SAMPLE EXPLANATION OF DEPRECIATION USED IN OUR REPORTS

Division 40 Depreciating Assets

The valuation of depreciating assets can be based on a reasonable attribution of the overall capital expenditure as provided for in Section 40-195 ITAA 1997.

The effective lives used in calculating depreciation rates are a combination of effective lives taken from TR2014/4, and the self-assessment of effective lives as provided for in Section 40-105. The guidelines for assessing effective lives in TR2014/4 have been followed where self-assessment was required.

Depreciation rates adopted in our schedules are in accordance with the legislation in force at the time of acquisition.

Low-cost assets (< $1,000) are contained in the low-value pool schedule in accordance with ITAA 1997. The low-cost assets have been depreciated at a rate of 18.75% over the whole of the first year using the diminishing value method. In subsequent years, these assets should be depreciated at 37.5% under the diminishing value method.

Assets depreciated under the diminishing value method can be allocated to the low-value pool when their adjusted value falls under $1,000 at the start of a year of income, however, there is no write-off allowance available for low-value pool assets, so if you intend to dispose of or refurbish assets within four (4) years it may be preferable to depreciate assets at lower rates under the diminishing value method and not utilize the low-value pool rates.

Under the UCA rules, an immediate deduction is available when you start to hold certain depreciating assets in an income year and the asset costs $300 or less and:

- Is used predominantly for the purpose of producing assessable income that is not derived from carrying on a business.
- is not part of a set of assets you start to hold in that year that costs more than $300
- Is not one of a number of identical or substantially identical assets acquired in the same tax year that together exceeds $300.

This acquisition excludes items which can generate an immediate write-off in the first year.

Division 43 Deductions for Capital Allowances

It is a requirement of Division 43 ITAA 1997 that the qualifying expenditure shall be based on the historical cost of construction of the asset.

The prime cost rates for deductions for capital allowances are 2.5% or 4% and are triggered by the date of commencement of the building works, and the type of building. Examples of these rates follow;

- 2.5% for building works as described in Sections 43-25, 43-75, 43-90 and 43-140 of the Act and which commenced construction after 15 September 1987
- 2.5% for structural improvements as described in Sections 43-25, 43-75, 43-90, 43-145 and 43-150 of the Act and which commenced construction after 26 February 1992.

The Division 43 Deductions for Capital Works can either be based on the actual historical construction cost as advised or researched, or derived from a Tax Agents estimate of the historical construction costs as set out in Tax Ruling 97/25.

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