

ezytax
BLUE

chapter 3a
depreciation



CHAPTER 3A

DEPRECIATION and LOW VALUE POOL

DECLINE IN VALUE – DEPRECIATION

Under income tax law, the taxpayer is allowed to claim deductions for expenses incurred in earning taxable income – for example, recurring expenses such as union fees, mobile telephone charges and uniforms. Some expenses such as the cost of acquiring capital assets, are not allowable as a deduction under section 8-1 (1) of the ITAA 1997. Capital assets are those that provide a benefit over a number of years – for example, motorcars, computers and machinery.

The value of a capital asset that provides a benefit over a number of years declines over its effective life. In recognition of this fact, the cost of capital assets used in gaining taxable income can be written off over a period of time as tax deductions.

The **decline in value** provisions also apply to expenditure on computer software. Software includes the license to use it.

Before 1 July 2001, the cost of **plant** (for example, cars and machinery) and software was written off as **depreciation** deductions.

From 1 July 2001, the uniform capital allowance system (UCA) applies to most depreciating assets. Under the UCA, deductions for the cost of a depreciating asset are based on the **decline in value** of the asset.

A depreciating asset is an asset that has a limited effective life and can reasonably be expected to decline in value over the time it is used.

The following are some examples of depreciating assets that may be held:

- computers
- electrical tools
- furnishings
- carpet and curtains, and
- motor vehicles.

The decline in value of a depreciating asset can be worked out using either the “**prime cost**” or “**diminishing value**” method. Both methods are based on the effective life of an asset. For most depreciating assets, a choice of whether to self-assess the effective life or adopt the Commissioner’s determination needs to be made.

Effective life schedule can be found on the ATO website:

<https://www.ato.gov.au/law/view/document?docid=TXR/TR20203/NAT/ATO/00001>

Or can be found in the Templates folder > Depreciation Effective Life Schedule.

Deductions for the cost of depreciating assets, including those acquired before 1 July 2001, are now worked out using the UCA rules. A deduction of an amount for the **decline in value** of a **depreciating asset** held to the extent that it is used for a **taxable purpose**.

Under the UCA, there are a number of steps in working out the deduction for the decline in value of a depreciating asset:

- Is the asset a depreciating asset covered by the UCA?
- Does the taxpayer hold the depreciating asset?
- Has the depreciating asset started to decline in value?
- What method will be used to estimate decline in value?
- What is the effective life of the depreciating asset?
- What is the cost of the depreciating asset?
- Must the deduction be reduced for any non-taxable use?

Some of these steps do not apply:

- if an asset has been allocated to a low value pool
- if an immediate deduction can be claimed for the asset

DEFINITIONS

The UCA introduces a number of new terms and concepts, and adopts some from the former capital provisions. All these terms are explained in this chapter can compare with those used in the former depreciation rules in the table below:

Former depreciation rules	UCA
Plant	Depreciating asset
Own	Hold
Cost	First element and second element of cost
Luxury car limit	Car limit
Income-producing use	Taxable purpose
-	Start time
Depreciation	Decline in value
Undeducted cost	Adjustable value
OWDV (opening written down value)	Opening adjustable value
CWDV (closing written down value)	Closing adjustable value
Sale	Termination

Depreciating asset

A depreciating asset is an asset that has a limited effective life and can reasonably be expected to decline in value over the time it is used.

Hold

Only a **holder** of a depreciating asset may deduct an amount for its decline in value. In most cases, the legal owner of a depreciating asset will be its holder.

There may be more than one holder of a depreciating asset – for example, joint legal owners of a depreciating asset are all holders of that asset. Each person's interest in the asset is treated as if it were itself the depreciating asset. Each would estimate their deduction for decline in value according to their interest – for example, at the cost of the interest to them, not the cost of the asset itself – and according to their use of the asset.

First element of cost

The first element of cost is, broadly, the amount paid (money and/or the market value of property given) or the amount taken to have been paid to hold the asset. It includes any additional amounts spent on transporting the asset or installing it in position. It is worked out at the time the taxpayer begins to hold the asset.

Second element of cost

The second element of cost is the amount paid (money and/or the market value of property given) or the amount taken to have been paid to bring the asset to its present condition and location at any time, such as a cost of improving the asset. It is worked out after the taxpayer begins to hold the asset.

Car limit

If the first element of cost of a car exceeds the car limit for the income year in which the taxpayer starts to hold it, that first element of cost is reduced to the car limit. The car limit is \$59,136 for the 2021 income year and \$60,733 for the 2022 income year. The limit is \$64,741 for the 2023 income year

Taxable income

Taxable income means for the purpose of producing assessable income. It also means for the purpose of exploration or prospecting and of mining site rehabilitation, and for environmental protection activities.

Start time

A depreciating asset's start time is when it is first used, or installed ready for use, for any purpose, including a private purpose.

Decline in value

Deductions for the cost of a depreciating asset are based on the decline in value of the asset. For most depreciating assets, there is the choice of 2 methods to calculate the decline in value of a depreciating asset: The “**prime cost**” method and the “**diminishing value**” method.

Adjustable value

A depreciating asset's adjustable value at that particular time is its cost (first and second elements) less any decline in value up to that time.

Opening adjustable value

The value of the plant or article at the beginning of the financial year.

Adjustable value (at the end of year)

The value the plant or article at the end of the financial year.

Termination of plant means:-

Forms of consideration received when an asset has been disposed of include:-

Sale of an asset This will be cash received less expenses of the sale.

Trade-In Usually the market value of the asset or any agreed price.

Gift Usually market value is the consideration, but in some cases it may be acceptable to use the adjustable value.

Scrapping Consideration received is "NIL"

Loss/Destruction If the property is insured, then any amount received from insurance is consideration received.

Abbreviations

- LCA** low-cost asset
- LVA** low-value asset
- OAV** opening adjustable value
- STS** Simplified Tax System
- TV** termination value
- UCA** uniform capital allowance system.

