Depreciation and capital expenses and allowances

- https://www.ato.gov.au/Business/Depreciation-and-capital-expenses-and-allowances/
- Last modified: 23 Jun 2020
- QC 17053

You generally can't deduct spending on capital assets immediately. Instead you claim the cost over time, reflecting the asset's depreciation (or decline in value).

This applies if you use depreciating assets to earn assessable income, including:

- small and large businesses
- rental property investors
- employees (for equipment and tools they provide at their own expense for use in their work).

A depreciating asset is one that has a limited effective life and can reasonably be expected to decline in value over the time it's used. Land, trading stock and some intangible assets are not depreciating assets.

On this page:

- Recent changes
- General depreciation rules
- Simplified depreciation rules

Recent changes

From 12 March 2020 until 31 December 2020 the instant asset write-off:

- threshold is $150,000 (up from $30,000)
- eligibility range covers businesses with an aggregated turnover of less than $500 million (up from $50 million).

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

- The benefits are either

    - deduction of 50% of the cost or opening adjustable value of an eligible asset on installation. Existing depreciation rules apply to the balance of the asset’s cost
    - if you are using the simplified depreciation rules for small business, you can claim 57.5% of the cost of the asset in the first year you add the asset to the small business pool.
- Eligible businesses — businesses with aggregated turnover below $500 million.
- Eligible assets — new depreciating assets (for example, plant, equipment and specified intangible assets, such as patents). The assets must be first held, and first used or first installed ready for use for a taxable purpose on or after 12 March 2020 until 30 June 2021. Some exclusions apply.

Find out about:

- Instant asset write-off for eligible businesses
- Backing business investment – accelerated depreciation

See also:

- COVID-19
- The Australian Government's economic response to coronavirus

General depreciation rules

To calculate your depreciation deduction for most assets you apply the general depreciation rules (unless you're eligible to use simplified depreciation for small business). These rules set out the amounts (capital allowances) that can be claimed based on the asset's effective life.

Under the general depreciation rules, an immediate write-off applies to:

- items costing up to $100 used to earn business income (but note the higher immediate write-off limit for small businesses below)
- items costing up to $300 used to earn income other than from a business (such as employee-provided tools and equipment).

Simplified depreciation rules

Small businesses can choose to use the simplified depreciation rules – which include the instant asset write-off.

Other depreciation rules

Different rules apply to:

- capital works – which are written off over a longer period than other depreciating assets
- other business capital expenses – such as the cost of setting up or ceasing a business, and project-related expenses.

Depreciation deductions are generally available only to the legal owner of the asset.

However, hire purchase arrangements are generally treated as a notional sale of goods. In this case, the hirer rather than the legal owner is entitled to the deduction. Depreciation deductions for partnership assets are claimed by the partnership not the individual partners.

The cost of an asset for depreciation purposes includes the amount you paid for it as well as any additional costs you incur in transporting and installing the asset, and repairing it immediately after you acquire it.

Depreciation deductions are limited to the extent to which you use an asset to earn income. For example, if you use an asset 60% for business purposes and 40% for private purposes you can only claim 60% of its total depreciation for the year.

Find out about:

- Simpler depreciation for small business
- Instant asset write-off for eligible businesses
- General depreciation rules – capital allowances
- Backing business investment – accelerated depreciation
- Capital works deductions
- Other capital asset and expense deductions
- Depreciation and capital allowances tool
- COVID-19

Simpler depreciation for small business

- https://www.ato.gov.au/Business/Depreciation-and-capital-expenses-and-allowances/Simpler-depreciation-for-small-business/
- Last modified: 23 Jun 2020
- QC 33726

You can choose to use the simplified depreciation rules if you have a small business with an aggregated turnover (the total normal income of your business and that of any associated businesses) of less than:

- $10 million from 1 July 2016 onwards
- $2 million for previous income years.

Simplified depreciation rules for small businesses include:

- an instant asset write-off for assets that cost less than the relevant threshold
- a general small business pool for assets that cost the same or more than the relevant threshold, which has simplified calculations to work out the depreciation deduction.

On this page:

- Recent changes
- Instant asset write-off
- Small business pool
- Cost
- Trade-ins
- Business vs private use
- Asset sales and disposals
- Exclusions

Recent changes

From 12 March 2020 until 31 December 2020 the instant asset write-off:

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

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

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

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

See also:

- Backing business investment – accelerated depreciation
- COVID-19
- The Australian Government's economic response to coronavirus

Instant asset write-off

Under instant asset write-off eligible businesses can:

- immediately write off the cost of each asset that cost less than the instant asset write-off threshold amount
- claim a tax deduction for the business portion of the purchase cost in the year the asset is first used or installed ready for use.

Find out about:

- Instant asset write-off for eligible businesses – for eligibility and thresholds

Small business pool

Small businesses can:

- pool the business portion of most higher cost assets (those with a cost equal to or more than the relevant instant asset write-off threshold) and claim
  - a 15% deduction in the year you start to use them or have them installed ready for use (this percentage may increase to 57.5% for those assets eligible for the backing business incentive – accelerated depreciation)
  - a 30% deduction each year after the first year

- deduct the balance of the small business pool at the end of the income year if the balance at that time (before applying the depreciation deductions) is less than the instant asset write-off threshold.

For a worked example, refer to the Examples below.

If you choose to use the simplified depreciation rules, you must:

- use them to work out deductions for all your depreciating assets except those specifically excluded
- apply the entire set of rules, not just individual elements (such as the instant asset write-off)
- only claim a deduction for the portion of the asset used for business or other taxable purposes and not for the portion for private use.

If you choose to stop using the simplified depreciation rules or become ineligible to use them, you must use the general depreciation rules. However, any assets in your small business pool will continue to be depreciated in the pool, even if you stop using the simplified depreciation rules.

Next step:

- Attend our depreciation webinar – which addresses commonly asked questions around claiming deductions and depreciating assets.

See also:

- Simplified depreciation – rules and calculations
- Backing business investment – accelerated depreciation
- Latest news on tax law and policy

Cost

The cost of an asset includes both the amount you paid for it and any additional amounts you spent on transporting and installing it ready for use.

The cost of a car that is designed mainly for carrying passengers is limited by the car limit. This means that the maximum that you can claim under the instant asset

write-off (for this type of car is $57,581 for the 2019–20 income year.

If you are registered for the goods and services tax (GST) and can claim the full GST credit, you exclude the GST amount you paid on the asset when you calculate your depreciation amounts (and your instant asset write-off threshold is exclusive of any GST).

If you are not registered for GST, you include the GST amount you paid on the asset in your depreciation calculations (and your instant asset write-off threshold is inclusive of any GST).

If you are only able to claim a portion of the GST credit then the cost is reduced by the portion you can claim.

See also:

- When you can claim a GST credit
- Cars – cost limit for depreciation

Trade-ins

When you trade-in a car or any other asset, typically the agreed price of your trade-in is deducted from the cost of your new asset. The sale and purchase of the two assets may appear as one transaction.

There are two transactions, the purchase of a new asset and the disposal of an existing asset. If the purchase price of your asset (irrespective of the amount you were paid for your trade-in) is equal to or more than the relevant threshold, then it needs to be added to the small business pool and can't be immediately written-off.

Business vs private use

Your depreciation deduction is limited to the percentage your asset is used for business or other taxable purposes (for example, to manage your investments or rental properties). You cannot claim a deduction for the portion of the asset used for private purposes.

