Depreciation and capital expenses and allowances

How to claim the cost of capital assets over time, reflecting the asset's decline in value.

Simpler depreciation for small business

Simplified depreciation rules including instant asset write-off and the small business pool.

General depreciation rules - capital allowances

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

Temporary full expensing

You may be able to claim an immediate deduction for the cost of eligible assets and improvements to existing assets.

Backing business investment – accelerated depreciation

Information on how businesses apply the Backing business investment rules to access and claim accelerated depreciation.

Capital works deductions

Work out if the capital works deduction applies to your activity.

Other capital asset and expense deductions

Special rules apply to claiming deductions for certain depreciating assets and other business capital expenses.

Interaction of tax depreciation incentives

A guide to tax depreciation incentives and when businesses could consider using them.

QC 17053

Simpler depreciation rules for small business

Simplified depreciation rules including instant asset write-off and the small business pool.

Last updated 4 July 2025

Simplified depreciation rules

You can choose to use the simplified depreciation rules if you have a small business with an aggregated turnover of less than:

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

Aggregated turnover is based on the **annual turnover** of your business and that of any business entities that are your affiliates or connected with you.

Simplified depreciation rules for small business include:

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

There were 3 temporary tax depreciation incentives available to eligible small businesses using the simplified depreciation between the

2019–20 and 2022–23 income years:

- temporary full expensing
- increased instant asset write-off
- backing business investment

Instant asset write-off

Using instant asset write-off for eligible businesses, small business owners can immediately write off the business portion of the cost of an asset that costs less than the relevant limit amount for the year the asset is first used or installed ready for use.

For an asset for which a small business has claimed an immediate deduction under the simplified depreciation rules in a prior income year, it can also immediately deduct an amount included in the second element (cost addition) of that asset's cost, where the amount is:

- the first deductible amount of second element cost incurred after the end of the income year in which the asset was written off
- less than the relevant limit amount for the income year it is being claimed.

For the 2023–24 and 2024–25 income years the relevant limit amount is $20,000.

If your businesses uses the simplified depreciation rules, the instant asset write-off limit **does not** apply for assets you started to hold, and first used (or had installed ready for use) for a taxable purpose from 7:30 pm AEDT on **6 October 2020 to 30 June 2023**. These businesses must instead immediately deduct the business portion of the asset's cost under temporary full expensing.

Small business pool

For income years ending on or before October 2020 and after 1 July 2023, you:

- pool the business portion of most higher cost assets (those with a cost equal to or more than the relevant instant asset write-off limit) and claim
  - a 15% deduction in the year you start to use them or have them installed ready for use
  - a 30% deduction each year after the first year

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

For income years ended between 6 October 2020 and 30 June 2023, small business owners using simplified depreciation must deduct the balance of the **small business pool** under **temporary full expensing** at the end of the respective income year.

Using simplified depreciation

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.

A small number of assets are **excluded** from the simplified depreciation rules and a **car limit** applies to the cost of passenger vehicles.

If you stop using simplified depreciation

If you choose to stop using the simplified depreciation rules or become ineligible to use them, you must work out deductions for your depreciating assets using the **general depreciation rules**. For income years ending between 6 October 2020 to 30 June 2023, you may be eligible to claim deductions under either temporary full expensing or backing business investment incentives.

If you choose to stop using the simplified depreciation rules or become ineligible to use them for an income year, in that and later income years you can't:

- add more assets to the pool which you started to use, or had installed ready for use, during the income year
- claim an instant asset write-off for any new assets under these rules.

For depreciating assets which are allocated to your small business pool you:

- continue to claim a 30% deduction for each year, following the allocation year, until the pool balance falls below the instant asset write-off limit

- then deduct the remaining pool balance.

For income years ending between 6 October 2020 and 30 June 2023 you deduct the balance of your small business pool under temporary full expensing.

To notify the Commissioner of your choice, lodge your tax return and keep your records for the required period of time. You aren't required to lodge any other form to notify of your choice.

Lock out rule

From 7:30 pm AEST 12 May 2015 to 30 June 2025 the ‘lock out’ rule is suspended to allow small businesses that have chosen to stop using the simplified depreciation rules to take advantage of temporary full expensing and the instant asset write-off.

Previously, the 'lock out' rule prevented small businesses from re-entering the simplified depreciation system for 5 years if they had opted out.

Using simplified depreciation rules again

If you have stopped using the simplified depreciation rules, and then start using them again, you must adjust the opening **pool balance** for any depreciating assets that you have started using or installed ready for use since last using these rules.

Your new opening pool balance will be your previous closing balance plus the business portion of the value of any depreciating assets not previously added to the pool.

Bookkeeping and record keeping

Modern bookkeeping systems generally calculate depreciation, but make sure you have chosen the right settings to apply the simplified depreciation rules.

In line with the **record-keeping** requirements for taxpayers generally, you must keep records for 5 years of:

- how you worked out your opening pool balance
- any change in how much you use the asset in your business
- any assets you dispose of.

Instant asset write-off for eligible businesses

Work out if your business can use the instant asset write-off to claim a deduction for the cost of an asset.

Assets and exclusions

How the simplified depreciation rules apply to assets and which assets are excluded.

Small business pool calculations

Find out how to calculate small business pool events under simplified depreciation rules for small business.

Rollover and restructure

Rollover relief may be available if balancing adjustment events occur to a depreciating asset due to ownership changes.

QC 33726

Instant asset write-off for eligible businesses

Work out if your business can use the instant asset write-off to claim a deduction for the cost of an asset.

Last updated 7 July 2025

About 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.

The instant asset write-off can be used for:

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

For an asset for which you have claimed an immediate deduction under the simplified depreciation rules in a prior income year, small businesses can also immediately deduct an amount included in the **second element** (cost addition) of that asset's cost, where the amount is:

- the first deductible amount of second element cost incurred after the end of the income year in which the asset was written off
- less than the relevant limit amount for the income year it is being claimed.

If you are a small business, you need to apply the **simplified depreciation rules** 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 limit have changed over time. You need to check your business's eligibility and apply the relevant limit amount. The income year in which you may claim an instant asset write-off depends on when the asset was purchased, first used or installed ready for use.

Example 1: purchase of assets and cost additions under the relevant limit

Jack is a sole trader with an aggregated turnover of less than $10 million and uses the simplified depreciation rules. He purchased an excavator for $220,000 for his business and first used it on 20 January 2021. He claimed the cost of the excavator under temporary full expensing in his 2020–21 income year tax return.

On 15 August 2024, Jack purchased, and installed ready for use, a new bucket for his excavator which cost $19,000. He did not have any previous cost additions for the excavator. As the bucket is the first addition to the second element of cost for the asset which Jack had written off in an earlier income year, he is able to claim a deduction for its full cost in his 2024–25 income year tax return as it is under the relevant limit of $20,000.

Jack also purchased a new MIG welder for $4,500 which was delivered ready for use on 12 May 2025. As the cost of the MIG welder was under the relevant limit and he only uses it for his business, he can instantly write off its full cost as a deduction in his 2024–25 income year tax return.

Eligibility

Eligibility, and the year in which you may use the instant asset write-off to claim an immediate deduction for an asset depends on:

- your aggregated turnover (the **annual turnover** of your business and that of any business entities that are your affiliates or connected with you)
- 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 limit.

Limits

The limits have changed over recent years.

Instant asset write-off limits for small businesses with an aggregated turnover less than $10 million that apply the simplified depreciation rules

Eligible businesses	Date range for when asset first used or installed ready for use	Limit
Less than $10 million aggregated turnover	1 July 2023 to 30 June 2025	$20,000
Less than $10 million aggregated turnover	12 March 2020 to 30 June 2021, providing the asset was purchased on or after 7:30 pm (AEST) on 12 May 2015 and by 31 December 2020	$150,000
Less than $10 million aggregated turnover	7:30 pm (AEDT) on 2 April 2019 to 11 March 2020	$30,000
Less than $10 million	29 January 2019 to prior to 7:30 pm (AEDT) on 2 April	$25,000

aggregated turnover	2019	
Less than $10 million aggregated turnover	1 July 2016 to 28 January 2019	$20,000

Note: (12 March 2020 to 30 June 2021). For the 2020–21, 2021–22 and 2022–23 income years, Temporary full expensing may be available.

Temporary Instant asset write-off limits for businesses with an aggregated turnover of $10 million or more but less than $500 million

Eligible businesses	Date range for when asset first used or installed ready for use	Limit
Less than $500 million aggregated turnover	12 March 2020 to 30 June 2021 providing the asset was purchased on or after 7:30 pm (AEST) on 2 April 2019 and by 31 December 2020	$150,000
Less than $50 million aggregated turnover	7:30 pm (AEDT) on 2 April 2019 to 11 March 2020	$30,000

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

Cost of asset exceeds limit

If you are a small business, you must use the **simplified depreciation rules** to claim the instant asset write-off. If you use the simplified depreciation rules and the cost of the asset is the same as or more than the relevant instant asset write-off limit, the asset must be placed into the **small business pool**.

Example 2: exceeding the limit

Daryl owns a small electrical business, Daryl's Electrical, which has an aggregated turnover less than $10 million. On 28 July 2024, 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 limit of $20,000.

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

Exclusions and limits

A car limit applies to the cost of passenger vehicles.

There are also a small number of **assets that are excluded**.

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 9 passengers.

The one tonne capacity is 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 doesn't include the weight of passengers, goods or accessories.

Payload capacity = GVM – basic kerb weight

The car limit doesn't apply to vehicles modified for use by people with disability.

You can't claim the excess cost over the car limit under any other depreciation rules.

Where the instant asset write-off limit is higher than the car limit for the relevant income year, it will be limited to the business portion of that car limit.

Example 3: purchase of a motor vehicle for business purposes – the effect of the car limit for depreciation

Asha and Raj own and run a small irrigation supplies business and they use the simplified depreciation rules. On 15 June 2024 the business purchased a car designed to carry passengers for $80,000 (including GST). The car was delivered and ready for business use on 5 December 2024. The car was used 75% of the time for business purposes.

As such, the maximum amount Asha and Raj can claim for depreciation is $52,255 (75% of $69,674 car limit for 2024–25 income year). They're not able to claim this amount under Instant asset write-off, because the value of the vehicle, $80,000, is greater than the $20,000 Instant asset write-off limit for the 2024–25 income year. They add $52,255 to their small business pool, where it depreciates at 15% in the first year and 30% for each subsequent year.

Asha & Raj can't claim the balance of cost of the car ($27,745) under any other depreciation rules.

If your vehicle is not considered a passenger vehicle, the car limit doesn't apply to that vehicle. You can claim the cost of the vehicle if it is less than the relevant limit amount.

How GST applies

If your business is registered for GST and can claim the full GST credit, you exclude the GST amount you paid on the asset when calculating car depreciation amounts. If you are only able to claim a portion of the GST credit, then the cost is reduced by the portion you can claim.

For example, if a business is registered for GST and the vehicle cost is $75,000 GST inclusive, the maximum GST credit that can be claimed is 1/11th of the car limit ($6,334 for 2024–25 income year). The balance ($75,000 − $6,334 = $68,666) is less than the car limit of $69,674, but greater than the $20,000 Instant asset write off limit for the 2024–25 income year, so $68,666 would be added to their small business pool, where it depreciates at 15% for the 2024–25 income year and 30% for each subsequent year.

If your business is not registered for GST, you include the GST amount you paid on the asset in car depreciation calculations. For example, if a business is not registered for GST and purchased a vehicle costing $75,000 GST inclusive, the maximum amount that can be added to their small business pool is the car limit of $69,674.

Work out your deduction

The entire cost of the asset must be less than the relevant limit, not including any trade-in amount. Whether the limit 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 limit**.

Example 4: business and personal use of asset

On 18 November 2024, 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.

Fiona includes the combined amount of $6,140 in her tax return.

Research and development

This also applies to research and development (R&D) use. When you work out the **R&D tax offset** amount for your R&D use you must subtract any non-R&D use including the taxable purpose portion and private use portion.

If you are a small business and you have used your asset for R&D activities, you may not be able to claim the instant asset write-off for that asset and the normal depreciation rules will apply.

For more information, see:

- Deductions for depreciating assets and capital expenses
- Insurance payouts after a disaster

QC 61417

Assets and exclusions

How the simplified depreciation rules apply to assets and which assets are excluded.

Last updated 5 June 2025

When the simplified depreciation rules apply

The simplified depreciation rules apply to most depreciating assets.

These are assets that have a limited life expectancy (effective life) and can reasonably be expected to decline in value (depreciate) over the time they are used.

Depreciating assets include:

- tools and equipment (for example, electric sanders and saws)
- computers, laptops and tablets
- office furniture (freestanding)
- office equipment (for example, coffee machines)
- motor vehicles (for example, cars, vans and tractors).

Some assets are excluded from the simplified depreciation rules or have specific treatment under the rules.

Excluded assets

A small number of assets are specifically excluded from the simplified depreciation rules. For these assets, you must use the **general depreciation rules**:

- assets that are leased out, or expected to be leased out, for more than 50% of the time on a depreciating asset lease
- assets you allocated to a **low-value assets (pool)** before using the simplified depreciation rules
- **horticultural plants**, including grapevines
- software allocated to a **software development pool** (but not other software)
- assets used in your research and development (R&D) activities
- **capital works**, including buildings and structural improvements.

For some primary production assets, you can use either the:

- general depreciation provisions, or
- simplified depreciation rules.

Cost of asset

Under simplified depreciation rules (including instant asset write-off), the cost of an asset includes both:

- the amount you paid for it
- any additional amounts you spent on transporting and installing it ready for use.

The cost also includes amounts you spent on improving the asset.

GST

Whether the goods and services tax (GST) amount is excluded from the cost of your asset depends on whether you are registered for GST.

If you are:

- **Registered for GST** and can claim the full GST credit – you exclude the GST amount you paid on the asset when you calculate your depreciation amounts. The instant asset write-off threshold is exclusive of any GST. This is because you will claim as a credit the GST paid in your activity statement for the relevant period.
- **Not registered for GST** – you include the GST amount you paid on the asset in your depreciation calculations and the instant asset write-off threshold is inclusive of 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.

For more information, see **When you can claim a GST credit**.

