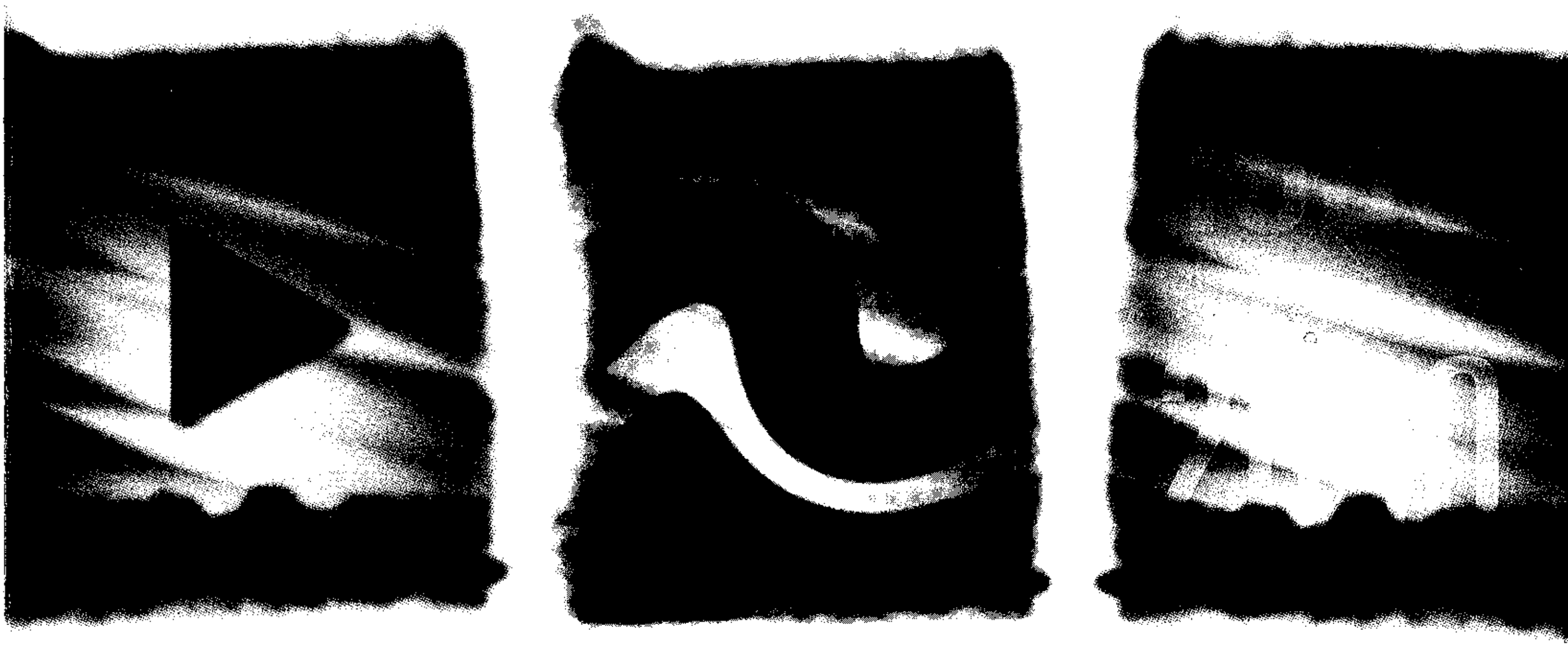
GUIDE TO DEPRECIATION



1999 – 2000

Australian Taxation Office
www.ato.gov.au

How self-assessment affects most individuals

Self-assessment means the Australian Taxation Office (ATO) uses the information you give in your tax return to work out your refund or tax bill. You are required by law to make sure you have shown all your assessable income and claimed only the deductions and rebates to which you are entitled.

What are your responsibilities?

Even if someone else—including a tax agent—helps you to prepare your tax return, you are still legally responsible for the accuracy of the information.

What if you lodge an incorrect tax return?

Our computers continually check for missing or wrong information. We have audit programs designed to detect where taxpayers have not declared all of their assessable income or where they have incorrectly claimed deductions or rebates. If you become aware that your tax return is incorrect, you must contact us straightaway.

Initiatives to complement self-assessment

There are a number of initiatives administered by the ATO which complement self-assessment. Examples include:

- a change in penalty provisions so that, if you take reasonable care with your tax affairs, you will not receive a penalty for honest mistakes—but please note that interest on omitted income or overclaimed deductions and rebates could still be payable
- the process for applying for a private ruling
- your entitlement to interest on early payment—or overpayment—of a tax debt
- the process for applying for an amendment if you find you left something out of your tax return.

Do you need to ask for a private ruling?

If you have a concern about the way tax law applies to your personal tax affairs, you may want to ask for a private ruling. A private ruling will relate just to your situation. Write to the ATO describing your situation in detail and ask for advice. Include your tax file number. If you lodge your tax return before you receive your private ruling, be aware that the ruling may alter the accuracy of your return.

You can ask for a review of a private ruling decision if you disagree with it, even if you have not received your assessment. The tax office that made the ruling can give you more information about review procedures.

Copies of publications

To get a copy of any publication referred to in this book:

- see our Internet site at **www.ato.gov.au**
- ring our publications distribution service on **1300 720 092** for the cost of a local call or
- visit an ATO office.

Feedback

Reader feedback helps us to improve the information we provide. If you have any comments to make about this booklet, please write to:

The Editor
Public Assistance Branch
Australian Taxation Office
2 Constitution Avenue
CANBERRA ACT 2601

As this is a publications area only, any tax matters will be passed on to a technical area. Otherwise you can ring our general enquiries number, **13 2861**, for help.

Guide to depreciation

1999–2000

Australian Taxation Office
Canberra

ISBN 0 642 30794 6

About this publication

This publication is available free from the Australian Taxation Office (ATO). The ATO prohibits any party from selling it. We regularly revise our publications to take account of changes to the law.

If you have an enquiry relating to your circumstances which this publication does not cover, ring the general enquiries helpline **13 2861** or get help from a tax adviser.

As part of our commitment to produce accurate publications, taxpayers will not be subject to penalties if it is demonstrated that they based a tax claim on wrong information supplied by the ATO.

Contents

What is depreciation?

Under income tax law, you are allowed to claim deductions for expenses incurred in earning assessable income—for example, recurring expenses such as rent, wages and electricity. Some expenses, such as the cost of acquiring capital assets, are not allowable. Capital assets are those which provide a benefit over a number of years—for example, motor cars and machinery.

The value of such assets gradually reduces over time as they approach the end of their useful lives. Assets which lose value in this way are said to depreciate. In recognition of this fact, the cost of capital assets used in producing assessable income can be written off over a period of time as a tax deduction.

Under income tax law, the term 'depreciation' is applied to plant—for example, cars and machinery. Under measures announced in the 1998–99 Federal Budget and contained in *Taxation Laws Amendment (Software Depreciation) Act 1999*, the depreciation provisions apply to expenditure on computer software incurred after 10 a.m. Australian Eastern Standard Time (AEST) on 11 May 1998. Software includes a licence to use it.

Under measures announced in the Treasurer's Press Release No. 58 and contained in the *New Business Tax System (Capital Allowances) Act 1999*, the depreciation provisions will also apply to expenditure on acquiring an indefeasible right to use an international telecommunications submarine cable system where this expenditure is incurred after 11.45 a.m. by legal time in the Australian Capital Territory on 21 September 1999.