In determining whether the instant asset write-off applies, you must take into account the full cost of the asset, but your deduction is limited to an estimate of how much you use the asset in earning assessable income.

For example, if you buy a car for $19,000 and you estimate it is used 50% for business purposes and 50% for private purposes, it is immediately written-off, but your deduction is $9,500.

Asset sales and disposals

If an asset is part of the small business pool and you sell it (or it is lost or damaged and you receive a compensating insurance payout), the balance of the pool is reduced by the amount of the sale proceeds or insurance payout – to the extent the asset has been used and depreciated for taxable purposes.

If an asset has previously been written-off (either under the instant asset write-off or as part of a low value pool), the proceeds from the sale of the asset must be added to your assessable income – to the extent the asset has been used and depreciated for taxable purposes.

See also:

- Simplified depreciation – rules and calculations

Exclusions

A small number of assets are excluded from the simplified depreciation rules.

See also:

- Simplified depreciation – rules and calculations: excluded assets

Examples

Example 1: Simplified depreciation – small business pool for 2018–19 income year

Loretta buys a trailer for her event management business on 1 December 2018 for $15,000. She buys a second larger trailer on 2 February 2019 for $28,000. She also sells an old trailer that was previously in her small business pool for $8,000. Loretta has an opening pool balance of $100,000 from the previous year.

Loretta will:

- immediately write-off the cost of the first $15,000 trailer (as it is under the $20,000 instant asset write-off threshold which applied at the time she purchased and started to use the trailer)
- calculate her depreciation deduction for pool assets by
  - adding the cost of the $28,000 larger trailer to her small business pool (as it is over the $25,000 threshold which applied at the time she purchased and started to use the larger trailer).
  - deducting the $8,000 received from the sale of the old trailer from her small business pool.

Calculation of small business pool balance for 2018–19 income year

Calculation of small business pool balance for 2018–19 income year

Calculation item	Pool balance	Depreciation claim
Closing pool balance from previous year	$100,000	-
Opening pool balance for current year	$100,000	-

Add: New asset purchase	$28,000	-
Subtotal	$128,000	-
Less: Proceeds of asset sale or disposal	$8,000	-
Subtotal	$120,000	-
Pool deduction claim (30% of $100,000)	$30,000	$30,000
Subtotal	$90,000	-
New asset deduction claim (15% of $28,000)	$4,200	$4,200
Total depreciation for current year	-	$34,200
Closing pool balance	$85,800	-

Loretta's depreciation claim for the 2018–19 income year is:

- deduction for instant asset write-off: $15,000
- deduction for small business pool: $34,200.

Loretta's closing pool balance for the year is $85,800.

Figures exclude GST.

Example 2: Simplified depreciation – small business pool for 2019–20 income year

Loretta buys a new car to use for her business on 15 January 2020 for $33,000. The car is delivered on 31 January 2020. Loretta can't immediately write off the cost of the car as the threshold is $30,000 at the time she starts to use the car. She needs to allocate the car to her small business pool.

Calculation of small business pool balance for 2019–20 income year

Calculation item	Pool balance	Depreciation claim
Closing pool balance from previous year	$85,800	-
Opening pool balance for current	$85,800	-

year		
Add: New asset purchase – car	$33,000	-
Subtotal	$118,800	-

Before applying the depreciation deductions, the balance of the pool at the end of income year is $118,800. From 12 March 2020, the instant asset write-off threshold increased to $150,000. As the balance of the pool is less than the threshold at the end of the income year, Loretta will write off the entire pool balance in her 2019–20 income tax return.

Loretta's closing pool balance for the year is $0.

Figures exclude GST.

Instant asset write-off for eligible businesses

- https://www.ato.gov.au/Business/Depreciation-and-capital-expenses-and-allowances/Simpler-depreciation-for-small-business/Instant-asset-write-off/
- Last modified: 19 Aug 2020
- QC 61417

Under the 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 as long as the cost of each individual asset is less than the relevant threshold
- new and second-hand assets.

It cannot be used for assets that are excluded from the simplified depreciation 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. This depends on when the asset was purchased, first used or installed ready for use.

Recent changes

From 12 March 2020 until 31 December 2020 the instant asset write-off:

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

On this page:

- Eligibility
- Thresholds
- Exclusions and limits
- Cost of asset exceeds threshold
- Work out your deduction
- Later sale or disposal of asset

See also:

- COVID-19
- The Australian Government's economic response to coronavirus

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.

If you run a small business and choose to use the simplified depreciation rules, you must use instant asset write-off on all eligible assets.

Businesses with an aggregated turnover of $500 million or more are not eligible to use instant asset write-off.

From 1 January 2021 the instant asset write-off will only be available for small businesses with an aggregated turnover of less than $10 million and the threshold will be $1,000.

Thresholds

The thresholds have changed over the last few years and are as follows:

Instant asset write-off thresholds

Eligible businesses	Date range for when asset first used or installed ready for use	Threshold
Less than $500 million aggregated turnover	12 March 2020 to 31 December 2020 (see note)	$150,000
Less than $50 million	7.30pm (AEDT) on 2 April 2019 to	$30,000

aggregated turnover	11 March 2020	
Less than $10 million aggregated turnover	29 January 2019 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

Make sure you have checked the eligibility criteria for your business.

Note: For eligible businesses with an aggregated turnover from $10 million to less than $500 million, the $150,000 threshold applies for assets purchased from 7.30pm (AEDT) on 2 April 2019 but not first used or installed ready for use until 12 March 2020 to 31 December 2020.

Exclusions and limits

There are a small number of assets that are excluded.

Find out about:

- Excluded assets

Car limit

A car limit applies to the cost of passenger vehicles (except a motorcycle or similar vehicle) designed to carry a load less than one tonne and fewer than nine passengers. The one tonne capacity relates to the maximum load your vehicle can carry, also known as the payload capacity.

The payload capacity is the gross vehicle mass (GVM) as specified on the compliance plate by the manufacturer, reduced by the basic kerb weight of the vehicle.

The basic kerb weight is the weight of the vehicle with a full tank of fuel, oil and coolant together with spare wheel, tools (including jack) and factory-installed options. It does not include the weight of passengers, goods or accessories.

- Payload capacity = GVM – basic kerb weight

The car limit is:

- $57,581 for the 2019–20 income tax year
- $59,136 for the 2020–21 income year.

The instant asset write-off is limited to the business portion of the car limit for the relevant income tax year. For example, the car limit is $57,581 for the 2019–20 income tax year. If you use your vehicle for 75% business use, the total you can claim under the instant asset write-off is 75% of $57,581, which equals $43,186.

You cannot claim the excess cost over the car limit under any other depreciation rules. For a worked example, refer to example 1 below.

If your vehicle is not considered a passenger vehicle, the car limit does not apply. You can claim the cost of the vehicle if it is less than the relevant threshold amount. Refer to example 6 below.

See also:

- Car cost limit for depreciation

Cost of asset exceeds threshold

If you are a small business using the simplified depreciation rules, and the cost of the asset is the same as or more than the relevant instant asset write-off threshold, the asset must be placed into the small business pool. You may be able to use the backing business investment – accelerated depreciation for certain eligible assets.

If you are not using the simplified depreciation rules, you may be able to use the general depreciation rules or use the backing business investment – accelerated depreciation for certain eligible assets.