CLAIMING ASSETS COSTING \$300 or LESS

Did the taxpayer earn non-business income

- from rental properties?
- using tools of trade?
- using other items of plant to earn their income?

Non-business income

If the taxpayer earned non-business income, including salary and wage income, they may be able to take advantage of the deduction. Examples include:

- apprentice who supply their own trade tools such as hand tools

- hairdressers who buy and use their own scissors
- professionals who buy brief cases, electronic diaries and similar equipment, and
- landlords who buy furniture and fittings for their rental properties

From 1 July 2001, taxpayers are entitled to an immediate deduction for such assets purchased if:

- they cost \$300 or less and
- used them mainly to derive assessable income that is **not** income from carrying on a business.

However, the taxpayer **cannot** claim an immediate deduction if:

- the item is part of a set that was bought in the same income year, where the total cost of the set is more than \$300 (**the 'set rule'**), or
- the item is one of a number of identical or substantially identical items bought in an income year and total cost of the items is more than \$300 (**the 'multiples rule'**).

Examples of when an immediate deduction can be claimed:

An employee purchased a new briefcase at the cost of \$250, for professional purposes. They can claim an immediate deduction as they use the briefcase to derive assessable income, but not from carrying a business.

A landlord purchased 2 fire extinguishers at the total cost of \$160 for use in their capital properties. Although the fire extinguishers are substantially the same, they can claim an immediate deduction because the total cost of these items was not more than \$300 and they are used to derive assessable income, but not from carrying on a business.

Examples of when an immediate deduction cannot be claimed:

A primary school teacher is buying a series of story books costing \$65 each. The books are labelled 1 to 10 but she buys one volume every month during the school year. Although she only received 5 volumes before 30 June 2023, she cannot claim an immediate deduction for any of these books because they form part of a set and the total cost is more than \$300.

INSTANT ASSET WRITE-OFF

Eligible businesses can claim an immediate deduction for the business portion of the cost of an asset in the year the asset is first used or installed ready for use.

Instant asset write-off can be used for:

- multiple assets, if the cost of each individual asset is less than the relevant threshold
- new and second-hand assets.

If you are a small business, you will need to apply the simplified depreciation rules in order to claim the instant asset write-off. It cannot be used for [assets that are excluded](#) from those rules.

The instant asset write-off eligibility criteria and threshold have changed over time. You need to check your business's eligibility and apply the correct threshold amount depending on when the asset was purchased, first used or installed ready for use.

RECENT CHANGES

On 11 May 2021, as part of the Federal Budget 2021-22, the Government announced an extension of the Instant Asset Write Off by one year to 30 June 2023. So the following rules apply.

For assets first used or installed ready for use between 12 March 2020 until 30 June 2023, the instant asset write-off:

- **threshold** amount for each asset is \$150,000 (up from \$30,000)
- **eligibility** extends to businesses with an aggregated turnover of less than \$500 million (up from \$50 million).

From 7.30pm AEDT on 6 October 2020 until 30 June 2023, temporary full expensing allows a deduction for:

- the business portion of the cost of new eligible depreciating assets for businesses with an aggregated turnover under \$5 billion or for corporate tax entities that satisfy the alternative test
- the business portion of the cost of eligible second-hand assets for businesses with an aggregated turnover under \$50 million
- the balance of a small business pool at the end of each income year in this period for businesses with an aggregated turnover under \$10 million.

ELIGIBILITY

Eligibility to use instant asset write-off on an asset depends on:

- your [aggregated turnover](#) (the total ordinary income of your business and that of any associated businesses)
- the date you purchased the asset
- when it was first used or installed ready for use
- the cost of the asset being less than the [threshold](#).

You are not eligible to use instant asset write-off on an asset if your aggregated turnover is \$500 million or more.

If temporary full expensing applies to the asset, you do not apply instant asset write-off.

THRESHOLDS

The thresholds have changed over recent years.

Instant asset write-off thresholds for small businesses that apply the simplified depreciation rules

Eligible businesses	Date range for when asset first used or installed ready for use	Threshold
Less than \$10 million aggregated turnover	12 March 2020 to 30 June 2021, providing the asset is purchased by 31 December 2020*	\$150,000
Less than \$10 million	7.30pm (AEDT) on 2 April 2019 to 11 March 2020	\$30,000

aggregated turnover		
Less than \$10 million aggregated turnover	29 January 2019 to prior to 7.30pm (AEDT) on 2 April 2019	\$25,000
Less than \$10 million aggregated turnover	1 July 2016 to 28 January 2019	\$20,000
Less than \$2 million aggregated turnover	7.30pm (AEST) on 12 May 2015 to 30 June 2016	\$20,000
Less than \$2 million aggregated turnover	1 January 2014 to prior to 7.30pm (AEST) 12 May 2015	\$1,000
Less than \$2 million aggregated turnover	1 July 2012 to 31 December 2013	\$6,500
Less than \$2 million aggregated turnover	1 July 2011 to 30 June 2012	\$1,000

* You must have purchased the asset on or after 7.30pm (AEST) on 12 May 2015.

For assets you start to hold, and first use (or have installed ready for use) for a taxable purpose from 7.30pm (AEDT) on 6 October 2020 to 30 June 2023, the instant asset write-off threshold does not apply. You can immediately deduct the business portion of the asset's cost under temporary full expensing.

METHOD OF CALCULATION

There are two methods that can be used to calculate decline in value of a depreciating asset. These are referred to as:-

A) PRIME COST (PC) – or straight line

The **prime cost method** assumes that the value of a depreciating asset decreases uniformly over its effective life.

B) DIMINISHING VALUE (DV) – or reducing balance

The **diminishing value method** assumes that the decline in value each year is a constant proportion of the remaining value and produces a progressively smaller decline over time.