Trade-ins

When you trade-in a car or any other asset, the agreed price of your trade-in is usually deducted from the cost of your new asset. While the sale and purchase may appear as one transaction, there are 2 transactions for depreciation purposes:

- purchase of a new asset
- 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 instant asset write-off threshold, then it can't be immediately written-off and must be added to the small business pool.

Note: For assets you start to hold, and first use (or have installed ready for use) for a taxable purpose from 7:30 pm (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 under temporary full expensing.

Example: trade-in asset depreciation

Marilyn has a ceramic studio which qualifies as a small business. On 8 August 2023, Marilyn trades-in her old car for $11,000 and buys a second hand car (that is also used 100% for business purposes) at a cost of $25,000.

For depreciation purposes, there have been 2 transactions:

- purchase of the new car for $25,000
- sale of the existing car for $11,000.

Although only $14,000 out of pocket, she must add the car to the small business pool because it costs $25,000, which exceeds the relevant instant asset write-off threshold of $20,000.

Marilyn must both add the purchase amount and subtract the sale amount from her small business pool.

To work out car depreciation, see more information about the car cost limit.

Improvements to assets

Under the simplified depreciation rules, you depreciate improvements to assets.

If the improvement relates to an existing asset in your small business pool you simply add the improvement cost to your pool as a **cost addition** amount (along with costs incurred when disposing of, or permanently ceasing to use, an asset).

The improvement cost you can claim is limited to the business use proportion (taxable purpose proportion) of the original asset. This is the portion used to earn assessable income.

If you improve an asset that has been written-off under the instant asset write-off rules in a previous income year and the improvement cost is below the instant asset write-off threshold, the improvement cost is also written off. This is limited to the business use proportion of the asset.

The cost of any subsequent improvements can't be immediately deducted – instead they are placed into the small business pool.

Under the **temporary full expensing rules**, improvements made to an asset from 7:30 pm (AEDT) on 6 October 2020 to 30 June 2023:

- are written off together with the asset's cost if you start to hold, and first use (or have installed ready for use) the asset for a taxable purpose in this period – no threshold applies to the cost of the asset or improvement
- are written off if you have not previously made improvements to the asset and it was written off under the simplified depreciation rules (including instant asset write-off) in an earlier income year – no threshold applies to the improvement cost
- can't be immediately deducted and need to be placed into the small business pool if you have previously deducted improvements costs for the asset. However, you deduct the balance of the small business pool at the end of an income year ending between 6 October 2020 and 30 June 2023.

This means if your income year ends on 30 June and the business portion of the cost of any improvements you make to an asset from 7:30 pm (AEDT) on 6 October 2020 to 30 June 2023 are immediately deducted.

Business versus private use

The amount that you claim as a depreciation deduction is determined by how much you use the asset to earn assessable income.

To determine whether the instant asset write-off applies you must consider the full cost of the asset, but your depreciation deduction is limited to the percentage your asset is used for business purposes. You can't claim a deduction for the portion of the asset used for private purposes.

Changes in business use

You must review how much an asset is used for business and other taxable purposes in each of the first 3 years.

If this proportion changes by more than 10% from your most recent estimate, you must make an adjustment.

Work out the adjustment using the following formula:

Adjustment = Reduction factor × Asset value × (Current year estimate − Last estim

The **reduction factor** depends on whether the asset was first used, or installed ready to use, for a taxable purpose when you were using the simplified depreciation rules. Use the following table to identify the reduction factor for each asset.

Table 1: To identify reduction factor for each asset

Reduction factor	For assets first used while you were not using the simplified depreciation rules	For assets first used while you were using the simplified depreciation rules
For the income year after you allocate it to the pool	0.70	0.85
For the second income year after you allocate it to the pool	0.49	0.595
For the third income year after you allocate it to the pool	0.343	0.417

The **asset value** is the asset's adjustable value at the time you first used it, or installed it ready for use, for a taxable purpose.

The difference between the **current year estimate** and the **last estimate** represents the change in your estimate of how much you will use an asset in your business and for other taxable purposes.

The last estimate is either your:

- original estimate
- previously adjusted estimate.

If the adjustment reflects an increase in the business or other taxable use proportion, you increase the opening pool balance, and your pool deduction for the year is increased. If the adjustment reflects a decrease in the business or other taxable use proportion, you reduce the opening pool balance, and your pool deduction for the year is reduced.

Example: adjusting opening pool balance

Grace chooses to use the simplified depreciation rules in the 2017–18 income year. Before starting to use these rules, she had a car valued at $22,000 that she used for business purposes 60% of the time.

The car is not used for any other taxable purpose. Grace calculates $22,000 × 60% and includes $13,200 in her small business pool since the instant asset write-off threshold was $20,000 for the 2017–18 income year.

During the 2017–18 income year, Grace increases the usage of the car in her business from 60% to 75%. Because this is an increase of 15%, she must make the following adjustment to the opening pool balance for the 2018–19 income year:

- Reduction factor × Asset value × (Current estimate − Last estimate)
- 0.7 × $22,000 × (75% − 60%) = $2,310.

Grace increases the opening balance by $2,310 to reflect the change.

She must review her estimate of how much the car is used in her business and make any necessary adjustments (where the estimate differs by more than 10%) only for the first 3 income years up to and including 2019–20.

Assets used to earn non-business income

If you are a sole trader, you can claim a deduction for depreciating assets that relate to income that is not from your business. If you receive salary, wages or investment income, you can claim a deduction for depreciating assets associated with earning that income under instant asset write-off.

Later sale or disposal of asset

If you have claimed an immediate deduction for an asset (using **instant asset write-off** or temporary full expensing) 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 have claimed an immediate deduction for an asset (using instant asset write-off or temporary full expensing) 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.

Cars

There are different methods for claiming depreciation deductions for cars. However, if you deduct car expenses using the cents per kilometre basis, **you can't also claim a deduction for the car under the simplified depreciation rules** (as this method already allows for depreciation).

If you use the cents per kilometre method, you allocate the car to the **small business pool** with a business use percentage of 0%, resulting in a zero deduction for depreciation.

If you change from the cents per kilometre to the logbook method, you'll need to estimate a business use percentage. If the estimated business use is more than 10%, you must use the [adjustment formula] to adjust the opening pool balance.

If the car is **owned or leased by a company or trust** that qualifies for and has chosen to use the simplified deduction rules, its full cost will generally be depreciated under the simplified depreciation rules. In this case, any private use by you or other employees or associates will be subject to **fringe benefits tax**.

Example: changing car depreciation methods

Raoul begins business in September 2016 and chooses to use the simplified depreciation rules for the 2016–17 income year. In this first year, Raoul claims his car expenses on a cents per kilometre basis.

Given that he has chosen to use the simplified depreciation rules, the car is allocated to the small business pool with a business use percentage of 0% – so, he can't deduct depreciation for the car in that year.

In 2017–18, Raoul decides to claim his car expenses using the logbook method, which entitles him to claim depreciation for the car.

Raoul works out from his logbook that he uses the car 60% of the time for his business in 2017–18. The adjustable value of the car at the time he allocated it to the pool in 2016–17 was $22,000. Because there has been an increase of more than 10% in how much he uses his car in his business, Raoul must adjust the opening pool balance for 2017–18 using the adjustment formula.

Raoul increases the opening pool balance by
0.85 × $22,000 × (60% − 0%) = $11,220.

Car limit

There is a limit on the cost you can use to work out the depreciation of passenger vehicles (except motorcycles or similar vehicles) designed to carry a load of less than one tonne and fewer than 9 passengers. The maximum value you can use for calculating your claim is the car limit (irrespective of any amount you were paid for a trade-in) in the year in which you first used or leased the car.

Table 2: Yearly car limit

Financial year	Car limit	ATO reference
2025–26	$69,674	The indexation factor is 0.997, calculated as 444.3 divided by 445.7.
2024–25	$69,674	The indexation factor is 1.023, calculated as 445.7 divided by 435.5.
2023–24	$68,108	The indexation factor is 1.052, calculated as 435.5 divided by 413.8.
2022–23	$64,741	The indexation factor is 1.066, calculated as 413.8 divided by 388.1.
2021–22	$60,733	The indexation factor is 1.027, calculated as 388.1 divided by 377.9.
2020–21	$59,136	The indexation factor is 1.027, calculated as 377.9 divided by 368.1.

Example: applying the car limit

In July 2025, Laura buys a car for $75,000 (including GST) to use in running her business (which is not registered for GST). The car is a type to which the car limit applies.

As Laura bought the car in the 2025–26 financial year, when working out the car's decline in value for the 2025–26 income year, the first element of the cost of the car is reduced to $69,674.

For examples on how to apply the car limit, see **Instant asset write-off for eligible businesses.**

How the yearly car limit is calculated

The car limit is indexed annually in line with movements in the motor vehicle purchase sub-group of the consumer price index.

The indexation factor is calculated by dividing the sum of the index numbers for the quarters in the year ending 31 March by the same numbers for the quarters in the year ending on the previous 31 March.

The car limit amount is then indexed by multiplying it by the indexation factor unless the indexation factor is one or less.

For more information, see:

- **Guide to depreciating assets**
- **GST and motor vehicles**
- **Deductions for motor vehicle expenses**

QC 64425

Small business pool calculations

Find out how to calculate small business pool events under simplified depreciation rules for small business.

Last updated 16 June 2025

Small business depreciation pool

If you choose to use the **simplified depreciation rules**, any depreciating assets for which you can't claim an immediate deduction under **instant asset write-off** or **temporary full expensing**, are allocated to a small business depreciation pool.

This includes assets that:

- cost the same as, or more than, the instant asset write-off limit amount.
- you held before you used the simplified depreciation rules (other than excluded assets).

You claim:

- a 15% deduction for these assets in the year they are allocated to the pool (regardless of when the asset was purchased during the year).

For certain new assets of $150,000 or more first held from 12 March 2020 to 7:30 pm AEDT 6 October 2020, you can use an accelerated depreciation rate of 57.5% under **Backing business investment – accelerated depreciation** when you first add them to the pool.

Low pool value – instant asset write-off

If the balance of the small business pool (after applying the following adjustments) is less than the instant asset write-off limit, you can immediately write off the entire pool balance and claim the amount as a deduction. However, for income years ending between 7:30 pm AEDT on 6 October 2020 and 30 June 2023, you deduct the entire balance of the small business pool (there is no limit for that period).

These steps show what you need to do when using a small business pool:

1. Start with the opening balance for the current year.
2. Add the business portion of the adjustable value of assets you acquired and started to use in the current year.
3. Add the business portion of cost additions to the pool in the current year.
4. Subtract the business portion of proceeds (including insurance payouts) of any assets disposed of in the current year.

Example 1: pool balance under the instant asset write-off limit

Having purchased a car for $18,000 on 2 August 2023, Brendan estimates that it is used 50% for business purposes. As the cost of the car is under the relevant instant asset write-off limit (that is, $20,000), Brendan writes it off in the year that it was first used or installed ready for use. His deduction is $9,000 as he only claims for the proportion the asset is used in earning income.

If the purchase price of the car was $28,000 and Brendan estimated the car would be used 50% in his business, he would place $14,000 for the car in his small business pool and depreciate 15% in the first year. The asset is still placed in the small business pool because the cost of the asset before determining the business portion exceeded the relevant instant asset limit.

Example 2: simplified depreciation – small business pool for 2018–19 income year

Loretta bought a trailer for her event management business on 1 December 2018 for $15,000 and a second larger trailer on 2 February 2019 for $28,000. She also sold an old trailer that was previously in her small business pool for $8,000. Loretta had 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 limit 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 limit which applied at the time she purchased and started to use the larger trailer).
  - deduct the $8,000 received from the sale of the old trailer from her small business pool.

Table 1: 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	n/a
Opening pool balance for current year	$100,000	n/a
Add: New asset purchase	$28,000	n/a
Subtotal	**$128,000**	n/a
Less: Proceeds of asset sale or disposal	−$8,000	n/a
Subtotal	$120,000	n/a
Pool deduction claim (30% of $100,000)	−$30,000	$30,000
Subtotal	**$90,000**	n/a
New asset deduction claim (15% of $28,000)	−$4,200	$4,200
Total depreciation for current year	**n/a**	**$34,200**
Closing pool balance for current year	$85,800	n/a
Opening pool balance for next year	**$85,800**	n/a

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. This will be her opening pool balance for next year.

Figures exclude GST.

Example 3: simplified depreciation – small business pool for 2019–20 income year

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

Loretta's 2019–20 income year ends 30 June 2020. Calculation of small business pool balance for 2019–20 income year.

Table 2: Calculation of small business pool balance

Calculation item	Pool balance	Depreciation claim
Closing pool balance from previous year	$85,800	n/a
Opening pool balance for current year	$85,800	n/a
Add: New asset purchase – car	$33,000	n/a
Subtotal	$118,800	n/a

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 limit increased to $150,000. As the balance of the pool is less than the limit 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.

Calculating pool events

These steps show what you need to do when using a small business pool.

Step 1: Work out your opening balance

If you've been using the simplified depreciation rules, the opening balance of your small business pool for the current year is the closing balance from the previous year.

For the year in which you first start using these rules you need to work out the opening balance of the small business pool. To do this you need to work out:

- the value of your assets (adjustable value) – that is, the cost of each asset (excluding any GST paid if you're registered for GST), including improvements, less how much it has depreciated since you first started using it, regardless of whether the use was private or business
- the proportion used to earn assessable income (taxable purpose proportion) – that is, the estimated percentage of use of the asset in earning assessable income (as against private use).

For each asset, the amount you include in the small business pool is:

Adjustable value × taxable purpose proportion

Example 4: calculating the opening balance

Before using the simplified depreciation rules, Fiona held the following depreciating assets that she used in her business in 2014. All of these needed to be placed into her small business pool. She calculated the amount to include as follows:

- a station wagon with an opening adjustable value of $38,000 (which Fiona estimated she uses 70% of the time in her business), for which she calculated the amount to include in the pool as $38,000 × 70% = $26,600
- a computer with an opening adjustable value of $3,000 (which Fiona estimates she used 70% of the time in her business), for which she calculated the amount to include in the pool as $3,000 × 70% = $2,100
- a refrigerated cabinet with an opening adjustable value of $1,500 (which Fiona used solely for the business), for which she calculated the amount to include in the pool as $1,500 × 100% = $1,500.

These assets were allocated to the small business pool, with an opening balance of $30,200.