See also:

- Simpler depreciation for small business
- Backing business investment – accelerated depreciation

Work out your deduction

The entire cost of the asset must be less than the relevant threshold, not including any trade-in amount. Whether the threshold is GST exclusive or inclusive depends on if you're registered for GST.

To work out the amount you can claim, you must subtract any private use portion. The balance (that is the portion you use to earn assessable income) is generally the taxable purpose portion (business purpose portion). While you can only claim the taxable purpose portion as a deduction, the entire cost of the asset must be less than the relevant threshold.

This also applies to research & development (R&D) use. When you work out the

amount you can include in the calculation of your R&D tax offset for your R&D use, you must subtract any non-R&D use including the taxable purpose portion and private use portion.

Later sale or disposal of asset

If you use the instant asset write-off for an asset and then sell or dispose of that asset, you need to include the taxable purpose portion of the amount you received for the asset in your assessable income for that year.

If you use the instant asset write-off for an asset that is later destroyed (for example, in a bushfire or flood) then the amount you receive (such as from an insurance payout) for the destruction of the asset is included in your assessable income.

See also:

- Simplified depreciation – rules and calculations
- General depreciation rules – capital allowances
- Backing business investment – accelerated depreciation
- Claiming a tax deduction for depreciating assets and other capital expenses
- Damaged or destroyed property – insurance payouts

Example 1: Purchase of a motor vehicle for business purposes – the effect of the car limit for depreciation

Edward and Edna own and run a small irrigation supplies business. On 27 March 2020 the business purchases a luxury car that is designed to carry passengers for $80,000. The instant asset write-off threshold at the time they first use the car in the business is $150,000.

The cost of the car for depreciation is limited to the car limit at that time ($57,581 for the 2019–20 income tax year).

As the cost of the car is above the $57,581 car cost limit for depreciation, the business can only claim an instant asset write-off of $57,581 for the year ending 30 June 2020. The business can't claim the excess cost of the car under any other depreciation rules.

They also decide to update their work ute and the business purchases a ute for $65,000 on 27 April 2020. The ute isn't designed to carry passengers (and has been set up with all the trade tools in the tray) so the car cost limit for depreciation doesn't apply. The business can claim a full deduction of $65,000 as an instant asset write-off.

Example 2: Purchasing multiple assets

PlumbCo is a company that operates a plumbing business with an aggregated turnover less than $10 million. On 10 April 2019, PlumbCo purchases a new van for $22,000 and starts to use it for the business. The following month PlumbCo purchases a trailer for $14,000 and starts to use it to support the business.

PlumbCo has spent a total of $36,000. As the $30,000 instant asset write-off threshold applies to each asset, PlumbCo is able to claim a deduction for both the van and the trailer in its 2019 tax return.

6 **Calculation of total profit or loss** – *continued*
Expenses

Depreciation expenses **X** $ ☐☐,☐☐☐,☐☐☐,☐☐☐.00

10 **Small business entity simplified depreciation**
Deduction for certain assets **A** $ ☐☐,☐☐☐,☐☐☐,☐☐☐.00
Deduction for general small business pool **B** $ ☐☐,☐☐☐,☐☐☐,☐☐☐.00

PlumbCo includes the combined amount of $36,000 at label 6X of the *Company tax return.* Because PlumbCo is a small business entity, the amount is also included at label 10A.

Example 3: Exceeding the threshold

Daryl owns a small electrical business, Daryl's Electrical, which has an aggregated turnover less than $10 million. On 28 July 2017, Daryl purchases a ute for $40,000. He estimates he will use the ute 40% of the time for his business.

Even though the cost of the ute to the business is $16,000 ($40,000 × 40%), Daryl can't use the instant asset write-off as the total cost of the ute of $40,000 exceeded the relevant threshold of $20,000.

Instead he adds the $16,000 business portion of the ute's cost to Daryl's Electrical small business pool.

Example 4: Business and personal use of asset

On 18 May 2018, Fiona buys a new computer for $6,800 that she uses 80%

of the time for her business as a sole trader. She also bought a new printer for $700 that she uses for 100% of the time for business purposes.

For the computer, Fiona calculates the business use portion that she can claim a deduction for under the instant asset write-off as $5,440 (80% of $6,800). For the printer, she can claim the entire cost of $700.

P8 Business income and expenses – continued

EXPENSES

Depreciation expenses ⎕⎕,⎕⎕⎕,⎕⎕⎕ .00 ⎕⎕,⎕⎕⎕,⎕⎕⎕ .00 **M** ⎕⎕,⎕⎕⎕,⎕⎕⎕ .00

P10 Small business entity simplified depreciation

Deduction for certain assets **A** ⎕⎕,⎕⎕⎕,⎕⎕⎕ .00

Deduction for general small business pool **B** ⎕⎕,⎕⎕⎕,⎕⎕⎕ .00

Write the depreciation deductions, not the pool balances, at **A** and **B**

Fiona includes the combined amount of $6,140 at label M(P8) and P10 of the *Business and professional items schedule,* which is filled out when completing her tax return.

Example 5: Asset purchased but not ready for use

Leslie is a florist and her business requires a new van to help expand her deliveries. Leslie purchases a van for $22,500, which she pays for on 23 January 2019. Under the terms of the contract, delivery of the van is made on 30 January 2019. The van is not ready for use until after 29 January 2019. At that time, the instant asset write-off threshold s $25,000. Leslie is able to claim the entire cost of the van in her 2019 tax return.

If the van had been delivered before 29 January 2019 and Leslie started to use it at the time of delivery, she would not have been able to write-off the entire cost of the van. This is because the cost of the van cost exceeded the threshold applicable at that time of $20,000.

Example 6: Purchase of a motor vehicle with a carrying capacity of more than one tonne but less than nine passengers – the effect of the car limit for depreciation

Muhammad purchases a new vehicle for $70,000 to transport goods for his

business. The vehicle is used 100% for business purposes. He receives the vehicle ready for use on 3 June 2020.

The payload capacity of the vehicle is 1065 kg. The vehicle carries less than nine passengers. The car limit does not apply as the vehicle has a payload capacity of more than one tonne.

Muhammad can claim the full cost ($70,000) of the vehicle under the instant asset write-off because:

- the vehicle is less than the $150,000 threshold
- he has the vehicle ready for use before 30 June 2020
- the car limit does not apply (as the vehicle has a payload capacity of more than one tonne)
- the vehicle is only used for business purposes.

See also:

- Car cost limit for depreciation

General depreciation rules – capital allowances

- https://www.ato.gov.au/Business/Depreciation-and-capital-expenses-and-allowances/General-depreciation-rules---capital-allowances/
- Last modified: 07 Apr 2020
- QC 45983

To calculate your depreciation deduction for most assets you apply the general depreciation rules (unless you're eligible to use instant asset write-off or simplified depreciation for small business).

The general depreciation rules set the amounts (capital allowances) that can be claimed, based on the asset's effective life.

To calculate depreciation, you can generally use either the prime cost method or the diminishing value method. In some cases, you must use the same method used by the former holder of the asset – for example, if you acquire the asset from an associate such as your spouse or business partner.

For some intangible depreciating assets, including intellectual property, you can only use the prime cost method.

Both methods require you to determine the asset's effective life.

Different rules apply to:

- capital works such as buildings and structural improvements
- horticultural plants and water supply facilities used in primary production
- electricity and phone connections
- assets used in mining exploration.

To calculate depreciation for most assets for a particular income year, you can use the Depreciation and capital allowances tool, which compares results of the two methods.

