Australian Government
Australian Taxation Office

Guide to depreciating assets 2025

Guide to claiming the decline in value of capital assets used in gaining assessable income, such as a car or machinery.

This publication was current at 29 May 2025

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About the guide for depreciating assets

Find out about your obligations if you have depreciating assets and you dispose or stop using them.

In this section

About depreciating assets

Who should use this guide?

Small business entities

Unfamiliar terms

About depreciating assets

Generally, you can claim deductions for expenses you incur in gaining or producing your income (for example, in carrying on a business). Some expenditure you incur, such as the cost of acquiring capital assets, is generally not deductible. However, you may be able to claim a deduction for the decline in value of the cost of capital assets you use in gaining assessable income.

The *Guide to depreciating assets 2025* explains:

- how to work out the decline in value of your depreciating assets
- what happens when you dispose of or stop using a depreciating asset
- the deductions you may be able to claim under uniform capital allowances (UCA) for capital expenditure other than on depreciating assets.

In this guide, the words 'ignoring any GST impact' mean that if you're not entitled to claim an input tax credit for GST for a depreciating asset that you hold, then the cost of the depreciating asset includes any GST.

Who should use this guide?

Use this guide if you bought capital assets to use in gaining or producing your assessable income and you would like to claim a deduction for the assets' decline in value. Also use this guide if you incur other capital expenditure during 2024–25 and want to know whether you can claim a deduction for the expenditure.

Small business entities

Small business entities may choose to use simplified depreciation rules. For more information, see Small business entity concessions.

Unfamiliar terms

This guide shows unfamiliar terms in bold at first use, for an explanation of these unfamiliar terms, see Definitions for UCA terms.

What's new in the guide to depreciating assets?

Find out what's new in legislation or other changes that need to be taken into consideration for 2025.

In this section

Small business – $20,000 instant asset write-off

Effective life determinations

Small business – $20,000 instant asset write-off

The Treasury Laws Amendment (Tax Incentives and Integrity) Act 2025 has extended the $20,000 instant asset write-off limit to the 2024-25 income year. The measure aims to support small business entities with an aggregated annual turnover of less than $10 million.

Eligible small business entities can immediately deduct the business use portion of the cost of eligible depreciating assets costing less than $20,000. You must first use or install ready for use for a taxable purpose between 1 July 2024 and 30 June 2025.

The $20,000 limit applies on a per asset basis, so small business entities can instantly write off multiple assets. Small business entities can also immediately deduct an eligible amount included in the second element of a depreciating asset's cost.

The 5-year 'lock out' rule is suspended until 30 June 2025. This rule prevented small business entities from re-entering the simplified depreciation regime if they opted out.

For more information, see Small business support – $20,000 instant asset write-off.

Effective life determinations

We've changed how we publish effective life determinations. Our effective life determinations are available in the Income Tax (Effective Life of Depreciating Assets) Determination 2015, a legislative instrument that has the full force of the law in Legislation Act 2003.

Work out the decline in value of a depreciating asset on the basis of its effective life. You can either make your own estimate of its effective life or use the Commissioner's effective life determinations. For more information, see Effective life of an asset.

Uniform capital allowances

About uniform capital allowances and steps to follow to work out your deduction.

In this section

Decline in value deduction

Uniform capital allowances rules

Simplifying tax obligations for business

The UCA rules and where to start

Definitions for UCA terms

Decline in value deduction

Under tax law, you can claim certain deductions for expenditure you incur in gaining or producing assessable income – for example, in carrying on a business. Some expenditure, such as the cost of acquiring capital assets, is generally not deductible. Generally, the value of a capital asset that provides a benefit over a number of years declines over its **effective life**. Because of this, the cost of capital assets you use in gaining assessable income can be written off over a period of time as tax deductions.

Before 1 July 2001, the cost of plant (for example, cars and machinery) and software was written off as depreciation deductions. If you need help calculating your depreciation deduction for plant and software you bought before 1 July 2001, see Depreciation and capital allowances tool.

Since 1 July 2001, uniform capital allowances (UCA) apply to most depreciating assets, including plant. Under UCA, deductions for the cost of a **depreciating asset** are based on the **decline in value** of the asset.

Uniform capital allowances rules

UCA provide a set of general rules that apply across a variety of depreciating assets and certain other capital expenditure. UCA do this by consolidating a range of former capital allowance regimes. UCA replace provisions relating to:

- plant
- software
- mining and quarrying
- intellectual property
- forestry roads and timber mill buildings
- spectrum licences.

You use these rules to work out deductions for the cost of your depreciating assets, including those acquired before 1 July 2001. You can generally deduct an amount for the decline in value of a depreciating asset you hold to the extent that you use it for a **taxable**

purpose. However, an eligible small business entity may choose to work out deductions for their depreciating assets using the simplified depreciation rules, see Small business entity concessions.

Simplifying tax obligations for business

The Law Administration Practice Statement PS LA 2003/8 *Practical approaches to low-cost business expenses*, provides guidance for businesses. There are 2 straightforward methods you can use, if you're carrying on a business, to help determine whether you treat expenditure you incur in acquiring certain low-cost tangible assets as revenue expenditure or capital expenditure.

Subject to certain qualifications, the 2 methods cover expenditure below a threshold and the use of statistical sampling to estimate total revenue expenditure on low-cost tangible assets. The threshold rule allows an immediate deduction for qualifying low-cost tangible assets costing $100 or less, including any GST. If you have a low-value pool, the sampling rule allows you to use statistical sampling to determine the proportion of the total purchases on qualifying low-cost tangible assets that is revenue expenditure.

We'll accept a deduction for expenditure you incur on qualifying low-cost tangible assets you calculate using this practice statement.

The UCA rules and where to start

When working out your deduction for the decline in value of a depreciating asset under UCA, you need to consider:

- Is your asset a depreciating asset covered by UCA?
  See What is a depreciating asset?
- Do you hold the depreciating asset?
  See Claiming deductions for the decline in value of depreciating assets
- Has the depreciating asset started to decline in value?
  See When does a depreciating asset start to decline in value?
- What method will you use to work out decline in value?
  See Methods of working out decline in value
- What is the effective life of the depreciating asset?
  See Effective life of a depreciating asset
- What is the cost of your depreciating asset?
  See Cost of a depreciating asset
- Must you reduce your deduction for any use for a non-taxable purpose?
  See Decline in value of a depreciating asset used for a non-taxable purpose

Some of these questions don't apply:

- if you choose to allocate an asset to a pool
- if you can claim an immediate deduction for the asset
- to certain primary production assets
- to some assets used in rural businesses.

See, Working out decline in value.

Definitions for UCA terms

Definitions for the uniform capital allowances terms and comparison to the former depreciation rules.

Table: comparison of some of the UCA terms with those used in the former depreciation rules.

Former depreciation rules	UCA
Plant	Depreciating asset
Own	Hold
Cost	First and second elements of cost
Luxury car limit	Car limit
Income-producing use	Taxable purpose
Depreciation	Decline in value
Undeducted cost	Adjustable value

Adjustable value: A depreciating asset's adjustable value at a particular time is its cost (first and second elements) *less* any decline in value up to that time.

The opening adjustable value of an asset for an income year is generally the same as its adjustable value at the end of the previous income year.

Balancing adjustment amount: The balancing adjustment amount is the difference between the termination value and the adjustable value of a depreciating asset at the time of a balancing adjustment event.

If an asset's termination value is greater than its adjustable value, the difference is generally an assessable balancing adjustment amount.

If the termination value is less than the adjustable value, the difference is generally a deductible balancing adjustment amount.

Balancing adjustment event: Generally, a balancing adjustment event occurs for a depreciating asset if you stop holding it (for example, if you sell it) or you stop using it and you expect never to use it again.

Car limit: If the first element of cost of a car exceeds the car limit for the income year in which you start to hold it, that first element of cost is generally reduced to the car limit. The car limit for 2024–25 is $69,674.

Days held: Days held is the number of days you hold the asset in the income year in which you use it or have it installed ready for use for any purpose.

Decline in value: Deductions for the cost of a depreciating asset are based on its decline in value. For most depreciating assets, you have the choice of 2 methods to work out the decline in value: the prime cost method or the diminishing value method, see Methods of working out decline in value.

Depreciating asset: A depreciating asset is an asset that has a limited effective life and can reasonably be expected to decline in value over the time it is used.

Some assets are specifically excluded from the definition of depreciating asset, see What is a depreciating asset?

Effective life: Generally, the effective life of a depreciating asset is an estimate of how long it can be used by any entity for a taxable purpose or for the purpose of producing exempt income or non-assessable non-exempt income. You should, if relevant for the depreciating asset:

- have regard to the wear and tear from your expected circumstances of use
- assume the asset will be maintained in reasonably good order and condition
- have regard to the period within which it is likely to be scrapped, sold for no more than scrap value or abandoned.

First element of cost: The first element of cost of a depreciating asset is, broadly, the amount paid (money or the market value of property given) or the amount taken to have been paid to hold the asset. It also includes amounts incurred that are taken to have been paid for starting to hold the asset. The amounts must be directly connected with holding the asset.

Holder: Only a holder of a depreciating asset may deduct an amount for its decline in value. In most cases, the legal owner of a depreciating asset will be its holder, see Who can claim deductions for the decline in value of a depreciating asset?

Indexation: Indexation is a methodology used to calculate the cost base of an asset for capital gains tax (CGT) purposes. It may be used for depreciating assets acquired and costs incurred before 11.45am AEDT on 21 September 1999.

Second element of cost: The second element of cost of a depreciating asset is, broadly, the amount paid (money or the market value of property given), or the amount taken to have been paid, to bring the asset to its present condition and location since you start to hold the asset. For example, costs incurred to improve the asset and expenses incurred on a balancing adjustment event occurring for the asset, such as advertising or commission expenses.

Start time: A depreciating asset's start time is generally when you first use it (or install it ready for use) for any purpose, including a private purpose.

Taxable purpose: A taxable purpose is the purpose of producing assessable income, the purpose of exploration or prospecting, the purpose of mining site rehabilitation, or environmental protection activities.

Termination value: Generally, the termination value is what you receive, or are taken to receive, for an asset as a result of a balancing adjustment event. For example, the proceeds from selling an asset would be the asset's termination value.

Depreciating assets, effective life, cost and decline in value

Depreciating assets, who can claim them, work out the decline in value and when you can claim an immediate deduction.

In this section

What is a depreciating asset?

Claiming deductions for the decline in value of depreciating assets

Working out decline in value

Immediate deduction for certain non-business depreciating assets

Effective life of a depreciating asset

Cost of a depreciating asset

What is a depreciating asset?

What is a depreciating asset, second-hand depreciating asset, and what depreciating assets are excluded from UCA.

In this section

Depreciating assets

Second-hand depreciating assets in residential rental properties

Depreciating assets excluded from UCA

Depreciating assets

A depreciating asset is an asset that has a limited effective life and can reasonably be expected to decline in value over the time you use it. Depreciating assets include items such as computers, electric tools, furniture and motor vehicles.

Land and items of trading stock are specifically excluded from the definition of depreciating asset.

Most intangible assets are also excluded from the definition of depreciating asset. Only the following intangible assets, if they are not trading stock, are specifically included as depreciating assets:

- in-house software
- certain items of intellectual property (patents, registered designs, copyrights and licences of these)
- mining, quarrying or prospecting rights and information
- certain indefeasible rights to use a telecommunications cable system
- certain telecommunications site access rights
- spectrum licences.

Improvements to land or fixtures on land (for example, windmills and fences) may be depreciating assets and you treat them as separate from the land, regardless of whether they can be removed or not.

In most cases, it will be clear whether or not something is a depreciating asset. If you're not sure, contact us or your registered tax adviser.

Second-hand depreciating assets in residential rental properties

You can't claim a deduction for the decline in value of certain second-hand depreciating assets in your residential rental property unless you're using the property in carrying on a business. This includes the business of letting rental properties, or you're an excluded entity.

These rules generally apply to depreciating assets that you either:

- enter into a contract to acquire, or otherwise acquire, at or after 7:30 pm on 9 May 2017
- used, or had installed ready for use, for any private purpose in 2016–17 or earlier, and were not entitled to a deduction for a decline in value in 2016–17.

Residential rental property is residential premises you use to provide residential accommodation for the purpose of producing assessable income.

For more information on the deduction limits for decline in value of second-hand depreciating assets in your residential rental property, and how the rules apply to the assets you allocate to low-value pools, see Rental properties guide 2025.