As they were depreciating assets used in the business in a previous income year, they were included in the opening pool balance and depreciated at a rate of 30% of the taxable purpose proportion of their adjustable value.

Step 2: New assets and cost additions

Add any new or second-hand assets you acquired during the current income year at a cost equal to or above the instant asset write-off limit, and any cost addition amounts to existing assets.

Cost addition amounts are:

- amounts you've spent on improving the assets
  - the improvement amounts added to the pool need to have the same taxable purpose proportion applied as that applied to the asset
  - if you made the improvements to the asset in the same income year that you acquired it, the amount simply becomes part of the original cost of the asset
  - improvement costs that are under the instant asset write-off limit are immediately written-off if they apply to an asset that had been written-off in a previous year, with any further improvements placed into the small business pool
- costs incurred when disposing of, or permanently ceasing to use, an asset (including advertising and commission costs or the costs of demolishing the asset).

Note: You don't add to your small business pool:

- assets that you purchased and first used, or had installed ready for use, for a taxable purpose between 7:30 pm AEDT 6 October 2020 and 30 June 2023. You can claim an immediate deduction for the business cost of these assets
- the cost of improvements made from 7:30 pm AEDT on 6 October 2020 to 30 June 2023 to an asset that you have written off under the simplified depreciation rules (including instant asset write-off) in an earlier income year, provided you have not previously claimed improvement costs to the asset. You can claim an immediate deduction for the business portion of the improvement cost and no limit applies. Any later improvements are added to the small business pool.

Example 5: improving your assets

You purchased a car for $15,000 that you estimate is used 50% in your business in the last income year and claimed $7,500 as an instant asset write-off deduction.

This year you added a tow ball to the car for $300 so you can use a trailer to move around stock in your business. You instantly write-off the tow ball as it falls under the instant asset write-off limit, but you can only claim $150 (50%), as the claim is limited to the proportion of the original asset that is used in earning assessable income.

Step 3: Asset sales and disposals

If you've sold or ceased to use an asset in the current income year, you need to reduce your pool balance by the asset's termination value multiplied by the taxable use proportion.

The termination value could be money you received from selling an asset (including by way of trade-in), or the insurance payout you received as the result of its loss or destruction.

If you used the asset 100% for business, reduce the pool balance by the whole termination value.

If the asset had a portion of private use, reduce the pool balance using the following formula:

Termination value × Taxable purpose proportion

If the value of the small business pool is less than the instant asset write-off limit after you've made adjustments for any acquisitions, sales or disposals, and before calculating any depreciation deductions for the pool as a whole, the whole small business pool balance must be written-off in that year.

You deduct the balance of the small business pool at the end of an income year ending between 6 October 2020 and 30 June 2023. The pool's closing balance for the income year is zero after full expensing.

If you're transferring assets to another entity as part of a business restructure, you may be entitled to **rollover relief**, under which you don't subtract the termination values of the depreciating assets from the closing balance of the small business pool.

Assessable income adjustment

If you've sold or disposed of an asset, you may also need to include an amount in your assessable income to allow for any excess between what you receive for the asset over what you've claimed as a depreciation deduction – as follows:

- If you sell or otherwise dispose of an asset that **has previously been fully written off**, you also need to include its termination value multiplied by its taxable purpose proportion in your assessable income.
- If you sell or otherwise dispose of an asset that formed part of a **low pool value that has been previously written-off**, you need to subtract the taxable purpose proportion of the asset's termination value in calculating the closing pool balance. If the balance (after acquisitions, cost additions and this adjustment) results in a negative amount, this amount must be included in your assessable income, and the pool's closing balance becomes zero.
- If you sell or otherwise dispose of an asset that has not been fully written-off, you subtract the taxable purpose proportion of the proceeds of the disposal from the pool balance, and if the result after acquisitions and cost additions is
  - equal to or more than the instant asset write-off limit, the amount is the pool's closing balance
  - less than the instant asset write-off limit but more than zero, the amount is claimed as a deduction and the closing balance becomes zero
  - negative, the amount less than zero is included in your assessable income.

Note: You deduct the balance of the small business pool at the end of an income year ending between 6 October 2020 and 30 June 2023. The pool's closing balance for the income year is zero after full expensing.

You don't incur a capital gains liability for the disposal of a depreciating asset that you've depreciated under the simplified depreciation rules.

Example 6: disposing assets

During the 2023–24 income year, Fiona disposes of the following assets:

- Her old refrigerated cabinet, sold for $1,000 on 1 April 2024 with the full amount included in her small business pool as this asset was used solely in her business.
- Her station wagon, traded in for $10,000 on a new delivery van on 1 May 2024 – the station wagon was used 70% for

business purposes, so the formula she uses is the termination value by the taxable purpose proportion ($10,000 × 70% = $7,000).

Fiona must reduce the closing pool balance for the 2023–24 income year by $8,000 as a result of the sale of these assets.

Asset disposal where business use has changed

If you dispose of an asset and there has been a change in how much it was used in your business during the time it was in your small business pool, you must also adjust the taxable purpose proportion of the asset's termination value. You work out the average proportion (taxable purpose proportion) you used the asset in your business during the income years in which the asset was in the pool.

Example 7: adjusting the value of a disposed asset

Maria added her car to the pool in 2016–17 and used it 60% for business. She increased her business use of her car from 75% to 90% in the 2018–19 income year. She sold her car for $3,000 at the start of the 2019–20 income year.

Maria must average the estimate of her business use of the car for the year in which it was allocated to the pool and the next 3 years, as follows:

- 60% (2016–17 original estimate) business use
- 75% (2017–18 estimate) business use
- 90% (2018–19 estimate) business use
- 90% (2019–20, no change from previous year) business use.

The average for business use is
79% = (60% + 75% + 90% + 90%) ÷ 4.

The taxable purpose proportion of the car's termination value is the termination value by the average business use:

$3,000 × 79% = $2,370.

Maria reduces the closing pool balance for the disposal of the car by $2,370.

Step 4: Work out your deduction

If the balance of the pool **before calculating your deduction for the year** is below the instant asset write-off limit, the pool is written off immediately (see Step 3: Asset sales and disposals).

If not, your deduction for simplified depreciation may include amounts for the following:

- existing assets held at the start of the year
- newly acquired assets added to the pool
- cost addition amounts (see Step 2: New assets and cost additions).

Existing assets

After calculating your opening pool balance in step one, work out your pool deduction using the following formula:

Opening pool balance × 30% (pool rate)

Newly acquired pooled assets (including second-hand assets)

Assets that have been acquired during the year and added to the small business pool are depreciated at 15%. This applies regardless of when during the year you acquired the asset.

Work out the deduction as:

Taxable purpose proportion × Adjustable value × 15%

Note: Assets that are immediately written-off don't form part of your small business pool.

Example 8: calculating pool deductions

During the period from 1 December 2014 to 12 May 2015 when the instant asset write-off limit was $1,000 Fiona acquired the following assets:

- a photocopier/fax, acquired in December 2014, which she estimates was used 90% of the time in her business, so the value is calculated as $7,700 × 90% = $6,930
- a new refrigerated cabinet to replace the old one, acquired on 1 April 2015 at a cost of $9,000, to be used exclusively in the business, so the value is calculated as $9,000 × 100% = $9,000
- a delivery van, acquired on 1 May 2015 at a cost of $20,000, which she estimates will be used 70% of the time in her business, so the value is calculated as $20,000 × 70% = $14,000.

Table 3: Newly acquired assets

Asset	Adjustable value ($)	% used in the business	Amount added to pool ($)
Photocopier/fax	7,700	90	6,930
New refrigerated cabinet	9,000	100	9,000
Delivery van	20,000	70	14,000
Total of pooled assets added during the year	**n/a**	**n/a**	**$29,930**

If Fiona acquired and started to use the above assets in the 2016–17 or 2017–18 income years, or between 1 July 2018 and 28 January 2019 when the instant asset limit increased to $20,000, the business use portion of the:

- photocopier/fax and refrigerator are immediately written off
- van is moved to the small business pool.

If Fiona acquired and started to use the above assets from 29 January 2019, when the instant asset limit increased to $25,000 then all of the business use portion of assets could be immediately written off.

Cost addition amounts

If you made improvements to an asset allocated to your small business pool in an earlier income year, or you have costs associated with the disposal of an asset (see Step 3: Asset sales and disposals) you:

- apply the taxable purpose proportion of the existing asset to the improvement or disposal cost
- deduct the cost of improving the asset in the year the improvement is made, at the rate of 15%.

Step 5: Work out the closing pool balance

The closing pool balance takes into account any:

- pooled assets you installed or first used during the year

- pooled assets you disposed of during the year
- improvements you made, or cost addition amounts you incurred, in the current year to assets you held or installed ready to use in an earlier year
- deductions allowed for pooled assets.

Use the following worksheet to work out the closing pool balance at the end of each income year. The calculations will also need to consider the taxable purpose proportion of the assets.

Table 4: Closing pool balance worksheet

Worksheet item	Value ($)	Indicator
Opening pool balance for the year	$	A
Plus Adjustable value of new assets that you first used, or installed ready to use, during the year (not including assets immediately written-off)	$	B
Plus Any cost addition amounts including improvements you made to assets in the pool during the year	$	C
Less Taxable purpose proportion of the termination value of any pooled assets you disposed of (including assets that were sold) during the year	$	D
Subtotal (A + B + C − D)	$	E
Less Deduction allowed for assets you held at the start of the year	$	F
Less Deduction allowed for new assets you first used during the year	$	G
Less	$	H

Deduction allowed for cost addition amounts including improvements you made to the pooled assets during the year		
Closing pool balance for the year (E – F – G – H)	**$**	**Nil**

Example 9: calculating closing pool balance

Table 5: Fiona works out her closing pool balance for the year as follows:

Worksheet item	Value ($)	Indicator
Opening pool balance for the year	$30,200	A
Plus Newly acquired pooled assets. This does not include assets immediately written-off	$29,930	B
Plus Cost addition amounts	$350	C
Less Disposals	$8,000	D
Subtotal (A + B + C – D)	**$52,480**	**E**
Less Deduction for pooled assets opening balance	$9,060	F
Less Deduction allowed for pooled assets you first used during the year	$4,490	G
Less	$53	H

Deduction for cost addition amounts		
Closing pool balance for the year (E – F – G – H)	**$38,877**	**Nil**

Opening pool balance

The opening pool balance for an income year is the closing pool balance from the previous income year, except where you either:

- changed the extent you use a pooled asset in your business
- have assets that you started to use, or hold ready to use, since last choosing to use these rules.

Adjusting for these circumstances will ensure that your pool deduction is based on the correct estimate of the value of all your assets and the taxable use proportion.

QC 64426

Rollover and restructure

Rollover relief may be available if balancing adjustment events occur to a depreciating asset due to ownership changes.

Last updated 27 June 2025

You may be entitled to rollover relief, if a balancing adjustment event occurs to a depreciating asset because of a change in ownership. This allows you to ignore the balancing adjustment event, and the consequent income tax liability, until the transferee later disposes of the asset.

A balancing adjustment event may occur when you no longer hold or use an asset. For example when there is a change in asset ownership.

The change in ownership can be a result of a:

- change in a partnership structure
- transfer of assets as a result of a marriage or relationship breakdown
- transfer of assets to a wholly owned company.

For more information see:

- **Small business restructure roll-over**
- **Simpler depreciation rules for small business**

Balancing adjustment events

Rollover relief may be available when the following balancing adjustment events occur.

Partnership restructures

Rollover relief may be available if there is a change in your partnership structure that constitutes a balancing adjustment event – for example, if:

- the partnership is reconstituted
- there is a variation in the interests of partners in the partnership
- a sole trader takes on a partner
- one partner leaves and the remaining partner carries on as a sole trader.

Rollover relief is available where both:

- at least one of the entities that had an interest in the asset before the change has an interest in the asset after the change
- the asset either was a partnership asset before the change or becomes one because of the change.

Marriage or relationship breakdowns

The simplified depreciation rules also provide optional rollover relief where there is a change in ownership that results in a capital gain where all assets in a small business pool are transferred to another taxpayer as a result of a marriage or relationship breakdown.

This rollover applies to balancing adjustment events occurring in 2007–08 and later income years.

For more information see **Relationship breakdown and capital gains tax**.

Company incorporations

The simplified depreciation rules also provide optional rollover relief where there is a change in ownership that results in a capital gain where either:

- a sole trader, trustee or a partnership disposes of all the assets in the small business pool to a wholly-owned company
- the partners in a partnership choose a rollover under Subdivision 122-B for disposing of their capital gains tax (CGT) assets consisting of their interests in the property to a wholly owned company.

This rollover applies to balancing adjustment events occurring in 2007–08 and later income years.

If you choose the rollover relief

The effect of the rollover relief is that:

- you don't subtract the termination values of the depreciating assets from the closing balance of the small business pool because of the change in ownership – the transferee simply takes over your depreciating asset pool
- for assets that were written off by the transferor under instant asset write-off or **temporary full expensing**, you don't include the taxable purpose proportion of the asset's termination value in assessable income.

The transferred assets must go into the small business pool, regardless of whether the transferee chooses to use the simplified depreciation rules or not. However, they don't have to use the simplified depreciation rules for any new assets or add any new assets to the pool. They must choose the simplified depreciation rules for the transferred assets in an earlier year and they must continue in the small business pool.

In the year that the change occurs, you split the pool deduction equally between you and the transferee. For income years after the change occurs, the transferee claims the deductions.

Conditions

To be eligible for rollover relief, you must work out deductions for the depreciating assets using the simplified depreciation rules. As a result, the assets must be in the small business pool at the time of the balancing adjustment event.

The transferee must hold all the depreciating assets immediately after the change.

Both you and the transferee must:

- choose to apply rollover relief
- put this choice in writing and keep this document for 5 years after the end of the income year in which the change occurs.

The written choice must contain enough information about the pooled assets for the transferee to work out how to work out the deductions under the simplified depreciation rules.

You must make this choice within 6 months of the end of the transferee's income year in which the balancing adjustment event occurred, unless we allow a longer period.

A choice you make about primary production assets applies to the transferee as if it had been made by them.

If you stop deducting amounts for depreciating assets under the simplified depreciation rules, or are no longer eligible to use the rules, depreciating assets you have allocated to a small business pool continue to be depreciated under these rules.

This means that former small businesses may still choose rollover relief for depreciating assets allocated to a small business pool when a balancing adjustment event occurs.