NOTE: Once one method of depreciation has been chosen for a particular item, it cannot

be changed to the other method for that item. For example, if the prime cost method is chosen for all or some items becoming depreciable in a particular year, that method must continue for those items for as long as they are owned.

EFFECTIVE LIFE

In broad terms, the effective life of a depreciating asset is how long it can be used by any entity for a taxable purpose or for the purpose of producing exempt income, having regard to the wear and tear reasonably expected from the taxpayer's expected circumstances of use and assuming reasonable levels of maintenance. Effective life is expressed in years, including fractions of years. It is not rounded to the nearest whole year.

The taxpayer can either make an estimate of the effective life of the asset or adopt the effective life determined by the Commissioner.

The choice must be made for the income year in which the asset's start time occurs. Generally, the choice must be made by the time the taxpayer's income tax return is lodged for that year.

Making an estimate of effective life

If the taxpayer decides to make an estimate of effective life, they need to take into account:

- how long they expect the asset can be used for a taxable purpose or for the purpose of producing exempt income, irrespective of who uses it
- the wear and tear reasonably expected from the taxpayer's expected circumstances of use
- that it will be maintained in reasonably good order and condition
- how the taxpayer expects to use the asset
- whether it would be likely for the asset to be scrapped or abandoned before the end of its useful life.

The sort of information that could be used to make an estimate of effective life of an asset includes:

- manufacturer's specifications
- independent engineering information
- past experience with similar assets
- the past experience of other users of similar assets
- the level of repairs and maintenance commonly adopted by users of the asset
- retention periods
- scrapping or abandonment practices
- the physical life of the asset.

The effective life of a depreciation asset needs to be calculated from the asset's start time.

Commissioner's determination

In making this determination, the Commissioner assumes the depreciating asset is new and has regard only to general industry circumstances of use.

Taxation Ruling TR 2009/4- Income tax: depreciation effective life came into force on 1 January 2008 and lists the Commissioner's determination of effective life for various depreciating assets.

Because the Commissioner often reviews his determination of effective life, more than one determination might be in force during an income year. Generally the determination that is in force at the time the asset is ready to use would be adopted.

CALCULATING DECLINE IN VALUE %

Diminishing value method rate is:
$$\frac{200 \%}{\text{assets effective life (in years)}}$$

Example – diminishing value method

The item of plant purchased has an effective life of 5 years the decline in value % is calculated as follows:

$$\text{RATE} = \frac{200\%}{5} = 40 \% \text{ DV}$$

Prime cost method rate is:
$$\frac{100 \%}{\text{assets effective life (in years)}}$$

Example – prime cost method

Assume that the same facts apply as for the previous example as follows:

$$\text{RATE} = \frac{100\%}{5} = 20\%$$

CHOOSING THE RATE

Assume that a Depreciating asset costs \$2000 has an effective life of 5 years. The standard depreciation rates based on 5 years 20% PC or 40% DV.

The depreciation rate on Depreciating assets carried forward from previous years cannot be changed.

Depreciating assets purchased this year must be depreciated at one of the rates show in ATP. These rates are calculated taking into account “effective life” of the assets.

FULL YEAR CLAIM

If an asset has been paid for full year and is used for the purpose of producing assessable income (or installed ready to be used) then a deduction allowed is calculated:

Diminishing Value Method

$$\text{Asset's cost} \quad \times \quad \frac{365}{365} \quad \times \quad \frac{150}{\text{asset's effective life}}$$

Prime Cost Method

$$\text{Asset's cost} \quad \times \quad \frac{365}{365} \quad \times \quad \frac{100}{\text{asset's effective life}}$$

Cost of a depreciating asset

To calculate the decline in value of a depreciating asset, you need to know its cost.

Under the UCA, the cost of the depreciating asset has 2 elements.

The **first element** of cost is, broadly, amounts taken to have been paid to hold the asset, such as the purchase price, and any additional amounts spent on transporting it or installing it in position. It is worked out at the time the taxpayer begins to hold the asset.

The **second element** of cost is capital expenditure incurred after that time, such as a cost of improving the asset.

Example.....

First and second elements of cost

Kathryn purchased a car for \$45,000. The first element of cost is \$45,000. If she installs a car alarm in the vehicle 2 months later at a cost of \$1500, that amount will be included in the second element of cost of the car as it was incurred after she began to hold the car.

Expenditure not of a capital nature and deductible outside the UCA

Carolyn uses a motor vehicle for her business. As a result of Carolyn's use of the vehicle, she needs to replace the tyres. The cost of replacing the tyres is not included in the second element of the vehicle's cost because it would ordinarily be deductible under the repair provisions.

Recoupment of cost

Recoupment of any amount included in the cost of a depreciating asset is included in assessable income.

Cost and the goods and services tax (GST)

If a taxpayer is not entitled to claim an input tax credit, the cost of the item for depreciation purposes includes the GST.

Example

Bob, an employee carpenter, bought a drill costing \$330 during 2022-2023. He cannot claim an input tax credit of \$30, so the cost of the drill for decline in value purposes was \$330.

Purchase of a second-hand item of plant

The taxpayer can generally claim depreciation based on the cost paid of the item. However you may have to make adjustments to the cost for depreciation purposes. 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.

Improvement to Asset

Improvements, which do not fit the description of restoration, renewal or re fixing, are not deductions. They must be depreciated, together with the item of plant. This increase in value must reflect in the depreciation statement by showing an “adjusted basis” for plant.

All calculations for disposal or additions must be calculated on a daily basis.