Depreciating assets excluded from UCA

You don't work out deductions for the decline in value of some depreciating assets under UCA. These depreciating assets are:

- depreciating assets that are capital works – for example, buildings and structural improvements for which deductions
  - are available under the separate provisions for capital works
  - would be available if you incur expenditure, or start the capital works, after a particular date
  - would be available if you use the capital works in a deductible way in the income year
- cars, where you use the cents per kilometre method for calculating car expenses, this method takes the decline in value into account in its calculations
- work-related items (such as laptop computers, personal digital assistants, computer software, protective clothing, briefcases and tools of trade), ordinarily eligible for a depreciation deduction under UCA, won't be eligible if both
  - employer provides you the item, pays for or reimburses you for some or all of the cost of the item
  - the provision, payment or reimbursement was exempt from fringe benefits tax
- depreciating assets that deductions were available under the specific film provisions.

Claiming deductions for the decline in value of depreciating assets

Find out who can claim deductions for the decline in value of a depreciating asset.

In this section

Depreciating asset holder

Leased luxury cars

Depreciating assets subject to hire purchase agreements

Leased depreciating assets fixed to land

Depreciating assets which improve or are fixed to leased land

Partnership assets

Depreciating asset holder

Only the **holder** of a depreciating asset can claim a deduction for its decline in value.

In most cases, the legal owner of a depreciating asset will be its holder.

There may be more than one holder of a depreciating asset, for example, joint legal owners of a depreciating asset are all holders of that asset. Each person's interest in the asset is treated as a depreciating asset. Each person works out their deduction for decline in value using both their:

- interest in the asset (for example, the cost of the interest to them, not the cost of the asset itself)
- use of the asset for a taxable purpose.

In certain circumstances, the holder isn't the legal owner. Some of these cases are discussed below.

If you're not sure whether you're the holder of a depreciating asset, contact us or your registered tax adviser.

Leased luxury cars

A leased car, either new or second-hand, is generally a luxury car if its cost exceeds the **car limit** that applies for the income year in which the lease is granted. The car limit for 2024–25 is $69,674, see Car limit.

For income tax purposes, treat a luxury car lease (other than a genuine short-term hire arrangement or a hire purchase agreement) as a notional sale and loan transaction.

The lessee considers the **first element of cost** of the car and the amount lent by the lessor to be the car's market value at the start time of the lease. For more information on the first element of cost, see Cost of a depreciating asset.

Divide the actual lease payments the lessee makes into notional principal and finance charge components. That part of the finance charge component applicable to the particular period may be deductible to the lessee.

The lessee is generally treated as the holder of the luxury car and can claim a deduction for the decline in value of the car. For the purpose of calculating the deduction, the first element of cost of the car is limited to the car limit for the year in which the lease is granted, see Assets and exclusions – car limit.

You must reduce any deduction to reflect any use of the car other than for a taxable purpose, such as private use. See, Decline in value of a depreciating asset used for a non-taxable purpose.

If the lessee doesn't acquire the car from the lessor when the lease terminates or ends, the lessee treats this as if they sold the car to the lessor. . The lessee needs to work out any assessable or deductible **balancing adjustment amount.** See, What happens if you no longer hold or use a depreciating asset?

Depreciating assets subject to hire purchase agreements

For income tax purposes, we treat certain hire purchase and instalment sale agreements as a notional sale of goods by the financier (or hire purchase company) to the hirer, financed by a notional loan from the financier to the hirer. Treat the hirer is in these circumstances as the notional buyer and owner under the arrangement. Treat the financier as the notional seller.

Generally, the cost or value of the goods stated in the hire purchase agreement or their arm's length value is taken to be the cost of the goods to the hirer and the amount lent by the financier to the hirer to buy the goods.

The hire purchase payments made by the hirer are separated into notional loan principal and notional interest under a formula set out in Division 240 of the ITAA 1997. The notional interest may be deductible to the hirer to the extent that the assets use is to produce assessable income.

Under UCA, if the goods are depreciating assets, the hirer is regarded as the holder provided it is reasonably likely that they will actually acquire the asset.

If these conditions are met, the hirer can claim a deduction for decline in value to the extent the asset's use is for a taxable purpose, such as for producing assessable income.

If the hirer actually acquires the goods under the agreement, the hirer continues to be the holder. Don't treat the actual transfer of legal title to the goods from the financier to the hirer as a disposal or acquisition.

On the other hand, if the hirer doesn't acquire the goods under the arrangement, treat the goods as being sold back to the financier at their market value at that time. The hirer will need to work out any assessable or deductible balancing adjustment amount. See What happens if you no longer hold or use a depreciating asset?

Treat the notional loan amount under a hire purchase agreement as a limited recourse debt, see Limited recourse debt arrangements.

Leased depreciating assets fixed to land

If you're the lessee of a depreciating asset and it is fixed to your land, under property law you become the legal owner of the asset. As the legal owner you're taken to hold the asset. However, an asset may have more than one holder. Despite the fact that the asset you lease is fixed to your land, if the lessor of the asset (often a bank or finance company) has a right to recover it, then they too are taken to hold the asset as long as they have that right to recover it. You and the lessor, each being a holder of the depreciating asset, would calculate the decline in value of the asset based on the cost that each of you incur.

Example: holder of leased asset fixed to land

Jo owns a parcel of land and a finance company leases some machinery to Jo who pays the cost of fixing it to her land. Under the lease agreement, the finance company has a right to recover the machinery if Jo defaults on her lease payments.

The finance company holds the machinery as it has a right to remove the machinery from the land. The finance company is entitled to deductions for the decline in value of the machinery, based on the cost of the machinery to the finance company.

However, Jo also holds the machinery as it is fixed to her land. She is entitled to a deduction for the decline in value of it based on the cost to her of holding the machinery. This cost would not include her lease payments but would include the cost of installing the machinery. For more information on what amounts form part of the cost of a depreciating asset, see Cost of a depreciating asset.

Depreciating assets which improve or are fixed to leased land

If a depreciating asset is fixed to leased land and the lessee has a right to remove it, the lessee is the holder while the right to remove the asset exists.

Example: holder of depreciating asset fixed to leased land

Jo leases land from Bill, who owns the land. Jo purchases some machinery and fixes it to the land. Under property law, the machinery is treated as part of the land, so Bill is its legal owner.

However, under the terms of her lease, Jo can remove the machinery from the land at any time. Because she has acquired and fixed the machinery to the land and has a right to remove it, Jo is the holder of the machinery for the period during which the right to remove it exists.

If a lessee or owner of certain other rights over land (for example, an easement) improves the land with a depreciating asset, that person is the holder of the asset if the asset is for their own use, even though they have no right to remove it from the land. They remain the holder while the lease or right exists.

Example: holder of depreciating asset that improves leased land

Jo leases land from Bill to use for farming. Jo installs an irrigation system on the land which is an improvement to the land. While Bill is the legal owner under property law as the irrigation system is part of his land, Jo is the holder of the irrigation system. Even though she has no right to remove the irrigation system under her contract with Bill, Jo may deduct amounts for its decline in value for the term of the lease because:

- she improved the land
- the improvement is for her use.

Partnership assets

In a partnership, the partnership (not the partners or any particular partner) is the holder of partnership assets, regardless of their ownership. A partnership asset is an asset held and applied by the partners exclusively for the purposes of the partnership and in accordance with the partnership agreement.

Working out decline in value

General and specific rules for working out the decline in value of depreciating assets.

In this section

UCA general rules for decline in value

When does a depreciating asset start to decline in value?

Methods of working out decline in value

Decline in value of a depreciating asset used for a non-taxable purpose

Decline in value of leisure facilities

Decline in value of boats

Depreciating asset you acquire from an associate

Sale and leaseback arrangements

UCA general rules for decline in value

UCA contain general rules for working out the decline in value of a depreciating asset, and these rules are covered in this part of the guide.

The general rules don't apply to some depreciating assets. UCA provide specific rules for working out deductions for the assets listed below:

- certain depreciating assets that cost $300 or less and that you use mainly to produce non-business assessable income, see Immediate deduction for certain non-business depreciating assets (costing $300 or less)
- certain depreciating assets that cost or are written down to less than $1,000, see Low-value pools
- in-house software that you allocate expenditure, see Software development pool
- depreciating assets you use in exploration or prospecting, see Mining and quarrying, and minerals transport
- water facilities, fencing assets, fodder storage assets and horticultural plants (including grapevines), see Primary production depreciating assets
- certain depreciating assets of primary producers, other landholders and rural land irrigation water providers you use in landcare operations
- certain depreciating assets of primary producers and other landholders you use for electricity connections or phone lines
- trees in a carbon sink forests.

There are also specific rules for working out notional deductions for depreciating assets you use in carrying on research and development activities. See, Research and development tax incentive schedule instructions 2025.

When does a depreciating asset start to decline in value?

The decline in value of a depreciating asset starts when you first use it, or install it ready for use, for any purpose, including a private purpose. This is known as a depreciating asset's **start time**.

Although an asset is treated as declining in value from its start time, you can only claim a deduction for its decline in value to the extent the use is for a taxable purpose, see Definitions for UCA terms.

If you initially use a depreciating asset for a non-taxable purpose, such as for a private purpose, and in later years use it for a taxable purpose, you need to work out the asset's decline in value from its start time, including the years it was in use for a private purpose. You can then work out your deductions for the decline in value of the asset for the years you use it for a taxable purpose, see Decline in value of a depreciating asset used for a non-taxable purpose.

Methods of working out decline in value

You generally have the choice of 2 methods to work out the decline in value of a depreciating asset. These are:

- the diminishing value method
- the prime cost method.

Both these methods are based on a depreciating asset's effective life. For the rules to use in working out an asset's effective life, see Effective life of a depreciating asset.

You can generally choose to use either method for each depreciating asset you hold. However, once you have chosen a method for a particular asset, you **can't** change to the other method for that asset.

For help with the choice and the calculations, use our Depreciation and capital allowances tool.

If you're not carrying on a business, you may be able to claim an immediate deduction for certain non-business depreciating assets (costing $300 or less).

In other cases, you don't have a choice of which method you use to work out the decline in value. These cases include:

- If you acquire intangible depreciating assets such as in-house software, certain items of intellectual property, spectrum licences and telecommunications site access rights, you must use the prime cost method.
- If you acquire a depreciating asset acquired from an associate who claims a deduction or can deduct amounts for the decline in value of the asset.
- If you acquire a depreciating asset, but the user of the asset doesn't change or is an associate of the former user – for example, under sale and leaseback arrangements.
- If there has been rollover relief.
- If the asset was allocated to a low-value pool or software development pool, calculate the decline in value at a statutory rate.

By working out the decline in value you determine the adjustable value of a depreciating asset. A depreciating asset's adjustable value at a particular time is its cost (first and second elements) less any decline in value up to that time. For information on first and second elements of cost, see Cost of a depreciating asset. The opening adjustable value of an asset for an income year is generally the same as its adjustable value at the end of the prior income year.

You calculate the decline in value and adjustable value of a depreciating asset from the asset's start time independently of your use of the depreciating asset for a taxable purpose. However, reduce your deduction for the decline in value by the extent that your use of the asset is for a non-taxable purpose, see Decline in value of a depreciating asset used for a non-taxable purpose. You may also need to reduce your deduction if the depreciating asset is a leisure facility or boat, even though you use the asset, or install it ready for use, for a taxable purpose, see Decline in value of leisure facilities and Decline in value of boats.

The diminishing value method

The diminishing value method:

- assumes the decline in value each income year is a constant percentage of the base value each year for the effective life of the asset
- produces a progressively smaller decline in the item's value over time.

Depreciating assets you hold before 10 May 2006

For depreciating assets you hold **before** 10 May 2006, the formula for the decline in value is:

> **Base value** multiplied by (**days held** divided by 365) multiplied by (150% divided by asset's effective life).

Use this formula for any asset you held before 10 May 2006, even if you dispose of it and reacquire it on or after 10 May 2006.

For depreciating assets you start to hold **on or after** 10 May 2006, the formula for the decline in value is:

> **Base value** multiplied by (**days held** divided by 365) multiplied by (200% divided by asset's effective life).

The **base value**:

- for the income year in which an asset's start time occurs, is the asset's cost
- for a later income year, is
  - the asset's opening adjustable value for that year, *plus*
  - any amount in the asset's second element of cost for that income year.

Days held is the number of days you hold the asset in the income year in which you either:

- use it
- install it ready for use for any purpose.

Days you hold the asset can be 366 in a leap year, even though the denominator remains 365.

For information on balancing adjustment events, see What happens if you no longer hold or use a depreciating asset?.

