Low-value pools

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Capital allowances: low-cost assets - threshold rule for small business

The threshold rule is available to businesses that aren't using the small business entity simplified depreciation rules.

QC 28424

Uniform capital allowance system for low-value pools

Working out low-value pool asset allocations, deductions, and pool balances.

Last updated 1 July 2024

Uniform capital allowance rules

Uniform capital allowance (UCA) rules apply to most depreciating assets. Use these rules to calculate deductions for the decline in value of depreciating assets.

Under UCA rules, you can use low-value pools to calculate the decline in value of most depreciating assets with a cost or opening adjustable value of less than $1,000. The low-value pool rate is 37.5%.

The rules also provide an immediate deduction for certain assets costing $300 or less.

For more information see:

- **Small business entity concessions**
- **Uniform capital allowance system: $300 immediate deduction**

Simplified depreciation for small business

If you are a small business owner and have elected to use the small business **simplified depreciation rules**, you don't claim deductions for the UCA rules, including the for low-value pool rules.

Depreciating assets you can allocate to a low-value pool

You can allocate depreciating assets to a low-value pool that:

- cost less than $1,000 (low-cost assets)

- are not low-cost assets, but
  - have an opening adjustable value of less than $1,000
  - you have previously worked out deductions using the diminishing value method (low-value assets).

Depreciating asset's adjustable value

An asset's adjustable value at a particular time is its cost less its decline in value up to that time. The adjustable value at the start of an income year (the opening adjustable value), is the same as its adjustable value at the end of the previous income year. The adjustable value of a newly acquired asset is generally the asset's cost.

Depreciating assets you can't allocate to a low-value pool

You can't allocate the following depreciating assets to a low-value pool:

- assets for which deductions have been calculated using the prime cost method
- horticultural plants (including grapevines)
- assets for which you can deduct amounts under the simplified depreciation rules
- assets that cost $300 or less for which you can claim an immediate deduction.

Choosing to allocate depreciating assets to a low-value pool

You are not required to allocate depreciating assets to a low-value pool. The choice is yours. If you choose not to use low-value pooling, you work out the decline in value of low-cost and low-value assets as you do your other depreciating assets, that is, according to their effective life.

Once you allocate a low-cost asset to a low-value pool, you must pool all other low-cost assets you start to hold in that, and each later year. This rule doesn't apply to low-value assets. You can decide whether to allocate low-value assets to the pool on an asset-by-asset basis.

Once you have allocated an asset to the pool, it remains in the pool.

For more information see:

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

Pooling depreciating assets used only partly for taxable purposes

When you first allocate a depreciating asset to a low-value pool, you must make a reasonable estimate of the percentage of your taxable use of the asset over its effective life (for a low-cost asset) or its remaining effective life (for a low-value asset). You only allocate to the pool the percentage of the asset's cost (for a low-cost asset) or adjustable value (for a low-value asset) that relates to the use of the asset for a taxable purpose, such as producing assessable income. This percentage is known as the asset's taxable use percentage.

The cost or opening adjustable value of an asset must be less than $1,000 before taking into account the asset's taxable use percentage for the asset to be allocated to a low-value pool.

Once you have allocated an asset to the pool, you can't vary your estimate of the taxable use percentage, even if the actual taxable use of the asset turns out to be different to your estimate.

Example 1: pool depreciating asset used partly for taxable purposes

During 2020–21, John buys a printer for $990. John allocated low-cost assets to a low-value pool in 2019–20 so now he must allocate the printer to the pool because it is also a low-cost asset. He estimates that only 60% of its use will be for taxable purposes. Therefore, he would allocate only 60% of the cost of the printer to the pool, that is:

- 60% × $990 = $594

Working out your deduction for pooled assets

The deduction for the decline in value of depreciating assets in a low-value pool is worked out using a diminishing value rate of 37.5%. This rate is based on an effective life of 4 years.

For the income year you first allocate a low-cost asset to the pool, your deduction is worked out at a rate of 18.75%, or half the pool rate. Halving the rate recognises assets may be allocated to the pool throughout the income year and eliminates the need to make separate calculations for each asset based on the date it was allocated to the pool.