A transferee does not need to choose to use the simplified depreciation rules to be eligible for the rollover. They will be treated as having been a small business and then having stopped being a small business for that year. As a result, they continue to allocate the assets to the small business pool for that year, and those assets continue to be depreciated under the simplified depreciation rules.

If you don't choose the rollover relief

If you transfer all the pooled assets to another entity and are otherwise eligible to choose the rollover, but decide not to, the transferred assets must still go into the small business pool. The transferee must work out deductions for those transferred assets according to the simplified depreciation rules.

Assets first used and improvement costs incurred in change year

If you started to use an asset or had one installed ready to use during the year that the change occurred, the deduction is split equally between you and the transferee. The same applies for improvement costs you incurred.

If the transferee started to use an asset or had one installed ready to use during the change year, the transferee claims the deduction and you cannot claim anything for the asset. The same applies for improvement costs the transferee incurred.

If you started to use a certain asset or had one installed ready to use, and a balancing adjustment event occurred before the time the change occurred, the transferee:

- can't claim anything
- doesn't include the taxable purpose proportion of the asset's termination value in their assessable income.

The same applies for improvement costs that you incurred.

Changes in taxable use

The transferee uses the taxable purpose proportion estimates that you made for assets you held just before the change occurred. The transferee doesn't adjust the opening pool balance for the year in which the change occurs to reflect changes in estimates of income producing use as a result of the change. Changes in the taxable purpose proportion you made are taken to have been made by the transferee.

Example: rollover relief for a balancing adjustment event

In the 2018–19 income year, a partnership comprising equal partners Teresa and Sally agree to accept Matthew as a partner with a 30% share.

Teresa and Sally each sell Matthew the equivalent of a 15% stake in the partnership. This is a balancing adjustment event.

The effect of this is that the old partnership must subtract the termination value of the depreciating assets from the small business pool balance.

The partnership has 5 assets, and all are used 100% for business purposes. The opening pool balance is $160,000. The partnership adjustment occurs on 30 June 2019 and the termination value of the assets for this balancing adjustment event is their combined market value of $180,000. The balancing adjustments that arise as a result of this change in the constitution of the partnership put the pool into a negative balance.

Normally, Teresa and Sally would have to account for this negative amount in the partnership's assessable income.

However, if Teresa and Sally choose to apply rollover relief, and Matthew as a partner in the new partnership also agrees, they ignore the balancing adjustment event. The old partnership of Teresa and Sally can claim 50% of the deduction for the 2019 income year worked out under the simplified depreciation rules.

The new partnership of Teresa, Sally and Matthew can claim the remaining 50% deduction for the 2018–19 income year. The assets are allocated to the small business pool for the new partnership, and the new partnership continues to claim deductions in respect of this pool.

If Teresa leaves the partnership in the 2019–20 income year, this will mean another partial partnership change. Provided all of the partners chose to apply the rollover relief, the old partnership will not have to subtract the termination value of the assets from the respective pool balances. In effect, if the assets are worth $180,000 and this is greater than the pool balance at the time Teresa leaves, the partnership of Teresa, Sally and Matthew will not have to account for the negative balance that would normally occur.

The partnership is not assessed on any taxable gain as part of this partnership adjustment – instead, a taxable gain or loss will only be accounted for when the partnership ultimately disposes of the assets.

QC 64427

General depreciation rules – capital allowances

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

Last updated 28 August 2025

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

To calculate your depreciation deduction for most assets you apply the general depreciation rules (unless you're an eligible small business that chooses to use the **simplified depreciation** rules).

You can claim an **immediate deduction** for certain depreciating assets that meets all of these 4 tests. The asset:

- cost $300 or less
- is used mainly to produce non-business assessable income
- is not part of a set costing more than $300
- is not one of a number of items that are identical, or substantially identical, that together cost more than $300.

When a depreciating asset starts to decline in value

Under uniform capital allowances, a depreciating asset starts to decline in value when you first use it (or install it ready for use) for any purpose, including a private purpose. However, a deduction for decline in value is only allowable for the period of time the asset is used for a taxable purpose.

This means if you initially use an asset for a private purpose, and in later years use it for a taxable purpose (such as in a business), you need to work out the asset's decline in value over the period of its private use before you can work out the decline in value for the period you used it for taxable purposes.

Example: working out start date of decline in value

Robyn purchases a car on 1 July 2021 for $25,000. She uses it entirely for private purposes until 1 March 2022 when she starts a new business. The car is then used wholly for business purposes.

The car starts to decline in value from 1 July 2021 because it is being used from that date, but no part of the decline in value is an allowable deduction before 1 March 2022. This is because the car is not used for a taxable purpose before that date.

How to work out the decline in value

To calculate depreciation, you can generally use either the **prime cost (straight line)** method or the **diminishing value** method to calculate the decline in value. 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 2 methods.

Low cost or low value assets

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.

If you no longer use or hold a depreciating asset

If you **dispose of or cease to hold or use a depreciating asset**, a balancing adjustment event may occur.

Record keeping

It's important to understand the **record-keeping requirements for capital allowances** for:

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

Stimulus measures for COVID-19

The government implemented a number of measures to help businesses recover from the impact of the coronavirus pandemic (COVID-19).

Most of these measures relate to claiming tax concessions, deductions, and depreciation of assets at tax time. They will support businesses through the economic impacts of COVID-19 for the 2020–21 and 2021–22 financial years.

Eligible businesses may want to know which tax depreciation incentive is right for them.

We have prepared a high-level snapshot to help you work out how temporary full expensing, instant asset write-off or backing business investment incentives may apply to you. See **Interaction of tax depreciation incentives**.

Prime cost (straight line) and diminishing value methods

There are 2 methods for calculating the depreciation of assets.

Effective life of depreciating assets

How to find the effective life of a depreciating asset when claiming a deduction.

Low-value pool

Learn what assets can be allocated to a low-value pool and depreciated at a set annual rate.

Disposing or ceasing to use a depreciating asset

What to do if you dispose of, or stop using, a depreciating asset.

Record keeping for capital expenses

Check the record-keeping requirements for depreciating assets,

QC 45983

Prime cost (straight line) and diminishing value methods

There are 2 methods for calculating the depreciation of assets.

Last updated 27 June 2025

In most cases, you can choose to use either of 2 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**. The tool compares results of the 2 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 5 years.

This image shows the diminishing value and prime cost methods for an asset costing $80,000 assuming the asset was purchased on 1 July in an income year. Year 1 prime cost $16,000, diminishing value $32,000. Year 2 prime cost $16,000, diminishing value $18,000. Year 3 prime cost $16,000, diminishing value $9,000. Year 4 prime cost $16,000, diminishing value $6,000. Year 5 prime cost $16,000, diminishing value $4,000. For each year after there is no longer a prime cost as the asset has fully depreciated. Diminishing values for years 6,7,8 are $2000, $1000, and $500, and continues on for many years to come.

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: prime cost method

If the asset costs $80,000 (after excluding GST if entitled to claim it) and has an effective life of 5 years, you can claim 20% of its cost, or $16,000, in each of the 5 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 th year for the remaining portion that was not claimed in the first year.

The asset's cost includes:

- the amount you pay for it
- any additional amounts you spend on transporting it and installing it in position
- amounts you spend on improving it.

In some circumstances, such as when you change the effective life or cost of an asset, an adjusted prime cost formula must be used.

Example: depreciating asset initially used for a non-taxable purpose

Paul purchased a fridge for $2,000 on 1 July 2020 and immediately used it wholly for private purposes as a second fridge.

He started a takeaway business on 1 March 2022, moved the fridge into his business premises and began using it for his business only. Paul does not use simplified depreciation rules for his depreciating assets.

Paul’s fridge started to decline in value from 1 July 2020 as that was the day he first used it. He needs to work out the fridge’s decline in value from the date he first started using it.

However, Paul can only claim a deduction for the decline in value from 1 March 2022 when he started using it for a taxable purpose.

Paul chooses to use the prime cost method to work out the decline in value and adopts the Commissioner's effective life determination for a fridge (10 years).

The decline in value will be
$2,000 x (365 ÷ 365) x (100% ÷ 10) = $200 per year.

Before 1 March 2022, when the fridge was used for private purposes, the decline in value is $333, calculated as the sum of:

- $200 for the income year from 1 July 2020 and 30 June 2021 ($2,000 x (365 ÷ 365) x (100% ÷ 10) = $200)
- $133 for the 243 days from 1 July 2021 to 28 February 2022 before he started using the fridge for a taxable purpose ($2,000 x (243 ÷ 365) x (100% ÷ 10) = $133)

Paul can't claim deductions for the $333 decline in value of the fridge for the period it was used wholly for private purposes.

He determines there are 122 days between 1 March 2022 and 30 June 2022 (inclusive) during which he used the fridge exclusively for his takeaway business.

Paul calculates his deduction for the fridge in the 2021–22 income year as follows:

$2,000 x (122 ÷ 365) x (100% ÷ 10) = $67

He will be able to claim a deduction of $67 for the decline in value for the fridge in the 2021–22 income year.

For help calculating the deduction available from a depreciating asset, use the **Depreciation and capital allowances tool**.

Diminishing value method

Under the diminishing value method, decline in value is calculated using the asset's base value. The base value of an asset is the amount you paid for the asset plus any additional amount you spent on transporting, installing and improving it, less the decline in value up to the end of the prior income year.

The diminishing value method:

- assumes the decline in value each year is a constant proportion of the amount not yet written-off
- produces a progressively smaller decline in value over time.

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: diminishing value method

If the asset cost $80,000 and has an effective life of 5 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)

Effective life of the asset

The decline in value of a depreciating asset is generally based on the asset's effective life. The effective life is broadly the period it can be used by anyone for income-producing purposes. This assumes it will be:

- subject to wear and tear reasonably expected from the circumstances of use
- maintained in reasonably good order and condition.

You decide whether to:

- adopt **the Commissioner's effective life determination**
- **self-assess** the depreciating asset's effective life. We only make determinations of the effective life of new assets. If you purchase a second-hand asset where its condition justifies a shorter life than that determined by us, you can self-assess.

In some situations, you don't have a choice. For example:

- 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)
  - effective life that is yet to elapse (if they used the prime cost method).
- The asset is an intangible depreciating asset, such as intellectual property. You don't have a choice as the effective life is set out in the **effective life determination rules**.

If you:

- use the Commissioner's effective life determinations, they won't be challenged in any audit process
- self-assess the effective life, we may ask you to explain how you worked it out.

Changing the effective life you are using

You can **choose** to **recalculate the effective life** you are using for an income year if your circumstances of use change and the effective life you have been using is no longer accurate. You can do this if you either adopted the Commissioner's effective life determination or self-assessed.

You are **obliged to recalculate** the effective life if you improve an asset that results in its cost increasing by 10% or more in an income year.

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.

Backing business investment – accelerated depreciation

For assets first held on or after 12 March 2020 and first used or installed ready for use until 30 June 2021 the **Backing business investment – accelerated depreciation** measure provides a time-limited 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.
  - Deduction of 57.5% of the cost of the asset in the first year you add the asset to the small business pool, if you are using the simplified depreciation rules for small business.
- Eligible businesses are those with **aggregated turnover** below $500 million.
- Eligible assets are **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, including the same asset not having received an immediate deduction under instant asset write-off or temporary full expensing.

QC 45984

Effective life of depreciating assets

How to find the effective life of a depreciating asset when claiming a deduction.

Last updated 12 June 2024

The effective life of a depreciating asset is the period it can be used by any entity for a specified purpose, one of which is to produce assessable income.

The effective life of a depreciating asset is used to work out the asset's decline in value (depreciation) for income tax purposes.

Determining the effective life of an asset

Ways to work out the effective life of a depreciating asset.

How we make effective life determinations

Learn how we make determinations of effective life of a depreciating asset and the factors we take into account.

Recalculating a depreciating asset's effective life

How and when you can recalculate the effective life of a depreciating asset.

Effective life determinations, rulings and law

Details of ATO effective life determinations, rulings, and law relating to the effective life of depreciating assets.

QC 45985

Determining the effective life of an asset

Ways to work out the effective life of a depreciating asset.

Last updated 15 October 2024

There are 2 ways to determine the effective life of an asset:

- using our determinations of the effective life
- self-assessing the effective life.

Using our determinations

How to use our effective life determinations or applying for a review.

Self-assessing the effective life

When you can self-assess the effective life.

QC 102543

Using our determinations

How to use our effective life determinations or applying for a review.

Last updated 15 October 2024

How to use our effective life determinations

Our effective life determinations are currently contained in the **Income Tax (Effective Life of Depreciating Assets) Determination 2015**, which is a legislative instrument that has the full force of the law as outlined in the Legislation Act 2003.

You don't have to use our effective life determination. However, in some situations, you don't have a choice **but** to use our effective life determination.

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 their **statutory effective life**.

We make the effective life determination having regard to the period the depreciating asset can be used by any entity for one or more of the following purposes (a specified purpose):

- producing assessable income
- exploration or prospecting
- mining site rehabilitation
- environmental protection activities
- producing exempt income or non-assessable non-exempt income, or
- conducting research and development activities (assuming that this is reasonably likely).

The effective life that applies to an asset is generally the one in force at the time you either:

- entered into the contract to acquire it
- started to construct it
- otherwise acquired it.

However, if you don't start using a depreciating asset or have it installed ready for use within 5 years of the time specified, the effective life that applies is the one in force at the date you first use the depreciating asset or have it installed ready for use for any purpose.

They can also be found in the Depreciation and capital allowances tool.

Income Tax (Effective Life of Depreciating Assets) Determination 2015

Tables A and B in the **Income Tax (Effective Life of Depreciating Assets) Determination 2015** list the effective life determinations made to date.

Tables A and B are periodically updated to incorporate further effective life determinations when effective life reviews are completed. Assets already reviewed are marked with an asterisk (*) in the third column of Tables A and B.

The date from which an effective life determined by us applies is set out in the fourth column of Tables A and B.

Table A

Table A is an industry category table.

It lists assets that are specific to a particular industry or for which a particular effective life is appropriate because of the way the asset is used in that industry. Industry headings in Table A are generally drawn from the classification subject categories in the Australian and New Zealand Standard Industrial Classification (ANZSIC) codes.