You **can't** use the diminishing value method to work out the decline in value of:

- in-house software
- an item of intellectual property (except copyright in a film)
- a spectrum licence
- a telecommunications site access right.

Example: an asset's base value for its first and its second income years ignoring any GST impact

Leo purchases a computer for $4,000. The computer's base value in its first income year, which is when Leo first uses the computer, is its cost of $4,000.

If the computer's decline in value for that first income year is $1,000, and there is no second element amount of the computer's cost, its base value for the second income year is its opening adjustable value of $3,000. That is, the cost of the computer ($4,000) *less* its decline in value ($1,000).

If Leo bought the computer halfway through the income year, then the calculation for the decline in value in this first year is $1,000 × 182 ÷ 365 = $499. The base value for the second income year is $4,000 – $499 = $3,501.

Example: diminishing value method, ignoring any GST impact

Laura purchases a photocopier on 1 July 2024 for $1,500 and she starts using it that day. It has an effective life of 5 years.

Laura chose to use the diminishing value method to work out the decline in value of the photocopier. The decline in value for 2024–25 is $600. Laura works out the decline in value as:

1,500 × (365 ÷ 365) × (200% ÷ 5)

If Laura only uses the photocopier wholly for taxable purposes in 2024–25, she can claim a deduction equal to the decline in value. The adjustable value of the asset on 30 June 2025 is $900. This is the cost of the asset ($1,500) *less* its decline in value to 30 June 2025 ($600).

The prime cost method

The prime cost method:

- assumes the value of a depreciating asset decreases constantly over its effective life,
- produces a consistent decline in the item's value over time.

The formula for the annual decline in value using the prime cost method is:

> **Asset's cost** multiplied by (**days held** divided by 365) multiplied by (100% divided by asset's effective life)

The **value of the asset's cost** decreases every year by a constant amount. That constant amount is the actual cost divided by the number of years of effective life. In the first year, the value of the asset's cost is the actual cost of the asset.

If your asset cost $2,000 and has an effective life of 5 years, you can claim one fifth (20%) of its cost each year. That works out to $400 in each of the 5 years if you held the asset (and used it solely for a taxable purpose) for the whole income year.

Days held is the number of days you hold the asset in the income year in which either you:

- use it
- have it installed ready for use for any purpose.

Days held can be 366 for a leap year, even though the denominator remains 365.

For information on balancing adjustment events, such as the start and end dates, see What happens if you no longer hold or use a depreciating asset?

> ***Example: prime cost method, ignoring any GST impact***
>
> Laura purchases a photocopier on 1 July 2024 for $1,500 and she starts using it that day. It has an effective life of 5 years.
>
> Laura chose to use the prime cost method to work out the decline in value of the photocopier. The decline in value for 2024–25 is $300 worked out as follows:
>
> $1,500 × (365 ÷ 365) × (100% ÷ 5)
>
> If Laura only uses the photocopier wholly for taxable purposes in 2024–25, she can claim a deduction equal to the decline in value. The adjustable value of the asset at 30 June 2025 is $1,200.

If there has been rollover relief and the transferor used the prime cost method to work out the asset's decline in value, the transferee should replace the asset's effective life in the prime cost formula with the asset's remaining effective life, that is, any period of the asset's effective life that is yet to elapse when the transferor stopped holding the asset, see Rollover relief.

You must use an adjusted prime cost formula if any of the following occurs:

- you recalculate the effective life of an asset, see Effective life of a depreciating asset
- you include an amount in the second element of an asset's cost in an income year after the initial income year in which the asset's start time occurs, see Cost of a depreciating asset
- a debt forgiveness amount reduces an asset's opening adjustable value, see Commercial debt forgiveness
- you reduce the opening adjustable value of a depreciating asset that is the replacement asset for an asset subject to involuntary disposal
- you modify an asset's opening adjustable value due to GST increasing or decreasing adjustments, input tax credits for the acquisition or importation of the asset, or input tax credits for amounts included in the second element of cost of an asset, see GST input tax credits
- you modify an asset's opening adjustable value due to forex realisation gains or forex realisation losses, see Foreign currency gains and losses.

You must use the adjusted prime cost formula for the income year in which any of these changes are made (the 'change year') and later years:

> Opening adjustable value for the change year *plus* any second element cost amounts for that year multiplied by (days held divided by 365) multiplied by (100% divided by asset's remaining effective life)

An asset's remaining effective life is any period of its effective life that is yet to elapse either:

- at the start of the change year
- in the case of rollover relief, when the balancing adjustment event occurs for the transferor.

You must also adjust the prime cost formula for certain intangible depreciating assets you acquire from a former holder, see Effective life of intangible depreciating assets.

Decline in value of a depreciating asset used for a non-taxable purpose

You calculate the decline in value and adjustable value of a depreciating asset from the start time independently of your use of the depreciating asset for a taxable purpose. However, you reduce your deduction for the decline in value by the extent that your use of the asset is for a non-taxable purpose.

If you initially use an asset for a non-taxable purpose, such as for a private purpose, and in later years use it for a taxable purpose, you need to work out the asset's decline in value. The decline in value is from its start time including the years you use it for a private purpose. You can then work out your deductions for the decline in value of the asset for the years you use it for a taxable purpose.

Example: depreciating asset used partly for a taxable purpose, ignoring any GST impact

Leo bought a computer for $6,000 on 1 July 2024. He only uses it for a taxable purpose 50% of the time during 2024–25.

If the computer's decline in value for 2024–25 is $1,500, Leo must reduce his deduction to $750, that is, 50% of the computer's decline in value for 2024–25.

The adjustable value on 30 June 2025 is $4,500 (that is, $6,000 – $1,500), irrespective of the extent of Leo's use of the computer for taxable purpose.

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

Paul bought a refrigerator on 1 July 2021 for $2,000 and immediately starts using it wholly for private purposes. He starts a new business on 1 March 2025 and then uses the refrigerator wholly in his business.

Paul's refrigerator's decline in value starts from 1 July 2021 as that was the day of first use. He needs to work out the refrigerator's decline in value from that date. However, Paul can only claim a deduction for the decline in value for the period commencing 1 March 2025 when he starts using the refrigerator for a taxable purpose.

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

He works out the decline in value of the refrigerator as:

2021–22: $2,000 × (365 days ÷ 365 days) × (100% ÷ 10 years) = $200

2022–23: $2,000 × (365 days ÷ 365 days) × (100% ÷ 10 years) = $200

2023–24: $2,000 × (366 days ÷ 365 days) × (100% ÷ 10 years) = $201

2024–25: $2,000 × (365 days ÷ 365 days) × (100% ÷ 10 years) = $200

Although the refrigerator declines in value since Paul started using it on 1 July 2021, he reduces his deduction for the decline in value by the extent it was not in use for a taxable purpose.

No deduction is available for 2021–22, 2022–23 and 2023–24 as Paul's use of the refrigerator was for private purposes.

Paul reduces the 2024–25 deduction for the period he uses the asset for a non-taxable purpose, that is 243 days (1 July 2024 to 28 February 2025) divided by 365 days.

(243 days ÷ 365 days) × $200 = $133

$200 – $133 = $67

For 2024–25, Paul will have a deduction of $67 for the decline in value for the refrigerator.

Decline in value of leisure facilities

Your deduction for the decline in value of a leisure facility may be reduced even though you use it, or install it ready for use, for a taxable purpose. Your deduction is limited to the extent that either:

- the asset's use is a fringe benefit
- the leisure facility is used (or held for use) mainly in the ordinary course of your business of providing leisure facilities for payment, to produce your assessable income in the nature of rents or similar charges, or for your employees' use or the care of their children.

Decline in value of boats

The total amount you can claim as a deduction for using or holding a boat, including its decline in value, can't exceed your assessable income from using or holding that boat in 2024–25. If the total amount of your deduction exceeds the relevant assessable income, we reduce the deduction by the amount of the excess.

Exceptions to that reduction are any of the following:

- holding a boat as your trading stock
- using a boat (or holding it) mainly for letting it on hire in the ordinary course of a business that you carry on
- using a boat (or holding it) mainly for transporting the public or goods for payment in the ordinary course of a business that you carry on
- using a boat for a purpose that is essential to the efficient conduct of a business that you carry on.

Depreciating asset you acquire from an associate

If you acquire a depreciating asset from an associate, such as a relative or partner, and the associate has claimed or can claim deductions for the decline in value of the asset, you must use the same method of working out the decline in value as the associate.

If the associate uses the diminishing value method, you must use the same effective life they use. If they used the prime cost method, you must use any remaining period of the effective life they use.

You must recalculate the effective life of the depreciating asset if the asset's cost increases by 10% or more in any income year, including the year in which you start to hold it, see How to recalculate effective life.

You can require the associate to tell you the method and effective life they use while holding the asset by serving a notice on them within 60 days after you acquire the asset. Penalties can be imposed if the associate intentionally refuses or fails to comply with the notice.

Sale and leaseback arrangements

If you acquire a depreciating asset but the user of the asset doesn't change or is an associate of the former user, such as under a sale and leaseback arrangement, you must use the same method of working out the decline in value as the former holder.

If the former holder uses the diminishing value method, you must use the effective life that they use. If they use the prime cost method, you must use any remaining period of the effective life they use. If you can't readily ascertain the method that the former holder was using or if they didn't use a method, you must use the diminishing value method. You must use an effective life determined by the Commissioner if you can't find out the effective life that the former holder was using or if they didn't use an effective life.

You must recalculate the effective life of the depreciating asset if the asset's cost increases by 10% or more in any income year, including the year in which you start to hold it, see How to recalculate effective life.

Immediate deduction for certain non-business depreciating assets

When you can claim an immediate deduction for certain non-business depreciating assets (costing $300 or less).

In this section

Eligibility criteria for claiming an immediate deduction

Cost is $300 or less

Used mainly to produce non-business assessable income

Not part of a set

Not one of a number of identical or substantially identical items

Eligibility criteria for claiming an immediate deduction

The decline in value of certain depreciating assets costing $300 or less is their cost. This means you get an immediate deduction for the cost of the asset to the extent that you use it for a taxable purpose during the income year in which the deduction is available.

The immediate deduction is available if all the following tests are met for the asset:

- it cost $300 or less
- you use it mainly for the purpose of producing assessable income that is not income from carrying on a business
- it is not part of a set of assets you start to hold in the income year that cost more than $300
- it is not one of a number of identical or substantially identical assets you start to hold in the income year that together cost more than $300.

If you're not eligible to claim the immediate deduction, you work out the decline in value of the asset using the general rules for working out decline in value. Alternatively, you may be able to allocate the asset to a low-value pool.

You can't claim an immediate deduction for in-house software if you allocate expenditure on it to a software development pool.

The amount of the immediate deduction may need to be reduced if the rules which limit deductions for decline in value of certain second-hand depreciating assets in residential rental properties apply to the asset.

Cost is $300 or less

If you're entitled to a GST input tax credit for the asset, the cost is reduced by the input tax credit before determining whether the cost is $300 or less.

If you hold an asset jointly with others and the cost of your interest in the asset is $300 or less, you can claim the immediate deduction even though the depreciating asset in which you have an interest costs more than $300.

Example: cost is $300 or less, ignoring any GST impact

John, Margaret and Neil jointly own a rental property in the proportions of 50%, 25% and 25%. They contribute $400, $200 and $200 to acquire a new refrigerator for the rental property, basing their contributions on their respective interests.

Margaret and Neil can claim an immediate deduction because the cost of their interest in the refrigerator does not exceed $300.

John can't claim an immediate deduction because the cost of his interest is more than $300.

Used mainly to produce non-business assessable income

Some examples of depreciating assets you can use to produce non-business income are:

- a briefcase or tools of trade as an employee
- freestanding furniture in a residential rental property that you purchase as new after 9 May 2017 and had never had a previous use
- a calculator you use in managing an investment portfolio.

To claim the immediate deduction, you must use the depreciating asset more than 50% of the time for producing non-business assessable income.

If you meet this test, you can use the asset for other purposes (such as to carry on a business) and still claim the deduction. However, if you use the asset mainly for producing non-business assessable income but you also use the asset for a non-taxable purpose, then reduce the amount of deduction by the amount attributable to the use for a non-taxable purpose.

Example: depreciating asset used mainly to produce non-business assessable income, ignoring any GST impact

Rob buys a calculator for $150. He uses the calculator 40% of the time in his business and 60% of the time for managing his share portfolio as an investor. As he uses the calculator more than 50% of the time for producing non-business assessable income, he can claim an immediate deduction of $150.