PART YEAR CLAIM

If an asset is acquired part way through the year and is used for the purpose of producing assessable income (or installed to be used) then a deduction will only be allowed for those days.

$$\text{Asset's cost} \times \frac{\text{days held}}{365} \times \frac{200}{\text{asset's effective life}}$$

Example

An asset is purchased on 2 October 2022 for \$3,500 and is installed ready to be used on 21 October. Cost of installation is \$400. Effective life of 10 yrs and Diminishing value (DV) is being used, depreciation allowable on 30 June 2023 is:

<i>Purchase Price</i>	<i>\$ 3500</i>
<i>plus installation costs</i>	<i>\$ 400</i>
<i>Cost basis</i>	<i>\$ 3900</i>

$$3900 \times \frac{253}{365} \times \frac{150\%}{10} = \$405$$

PART CLAIMABLE / NON-CLAIMABLE USE

If in the income year an item is used only partly to produce taxable income and partly for non-taxable purposes, or to produce exempt income, then only the taxable percentage is allowed.

Example.....

A salesman uses his private motor vehicle to call on his company's customers during business hours. In the evening his wife drives the vehicle and on weekends the whole family has use of the car. The vehicle cost \$14,500 on 1 July 2022. The salesman recorded that in the year ended 30 June 2023 he travelled 35,000kms of which 28,000 KLMS were on his company's business.

Depreciation allowed - Using 25% DV (effective life 8 yrs)

$$\text{Business use } \frac{28,000}{35,000} \times 100 = 80\%$$

Decline in value

Adjustable value at the end of year 2022:

(14,500 x 25% = \$3625) x 80% = \$2900

\$10,875 (\$14,500 - \$3625)

IMPORTANT:

It must be remembered that although only the portion of the depreciation relating to a taxable purpose use is allowed, the Adjustable value at the end of the year for the purpose of calculating next year's depreciation is obtained by deducting the total depreciation.

DEPRECIATING ASSETS WORKSHEET

Primary production and Non-primary production – Use a separate worksheet for each category.

Cost – The cost of the depreciating asset includes first and second elements of cost. The cost of an asset can be adjustable in certain circumstances; such as if the first element of a car's cost exceeds the car limit. If the cost of the asset has been adjusted, include the adjusted cost in this column.

Opening adjustable value and Adjustable value at end of year – The adjustable value of a depreciating asset at any time is its cost (first and second elements) reduced by any decline in value up to that time. The opening adjustable value of an asset for an income year is the same as its adjustable value at the end of the previous income year.

Balancing adjustment events – A balancing adjustment even occurs for a depreciating asset if the taxpayer stops holding it (for example, if it sold) or they stop using it.

Termination value – Generally, the termination value is what is received for the asset under the balancing adjustment event, such as the proceeds from selling the asset.

Balancing adjustment amounts – If the asset's termination value is greater than its adjustable value, the excess in an assessable balancing adjustment amount. If the termination value is less than the adjustable value, the difference is a deductible balancing adjustment amount. If the asset is used for non-taxable purposes, the balancing adjustment amount is reduced and a capital gain or capital loss may arise.

Balancing adjustment relief – This is a reference to the offsetting of otherwise assessable balancing adjustment amounts, such as for involuntary disposals.

Decline in value – There are 2 methods of working out the decline in value of a depreciating asset – **Prime cost** and **Diminishing value**.

Effective life or percentage rate – Both the prime cost and diminishing value methods are based on a depreciating asset's effective life. However, if accelerated rates of depreciation are used for an item of plant before 1 July 2001 or could have been used, if the plant was used for producing assessable income, then continue to use accelerated rates to calculate the decline in value rather than the effective life.

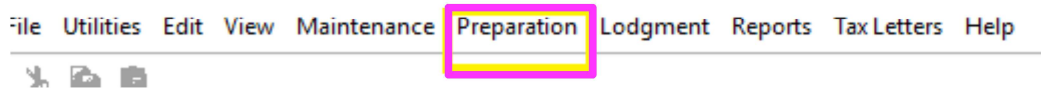
Percentage of non-taxable use – This is the percentage of non-taxable use (for example, private use) of the asset during the income year.

Deduction for decline in value – The allowable deduction for the decline in value of the asset is the decline in value reduced to the extent the asset was used for a non-taxable purpose.

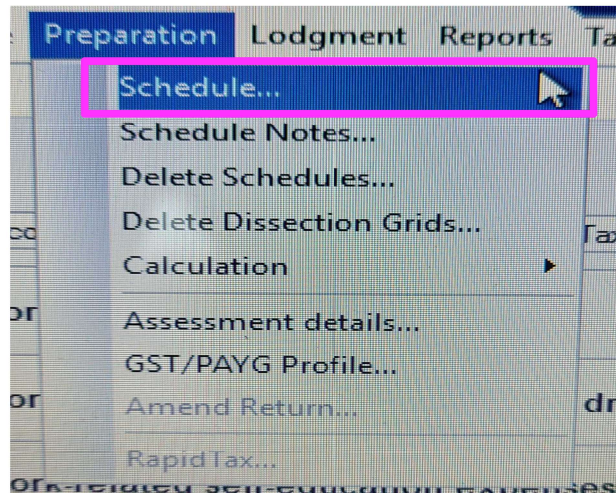
Adjustable value (at end of year) – This is the **Opening adjustable value** minus the **Decline in value** for tax year.

