Print whole section

Depreciating assets

Detailed information about depreciating assets.

Uniform capital allowance system: changing a depreciating asset's effective life

How and when you can recalculate the effective life of a depreciating asset.

Uniform capital allowance system - calculate decline in value

Work out how to calculate decline in value of depreciating assets and estimate effective life.

QC 28418

Uniform capital allowance system – Changing a depreciating asset's effective life

How and when you can recalculate the effective life of a depreciating asset.

Last updated 7 April 2020

On this page

Instant asset write-off

Backing business investment – accelerated depreciation

Recalculating effective life

Changed circumstances

How to make a new estimate of effective life

Calculating a depreciating asset's decline in value after its effective life has been recalculated

From 1 July 2001, uniform capital allowance (UCA) rules will apply to most depreciating assets. Taxpayers generally calculate deductions for the decline in value of their depreciating assets using these rules.

Under UCA rules, deductions for the decline in value of depreciating assets are generally calculated on the basis of effective life. You can choose to recalculate the effective life of an asset in certain circumstances where the effective life you have been using is no longer accurate. If you make an improvement to an asset, you may be obliged to recalculate its effective life.

See also

- Depreciation and capital allowances tool
- Small business entity concessions
- COVID-19

Instant asset write-off

You can claim an immediate deduction for most depreciating assets, depending on:

- the cost of the asset
- when the asset is first used or installed ready for use
- your business's **aggregated turnover**.

This is referred to as instant asset write-off.

If businesses can't immediately claim a deduction for individual assets, they can continue to deduct these over time using the small business pool or general depreciation rules (depending on their turnover).

You can use the simplified depreciation rules if you are a small business entity (2007–08 and later years).

You must use the simplified depreciation rules for income years where you were in the simplified tax system (2006–07 and earlier years).

Find out about:

- Simpler depreciation for small business
- Instant asset write-off for eligible businesses

Backing business investment – accelerated depreciation

From 12 March 2020 until 30 June 2021 the Backing business investment measure provides a time-limited (15-month) investment incentive to support business investment and economic by accelerating depreciation deductions. The key features of the incentive are as follows:

- The benefits are either
  - Deduction of 50% of the cost or opening adjustable value of an eligible asset on installation. Existing depreciation rules apply to the balance of the asset's cost.
  - If you are using the simplified depreciation rules for small business you can claim 57.5% of the cost of the asset in the first year you add the asset to the small business pool.

- Eligible businesses — businesses with aggregated turnover below $500 million.
- Eligible assets — new depreciating assets (for example, plant, equipment and specified intangible assets, such as patents). The assets must be first held, and first used or first installed ready for use for a taxable purpose on or after 12 March 2020 until 30 June 2021. Some exclusions apply.

Find out about:

- Backing business investment – accelerated depreciation

Recalculating effective life

For plant acquired from 21 September 1999 and for depreciating assets acquired from 1 July 2001, the calculation of decline in value is generally based on the effective life of the plant or asset rather than on the accelerated rates of depreciation that were previously available.

You can choose to recalculate the effective life of a depreciating asset if the nature of your use of that asset changes and those changed circumstances make your current estimate inaccurate. Your choice to recalculate applies where:

- you acquired the depreciating asset, or its construction began from 1 July 2001
- you acquired the plant, or its construction began between 21 September 1999 and 30 June 2001.

You can reassess effective life, regardless of whether you made the existing estimate yourself, or adopted the effective life specified by the Commissioner of Taxation

You can only make a new estimate of effective life after the end of the income year in which you first started to use the asset for any purpose (including a non-income producing purpose).

See also:

- Uniform capital allowance system: calculating the decline in value of a depreciating asset

When you must recalculate effective life

You must recalculate the effective life of a depreciating asset if the asset's cost increases by at least 10% in an income year and you:

- self-assessed the effective life of the asset
- used the Commissioner's determination of effective life and the prime cost method to calculate the asset's decline in value.

You may conclude that the effective life has not changed.

There are special rules for recalculating effective life where depreciating assets are transferred between associates.