The general depreciation provisions that apply to plant are modified for software and submarine cables. This publication first covers the general provisions and then outlines, on pages 13–15, the variations for software and submarine cables.

Depreciation terms

Termination value for plant that is disposed of, lost or destroyed, or for which there has been a partial change of ownership, is the amount that is used in working out whether an amount of depreciation recovered is to be included in your assessable income, or whether a loss on disposal may be claimed as a deduction—your 'balancing adjustment'. Termination value covers a range of amounts to be used in calculating your balancing adjustment, including consideration received and market value where plant is disposed of other than by sale. For example:

- Where you sell plant for a specific price, the termination value will generally be the sale price less the reasonably attributable expenses of sale. Adjustments can be made for non-arm's length transactions.
- For a disposal other than by sale—such as a gift—the termination value is the market value of the plant immediately before its disposal.
- Where plant is lost or destroyed, the termination value is the amount or value received or receivable under an insurance policy or otherwise for the loss or destruction.
- Where a change occurs in the ownership interests of plant—for example, the formation or dissolution of a partnership—the termination value is the market value of the plant immediately before the partial change in ownership.

Undeducted cost is the cost of the plant less the sum of your depreciation deductions and any further amounts that you could not deduct because you used the plant other than for producing assessable income—for example, private use of the plant—or because a deduction is prevented by the income tax law, such as for certain plant used for leisure facilities.

Written down value is generally the cost of the plant less the sum of your depreciation deductions.

Who can depreciate assets?

Only owners or quasi-owners can depreciate plant. You will be treated as the owner of the plant for depreciation purposes if you are the legal owner, or you hold sufficient rights over the plant to characterise you as the owner in preference to any other person who also holds rights over the plant.

Where depreciable plant is jointly owned or co-owned but is not used by the owners in partnership, each co-owner is entitled to a depreciation deduction for their own interest in the plant and the use they make of it.

Quasi-ownership covers the situation where plant is attached to land that you do not own but have a right to use. This only applies where the land is owned by certain Australian and foreign government agencies. An example of quasi-ownership is where you have a Crown lease and have attached plant to that land after you acquired the lease.

If there is a quasi-owner, only the quasi-owner can claim depreciation. If you are not sure whether you are the owner of the plant, contact your professional tax adviser or the ATO.

Which items can you depreciate?

The depreciation provisions apply to plant that is used to produce assessable income or is installed ready for use to produce assessable income and is held in reserve. Depreciation is not allowed on plant used for private purposes or where income producing activity has not yet commenced. Plant includes:

- computers
- electric tools
- furniture and fittings
- furnishings—carpets and curtains
- manufacturing machinery
- motor vehicles.

In some situations, various other assets which are generally not regarded as plant are also depreciable under income tax law. They include:

- working animals—for example, racehorses—not used in primary production
- structural improvements—for example, fences and dams—on land used for agricultural or pastoral operations, or in a primary production business
- plumbing fixtures and fittings in premises mainly for the use of employees or for the care of the children of employees
- software, including a licence to use it.

Buildings are not generally plant or included in plant but a deduction similar to depreciation may be available under the separate deduction provisions for capital works. Various deductions for non-depreciable capital expenditure are available under the primary production provisions.

In most instances, it will be clear whether or not something is an item of plant. However, if you are not sure whether an item qualifies for depreciation, contact your professional tax adviser or the Australian Taxation Office (ATO).

Luxury cars leased after 20 August 1996

Lessees of new or second-hand luxury cars which cost more than the depreciation cost limits given in the table on page 3 are treated as owners and are entitled to claim depreciation for those luxury cars. This applies to leases and sub-leases entered into after 20 August 1996, other than for short-term hiring agreements, and for cars that are trading stock of the lessee.

Which items can't you depreciate?

There are a few items of plant on which you cannot claim depreciation. They are:

- plant where a deduction is available under the provisions for specific landcare operations or facilities to conserve or convey water
- research and development plant unless you have elected that the research and development provisions are not to apply to that plant
- leisure facilities and boats unless, at some time in the income year, their use constitutes a fringe benefit or you used them for certain specific genuine business purposes.

Trading stock or replacement spare parts held for repairs and maintenance are not plant, except for the usual spare parts purchased with the plant as an integral part of the plant.

What is a depreciable cost?

The calculation of depreciation is generally based on the cost of the plant to you. Cost includes:

- the original purchase price or construction cost
- transport costs
- installation costs
- customs duty
- relocation costs.

The cost for depreciation purposes may differ from the cost to you of the item of plant. The cost to you is reduced to arrive at a cost for depreciation in a number of circumstances. There is, for example, a depreciation cost limit for certain motor vehicles. The cost to you is reduced where plant is acquired under a non-arm's length transaction and is greater than it would have been if you had dealt at arm's length or where you can claim part of the cost as a deduction under a provision other than a depreciation provision. The last form of adjustment prevents double deductions for expenditure on plant.

Depreciation cost limit for certain motor vehicles

Motor cars and station wagons, including four-wheel drive versions, are subject to a depreciation cost limit. This means you cannot depreciate any part of the cost of such a vehicle that is more than the limit for the year in which you first used it.

DEPRECIATION COST LIMITS FOR THE LAST 6 YEARS			
1994–95	$51 271	1997–98	$55 134
1995–96	$52 912	1998–99	$55 134
1996–97	$55 134	1999–2000	$55 134

Hire purchase arrangements

Under proposed legislation contained in Taxation Laws Amendment Bill (No. 5) 1999, hire purchasers who hire plant under hire purchase agreements entered into after 27 February 1998, and who are reasonably likely to acquire the plant, will be treated as the owners of the plant for depreciation purposes. Where this applies, the depreciable cost of the plant is limited to the agreed cost or value, or its arm's length value. Under a specific formula, the finance charge component of the hire purchase payments may be deductible over the term of the hire purchase agreement.

How do you work out depreciation deductions?

There are 2 methods of working out depreciation deductions—the diminishing value method and the prime cost method. You must choose which method to use on an item-by-item basis at the time you purchase an item.

Diminishing value method

The diminishing value method applies a percentage to the undeducted cost of the item at the start of each income year.

When you first acquire an asset, its initial undeducted cost is equal to its cost. For each subsequent year, you work out the depreciation deduction on the adjusted undeducted cost.

Diminishing value rates of depreciation are 50 per cent higher than prime cost rates. This gives higher depreciation deductions in the earlier years than under the prime cost method. However, the prime cost method gives higher depreciation deductions in later years.

EXAMPLE

Diminishing value method

Anne acquired an asset for $1000 on 1 July 1995. The relevant prime cost rate is 27 per cent, so the diminishing value rate is 40 per cent.

Annual deductions: 40 per cent X undeducted cost

Income year	*Undeducted cost—opening* $	*Depreciation deduction* $	*Undeducted cost—closing* $
1995–96	1000	400	600
1996–97	600	240	360
1997–98	360	144	216
1998–99	216	86	130
1999–2000	130	52	78

Anne continues to write off the asset until it is sold, lost or destroyed.

Prime cost method

Under the prime cost method, a percentage of the cost of the item is allowed as a deduction each year, until the item has been fully depreciated. This means the depreciation deduction is spread out evenly over time.

EXAMPLE

Prime cost method

Kevin acquired an asset costing $1000 on 1 July 1996. The relevant prime cost rate is 27 per cent.

Annual deductions: $1000 X 27% = $270

Income year	*Undeducted cost—opening* $	*Depreciation deduction* $	*Undeducted cost—closing* $
1996–97	1000	270	730
1997–98	730	270	460
1998–99	460	270	190
1999–2000	190	190	0

Can you change methods?

