YOUR BUSINESS

What is 'scrapping' and is it for you?

Commercial properties are regularly updated to match the fast-paced and ever-changing nature of the retail industry. When renewing a commercial property, it's important for retail business owners to be aware of the financial benefits of scrapping.

Scrapping refers to the removal and disposal of any potentially depreciable assets from an investment property. When these old assets are scrapped, the owners may be eligible to claim the remaining depreciable value as an immediate tax deduction.

These lucrative deductions apply to capital works depreciation for the building's structure (under division 43) and plant and equipment assets (under division 40).

Capital works deductions or building write-off refers to the tax deduction for the building's structure and items considered to be permanently fixed to the property. Owners and tenants of commercial properties in which construction commenced after 20th July 1982 are entitled to capital works deductions. Depending on the construction commencement date, these deductions can be claimed over either twenty years at a rate of 4 per cent or forty years at a rate of 2.5 per cent. Capital works are particularly valuable as the items are likely to have substantial remaining value when scrapped.

Plant and equipment assets include items that can be easily removed from the property. This can include mechanically or electronically operated assets, such as air conditioning units and hot water systems, even though they may be fixed to the structure of the building.

Each plant and equipment item should generally be depreciated based on its individual effective life as set by the Australian Taxation Office (ATO). However, there are rules which allow owners of small and medium business owners to write-off assets below a certain value sooner.

The ATO allows retail property owners and tenants to claim depreciation deductions related to the wear and tear of a building and its assets, meaning both parties can be eligible to claim scrapping deductions when assets are removed.

Owners are entitled to claim deductions for capital works, the plant and equipment items they own and any fit-out they purchase or install. Similarly, tenants can claim depreciation on any fit-out they purchase or install after commencing their lease. This includes assets such as shelving, clothing racks, carpet and change-room furniture.

Along with this, small and medium business owners can use the instant asset write-off for any depreciable plant and equipment asset or fitout installed in their business.

An instant asset write-off is the full deduction of any plant and equipment items that cost less than the relevant threshold. The instant asset write-off threshold was recently increased from $25,000 to $30,000 and eligibility extended to businesses with annual revenues of less than $50 million. This means there will be three threshold tiers for business to consider this June 30.

The first tier applies to depreciable assets valued less than $20,000 acquired before the 29th of January 2019.

The second tier applies to depreciable assets valued less than $25,000 first used or installed between the 29th of January 2019 and the 2nd of April 2019.

The third tier applies to depreciable assets valued less than $30,000 first used and installed after the 2nd of April 2019 Budget announcement and before 1 July 2020.

For example, David has owned a small retail business for five years before deciding to undertake a full refurbishment for $250,000.

Most plant and equipment assets are under $30,000 and can be claimed immediately as David qualifies for the recent ATO small business depreciation amendments (third tier threshold).

The remaining value of the existing fit out in his property was $36,500 which can also be claimed using scrapping.

As a result, David can claim a total of $125,824 in the first financial year.

Given the complexities around the instant asset write-off and property depreciation, it's more important than ever to work with a specialist Quantity Surveyor like BMT Tax Depreciation to ensure all asset deductions are identified and claimed correctly under this new ruling.

Find out what you can claim by visiting bmtqs.com.au/apply-online or contact one of our expert staff on 1300 728 726.

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Plant and equipment assets

	Total cost	Year 1	Total 5 year
Air Conditioning - Packaged Unit	$10,824	$10,824	$10,824
Cabinets - Metal	$2,824	$2,824	$2,824
Carpet	$1,197	$1,197	$1,197
Cash Registers	$591	$591	$591
Closed Circuit Television - Cameras & Monitors	$3,412	$3,412	$3,412
Closed Circuit Television - Digital Recorders	$4,118	$4,118	$4,118
Computer Equipment*	$32,941	$16,471	$32,941
Door Closers	$153	$153	$153
EFTPOS Systems	$5,294	$5,294	$5,294
Fire Extinguishers	$753	$753	$753
Floating Timber Floors	$13,253	$13,253	$13,253
Furniture Freestanding - General	$2,941	$2,941	$2,941
Microwave Ovens	$235	$235	$235
Racking & Shelving	$941	$941	$941
Refrigerators	$653	$653	$653
Security Monitoring Door Controllers & Code Pads	$412	$412	$412
Security System	$4,706	$4,706	$4,706
Signage	$1,947	$1,947	$1,947
Telephone Systems	$784	$784	$784
Television Sets	$14,118	$14,118	$14,118
Total P&E	**$102,097**	**$85,627**	**$102,097**
Div 43	**$147,903**	**$3,698**	**$3,698**
Totals	**$250,000**	**$89,324**	**$105,795**