When using Table A:

- you can only use the entries for a listed industry if you are a participant of that industry
- if an asset either corresponds exactly to a description for the industry in which it is used or it satisfies the general description of an asset used in the functional process of that industry, the effective life is the life specified
- in some cases, an entry will contain an instruction to see a Table A entry for another industry. If this applies to an asset in your industry, you can use the effective life specified for the relevant asset in the other industry, even though you don't participate in that other industry
  - For example, under the industry heading ‘Cafes, restaurants, takeaway food services, pubs, taverns, bars and clubs (hospitality)’, one of the asset entries says ‘Poker/gaming assets – see Table A Casino operations’. In this case, if you operate a pub and have poker/gaming assets, you can use their effective lives specified for the casino operations industry.
- If the particular asset is not listed under your industry heading in Table A, either specifically or under a general functional group or

class, you can use a relevant effective life shown in Table B.

Table B

Table B is an asset category table which covers assets generally.

You can only use Table B entries if the particular asset is not listed under your relevant industry heading in Table A.

If you don't use the asset in an industry specified in Table A and the asset corresponds to a description in Table B, the effective life is the life specified for that description.

You must be satisfied that an asset is a **depreciating asset** for the purposes of Division 40 of the *Income Tax Assessment Act 1997* (ITAA 1997) before using an effective life determination in either Table A or B. An asset that is a depreciating asset for another taxpayer or industry may not necessarily be a depreciating asset for you or your industry.

If a particular asset is not listed in either Table A or B, it means we haven't made a determination of its effective life. You will need to work out the asset's effective life by **self-assessing the effective life**.

Important terms and definitions in Tables A and B

The terms 'freestanding' and 'fixed' describe certain assets listed in Tables A and B.

For the purposes of the determination of the effective life of such assets, the terms have the following meanings:

- **Freestanding** – are items designed to be portable or movable; any attachment to the premises is only for the item's temporary stability.
- **Fixed** – are items annexed or attached by any means (for example screws, nails, bolts, glue, adhesive, grout or cement) but not merely for temporary stability.

The terms 'environmental control structure' and 'protective structure' are used to describe certain agricultural assets listed in Table A.

For the determination of effective life of such assets, the terms have the following meanings:

- **Environmental control structure** – is a structure designed to provide a protective environment within which the operator is able to monitor and manipulate factors influencing the growing environment. This includes factors such as temperature, humidity, air movement, light, water and pests to enable the greatest efficiency in producing the desired product.

- **Protective structure** – is a structure used primarily and principally for protecting a growing product from one or more natural elements such as sun, hail, birds and wind.

The terms 'including', 'includes' and 'incorporating' have been used in describing certain assets in Tables A and B.

Where used, the terms have the following meanings:

- **Including or includes** – when an entry is described as 'including' or 'includes' other items, these other items are separate assets, each with the same effective life.
  - For example, the entry 'Refrigeration assets (including chillers, compressors, condensers, evaporative coolers and pumps)' indicates that chillers, compressors, condensers, evaporative coolers and pumps are separate assets within the class of refrigeration assets, all of which have the specified effective life.
- **Incorporating** – when an entry is described as 'incorporating' other items, these other items are not separate assets but are merely components of the one single asset being described.
  - For example, the entry 'Conveyor systems (incorporating structures, belts, gearboxes and motors)' indicates that the structures, belts, gearboxes and motors are components of the one asset, the conveyor system.

The terms 'hire cars' and 'rental cars' have been used to describe certain assets in Tables A and B.

For the determination of effective life of such assets, the terms have the following meanings:

- **Hire car** – is a passenger car hired with a driver, not being a taxi.
- **Rental car** – is a passenger car hired, leased or rented for short-term use without a driver.

Capped lives

Where a capped life for a depreciating asset is available (see section **40-102**), the asset is marked in Tables A or B with a hash (#) in the third column.

From the 2012–13 income year, a capped life of 10 years is available for eligible shipping vessels but only if certain conditions are met.

These conditions mean that not all shipping vessels listed under the Water transport and support services (48100 to 48200 and 52110 to

52190) sub-category in Table A will be eligible for the capped life at any given time.

For this reason, no shipping vessels have been marked with a hash (#) in the third column of Table A as would occur with other assets that have no additional eligibility requirements for a capped life.

You need to determine if a particular shipping vessel you hold meets the eligibility requirements of subsections 40-102(4) and (4A) of the ITAA 1997 to determine if the capped life can be applied.

Decline in value calculation

The effective life shown in Tables A or B is a component of the formula under which the decline in value of the depreciating asset is calculated.

To work out the decline in value, see **Working out decline in value**.

Depreciation and capital allowances tool

The effective lives contained in Tables A and B can also be found through the **Depreciation and capital allowances tool** (or DCAT) by searching for asset name, searching by industry type or using the Effective life of asset tab. This tool can help to work out the decline in value of depreciating assets and capital works for both individual and business taxpayers.

Applying for a review of effective life of assets not listed

You can apply for a review of the effective life of the assets used in your business or industry if they are not currently listed, or where existing determinations no longer correctly reflect asset effective lives.

Complete the **Effective life review application form** with the details of at least 5 other entities that have agreed to participate in the effective life review. This is to ensure our determination covers assets commonly used by the industry and reflects current industry practices and expectations.

QC 102544

Self-assessing the effective life

When you can self-assess the effective life.

Last updated 15 October 2024

If we have not made an effective life determination for an asset you use and there is no statutory effective life available, you must self-assess the effective life.

We only consider normal industry practice when estimating effective life. However, if you self-assess, you can consider your own circumstances of use of the asset.

We only make determinations of the effective life of new assets. If you purchase a second-hand asset where its condition justifies a shorter life than that determined by us, you can self-assess.

When self-assessing the effective life of a depreciating asset, either because we have not already made a determination for it or you feel our determination is not appropriate for your circumstances, we may ask you to explain your choice of effective life.

To help you self-assess the effective life of an asset, refer to how we make effective life determinations. For information about self-assessing the effective life of a depreciating asset, refer to section 40-105 of the ITAA 1997.

You can recalculate the effective life for most depreciating assets if the effective life used is no longer relevant because of changed circumstances relating to the use of the asset. An example could be unpredicted obsolescence or more or less rigorous use than anticipated.

QC 102545

How we make effective life determinations

Learn how we make determinations of effective life of a depreciating asset and the factors we take into account.

Last updated 27 June 2025

Overview of how we make effective life determination

We determine the effective life of a depreciating asset by estimating the period (in years, including part years) the asset can be used by any entity for a specified purpose. If relevant for the asset, we:

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

In determining an effective life, we consider the following factors:

- physical life
- manufacturing specifications and engineering information
- use of the asset in a particular industry
- use of the asset in different industries
- industry standards
- repairs and maintenance
- retention period
- obsolescence
- scrapping or abandonment practices
- lease periods
- financial analysis
- market value.

We may consider factors in addition to those listed. For example, in determining the effective life of horticultural plants, issues such as crop management techniques (crop regeneration and topworking or reworking where trees are cut back to the stump) are considered along with the listed factors.

Where appropriate, each factor is considered based on historical information and future expectations. No single factor is conclusive and the relative importance of each varies depending on the asset.

Physical life

An asset can be used while it continues to have a physical life; that is, until it is physically exhausted.

An effective life determination is an estimate of the period the asset can be used by any entity for a specified purpose. Often an asset is not used for a specified purpose for the whole of its physical life.

For example, an asset may be retired from use for a specified purpose but be retained as a source of spare parts. In this instance, the effective life ends when the asset is retired.

An asset's physical life can be seen as the outer limit of its effective life. This is a useful starting point for analysing the factors to be considered in determining the effective life of the asset.

Manufacturing specifications and engineering information

The effective life of a new asset cannot be based solely on evidence of past use of the asset. The current design may differ for various reasons including advances in technology and different construction materials. Analysing manufacturing specifications and engineering information for the new asset is important when estimating its effective life.

Use of the asset in a particular industry

How intensively an asset is used in an industry would have a direct impact on the asset's effective life. In establishing the industry norm, the relevant industry is consulted where possible.

Use of the asset in different industries

The use of an asset in different industries is another important factor.

For example, using a car in the taxi industry would subject the car to more wear and tear than using a car in another industry. The effective life we determined by in each industry would be different., reflecting that different use.

Industry standards

Industry standards and regulations may dictate when a particular asset must be retired from use in an industry.

There may also be industry standards and regulations that set the level of repairs and maintenance that must be carried out.

Repairs and maintenance

It might be suggested that the life of an asset can be extended indefinitely if there is unlimited expenditure on repairs and maintenance. However, the law requires us to assume that an asset will be maintained only in reasonably good order and condition. So an asset’s effective life is generally limited by the period it is economic to maintain the asset, even though it is still possible to continue repairs and maintenance to keep it operational.

An asset can be subject to such a level of repair and maintenance that it has been wholly or substantially physically replaced. In those circumstances, the effective life of the asset is considered to have ended and a new asset to have come into place.

Retention period

The effective life of an asset is the total period it can be used by any entity for a specified purpose. The retention period is the time a particular taxpayer expects to hold a depreciating asset for any purpose.

For example, it is common practice in some businesses to dispose of a car after it has been driven a pre-determined number of kilometres. That would be the retention period for that taxpayer. The effective life of the car, however, would end only when the car can't be used by any taxpayer for a specified purpose.

Obsolescence

An asset may become obsolete because of commercial or technological reasons.

Commercial obsolescence may occur if demand for the goods produced by the asset stops because consumers choose not to buy them, or government regulation affects market demand. It may also occur if the raw material the asset processes becomes unavailable.

Technological obsolescence may occur when technology advances and another asset becomes better suited for the relevant purpose for which an existing asset is used. Even so, an asset’s effective life does not necessarily end with each technological advance. A taxpayer can still use an asset for a specified purpose even though a newer model exists.

There are 2 types of commercial and technological obsolescence – one can be predicted at the time the asset is first used and one is unpredictable and emerges later.

Predicted obsolescence would only be taken into account if it is expected with a high level of certainty across a majority of users. If predicted obsolescence arises because of the particular use of the asset, taxpayers may choose to work out the effective life of the asset themselves, rather than adopt the effective life determined by us.

Unpredictable obsolescence can't be taken into account when estimating effective life.

Scrapping or abandonment practices

Once a taxpayer has scrapped or abandoned an asset, it is presumed it can no longer be used by anyone for a specified purpose. The scrapping of an asset can demonstrate that the asset is either physically exhausted or obsolete. The abandonment of an asset can demonstrate that it is too difficult or costly to remove it from its place of operation.

This factor is only relevant if a general scrapping or abandonment practice can be established across users of the asset.

Lease periods

Effective life is the period a depreciating asset can be used by any entity for a specified purpose. So it is unlikely that an asset would be leased for a period greater than its effective life. This generally suggests that the effective life of an asset is no shorter than the period it is leased. In fact, the effective life of an asset would usually be longer than a lease term unless the asset is expected to be scrapped or abandoned at the end of that lease.

Financial analysis

As with lease periods, economic or financial analysis indicating the period over which an asset is intended for use suggests the effective life is no shorter than that period. In many instances, the analysis may only reflect the capital cost recovery period or the term of a contract, when the asset may in fact be used for a specified purpose by any entity for a much longer time.

Market value

The defining character of a depreciating asset is that its value falls, or is expected to fall, over time. So analysing the decline of market value of an asset class is important in determining the asset’s effective life.

QC 102546

Recalculating a depreciating asset's effective life

How and when you can recalculate the effective life of a depreciating asset.

Last updated 27 June 2025

You can choose to recalculate the **self-assessed** effective life of an asset if circumstances relating to its use change and the effective life you've been using is no longer accurate.

The effective life cannot be recalculated for assets with an **effective life determined by us** or for **certain intangible assets**.

You may have to recalculate the effective life if the asset's cost increased by 10% or more in an income year.

For plant acquired from 21 September 1999 and for depreciating assets acquired from 1 July 2001, the calculation of decline in value is generally based on the effective life of the plant or asset rather than on the accelerated rates of depreciation that were previously available.

You can choose to recalculate the effective life of a depreciating asset if the nature of your use of that asset changes and those changed circumstances make your current estimate inaccurate. Your choice to recalculate applies where:

- you acquired the depreciating asset, or its construction began from 1 July 2001
- you acquired the plant, or its construction began between 21 September 1999 and 30 June 2001.

You can reassess effective life, regardless of whether you made the existing estimate yourself, or adopted the effective life specified by the Commissioner of Taxation

You can only make a new estimate of effective life after the end of the income year in which you first started to use the asset for any purpose (including a non-income producing purpose).

When you must recalculate effective life

You must recalculate the effective life of a depreciating asset if the asset's cost increases by at least 10% in an income year and you:

- self-assessed the effective life of the asset
- used the Commissioner's determination of effective life and the prime cost method to calculate the asset's decline in value.

You may conclude that the effective life has not changed.

There are special rules for recalculating effective life where depreciating assets are transferred between associates.

When you can't recalculate effective life

You can't recalculate the effective life of a depreciating asset where:

- accelerated depreciation rates are available for the asset
- the asset is an intangible asset, such as a licence, copyright or software
- you simply miscalculated the existing effective life – so your circumstances of use have not changed. In this case, you may be able to correct the miscalculation by seeking an amendment of your existing estimate from the time allowed under the amendment provisions of the law.

Changed circumstances

Changed circumstances that could result in your estimate of effective life becoming inaccurate include:

- your use of the asset turns out to be more or less rigorous than expected
- the asset is scrapped because of a downturn in demand for the goods or services it is used to produce
- legislation prevents the asset's continued use
- new technology makes the asset redundant.

Example: changed circumstances

A depreciating asset used to produce insecticide has a remaining effective life of 10 years. The government decides that use of the insecticide is to be phased out and legislates to end production within 2 years.

The depreciating asset can't be used for any other purpose so will be scrapped in 2 years. The effective life of the depreciating asset may then be re-estimated to reflect the loss of 8 years of its previously estimated effective life.

How to make a new estimate of effective life

The process of recalculating effective life is the same as the process of estimating effective life. To make a new estimate, you estimate the period (in years) the asset can be used for income-producing purposes by any entity from the time you first started to use the asset for any purpose. The period is based on your expected use of the asset and assumes that it is maintained in reasonably good order and condition.

The new estimate of effective life takes effect for the year in which you make it.