No. Once you adopt one method of depreciation for a particular item, you cannot change to the other method for that item. For example, if you choose the prime cost method for all or some items becoming depreciable in a particular year, you must continue with that method for those items for as long as you own them. If you purchase similar items in later years, you must still choose which method of depreciation to apply to those items. An exception to this rule is when you have chosen the prime cost method and later decide to pool the items to simplify working out your depreciation deductions. The diminishing value method is the only method allowed for pooled assets. Pages 11 and 12 tell you about pooling assets.

Assets previously used only for private purposes

If you used an asset for private purposes before you first used it for income-producing purposes—motor vehicles are a common example—you would work out depreciation from the time you first used the asset for private purposes. However, you could claim deductions only for the years you used it to produce assessable income.

If you used the diminishing value method, deductions in the first year of income-producing use would be based on the asset's undeducted cost at that time. If the asset in the diminishing value method example on page 3 was first used for business purposes in 1997–98, the depreciation deduction for that year would be $144, then $86 in the next year, and so on.

If you use the prime cost method, you can claim deductions based only on the asset's cost. Using the prime cost method example on page 3, if you used the asset solely for private purposes in the first 2 years (1996–97 and 1997–98) and after that only for business purposes, your entitlement to depreciation deductions would still end in 1999–2000. This means you are entitled to claim deductions of $270 in 1998–99 and $190 in 1999–2000.

Assets owned for only part of a year

When you acquire a depreciable item, you can depreciate it only for the part of the year that you owned it. For example, if you purchased an asset 3 months before the end of an income year, you would be entitled to 25 per cent of a full year's deduction for depreciation.

If your asset was sold, lost or destroyed during an income year, you are allowed a partial depreciation deduction for the days in that year that you owned the asset. Refer to pages 7–11 to find out what happens if you no longer own an asset.

If you purchased an asset during the year and you use one of the worksheets at the back of this publication, fill in the date you purchased the item and its cost.

Purchase of a second-hand item

You can generally claim depreciation based on the cost of the item to you. However, as indicated on page 2 in the section on depreciable cost, the Commissioner may limit this cost for working out depreciation having regard to certain matters—for example, whether the seller and purchaser are associated parties, and the market value of the plant. Before 1 July 1997 you were generally restricted to the vendor's written down value at the time you purchased it.

Depreciated items included in the sale of other property

If the depreciated item is included with the sale of other property—for example, real estate—and a separate value is not specified in the sale agreement, you can claim depreciation based on the part of the overall cost that can reasonably be attributed to the item. The ATO generally accepts independent valuations as a basis for this attribution. However, if there is no independent valuation, you may need to demonstrate that your estimate provided a reasonable value. Considerations would include the market value of the plant itself, compared to the total purchase price of the property.

How are the rates of depreciation set?

Depreciation rates are fixed by reference to the effective life of each asset. The effective life of a depreciating asset is the estimated period over which it can be used to produce income if it is maintained in good order and condition and subject to normal wear and tear. The longer the effective life of an item, the lower its depreciation rate. For example, if the estimated effective life of an asset is 20 years, its basic rate of depreciation would be 5 per cent. If the effective life is 10 years, the basic rate is 10 per cent.

Using those basic rates under the prime cost method, the cost of the item could be fully written off at the end of the estimated period of effective life.

Effective life

As mentioned above, the effective life of an asset is used to decide the rate of depreciation. You can either make your own estimate of the effective life of assets acquired during the year or adopt the effective life determined by the Commissioner.

If you decide to make your own estimate of effective life, you need to take into account:

- how long you expect the asset to last

- how you expect to use it
- whether it is likely to become obsolete
- whether the effective life is limited to the life of a particular project.

The sort of information which you could use to make an estimate includes:

- manufacturer's specifications
- independent engineering information
- your own past experience with similar assets
- the past experience of other users of similar assets.

Plant acquired before 11.45 a.m. on 21 September 1999

Even if the asset was not new when you acquired it, you are to assume that it was new when estimating its effective life. This means you cannot reduce effective life estimates because the plant is second-hand. This does not apply to plant acquired after that time.

You need to be careful when making an estimate of effective life. You have to be able to demonstrate that you took all relevant information into account and that your conclusions were reasonable.

You can choose to use the guide to effective lives published in *Taxation Ruling IT 2685*. To find out how to get this ruling, see the inside front cover. A list of effective lives for some commonly used assets starts on page 16 of this publication.

Rates of depreciation

Asset acquired after 11.45 a.m. on 21 September 1999

A number of changes were made to the depreciation system for assets acquired or commenced to be constructed after this time. The most important of them is that depreciation rates are to be fixed by reference to the effective life of each asset. This is the basic rate free of any factors that might secure a quicker write-off. Examples of effective lives for some commonly used assets start on page 16 of this publication.

Another important change that applies after this time is that you have the option to work out a new effective life depreciation rate for plant if you conclude that the effective life you have been using is no longer accurate because of changed circumstances. This does not apply to certain small business taxpayers who will retain access to accelerated depreciation under the proposed Simplified Tax System.

Examples of changes in circumstances are:

- changes in technology that make the plant redundant
- changing market developments that result in the plant being scrapped at a different time than had been determined
- use of the plant turns out to be more or less rigorous than you expected
- other factors connected with usage that prevent the plant's continued use.

A reassessed effective life of the plant will mean either an increased or decreased rate of deduction. You can vary an effective life estimate regardless of whether you originally assessed the asset's effective life or adopted the effective life determined by the Commissioner.

If you choose to use the prime cost method the rate is obtained by dividing 100 per cent by the effective life of the plant. For example, a room unit air conditioner with an effective life of 10 years translates to a rate of 10 per cent. For the diminishing value method the rate for the same item of plant is obtained by dividing 150 per cent by 10, a rate of 15 per cent.

The change requiring depreciation rates to be fixed solely by reference to the estimated effective life of an asset will not apply to the following assets acquired or commenced to be constructed after 11.45 a.m. on 21 September 1999:

- assets that cost you $300 or less*
- certain replacement assets where the cost of an original asset has not been depreciated**
- assets acquired by a small business taxpayer whose annual turnover is, on average, less than $1 million, provided the following conditions are met.
  - They must be a small business taxpayer, including at the time when they first used the plant or first had it installed ready for use.

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* These assets will continue to be subject to an immediate write-off for all taxpayers until 30 June 2000. From 1 July 2000 this concession will be available only for small business taxpayers whose annual turnover is, on average, less than $1 million.

** This applies mainly to low cost items—for example, crockery and tools—which have very long indeterminate effective lives but are likely to be replaced because of loss or breakage. Items which are eligible for this replacement method are listed in *Taxation Ruling IT 2685—Depreciation*. This replacement method applies only where immediate deductions do not.

- At least 50 per cent of the plant's intended use must be in carrying on a business for the purpose of producing assessable income.
- There must be a reasonable expectation of maintaining the small business status for the next 3 years and the plant must not be used predominantly for leasing. This does not include a hire purchase agreement or short-term hire agreement. Plant and equipment used in rental properties are not eligible for accelerated depreciation.

The exception for small business taxpayers ensures that they can continue to use the rates that were available before 21 September 1999. These rates will be determined in the same manner as for assets acquired between 27 February 1992 and 11.45 a.m. on 21 September 1999.