Instant asset write-off

Under instant asset write-off eligible businesses can:

- immediately write off the cost of each asset that costs less than the threshold
- claim a tax deduction for the business portion of the purchase cost in the year the asset is first used or installed ready for use.

Instant asset write-off can be used for both new and second-hand assets. Some exclusions and limits apply.

The instant asset write-off eligibility criteria and threshold have changed over time. You need to check your business's eligibility and ensure you apply the correct threshold amount.

Find out about:

- Prime cost (straight line) and diminishing value methods
- Instant asset write-off for eligible businesses
- Backing business investment – accelerated depreciation
- Effective life of an asset
- Low-value assets (pool)
- Disposing of a depreciating asset
- Depreciation and capital allowances tool
- COVID-19

Prime cost (straight line) and diminishing value methods

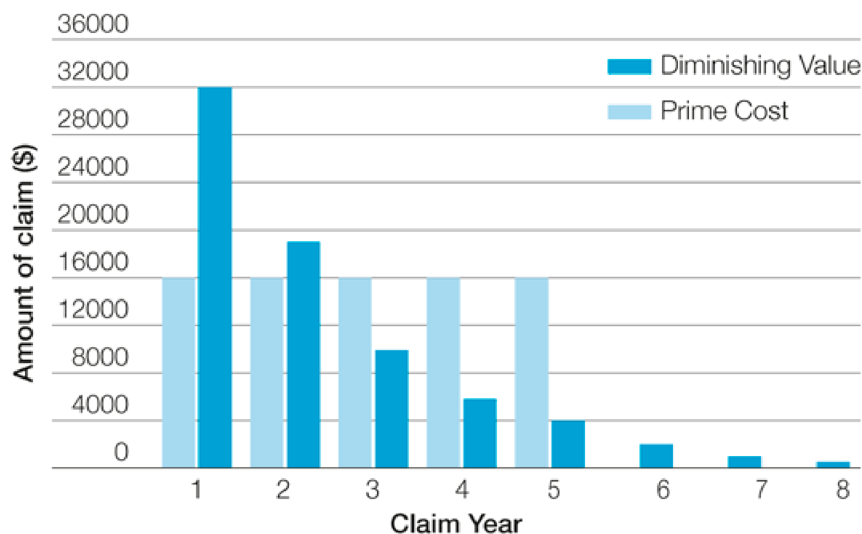
- https://www.ato.gov.au/Business/Depreciation-and-capital-expenses-and-allowances/General-depreciation-rules---capital-allowances/Prime-cost-(straight-line)-and-diminishing-value-methods/
- Last modified: 07 Apr 2020
- QC 45984

In most cases, you can choose to use either of two alternative methods for calculating depreciation:

- The prime cost method assumes that the value of a depreciating asset decreases uniformly over its effective life.
- The diminishing value method assumes that the value of a depreciating asset decreases more in the early years of its effective life.

To calculate depreciation for most assets for a particular income year, you can use the Depreciation and capital allowances tool, which compares results of the two methods and also provides disposal outcomes.

This graph compares the amount you would claim under each method for the depreciation of an asset that is used only for business. The asset in this example cost $80,000, was acquired on the first day of the income year and has an effective life of five years.



Prime cost (straight line) method

Under the prime cost method (also known as the straight line method), you claim a fixed amount each year based on the following formula:

Asset’s cost × (days held ÷ 365) × (100% ÷ asset’s effective life)

Note: ‘Days held’ is the number of days you held the asset in the income year in which you used it or had it installed ready for use for any purpose. Days held can be 366 for a leap year.

Example 1: Prime cost method

If the asset costs $80,000 (after excluding GST if entitled to claim it) and has an effective life of five years, you can claim 20% of its cost, or $16,000, in each of the five years.

The cost includes the amount you paid for the asset as well as any

additional amounts paid for transport, installation or making it ready to use.

The calculation is:

$80,000 × (365 ÷ 365) × 20% = $16,000

Note that if you acquired the above asset part way through the year, the final calculation using the prime cost method should occur in the sixth year for the remaining portion that was not claimed in the first year.

Diminishing value method

The following formula is used for the diminishing value method:

Base value × (days held ÷ 365) × (200% ÷ asset's effective life)

Days held can be 366 for a leap year. (see Note)

Example 2: Diminishing value method

If the asset cost $80,000 and has an effective life of five years, the claim for the first year will be:

$80,000 × (365 ÷ 365) × (200% ÷ 5) = $80,000 × 40% = $32,000

The cost includes the amount you paid for the asset (excluding GST if entitled to claim it) as well as any additional amounts paid for transport, installation or making it ready to use.

The base value reduces each year by the decline in the value of the asset. This means the base value for the second year will be $48,000; that is, $80,000 minus the $32,000 decline in value in the first year.

The claim for the second year will be:

$48,000 × (365 ÷ 365) × (200% ÷ 5) = $48,000 × 40% = $19,200

In the third year, the base value will be $28,800 and the claim will be $11,520.

In the fourth year, the base value will be $17,280 and the claim will be $6,912.

This will continue until the value reaches zero.

If you started to hold the asset before 10 May 2006, the formula for the diminishing

value method is:

Base value × (days held ÷ 365) × (150% ÷ asset's effective life)

Reduction for non-taxable use

Irrespective of the method used, a deduction for the decline in value of a depreciating asset is reduced by the extent to which it's used for a non-taxable purpose. For example, if an asset is used 40% of the time for a private purpose, the deduction for its decline in value is reduced by 40%. Hence all figures above would be multiplied by a factor of 0.6.

Transfer to low-value pool

Once the value of the asset falls below $1,000, you can choose to transfer its remaining value to a low-value pool. By doing so, you can claim depreciation for the asset together with any other low-value assets, rather than making separate calculations for each.

Changes from 12 March 2020

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

- The benefits are either
  - Deduction of 50% of the cost or opening adjustable value of an eligible asset on installation. Existing depreciation rules apply to the balance of the asset's cost.
  - If you are using the simplified depreciation rules for small business you can claim 57.5% of the cost of the asset in the first year you add the asset to the small business pool.
- Eligible businesses – businesses with aggregated turnover below $500 million.
- Eligible assets – new depreciating assets (for example, plant, equipment and specified intangible assets, such as patents). The assets must be first held, and first used or first installed ready for use for a taxable purpose on or after 12 March 2020 until 30 June 2021. Some exclusions apply.

See also:

- Guide to depreciating assets
- Uniform capital allowance system: calculating the decline in value of a depreciating asset
- Depreciation and capital allowances tool
- Back business investment – accelerated depreciation
- COVID-19

Effective life of an asset

- https://www.ato.gov.au/Business/Depreciation-and-capital-expenses-and-allowances/General-depreciation-rules---capital-allowances/Effective-life-of-an-asset/
- Last modified: 24 Apr 2018
- QC 45985

The decline in value of a depreciating asset is generally based on its effective life; that is, how long it can be used to produce income, taking into account:

- whether it's subject to wear and tear at a reasonable rate
- whether it's maintained in reasonably good order and condition
- the period within which it is likely to be scrapped, sold for no more than scrap value or abandoned.

The effective life is used to work out the asset's decline in value (or depreciation) for which an income tax deduction can be claimed.

For most depreciating assets, you can use the ATO's determinations of effective life, published in taxation rulings (updated annually). For some types of transport and agricultural machinery and gas production and distribution plant, the ATO's determination of effective life is capped by statute.