If Rob uses his calculator 40% of the time for private purposes and 60% of the time for managing his share portfolio, he is still using the calculator more than 50% of the time for producing non-business assessable income. However, he must reduce his deduction by 40% to reflect his private use of the asset.

Not part of a set

You need to determine whether items form a set on a case-by-case basis. You can regard items as a set if they are:

- dependent on each other
- marketed as a set
- designed and intended for use together.

It is the cost of a set of assets you acquire in the income year that must not exceed $300. You can't avoid the test by buying parts of a set separately.

Example: set of items, ignoring any GST impact

In 2024–25, Paula, a primary school teacher, bought a series of 6 progressive reading books costing $65 each. The books are designed so that pupils move on to the next book only when they successfully complete the previous book. The books are marketed as a set and are designed to be used together. The 6 books would be regarded as a set. Paula can't claim an immediate deduction for any of these books because they form part of a set which she acquires in the income year, and the total cost of the set was more than $300.

Example: not a set, ignoring any GST impact

Marie, an employee, buys a range of tools for her tool kit for work (a shifting spanner, a box set of screwdrivers and a hammer). Each item costs $300 or less. While the tools add to Marie's tool kit, they are not a set. It would make no difference if Marie bought the items at the same time and from the same supplier or manufacturer.

An immediate deduction is available for all the items, including the screwdrivers. The screwdrivers are a set as they are marketed and used as a set. However, as the cost is $300 or less, the immediate deduction is available.

A group of assets you acquire in an income year can be a set in themselves, even though they also form part of a larger set you may acquire over more than one income year. If the assets you acquire in an income year are a set, then the total cost of that set must not exceed $300. Assets you acquire in another income year that form part of a larger set are not taken into account when working out the total cost of a set and whether items form a set.

Example: set of items part of a larger set, ignoring any GST impact

In 2024–25, Paula, a primary school teacher, hears about a series of 12 progressive reading books. The books are designed so that pupils move on to the next book only when they successfully complete the previous book. The first 6 books are at a basic level while the second 6 books are at an advanced level.

Paula buys one book a month beginning in January and by 30 June 2025, she holds the first 6 books (the basic readers) at a total cost of $240. Because of the interdependency of the books, the 6 books are a set even though they can be bought individually and they form part of a larger set.

An immediate deduction is available for each book because the cost of the set Paula acquires during the income year was not more than $300.

If Paula acquires the other 6 books (the advanced readers) in the following income year, they would be regarded as a set acquired in that income year.

The concept of a set requires more than one depreciating asset. In some cases, however, more than one item may be a single depreciating asset. An example would be a 3-volume dictionary. This is a single depreciating asset, not a set of 3 separate depreciating assets, as the 3 volumes have a single integrated function.

Not one of a number of identical or substantially identical items

Items are identical if they are the same in all respects. Items are substantially identical if they are the same in most respects even though there may be some minor or incidental differences. Factors to consider include colour, shape, function, texture, composition, brand and design.

The total cost of the asset and any other identical or substantially identical asset that you acquired in the income year must not exceed $300. Don't take into account assets that you acquire in another income year.

Example: substantially identical items, ignoring any GST impact

Jan buys 3 new kitchen stools at a cost of $150 each, for her rental property in 2024–25. The stools are all wooden and of the same design but they are different colours. The colour of the stools is only a minor difference which isn't enough to conclude that the stools are not substantially identical.

Jan can't claim an immediate deduction for the cost of each individual stool because they are substantially identical and the total cost of the 3 stools exceeds $300.

Example: not substantially identical items

Jan also buys some new chairs for her rental property; a canvas chair for the patio, a high-back wooden chair for the bedroom dressing table and a leather executive chair for the study. While these are all chairs, they aren't identical or substantially identical.

Jan can claim the cost of each chair as an immediate deduction, if the chair costs $300 or less.

Effective life of a depreciating asset

Find out about the effective life of depreciating assets (how long you can use an asset for a taxable purpose).

In this section

About the effective life
Choice of determining effective life
Working out the effective life yourself
Commissioner's determination
Statutory caps on the Commissioner's determination of effective life
Effective life of intangible depreciating assets
Effective life – mining, quarrying or prospecting rights or information
Choice of recalculating effective life
Requirement to recalculate effective life
How to recalculate effective life
Effect of recalculating effective life

About the effective life

Generally, the effective life of a depreciating asset is how long it can be used by any entity for a taxable purpose, or for the purpose of producing exempt income or non-assessable non-exempt income or conducting R&D activities. When working out the effective life of a depreciating asset, consider:

- the wear and tear you reasonably expect from your expected circumstances of use
- if it will be maintained in reasonably good order and condition
- the period within which it is likely to be scrapped, sold for no more than scrap value or abandoned.

Effective life is expressed in years, including fractions of years. Don't round effective life to the nearest whole year.

Choice of determining effective life

For most depreciating assets, you have the choice of either working out the effective life yourself or using an effective life determined by the Commissioner.

You must make the choice for the income year in which the asset's start time occurs. Generally, you must make the choice by the time you lodge your tax return for that year.

However, the choice isn't available:

- for most intangible depreciating assets, see Effective life of intangible depreciating assets
- if a depreciating asset is acquired from an associate who claims or could claim deductions for the asset's decline in value
- for a depreciating asset that you start to hold but the user of the asset didn't change or is an associate of the former user – for example, under a sale and leaseback arrangement
- if there has been rollover relief.

Working out the effective life yourself

Subject to the exclusions above, you can work out the asset's effective life yourself, by determining how many years it will **reasonably be expected** to produce income given the specific use. The sort of information that you could use to make an estimate of the effective life of an asset includes (but not limited to):

- the physical life of the asset
- engineering information
- the manufacturer's specifications
- your own past experience with similar assets
- the past experience of other users of similar assets
- industry standards
- obsolescence
- the level of repairs and maintenance commonly adopted by users of the asset
- retention periods
- scrapping or abandonment practices.

You work out the effective life of a depreciating asset from the asset's start time.

Commissioner's determination

In making his determination, the Commissioner assumes that the depreciating asset is new and has regard to general industry circumstances of use.

As a general rule, use the effective life that is in force at the time (the relevant time) you:

- enter into a contract to acquire the asset
- otherwise acquire the asset
- start to construct the asset.

However, if the asset's start time doesn't occur within 5 years of this time, you must use the effective life that is in force at the asset's start time.

For an item of plant acquired under a contract entered into, otherwise acquired or started to be constructed before 11:45 am AEST on 21 September 1999, there is no restriction on the period within which the plant must be used. The general rule in the previous paragraph applies to such plant.

To make your own estimate of its effective life or use the Commissioner's effective life determinations, see Effective life of an asset.

Statutory caps on the Commissioner's determination of effective life

There are statutory caps on the Commissioner's determined effective life for certain depreciating assets. This means if you choose to use the Commissioner's determination of effective life for an asset subject to a capped life, you must use the capped life if it's shorter than the Commissioner's determination.

Assets with capped lives include aeroplanes, helicopters, certain shipping vessels, certain buses, light commercial vehicles, trucks and trailers, and certain assets used in the oil and gas industries.

Effective life of intangible depreciating assets

Table: The effective life of most intangible depreciating assets is prescribed under UCA.

Item number	Asset	Effective life in years
1	Standard patent	20
2	Innovation patent	8
3	Petty patent	6
4	Registered design	15
5	Copyright (except copyright in a film)	The shorter of 25 years from when you acquire it or the period until the copyright ends
6	A licence (except one relating to a copyright or in-house software)	The term of the licence
7	A licence relating to a copyright (except copyright in a film)	The shorter of 25 years from when you become the licensee or the period until the licence ends
8	In-house software	5
9	Spectrum licence	The term of the licence
14	Telecommunications site access right	The term of the right

For more information, see In-house software.

You don't have the choice of either working out the effective life yourself or using an effective life determined by the Commissioner for the intangible depreciating assets in the table above and other intangible depreciating assets. In addition, you can't recalculate the effective life of these depreciating assets.

The effective life of an indefeasible right to use a telecommunications cable system is the effective life of the telecommunications cable over which the right is granted.

The effective life of any other intangible depreciating asset (which isn't an indefeasible right to use a telecommunications cable system or a mining, quarrying or prospecting right) can't be longer than the term of the asset as extended by any reasonably assured extension or renewal of that term.

If you acquire an intangible asset in Table: Intangible depreciating assets (except items 5, 7 or 8) from a former holder and you calculate the asset's decline in value using the prime cost method, in the formula you must use the number of years remaining in that effective life at the start of the income year you acquire the asset, not the effective life shown in the table.

Effective life – mining, quarrying or prospecting rights or information

Table: The effective life of a mining, quarrying or prospecting right or mining, quarrying or prospecting information is provided in the table below.

Asset	Effective life in years
A mining, quarrying or prospecting right or mining, quarrying or prospecting information, relating to mining and quarrying operations (except obtaining petroleum or quarry materials)	The life of the mine or proposed mine to which the right or information relates. If there is more than one, use the life of the mine that has the longest estimated life.
A mining, quarrying or prospecting right or mining, quarrying or prospecting information, relating to mining and quarrying operations to obtain petroleum	The life of the petroleum field or proposed petroleum field to which the right or information relates. If there is more than one, use the life of the petroleum field that has the longest estimated life.
A mining, quarrying or prospecting right or mining, quarrying or prospecting information, relating to mining and quarrying operations to obtain quarry materials	The life of the quarry or proposed quarry to which the right or information relates. If there is more than one, use the life of the quarry that has the longest estimated life.

If you acquire a mining, quarrying or prospecting right or mining, quarrying or prospecting information in this table, you'll need to work out the effective life yourself.

For example, for a mining, quarrying or prospecting right relating to mining and quarrying operations, you'll do this by estimating either the:

- period until the end of the life of the mine or proposed mine to which the right relates
- life of the mine that has the longest estimated life (if there is more than one such mine).

You work out this period:

- from the start time of the mining, quarrying or prospecting right
- by reference only to the period of time over which the reserves are expected to be extracted from the mine, petroleum field or quarry.

You must reasonably estimate the period of time using an appropriate accepted industry practice.

You'll have a choice of using either the prime cost or diminishing value method to work out the decline in value of the mining, quarrying or prospecting right.

However, the effective life of a mining, quarrying or prospecting right, or mining, quarrying or prospecting information, is 15 years if the right or information doesn't relate to:

- a mine or proposed mine
- a petroleum field or proposed petroleum field
- a quarry or proposed quarry.

You can choose to recalculate the effective life of a mining, quarrying or prospecting right or information if your circumstances change, making the effective life you've been using no longer accurate.

Some examples of circumstances that could cause a variation include:

- a considerable structural price change for the mineral you extract which leads to the mine's premature permanent closure
- previously uneconomically mineable geologies becoming economically mineable
- a noticeable improvement in extraction methods or mine transport arrangements leads to faster mineral extraction and consequential shortening of the mines remaining life
- new information becomes available, as a result of further exploration or prospecting on the mining tenement, as to the presence of minerals likely to be recoverable which leads to an increase in the remaining life of the mine
- a change to the accepted industry practice that affects the estimation of the life of the mine
- the right or information now relates to an existing or proposed mine, petroleum field or quarry
- the right or information no longer relates to an existing or proposed mine, petroleum field or quarry.

Choice of recalculating effective life

You may choose to recalculate the effective life of a depreciating asset, if the effective life you have been using is no longer accurate because the circumstances relating to the nature of the asset's use change.

You can recalculate an asset's effective life each time those circumstances change. It can be done in any income year after the one in which the asset's start time occurs, and whether you work out the previous effective life yourself or you are using the effective life determined by the Commissioner.

Some examples of a change in circumstances relating to the nature of the use of an asset are:

- your use of the asset turns out to be more or less rigorous than you expect
- there is a downturn in the demand for the goods or services that the asset is used to produce that will result in scrapping the asset
- legislation prevents the asset's continued use
- changes in technology make the asset redundant
- there is an unexpected demand, or lack of success, for a film.

You can't choose to recalculate the effective life of any depreciating asset for which you either:

- used accelerated rates of depreciation before 1 July 2001
- could have used accelerated rates of depreciation before 1 July 2001, if you had used the asset to produce assessable income or had it installed ready for that use.

In addition, you can't recalculate the effective life of certain intangible depreciating assets.