To work out the decline in value of the depreciating assets in a low-value pool, add:

- 18.75% of both
  - the taxable use percentage of the cost of low-cost assets you allocated to the pool during the year
  - the taxable use percentage of the cost of any improvements you made during the year to the assets in the pool.
- 37.5% of both
  - the closing pool balance for the previous year
  - the taxable use percentage of the opening adjustable values of any low-value assets allocated to the pool during the year.

Example 2: work out deduction for pooled asset

Using the facts of the previous example, assume at the end of 2019–20 John has a low-value pool with a closing balance of $5,000. John's deduction for the assets in the pool for 2020–21 is:

Description	Value
18.75% of the taxable use percentage of the cost of the printer allocated to the pool during the year (18.75% of $594)	$111
37.5% of the closing pool balance for the previous year (37.5% of $5,000)	$1,875

Total	**$1,986**

Disposal of a pooled depreciating asset

If you dispose of a pooled asset during an income year you must reduce the closing pool balance for that year by the taxable use percentage of the asset's termination value (for example, any proceeds from the disposal). If this percentage of termination value exceeds the closing pool balance, the excess is included in your assessable income.

When an asset that was used only partly for a taxable purpose is disposed of, a capital gain or loss may arise. Where there's a difference between the asset's cost and its termination value, the proportion of this difference that is attributable to the estimated non-taxable use of the asset is treated as a capital gain or loss under the capital gains provisions.

Example 3: disposal of pooled depreciating asset

Following on from the first example, during 2021–22, John sells the printer for $500. Because he originally estimated that the printer would only be used 60% for taxable purposes, the closing balance of the pool is reduced by 60% of the termination value, that is:

- 60% × $500 = $300

A capital loss of $196 also arises. As the printer's taxable use percentage is 60%, 40% of the difference between the asset's cost and its termination value is treated as a capital loss, that is:

- 40% × ($500 less $990) = $196 capital loss

Working out the closing pool balance

The closing balance of a low-value pool is the sum of the closing pool balance for the previous income year **then added**:

- the taxable use percentage of the costs of any low-cost assets allocated to the pool for the year
- the taxable use percentage of the opening adjustable values of low-value assets allocated to the pool for the year
- the taxable use percentage of the cost of any improvements made to the assets in the pool during the year **less**
  - the deduction for the decline in value of the depreciating assets in the pool for the year
  - the taxable use percentage of the termination value of any pooled assets that you disposed of during the year.

Example: working out the closing pool balance

Assuming that John made no additional acquisitions to or disposals from his low-value pool, the closing balance of his pool for 2001–02 and 2002–03 is:

Closing pool balance 2020–21	Item	Amount
Closing pool balance for 2019–20		$5,000
Plus taxable use percentage of low-cost assets allocated for the year (see example 1)	New printer	$594
Less decline in value of assets in pool for the year (see example 2)		– $1,986
Closing pool balance for 2020–21		**$3,608**

Closing pool balance 2021–22	Item	Amount
Closing pool balance for 2020–21		$3,608

Less decline in value of assets in pool for the year	37.5% x $3,608	– $1,353
Less taxable use percentage of termination value of pooled assets that were disposed of during the year (see example 3)		– $300
Closing pool balance for 2021–22		**$1,955**

How this applies to primary producers

You can only claim a deduction for primary production activities under the UCA low-value pooling provisions if the assets can't be deducted under the primary producer provisions.

Where you're using a low-value pool and need to separate your deductions into primary production and non-primary production activities, you must apportion your deduction for the low-value pool on a reasonable basis. One way to do this is to keep records as if the deductions to be separated, and the assets the deductions relate to were in a separate pool.

QC 16455

Capital allowances: low-cost assets – sampling rule for small and large businesses

How the sampling rule applies to low-cost assets.

Last updated 25 January 2017

The sampling rule is available to businesses that have a low-value pool. Some businesses can claim an immediate deduction for expenditure on assets costing less than $1,000 and would not use this rule.

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

If you're using the small business simplified depreciation rules, generally you won't use the UCA sampling rule for low-value pools. Under the simplified depreciation rules you can claim an immediate deduction for most depreciating assets costing less than $1,000 (or $20,000 for each asset bought and used, or installed ready for use from 7.30pm (AEST) on 12 May 2015 until 30 June 2017), and pool most other depreciating assets.

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).

See also:

- Small business entity concessions

Sampling rule

The sampling rule allows you to use a sample of your business purchases to estimate how much you can claim as an immediate deduction, and how much you must depreciate over time.