Alternatively, you can work out the asset's effective life yourself, by determining how many years it will reasonably be expected to produce income given the specific way it's likely to be used.

In some situations, you don't have a choice. For example, if you acquire the asset from an associate (such as your spouse or business partner), you must use the same effective life they used (if they used the diminishing value method) or the effective life that is yet to elapse (if they used the prime cost method). For some intangible depreciating assets, including intellectual property, you must use the effective life set out in the uniform capital allowance rules.

See also:

- How do you make your own estimate of a depreciating asset's effective life?
- Capital allowances: law and rulings (including effective life rulings)
- Capital allowances: statutory caps on the effective life of buses, light commercial vehicles, minibuses, trucks and truck trailers

Recalculating effective life

You can choose to recalculate the effective life of an asset if circumstances change and the effective life you've been using is no longer accurate. You may have to recalculate the effective life if you make an improvement to an asset that increases its cost by 10% or more in a year.

See also:

- Recalculating a depreciating asset's effective life

How the ATO determines the effective lives of assets

The ATO determines effective lives through an effective life review process.

In carrying out these reviews we consult directly with owners, sellers, manufacturers and users of assets to come up with an agreed life for specific types of assets. Each year we review a large number of assets and publish the new effective life determinations in a taxation ruling.

See also:

- What does an effective life review involve?
- How we conduct an effective life review
- How we prioritise our effective life reviews

Reviews in progress

The industries and assets currently under review are listed in Reviews in progress.

If you're interested in participating in a review, and assisting us to establish draft effective lives, you can contact the relevant officers shown for each review.

We also welcome comments on draft effective lives published in draft determinations. These will usually appear between September and March depending on how a review is progressing.

Completed and further reviews

The industries for which we've completed effective life determinations are set out in Completed effective life reviews. If your industry is listed here, we have reviewed assets used in the industry and published determinations of effective life in a taxation ruling.

If any assets are missing, or you would like your industry reviewed and effective life determinations made, email effectivelifecoe@ato.gov.au

Low-value assets (pool)

- https://www.ato.gov.au/Business/Depreciation-and-capital-expenses-and-allowances/General-depreciation-rules---capital-allowances/Low-value-assets-(pool)/
- Last modified: 24 Jun 2015
- QC 45986

You can calculate the depreciation of certain low-cost and low-value assets by

allocating them to a low-value pool and depreciating them at a set annual rate.

A low-cost asset is one that costs less than $1,000 after deducting any GST credits you're entitled to claim.

A low-value asset is an asset that has depreciated over one or more years and now has a written-down value of less than $1,000, but only if you've previously worked out deductions for it using the diminishing value method.

Starting a low-value pool

You start a low-value pool when you first choose to allocate a low-cost or low-value asset to it.

Once you choose to create a low-value pool and allocate a low-cost asset to it, you must pool all other low-cost assets you start to hold in that income year and in later income years. However, for your low-value assets (that is, assets written down to a value of less than $1,000), you can decide whether to allocate them to the pool on an asset-by-asset basis.

Once you've allocated an asset to the pool, it must remain there.

Calculating the depreciation

You calculate the depreciation of all the assets in the low-value pool at the annual rate of 37.5%.

If you acquire an asset and allocate it to the pool during an income year, you calculate its deduction at a rate of 18.75% (that is, half the pool rate) in that first year. This rate applies regardless of at what point during the year you allocate the asset to the pool.

Assets you can't allocate to a low-value pool

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

- assets that cost $100 or less for which you can claim an immediate deduction
- assets costing up to $300 used to earn income other than from a business (which can be immediately deducted)
- assets for which you can claim deductions under the simplified depreciation rules for small business
- assets for which you previously calculated depreciation using the prime cost method
- portable electronic devices (including laptops, portable printers, personal digital assistants, calculators, mobile phones and portable GPS navigation receivers), computer software, protective clothing, briefcases and tools of trade, if:
    - you provided the item to your employee, or
    - you paid for some or all of the cost of the item (or reimbursed your employee for it) and the provision, payment or reimbursement was exempt

from fringe benefits tax

- horticultural plants, including grapevines
- certain assets you use to conduct research and development activities.

Sampling rule

If you purchase a large number of items for your business and use a low-value pool, you may be able to use the sampling rule to estimate how much of your purchases you can claim as an immediate deduction and how much you must depreciate over time.

The sampling rule saves you time because you don't need to decide whether each purchase is of a revenue nature (and thus immediately deductible) or of a capital nature (which must be written off over time).

See also:

- Uniform capital allowance system for low-value pools
- Capital allowances: low-cost assets - sampling rule for small business
- Capital allowances: low-cost assets - sampling rule for large business
- Capital allowances: low-cost assets - threshold rule for small business
- Capital allowances: low-cost assets - threshold rule for large business

Disposing or ceasing to use a depreciating asset

- https://www.ato.gov.au/Business/Depreciation-and-capital-expenses-and-allowances/General-depreciation-rules---capital-allowances/Disposing-or-ceasing-to-use-a-depreciating-asset/
- Last modified: 14 Jul 2020
- QC 45987

If you cease to hold or use a depreciating asset, a balancing adjustment event may occur. A balancing adjustment event occurs for a depreciating asset when:

- you stop holding the asset – for example, it is sold, lost or destroyed
- you stop using it for any purpose and expect never to use it again
- you stop having it installed ready for use and you expect never to install it ready for use
- you have 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.

If any of the above occur, you need to calculate a balancing adjustment amount to

include in your assessable income or to claim as a deduction.

Balancing adjustments are not made for:

- depreciating assets in a low-value pool – the proceeds from the sale are instead used to reduce the value of the pool, which in turn reduces future depreciation deductions (unless the pool balance has been reduced to zero, in which case a balancing adjustment is made)
- buildings and other capital works, which are dealt with separately under the capital works provisions.

Find out about:

- Balancing adjustments
- Termination value
- Non-taxable use
- Replacing an asset

Balancing adjustments

You calculate the balancing adjustment amount by comparing the asset's termination value (for example, the sale proceeds) with its adjustable value (the cost of the asset less depreciation deductions).

If the asset's termination value is more than its adjustable value, include the difference in your assessable income.

If the asset's termination value is less than its adjustable value, you can claim a deduction for the difference.

Termination value

Generally, the termination value is what you receive or are taken to receive for the asset when a balancing adjustment event occurs. It is made up of:

- amounts you receive for the asset, and
- the market value of any non-cash benefits (such as goods or services) you receive for the asset.

The most common example of termination value is the proceeds from selling an asset. The termination value may also be an insurance payout for the loss or destruction of a depreciating asset.

The termination value is reduced by the GST payable if the balancing adjustment event is a taxable supply. It can be modified by increasing or decreasing adjustments.

For any asset other than a unit of in-house software, if you stop using it and expect never to use it again but still hold it, the termination value is the market value at that time. For a depreciating asset you decide never to use but still hold, the termination value is the market value when you make the decision.

The termination value of a unit of in-house software is zero if you:

- stop using it and expect never to use again but still hold it, or
- have not used it and decide never to use it, but still hold it.

Non-taxable use

If a depreciating asset is used only partly for a taxable purpose, you need to reduce the balancing adjustment amount to reflect that non-taxable use. The reduced balancing adjustment amount is included in, or deducted from, your assessable income.

The non-taxable use proportion of the difference between the asset's termination value and its cost can constitute a capital gain or a capital loss.