Requirement to recalculate effective life

You must recalculate the effective life of a depreciating asset if its cost increases by 10% or more in an income year after the income year in which its start time occurs and you:

- work out the effective life of the asset yourself
- use the Commissioner's determination of effective life (or a capped life) and the prime cost method to work out the asset's decline in value
- acquire the asset from an associate who claims or could claim deductions for its decline in value
- became the asset's holder, where the user of the asset doesn't change or is an associate of the former user – for example, under a sale and leaseback arrangement.

Even though you may be required to recalculate the effective life of an asset, you may conclude that the effective life remains the same.

How to recalculate effective life

You recalculate the effective life from the depreciating asset's start time. You use the same principles to recalculate the effective life of a depreciating asset that you would use to work out the original effective life yourself.

Effect of recalculating effective life

If you recalculate the effective life of a depreciating asset, the new effective life starts to apply for the income year for which you make the recalculation.

If you're using the diminishing value method to work out the decline in value of a depreciating asset, you use the new estimate of effective life in the formula as the asset's effective life. Under the prime cost method, you must use the adjusted prime cost formula from the income year for which you recalculate the asset's effective life. For information on the adjusted prime cost formula, see Methods of working out decline in value.

Cost of a depreciating asset

Cost of a depreciating asset, limitations or arrangements you need to take into account for decline in value.

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Working out the cost

To work out the decline in value of a depreciating asset, you need to know its cost.

Under UCA, the cost of a depreciating asset has 2 elements.

The **first element of cost** is, generally, amounts you are taken to have paid to hold the asset, such as the purchase price. It also includes amounts you incur after 30 June 2005 that you're taken to have paid for starting to hold the asset. The amounts must be directly connected with holding the asset.

Work out the first element of cost as at the time you begin to hold the asset.

The **second element of cost** is, generally, amounts you are taken to have paid after that time to bring the asset to its present condition and location, such as a cost of improving the asset. It also includes expenses you incur after 30 June 2005 for a balancing adjustment event occurring for the asset. That is, costs you incur to stop holding or using the asset. For information on balancing adjustment events, see What happens if you no longer hold or use a depreciating asset?. Such expenses may include advertising or commission expenses or the cost of demolishing the asset.

The first element of cost can't include an amount that forms part of the second element of another depreciating asset's cost. For example, if you demolish a depreciating asset so you can install another on the same site, the demolition costs will form part of the second element of cost for the asset you demolish. Don't also include the amount in the first element of cost for the new asset.

Example: first and second elements of cost, ignoring any GST impact

Terry wants to buy a vehicle for his business and the vehicle isn't available in Australia. He locates a company in the United States from which he would be able to purchase the vehicle. He travels to the United States for the sole purpose of buying the vehicle and incurs travel costs of $5,000. Terry purchases the vehicle for $45,000.

Terry's first element of cost is $50,000, this amount includes the purchase cost of the vehicle and the travel costs. Terry can include the travel costs in the first element of cost of the vehicle because they directly connect with Terry starting to hold the vehicle. If Terry installs an alarm in the vehicle 2 months later at a cost of $1,500, he would include that amount in the second element of cost. This is because he incurs the cost after he starts to hold the vehicle.

For both the first and second elements of cost of a depreciating asset, amounts you're taken to have paid include:

- an amount you pay
- the market value of a non-cash benefit you provide – for example, in a salary sacrifice arrangement the market value is represented by the price the employer pays under an arm's length arrangement and the employee can claim an amount for their use for a taxable purpose as a decline in value
- if you incur or increase a liability to pay an amount, the amount of the liability or increase
- if you incur or increase a liability to provide a non-cash benefit, the market value of the non-cash benefit or the increase
- if all or part of another's liability to pay you an amount is terminated, the amount of the liability or part terminated
- if all or part of another's liability to provide a non-cash benefit (except the depreciating asset) to you is terminated, the market value of the non-cash benefit or part terminated.

The cost of a depreciating asset doesn't include:

- amounts of input tax credits to which you are or become entitled, see GST input tax credits
- expenditure not of a capital nature
- any amount that you can deduct or that is taken into account in working out a deductible amount under provisions outside UCA.

Examples: expenditure not of a capital nature and deductible outside UCA

Carolyn uses a motor vehicle for her business. As a result of Carolyn's use of the vehicle, she needs to replace the tyres.

Carolyn can't include the cost of replacing the tyres in the second element of the vehicle's cost because it is ordinarily deductible under the repair provisions.

Example: expenditure not of a capital nature and deductible outside UCA

David operates a refrigerator truck as part of his business. David replaces the refrigeration unit in his truck with a new unit (that performs the same function as the unit it replaces).

The replacement refrigeration unit is an integral part of the refrigerator truck that is incapable of providing a useful function without the other part of the truck.

The restoration of the effectiveness of the refrigeration truck by replacing the refrigeration unit is therefore a repair and not expenditure of a capital nature. David can't include the cost of replacing the refrigeration unit in the second element of the truck's cost because it is ordinarily deductible under the repair provisions.

There are special rules to work out the cost of depreciating assets in certain circumstances. We cover some of the common cases in this guide. If you're not sure of the cost of a depreciating asset, contact us or your registered tax adviser.

Jointly held depreciating assets

For depreciating assets held by multiple people, each holder works out their deduction for the decline in value of the asset. Base this decline in value on the cost of their interest in the asset and not the cost of the asset itself.

GST input tax credits

Where the acquisition or importation of a depreciating asset constitutes a creditable acquisition or importation, reduce the cost of the asset by any input tax credit you're entitled to for it.

You may become entitled to the input tax credit in an income year after the one in which the asset's start time occurs. If this happens reduce the asset's opening adjustable value by the amount of the input tax credit.

If the cost of a depreciating asset is taken to be its market value (such as for assets you acquire under a private or domestic arrangement), reduce the market value by any input tax credit to which you would be entitled had the acquisition been solely for a creditable purpose.

Similarly, any input tax credit you can claim for the second element of a depreciating asset's cost reduces the cost of the asset. Reduce its opening adjustable value if you become entitled to the input tax credit in an income year after the one in which the asset's start time occurs.

Certain adjustments under the GST legislation reduce or increase the cost and, in some cases, the opening adjustable value of the asset. For example, these can commonly arise with a change in price or because of volume discounts. Other adjustments are treated as an outright deduction or income.

Car limit

Cars designed mainly for carrying passengers are subject to a car limit. That means there is a limit on the cost of the car that you can claim as decline in value deductions. If the first element of cost exceeds the car limit for the income year in which you start to hold it, then reduce it to the car limit.

The car limit for 2024–25 is $ 69,674.

Before applying the car limit you may need to:

- increase the cost of the car if you acquire the car at a discount
- reduce the cost of the car by GST input tax credits.

If a car with a cost exceeding the car limit is held by more than one person, the car limit is applied to the cost of the car. It isn't applied to each holder's interest in the car. Once the car limit has been applied, the cost of the car (reduced to the car limit) is apportioned between each holder's interest. Each holder then works out their deduction for the decline in value of the car, see Jointly held depreciating assets.

This car limit also applies under the luxury car lease rules.

The car limit does not apply in certain circumstances to some cars fitted out for transporting disabled people.

When a balancing adjustment event occurs for the car, the **termination value** must be adjusted under a special formula.

Car you acquire at a discount

If you acquire a car at a discount, you may need to increase the first element of its cost by the discount portion. The discount portion is any part of the discount that is due to the sale of another asset for less than market value – for example, a trade-in.

A discount you obtain for other reasons doesn't affect the car's cost.

Make the adjustment only if both of the following apply:

- the cost of the car (after GST credits or adjustments) *plus* the discount portion exceeds the car limit
- you, or another entity, claim a deduction or can deduct an amount for the other asset for any income year.

This rule doesn't apply to some cars fitted out for transporting people with disability.

When a balancing adjustment event occurs for the car, you must increase the termination value by the same discount portion.

Example: car you acquire at a discount, ignoring any GST impact

Kristine arranges to buy a $70,000 sedan for business use from Greg, a car dealer. She offers the station wagon she is using for this purpose, worth $20,000, as a trade-in. Greg agrees to reduce the price of the sedan to below the car limit if Kristine accepts less than market value for the trade-in. Kristine accepts $15,000 for the trade-in, so the price of the sedan reduces to $65,000 (after a discount of $5,000).

The cost of the sedan plus the discount is more than the car limit. This means the first element of the sedan's cost increases by the amount of the discount to $70,000. As the first element of cost then exceeds the car limit, Kristine must reduce it to the car limit for the income year.

The termination value of the station wagon would be taken to be the market value of $20,000 as Kristine and Greg were not dealing at arm's length.

Non-arm's length and private or domestic arrangements

The first element of a depreciating asset's cost is the market value of the asset at the time you start to hold it if either:

- the first element of the asset's cost would otherwise exceed its market value, and you don't deal at arm's length with another party to the transaction
- you start to hold the asset under a private or domestic arrangement (for example, as a gift from a family member).

Similar rules apply to the second element of a depreciating asset's cost. For example, if you improve your depreciating asset under a private or domestic arrangement, work out the second element of the asset's cost using the market value of the improvement.

You may need to reduce the market value for any entitlement you have to input tax credits, see GST input tax credits.

Note that there are special rules for working out the effective life and decline in value of a depreciating asset you acquire from an associate.

Depreciating asset you acquire with other property

If you pay for a depreciating asset and something else, only treat the part of the payment that is reasonably attributable to the depreciating asset as the amount you pay for it. This applies to both the first and second elements of cost.

Apportionment on the basis of the market values of the various items for which you make the payment will generally be reasonable.

Example: apportionment of cost

Sam undertakes to pay an upholsterer $800 for a new desk and $300 to re-upholster a chair in a more durable material. He negotiates a trade discount of $100. The $1,000 paid should be apportioned between both:

- the first element of cost of the desk
- the second element of cost of the chair.

The apportionment should be done based on the relative market values of the desk and the labour and materials used to upholster the chair.

Hire purchase agreements

For income tax purposes, certain hire purchase agreements are treated as notional sale and loan transactions.

If the goods subject to the hire purchase agreement are depreciating assets and the hirer is the holder of the depreciating assets, the hirer may be able to claim deductions for the decline in value. Generally, the cost or value in the hire purchase agreement or the arm's length value is taken to be the cost of the depreciating assets.

Death of the holder

If an asset holder dies, you may start holding their asset as a legal personal representative (for example, as executor of an estate). If this happens, the cost of the asset to you is generally its adjustable value on the day the former holder died.

If the former holder allocated the asset to a low-value pool, the cost of the asset to you is the amount of the pool's closing balance for the income year in which the former holder died that is reasonably attributable to the asset.

If you start to hold a depreciating asset because it passes to you as a beneficiary of an estate or as a surviving joint tenant, the cost of the asset to you is its market value when you start to hold it reduced by any capital gain that was ignored when either:

- the owner died
- it passed from the legal personal representative.

For information on when these gains can be disregarded, see Guide to capital gains tax 2025.

Commercial debt forgiveness

Generally, an amount you owe is a commercial debt if you can claim a deduction for the interest paid on the debt. It can also be a commercial debt if you would have been able to claim a deduction for interest if it had been charged. The amount of the commercial debt includes any accrued but unpaid interest.

If a commercial debt is forgiven, you may be required to make a reduction for a depreciating asset. If a reduction is made for a depreciating asset, the asset's cost is reduced by the debt forgiveness amount. If the reduction is made in a year later than the one in which the asset's start time occurs, the opening adjustable value of the asset is also reduced.

If an asset's opening adjustable value is reduced and you use the prime cost method to work out the asset's decline in value, you need to use the adjusted prime cost formula for the income year that the change is made and in later years, see Methods of working out decline in value.

Recoupment of cost

If you recoup an amount previously included in the cost of a depreciating asset, you may need to include that recouped amount in your assessable income. An amount you receive for the sale of a depreciating asset at market value isn't an assessable recoupment.

Foreign currency gains and losses

If you purchased a depreciating asset in foreign currency, the first element of the asset's cost is converted to Australian currency. This must be at the exchange rate applicable when you began to hold the asset, or when the obligation was satisfied, whichever occurred first.

From 1 July 2003, if the foreign currency amount became due for payment within the 24-month period that began 12 months before you began to hold the depreciating asset, any realised foreign currency gain or loss (referred to as a forex realisation gain or a forex realisation loss) can modify the:

- asset's cost
- the opening adjustable value
- the opening balance of your low-value pool (as the case may be).

Otherwise, that gain or loss is included in assessable income or allowed as a deduction, respectively.