Asset acquired between 27 February 1992 and 11.45 a.m. on 21 September 1999

During this period the actual depreciation rate was higher than the basic rate. This was achieved by adding a 20 per cent loading to the basic rate. The rates were then broadbanded into one of 6 common rates. This provided accelerated rates of deduction for depreciation. As noted above, these accelerated rates will continue to apply after 11.45 a.m. on 21 September 1999 only for plant that small business taxpayers acquire after that time.

During this period depreciation rates were calculated according to various asset categories. Details are given on this page.

Assets in general

You can use the table below to work out the rate of depreciation for an asset according to its effective life, except for a motor vehicle, a work of art, an employee amenity or the replacement of certain assets. For instance, if the effective life is 6 years, the rates would be 27 per cent prime cost or 40 per cent diminishing value. Prime cost rates are two-thirds of diminishing value rates, rounded to the nearest whole number.

If the effective life of an asset is less than 3 years or its cost is not more than $300, the rate is 100 per cent—that is, you can deduct the full cost immediately.

YEARS OF EFFECTIVE LIFE

	Prime cost %	*Diminishing value %*
Less than 3—or cost $300 or less	100	100
3 to less than 5 years	40	60
5 to less than 6⅔ years	27	40
6⅔ to less than 10 years	20	30
10 to less than 13 years	17	25
13 to less than 30 years	13	20
30 or more years	7	10

Employees' amenities

Special minimum rates of 33 per cent prime cost or 50 per cent diminishing value apply to employees' amenities.

Employees' amenities means property used mainly to provide clothing cupboards, first aid, rest rooms, recreational facilities, cafeterias and the like for employees or for the care of the children of employees.

Motor vehicles

You can work out the rates for passenger motor vehicles, motorcycles and other vehicles designed to carry either less than 1 tonne or fewer than 9 passengers by using the following table.

YEARS OF EFFECTIVE LIFE OF MOTOR VEHICLES

	Prime cost %	*Diminishing value %*
Less than 3—or cost $300 or less	100	100
3 to less than 5 years	33	50
5 to less than 6⅔ years	20	30
6⅔ to less than 10 years	15	22.50
10 to less than 13 years	10	15
13 to less than 20 years	8	11.25
20 to less than 40 years	5	7.5
40 or more years	3	3.75

Works of art

Works of art that are originals or reproductions are assets—for example, paintings, sculptures, drawings, engravings and photographs.

Diminishing value depreciation rates for these assets are worked out by dividing 1.8 by the effective life and multiplying your answer by 100. The prime cost rate is two-thirds of that rate, rounded to the nearest whole number.

For example, a painting with an effective life of 100 years would have a diminishing value rate of 1.8 per cent and a prime cost rate of 1.2 per cent. However, the prime cost rate for an artwork with an effective life of fewer than 3 years is 100 per cent—that is, you can deduct the full cost immediately.

Other assets

An immediate deduction was also available for certain replacement assets. See *Rates of depreciation: Asset acquired after 11.45 a.m. on 21 September 1999* on page 5 for details.

Asset acquired before 26 February 1992

Different rates applied for plant purchased before 26 February 1992. Those rates are contained in *Taxation Ruling IT 2685*. As well, rates for some commonly used assets start on page 16 of this publication.

Assets used partially for producing income

You may use a depreciable asset for more than one purpose. For instance, you might use a motor car partially for business and partially for private purposes. In this case, you are allowed only a partial depreciation deduction, based on the percentage of use for income producing purposes.

Working out your deductions

If you are using the diminishing value method to work out depreciation deductions for such an asset, first work out depreciation by applying the depreciation rate to the opening undeducted cost.

The depreciation deduction you are allowed is the depreciation reduced by the percentage of non-income producing use.

Although you are not allowed a deduction for the percentage of non-income producing use of the asset, you must still work out its closing undeducted cost as if there had not been any such use. The examples on page 3 show you how to work out undeducted costs.

If you are using the prime cost method, the depreciation deduction allowable is the deduction worked out as described on page 3, reduced by the percentage of non-income-producing use of the asset. You are not allowed any further deductions once the undeducted cost of the asset reaches zero.

Balancing adjustments where you no longer own the asset

As explained in the introduction, the purpose of depreciation is to allow taxpayers to obtain deductions for the cost of an asset over the period it is used in income producing activities. Depreciation based on effective life is only an estimate that is used to spread the cost of the asset over time. When an asset on which you have claimed depreciation is sold, lost, scrapped, given away or destroyed or there is a partial change in ownership of the asset, you need to compare the termination value on the sale, loss or destruction with the asset's undeducted cost or written down value at the time.

This comparison is called a balancing adjustment. It will show whether you have recovered some or all of the depreciation you have claimed or whether you have suffered a loss. There are different rules for calculating balancing adjustments for cars that are sold, lost or destroyed, depending on which car expense method you use to claim deductions. The section *Has your car been disposed of, lost or destroyed?* on page 10 and the associated examples on page 11 explain these different rules.

The changes to the depreciation system that applied from 11.45 a.m. on 21 September 1999 included changes to the calculation of balancing adjustments. For plant disposed of after that time, including pooled plant—see the section headed *Pooling* on page 12 for details—the capital gains tax provisions will no longer apply to assess any amount as a capital gain or treat an amount as a capital loss. Those amounts will be disregarded for CGT purposes and, instead, will be treated as a further assessable balancing adjustment amount or a further deduction.

Adjustments on the sale, loss or destruction of an asset partly used for business

If an asset that you owned has been sold, lost or destroyed, you may need to work out a balancing adjustment. You will also have to work this out if you have disposed of part of your interest in the asset.

You must compare the termination value on the sale, loss or destruction of an asset—including insurance proceeds—with both the undeducted cost of the asset and its written down value. The written down value of an asset is the cost of that asset less the total depreciation deductions actually allowed.

The example on page 8 shows you how to work out written down values.

EXAMPLE

Working out adjustments on the sale of an asset only partly used for business

Elizabeth acquired an asset costing $1000 on 1 July 1998. She used it for both business and private purposes equally for 2 years. She sold the asset on 30 June 2000.

Elizabeth adopted the prime cost method to work out her depreciation. The relevant prime cost rate is 27 per cent. She would work out undeducted cost and written down value as follows:

	Undeducted cost	*Business use*	*Written down value*
	$ →	*50%* →	*$*
1.7.98 opening balance	1000		1000
Depreciation at 27%	270		135
30.6.99 closing balance	730		865
1.7.99 opening balance	730		865
Depreciation at 27%	270		135
30.6.2000 closing balance	460		730

Assessable adjustments

If an asset's termination value on disposal is more than the written down value, you must include the difference in your assessable income. In the first instance the assessable amount cannot be more than the sum of deductions actually allowed for depreciation on the asset. However, if you sell an asset after 21 September 1999, there may be a further assessable balancing adjustment amount if the termination value is more than the asset's cost. See *Asset disposed of for more than its written down value: After 11.45 a.m. on 21 September 1999* on this page for details.

EXAMPLE

If Elizabeth sold the asset for $800, she would recover $70—the amount by which the termination value is more than the written down value of $730. The amount of $70 is treated as assessable income.

No adjustments

Where the termination value is between the written down value and undeducted cost, no balancing adjustment is required.

EXAMPLE

If Elizabeth sold the asset for $700, there would be no adjustment because the termination value is less than the written down value of $730 but greater than the undeducted cost of $460.

Deductible adjustments

Where the termination value is less than both the written down value and undeducted cost,
the difference between the termination value and the undeducted cost represents a deduction. However, you are eligible for a deduction only for the percentage of business or other income-producing use of that asset.