HOW TO ENTER IN MYOB

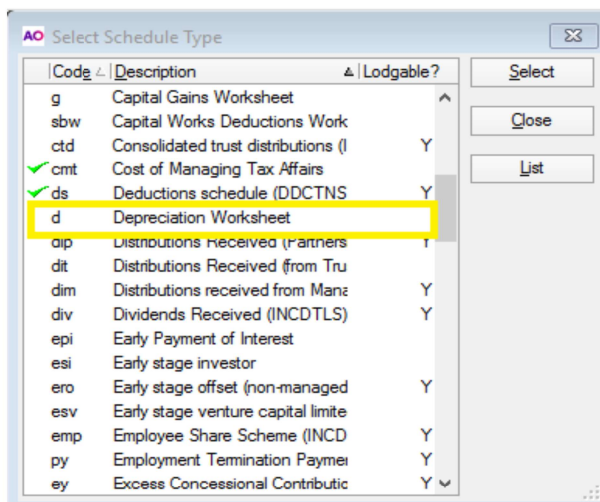
1. Open the tax return go to the taskbar at the top of the page > Click **Preparation**



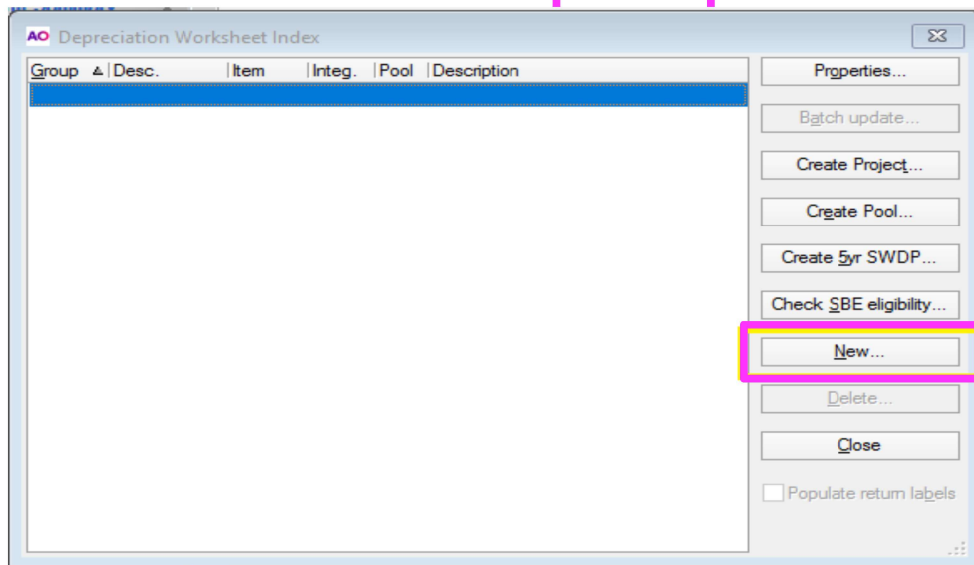
2. Click on **Schedule** - a list of schedules will appear.



3. Scroll up until you find **Depreciation Worksheet** and click on it > then click Select.



4. To add a new item click **New**.



5. A new schedule will appear. You will need the items **effective life** which can be found by googling or searching on the ATO website or accessing the Depreciation Effective Life Schedule in Templates folder on the server – Ezytax (T:) / Location / Templates / Depreciation Effective Life Schedule.
6. The **YELLOW** boxes show the areas that need to be entered.
- **Group** – Group the assets per asset class. Eg: Fixtures & Fittings, Plant & Equipment, Computers, etc. Group number will be determined by previously entered. If nothing then it will be 1.
 - **Description** – Asset class description. Eg: Fixtures & Fittings, Plant & Equipment, Computers, etc.
 - **Asset No.** – If it is the first item being depreciated, put 1. Otherwise continue the numbering.
 - **Description** – What the item is. Eg: Work laptop, Desk, Bosch Grinder, etc
 - **Date purchased and Date first used/held ready** – Date item was bought
 - **Purchase cost** – The amount paid for the item
 - **Effective life** – This is how long the item will be depreciated for. Eg: Laptop effective life is 2 years
 - **Annual Rate** – This should automatically calculate when you hit enter on effective life. You will not need to enter this if you have entered the effective life.

- **Private use** – If the item is used for both work and privately you **MUST** enter percentage of private use. Eg: 30% private use.

The **GREEN** box is the amount that will be entered in the return as a deduction. You can integrate this automatically using the Integration tab or you can enter it into the correct section – D5, Business Schedule, Rental Schedule, etc.

The **BLUE** box is for pooling assets as either Low Value Pool or STS General Pool. STS General Pool is for claiming Instant Asset Write-Off for eligible businesses.

AO Depreciation Item Properties

Details | Disposal | Integration | SBE Private use | PC Effective Life Adj

Pool: 0 ... Not pooled

Type: Other tangible asset

Group: [] Description: []

Private use: 30.00 %

Asset no.: 1 Description: Work Laptop

Allocated this year:

Accum. private use: []

Accum. 2nd elt. amts: 0

Accum. bal. charges: 0

Is the deduction denied in accordance with Treasury Laws Amendment (Housing Tax Integrity) Act 2017 regarding 'previously used' assets (P&E)? N

Item Details

Date purchased: 05/03/2020 DCL: []

Date first used/held ready: 05/03/2020

All amounts net of input tax credits

First element cost (Purchase cost): 1400

Second element costs incurred this year: 0

Immediate write-off: []