If the foreign currency amount relates to the second element, the Australian currency translation is made at the exchange rate applicable when you incur the relevant expenditure. Here, a 12-month rule applies instead of the 24-month rule. The 12-month rule requires that the foreign currency became due for payment within 12 months after the time you incur the relevant expenditure. In some circumstances you can elect that forex gains and losses don't modify the asset's cost, the opening adjustable value or opening balance of your low-value pool. For more information, see Election out of the 12 month rule.

What happens if you no longer hold or use a depreciating asset?

Find out what happens if you no longer hold or use a depreciating asset.

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No longer hold or use a depreciating asset

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Split or merged depreciating assets

Foreign currency gains and losses

No longer hold or use a depreciating asset

If you cease to hold or use a depreciating asset, a balancing adjustment event may occur. If there is a balancing adjustment event, you need to calculate a balancing adjustment amount to include in your assessable income or to claim as a deduction.

A balancing adjustment event occurs for a depreciating asset when:

- you stop holding it, for example, if the asset is sold, lost or destroyed
- you stop using it 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.

A balancing adjustment event does not occur just because a depreciating asset is split or merged.

However, a balancing adjustment event does occur if you stop holding part of a depreciating asset.

Expenses of a balancing adjustment event (such as advertising or commission expenses) may be included in the second element of the cost of the depreciating asset. This is unless you stop holding the asset under a non-arm's length arrangement and the termination value is less than the market value when you cease to hold it. See Cost of a depreciating asset.

You work out the balancing adjustment amount by comparing the asset's termination value and its adjustable value at the time of the balancing adjustment event.

If the termination value is greater than the adjustable value, you include the excess in your assessable income.

If the termination value is less than the adjustable value, you can deduct the difference.

Example: working out an assessable balancing adjustment amount, ignoring any GST impact

Bridget purchased a cabinet that she held for 2 years and used wholly for a taxable purpose. She then sold the cabinet for $1,300. Its adjustable value at the time was $1,200.

As the termination value of $1,300 is greater than the adjustable value of the cabinet at the time of its sale the difference of $100 is included in Bridget's assessable income as an assessable balancing adjustment amount.

Example: working out a deductible balancing adjustment amount, ignoring any GST impact

If Bridget sold the cabinet for $1,000, the termination value would be less than the adjustable value of the cabinet at the time of its sale ($1,200). The difference of $200 is a deductible balancing adjustment amount.

There are situations where these general balancing adjustment rules don't apply:

- If a depreciating asset has been partly used for a non-taxable purpose, the balancing adjustment amount is reduced to reflect only the taxable use. Additionally, a capital gain or capital loss can arise to the extent that the depreciating asset was used for a non-taxable purpose. See Depreciating asset used for a non-taxable purpose.
- If the depreciating asset is a leisure facility or a boat and your deductions for the decline in value of the asset have been reduced, the balancing adjustment amount is reduced and a capital gain or capital loss can arise.
- If your deductions for the decline in value of second-hand depreciating asset in your residential rental property have been reduced, the balancing adjustment is reduced. This is to account for the proportion you have not been able to deduct. Additionally, a capital gain or a capital loss can arise, see Balancing adjustment rules for second-hand depreciating assets in residential rental properties and Second-hand depreciating assets in residential rental properties.
- There are special balancing adjustment rules for cars.

- A balancing adjustment event for a depreciating asset in a low-value or common-rate pool or for which expenditure has been allocated to a software development pool is dealt with under specific rules for those pools.
- If the disposal of a depreciating asset is involuntary, you may be able to offset an assessable balancing adjustment amount.
- The assessment of a balancing adjustment amount for an eligible vessel may be deferred for 2 years. This occurs where a certificate obtained under the *Shipping Reform (Tax Incentives) Act 2012* applied to that vessel on the day of the balancing adjustment event. Additionally, rollover relief on the deferred amount may be available.
- Rollover relief may apply to the disposal of a depreciating asset in certain circumstances. For example, where an asset is transferred between spouses pursuant to a court order following a marriage breakdown.
- Rollover relief may apply to interest realignment arrangements where the taxpayer's original interest in a mining, quarrying or prospecting right was acquired after 1 July 2001.
- There are no specific balancing adjustment rules for some primary production depreciating assets or certain depreciating assets for landcare operations, electricity connections or phone lines. However, such assets may be considered part of land for CGT purposes.

There are special balancing adjustment rules for depreciating assets used in carrying on research and development activities. For more information, see Research and development tax incentive schedule instructions 2025.

A balancing adjustment event may occur to a depreciating asset that you claimed temporary full expensing for, on either the cost of acquisition or improvements, in 2020–21, 2021–22 or 2022–23. If so, you need to calculate a balancing adjustment amount.

If you use an asset for a non-taxable purpose, in an income year after temporary full expensing has been claimed, your balancing adjustment amounts will not reduce. This applies to the balancing adjustment events after the claim year.

For more information, see Balancing adjustment event.

A special balancing adjustment event will also occur in an income year after the year in which temporary full expensing has been claimed when either:

- it is no longer reasonable to conclude that you'll use the depreciating asset principally in Australia for the principal purpose of carrying on a business
- it becomes reasonable to conclude that the depreciating asset will never be located in Australia.

This special balancing adjustment event isn't triggered if you use the simplified depreciation rules, except for those depreciating assets that are excluded from the simplified depreciation rules. For those depreciating assets, the event may still be triggered if temporary full expensing has been claimed for that asset.

If this special balancing adjustment event is triggered, both of the following apply:

- you're treated as though you ceased to hold the asset and the termination value of the asset is equal to its market value at that time, resulting in the temporary full expensing deduction being clawed back to the asset's market value at that time
- the first element of cost is modified so that the first element of cost of the asset is the asset's termination value at the time of the event, however
  - you may not use temporary full expensing to work out the decline in value for that asset
  - you may, in a later income year, be entitled to claim other capital allowances that you're entitled to for that asset. For example, under the general capital allowances rules for the proportion of business use.

You may not claim a deduction for the asset under the general capital allowance rules in the same income year as the special balancing adjustment event.

A GST liability will generally occur when a depreciating asset is disposed of by a GST registered entity. For more information, see GST and the disposal of capital assets.

Termination value

The termination value is, generally, what you receive or are taken to receive for an asset when a balancing adjustment event occurs. It is made up of amounts you receive and the market value of non-cash benefits (such as goods and services)you receive for the asset.

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

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

If the termination value is taken to be the market value of the asset (for example, in the case of assets disposed of under a private or domestic arrangement), the market value is reduced by any input tax credit to which you would be entitled had you acquired the asset solely for a creditable purpose.

An amount isn't an assessable recoupment if it is included in the termination value of a depreciating asset, see Recoupment of cost.

There are special rules to work out the termination value of depreciating assets in certain circumstances. Some of the more common cases are covered below. If you're not sure of the termination value of a depreciating asset, contact us or your registered tax adviser.

Non-arm's length and private or domestic arrangements

The termination value of a depreciating asset is its market value just before you stopped holding it where either:

- the termination value would otherwise be less than market value and you didn't deal at arm's length with another party to the transaction
- you stopped holding the asset as a result of a private or domestic arrangement (for instance, you gave the asset to a family member).

Selling a depreciating asset with other property

If you receive an amount for the sale of several items that include a depreciating asset, you need to apportion the amount received between the termination value of the depreciating asset and the other items. The termination value is only that part of what you receive that is reasonably attributable to the asset.

Apportionment on the basis of the market values of the various items for which the amount is received will be acceptable.

Example: depreciating asset sold with other property, ignoring any GST impact

Ben receives $100,000 for the sale of both a chainsaw (a depreciating asset) and a block of land (not a depreciating asset). It would be reasonable to apportion the $100,000 between both:

- the termination value of the chainsaw
- the proceeds of sale for the land.

The apportionment should be done based on the relative market values of the chainsaw and the land at the time of the sale.

Depreciating asset you stop using or never use

The termination value of a unit of in-house software you still hold but stop using and expect never to use again, or decide never to use, is zero.

For any other asset, if you stop using it and expect never to use it again but still hold it, the termination value is the market value when you stop using it. For a depreciating asset you decide never to use but still hold, the termination value is the market value when you make the decision.

Death of the holder

If a person dies, and a depreciating asset starts to be held by their legal personal representative (such as the executor of their estate), a balancing adjustment event occurs. The termination value of the asset is its adjustable value on the day the holder died. If they had allocated the asset to a low-value pool, the termination value is the amount of the closing balance of the pool for the income year in which the holder died that is reasonably attributable to the asset, see Low-value pools.

If the asset passes directly to a beneficiary of their estate or to a surviving joint tenant, the termination value is the asset's market value on the day the holder died.

Depreciating asset you use for a non-taxable purpose

If you use a depreciating asset for both a taxable and non-taxable purpose, reduce the balancing adjustment amount by the amount that is attributable to the use for a non-taxable purpose. In addition, a capital gain or capital loss may arise under the capital gain and capital loss provisions. The amount of the capital gain or capital loss is the difference

between the asset's cost and its termination value that is attributable to the use for a non-taxable purpose.

For depreciating assets that you use wholly for a non-taxable purpose, reduce the balancing adjustment amount to zero. The difference between the asset's termination value and its cost can be a capital gain or capital loss.

For some depreciating assets, you disregard any capital gain or capital loss arising even though you use the asset for a non-taxable purpose. These assets include:

- cars that carry a load of less than one tonne and fewer than 9 passengers
- motorcycles
- valour or brave conduct decorations awarded (unless you paid money or gave any property for it)
- a collectable (such as a painting or an antique), if the first element of its cost is $500 or less
- assets for which you can deduct an amount for the decline in value as a small business entity under the simplified depreciation rules for the income year the balancing adjustment event occurs
- assets you acquire before 20 September 1985
- assets you use solely to produce exempt income.

In addition, disregard for CGT purposes a capital gain arising from the disposal of a personal use asset (an asset you use or kept mainly for personal use or enjoyment) of which the first element of cost is $10,000 or less. You also disregard a capital loss arising from the disposal of any personal use asset for CGT purposes.

Example: depreciating asset used partly for a taxable purpose – balancing adjustment and capital loss

Andrew bought a new computer for $1,000 and later sells it for $600. Andrew's use of the computer was 40% of the time for private purposes. At the time of its sale, the computer's adjustable value is $700.

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

In addition, a capital loss of $160 arises. This is 40% (the proportion of use for a non-taxable purpose) of $400, the difference between the computer's termination value of $600 and its cost of $1000.

This example ignores any GST impacts.

Leisure facilities and boats

If a balancing adjustment event occurs for a depreciating asset that is a leisure facility or a boat and you reduce your deductions for the decline in value of the asset (see, Decline in value of leisure facilities and Decline in value of boats). Reduce the balancing adjustment amount to the extent you reduce your deductions for decline in value. In addition, a capital gain or capital loss may arise for the difference between the asset's cost and its termination value that is attributable to the reduction.

These rules are similar to those for working out the balancing adjustment amount for a depreciating asset you use for a non-taxable purpose.

Balancing adjustment rules for second-hand depreciating assets in residential rental properties

If a depreciating asset is a second-hand depreciating asset in your residential rental property and you reduce your deductions for the decline in value of that, also reduce the balancing adjustment amount to account for the proportion you have not been able to deduct. In addition, a capital gain or a capital loss may arise under the capital gain or capital loss provisions.

These rules are similar to those for working out the balancing adjustment amount for a depreciating asset you use for a non-taxable purpose.

For more information, see Rental properties guide 2025.

Plant and other depreciating assets you acquire

You may need to reduce any assessable balancing adjustment amount or capital gain (if you use the asset for a non-taxable purpose) if a balancing adjustment event occurs for either:

- an item of **plant** that you acquire before 11:45am AEST on 21 September 1999
- a depreciating asset you acquire before 1 July 2001 that isn't plant.

The amount of the reduction is the cost base of the asset for CGT purposes less its cost. The purpose of this reduction is to preserve CGT cost base advantages for assets you acquire before these dates.

For more information, see earlier versions of the Capital gains tax guide.

Balancing adjustment rules for cars

If a balancing adjustment event occurs for your car, you need to work out any balancing adjustment amount. Special rules apply to the calculation of balancing adjustment amounts for cars.

If a balancing adjustment event occurs for a car you use for a non-taxable purpose, you disregard any capital gain or capital loss.

There are 2 methods of calculating work-related car expenses. You may choose the method which in your view, best captures the running costs of your vehicle. The methods are:

- the cents per kilometre method
- the logbook method.

For 2024–25, using the cents per kilometre method:

- you can claim up to a maximum of 5,000 business kilometres you travel
- at a rate of 88 cents per kilometre for cars – we review the rate at the start of each income year.