EXAMPLE

If she sold the asset for $400, Elizabeth could claim a deduction of $30—that is, 50 per cent of the amount by which the undeducted cost of $460 exceeds the termination value.

If you sell an asset after 21 September 1999, you will be eligible for a further deduction if the undeducted cost is also less than the reduced cost base. You do not reduce this further deduction to reflect any non-income producing use of that asset. The meaning of 'reduced cost base' is explained in the publication *Guide to capital gains tax.*

Asset disposed of for more than its written down value

Before 11.45 a.m. on 21 September 1999

If the termination value for an asset is more than its written down value, the excess, up to the total amount of depreciation deductions you have claimed, is treated as assessable income.

If the termination value on sale, loss or destruction of an asset is more than its cost, you may be liable for capital gains tax on that excess. The publication *Guide to capital gains tax* has more information. To find out how to get this publication, see the inside front cover.

After 11.45 a.m. on 21 September 1999

If the termination value for an asset is more than its written down value, the excess, up to the total amount of depreciation deductions you have claimed, is treated as assessable income.

If the termination value is more than its cost, that excess is also treated as assessable income by way of a balancing adjustment. The excess is still an assessable balancing adjustment amount even if no depreciation has been claimed for the plant, or where the asset disposed of is an incomplete unit of plant—for example, if it is completed and disposed of before it is used in producing income, or where the plant is destroyed before completion.

Where the asset was acquired before 21 September 1999, this additional balancing adjustment amount will be limited to the difference between the termination value and the asset's cost base at the time of the disposal, adjusted for any indexation up until 30 September 1999. This preserves the benefit of cost base indexation to that date. Where the asset was acquired after 21 September 1999, the full amount by which the termination value exceeds the original cost of the asset is included in income as a balancing adjustment. However, the excess is not assessable if the asset is used to produce exempt income, or it is a car, a collectable or was acquired before 20 September 1985. This exclusion from the balancing adjustment provisions preserves the existing exclusion of those assets from the capital gains tax provisions.

Asset disposed of for less than its undeducted cost

Before 11.45 a.m. on 21 September 1999

If the termination value for an asset is less than its undeducted cost, you may claim a deduction for the difference—reduced to reflect any use you made of the plant for a non-income-producing purpose—in the income year you dispose of the asset.

After 11.45 a.m. on 21 September 1999

If the termination value for an asset is less than its undeducted cost you may claim a deduction for the difference, reduced to reflect any use you made of the plant for a non-income producing purpose.

If the undeducted cost is also less than the reduced cost base, you can claim a further deduction for the difference. However, this further deduction is not reduced to reflect any non-income producing use.

The following examples show you how to work out adjustments.

EXAMPLE

Asset disposed of before 11.45 a.m. on 21 September 1999

	Example A	*Example B*	*Example C*
	$	*$*	*$*
Original cost of asset	1000	1000	1000
Undeducted cost	500	500	600
Written down value	600	600	600
Termination value (sale price) *	1200	800	400
Assessable recovery (deductible loss)	400	200	(200)

* In example A, the amount by which the termination value ($1200) is more than the cost of the asset ($1000) could be liable to capital gains tax.

EXAMPLE

Asset disposed of after 11.45 a.m. on 21 September 1999

	Example A	*Example B*	*Example C*
	$	*$*	*$*
Original cost of asset	1000	1000	1000
Undeducted cost	500	500	600
Written down value	600	600	600
Termination value (sale price) *	1200	800	400
Indexed cost base 30/9/1999	1100		
Reduced cost base			650
Assessable recovery* (deductible loss)	500	200	(250)

* In example A, the amount by which the termination value ($1200) exceeds the indexed cost base of the asset ($1100) is included as a further balancing adjustment. If you acquired the asset after 21 September 1999, include the full amount by which the termination value ($1200) exceeds the cost ($1000) as a further balancing adjustment.

In example C the amount by which the reduced cost base ($650) exceeds the undeducted cost ($600) is an additional deductible loss.

Alternative treatments of assessable adjustments

Assets disposed of before 11.45 a.m. on 21 September 1999

There are 3 different forms of balancing adjustment relief that may be available where a balancing adjustment amount would otherwise be included in your assessable income:

- balancing adjustment offsetting—not available for depreciable plant disposed of after 11.45 a.m. on 21 September 1999
- application of a concessional rate of tax where income includes a balancing adjustment amount and the relevant disposal of the plant causes cessation of a business—not available for pooled plant, or to companies other than corporate trustee companies
- balancing adjustment roll-over relief.

Instead of including assessable adjustments in your assessable income, you can use them to successively reduce:

- the cost of replacement items acquired during the year
- the cost of other items purchased during the year
- the undeducted cost of other items on hand at the beginning of the year.

This is called offsetting.

You can choose these alternative treatments for replacement or other items of plant only if they are used wholly for producing assessable income. Alternative adjustments are taken to have been made on the first day of the income year in which the assessable adjustment would have taken place if you had chosen not to adopt an alternative treatment.

Where balancing adjustment offsetting is made against the undeducted cost of an item of plant that you depreciate using the prime cost method, the adjustment must also be made against the cost of the plant.

If you do not choose any of these options and you purchase a replacement asset within 2 income years after the income year in which you disposed of the original asset, you can request that the assessable adjustment be excluded from your taxable income and that it be used instead to reduce the undeducted cost of the replacement asset.

These alternatives cease to apply from 11.45 a.m. on 21 September 1999 except for certain small business taxpayers.

Assets disposed of after 11.45 a.m. on 21 September 1999

Where an asset is lost or destroyed or an Australian government acquires it compulsorily or by forced negotiation, instead of including the balancing adjustment in your assessable income you can use it to reduce the cost of replacement plant, provided it is used wholly for producing assessable income. Small business taxpayers can opt for the relief provided by this alternative only if they have not chosen from one of the alternatives mentioned in the earlier section headed *Alternative treatments of assessable adjustments: Assets disposed of before 11.45 a.m. on 21 September 1999.*

There are time limits for obtaining replacement plant. You can obtain it no earlier than one year before the time of the balancing adjustment event and no later than one year after the end of the income year in which the event occurred. The Commissioner can agree to extend the time limit.

Has your car been disposed of, lost or destroyed?

If so, you may need to work out a balancing adjustment. The examples show you how to do this. Use this method of working out your balancing adjustment if you use the one-third of actual expenses method or the logbook method of claiming car expenses. If you use the cents per kilometre method or the 12 per cent of original value method of claiming car expenses you will not have to work out a balancing adjustment because those methods do not result in depreciation deductions. If you switch between these methods you may have to follow special rules to work out your balancing adjustment.

Where a car subject to the depreciation cost limit described on page 2 is disposed of, lost or destroyed, the termination value is adjusted. It is reduced to an amount determined by multiplying the termination value by the fraction calculated when you divide the depreciation limit for that car by the original cost of the car.

The calculation of balancing adjustments for cars is not affected by the depreciation changes that applied from 11.45 a.m. on 21 September 1999.

EXAMPLE

Switching between the one-third of actual expenses method and the logbook method

Dennis acquired a car on 1 July 1996 for $20 000. He elected to use the prime cost method (PC) to work out the depreciation on his car. During 1996–97 and 1997–98, Dennis used the one-third of actual expenses method to work out the deduction for his car expenses. In 1998–99, he switched to the logbook method. His logbook showed that Dennis used the car for business purposes for 40 per cent of the time.