Example

Sam receives $16,000 for a truck which he used in his business. The truck has been used 40% for private purposes.

At the time of sale, the truck's adjustable value is $20,000. Sam can claim a $2,400 deduction for the reduced balancing adjustment amount (60%, the taxable use proportion of $4,000).

If a depreciating asset is used wholly for a non-taxable purpose, the balancing adjustment amount is reduced to nil.

Replacing an asset

Replacing an asset will generally not affect the calculations set out above. However, if you dispose of an asset involuntarily – for example, if it was destroyed by fire – you may be able to offset the assessable balancing adjustment amount against the cost of a replacement asset.

See also:

- Guide to depreciating assets
- Uniform capital allowance system: disposal of a depreciating asset
- Disposal of a pooled depreciating asset
- Determining market value for tax purposes

Record keeping for capital expenses

- https://www.ato.gov.au/Business/Depreciation-and-capital-expenses-and-allowances/General-depreciation-rules---capital-allowances/Record-keeping-for-capital-expenses/
- Last modified: 25 Jun 2019
- QC 59423

This page outlines the record-keeping requirements for uniform capital allowances (UCA) for:

- general depreciating assets
- low-value pools
- rollover relief.

See also:

- Guide to depreciating assets 2019 – for more information about record keeping and explanations of the technical terms used on this page

Record keeping for general depreciating assets

You must keep the following information for a depreciating asset:

- the first and second elements of cost
- the opening adjustable value for the income year
- any adjustments made to cost or adjustable value
- the date you started holding the asset and its start time
- the rate or effective life used to work out the decline in value
- the method used to work out the decline in value
- the amount of your deduction for the decline in value and any reduction for use of the asset for a non-taxable purpose
- the adjustable value at the end of the income year
- any recoupment of cost you have included in assessable income
- if a balancing adjustment event occurs for the asset during the year
    - the date of the balancing adjustment event
    - termination value
    - adjustable value at that time
    - the balancing adjustment amount
    - any reduction of the balancing adjustment amount
    - details of any rollover or balancing adjustment relief.

You must also keep:

- details of how you worked out the effective life of a depreciating asset where you have not adopted the effective life determined by the Commissioner of Taxation
- if you have recalculated the effective life of an asset
    - the date of the recalculation
    - the recalculated effective life
    - the reason for the recalculation
    - details of how you worked out the recalculated effective life

- original documents such as suppliers' invoices and receipts for expenditure on the depreciating asset.

Note: Additional record-keeping requirements apply if you acquire an asset from an associate, or if you acquire a depreciating asset and the user is the same or is an associate of the former user.

Record keeping for low-value pools

For depreciating assets in a low-value pool, you need to keep the following details (some details relate to the assets and some to the pool):

- the start time of assets in the pool and the date you started holding them
- the closing pool balance at the end of the previous income year
- any second elements of cost incurred for the income year for assets in the pool at the end of the previous income year
- the opening adjustable value of any low-value assets you have allocated to the pool for the income year
- the first element of cost of any low-cost assets allocated to the pool for the income year
- the second element of cost of low-cost assets and low-value assets allocated to the pool for the income year
- the taxable use percentage of each amount added to the pool for the income year
- the termination value and taxable use percentage for any assets in the pool in respect of which a balancing adjustment event occurred during the income year and the date of the balancing adjustment event
- the closing pool balance
- the decline in value
- any amount included in assessable income because the taxable use percentage of the termination value exceeds the closing pool balance, and any recoupment of cost you have included in assessable income.

A capital gain or capital loss may arise when a balancing adjustment event occurs either:

- for a depreciating asset which you expect to use for a non-taxable purpose
- for a depreciating asset which you have allocated to a low-value pool and expect to use for a non-taxable purpose.

If either of the above occurs, you must keep the following information:

- the first and second elements of cost
- the termination value and taxable use percentage.

When to start keeping records

Generally, records relating to a depreciating asset allocated to a low-value pool must be kept for five years, starting from the end of the income year in which the asset is allocated to the pool.

There are two exceptions:

- If an amount is included in the second element of an asset's cost after the asset is allocated to a low-value pool, the records of the cost must be kept for five years from the time the expenditure is incurred.
- Records of acquisitions relating to delayed claims for GST input tax credits must be kept for at least five years after lodgment. Therefore, if a claim for input tax credits relates to a depreciating asset in a low-value pool, the record of acquisition may need to be kept for five years which begins later than the end of the income year in which the asset is allocated to the pool.

Record keeping for rollover relief

If automatic rollover relief applies, the transferor must give the transferee a notice containing enough information for the transferee to work out how the UCA rules apply to the transferee's holding of the depreciating asset. Generally, this needs to be done within six months after the end of the transferee's income year in which the balancing adjustment event occurred.

The transferee must keep a copy of the notice for five years after the asset is:

- disposed of
- lost or destroyed (whichever happens earlier).

If a transferor and transferee jointly choose rollover relief, the decision must be in writing and must contain enough information for the transferee to work out how the UCA rules apply to the transferee's holding of the depreciating asset. Generally, the choice needs to be made within six months after the end of the transferee's income year in which the balancing adjustment event occurred.

The transferor must keep a copy of the agreement for five years after the balancing adjustment event occurred. The transferee must keep a copy for five years after the next balancing adjustment event that occurs for the asset.

Backing business investment – accelerated depreciation

- https://www.ato.gov.au/Business/Depreciation-and-capital-expenses-and-allowances/Backing-business-investment---accelerated-depreciation/
- Last modified: 20 Aug 2020
- QC 61924

Eligible businesses, for the 2019–20 and 2020–21 income years, may be able to deduct the cost of new depreciating assets at an accelerated rate.

For each new asset, the accelerated depreciation deduction applies in the income

year that the asset is first used or installed ready for use for a taxable purpose.

You can claim the deduction when lodging your tax return for the income year. The usual depreciating asset arrangements apply in the subsequent income years that the asset is held.

On this page:

- Eligible businesses
- Eligible assets
  - Passenger vehicles
  - Research and development
- Working out your deduction
  - Small business entity
  - Other business entities
- Examples

Eligible businesses

Businesses are eligible for the accelerated depreciation deduction if they have an aggregated turnover of less than $500 million in the year they are claiming the deduction. The accelerated depreciation deduction is available in the 2019–20 and 2020–21 income years.

Businesses can claim the deduction when lodging their tax return for the income year the asset is first used or installed ready for use for a taxable purpose.

Eligible assets

To be eligible to apply the accelerated rate of deduction, the depreciating asset must:

- be new and not previously held by another entity (other than as trading stock)
- be first held on or after 12 March 2020
- first used or first installed ready for use for a taxable purpose on or after 12 March 2020 until 30 June 2021
- not be an asset to which an entity has applied the instant asset write-off rules or depreciation deductions.

There is no limit on the number of eligible assets that you can apply accelerated depreciation to in an income year.

Eligible assets do not include:

- second-hand depreciating assets
- some specific Division 40 assets subject to low value and software development pools
- certain primary production assets
- buildings and other capital works for which you can deduct amounts under Division 43
- other specific capital asset and expense deductions

- assets you were committed to acquiring before 12 March 2020.

There is no limit on the cost of an eligible asset to which you can apply accelerated depreciation, unless it is a passenger vehicle.