When you can't recalculate effective life

You can't recalculate the effective life of a depreciating asset where:

- accelerated depreciation rates are available for the asset
- the asset is an intangible asset, such as a licence, copyright or software
- you simply miscalculated the existing effective life – so your circumstances of use have not changed. In this case, you may be able to correct the miscalculation by seeking an amendment of your existing estimate from the time allowed under the amendment provisions of the law.

Changed circumstances

Changed circumstances that could result in your estimate of effective life becoming inaccurate include:

- your use of the asset turns out to be more or less rigorous than expected
- the asset is scrapped because of a downturn in demand for the goods or services it is used to produce
- legislation prevents the asset's continued use
- new technology makes the asset redundant.

Example – changed circumstances

A depreciating asset used to produce insecticide has a remaining effective life of 10 years. The government decides that use of the insecticide is to be phased out and legislates to end production within two years.

The depreciating asset can't be used for any other purpose so will be scrapped in two years. The effective life of the depreciating asset may then be re-estimated to reflect the loss of eight years of its previously estimated effective life.

How to make a new estimate of effective life

The process of recalculating effective life is the same as the process of estimating effective life. To make a new estimate, you estimate the period (in years) the asset can be used for income-producing purposes by any entity from the time you first started to use the asset for any purpose. The period is based on your expected use of the asset and assumes that it is maintained in reasonably good order and condition.

The new estimate of effective life takes effect for the year in which you make it.

Example – making a new estimate of effective life

DA Pty Ltd acquires a depreciating asset on 1 July 2001 and starts to use it on the same day. The company works out that the effective life of the asset is seven years. During 2001–02, the company is advised that use of the asset will be prohibited by law from 1 July 2003.

The effective life can't be recalculated for 2001–02 because this is the year in which the company started to use the asset. However, for 2002–03 the company may recalculate the effective life at two years. The recalculated effective life is worked out from the time the company first started to use the asset to the date when it can no longer be used for income-producing purposes.

See also:

- Uniform capital allowance system: calculating the decline in value of a depreciating asset

Calculating a depreciating asset's decline in value after its effective life has been recalculated

If you are using the diminishing value method to calculate the decline in value of the asset, the new estimate of effective life is used in the diminishing value formula:

 Multiply the 'base value' by the 'days owned' then divide by 365. Then multiply this number by the result of 150% divided by the 'effective life years'.

if you start to hold the asset prior to 10 May 2006, or

 Multiply the 'base value' by the 'days owned' then divide by 365. Then multiply this number by the result of 200% divided by the 'effective life years'.

if you start to hold the asset on or after 10 May 2006.

Under the prime cost method, an adjusted prime cost formula must be used from the year in which the effective life is recalculated:

 Multiply the 'Opening adjustable value plus cost of improvements ' by the 'days held' then divide by 365. Then multiply this number by the result of 100% divided by the 'remaining effective life years'.

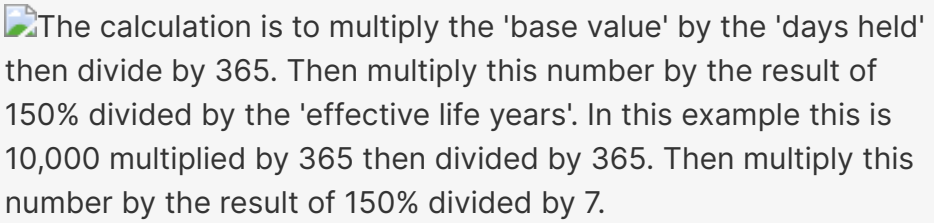
In the adjusted formula, the asset's opening adjustable value (plus the cost of any improvements made to the asset during the year) is substituted for the asset's cost. For effective life, you substitute the period of the recalculated effective life that remains at the start of the year in which you make the new estimate.

