year in which it first start to use it or have it installed ready for use for a taxable purpose.²⁷■ The entity can also choose to allocate a low-value asset to an LVP.²⁸■ Once the entity makes a choice to allocate a low-cost asset to an LVP for an income year, it must allocate all low-cost assets it starts to hold in that income year or a later income year to the LVP²⁹ — so once an entity uses an LVP, it must continue to allocate all future low-cost assets to the LVP.
What is a low-cost asset? ³⁰	Depreciating asset (except a horticultural plant) whose cost is less than \$1,000.
What is a low-value asset? ³¹	Depreciating asset (except a horticultural plant) whose opening adjustable value, using the diminishing value method, is less than \$1,000.

²² See s 328-181(5) of the ITTPA.

²³ Subject to any future legislative amendments.

²⁴ Section 328-115.

²⁵ Subdiv 40-E.

²⁶ Section 40-440.

²⁷ Section 40-425(1).

²⁸ Section 40-425(3).

²⁹ Section 40-430.

³⁰ Section 40-425(2).

³¹ Section 40-425(5).



Issue	Rule
Closing balance ³²	Calculated as the sum of: <ul style="list-style-type: none">■ Closing balance of the LVP for the previous income year
PLUS:	<ul style="list-style-type: none">■ Taxable use percentage of low-cost assets added to the LVP (i.e. acquisitions)■ Taxable use percentage of opening adjustable values of low-value assets allocated to the LVP as at the start of the income year■ Taxable use percentage of amounts included in second element of cost for:<ul style="list-style-type: none">■ assets allocated to the LVP for an earlier income year■ low-value assets allocated to the LVP for the current income year
LESS:	<ul style="list-style-type: none">■ Deduction at 18.75% for assets allocated to LVP during the income year (i.e. acquired during the year)■ Deduction at 18.75% for amounts included in the second element of the cost for:<ul style="list-style-type: none">■ assets allocated to the LVP for an earlier income year■ low-value assets allocated to the LVP for the current income year■ Deduction at 37.5% for:<ul style="list-style-type: none">■ assets allocated to LVP in a previous income year (i.e. in the opening balance)■ low-value assets allocated to the LVP for the current income year
Balancing adjustment events	<p>Closing balance is reduced by taxable use percentage of termination values of assets allocated to an LVP for which a balancing adjustment event occurs during the year (i.e. disposals).</p> <p>If the termination values exceed the closing pool balance, the LVP is reduced to nil and the excess is assessable.</p>

³² Section 328-200.

TABLE 5: Assets excluded from low-value pool

Excluded asset	Explanation
Prime cost assets ³³	An asset with an adjustable value of less than \$1,000 cannot be allocated to an LVP as a low-cost asset if it has been depreciated using the prime cost method.
SBEs ³⁴	An asset cannot be allocated to an LVP if the entity can deduct amounts for the asset under Subdiv 328-D.
Aggregated turnover is \$10 million to less than \$500 million ³⁵	<ul style="list-style-type: none"> ■ An asset cannot be allocated to an LVP if amounts for the asset can be deducted under s 40-82 (IAWO for medium sized businesses — s 40-82 also applies to businesses with an aggregated turnover of less than \$500 million). ■ Section 40-82 applies to assets acquired by 31 December 2020 and first used or installed ready for use by 30 June 2021 (different start dates apply depending on the size of the entity).
Certain assets under \$300 ³⁶	<p>An asset cannot be allocated to an LVP if:</p> <ul style="list-style-type: none"> ■ its cost is less than \$300 and it is used predominantly to produce non-business assessable income; ■ it is not part of a set that exceeds \$300; and ■ the total cost of the asset and any other identical, or substantially identical, asset that the entity starts to hold in that year does not exceed \$300.
R&D assets ³⁷	An asset cannot be allocated to an LVP if the entity is entitled under s 355-100 to a tax offset for a deduction under s 355-305 for the asset for the same or an earlier period.
Residential rental property assets ³⁸	An asset cannot be depreciated under Subdiv 328-D to the extent that s 40-27 ³⁹ prevents the entity from deducting any decline in value for the asset.

³³ Section 40-425(5).

³⁴ Section 40-425(7).

³⁵ Section 40-425(7A).

³⁶ Section 40-425(4).

³⁷ Section 40-425(8).

³⁸ Section 328-175(9A).

³⁹ Provides for certain second-hand assets that are used or installed ready for use in a residential rental property for the purpose of producing assessable income. Applies from 1 July 2017, subject to certain exclusions and transitional rules.



Other rules

How does the new FEDA measure affect low-cost assets acquired by non-SBE businesses (i.e. those with an aggregated turnover of \$10 million or more)?

- 1 The new FEDA measure is contained in Subdiv 40-BB of the ITTPA.
- 2 Unlike the SBE pooling rules, a non-SBE is not compelled to allocate a low-cost asset to a LVP — it is a choice. Once the choice is made for an asset, it applies to all future low-cost assets.
- 3 There is an exception under s 40-425(7A) for entities with an aggregated turnover of \$10 million to less than \$500 million:
 - the entity cannot allocate a low-cost asset to an LVP where it is acquired before 1 January 2021;
 - it must be fully expensed under s 40-82.
- 4 Assets allocated to an LVP are excluded from FEDA⁴⁰.
- 5 If entity has previously allocated a low-cost asset to an LVP, a low-cost asset must be allocated to an LVP and cannot be fully expensed under FEDA.⁴¹
- 6 If an asset is not allocated to an LVP, it can be fully expensed under FEDA.
- 7 There is no equivalent provision to s 40-425(7A) for assets that are subject to FEDA, so assets first held at or after 7:30pm on 6 October 2020 to 30 June 2022 continue to be allocated to an LVP under the normal rules.
- 8 Entities must fully expense an asset under FEDA that costs **\$1,000 or more** if:
 - the aggregated turnover is \$10 million to less than \$500 million and the asset is acquired after 31 December 2020 and first held by 30 June 2022;
 - the aggregated turnover is \$500 million to less than \$5 billion and asset is first held from 7:30pm on 6 October 2020 to 30 June 2022

Further information

Our related infographic on the instant asset write-off and full expensing of depreciating assets is available [here](#).

The *Treasury Laws Amendment (A Tax Plan for the COVID-19 Economic Recovery) Act 2020*, which contains the legislative amendments, is available [here](#).

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⁴⁰ Section 40-150(4)(a) of the ITTPA.

⁴¹ Section 40-430 of the ITAA 1997 and s 40-150(4)(a) of the ITTPA.