CY balancing adjustment: 0

Opening adjustable value (OWDV): 0

Method: D Diminishing value

Effective life: 2.00 years Self-assessed

Annual rate: 100.000 %

Value for depreciation: 0

Business depreciation: 317

Private use depreciation: 136

Non-ded. depreciation: 0

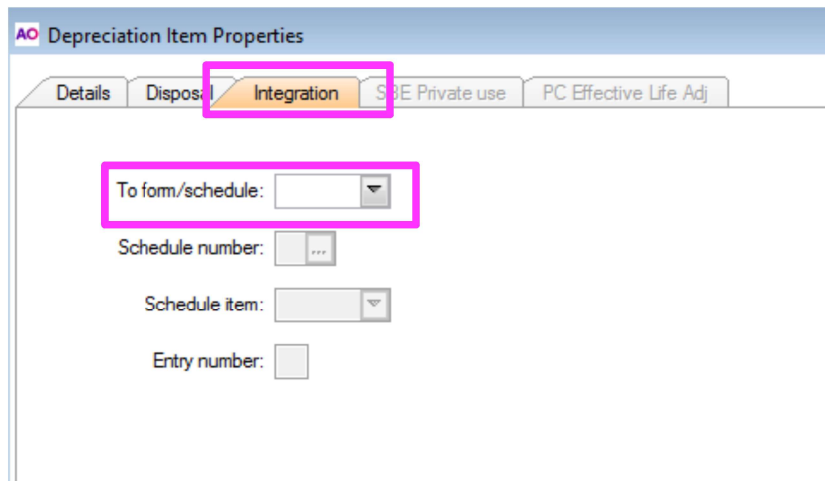
Closing adj. val. (CWDV): 947

Totals

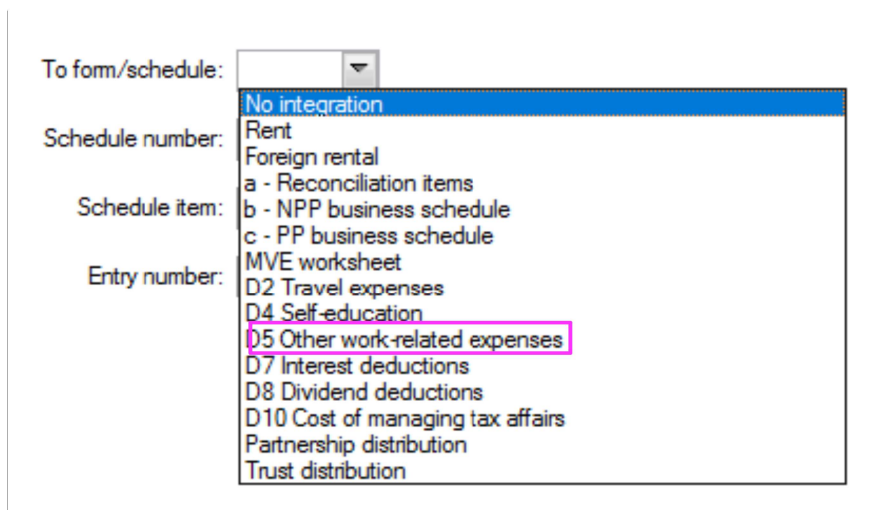
Group:	317
Return:	317

OK Cancel Edit

7. For the deduction to appear in the return it must be integrated. Go to the tab saying **Integration**.



- From the drop down arrow on **To/from schedule** select which schedule the depreciation should integrate to > Click **OK**.



- The item should now appear on the Depreciation Worksheet Index as seen below. Click **New** to create more depreciation schedules or click **Close** to finish.

ASSET PREVIOUSLY USED FOR NON-TAXABLE PURPOSES

A taxpayer uses asset for a number of years or months for non-taxable purposes. The taxpayer then commences to use the asset for taxable purposes. The **opening adjustable value** will be calculated as if the plant has been used entirely for taxable purposes from the date of purchase.

Example.....

Heather first buys a car on 25/08/22 and uses it for non-taxable purpose until 10/10/22 when she begins to use it for taxable purposes. The original cost to her was \$19,500.

<i>Cost- 25/08/22</i>	<i>\$19500</i>
<i>Decline in value 2022 (\$19,500 x 18.75%) x 310/365</i>	<i>\$ 3105</i>
<i>Adjustable value at end of year 30/06/22</i>	<i>\$16395</i>
<i>Decline in value to 10/10/22 (\$16,395 x 18.75%) x 102/365</i>	<i>\$ 859</i>
<i>Adjustable value at 10/10/22</i>	<i>\$15536</i>

On the 2023 depreciation schedule it will be shown as a cost on 10/10/22 with a cost of \$15,536.

These workings should be kept on taxpayer's file for later use, re disposal of car.

No longer hold or use a depreciating asset

Under the UCA rules, if the taxpayer ceases to hold or use a depreciating asset, a balancing adjustment even may occur. If there is a balancing adjustment event, a balancing adjustment amount needs to be calculated to include in the assessable income or to claim as a deduction.

A balancing adjustment event occurs for a depreciating asset when:

- the taxpayer stops holding it – for example, if the asset is sold, lost or destroyed
- the taxpayer stops using it and expects never to use it again
- the taxpayer stops having it installed ready for use and expects never to install it ready for use again
- the taxpayer has not used it and decide never to use it or
- a change occurs in the holding or interests in an asset which was or is to become a partnership asset.

Special rules apply to claiming a deduction for decline in value for certain motor vehicle and computer software.

LIMIT ON COST OF MOTOR VEHICLE

A cost limit is placed on the depreciable cost of the motorcars and station wagons, including four wheel drive models, purchased since 21 August 1979. The limit applies both to vehicles used by their owners and vehicles owned by leasing companies. It applies to both new and second hand vehicles.

Depreciation limit for 2023 will be based on no more than \$ 64,741

Example

Vehicle purchased on 01/07/17 **\$70,000**

This is over the depreciable cost limit, therefore depreciation will only be allowed from \$64,741.

Deemed cost **\$64,741**

Decline in value (18.75% DV) **\$12,138**

Adjustable value at end of year at 30/06/13 **\$52,603**

SOFTWARE

The general depreciation provisions applying to assets are modified for expenditure on computer software. The modification includes the following:

- You must use the prime cost method for calculating the depreciation claim.
- The effective life of all software is 2 ½ years and the depreciation rate is 40 per cent.
- The \$300 rule still applies.

LOW VALUE POOLING (D6)

From 1 July 2001 **low-cost** and **low-value** depreciating assets can be allocated to a low-value pool. The decline in value of the assets in the pool is calculated using set rates.

Once an asset has been allocated to a low-value pool, there is no need to calculate the asset's adjustable value or decline in value separately.

As only the taxable use percentage of an asset's cost or adjustable value is allocated to the pool, the decline in value of the assets in the pool is the amount of the deduction.