See also:

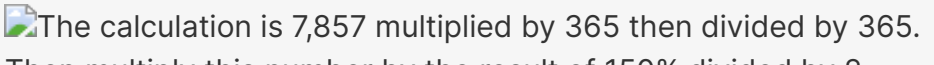
- **Uniform capital allowance system: calculating the decline in value of a depreciating asset**

Example – diminishing value method

Using the facts of the previous example, assume that DA Pty Ltd chose to use the diminishing value method to calculate the decline in value of the asset and the cost of the asset is $10,000. The company's deduction for 2001–02 would be $2,143 calculated as follows:

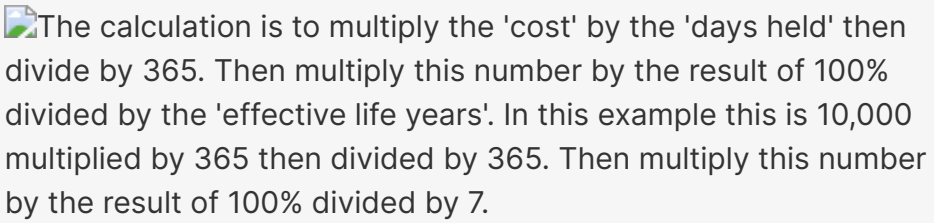


For 2002–03, the company recalculates the effective life for the asset at two years. The asset's opening adjustable value for 2002–03 is $7,857 (that is, $10,000 less $2,143). DA Pty Ltd can claim depreciation of $5,893 for the year, based on the new estimate of effective life of two years as follows:



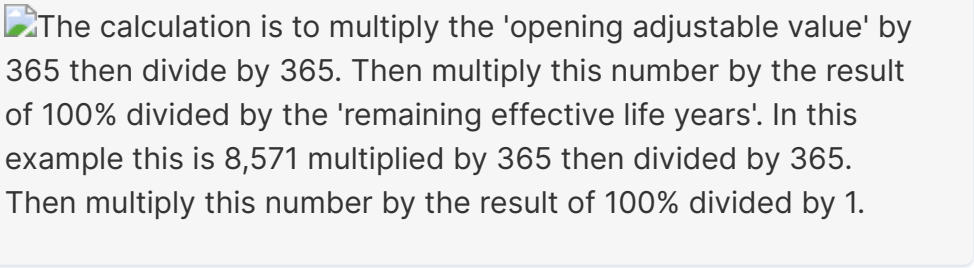
Example (prime cost method)

Assume that DA Pty Ltd uses the prime cost method to calculate the decline in value of the asset. For 2001–02, the deduction for the decline in value of the asset would be $1,429 calculated as follows:



For 2002–03 the company recalculates the effective life for the asset at two years.

Under the prime cost method, an adjusted formula must be used to calculate the decline in value for this and later years. The asset's remaining effective life, worked out as at the start of the income year, is one year. This figure is used instead of the earlier estimate of the asset's effective life and the opening adjustable value of $8,571 (that is, $10,000 less $1,429) is substituted for the asset's cost. The deduction for 2002–03 would be $8,571 calculated as follows:



QC 16295

Uniform capital allowance system: calculate decline in value

Work out how to calculate decline in value of depreciating assets and estimate effective life.

Last updated 1 July 2024

On this page

Uniform capital allowance rules

Temporary tax depreciation incentives

When a depreciating asset starts to decline in value

How to work out the decline in value

Effective life of the asset

Calculating the decline in value of assets in a low-value pool

Uniform capital allowance rules

The uniform capital allowance (UCA) rules:

- apply to most depreciating assets
- allow taxpayers to claim deductions for the decline in value of their depreciating assets that they use to produce their assessable income.

Small business entities who choose to use the **simplified depreciation rules** may instead choose to calculate their depreciation deduction using those rules.

Temporary tax depreciation incentives

Eligible businesses may be able to claim an immediate or accelerated deduction for the business portion of the cost of an asset that was first used or installed ready for use by you for a taxable purpose on or before 30 June 2023 using one of these temporary tax depreciation incentives:

- **temporary full expensing**
- **instant asset write-off**
- **backing business investment**

The backing business investment and instant asset write-off for entities with aggregated turnover of less than $500 million incentives stopped aren't available for assets first used or first installed ready for use for a taxable purpose after 30 June 2021.

For a high-level snapshot to help you work out how these incentives may apply, see **Interaction of tax depreciation incentives**.

When a depreciating asset starts to decline in value

Under UCA, a depreciating asset starts to decline in value when you first use it (or install it ready for use) for any purpose, including a private purpose. However, a deduction for decline in value is only allowable for the period of time the asset is used for a taxable purpose.