On 1 July 1999—that is, in the 1999–2000 income year—Dennis disposed of the car for $15 000. He worked out the car's undeducted cost and written down value—one-third of the notional amount for the first 2 years then 40 per cent for the third year—as follows:

	Undeducted cost $		*Written down value* $
Cost of car	20 000		20 000
Depreciation for 1996–97 ($20 000 X 15% PC)	3 000	→ 1/3 →	1 000
	17 000		19 000
Depreciation for 1997–98 $20 000 X 15% PC)	3 000	→ 1/3 →	1 000
	14 000		18 000
Depreciation for 1998–99 ($20 000 X 15% PC)	3 000	→ 40% →	1 200
Closing balance	**11 000**		**16 800**

The balancing adjustment, which usually gives either a further assessable income amount or a deduction, in this example is nil, as the termination value of the car falls between the written down value of $16 800 and the undeducted cost of $11 000.

If Dennis had sold the car for more than the written down value—say for $19 000—he would have to include in his assessable income the difference between $19 000 and the written down value of $16 800—that is, $2200.

If he had sold the car for less than the undeducted cost—say for $10 000—he would be allowed a deduction of $356 [($11 000 – $10 000) X ($3200 ÷ $9000)], where $3200 is the sum of all actual depreciation ($1000 + $1000 + $1200) and $9000 is the sum of all notional depreciation ($3000 + $3000 + $3000).

EXAMPLE

Using either the one-third of actual expenses method or the logbook method

Louise acquired a car on 1 July 1997 for $26 000. She elected to use the diminishing value method (DV) to work out the depreciation on her car. During both 1997–98 and 1998–99, Louise used the one-third of actual expenses method to work out the deduction for her car expenses.

On 1 July 1999—that is, in the 1999–2000 year—Louise disposed of the car for $24 500. She worked out the car's undeducted cost and the written down value—one-third of the notional amount—as follows:

	Undeducted cost $		*Written down value* $
Cost of car	26 000		26 000
Depreciation for 1997–98 ($26 000 X 22.5% DV)	5 850	→ 1/3 →	1 950
	20 150		**24 050**
Depreciation for 1998–99 ($20 150 X 22.5% DV)	4 534	→ 1/3 →	1 511
Closing balance	**15 616**		**22 539**

The balancing adjustment in this example is $1961 ($24 500 – $22 539). Louise must include the amount of $1961 in her assessable income.

If Louise had sold her car for an amount between the written down value and undeducted cost—say for $19 000—there would be no balancing adjustment.

If she had sold the car for less than the undeducted cost—say for $15 016—she would be allowed a deduction of $200 [($15 616 – $15 016) X ($3461 ÷ $10 384)], where $3461 is the sum of all actual depreciation ($1950 + $1511) and $10 384 is the sum of all notional depreciation ($5850 + $4534).

If you use either the one-third of actual expenses method or the logbook method for one period after you begin using the car, and for another period you use either the cents per kilometre method or the 12 per cent of original value method, you have to reduce your balancing adjustment to reflect the extent to which you used each method. This is only expected to occur in a limited number of cases. If you are affected, and you are unsure of how to work out your balancing adjustment, contact the Australian Taxation Office (ATO) or your professional tax adviser.

Limited recourse debt terminations

Under proposed legislation contained in Taxation Laws Amendment Bill (No. 5) 1999, when plant is acquired under a limited recourse debt arrangement—including hire purchase—which terminates after 27 February 1998 and part of the hire purchase or debt principal remains unpaid, an adjustment to assessable income may be required. The adjustment is equal to the amount by which the total amount of the deductions allowed for the plant under the depreciation provisions exceeds the total amount of the deductions that would be allowable if based on actual outlays. If you are not sure how to work out your adjustment to assessable income, contact the ATO or your professional tax adviser.

Pooling

Since 1991–92, taxpayers have had the option of combining assets that have the same depreciation rates so that they can make a single calculation of deductions. This is known as pooling and the following rules apply.

- Depreciation deductions for pooled assets are worked out using the diminishing value method only.
- Assets depreciated at certain special prime cost rates cannot be pooled—for example, assets being depreciated under one of the repealed 5/3 concessions cannot be pooled as they were prime cost systems only.
- Assets acquired part way through an income year cannot be pooled until the beginning of the next year.
- Assets can be pooled regardless of when they were acquired or whether they were previously depreciated under the prime cost method.
- Assets can be pooled only if they are used exclusively for income-producing or business purposes.
- When assets are pooled, their balance of undeducted costs is simply added to the opening balance of the pool at the beginning of the year.
- An asset can be taken out of a pool by deducting its reconstructed undeducted cost at the start of the year from the opening balance of the pool. The reconstructed undeducted cost is the amount that would have been the undeducted cost of the asset if it had never been pooled.
- Depreciation deductions for assets taken out of a pool can be worked out only by using the diminishing value method, even if the prime cost method was used before the asset was placed into the pool.

On the disposal of a pooled asset, the following options are available.

- Take the asset out of the pool as described above, and treat the difference between any termination value and the undeducted cost or written down value as shown in the examples on page 9. This treatment will depend on whether the disposal was before or after 11.45 a.m. on 21 September 1999—see details on page 9.
- Leave the undeducted value of the asset in the pool and either treat the lesser of the asset's termination value and its cost as assessable income or use that amount in one or more of the alternative treatments explained on page 10.

Commercial debt forgiveness

Generally, an amount which you owe is a commercial debt if you can claim a deduction for the interest paid on the debt, or you would have been able to claim a deduction for interest if it had been charged. The amount of the commercial debt includes any unpaid interest.

If your commercial debts are forgiven you may choose, or be required, to reduce the base amount used in working out depreciation on an item of plant you acquired before the year of income in which your commercial debts were forgiven. The amount used to reduce the base amount is taken to be an amount you have deducted for depreciation of the plant as at the first day of the same income year in which your debts were forgiven.

If you use the prime cost method, the base amount—that is, the cost—is reduced by the amount forgiven before you work out depreciation for the year in which the debt is forgiven.

If you use the diminishing value method, the undeducted cost of the item of plant at the start of the year in which the debt is forgiven is reduced by the amount forgiven before you work out depreciation for that year.

EXAMPLE

How to work out depreciation taking into account the amount of a debt forgiven

	Prime cost 20% $	*Diminishing value 30%* $
Plant purchased 1 July 1997	40 000	40 000
Depreciation	8 000	12 000
Undeducted cost at 30 June 1998	32 000	28 000
Depreciation	8 000	8 400
Undeducted cost at 30 June 1999	24 000	19 600

During 1999–2000, your commercial debt is forgiven and, subject to the debt forgiveness provisions, you choose to reduce the base amount of depreciable plant by $10 000 of the debt forgiven. In working out your depreciation using the prime cost method, your base amount is reduced from $40 000 to $30 000. Depreciation will be $6000 for 1999–2000 and later years—that is, 20 per cent of $30 000.

In working out your depreciation using the diminishing value method, your undeducted cost at the commencement of 1999–2000 is reduced from $19 600 to $9600. You work out depreciation at 30 per cent on this reduced undeducted cost.

	Prime cost 20% $	*Diminishing value 30%* $
Reduced undeducted cost at 1 July 1999	14 000	9 600
Depreciation	6 000	2 880
Undeducted cost at 30 June 2000	8 000	6 720

Computer software

This section outlines the software provisions introduced by the *Taxation Laws Amendment (Software Depreciation) Act 1999*. The measures, announced in the 1998–99 Federal Budget, cover both systems and application software.

