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## **Federal Government COVID-19 stimulus incentives explained**

The month of June each year always results in a spike for new truck sales in Australia, as recorded in the Truck Industry Council's (TIC) T-Mark truck sales data that is produced each month. This spike is hardly surprising given that June signifies the end of the fiscal year down under. However somewhat surprising was the June peak this year, given the drought, bush fires and the continuing COVID-19 pandemic, many businesses have done it tough, some very tough, during the 2019/2020 financial year, so it could be expected that this year's peak might have been significantly lower than most. Perhaps more aligned with post Global Financial Crisis results where new truck sales were down some 30 percent over the best years. The June 2020 result was a shock, a much better result than was anticipated. The best monthly sales EVER recorded in Australia, with new truck sales eclipsing the previous best monthly result, that of June 2018, by almost ten percent.

So why such a good result in these uncertain times? TIC believes that the answer lies in the Federal Government's COVID-19 stimulus incentives. The government was quick to raise the instant asset write-off incentive to \$150,000 earlier this year when it was obvious that COVID-19 was impacting our economy and threatening jobs across our nation. The incentive applies to a single purchase of a piece of equipment, for example a small, or medium size truck, for companies with an aggregated turnover of less than \$500 million per year. This incentive saw many organisations taking up this federal government offer before June 30<sup>th</sup>, with T-Mark data showing a surge in Light truck and van sales running up to financial year end. Sales at the bottom end of the Medium truck sector were also buoyed as a result of this incentive. However, T-Mark data showed that larger, more expensive Medium and Heavy truck sales, were not encouraged by this incentive. The good news for smaller new truck buyers is that the government has now extended the \$150,000 instant asset write-off incentive until the 31<sup>st</sup> December 2020.

Perhaps not as well know, nor understood, or used, is the Federal Government's Accelerated Depreciation incentive, also introduced back in March this year, however unlike the instant asset write-off incentive, NO financial limit applies to the item being purchased. This incentive also applies to companies with an aggregated turnover of less than \$500 million per year (with a higher depreciation allowance for companies with a yearly turnover of less than \$10 million) purchasing new, not second-hand, equipment, with a unit cost over \$150,000. The item must be first used for a taxable purpose on, or after, the 12<sup>th</sup> March

2020 and before the 30<sup>th</sup> June 2021. The best way to explain how this incentive works is by way of a couple of examples;

Example 1: Best Transport Pty Ltd has an aggregated turnover of \$8 million for the 2020–21 income year. On 1<sup>st</sup> November 2020 they purchase a new truck for \$260,000, exclusive of GST, for use in their business. Under past tax arrangements they would depreciate the truck using general small business pool depreciation, that allows a 15% deduction of the asset's value. This would lead to a tax deduction of \$39,000 for the 2020–21 income year. Under the new accelerated depreciation, Best Transport Pty Ltd can instead claim a deduction of 57.5% when the truck is added to the pool, leading to a deduction of \$149,500 for the 2020–21 income year.

Example 2: Choice Freight Pty Ltd has an aggregated turnover of \$200 million for the 2020–21 income year. On 1<sup>st</sup> February 2021 they purchase a new truck for \$400,000, exclusive of GST, for use in their business. Under past tax arrangements they could claim 26.7% depreciation when using the diminishing value method (based on the asset's capped effective life of 7.5 years). Under the new accelerated depreciation, Choice Freight Pty Ltd can claim a depreciation deduction of \$253,400 in the 2020–21 income year. This consists of 50% of the truck's value under the new accelerated depreciation (\$200,000) plus 26.7% of the remaining \$200,000 under existing depreciation rules (\$53,400).

To find out if your company is eligible for either of these government incentives to purchase of a new truck, speak to your accountant, or financial advisor. There has never been a better time to purchase a new (government incentivised) Small, Medium, or Heavy truck!

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