

# DEPRECIATION

## 1. Rule

- a. An entity can deduct the decline in value of a depreciating asset that is held during the year (s 40-25(1) ITAA97)
- b. To the extent that it is used for a taxable purpose (s 40-25(2) ITAA97)
  - i. Producing assessable income (s 40-25(7) ITAA97)

## 2. Is [asset] a depreciating asset?

- a. Depreciating asset if it has a limited effective life and can reasonably be expected to decline in value over its use (s40-30(1) ITAA97)
- b. Excludes:
  - i. (1)(a) Land
  - ii. (1)(b) Trading stock
  - iii. (1)(c) Intangible assets (other than IP i.e. mentioned in s40-30(2))
  - iv. Less than \$300 –can depreciate all in year one (s.40-80(2) ITAA97)
  - v. Second hand assets acquired after 9 May 2017 used in residential premises are not deductible (s 40-27 ITAA97)

## 3. Has [asset] been held?

- a. The holder is the legal owner (Item 10 s 40-40 ITAA97)
- b. If equitable and legal owner, holder is legal owner (Item 10 s 40-40 ITAA97)

## 4. Decline in value

- a. Depreciation method
  - i. Choice of method
    1. You can choose method (s40-165 ITAA97). Once method is chosen for asset, it cannot be changed (s 40-130 ITAA97)
  - ii. Prime cost method (s 40-75)
    1. Asset's cost x (days held/365) x (100%/effective life)
  - iii. Diminishing value method (acquisition **pre** 10 May 2006) (s40-70)
    1. Base value x (days held/365) x (150%/effective life)
  - iv. Diminishing value method (acquisition **post** 10 May 2006) (s40-72)
    1. Base value x (days held/365) x (200%/effective life)
- b. Days held
  - i. Start time = When you start using or install the asset (s 40-60 ITAA97)
  - ii. Days held includes day you sold it
- c. Asset's effective life
  - i. Can self assess under s40-105 (s40-95 ITAA97)
  - ii. Or use commissioners determination under s40-100
- d. Asset's cost
  - i. Two elements (s40-175 ITAA97)
    1. Amount paid for asset (s40-180)
      - a. Or greater of amount paid (incl non-cash) vs market value (s40-185 ITAA97)
    2. Amount paid for economic benefit contributed (s40-190)
      - a. E.g. transport, installation, improvement
    3. Exclusions
      - a. **Price reduced by ITCs available (s27-80 ITAA97)**
      - b. Car limit of \$57,581 (s40-230 ITAA97)
- e. Base value
  - i. Asset cost or opening adjustable value (s40-85 ITAA97)

## 5. Balancing Adjustment Event

- a. Is subdivision 40-D enlivened
  - i. If a balancing adjustment event has occurred (s 40-295 ITAA97)
    - 1. Stops holding asset (sells or loses)
    - 2. Stops using and expects to never use it again
- b. Termination value
  - i. Amount received if sold / market value if stop using / insurance value if lost (s 40-300; 40-305 ITAA97)
  - ii. Take out GST
- c. Adjustable value
  - i. Cost, less decline in value (s40-85 ITAA97)
- d. Effect
  - i. If termination value is more than adjustable value, include excess In assessable income (s 40-285(1))
  - ii. If termination value is less than adjustable value, the difference is deductible (s 40-285(2))
- e. Exception
  - i. Roll over relief for CGT event (s 40-340)
  - ii. Roll over relief for involuntary disposal (s 40-365)

## 6. Business related Black Hole expenditure

- a. Rule
  - i. Capital expenditure that relates to a business the TP carries on for the purpose of producing assessable income is deductible (s40-880)
  - ii. Even though it falls outside scope of other deductions
    - 1. E.g. legal expenses for unsuccessful takeover bid
    - 2. Settling litigation against you that was capital in nature
- b. Application
  - iii. Will be deductible over 5 years in equal portions
  - iv. Excludes (s40-880(5) ITAA97):
    - 1. It forms part of cost of depreciating asset
    - 2. Land
    - 3. Lease
    - 4. A profit scheme
    - 5. It would be part of the cost base of CGT
    - 6. Private or domestic nature