The rule is meant to help you save time as you don't need to decide whether each purchase is of a revenue nature (and so immediately deductible) or of a capital nature (usually written-off over time).

Purchases of a revenue nature normally mean you expect the item to be consumed, damaged or lost within a short period of time. Purchases of a capital nature generally result in the item or asset being used over a longer period.

Who can use the sampling rule

Businesses can use the sampling rule if they both:

- have a low-value pool
- don't have systems that result in reliable individual identification and accounting of low cost items.

How the sampling rule works

A business with a low-value pool under Subdivision 40-E of the *Income Tax Assessment Act 1997* (ITAA 1997) may use statistical sampling to determine the proportion of the total purchases on low cost tangible assets that are revenue expenditure.

The purchases eligible for sampling are both:

- purchases of items costing less than $1,000
- not excluded by the general qualifications set out later in this fact sheet.

Items costing less than $1,000 are eligible as they'll be allocated to the low-value pool if the expenditure on them is capital and they are depreciating assets. Accordingly, items costing $1,000 or more must be excluded for the purposes of the sampling calculations.

The 'cost' for these purposes is the cost worked out under Division 40, as that is the amount relevant for the purposes of the low-value pool. Input tax credits and decreasing adjustments under GST are normally excluded (see Division 27 of the ITAA 1997).

Sampling options

The first option is to extract a representative sample from the eligible purchases of an income year, and from this sample determine the percentage that is deemed to be revenue.

The second option allows you to choose a sample comprising all eligible purchases for a period (for example, two months) in an income year that is representative of the capital and revenue purchases for the business over the course of the year. From this sample, you can decide the percentage to be revenue.

As a general rule, we would consider a representative sample of 10% of eligible purchases as sufficient for the purposes of the first option. Where there are a very large number of eligible purchases, a lesser percentage may be appropriate. Similarly, where there is only a limited number of eligible purchases a higher percentage may be required.

The sampling results can only be applied against eligible purchases. The revenue component is assessed for immediate deductibility under section 8-1 of the ITAA 1997. The capital component relating to depreciating assets is dealt with according to the low-value pool provisions of Subdivision 40-E.

Example: SME

A small/medium business identifies $100,000 worth of purchases in a year. These purchases include both revenue and capital items purchased in a year.

Items costing $1,000 or more total $15,000 and these items are excluded for the purposes of sampling. Purchases totalling a further $50,000 are excluded from the sampling as they are trading stock.

Using statistical sampling, the business identifies that 10% of items that are eligible purchases would be a representative sample for them. Therefore the revenue expenditure proportion is 40%.

Applying this proportion to the total value of the eligible purchases ($35,000, or $50,000 less $15,000), the business claims an immediate deduction of $14,000 (40% of $35,000) and allocates the remaining $21,000 to the low-value pool.

Example: Large business

A large business has purchases for the income year totalling $2,500,000. Of this amount, $300,000 relates to items costing $1,000 or more. These items cannot be used for sampling. Purchases totalling a further $1,000,000 are excluded from the sampling as being trading stock.

The business identifies all eligible purchases for a representative two month period in that year.

Analysis of those eligible purchases indicates that the revenue expenditure proportion is 35%.

Applying the 35% revenue proportion for the two month sample period to the total value of eligible purchases in the income year ($1,200,000, or $2,500,000 less the $1,300,000), the business claims an immediate deduction of $420,000 (35% of $1,200,000) and allocates the remaining $780,000 to the low-value pool.

Threshold rule

You can use the threshold rule to help with the revenue/capital expenditure decision for the sample.

See also:

- Capital allowances: low-cost assets – threshold rule for small business

Qualifications

This sampling rule does not apply to expenditure on:

- establishing a business or business venture or building a significant store or stockpile of assets
- assets held by you under a lease, hire purchase or similar arrangement
- assets acquired by you for lease or hire to (or that will otherwise be used by) another entity
- assets included in an asset register you maintain in a manner consistent with reporting requirements under accepted Australian accounting standards
- any asset that forms part of a collection of assets that is dealt with commercially as a collection (for example, by being sold and leased-back as a means of raising finance for the business)
- trading stock or spare parts.

This rule does not apply separately to expenditure on assets that are part of another composite asset. In this case, you must test expenditure on the composite asset. Items would not normally be a separate asset where they are not functional on their own (for example, scaffolding clamps).