After 10 a.m. AEST on 11 May 1998, expenditure you incur on software is to be depreciated, subject to certain modifications and transitional provisions, under the depreciation provisions that apply to plant. Prior to that date expenditure on software, in accordance with *Taxation Ruling IT 26* (withdrawn 11 May 1998), was generally an allowable deduction in the year you incurred the expenditure, even though most software had a reasonably long life.

In applying the depreciation provisions to software, the references to 'its cost to you' for plant are to be read as references to 'your expenditure on software'.

If you can claim software costs under the software depreciation provisions then you cannot deduct the costs under any other provision. There are, however, 3 exceptions to this. The provisions do not apply to expenditure on software if it is, or is part of, trading stock or you can get a more favourable deduction under another capital allowance provision—for example, under the mining exploration and prospecting provisions.

The provisions do not apply to manufacturers, distributors or developers of software whose principal purpose is to sell or license the software, unless they are not able to obtain a deduction under any other provision or section.

Meaning of software

Software means a right, including a licence, to use software. Expenditure on software includes expenditure you incur on acquiring or developing software, or in having another person develop software, principally for you to use to perform the functions for which you acquired or developed it.

Expenditure on software for depreciation purposes excludes expenditure that does not involve substantial improvements to the software. Under the software depreciation provisions, you cannot claim a deduction for expenditure on maintenance, testing, code reviews, minor alterations or modifications, or remedying defects.

Where you acquire software with, or attached to, other assets such as units of hardware and the software does not have a specific value, you can claim a deduction for expenditure that is reasonably attributable to the software.

Depreciation of software

The general depreciation provisions applying to plant are modified for expenditure on computer software. The modifications include the following.

- You must use the prime cost method for calculating the depreciation claim.
- The general rates for years of effective life listed on page 6 do not apply to software and the full cost is not an immediate deduction where the effective life is less than 3 years.

- The effective life of all software is $2\frac{1}{2}$ years and the depreciation rate is 40 per cent.
- Expenditure in relation to software projects is capitalised and depreciated from the time you use the software or install it ready for use.
- The low cost limit of $300 continues to apply to units of software unless the total cost of that unit of software and any other substantially identical software acquired in the same income year exceeds $300.
- Pages 7–10 explain what happens to plant which is disposed of, lost or destroyed. A deductible adjustment is also available for software where you permanently cease to use it and do not have it installed ready for use.

  If you have a right to use software, the deductible adjustment occurs if it is reasonable to expect that you will never obtain a subsequent right to use the underlying software. The termination value will generally be nil unless you receive consideration as a result of the termination.
- Software can be pooled but not under the pooling provisions that apply to plant.
- Expenditure on software incurred before 1 January 2000 that had the principal purpose of ensuring that an existing computer system attained year 2000 (millennium bug) compliance can be deducted immediately. If that was not the principal purpose then you can deduct only the expenditure relating to year 2000 compliance.
- You can claim an immediate deduction for the unrecouped expenditure on software that you will never use or install ready for use, unless the expenditure is in the software pool.

You are allowed deductions for year 2000 compliance expenditure and software that will never be used only to the extent that, when you incurred the expenditure, the software was to be used or installed ready for use to produce assessable income.

Taxation Ruling TR 98/13 explains when expenses incurred in making computer systems and computer operated equipment year 2000 (Y2K) compliant may be deductible. It also explains the meaning of repairs to or maintenance of software. To find out how to get this ruling, see the inside front cover.

Pooling software

You can use the software pooling method only for expenditure you incur in developing software, or having another person develop software, for your own use and wholly to produce assessable income. Once you elect to use this method it will apply, subject to the transitional provisions, to all software development expenditure incurred in the income year for which you elected the pooling method and in later years. You cannot revoke the election.

You cannot pool year 2000 compliance expenditure or expenditure on low cost software that can be claimed immediately. The previous section, *Depreciation of software*, explains how to claim depreciation on these categories of software.

Under the pooling method you cannot depreciate software in the year you incur the expenditure. You are allowed deductions at the rate of 40 per cent in each of the following 2 years and 20 per cent in the third year.

Software development expenditure on a project that is abandoned continues to be depreciated as part of the pool. There is no balancing adjustment.

You include in assessable income any consideration received for software for which expenditure has been pooled. Examples include consideration received for:

- disposal of software
- granting of a licence to use the software
- loss or destruction of software—insurance proceeds.

Transitional provisions

For the pooling method there are 2 transitional arrangements:

- Where you elected in the first income year after 11 May 1998 to pool software development expenditure, the election may also apply from 11 May 1998.
- Where you elected to pool for the first income year after 11 May 1998 you will be able to elect out of the software pooling method in the second income year after 11 May 1998. This is the only exception to the once-only election for pooling expenditure.

  Once you have elected out of pooling, under the arrangements you cannot then elect to use the pooling method at a later time.

GST related expenditure

An immediate deduction for the cost of plant or software acquired or upgraded to prepare for the commencement of GST is also allowable if:

- you incur the expenditure between 1 July 1999 and 30 June 2000

- you are carrying on a business that has an annual turnover of not more than $10 million
- you use the new plant or software or have it installed ready for use during the period 1 July 1999 to 30 June 2000
- one of the reasons you acquired or upgraded plant was to prepare for the commencement of GST
- your business is registered for GST immediately before 1 July 2000.

For example, you already have a computerised system. You buy new software and upgrade existing software during the 1999–2000 income year to be able to comply with GST and PAYG obligations. You have to buy a new computer in April 2000 as your existing computer hardware is not capable of operating the new software efficiently. The cost of the new and upgraded software and the computer is immediately deductible.

Submarine cables

This section outlines the indefeasible right of use (IRU) and submarine cable systems provisions contained in the *New Business Tax System (Capital Allowances) Act 1999*.

The new law applies where you incur expenditure on IRUs over new cables after 11.45 a.m. on 21 September 1999—regardless of when the contract to acquire the IRU was entered into—provided the cable has not previously been used for communication purposes. An IRU is treated as if it were plant. You are allowed depreciation deductions for the cost of acquiring an indefeasible right to use capacity in an international telecommunications submarine cable system over the effective life in years of the submarine cable.

The granting of an IRU is treated as a disposal by the granter of an ownership interest in an asset. The grantee of the right is able to deduct the capital cost of the IRU as a depreciation deduction. A balancing adjustment is required on full disposal of an IRU; you cannot elect for roll-over relief on an IRU. Special rules are used to calculate written down value, undeducted cost and the depreciation rate when you dispose of part of an IRU for which you have deducted a depreciation amount.

As the IRU will be treated as plant, the holder will have the choice of using either the prime cost or diminishing value methods. The depreciation rate percentage for the diminishing value method is 150 per cent divided by the cable's effective life. For the prime cost method, it is 100 per cent divided by the cable's effective life.

You can start to deduct an amount for depreciation of an IRU in the year in which you first exercise the right to use the allocated capacity of the cable for income producing purposes.

Record keeping

If you claim a deduction for depreciation in your tax return, you must keep the following information:

- the undeducted cost and written down value of each asset at the start of the income year
- the cost and the date you first used, or installed ready to use, each additional asset you acquired during the income year
- where you dispose of an asset during the year, the cost and sale price, dates of acquisition and disposal and the undeducted cost and written down value of the asset
- the adjustments made to cost, undeducted cost and written down value
- details of balancing charge relief including the alternative treatment of assessable adjustments
- the rate and amount of depreciation claimed for each asset
- the undeducted cost and written down value of each asset at the end of the income year.

