



# 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 a threshold 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

- 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 five 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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