This means if you initially use an asset for a private purpose, and in later years use it for a taxable purpose (such as in a business), you need to work out the asset's decline in value over the period of its private use before you can work out the decline in value for the period you used it for taxable purposes.

Example: working out start date of decline in value

Robyn purchases a car on 1 July 2021 for $25,000. She uses it entirely for private purposes until 1 March 2022 when she starts a new business. The car is then used wholly for business purposes.

The car starts to decline in value from 1 July 2021 because it is being used from that date, but no part of the decline in value is an allowable deduction before 1 March 2022. This is because the car is not used for a taxable purpose before that date.

How to work out the decline in value

You decide whether to calculate the decline in value of a depreciating asset using either the:

- diminishing value method, or
- prime cost method.

In some cases, you must use the same method used by the former holder of the asset. For example, if you acquire the asset from an associate such as your spouse or business partner.

Once you choose a method to use for a depreciating asset, you can't change it.

For some intangible depreciating assets, including an item of intellectual property, you must always use the prime cost method.

A deduction for the decline in value of a depreciating asset is reduced by the extent it is not used for a taxable purpose. For example, if an asset is used 40% of the time for a private purpose, the deduction for its decline in value is reduced by 40%.

You can claim an **immediate deduction** for certain depreciating assets that:

- cost $300 or less
- are used mainly to produce non-business assessable income
- are not part of a set costing more than $300, and

- are not one of a number of items that are identical, or substantially identical, that together cost more than $300.

Diminishing value method

Under the diminishing value method, decline in value is calculated using the asset's base value. The base value of an asset is the amount you paid for the asset plus any additional amount you spent on transporting, installing and improving it, less the decline in value up to the end of the prior income year.

If you started to hold the asset on or after 10 May 2006 the formula for the decline in value for an income year is:


The 'decline in value' is equal to the 'base value' multiplied by the result of 'days held' divided by 365, then multiplied by the result of 200% divided by the 'asset's effective life'.

If you started to hold the asset before 10 May 2006 the formula for the diminishing value for an income year is:


The 'decline in value' is equal to the 'base value' multiplied by the result of 'days held' divided by 365, then multiplied by the result of 150% divided by the 'asset's effective life'.

The diminishing value method:

- assumes the decline in value each year is a constant proportion of the amount not yet written-off
- produces a progressively smaller decline in value over time.

Example: calculating asset's decline in value using the diminishing value method

Colourful Pets Pty Ltd acquires an asset for $10,000 on 1 July 2021 and starts to use it wholly for taxable purposes from that day. The effective life of the asset is 10 years.

If Colourful Pets Pty Ltd chose to use the diminishing value method to calculate the asset's decline in value, the company's deductions in the first 2 years would be:

- 2021–22 income year: $10,000 × (365 ÷ 365) × (200% ÷ 10) = $2,000

- 2022–23 income year: ($10,000 − $2,000) × (365 ÷ 365) × (200% ÷ 10) = $1,600.

Prime cost method

Under the prime cost method, the decline in value:

- is generally calculated as a constant percentage of the asset's cost
- reflects a uniform decline in value over time.

The formula is:


The 'decline in value' is equal to the 'asset's cost' multiplied by the result of 'days held' divided by 365, then multiplied by the result of 100% divided by the 'asset's effective life'.

The asset's cost includes:

- the amount you pay for it
- any additional amounts you spend on transporting it and installing it in position
- amounts you spend on improving it.

In some circumstances, such as when you change the effective life or cost of an asset, an adjusted prime cost formula must be used.

Example: depreciating asset initially used for a non-taxable purpose

Paul purchased a fridge for $2,000 on 1 July 2020 and immediately used it wholly for private purposes as a second fridge.

He started a takeaway business on 1 March 2022, moved the fridge into his business premises and began using it for his business only. Paul does not use simplified depreciation rules for his depreciating assets.

Paul's fridge started to decline in value from 1 July 2020 as that was the day he first used it. He needs to work out the fridge's decline in value from the date he first started using it.