To help you keep this information, we have provided depreciation worksheets at the back of this publication. You may make photocopies. Do not attach any worksheets to your tax return but keep them with your other tax records.

You must also keep:

- details of the basis of your estimates of effective life where you have not adopted the life periods determined by the ATO
- original documents such as suppliers' invoices and receipts for expenditure on plant.

You must keep the information and records for the entire period over which you depreciate an item and for a further 5 years from the date of your last claim. The 5 years starts on either 31 October or the date you lodge your tax return, whichever is the later. This period is extended if, at the end of the 5 years, you are in a dispute with the ATO that relates to the depreciation claim.

EXTRACT FROM *TAXATION RULING IT 2685*—EFFECTIVE LIFE AND DEPRECIATION RATES FOR ASSETS ACQUIRED ON OR BEFORE 11.45 A.M. ON 21 SEPTEMBER 1999*

		Acquired pre-27.2.92		*Acquired post-26.2.92*	
Item	*Effective life in years*	*Prime cost %*	*Diminishing value %*	*Prime cost %*	*Diminishing value %*
Air-conditioners:					
– ducted	15	9	13.5	13	20
– room units	10	12	18	17	25
Alarms	20	6	9	13	20
Calculators, electronic	10	12	18	17	25
Carpets, business premises	5	24	36	27	40
Cash registers:					
– general	10	12	18	17	25
– computerised	7	18	27	20	30
Computers	5	24	36	27	40
Curtains and drapes	7	18	27	20	30
Electric hand tools	5	24	36	27	40
Electric vacuum cleaners	10	12	18	17	25
Furniture	15	9	13.5	13	20
Hot water services	20	6	9	13	20
Libraries	10	12	18	17	25
Lights, fluorescent	20	6	9	13	20
Loose hand tools	You can claim full replacement costs				
Motor vehicles:					
buses					
– carry 9 or more	7	18	27	20	30
– carry fewer than 9	7	15	22.5	15	22.5
cars					
– taxis	4	33.3	50	33	50
– other	7	15	22.5	15	22.5
trucks					
– carry 1 tonne or more	7	18	27	20	30
– carry less than 1 tonne	7	15	22.5	15	22.5
Photocopiers	10	12	18	17	25
Television sets	10	12	18	17	25
Typewriters	10	12	18	17	25
Washing machines	7	18	27	20	30

* For assets acquired after 11.45 a.m. on 21 September 1999, the prime cost percentage is 100 divided by effective life and the diminishing value percentage is 150 divided by effective life.

This does not apply to small business taxpayers.

EXTRACT FROM *TAXATION RULING IT 2685* (continued)—EFFECTIVE LIFE AND DEPRECIATION RATES FOR ASSETS ACQUIRED ON OR BEFORE 11.45 A.M. ON 21 SEPTEMBER 1999*

		Acquired pre-27.2.92		*Acquired post-26.2.92*	
Item	*Effective life in years*	*Prime cost %*	*Diminishing value %*	*Prime cost %*	*Diminishing value %*
Houses and flats let furnished:					
bedding	You can claim full replacement costs				
blind, venetian	20	6	9	13	20
carpets	10	12	18	17	25
chainsaw	3	40	60	40	60
crockery, cutlery, glassware, cooking utensils	You can claim full replacement costs				
curtains and drapes	7	18	27	20	30
electric bed	15	9	13.5	13	20
electric clock	15	9	13.5	13	20
electric heater	10	12	18	17	25
furniture and fittings	15	9	13.5	13	20
garbage unit, compacting	7	18	27	20	30
hot water service	20	6	9	13	20
lawn mowers:					
– motor	7	18	27	20	30
– self-propelled	5	24	36	27	40
linen	You can claim full replacement costs				
linoleum and similar floor coverings	10	12	18	17	25
microwave ovens	7	18	27	20	30
radios	10	12	18	17	25
refrigerators	15	9	13.5	13	20
Solahart	20	6	9	13	20
stoves	20	6	9	13	20
sun louvres			Nil		
television sets	10	12	18	17	25
vacuum cleaners	10	12	18	17	25
washing machines	7	18	27	20	30

* For assets acquired after 11.45 a.m. on 21 September 1999, the prime cost percentage is 100 divided by effective life and the diminishing value percentage is 150 divided by effective life.

This does not apply to small business taxpayers.

Depreciation worksheet—use a new worksheet each year

Primary production only ☐ **Non-primary production only** ☐

Date of addition or adjust-ment	Description of each unit	Adjustments: Details	Adjustments: Amount	Cost of plant less adjustments	Opening written down value *	Opening undeducted cost #	Disposals: Date	Disposals: Termination value	Disposals: Balancing adjustments: Assessable income	Disposals: Balancing adjustments: Deductible	% Rate	Depreciation: Prime cost	Depreciation: Diminishing value	% Non-business use	Deductible amount	Closing written down value *	Closing undeducted cost
				Totals ▶													

Less relief offsets against other plant ▶

Amount to be returned as income (do not deduct from depreciation) ▶

◀ Deduct for private use

◀ Amount to be claimed as a deduction (do not include in *Total depreciation*)

◀ Total depreciation

* The written down value of plant is its original cost less the sum of allowable depreciation deductions. For plant that has had no private or non-income-producing use since acquisition, the written down value will equal the undeducted cost.

\# Opening undeducted cost is the closing undeducted cost from the previous year less adjustments.

Depreciation worksheet—use a new worksheet each year

Primary production only ☐ **Non-primary production only** ☐

		Adjustments					Disposals				Depreciation						
									Balancing adjustments								
Date of addition or adjust-ment	Description of each unit	Details	Amount	Cost of plant less adjustments	Opening written down value *	Opening undeducted cost #	Date	Termination value	Assessable income	Deductible	% Rate	Prime cost	Diminishing value	% Non-business use	Deductible amount	Closing written down value *	Closing undeducted cost
				Totals ▶													
								Less relief offsets against other plant ▶			◀ Deduct for private use					◀ Total depreciation	
								Amount to be returned as income (do not deduct from depreciation) ▶			◀ Amount to be claimed as a deduction (do not include in *Total depreciation*)						

* The written down value of plant is its original cost less the sum of allowable depreciation deductions. For plant that has had no private or non-income-producing use since acquisition, the written down value will equal the undeducted cost.

\# Opening undeducted cost is the closing undeducted cost from the previous year less adjustments.

Depreciation worksheet—use a new worksheet each year

Primary production only ☐ **Non-primary production only** ☐

Date of addition or adjust-ment	Description of each unit	Adjustments		Cost of plant less adjustments	Opening written down value *	Opening undeducted cost #	Disposals				Depreciation			% Non-business use	Deductible amount	Closing written down value *	Closing undeducted cost
		Details	Amount				Date	Termination value	Balancing adjustments		% Rate	Prime cost	Diminishing value				
									Assessable income	Deductible							
				Totals ▶													

Less relief offsets against other plant ▶ ◀ Deduct for private use ◀ Total depreciation

Amount to be returned as income (do not deduct from depreciation) ▶ ◀ Amount to be claimed as a deduction (do not include in *Total depreciation*)

* The written down value of plant is its original cost less the sum of allowable depreciation deductions. For plant that has had no private or non-income-producing use since acquisition, the written down value will equal the undeducted cost.

\# Opening undeducted cost is the closing undeducted cost from the previous year less adjustments.

GUIDE TO DEPRECIATION

1999 – 2000

NAT 1996—06.2000