Passenger vehicles

If you purchase a passenger vehicle (except a motorcycle or similar vehicle) designed to carry a load of less than one tonne and fewer than nine passengers, the car limit applies. You must reduce the cost of the vehicle to the car limit before calculating your depreciation. You cannot claim the excess cost of the vehicle above the car limit under any other depreciation rules.

The car limit is:

- $57,581 for the 2019–20 income year
- $59,136 for the 2020–21 income year

See example 3 for when the car limit applies.

A vehicle's cost (before applying the car limit, if applicable):

- does not include the value of a trade-in
- excludes the GST amount if you are registered for GST
- includes the GST amount if you are not registered for GST.

The one tonne limit relates to the maximum load your vehicle can carry, also known as the payload capacity. The payload capacity is the gross vehicle mass (GVM) as specified on the compliance plate by the manufacturer, reduced by the basic kerb weight of the vehicle.

The basic kerb weight is the weight of the vehicle with a full tank of fuel, oil and coolant together with spare wheel, tools (including jack) and factory-installed options. It does not include the weight of passengers, goods or accessories.

Payload capacity = GVM – basic kerb weight

See also:

- Car cost limit for depreciation

Research and development

If accelerated depreciation is to be applied to the purchase of an asset used for research and development (R&D) purposes, you can only claim the R&D tax offset for the proportion of the decline in value that is for R&D use. In working out the amount in relation to R&D use, you must subtract any non-R&D use (including the taxable purpose portion and private use portion).

Find out about:

- Uniform capital allowance system: low-value pools
- Low-value assets (pool)

- In-house software
- Primary production
- Capital works deductions
- Car limit
- Eligible expenditure under the R&D tax incentive

Working out your deduction

Different rules apply when working out your deduction, depending on whether you are using the simplified rules for capital allowances for small businesses

Small business entity

If you are a small business with an aggregated turnover of less than $10 million, and you use the simplified depreciation rules, those assets that cost the same as or more than the instant asset write-off threshold which are eligible for the accelerated depreciation are added to the general small business pool. You then deduct an amount equal to 57.5% (rather than 15%) of the business portion of a new depreciating asset in the year you add it to the pool. In later years the asset will be depreciated under the general small business pool rules.

See also:

- Work out if you are a small business entity
- Simpler depreciation for small business

Other business entities

If you are an entity with aggregated turnover less than $500 million in the income year and do not use the simplified depreciation rules, you may be eligible to deduct an amount if the asset is an eligible asset.

The amount your entity can deduct in the income year the asset is first used or installed ready for use is:

- 50% of the cost (or adjustable value where applicable) of the depreciating asset
- plus the amount of the usual depreciation deduction that would otherwise apply but calculated as if the cost or adjustable value of the asset were reduced by 50%.

Effectively, together with the instant asset write-off rules, the accelerated depreciation deduction applies to assets with a cost (or adjustable value if applicable) of:

- $150,000 or more in the 2019–20 income year
- $150,000 or more if first used or installed ready for use for a taxable purpose prior to 1 January 2021 in the 2020–21 income year
- $1,000 or more if first used or installed ready for use for a taxable purpose from 1 January 2021 in the 2020–21 income year.

Examples

Example 1 – Small business benefits from accelerated depreciation

Joan and Bruce own a company, NC Transport Solutions Pty Ltd, through which they operate a haulage business on the North Coast of New South Wales. NC Transport Solutions Pty Ltd has an aggregated turnover of $8 million for the 2019–20 income year. On 1 May 2020, Joan and Bruce purchase a new truck for $260,000, exclusive of GST. For the year ending 30 June 2020, the truck was only used for business purposes

Under past tax arrangements, NC Transport Solutions Pty Ltd would depreciate the truck using their general small business pool. This means that NC Transport Solutions Pty Ltd would deduct 15% of the asset's value when they added it to the pool, leading to a tax deduction of $39,000 for the 2019–20 income year (assuming there are no other assets in the pool).

Under the new accelerated depreciation, NC Transport Solutions Pty Ltd will instead claim a deduction of 57.5% when they add it the pool, leading to a deduction of $149,500 for the 2019–20 income year.

Example 2 – Middle-sized business benefits from accelerated depreciation

J Construction Solutions Pty Ltd has an aggregated turnover of $200 million for the 2020–21 income year. On 1 July 2020, J Construction Solutions Pty Ltd installs a $1 million truck mounted concrete pump. For the year ending 30 June 2020, the pump was only used for business purposes.

Under past tax arrangements, in the first year J Construction Solutions Pty Ltd could claim 30% depreciation when using the diminishing value method (based on the asset's effective life of six and two thirds years).

Under the new accelerated depreciation, J Construction Solutions Pty Ltd can claim a depreciation deduction of $650,000 in the 2020–21 income year. This consists of 50% of the concrete pump's value under the new accelerated depreciation ($500,000) plus 30% of the remaining $500,000 under existing depreciation rules ($150,000).

Example 3 – Business purchases cars and utes in 2020–21 and claims

accelerated depreciation

J Construction Solutions Pty Ltd has an aggregated turnover of $200 million for the 2020–21 income year and is registered for GST purposes.

On 1 September 2020, J Construction Solutions Pty Ltd purchases a fleet of five new cars (five seaters) costing $80,000 each and three new work utes with carrying capacity over one tonne costing $70,000 each. For the year ending 30 June 2021, the vehicles were only used for business purposes. The amounts shown here exclude GST.

As the fleet cars are passenger vehicles subject to the car limit, before J Construction Solutions Pty Ltd can calculate its depreciation for 2020–21, they must first reduce the cost of each car to the 2020–21 car limit of $59,136.

In the 2020–21 income year, for each car, J Construction Solutions Pty Ltd can claim a depreciation deduction of 50% of each car's cost up to the car limit. That is, $29,568 each – half of the car limit for the 2020–21 income year. They can also use the general depreciation rules for the $29,568 balance for each car applied over the life of the asset, excluding any GST. The company cannot claim the excess cost of each car above the car limit.

However, the car limit does not apply to the work utes, as these vehicles have a load carrying capacity of over one tonne. So, 50% of the cost of each ute can be claimed immediately, and the balance of the cost can be deducted over the life of the asset under general depreciation rules.

When reviewing its vehicle replacement program earlier in 2020–21, J Construction Solutions Pty Ltd also considered purchasing the following vehicles:

- a truck to transport building materials (not a passenger vehicle)
- a minivan (seating nine or more passengers) to move staff between its construction sites and
- a seven-seater station wagon for general purposes.

Of the above listed vehicles, the car limit would only have applied to the purchase of the station wagon, as this is classed as a motor vehicle designed to carry a load of less than one tonne and fewer than nine passengers.

See also:

- The Australian Government's economic response to coronavirus
- Instant asset write-off for eligible businesses
- Depreciation and capital allowances tool
- Car limit

Capital works deductions

- https://www.ato.gov.au/Business/Depreciation-and-capital-expenses-and-allowances/Capital-works-deductions/
- Last modified: 18 Sep 2019
- QC 45988

Capital works used to produce income, including buildings and structural improvements, are written off over a longer period than other depreciating assets.

Note that the land itself can't be written off and its cost isn't deductible.

The capital works deduction is available for:

- buildings or extensions, alterations or improvements to a building
- alterations and improvements to a leased building, including shop fitouts and leasehold improvements
- structural improvements such as sealed driveways, fences and retaining walls
- earthworks for environmental protection, such as embankments.

