



# Depreciation

## Fast facts

### Overview of depreciation

- Assets are generally things of value, such as land, computers and other equipment. Some assets are depreciating assets because they have a limited effective life and can reasonably be expected to decline in value over the time they're used.
- Generally you can claim a deduction for the decline in value (depreciation) of a depreciating asset if it was used to gain or produce business income.
- The main types of depreciation rules to be aware of are:
  - simplified depreciation rules
  - general depreciation rules, and
  - other depreciation rules (including the capital works deduction and other special rules).
- If you meet the eligibility requirements for simplified depreciation rules you can choose to use them.
- Simplified depreciation rules include:
  - an instant asset write-off for assets costing less than the limit amount
  - a small business pool.
- If you are not eligible to use simplified depreciation or if you are eligible and you choose not to use them, you use the general depreciation rules.

- General depreciation rules set the amounts that can be claimed, based on an asset's effective life. There are 2 ways you can calculate the rate of depreciation for these assets:
  - the prime cost method, or
  - the diminishing value method.

For low cost and low value assets, you may elect to allocate them to a low value pool and claim a deduction under the low value pool rules.

## How to apply depreciation

To apply depreciation ask yourself these questions.

- Do I use depreciating assets in my business?
  - Depreciating assets are assets that have a limited effective life and can reasonably be expected to decline in value over the time they're used.
  - However not all assets will be depreciating assets.
- Am I holding a depreciating asset?
  - Only the holder of a depreciating asset can claim a deduction 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.
  - A partnership (not the individual partners) is taken to be the holder of a partnership asset, regardless of its ownership.
- Can I use simplified depreciation rules for small business?
  - Simplified depreciation rules for small business include an instant asset write-off, and a small business pool.
  - Under the simplified depreciation instant asset write-off, eligible businesses claim an immediate deduction for the taxable purpose portion of the cost of an asset, in the year the asset is first used or installed ready for use.

- Any depreciating assets for which you can't claim an immediate deduction under the instant asset write-off are allocated to a small business pool.
- You must account for private usage of an asset and can only claim depreciation for your business usage.

- Can I use general depreciation rules?
  - General depreciation rules apply to most depreciating assets, in the absence of special depreciation rules or an election to use simplified depreciation.
  - The general depreciation rules set the amounts (capital allowances) that can be claimed, based on an asset's effective life.
  - You can't claim a deduction under the general depreciation rules for non-depreciating assets.
  - Low-cost assets or low-value assets can be allocated to a low-value assets pool and depreciated at a set annual rate.
  - Low-value assets can only be allocated to the low-value assets pool if you used the diminishing value method to depreciate their value to less than \$1,000, over one or more years.
  - When calculating a general depreciation deduction, you must account for private use of depreciating assets and must reduce your claim by this non-taxable purpose of the asset.
- Can I use the capital works deduction or other special rules?
  - Capital works used to produce income, including buildings and structural improvements, are written off over a longer period than other depreciating assets.
  - The capital works deduction is available for:
    - buildings or extensions, alterations or improvements to a building
    - alterations and improvements to a leased building and leasehold improvements

- structural improvements such as sealed driveways, fences and retaining walls
- earthworks for environmental protection, such as embankments.
- 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.
- The cost of the land a capital work is on can't be written off and its cost isn't deductible.

## **The ATO Depreciation and capital allowances tool**

The ATO Depreciation and capital allowances tool helps you calculate your depreciation for capital assets. You can use this tool to:

- calculate the depreciation amounts for
  - rental properties
  - your small business pool
  - your low-value pool
  - capital works
- calculate your share of depreciating assets in a partnership
- calculate the decline in value on multiple assets
- compare depreciation amounts between the prime cost and diminishing value methods
- determine balancing adjustment amounts
- save your calculations so they automatically populate future year amounts for use in your tax return, if you have a myGov account
- save your calculations for your records or send them to your tax agent.

## **Record-keeping**

You generally need to keep records of depreciating assets for as long as you have the asset, and then another 5 years after you sell or dispose of the asset.

However, there are different time periods and requirements that apply if the depreciating asset is in a low-value pool or is subject to rollover relief.

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