If you use the logbook method of claiming car expenses, reduce your balancing adjustment amount by the amount that is attributable to the use of the car for a non-taxable purpose.

Example: using the logbook method, ignoring any GST impact

Louise bought a car on 1 July 2023. During both 2023–24 and 2024–25, Louise chose to use the logbook method to work out her deductions for car expenses. She sold her car for $24,500 on 30 June 2025. At that time, the adjustable value of the car was $18,200.

If Louise's logbook shows that the level of her business use was 40%, her balancing adjustment amount would be $2,520. This is 40% of the difference between the termination value and the adjustable value of the car ($6,300 × 40% = $2,520). Louise must include the amount of $2,520 in her assessable income.

If you only use the cents per kilometre method of claiming car expenses, no balancing adjustment amount arises. This is because the decline in value of the car is already taken into account as part of the calculation of the car expenses.

If you switch between the cents per kilometre method and the logbook method of claiming car expenses before 1 July 2024, you may need to either:

- include a balancing adjustment amount in your assessable income
- claim a deduction in relation to that amount for a balancing adjustment event, which occurs at or after the start of 2024–25.

For a car subject to the Car limit you need to reduce the termination value. You multiply the termination value by the following fraction:

(Car limit **plus** amounts included in the car's second element of cost) **divided by** total cost of car

The total cost of the car is the sum of the first and second elements of cost, ignoring the car limit and after any adjustments for input tax credits, see GST input tax credits. You use the reduced termination value to work out your balancing adjustment amount for the car.

If you acquire the car at a discount and the cost of the car was increases by a discount portion, you must also increase the termination value of the by that discount portion, see Car acquired at a discount.

If you're a lessee under a luxury car lease or a hirer under a hire purchase agreement and you don't acquire the car when the lease or agreement terminates or ends, you're treated as if you had sold the asset to the lessor or financier, respectively. You'll need to work out any assessable or deductible balancing adjustment amount.

Involuntary disposal of a depreciating asset

An involuntary disposal occurs if a depreciating asset is:

- lost or destroyed
- compulsorily acquired by an Australian government agency
- compulsorily acquired by another entity (other than a foreign government agency)
- disposed of to an entity (other than a foreign government agency) after they served a notice on you inviting you to negotiate a sale agreement (they must have informed you that, if negotiations are unsuccessful, the asset will be compulsorily acquired either under an Australian law, other than chapter 6A of the *Corporations Act 2001* or under a foreign law, other than the equivalent of chapter 6A of the *Corporations Act 2001)*
- fixed to land that is disposed of to an entity (other than a foreign government agency) where a mining lease was compulsorily granted over the land and 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.

You may offset an assessable balancing adjustment amount arising from an involuntary disposal against the cost of one or more replacement assets. If you offset an amount against the cost of a replacement asset for an income year after the one in which the replacement asset's start time occurs, you must also reduce the sum of its opening adjustable value plus any second elements of its cost for that later year.

You must incur the expenditure on the replacement asset, or start to hold it, no earlier than one year before the involuntary disposal and no later than one year after the end of the income year in which that disposal occurred.

The Commissioner may agree to extend the time limit, for example, if it is unlikely that insurance claims for the disposal of the original asset will be settled within the required time even though you have taken all reasonable steps to have the insurance claims settled.

To offset the assessable balancing adjustment amount, you must wholly use or install ready for use the replacement asset, for a taxable purpose at the end of the income year in which you incur the expenditure or you start holding it, and you must be able to deduct an amount for it.

Rollover relief

If rollover relief is available under UCA, no balancing adjustment amount arises when a balancing adjustment event occurs for a depreciating asset. In some cases, rollover relief is automatic – for example, transfers pursuant to a court order following a marriage breakdown.

In some cases, rollover relief must be chosen. If the event arises from a change in the holding of, or in interests in, a partnership asset such as a variation in the constitution of a partnership or in a partnership interest, the transferor and the transferee must jointly choose the rollover relief.

Rollover relief may be available if you cease to hold a vessel covered by a certificate issued under Part 2 of the *Shipping Reform (Tax Incentives) Act 2012*. If the available relief is chosen, only include in your assessable income, the balancing adjustment amount that exceeds the cost of acquiring another certified vessel.

When rollover relief applies, the transferee of the depreciating asset can claim deductions for the asset's decline in value as if there had been no change in holding.

The transferee must use the same method that the transferor used to work out the decline in value of the asset.

If the transferor uses the diminishing value method, the transferee must also use the same effective life that the transferor was using.

If the transferor uses the prime cost method, the transferee must replace the asset's effective life in the prime cost formula with the asset's remaining effective life, that is, any period of the asset's effective life that is yet to elapse when the transferor stops holding the asset.

The first element of cost for the transferee is the adjustable value of the asset when it was held by the transferor just before the balancing adjustment event occurs.

There are specific record-keeping requirements for rollover relief.

The rollover relief under UCA has been available since 1 July 2007 to small business entities that choose to claim their capital allowance deductions under the simplified depreciation rules, see Small business entity concessions.

Interest realignment arrangements

You may choose to apply rollover relief to interest realignment arrangements where the taxpayer's original interest in the mining, quarrying or prospecting right was acquired after 1 July 2001. An interest realignment arrangement is an arrangement that involves 2 or more parties that each hold mining, quarrying or prospecting rights that relate to a common development project the parties propose to undertake jointly. The effect of the arrangement must be to align the interests that each party has in each right with their interest in the common development project.

If the available relief is chosen, the effect of the rollover is that a standard balancing adjustment doesn't occur. The adjustable value of the taxpayer's original right disposed of under the arrangement transfers to the cost of the new right the same taxpayer receives.

Limited recourse debt arrangements

Include excessive deductions for capital allowances as assessable income if expenditure on a depreciating asset is financed or refinanced wholly or partly by limited recourse debt (including a notional loan under certain hire purchase or instalment sale agreements of goods). This will occur where the limited recourse debt terminates but has not been paid in full by the debtor. Because the debt has not been paid in full, the capital allowance deductions allowed for the expenditure exceed the deductions that would be allowable if the unpaid amount of the debt was not counted as capital expenditure of the debtor. Special rules apply to work out whether the debt has been fully paid.

If you're not sure what constitutes a limited recourse debt or how to work out your adjustment to assessable income, contact us or your registered tax adviser.

Split or merged depreciating assets

If you hold a depreciating asset that is split into 2 or more assets, or a depreciating asset that is merged into another depreciating asset, you're taken to have stopped holding the original depreciating asset and to have started holding the split or merged asset. However, a balancing adjustment event doesn't occur just because depreciating assets are split or merged. For example, removing a CB radio from a truck splits a depreciating asset. If you install the radio in another truck, you may be merging the 2 assets (radio and truck).

After depreciating assets are split or merged, each new asset must satisfy the definition of a depreciating asset if UCA are to apply to it. For each depreciating asset you start to hold, you need to establish the effective life and cost.

The first element of cost for each of the split or merged depreciating assets is both:

- a reasonable proportion of the adjustable value of the original asset just before the split or merger
- the same proportion of any costs of the split or merger.

If a balancing adjustment event occurs to a merged or split depreciating asset (for example, if it is sold) reduce the balancing adjustment amount:

- to the extent the asset has been used for a non-taxable purpose
- by any amount of the original depreciating asset that is reasonably attributable to use for a non-taxable purpose of the original depreciating asset before the split or merger.

This reduction isn't required if the depreciating asset is mining, quarrying or prospecting information.

Foreign currency gains and losses

If you sell a depreciating asset in foreign currency, the termination value of the asset is converted to Australian currency at the exchange rate applicable when you stop holding the asset. Under the forex provisions, you may make a foreign currency gain or loss if the Australian dollar value of the foreign currency when received differs from the Australian dollar value of the termination value. Include any realised foreign currency gain or loss on the transaction in assessable income or as a deduction, respectively.

If the TOFA rules apply to you, then the method that you use to calculate your foreign currency gain or loss may differ. For more information on the TOFA rules, see Guide to the taxation of financial arrangements (TOFA).

Low-value and software development pools

About low-value and software development pools, allocating assets to a pool and working out their decline in value.

In this section

Low-value pools
Allocating depreciating assets to a low-value pool
Working out the decline in value of depreciating assets in a low-value pool
Balancing adjustment event for a depreciating asset in a low-value pool
Software development pools

Low-value pools

You can work out the decline in value of certain depreciating assets through a low-value pool.

Low-value pools established before 1 July 2001 continue and you treat them as if they were established under UCA. Use the closing balance of the pool worked out under the former rules to start working out the decline in value of the depreciating assets in the pool under UCA.

Under UCA, you can allocate low-cost assets and low-value assets to a low-value pool.

A **low-cost asset** is a depreciating asset whose cost is less than $1,000 (after GST credits or adjustments) at the end of the income year in which you start to use it, or have it installed ready for use, for a taxable purpose.

A **low-value asset** is a depreciating asset that is all of the following:

- isn't a low-cost asset
- has an opening adjustable value for the current year of less than $1,000 (using the diminishing value method)
- you use the diminishing value method to work out any deductions for decline in value for a previous income year.

Work out the decline in value of an asset (that you hold jointly with others) on the cost of your interest in the asset. This means that you can allocate your interest in the asset to your low-value pool if the cost of your interest in the asset, or the opening adjustable value of your interest, is less than $1,000. See, Jointly held depreciating assets.

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

- assets for which you use the prime cost method to work out any deductions for decline in value for a previous income year
- horticultural plants
- assets for which you deduct amounts under the simplified depreciation rules, see Small business entity concessions
- assets that cost $300 or less and that you use to earn income other than from a business (for which you can claim an immediate deduction), see Immediate deduction for certain non-business depreciating assets (costing $300 or less)
- assets that you use in carrying on research and development activities for which you're entitled to a tax offset for a deduction in their decline in value. Work out your entitlement to that tax offset under Division 355 of the *ITAA 1997*
- portable electronic devices, computer software, protective clothing, briefcases and tools of trade, if your employer either
  - provides the item
  - pays for or reimburses you for some or all of the cost of the item, and the provision, payment or reimbursement was exempt from fringe benefits tax.

Portable electronic devices include laptops, portable printers, personal digital assistants, calculators, mobile phones and portable GPS navigation receivers.

From 1 July 2017, special rules apply to certain second-hand depreciating assets in residential rental premises. For information on how the rules for low-value pools apply to these assets, see Rental properties guide 2025.

Allocating depreciating assets to a low-value pool

You establish a low-value pool the first time you choose to allocate a low-cost or low-value asset to the pool.

When you allocate an asset to the pool, you must make a reasonable estimate of the percentage of your use of the asset that will be for a taxable purpose over its effective life (for a low-cost asset) or the effective life remaining at the start of the income year you allocate it to the pool (for a low-value asset). This percentage is known as the asset's 'taxable use percentage'.

It's this taxable use percentage of the cost or opening adjustable value that is written off through the low-value pool.

Example: working out the taxable use percentage

Kate allocates a low-cost asset to a low-value pool. The asset has an effective life of 3 years. Kate intends to use the asset 90% for taxable purposes in the first year, 80% in the second year and 70% in the third year. A reasonable estimation of the taxable use percentage would be the average of these estimates, that is, 80%.

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

Once you choose to create a low-value pool and allocate a low-cost asset to the pool, you must pool all other low-cost assets that you start to hold in that income year and in later income years. However, this rule doesn't apply to low-value assets. You can decide whether to allocate low-value assets to the pool on an asset-by-asset basis.

Once you allocate an asset to the pool, it remains in the pool.

Working out the decline in value of depreciating assets in a low-value pool

Once you allocate an asset to a low-value pool, it isn't necessary to work out its adjustable value or decline in value separately. You only need to do one annual calculation for the decline in value for all of the depreciating assets in the pool.

You work out the deduction for the decline in value of depreciating assets in a low-value pool using a diminishing value rate of 37.5%.

For the income year in which you allocate a low-cost asset to the pool, you work out its decline in value at a rate of 18.75% or half the pool rate. Halving the rate recognises that you may allocate assets to the pool throughout the income year. This eliminates the need to make separate calculations for each asset using the date you allocate it 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 (first and second elements) of low-cost assets you have allocated to the pool for the income year
  - taxable use percentage of any amounts included in the second element of cost for the income year of both
    - all assets in the pool at the end of the previous income year
    - low-value assets allocated to the pool for the income year.

You then **add:**

- 37.5% of both the
  - closing pool balance for the previous income year
  - taxable use percentage of the opening adjustable value of any low-value assets allocated to the pool for the income year.