Example: making a new estimate of effective life

DA Pty Ltd acquires a depreciating asset on 1 July 2001 and starts to use it on the same day. The company works out that the effective life of the asset is 7 years. During 2001–02, the company is advised that use of the asset will be prohibited by law from 1 July 2003.

The effective life can't be recalculated for 2001–02 because this is the year in which the company started to use the asset. However, for 2002–03 the company may recalculate the effective life at 2 years. The recalculated effective life is worked out from the time the company first started to use the asset to the date when it can no longer be used for income-producing purposes.

Recalculating a depreciating asset's decline in value

You can use either the **prime cost (straight line) or diminishing value methods** to calculate the new estimate of the decline in value of the asset.

In the adjusted formulas, the asset's opening adjustable value (plus the cost of any improvements made to the asset during the year) is substituted for the asset's cost. For effective life, you substitute the period of the recalculated effective life that remains at the start of the year in which you make the new estimate.

Depreciating asset's adjustable value

An asset's adjustable value at a particular time is its cost less its decline in value up to that time. The adjustable value at the start of an income year (the opening adjustable value), is the same as its adjustable value at the end of the previous income year. The adjustable value of a newly acquired asset is generally the asset's cost.

Example: diminishing value method

Using the facts of the example 'Making a new estimate of effective life', assume that DA Pty Ltd chose to use the diminishing value method to calculate the decline in value of the asset and the cost of the asset is $10,000. The company's deduction for 2001–02 would be $2,143 calculated as follows:

((Base value × Days held) ÷ 365) × (150% ÷ Effective life years) = ((10,000 × 365) ÷ 365) × (150% ÷ 7)

For 2002–03, the company recalculates the effective life for the asset at 2 years. The asset's opening adjustable value for 2002–03 is $7,857 (that is, $10,000 less $2,143). DA Pty Ltd can claim depreciation of $5,893 for the year, based on the new estimate of effective life of 2 years as follows:

((7,857 × 365) ÷ 365) × (150% ÷ 2)

Example: prime cost method

Assume that DA Pty Ltd uses the prime cost method to calculate the decline in value of the asset. For 2001–02, the deduction for the decline in value of the asset would be $1,429 calculated as follows:

((Costs × Days held) ÷ 365) × (100% ÷ Effective life years) = ((10,000 × 365) ÷ 365) × (100% ÷ 7)

For 2002–03 the company recalculates the effective life for the asset at 2 years.

Under the prime cost method, an adjusted formula must be used to calculate the decline in value for this and later years. The asset's remaining effective life, worked out as at the start of the income year, is one year. This figure is used instead of the earlier estimate of the asset's effective life and the opening adjustable value of $8,571 (that is, $10,000 less $1,429) is substituted for the asset's cost. The deduction for 2002–03 would be $8,571 calclulated as follows:

((Opening adjustable value × 365) ÷ 365) × (100% ÷ Remaining effective life years) = ((8,571 × 365) ÷ 365) × (100% ÷ 1)

QC 16295

Effective life determinations, rulings and law

Details of ATO effective life determinations, rulings, and law relating to the effective life of depreciating assets.

Last updated 27 June 2025

ATO determinations of effective life are made by legislative instrument and published on the ATO Legal Database.

The Primary legislative references are **sections 40-95**, **40-100** and **40-105** of the *Income Tax Assessment Act 1997*.

Effective lives were published in tables attached to taxation rulings relating to the effective life of depreciating assets. Previously, these tables were updated and revised every 6 months by an addendum to *Taxation Ruling TR 2000/18*. There were several such addendums.

The publication of *Taxation Ruling TR 2006/5* saw the practice of periodically updating the tables change to issuing a new ruling. **TR 2022/1** *Income tax: effective life of depreciating assets* is the last such ruling published.

QC 50914

Low-value pool

Learn what assets can be allocated to a low-value pool and depreciated at a set annual rate.

Last updated 26 June 2025

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.

Assets you can allocate to a low-value pool

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.

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.

Starting a low-value pool and allocating assets to it

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, 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.

You are not required to allocate depreciating assets to a low-value pool. The choice is yours. If you choose not to use low-value pooling, you work out the decline in value of low-cost and low-value assets as you do your for the **effective life of other depreciating assets**.

Assets used only partly for taxable purposes

You only allocate to the pool the percentage of the asset's cost (for a low-cost asset) or adjustable value (for a low-value asset) that relates to the use of the asset for a taxable purpose, such as producing assessable income.

You must make the estimate based on the asset's effective life (for a low-cost asset) or remaining effective life (for a low-value asset).

Once you have allocated an asset to the pool, you can't vary your estimate of the taxable use percentage, even if the actual taxable use of the asset turns out to be different.

Example 1: pool depreciating asset used partly for taxable purposes

During 2020–21, John buys a printer for $990. John allocated low-cost assets to a low-value pool in 2019–20 so now he must allocate the printer to the pool because it is also a low-cost asset.

John estimates that only 60% of its use will be for taxable purposes. Therefore, he would allocate only 60% of the cost of the printer to the pool, that is 60% × $990 = $594.

Threshold rule

The threshold rule allows you to claim an immediate deduction for most business expenditure of $100 or less on buying tangible assets.

The rule is meant to help you save time because you don't need to decide whether each purchase is of a revenue nature (and so immediately deductible) or of a capital nature (usually written-off over time).

Purchases of a revenue nature normally mean that you expect the item to be consumed, damaged or lost within a short period of time while purchases of a capital nature generally result in the item or asset being used over a longer period.

If you:

- are using the **simplified depreciation rules**, you won't generally use the threshold rule for items of $100 or less as you can use the **instant asset write-off**
- aren't using the simplified depreciation rules and you spend $100 or less (including GST) to acquire a tangible asset you can assume it to be of a revenue nature.

The $100 threshold rule includes GST in the price of the item. There's no need to separately identify any GST applicable to individual items (see Division 27 of the *Income Tax Assessment Act 1997* (ITAA 1997).

Some examples of low-cost items that fall within the threshold rule, subject to the **qualifications list**, are:

- office equipment costing $100 or less, such as handheld staplers, hole punches, manila folders, ring binders, geometry sets, stencils, calculators, tape dispensers, scissors, labelling machines, document holders and bar coding machines
- catering items costing $100 or less, such as cutlery, saucers, cups, and table linen

- tradesperson's small hand tools costing $100 or less, such as pliers, screwdrivers and hammers
- tools used by primary producers costing $100 or less, such as secateurs and pliers.

Example: small business

A small cafe owner, who doesn't maintain an asset register or use the simplified depreciation rules, purchases spoons, coffee cups, espresso glasses and saucers every few months to maintain constant levels of stock, as these items are damaged or stolen. The owner spends around $60 every 3 or 4 months for these small items and claims the whole expense as a deduction in that income year.

Example: large business

A large mining business with an asset register buys a large quantity of small items each year to use in various sections of the enterprise. The items range from goggles and torches to small hand tools. These items cost $100 or less and are not recorded on the asset register. The items are claimed as business deductions in the year of purchase.

The threshold rule doesn't change your record-keeping requirements. You must continue to keep all relevant records as required under income tax and other taxation laws.

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).

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.

To work out the decline in value of the depreciating assets in a low-value pool, add:

- 18.75% of both
  - the taxable use percentage of the cost of low-cost assets you allocated to the pool during the year
  - the taxable use percentage of the cost of any improvements you made during the year to the assets in the pool
- 37.5% of both
  - the closing pool balance for the previous year
  - the taxable use percentage of the opening adjustable values of any low-value assets allocated to the pool during the year.

Example 2: work out deduction for pooled asset

Using the facts of the previous example, assume at the end of 2019–20 John has a low-value pool with a closing balance of $5,000. John's deduction for the assets in the pool for 2020–21 is:

Description	Value
18.75% of the taxable use percentage of the cost of the printer allocated to the pool during the year (18.75% × $594)	$111
37.5% of the closing pool balance for the previous year (37.5% × $5,000)	$1,875
Total	**$1,986**

Disposal of a pooled depreciating asset

If you dispose of a pooled asset during an income year you must reduce the closing pool balance for the year by the taxable use percentage of the asset's termination value (for example, any proceeds from the disposal).

If there's a difference between the asset's cost and its termination value, the non-taxable proportion of this difference is treated as a capital gain or loss.

If the termination value is larger than the closing pool balance, the excess amount is also included in your assessable income.

Example 3: disposal of pooled depreciating asset

Following on from the first example, during 2021–22, John sells the printer for $500. Because he originally estimated that the printer would only be used 60% for taxable purposes, the closing balance of the pool is reduced by 60% of the termination value, that is 60% × $500 = $300.

A capital loss of $196 also arises. As the printer's taxable use percentage is 60%, 40% of the difference between the asset's cost and its termination value is treated as a capital loss, that is 40% × ($500 less $990) = $196 capital loss.

Working out the closing pool balance

The closing balance of a low-value pool is the closing pool balance for the previous income year:

- **plus** the taxable use percentage of the costs of any low-cost assets, opening adjustable values of low-value assets and cost of any improvements made to the assets in the pool
- **minus** the deduction for the decline in value of the depreciating assets in the pool and the taxable use percentage of the termination value of any pooled assets disposed of.

Example: working out the closing pool balance

Assuming that John made no additional acquisitions to or disposals from his low-value pool, the closing balance of his pool for 2001–02 and 2002–03 is:

Closing pool balance 2020–21	Item	Amount
Closing pool balance for 2019–20	-	$5,000
Plus taxable use percentage of low-cost assets allocated for the year (see example 1)	New printer	$594
Less decline in value of assets in pool for the year (see example 2)	-	– $1,986
Closing pool balance for 2020–21	**-**	**$3,608**

Closing pool balance 2021–22	Item	Amount
Closing pool balance for 2020–21	-	$3,608
Less decline in value of assets in pool for the year	37.5% × $3,608	– $1,353
Less taxable use percentage of termination value of pooled assets that were disposed of during the year (see example 3)	-	– $300
Closing pool balance for 2021–22	**-**	**$1,955**

How this applies to primary producers

You can only claim a deduction for primary production activities under the low-value pooling provisions if the assets can't be deducted under the **primary producer provisions**.

Where you're using a low-value pool and need to separate your deductions into primary production and non-primary production activities, you must apportion your deduction for the low-value pool on a reasonable basis. One way to do this is to keep records as if the deductions to be separated and the assets the deductions relate to were in a separate pool.

Low-cost assets sampling rule

Understand for the sampling rule applies to low-cost assets.

QC 45986

Low-cost assets sampling rule

Understand for the sampling rule applies to low-cost assets.

Last updated 27 June 2025

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 many of your purchases you can claim as an immediate deduction and how many you must depreciate over time.

What is the sampling rule

The sampling rule saves you time because you don't need to decide whether each purchase is of a:

- **revenue** nature – these are items you expect to be consumed, damaged or lost within a short period of time. Revenue nature items are immediately deductible.
- **capital** nature – these are item you expect to be used over a longer period. These must be written off over time.

When you wouldn't use the sampling rule

If you're using the **small business simplified depreciation rules**, generally you won't use the sampling rule for low-value pools. Under the simplified depreciation rules, you can:

- claim an immediate deduction for most depreciating assets costing less than $1,000 (or $20,000 for each asset bought and used, or

installed ready for use from 730 pm (AEST) on 12 May 2015 until 30 June 2017)
- pool most other depreciating assets.

If you are a small business entity you:

- **can** use the simplified depreciation rules for 2007–08 and later years
- **must** use the simplified depreciation rules for 2006–07 and earlier years.

Who can use the sampling rule

Businesses can use the sampling rule if they **both**:

- have a low-value pool
- don't have systems that provide reliable individual identification and accounting of low-cost items.

How the sampling rule works

A business with a low-value pool under Subdivision 40-E of the *Income Tax Assessment Act 1997* (ITAA 1997) may use statistical sampling to determine the proportion of the total purchases on low-cost tangible assets that are revenue expenditure.

Eligible purchases

The purchases eligible for sampling are those that are **both**:

- items costing less than $1,000
- not excluded by the general qualifications.

The 'cost' for these purposes is the cost as worked out under Division 40 of the ITAA 1997. Input tax credits and decreasing adjustments under GST are normally excluded (see Division 27 of the ITAA 1997).

Sampling options

There are 2 options:

- The first option is to extract a representative sample from the eligible purchases of an entire income year.

- The second option allows you to choose a sample comprising all eligible purchases for a period (for example, 2 months) that is representative of the purchases for the income year.

From either sample, you determine the percentage of purchases that are deemed to be revenue. You can use the threshold rules to help with the revenue/capital expenditure decision for the sample.

Generally, we would consider a representative sample of 10% of eligible purchases as sufficient for the purposes of the first option. If there are a:

- very large number of eligible purchases, a smaller percentage may be appropriate
- small number of eligible purchases a larger percentage may be required.

The sampling results can only be applied against eligible purchases. The

- revenue component is assessed for immediate deductibility under section 8-1 of the ITAA 1997
- capital component is dealt with according to the low-value pool provisions of Subdivision 40-E.

Example: small or medium business

A small/medium business identifies $100,000 worth of revenue and capital items purchased in a year. The business determines that 10% of items that are eligible purchases would be a representative sample. They analysis the sample and determine the revenue expenditure proportion is 40%.

There are $15,000 worth of items costing $1,000 or more which are excluded from sampling. A further $50,000 worth of items are excluded as they are trading stock. This leaves $35,000 worth of eligible revenue expenditure.

Applying this 40% proportion to the $35,000 of eligible purchases, the business:

- claims an immediate deduction of $14,000 (40% of $35,000)
- allocates the remaining $21,000 to the low-value pool.

Example: large business

A large business has purchases for the income year totalling $2,500,000. Excluded from sampling are:

- $300,000 of purchases relates to items costing $1,000 or more
- $1,000,000 of purchases which are trading stock.

This leaves $1,200,000 worth of eligible purchases.

The business identifies all eligible purchases for a representative 2-month period in that year. Analysis of these shows that the revenue expenditure proportion is 35%.

Applying the 35% revenue proportion to the $1,200,000 worth of eligible purchases, business:

- claims an immediate deduction of $420,000
- allocates the remaining $780,000 to the low-value pool.