If it isn't possible to determine the actual construction costs, you can get an estimate from a quantity surveyor or other independent qualified person. You can claim a deduction for the full cost of the estimate in the year it is incurred. Deduction rates of 2.5% or 4.0% apply, depending on the date on which construction began, the type of capital works, and how they're used.

Special rules apply to:

- Landcare operations
- Environmental protection activities

You can work out the correct Capital Works deduction that applies to you by using the Depreciation and Capital Allowances Tool. To work out your capital works amounts you can click on the ‘Rental Property’ tab and add relevant assets, or click on the 'Asset' tab and chose 'Net income or loss from business' under the 'Type' question.

See also:

- Rental properties - claiming capital works deductions
- Division 43 of the ITAA 1997 *Deductions for capital works*
- Rental properties
- Taxation Ruling: TR 2007/9 *Income tax: circumstances when an item used to create a particular atmosphere or ambience for premises used in a cafe, restaurant, licensed club, hotel, motel or retail shopping business constitutes an item of plant*

Other capital asset and expense deductions

- https://www.ato.gov.au/Business/Depreciation-and-capital-expenses-and-allowances/Other-capital-asset-and-expense-deductions/
- Last modified: 24 Apr 2018
- QC 45989

Special rules apply to claiming deductions for the following capital expenses, some of which involve depreciating assets:

- Setting up or ceasing a business
- Project-related expenses
- Primary production
- Environmental protection activities
- Mining exploration
- In-house software development
- Vehicles

Setting up or ceasing a business

You may be able to claim a deduction for the costs associated with setting up or ceasing a business or raising finance, including the costs incurred in:

- establishing a company or other business structure
- converting your business structure to a different structure
- raising equity for your business
- defending your business against a takeover
- unsuccessfully attempting a takeover
- stopping carrying on business (including liquidating a company).

For these expenses, you can claim a deduction over a five-year period on a straight line basis (that is 20% in the year you incur them and in each of the following four years).

The costs must not be deductible under any other part of the tax law nor form part of the cost of a depreciating asset or land.

Note that from 1 July 2015, a start-up company, trust or partnership can immediately deduct a range of professional expenses associated with starting a new business, such as professional, legal and accounting advice.

See also:

- Other capital expenses (including capital works deductions)
- Certain start-up expenses immediately deductible

Project-related expenses

You can claim a deduction for certain capital expenses directly related to a project, such as feasibility studies or environmental assessments.

These expenses can be allocated to a pool and written off over the effective life of the project using the diminishing value method.

The costs must not be deductible under any other part of the tax law nor form part of the cost of a depreciating asset or of land.

See also:

- Other capital expenses (including capital works deductions)
- TR 2011/6 Income tax: business related capital expenditure - section 40-880 of the Income Tax Assessment Act 1997 core issues

Primary production

The government has announced that, from 7:30pm (AEST) on 12 May 2015, primary producers will be able to:

- immediately deduct the cost of fencing and water facilities such as dams, tanks, bores, irrigation channels, pumps, water towers and windmills
- depreciate over three years the cost of fodder storage assets such as silos and tanks used to store grain and other animal feed.

For expenditure before this time, primary producers can claim a deduction for the decline in value of:

- fences over a period up to 30 years
- water facilities over three years
- fodder storage assets over a period up to 50 years.

Special rules also apply to claiming depreciation deductions for horticultural plants and grapevines.

In the case of partnership assets, deductions are not claimed by the partnership (unlike partnership assets depreciated under the general depreciation rules), but are allocated to each partner who can then claim for their share of the expenditure.

See also:

- Accelerated depreciation for primary producers
- Primary production depreciating assets

Carbon sinks

A deduction for the cost of establishing trees in a carbon sink forest can be claimed as follows:

- For trees established from 1 July 2007 to 30 June 2012, you could claim an immediate deduction for the cost of establishing the trees.
- For trees established from 1 July 2012, you can claim up to 7% of the cost of establishing the trees in each year, worked out using the following formula:

Establishment	×	Write-off days in the income	×	Write-off

expenditure	year÷365	rate

'Write-off days in the income year' is the number of days in the income year in which the trees are established. Therefore:

- for the first year it will be the number of days from the day on which the trees were established to 30 June
- for the following 13 years it will be 365, and
- for the final year it will be 470 less the number of write-off days in the first year.

See also:

- Carbon sink forests

Landcare operations

You can claim an immediate deduction for capital spending on a Landcare operation in Australia.

The deduction is available to the extent you use rural land for a primary production or other business (other than including mining or quarrying).

You're entitled to the deduction even if you lease the land from the owner.

See also:

- Capital expenditure deductible under the UCA – Landcare operations

Electricity and phone connections

You may be able to claim a deduction over 10 years for capital expenditure on:

- mains electricity – connecting, upgrading or extending a connection to any land on which a business is carried on
- telephone lines – connecting or extending to land on which only a primary production business is carried on.

In the case of partnerships, deductions for this expenditure are not claimed by the partnership (unlike partnership assets depreciated under the general depreciation rules), but are allocated to each partner who can then claim for their share of the expenditure.

If you're a small business entity, you can choose to work out your deductions for costs on depreciating assets using either these special rules or the simpler depreciation rules.

If your expenditure on mains electricity or phone lines (along with similar works such as broadband telecommunications links) doesn't meet these conditions, you may be able to write it off as a capital works deduction.

See also:

- Capital expenditure on mains electricity and phone

Environmental protection activities

You can claim an immediate deduction for expenditure for the sole or dominant purpose of carrying on environmental protection activities (EPAs). These are activities undertaken to prevent, fight and remedy pollution, and to treat, clean up, remove and store waste from your earning activity or a site on which another entity carried on a business that you acquired and carry on substantially unchanged as your earning activity.

Earning activities are defined as those carried on for the following purposes:

- producing assessable income (other than a net capital gain)
- exploration or prospecting
- mining site rehabilitation.

You may also claim a deduction for expenditure on EPAs relating to a site if the pollution or waste is caused by another entity to which you have leased or granted a right to use the site.

Expenditure that is deductible as part of the cost of a depreciating asset is not also deductible as expenditure on an EPA.

See also:

- Capital expenditure deductible under the UCA – Environmental protection activities

Mining exploration

The full cost of depreciating assets used for exploration or prospecting for minerals (including petroleum) or quarry materials may be deductible in the year in which you start to use them.

An immediate deduction may also be available for capital expenditure that doesn't form part of the cost of a depreciating asset but is incurred on:

- exploration or prospecting for minerals (including petroleum) or quarry materials
- rehabilitation of your mining or quarrying sites.

See also:

- Capital expenditure deductible under the UCA – Mining and quarrying, and minerals transport

In-house software

Special rules apply to in-house software you acquire or develop for business use, not for sale.

These rules do not apply to periodic payments made to use software in your business. Such costs are deductible in the year incurred.

Expenses for in-house software may be deducted in a number of ways depending on the circumstances:

- simplified depreciation for small business
- general small business pools
- prime cost method
- software development pools.

Next step:

- In-house software

Vehicles

Where you use the cents per kilometre method to calculate deductions for car expenses you can't deduct any amount for the decline in value of the car as these methods take depreciation into account in their calculations.

A statutory cap applies to the effective life of some types of vehicle. This means that if you choose to adopt the Commissioner's determination, rather than self-assess the effective life, you must use the shorter of the capped effective life and the Commissioner's determined effective life.

See also:

- Capital allowances: statutory caps on the effective life of buses, light commercial vehicles, minibuses, trucks and truck trailers

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