Two types of assets can be allocated to a low-value pool:

- low-cost assets, and
- low-value assets.

A low-value pool is created when the first low-cost or low-value asset is allocated to the pool.

Low-cost assets

A low-cost asset is a depreciating asset costing less than \$1,000 (after GST credits or adjustments) as at the end of the income year use of the asset has commenced, or it has been installed ready for use for a taxable purpose. If the asset is held jointly with others and the cost of individual's interest in the asset is less than \$1,000 their interest can be allocated to a low-value pool even though the depreciating asset costs \$1,000 or more.

Low-value assets

A low-value asset is a depreciating asset that is not a low-cost asset but which has an opening adjustable value of less than \$1,000 (at 1 July in the year allocated to the pool)

and for which any deduction previously calculated was by using the diminishing value method.

The adjustable value of a depreciating asset is its cost (first element and second elements of cost) less its decline in value since it was first used or installed ready for use for any purpose, including a private purpose.

However, it does not apply to taxpayers who qualify as a small business taxpayer for capital allowances purposes. Small business taxpayers continue to claim accelerated depreciation or access the small business entity (SBE) provisions.

Taxpayers choose low-value pooling

All taxpayers (including partnerships and individual who are not carrying on a business) who acquire or hold eligible plant on or after 1 July 2001 can choose to use low-value pooling.

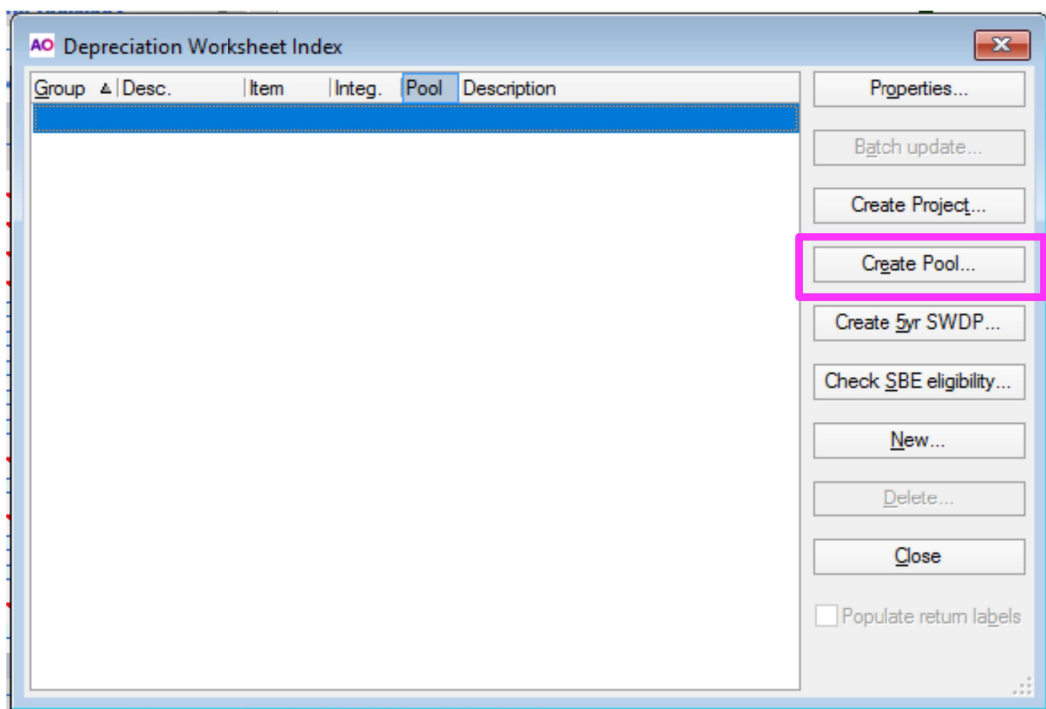
Depreciating assets that cannot be allocated to a low-value pool

The following assets cannot be allocated to a low-value pool:

- assets that cost \$300 or less (an immediate deduction for such assets can be claimed if used solely for income-producing purposes)
- assets with an undeducted cost of less than \$1000 which has been depreciated using the prime cost method
- software

POOLING ASSETS IN MYOB

1. Follow Steps 1 – 3 for accessing depreciation schedule.
2. Click on **Create Pool**



3. **Number:** Is automatic so leave as is.

Type of Pool: Click drop down button and choose – Low Value Pool, General Small Business Pool or Software Development Pool

Description: Depending on what you chose above will determine the name – Low Value Pool, General Small Business Pool or Software Development Pool

AO Pool Properties

Details Integration

Code: *

Number: []

Type of pool: Low value pool

Description: []

Adjustable value (OWDV):	0	VFD at full rate:	0
Private use adjustment:	0	VFD at half rate:	0
Adjusted opening pool balance:	0	VFD at COVID-19 rate:	

Plus:

Existing assets allocated this year:	0	Method: D	Diminishing value
First element costs added this year:	0	Annual rate:	37.500 %
Second element costs incurred this year:	0	Primary production proportion:	0.000 %

Less:

Immediate write-off:			
Total decline in value:	0		
Sales:	0		
Closing balance/(income):	0		

OK Cancel Edit

4. Click **OK** to exit.

5. The **YELLOW** boxes show the areas that need to be entered.

Group – Group the assets per asset class. Eg: Fixtures & Fittings, Plant & Equipment, Computers, etc. Group number will be determined by previously entered. If nothing then it will be 1.

Description – Asset class description. Eg: Fixtures & Fittings, Plant & Equipment, Computers, etc.

Asset No. – If it is the first item being depreciated, put 1. Otherwise continue the numbering.

Description – What the item is. Eg: Work laptop, Desk, Bosch Grinder, etc

Date purchased and Date first used/held ready – Date item was bought

Purchase cost – The amount paid for the item

Effective life – This is how long the item will be depreciated for. Eg: Laptop effective life is 2 years

Annual Rate – This should automatically calculate when you hit enter on effective life.