You cannot use statistical sampling if your current systems result in reliable individual identification and accounting of low-cost items.

The sampling results must be statistically valid and result in objective, reliable and conservative estimates.

Statistical sampling will be acceptable if:

- all relevant records and working papers relating to the sampling are available to us for examination
- an adequate statistical sampling design has been used
- the sample is representative of the population from which it has been drawn
- the data obtained from the sample is correct
- the estimates have been calculated correctly.

Statistical sample validity

The statistical sample is valid for a maximum of three years (including the year in which the sampling takes place) so long as it remains representative of the total population that it is applied to. Re-sampling is required when, for example either:

- your business operations have varied so significantly that an alteration in the composition of asset purchases could be expected
- two businesses have merged, one of which was using the sampling rule and one of which was not
- two businesses have merged, both using the sampling rule but having different percentages of revenue expenditure, or
- there has been a demerger of a business.

Decentralised businesses

If your business is decentralised, so purchases of assets shown in eligible purchases are made in different centres within your business, you may perform a sampling exercise for each centre and use the results for the purchases made by that centre. You may need to do this to ensure a representative sample if the eligible purchases of the centres have different characteristics. This is more likely to be an issue for larger businesses.

Record keeping requirements

The sampling rule doesn't mean record retention requirements are changed. You must continue to keep all relevant records as required under the income tax and other taxation laws.

Using sampling more broadly

The sampling rule has been designed to dovetail with the rules for low-value pools in Division 40 of the ITAA 1997. If you wish to use statistical sampling in other circumstances, you can contact us.

More information

- refer to Capital allowances
- contact us
  - by phone
  - in person
  - by mail.

See also:

- PS LA 2003/08 *Taxation treatment of expenditure on low cost items for taxpayers carrying on a business*
- Capital allowances: low-cost assets – threshold rule for small business (NAT 9852)
- Capital allowances: low-cost assets – threshold rule for large business(NAT 9853)

QC 50915

Capital allowances: low-cost assets – threshold rule for large business

How the threshold rule for low-cost assets of large businesses works.

Last updated 25 January 2017

The threshold rule allows a business not using the simplified depreciation rules to claim an immediate deduction for most business expenditure of $100 or less to buy tangible assets.

The rule is meant to help you save time because you don't need to decide whether each purchase is of a revenue nature (and so immediately deductible) or of a capital nature (which is usually written-off over time).

Purchases of a revenue nature normally mean that a business expects the item to be consumed, damaged or lost within a short period of time while purchases of a capital nature generally result in the item or asset being used over a longer period.

How the $100 threshold rule works

If you spend $100 or less to acquire a tangible asset in the ordinary course of carrying on your business you can assume it to be of a revenue nature for income tax purposes.

This rule **does not** apply to expenditure on:

- establishing a business or business venture or building-up a significant store or stockpile of assets
- assets you hold under a lease, hire purchase or similar arrangement
- assets you acquired for lease or hire to (or that will otherwise be used by) another entity
- assets included in an asset register you maintain in a manner consistent with reporting requirements under generally accepted Australian accounting standards
- any asset that forms part of a collection of assets that is dealt with commercially as a collection (for example, by being sold and leased-back as a means of raising finance for the business)
- trading stock or spare parts.

This rule does not apply separately to expenditure on assets that are part of another composite asset. In this case, you must test expenditure on the composite asset. Items would not normally be a separate asset where they are not functional on their own (for example, scaffolding clamps).

Some examples of low cost items that fall within the threshold rule, subject to the qualifications listed above, include:

- office equipment costing $100 or less – including hand held staplers, hole punches, manila folders, ring binders, geometry sets, stencils, calculators, tape dispensers, scissors, labelling machines, document holders, and bar coding machines
- catering items costing $100 or less – including cutlery, saucers, cups, and table linen
- tradesperson's small hand tools costing $100 or less – such as pliers, screwdrivers, and hammers
- tools used by primary producers costing $100 or less – including secateurs and pliers.

Example

A large mining business with an asset register buys a large quantity of small items each year to use in various sections of the enterprise. The items range from goggles and torches to small hand tools. These items cost $100 or less and are not recorded on the asset register. The items are claimed as business deductions in the year of purchase.