However, Paul can only claim a deduction for the decline in value from 1 March 2022 when he started using it for a taxable purpose.

Paul chooses to use the prime cost method to work out the decline in value and adopts the Commissioner's effective life determination for a fridge (10 years).

The decline in value will be $2,000 x (365 ÷ 365) x (100% ÷ 10) = $200 per year.

Before 1 March 2022, when the fridge was used for private purposes, the decline in value is $333, calculated as the sum of:

- $200 for the income year from 1 July 2020 and 30 June 2021 ($2,000 x (365 ÷ 365) x (100% ÷ 10) = $200)
- $133 for the 243 days from 1 July 2021 to 28 February 2022 before he started using the fridge for a taxable purpose ($2,000 x (243 ÷ 365) x (100% ÷ 10) = $133)

Paul can't claim deductions for the $333 decline in value of the fridge for the period it was used wholly for private purposes.

He determines there are 122 days between 1 March 2022 and 30 June 2022 (inclusive) during which he used the fridge exclusively for his takeaway business.

Paul calculates his deduction for the fridge in the 2021–22 income year as follows:

$2,000 x (122 ÷ 365) x (100% ÷ 10) = $67

He will be able to claim a deduction of $67 for the decline in value for the fridge in the 2021–22 income year.

For help calculating the deduction available from a depreciating asset, use the **Depreciation and capital allowances tool**.

Effective life of the asset

The decline in value of a depreciating asset is generally based on the asset's effective life. The effective life is broadly the period it can be used by anyone for income-producing purposes. This assumes it will be:

- subject to wear and tear reasonably expected from the circumstances of use
- maintained in reasonably good order and condition.

You decide whether to make your own estimate of a depreciating asset's effective life or to adopt **the Commissioner's effective life determination**. In some situations, you don't have a choice.

For example, if you acquire the asset from an associate such as your spouse or business partner, you must use the:

- same effective life they used (if they used the diminishing value method)
- effective life that is yet to elapse (if they used the prime cost method).

For some intangible depreciating assets, such as intellectual property, you don't have a choice as the effective life is set out in the UCA rules.

If you use the Commissioner's effective life determinations, they won't be challenged in any audit process. If you estimate the effective life, we may ask you to explain how you worked it out.

Estimating a depreciating asset's effective life

If you choose not to adopt the Commissioner's determination of effective life, or there isn't one for your asset, you estimate the effective life as at the time it is first used or installed ready for use for any purpose. The estimate should take into account:

- how you expect to use the asset
- what rate of wear and tear you would reasonably expect from that use assuming the asset is maintained in reasonably good order and condition
- how long the asset could be used to produce income (irrespective of who used it)
- any proposal to scrap or abandon the asset that would cut short its use for income producing purposes.

You also need to take into account relevant factors such as the manufacturer's specifications, independent engineering information and your particular experience with similar assets.

Altering the effective life you are using

You can choose to recalculate the effective life you are using for an income year if your circumstances of use change and the effective life you have been using is no longer accurate.

You can do this if you adopted the Commissioner's effective life determination or are using your own estimate. You can recalculate the effective life each time your circumstances change Also, if you improve an asset that results in its cost increasing by 10% or more in an income year, you are obliged to recalculate the effective life.

Calculating the decline in value of assets in a low-value pool

The decline in value of certain assets with a cost or opening adjustable value of less than $1,000 can be calculated through a **low-value pool** at a diminishing value rate of 37.5%.

For an income year in which you acquire an asset and allocate it to the pool during the year, you work out its decline in value at a rate of 18.75%, or half the pool rate. For more information see **working out the decline in value of depreciating assets in a low-value pool**.

The **sampling rule** is available to businesses that have a low-value pool.

QC 16297

Our commitment to you

We are committed to providing you with accurate, consistent and clear information to help you understand your rights and entitlements and meet your obligations.

If you follow our information and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we will take that into account when determining what action, if any, we should take.

Some of the information on this website applies to a specific financial year. This is clearly marked. Make sure you have the information for the right year

before making decisions based on that information.

If you feel that our information does not fully cover your circumstances, or you are unsure how it applies to you, contact us or seek professional advice.

Copyright notice