Qualifications

This sampling rule does **not apply** to expenditure on:

- establishing a business or business venture or building a significant store or stockpile of assets
- trading stock or spare parts
- assets held by you under a lease, hire purchase or similar arrangement
- assets acquired by you for lease or hire to (or that will otherwise be used by) another entity
- assets included in an asset register you maintain in a manner consistent with reporting requirements under accepted Australian accounting standards
- any asset that forms part of a collection of assets that is dealt with commercially as a collection (for example, by being sold and leased-back as a means of raising finance for the business).

This rule does not apply separately to expenditure on assets that are part of another composite asset. In this case, you must test expenditure on the composite asset. Items would not normally be a separate asset where they are not functional on their own (for example, scaffolding clamps).

The sampling results must be statistically valid and result in objective, reliable and conservative estimates.

Statistical sampling will be acceptable if:

- all relevant records and working papers relating to the sampling are available to us for examination
- an adequate statistical sampling design has been used
- the sample is representative of the population from which it has been drawn
- the data obtained from the sample is correct
- the estimates have been calculated correctly.

See **PS LA 2003/08** *Taxation treatment of expenditure on low cost items for taxpayers carrying on a business*.

Statistical sample validity

The statistical sample is valid for a maximum of 3 years (including the year in which the sampling takes place) so long as it remains representative of the total population that it is applied to. Re-sampling is required when, for example either:

- your business operations have varied so significantly that an alteration in the composition of asset purchases could be expected
- 2 businesses have merged, one of which was using the sampling rule and one of which was not
- 2 businesses have merged, both using the sampling rule but having different percentages of revenue expenditure, or
- there has been a demerger of a business.

Decentralised businesses

If your business is decentralised, with purchases of assets shown in different centres within your business, you may perform a sampling exercise for each centre and use the results for the purchases made by that centre. You may need to do this to ensure a representative sample if the eligible purchases of the centres have different characteristics. This is more likely to be an issue for larger businesses.

Record keeping requirements

The sampling rule doesn't change record retention requirements. You must continue to keep all relevant records as required under the income tax and other taxation laws.

Using sampling more broadly

The sampling rule has been designed to dovetail with the rules for low-value pools in Division 40 of the ITAA 1997. If you wish to use statistical sampling in other circumstances, you can contact us

- by phone
- by mail.

QC 50915

Disposing or ceasing to use a depreciating asset

What to do if you dispose of, or stop using, a depreciating asset.

Last updated 14 July 2020

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
- 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**.

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
- **less** than its adjustable value, 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 both:

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

Common examples of termination value are:

- the proceeds from selling an asset
- 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 the time you make that decision.

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

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

See information on **determining the market value for tax purposes**.

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.

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

Example: non-taxable use

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% of the taxable use proportion of $4,000).

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.

Disposal of a depreciating asset

How to account for the disposal of a depreciating asset.

QC 45987

Disposal of a depreciating asset

How to account for the disposal of a depreciating asset.

Last updated 26 June 2025

The uniform capital allowance (UCA) system applies from 1 July 2001. Under UCA rules, taxpayers calculate deductions for the decline in value of a depreciating asset based on how it's used for a taxable purpose, for example, to produce assessable income.

When you cease to hold, or to use a depreciating asset you must calculate a balancing adjustment. You need to work out this amount to include in your assessable income or to claim it as a deduction. If the depreciating asset has been used partly for a non-taxable purpose, the balancing adjustment amount is reduced to reflect only the taxable purpose proportion of the asset's use. A capital gain or capital loss can arise at the time of the balancing adjustment. This is only to the extent the asset has been used for a non-taxable purpose.

The following information will help you with the disposal of a depreciating asset. This is particularly dealing with sales, the most common type of balancing adjustments. However, these principles apply equally to all types of balancing adjustment events.

Tax depreciation incentives

Eligible businesses may be able to claim an immediate or accelerated deduction for the business portion of the cost of an asset using one of these tax depreciation incentives:

- Temporary full expensing
- Instant asset write-off
- Backing business investment

We have prepared a high-level snapshot to help you work out how these incentives may apply to you. Refer to Interaction of tax depreciation incentives.

How to account for the disposal of a depreciating asset

The disposal of a depreciating asset is a balancing adjustment event. You must compare the asset's termination value, with its adjustable value at that time. If the 2 figures are different, the difference is the balancing adjustment amount.

Generally, the termination value is the amount you receive for the asset on its disposal. It also includes the market value of any non-cash benefits such as goods or services you receive for the asset. The termination value is reduced to exclude GST payable if the disposal is a taxable supply.

A depreciating asset's adjustable value at a particular time is generally its cost less its decline in value up to that time.

The balancing adjustment amount is applied if the termination value of a depreciating asset:

- is more than its adjustable value, the difference is included in your assessable income
- is less than its adjustable value, the difference is an allowable deduction.

The balancing adjustment amount is applied in the year the balancing adjustment event occurs.

Special balancing adjustment calculations apply to luxury cars and to cars where different methods have been used to substantiate car expense deductions.

Sale of a depreciating asset used wholly for a taxable purpose

If the depreciating asset is used wholly for a taxable purpose, the full balancing adjustment amount is applied. No capital gain or capital loss arises.

Example: sale used wholly for a taxable purpose

John operates a small printing business and decides to sell an old photocopier for $2,750. Assuming the sale is a taxable supply, the termination value is reduced by the $250 GST payable. This means that the reduced termination value of the photocopier is $2,500 ($2,750 less $250).

If at the time of sale the adjustable value of the photocopier is $2,000, John must include $500 in his assessable income ($2,500 less $2,000).

If at the time of sale the adjustable value of the photocopier is $2,700, John would claim a deduction of $200 ($2,700 less $2,500).

Sale of a depreciating asset used only partly for a taxable purpose

If a depreciating asset is used only partly for a taxable purpose, you 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 under the UCA provisions.

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

Example: sale used partly for taxable purpose

John also sells a computer. The computer cost $1,000 to buy. It's termination value is $600. At the time of sale, the computer's adjustable value is $700. The computer has been used 40% for private purposes.

John can claim a deduction of $60. This is 60% (the proportion of use for a taxable purpose) of the balancing adjustment amount of $100 (being the difference between the computer’s termination value of $600 and its adjustable value of $700 at the time of its sale),

A capital loss of $160 also arises (40% (the non-taxable purpose proportion) of $1,000 less $600).

Sale of a depreciating asset used wholly for a non-taxable purpose

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

The difference between the asset's termination value and its cost can constitute a capital gain or a capital loss under the capital gains provisions.

How to account for the costs of selling a depreciating asset

Generally, you reduce the termination value of a depreciating asset by any costs of disposal, such as advertising costs. You can only reduce the termination value if the costs are not deductible.

Offsetting a balancing adjustment amount against a replacement depreciating asset

If the disposal of the asset was involuntary, you can offset the balancing adjustment amount that would otherwise be included in your assessable income against the cost of a new replacement asset (or against the adjustable value of an asset already held).

An **involuntary disposal of a depreciating asset** occurs if an asset you own is:

- lost or destroyed
- compulsorily acquired by an entity (other than a foreign government agency)
- disposed of to an entity (other than a foreign government agency) after they serve a notice on you inviting you to negotiate a sale agreement. They must have informed you that, if the negotiations are unsuccessful, the asset will be compulsorily acquired
- land or an asset affixed to land which is disposed of to an entity (other than a foreign government agency) where a mining lease was compulsorily granted over the land (or would have been compulsorily granted over the land), the lease significantly affected (or would have significantly affected) your use of the land and the entity to which you disposed of the land is the lessee.

For the offset to be available, the replacement asset must be used wholly for a taxable purpose. It must have been acquired in the period starting a year before the disposal and ending a year after the income year in which the disposal happened. The Commissioner of Taxation can agree to extend this time limit.

The rules in relation to compulsory acquisition of assets were amended on 22 June 2006 to extend to cover compulsory acquisitions by private acquirers.

These amendments apply to events that happen after 1:00 pm (by legal time in the ACT), 11 November 1999 and include a provision that allows more time for taxpayers to obtain an amended assessment to benefit from the rules.

QC 16294

Record keeping for capital expenses

Check the record-keeping requirements for depreciating assets, low value pools, and rollover relief.

Last updated 25 June 2025

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 5 years, starting from the end of the income year in which the asset is allocated to the pool.

There are 2 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 5 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 5 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 5 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 6 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 5 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 6 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 5 years after the balancing adjustment event occurred. The transferee must keep a copy for 5 years after the next balancing adjustment event that occurs for the asset.

QC 59423

Backing business investment – accelerated depreciation

Information on how businesses apply the Backing business investment rules to access and claim accelerated depreciation.

Last updated 27 June 2025

Backing business investment

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 using the Backing business investment rules.

The accelerated depreciation deduction applies for each new asset in the income year that the asset is first used or installed ready for use for a taxable purpose. The usual depreciating asset arrangements apply in the subsequent income years that the asset is held.

You use your tax return to claim the deduction or to opt out of backing business investment for an asset.

Eligible businesses

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

Eligible businesses must check the eligibility criteria carefully before making a claim as we will review claims as part of **our compliance activities on the economic stimulus measures**.

Eligible assets

To be eligible to apply the accelerated rate of deduction under backing business investment, 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
- be 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 either
  - **temporary full expensing**
  - **instant asset write-off**.

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

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** (water facilities, fencing, horticultural plants or fodder storage assets), unless you are a small business entity that chooses to apply the simplified depreciation rules to these assets
- buildings and other capital works for which you can deduct amounts under Division 43
- assets that will
  - never be located in Australia
  - not be used principally in Australia for the principal purpose of carrying on a business

- 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, unless it is a passenger vehicle.

You cannot claim backing business investment if you use temporary full expensing or instant asset write-off for the same asset.

We have prepared a **high-level snapshot** to help you work out how the following may apply to you:

- **backing business investment**
- **temporary full expensing**
- **instant asset write-off**
- **general depreciation rules.**

Claiming your deduction

Once you have worked out your deduction, you claim this when lodging your tax return for the income year.

Opting out

You can make a choice to opt out of backing business investment for an asset if you are not using the **simplified depreciation rules for small business.**

The choice can be made on an asset-by-asset basis. If you choose not to apply backing business investment to an asset, you apply the **general depreciation rules** to that asset.

You must tell us your choice to opt out:

- in your tax return
  - if using a 2021 tax return, complete the Backing business investment labels (V, W and X) at Capital allowances
  - otherwise, follow the tax return instructions and include your opt out choice as additional information to your tax return
- by the day you lodge your tax return for the income year to which the choice relates.

The choice cannot be changed once made.

We can in some instances allow additional time for you to make a choice to opt out of backing business investment. If you are seeking additional time to make this choice, you will need to write to us:

- clearly marking your request as 'Backing business investment discretion request'
- outlining why you need additional time to make the choice.

Online

If you're a tax agent, submit your request using **Online services for agents**.

Log in to Online services for agents

If you use Online services for business, submit your request using **Online services for business**.

Log in to Online services for business

Post

You can post your request to us at:

AUSTRALIAN TAXATION OFFICE
PO BOX 3000
PENRITH NSW 2740

Working out your deduction

Different rules apply when working out your deduction, depending on whether you are using the **simplified depreciation rules for small business.**

You can work out the deduction you can claim from a depreciating asset for capital allowances and capital works purposes using our online **Depreciation and capital allowances tool**.

Small business entity

There are **3 methods used to work out if you are a small business for an income year.**

If you are a small business with an aggregated turnover less than $10 million, and you use the simplified depreciation rules, you add to your general small business pool assets that:

- cost $150,000 or more (**instant asset write-off** applies to assets costing less than this)
- are eligible for backing business investment
- are not eligible for **temporary full expensing**.

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.

Normal rules apply to assets allocated to the general small business pool that are not eligible for backing business investment.

Example: small business benefits from backing business investment

NC Transport Solutions Pty Ltd operates a haulage business. NC Transport Solutions Pty Ltd has an aggregated turnover of $8 million for the 2019–20 income year. On 1 May 2020, NC Transport Solutions Pty Ltd purchases a new truck for $260,000, exclusive of GST. For the 2019–20 income year, the truck was only used for business purposes.

Under past tax arrangements, NC Transport Solutions Pty Ltd would depreciate the truck using its general small business pool. This means that NC Transport Solutions Pty Ltd would deduct 15% of the truck's value when it added the asset 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 backing business investment, NC Transport Solutions Pty Ltd will instead claim a deduction of 57.5% when it adds the truck to the pool, leading to a deduction of $149,500 for the 2019–20 income year.

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 under backing business investment if the asset is eligible and you cannot or have chosen not to apply temporary full expensing to that 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, the backing business investment deduction applies to eligible assets with a cost (or adjustable value if applicable) of $150,000 or more in the:

- 2019–20 income year, if the eligible asset is first held on or after 12 March 2020 and first used or first installed ready for use for a taxable purpose in the 2019–20 income year
- 2020–21 income year, if the eligible asset is first committed to or held on or after 12 March 2020 and first used or first installed ready for use for a taxable purpose in the 2020–21 income year.

Passenger vehicles

A car limit applies to any sized business that purchases a passenger vehicle (except a motorcycle or similar vehicle) designed to carry a load of less than one tonne and fewer than 9 passengers. 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
- $60,733 for the 2021–22 income year.

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 is 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

Research and development

If backing business investment 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 portion of the decline in value that is for R&D use. In working out the amount for R&D use, you must subtract any non-R&D use (including the taxable purpose portion and private use portion).

If you are a small business and you have used your asset for R&D activities, you cannot claim the backing business investment for that asset under the simplified depreciation rules. The normal depreciation rules will apply.

Examples

Example: medium sized business benefits from backing business investment

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 2020–21 income year, the pump was only used for business purposes.

The concrete pump was held before 2020 budget time so does not qualify for temporary full expensing. However, it does qualify for backing business investment.

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 6 and 2 thirds years).

Under the backing business investment, 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 backing business investment ($500,000) plus 30% of the remaining $500,000 under existing depreciation rules ($150,000).

Example: medium sized business committed to acquiring asset prior to 2020 budget time

F Pty Ltd has an aggregated turnover of $150 million for the 2020–21 income year. On 1 October 2020, it entered into a contract to purchase a new asset for $200,000. The contract was not completed until November 2020, post 2020 budget time – when the asset was delivered and installed ready for use solely for taxable purposes.