The$100 threshold limit and GST

The $100 threshold rule includes GST in the price of the item. There's no need to separately identify any GST applicable to individual items. Division 27 of the *Income Tax Assessment Act 1997* (ITAA 1997) ensures a deduction isn't available for expenditure to the extent it relates to an input tax credit or decreasing adjustment under the GST legislation.

Record keeping requirements

The threshold rule doesn't mean record retention requirements are changed. You must continue to keep all relevant records as required under the income tax and other taxation laws.

More information

- refer to Capital Allowances
- contact us:
  - by phone
  - in person
  - by mail

See also:

- PS LA 2003/08 *Taxation treatment of expenditure on low cost items for taxpayers carrying on a business.*
- Capital allowances: low-cost assets – threshold rule for small business (NAT 9852)
- Capital allowances: low-cost assets – sampling rule for small and large businesses (NAT 9850)

QC 17151

Capital allowances: low-cost assets – threshold rule for small business

The threshold rule is available to businesses that aren't using the small business entity simplified depreciation rules.

Last updated 6 April 2020

The threshold rule

The threshold rule allows you to claim an immediate deduction for most business expenditure of $100 or less to buy tangible assets.

The rule is meant to help you save time because you don't need to decide whether each purchase is of a revenue nature (and so immediately deductible) or of a capital nature (usually written-off over time).

Purchases of a revenue nature normally mean that you expect the item to be consumed, damaged or lost within a short period of time while purchases of a capital nature generally result in the item or asset being used over a longer period.

If you are using the simplified depreciation rules, generally you won't use the threshold rule that applies for tax administrative purposes, to low-cost items of $100 or less as the simplified depreciation rules contain an instant asset write-off.

See also

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

How the threshold rule works

If you aren't using the simplified depreciation rules and you spend $100 or less, including any GST, to acquire a tangible asset in the ordinary course of carrying on your business you can assume it to be of a revenue nature for income tax purposes.

This rule doesn't apply to expenditure on:

- establishing a business or business venture or building-up a significant store or stockpile of assets
- assets held by you under a lease, hire purchase or similar arrangement
- assets acquired by you for lease or hire to (or that will otherwise be used by) another entity
- assets included in an asset register you maintain in a manner consistent with reporting requirements under accepted Australian accounting standards

- any asset that forms part of a collection of assets that is dealt with commercially as a collection (for example, by being sold and leased-back as a means of raising finance for the business)
- trading stock or spare parts.

This rule doesn't apply separately to expenditure on assets that are part of another composite asset. In this case, you must test expenditure on the composite asset. Items wouldn't normally be a separate asset where they're not functional on their own (for example, scaffolding clamps).

Some examples of low-cost items that fall within the threshold rule, subject to the qualifications listed above, are:

- office equipment costing $100 or less, including handheld staplers, hole punches, manila folders, ring binders, geometry sets, stencils, calculators, tape dispensers, scissors, labelling machines, document holders and bar coding machines
- catering items costing $100 or less, including cutlery, saucers, cups, and table linen
- tradesperson's small hand tools costing $100 or less such as pliers, screwdrivers and hammers
- tools used by primary producers costing $100 or less including secateurs and pliers.

Scenario example

Example

A small cafe owner, who doesn't maintain an asset register or use the simplified depreciation rules, purchases spoons, coffee cups, espresso glasses and saucers every few months to maintain constant levels of stock, as these items are damaged or stolen. The owner spends around $60 every three or four months for these small items and claims the whole expense as a deduction in that income year.

The $100 threshold limit and GST

The $100 threshold rule includes GST in the price of the item. There's no need to separately identify any GST applicable to individual items. Division 27 of the *Income Tax Assessment Act 1997* (ITAA 1997) ensures a deduction isn't available for expenditure to the extent it relates to an input tax credit or decreasing adjustment under the GST legislation.

Record-keeping requirements

The threshold rule doesn't mean record-retention requirements are changed. You must continue to keep all relevant records as required under income tax and other taxation laws.

See also

- Record keeping for business

More information

For more information you can:

- refer to Capital allowances
- contact us
  - by phone
  - in person
  - by mail

See also

- PS LA 2003/08 *Taxation treatment of expenditure on low-cost items for taxpayers carrying on a business*
- Capital allowances: low-cost assets – threshold rule for large business (NAT 9853)
- Capital allowances: low-cost assets – sampling rule for small and large businesses (NAT 9850)

QC 17149

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.