You will not need to enter this if you have entered the effective life.

Private use – If the item is used for both work and privately you **MUST** enter percentage of private use. Eg: 30% private use.

The **GREEN** box is the amount that will be entered in the return as a deduction. You can integrate this automatically using the Integration tab or your can enter it into the correct section – D5, Business Schedule, Rental Schedule, etc.

AO Depreciation Item Properties

Details Disposal Integration SBE Private use PC Effective Life Adj

Pool: 0 ... Not pooled

Type: Other tangible asset

Private use: 30.00 %

Group: Description: Description: Work Laptop

Asset no.: 1

Is the deduction denied in accordance with Treasury Laws Amendment (Housing Tax Integrity) Act 2017 regarding 'previously used' assets (P&E)? N

Item Details

Date purchased: 05/03/2020 DCL:

Date first used/held ready: 05/03/2020

All amounts net of input tax credits

First element cost (Purchase cost):	1400
Second element costs incurred this year:	0
Immediate write-off:	0
CY balancing adjustment:	0
Opening adjustable value (OWDV):	0

Method: D Diminishing value

Effective life: 2.00 years Self-assessed

Annual rate: 100.000 %

Allocated this year

Accum. private use: 0

Accum. 2nd elt. amts: 0

Accum. bal. charges: 0

Value for depreciation: 0

Business depreciation: 317

Private use depreciation: 136

Non-ded. depreciation: 0

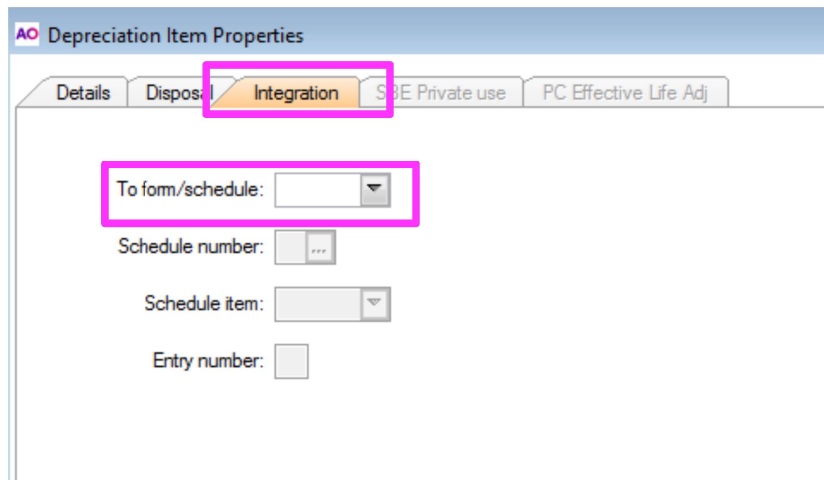
Closing adj. val. (CWDV): 947

Totals	
Group:	317
Return:	317

OK Cancel Edit

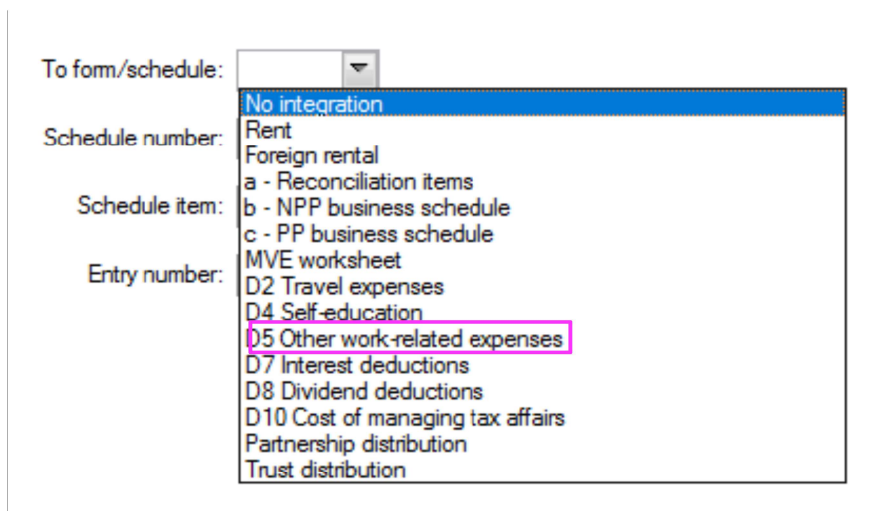
The **BLUE** box is for pooling assets as either Low Value Pool or STS General Pool. STS General Pool is for claiming Instant Asset Write-Off for eligible businesses. Click on the three gray dots box and choose which pool you are adding to – LVP or STS General Pool.

6. For the deduction to appear in the return it must be integrated. Go to the tab saying **Integration**.



The screenshot shows the 'Depreciation Item Properties' dialog box. The 'Integration' tab is selected and highlighted with a pink box. Below the tabs, the 'To form/schedule:' dropdown menu is also highlighted with a pink box. Other fields include 'Schedule number', 'Schedule item', and 'Entry number'.

7. From the drop down arrow on **To/from schedule** select which schedule the depreciation should integrate to > Click **OK**.



The screenshot shows the 'To form/schedule:' dropdown menu open, displaying a list of options. The option 'D5 Other work-related expenses' is highlighted with a pink box. The list includes: No integration, Rent, Foreign rental, a - Reconciliation items, b - NPP business schedule, c - PP business schedule, MVE worksheet, D2 Travel expenses, D4 Self-education, D5 Other work-related expenses, D7 Interest deductions, D8 Dividend deductions, D10 Cost of managing tax affairs, Partnership distribution, and Trust distribution.

8. The item should now appear on the Depreciation Worksheet Index as seen below. Click **New** to create more depreciation schedules or click **Close** to finish.