As F Pty Ltd has an aggregated turnover of $50 million or more and the asset purchase was committed to prior to 2020 budget time, F Pty Ltd is ineligible to apply temporary full expensing to the asset. However, as the purchase and installation meet the requirements for backing business investment, F Pty Ltd can claim an accelerated depreciation deduction under backing business investment.

Example: medium sized business acquired asset in 2020–21 and improved the asset both before and after 2020 budget time

K Pty Ltd has an aggregated turnover of $60 million for the 2020–21 income year. It acquired a new depreciating asset for $160,000 on 1 July 2020 and immediately began using the asset solely for a taxable purpose.

On 28 September 2020, K Pty Ltd carried out some improvements on the asset, incurring costs of $25,000. These costs were included in the asset's second element of cost at that time.

On 20 November 2020, K Pty Ltd makes further improvements to the asset incurring another $30,000 in costs.

K Pty Ltd must work out its decline in value for the income year. K Pty Ltd uses the temporary full expensing rules to work this out because some part of the asset's cost is eligible for temporary full expensing (the further improvements costing $30,000 incurred post 2020 budget time).

In working out the decline in value for the 2021 income year under temporary full expensing, K Pty Ltd must work out a component for its pre-budget time cost by using the Backing business investment rules.

For the 2020–21 income year, K Pty Ltd can claim the following:

- $92,500 – which is the amount worked out under backing business investment, that is 50% of
  - the $160,000 cost of acquisition
  - the $25,000 cost of the pre-2020 budget time improvement to the asset
- plus $30,000
  - which is all its expenditure during the temporary full expensing period (post 2020 budget time and before 30 June 2023)
- plus the depreciation
  - which could be claimed under Division 40 on the balance of the cost of the asset
  - that is, $92,500 (the total amount spent on the asset, less the amounts claimed under backing business investment and temporary full expensing).

Alternatively, K Pty Ltd could choose not to apply temporary full expensing and could work out and claim its decline in value deduction under backing business investment or the general depreciation rules.

QC 61924

Capital works deductions

Work out if the capital works deduction applies to your activity.

Last updated 7 February 2023

How to use capital works deductions

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, including shop fitouts and leasehold improvements
- structural improvements such as sealed driveways, fences and retaining walls
- earthworks for environmental protection, such as embankments.

The land itself can't be written off and its cost isn't deductible.

For more detail, see the Division 43 of the ITAA 1997 *Deductions for capital works*.

Deductions for construction costs

Deduction rates of 2.5% or 4.0% apply to the construction costs of the capital works, depending on:

- the date construction began
- the type of capital works
- how they're used.

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 costs charged for the estimate in the year it is incurred.

See more about claiming capital works deductions for rental properties.

Deductions for leasehold improvements

Deductions for leasehold improvements (including shop fitouts), which are capital works, cannot be claimed over their effective life or the term of the lease. They must be claimed at the statutory rate of either 2.5% or 4.0%, whichever is applicable.

If the capital works are destroyed at the end of the lease, you may claim a balancing deduction in the income year in which the destruction occurs. This treatment is very different to the general treatment for accounting purposes.

See more in 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*.

Special rules for other activities

Special rules apply to:

- landcare operations
- environmental protection activities.

How to work out the correct deduction

Work out the correct capital works deduction that applies to you with the Depreciation and capital allowances tool.

For example, to work out the depreciation amounts for your rental property, you can either:

- click on the **Rental Property** tab, add property and then add relevant assets, or
- click on the **Asset** tab, add relevant assets and, under the **Type** question, choose **Net income or loss from business**.

QC 45988

Other capital asset and expense deductions

Special rules apply to claiming deductions for certain depreciating assets and other business capital expenses.

Last updated 24 April 2018

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 5-year period on a straight line basis (that is 20% in the year you incur them and in each of the following 4 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.

For more information, see:

- Deductions for depreciating assets and capital expenses
- 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.

For more information, see:

- 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 7:30 pm (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 3 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 3 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.

For more information, see **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 expenditure × (Write-off days in the income year ÷ 365) × Write-off 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
- for the final year it will be 470 less the number of write-off days in the first year.

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.

For more information, see 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). Rather they 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 Deductions and offsets for capital expenditure for more information.

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 Environmental protection activities (EPA) more information.

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 Environmental protection activities (EPA)

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.

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 **Capital allowances: statutory caps on the effective life of buses, light commercial vehicles, minibuses, trucks and truck trailers** for more information.

In-house software

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

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

What the statutory caps apply to and how they work.

QC 45989

In-house software

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

Last updated 27 June 2025

In-house software is computer software, or the right to use computer software that you acquire, develop or have someone else develop for your business use, not for sale.

It does not include commercial off-the-shelf software if the software has an effective life of one year or less, or periodic payments made to use software in your business. These costs are deductible in the year incurred.

In-house software is only deductible under the uniform capital allowances (UCA) rules or the simplified depreciation rules for small business entities.

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

- Business costs
- Software development pools
- Disposal of in-house software

Business costs

If you're a small business you can use the simplified depreciation rules for the purchase and development of software that is installed and ready to use.

If the expense was less than the instant asset write-off threshold, you may be able to claim a deduction for the expenditure in the year you incurred it. If the expense is equal to or more than the instant asset write-off threshold, you can depreciate it under the general small business pool rules.

If the software is still in development and is not ready for use, you can use the software development pool rules.

If you can't or have chosen not to use the simplified depreciation rules or a software development pool, you can depreciate the value of the software using the prime cost method. The depreciation of the in-house software depends on when you started to hold it:

- 5 year effective life if you started to hold it on or after 1 July 2015
- 4 year effective life if you started to hold it between 7:30 pm AEST on 13 May 2008 and 30 June 2015.

Next steps

- Simpler depreciation rules for small business
- Prime cost (straight line) and diminishing value methods

Software development pools

You can allocate expenses you incur for the development of in-house software, which you intend to use solely for income producing purposes, to a software development pool. This includes expenses incurred before the in-house software is installed and ready for use.

Once you make the choice to allocate these expenses to a software development pool, you must allocate all later in-house software expenses to a pool. A different pool is created for each income year in which you incur development expenses.

In-house software that is allocated to a software development pool is depreciated at the following rates:

- For expenditure incurred from 1 July 2015
  Year 1 – Nil
  Year 2 – 30%
  Year 3 – 30%
  Year 4 – 30%
  Year 5 – 10%
- For expenditure incurred up to 30 June 2015
  Year 1 – Nil
  Year 2 – 40%
  Year 3 – 40%
  Year 4 – 20%

If you're entitled to claim a GST input tax credit for the expense, the amount allocated to the software development pool does not include the credit.

Disposal of in-house software

If you have allocated software development expenses from a project to a software development pool and the project is abandoned, the amounts remain part of the pool.

If you receive consideration for software in a software development pool, you must include the consideration in your assessable income unless you choose rollover relief to apply. An example of consideration would be insurance proceeds on the destruction of the software.

If you stop using in-house software that has not been allocated to a software development pool and you never expect to use it again, you can claim an immediate deduction for the cost of the software at that time.

You can also claim an immediate deduction for expenses on in-house software that have not been allocated to a software development pool if you:

- haven't used the software and decide that you will never use it
- had it installed ready for use and decide that you will never use it.

The amount you can deduct is your total expenses for the software less any amount you receive for the software (or a part of it).

See also:

- Disposing or ceasing to use a depreciating asset
- Rollover relief

QC 47703

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

What the statutory caps apply to and how they work.

Last updated 26 June 2025

Statutory caps apply to the Commissioner's determinations of the effective life of certain depreciating assets including buses, light commercial vehicles, trucks and truck trailers. This came into effect on 1 January 2005. Statutory caps are also known as legislative caps.

Taxpayers who choose to use the Commissioner's determination of effective life for these depreciating assets must use the shorter of the capped effective life and the Commissioner's determined effective life.

What do the statutory caps apply to?

The caps apply to certain buses, light commercial vehicles, trailers and trucks (as described in the table below) which are acquired and first used for any purpose on, or after, 1 January 2005. The change is contained in *Tax Laws Amendment (2005 Measures No. 1) Act 2005*, which received Royal Assent on 29 June 2005.

What is effective life?

The effective life is the period that the asset can be used by anyone for income producing purposes. The decline in value of a depreciating asset is worked out using the asset's effective life. The effective life is worked out assuming that the asset will be maintained in reasonably good order and condition, and that it will be subject to wear and tear that is reasonably expected based on the circumstances of its use.

How do the statutory caps on effective life work?

For most depreciating assets, you can choose to adopt the Commissioner's determination, or to self-assess the effective life. For depreciating assets affected by the statutory caps you still have this choice. However, if you choose to use the Commissioner's determination, you must then use the shorter of the capped effective life and the Commissioner's determined effective life.

The Commissioner's determination of effective life and the capped effective life of the depreciating assets affected by these statutory caps are compared in the table below. The capped effective life is shorter for all of the affected assets. Therefore, if you choose to use the Commissioner's determination, you must use the capped effective life as set out in the table.

Table: Commissioner's determination of effective life and Capped effective life

Depreciating asset	Commissioner's determination of effective life	Capped effective life
Buses with a gross vehicle mass of more than 3.5 tonnes	15 years	7.5 years
Garbage compactor trucks (including the compactor)	10 years	7.5 years
Light commercial vehicles with a carrying capacity of one tonne or greater and a gross vehicle mass of 3.5 tonnes or less (including utilities, vans, and light trucks)	12 years	7.5 years
Minibuses with a gross vehicle mass of 3.5 tonnes or less and seats for 9 or more passengers	12 years	7.5 years
Trailers with a gross vehicle mass greater	15 years	10 years

than 4.5 tonnes		
Trucks having a gross vehicle mass greater than 3.5 tonnes (other than a truck that is used in mining operations and that is not of a kind that can be registered to be driven on a public road in the place in which the truck is operated)	15 years	7.5 years

Example: choice of effective life

John purchased a truck (with a gross vehicle mass in excess of 3.5 tonnes) on 1 January 2005 and started using it immediately in his business. John chose to use the effective life determined by the Commissioner.

The effective life of John's truck as determined by the Commissioner is 15 years. As the capped effective life of the truck of 7.5 years (row 5 of the table) is shorter than the Commissioner's effective life, John must use the capped effective life.

Legislative references

Tax Laws Amendment (2005 Measures No. 1) Act 2005: Chapter 2 – Effective life of assets declining in value.

The Commissioner's determined effective life of the depreciating assets affected by these statutory caps can be found in the schedules attached to the various effective life Taxation rulings, accessible from Effective life determinations, rulings and law.

For more information:

- speak to your tax adviser
- read about self-assessing effective life
- read an overview of effective life and the review process
- phone us on
  - **13 28 66** for business tax enquiries

- 13 28 61 for personal tax enquiries.

QC 18153

Interaction of tax depreciation incentives

A guide to tax depreciation incentives and when businesses could consider using them.

Last updated 27 June 2025

In 2020, the government introduced measures to help businesses recover from the impacts of the coronavirus pandemic (COVID-19).

Only one incentive can apply for an asset. If more than one incentive could apply to an asset the order of application (subject to opt out choices) is:

1. Temporary full expensing
2. Instant asset write-off
3. Backing business investment
4. General depreciation rules.

This high-level snapshot explains the depreciation incentives that are available to eligible businesses entities and when they could consider using them. You can download a PDF version Interaction of tax depreciation incentives (PDF, 1.1MB).

Depreciation incentives

Depreciation incentives include:

- Temporary full expensing
- Instant asset write-off
- Backing business investment

Temporary full expensing

The Temporary full expensing measure allows full write-off for eligible assets first held at or after Budget Time 6 October 2020.

‘Temporary’ means it does not apply to assets first used or installed for taxable purposes after 30 June 2023.

For asset eligibility and exclusion rules, see **temporary full expensing**.

Instant asset write-off

For asset eligibility and exclusion rules, see **instant asset write-off**.

To 11 March 2020

Eligible assets costing less than $30,000 are eligible for full write-off if they were first acquired at or after Budget Time 2 April 2019.

Assets must have been first used or installed for a taxable purpose between 2 April 2019 and 11 March 2020.

From 12 March 2020

Eligible assets costing less than $150,000 are eligible for full write-off from 12 March 2020 if they were first acquired at or after Budget Time 2 April 2019 and on or before 31 December 2020.

Assets must have been first used or installed for a taxable purpose between 12 March 2020 and 30 June 2021.

Note: this is Budget Time 12 May 2015 for small business entities using simplified depreciation.

Backing business investment

The Backing business investment measure allows for an accelerated depreciation of eligible assets first held and first used or installed for a taxable purpose between 12 March 2020 and 30 June 2021.

For asset eligibility and exclusion rules, see **backing business investment – accelerated depreciation**.

Applying depreciation incentives

The general steps to apply depreciation incentives are:

- Identify if you are an eligible business by calculating your **aggregated turnover**.
- Determine which incentive to apply. Only one incentive can apply for an asset. If more than one incentive could apply, the order of application is (subject to opt out choices)
  - **temporary full expensing**
  - **instant asset write-off**

  - backing business investment – accelerated depreciation
  - general depreciation rules.
- Take note of whether you can choose to opt out of an incentive.
- Determine when you first held and first used or installed each asset for a taxable purpose.
- Consider if any exclusions or specific limits may apply (such as the **car limit**), even if the incentives are uncapped.

Full write-off

Full write-off means deducting the taxable use proportion of the cost of an asset.

It may also be available for improvement costs for eligible assets. Refer to our more detailed guidance on **temporary full expensing** for information on when these costs can be claimed.

Interaction of tax depreciation incentives

The following table summarises the infographic [Interaction of tax depreciation incentives (PDF, 1.1MB)] to show which incentives might be available based on:

- your aggregated turnover
- the date you first held or used an asset in your business.

Refer to our more detailed guidance on each of these incentives for exceptions and other amounts that may be eligible.

Summary of the PDF fact sheet

Business type	Aggregated turnover	Can I claim temporary full expensing for assets first held after 6 October 2020?	Can I claim instant asset write-off for assets costing $30,000 or less and first used in business to	[illegible]

			11 March 2020?
Small business (using simplified depreciation**)**	Less than $10m	Yes	Yes
Small business (not using simplified depreciation)	Less than $10m	Yes	No
Medium business	$10m to less than $50m	Yes	Yes
Medium to large business	$50m to less than $500m	Yes	No
Large business	$500m to less than $5bn or satisfies the Alternative income test	Yes	No

QC 65722

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