Example: working out the decline in value of depreciating assets in a low-value pool, ignoring any GST impact

During 2024–25, John bought a printer for $990.

As John had allocated low-cost assets to a low-value pool in 2023–24, he had to allocate the printer to the pool because the printer was a low-cost asset. He estimated that he would use the printer 60% for taxable purposes. He therefore allocated 60% of the cost of the printer to the pool, that is, $594.

At the end of 2023–24, John's low-value pool had a closing pool balance of $5,000. In 2024–25, he didn't allocate low-cost or low-value assets to the pool other than the printer.

John's deduction for the decline in value of the assets in the pool for 2024–25 is $1,986 worked out as follows:

18.75% of the taxable use percentage of the cost of the printer allocated to the pool during 2024–25
(18.75% × $594) = $111

Plus 37.5% of the closing pool balance for 2023–24
(37.5% × $5,000) = $1,875

The **closing balance of a low-value pool** for 2024–25 is:

- the closing pool balance for 2023–24, **plus**
- the taxable use percentage of the cost (first and second elements) of any low-cost assets allocated to the pool in 2024–25, **plus**
- the taxable use percentage of the opening adjustable value of low-value assets allocated to the pool in 2024–25, **plus**
- the taxable use percentage of any amounts included in 2024–25 in the second element of cost of both
  - assets in the pool at the end of 2023–24
  - low-value assets allocated in 2024–25
- **less**, the decline in value of the assets in the pool in 2024–25.

Example: working out the closing balance of a low-value pool, ignoring any GST impact

Following on from the previous example, the closing balance of the pool for 2024–25 is $3,608:

- closing pool balance for 2023–24
  $5,000
- plus the taxable percentage of the cost of the printer
  $594
- subtract the decline in value of the assets in the pool for 2024–25
  $1,986

Balancing adjustment event for a depreciating asset in a low-value pool

If a balancing adjustment event occurs for a depreciating asset in a low-value pool, you reduce the amount of the closing pool balance for that income year by the taxable use percentage of the asset's termination value. If the taxable use percentage of the asset's termination value exceeds the closing pool balance, you reduce the closing pool balance to zero and include the excess in your assessable income.

A capital gain or capital loss may arise if the asset isn't used wholly for a taxable purpose. The difference between the asset's cost and its termination value that is attributable to the estimated use for a non-taxable purpose is treated as a capital gain or capital loss.

Example: disposal of a depreciating asset in a low-value pool, ignoring any GST impact

Following on from the previous examples, during 2025–26 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 of $500, that is, $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 ($990) and its termination value ($500) is treated as a capital loss.

Assuming that John made no additional allocations to or reductions from his low-value pool, the closing balance of the pool for 2025–26 is $1,955:

- closing pool balance for 2024–25
  $3,608
- subtract the decline in value of the assets in the pool for the year
  37.5% × $3,608 = $1,353
- subtract the taxable use percentage of the termination value of pooled assets that were disposed of during the year
  $300

To help you work out your deductions for depreciating assets in a low-value pool, see Worksheet 2: Low-value pool.

Software development pools

You may choose to deduct amounts for expenditure you incur on in-house software through a software development pool.

What is in-house software?

In-house software is computer software, or a right (for example, a licence) to use computer software, you acquire or develop (or have another entity develop) and the following apply:

- it is mainly for your use in performing the functions for which you develop it
- no amount is deductible for the in-house software outside UCA or the simplified depreciation rules for small business entities.

If expenditure on software is deductible under the ordinary deduction provisions of the income tax law, the software isn't in-house software. A deduction for such expenditure is allowable in the income year you incur the expense.

Expenditure to develop software for exploitation of the copyright isn't in-house software. The copyright is intellectual property, which is a depreciating asset, and you calculate the decline in value using the prime cost method and an effective life that is either 25 years or the copyright period, whichever is shorter.

Under UCA, you can deduct expenditure on in-house software using the prime cost method in the following ways:

- The decline in value of in-house software you acquire, such as off-the-shelf software, you work out using an effective life of either
  - 4 years (if you start to hold the in-house software under a contract you enter into after 7:30 pm AEST on 13 May 2008 or otherwise start to hold it after that day)
  - 5 years (if you use or first install ready for use the in-house software on or after 1 July 2015).
- Expenditure you incur in developing (or having another entity develop) in-house software, you may (or may need to) allocate it to a software development pool.
- If expenditure you incur in developing (or having another entity develop) in-house software that you don't allocate to a software development pool, you can capitalise into the cost of a resulting unit of in-house software. Work out its decline in value under the prime cost method, from the time the software's first use or when you first install it ready for use, using an effective life of either
  - 4 years (if the development starts after 7:30 pm AEST on 13 May 2008)
  - 5 years (if you use or first install ready for use the in-house software on or after 1 July 2015).
- If in-house software costs $300 or less and you use it mainly for producing non-business assessable income, an immediate deduction may be allowable, see Immediate deduction for certain non-business depreciating assets (costing $300 or less).

The termination value of in-house software that you still hold but stop using and expect never to use again, or don't use and decide never to use, is zero. As a result, you can claim an immediate deduction for the adjustable value (or if it has not been used, the cost) of the software at that time.

You can also claim an immediate deduction for expenditure you incur on an in-house software development project (that you don't allocate to a software development pool) if you both:

- don't use the software or install it ready for use
- decide that you'll never use it or install it ready for use.

The amount you can deduct is your total expenditure on the software less any amount you derive for the software or a part of it. Your deduction is limited to the extent that, when you incur the expenditure, you intend to use the software, or have it installed ready for use, for a taxable purpose.

For information on the deductibility of website expenses, see Taxation Ruling TR 2016/3 *Income tax: deductibility of expenditure on a commercial website*.

Software development pools

Under UCA, you can choose to allocate to a software development pool expenditure that you incur on developing (or on having another entity develop) in-house software that you intend to use solely for a taxable purpose. Once you allocate expenditure on such in-house software to a pool, you must allocate all such expenditure you incur in that year or a later year to a software development pool. A different pool is created for each income year in which you incur expenditure on developing (or on having another entity develop) in-house software.

You can't allocate expenditure on developing in-house software that you don't intend to use solely for a taxable purpose and expenditure on acquiring in-house software to a software development pool.

If you're entitled to claim a GST input tax credit for expenditure you allocate to a software development pool, the expenditure in the pool for the income year in which you're entitled to the credit is reduced by the amount of the credit. Certain adjustments under the GST legislation for expenditure you allocate to a software development pool are treated as an outright deduction or income. Other adjustments reduce or increase the amount of the expenditure that you allocate to the pool for the adjustment year.

You don't get any deduction for expenditure in a software development pool in the income year in which you incur it. For expenditure you incur in an income year starting on or after 1 July 2015, you're allowed deductions at the rate of 30% in each of the next 3 years and 10% in the year after that.

If you allocate software development expenditure on a project to a software development pool and the project is abandoned, the expenditure remains to be deducted as part of the pool.

If you have pooled in-house software development expenditure and you receive consideration for the software (for example, insurance proceeds on the destruction of the software), you must include that amount in your assessable income unless you make the choice for rollover relief to apply and do so. Choice of rollover relief is only available in this context where a change occurs in the holding of, or of interests in, the software.

You must also include any recoupment of the expenditure in your assessable income.

If you receive consideration from a non-arm's length dealing and the amount you receive is less than the market value, you're taken to receive the market value instead.

Depreciating assets and taxation of financial arrangements (TOFA)

When the taxation of financial arrangements rules apply to you and your depreciating assets.

In this section

When do the TOFA rules start to apply to you?

Do the TOFA rules apply to you?

TOFA rules and UCA

TOFA and the cost of a depreciating asset

TOFA and the termination value of a depreciating asset

When do the TOFA rules start to apply to you?

The key provisions of the TOFA rules are found in Division 230 of the ITAA 1997.

If the TOFA rules apply to you, they apply to the financial arrangements that you start to have from the beginning of your income year commencing on or after 1 July 2010 (unless you elected for the rules to apply a year earlier).

Do the TOFA rules apply to you?

The TOFA rules apply to you if you're:

- an authorised deposit-taking institution, securitisation vehicle or financial sector entity with an aggregated annual turnover of $20 million or more
- a super entity, approved deposit fund, pooled super fund, managed investment scheme or entity with a similar status under foreign law relating to foreign regulation, with assets of $100 million or more
- any other entity (other than an individual) which satisfies one or more of the following
  - an aggregated turnover of $100 million or more
  - assets of $300 million or more
  - financial assets of $100 million or more.

If you don't meet these requirements, you can elect to have the TOFA rules apply to you.

TOFA rules and UCA

The TOFA rules contain interaction provisions which may modify the cost and termination value of a depreciating asset acquired by an entity to which the TOFA rules apply. This will be the case where payment (or a substantial proportion of the payment) is deferred for more than 12 months after delivery of the depreciating asset.

For more information, see:

- TOFA and the cost of a depreciating asset
- TOFA and the termination value of a depreciating asset
- Guide to the taxation of financial arrangements (TOFA).

TOFA and the cost of a depreciating asset

If the TOFA rules apply to you and you start or cease to have a financial arrangement (or part of a financial arrangement) as consideration for acquiring a depreciating asset, the TOFA rules will operate to determine the first element of cost. In general, the rules mean the first element of cost is the market value of the depreciating asset at the time of acquisition.

In the same way, the TOFA rules can also affect the second element of a depreciating asset's cost when the financial arrangement is consideration for something obtained which is relevant to the second element of cost, for example, capital improvements.

Example: TOFA and the cost of a depreciating asset

Aus Co is subject to the TOFA rules.

Aus Co enters into a contract on 1 July 2024 to buy a depreciating asset for $100,000. The depreciating asset is delivered on 1 January 2025 and payment is made on 1 July 2026 (that is, 18 months after delivery). The market value of the depreciating asset on 1 January 2025 is $90,000.

On 1 January 2025 when Aus Co receives the depreciating asset, it starts to have a financial arrangement (the obligation to pay $100,000 in 18 months) which is provided to acquire the depreciating asset.

The TOFA rules mean that Aus Co is taken to have provided an amount equal to the market value of the depreciating asset (worked out at the time it is acquired) for its acquisition. Therefore, Aus Co's first element of cost of the depreciating asset is $90,000.

The financial arrangement is taxed separately under the TOFA rules. The gain or loss worked out under the TOFA rules (loss of $10,000 in this example) doesn't form part of the first element of cost of the depreciating asset.

The TOFA rules also provide for a hedging tax-timing method that allows gains and losses from certain hedging financial arrangements to be recognised and characterised in accordance with the tax treatment of the underlying item being hedged. For example, if this method applies to a gain or loss on a hedging financial arrangement used to hedge against risks for a depreciating asset, the gain or loss will be assessable or deductible on the same basis as the decline in value deduction.

Note however that the gain or loss on the hedging financial arrangement won't form part of the cost of the depreciating asset.

TOFA and the termination value of a depreciating asset

If the TOFA rules apply to you and you start or cease to have a financial arrangement (or part of a financial arrangement) as consideration for providing a depreciating asset, the TOFA rules will determine the termination value of the depreciating asset. In general, the rules mean the termination value is the market value of the depreciating asset at the time of disposal.

Example: TOFA and the termination value of a depreciating asset

ABC Co is subject to the TOFA rules.

ABC Co enters into a contract on 1 July 2024 to sell its depreciating asset for $100,000. The depreciating asset is delivered on 1 January 2025 and payment is received on 1 July 2026 (that is, 18 months after delivery). The market value of the depreciating asset on 1 January 2025 is $90,000.

On 1 January 2025 when ABC Co delivers the depreciating asset it will start to have a financial arrangement (the right to receive $100,000 in 18 months which is received for the provision of the depreciating asset).

The TOFA rules mean that ABC Co is taken to have received an amount equal to the market value of the depreciating asset (worked out at the time it is provided) for its disposal. Therefore, ABC Co's termination value for the depreciating asset will be $90,000.

The financial arrangement is taxed separately under the TOFA rules. The gain or loss worked out under the TOFA rules (gain of $10,000 in this example) does not form part of the termination value of the depreciating asset.

The TOFA rules also provide for a hedging tax-timing method that allows gains and losses from certain hedging financial arrangements to be recognised and characterised in accordance with the tax treatment of the underlying item being hedged. For example, if this method applies to a gain or loss on a hedging financial arrangement used to hedge risks for a depreciating asset, the gain will be assessable (or the loss deductible) on the same basis as for the depreciating asset. Therefore, when there is a balancing adjustment event for that depreciating asset, you may have to work out separately both:

- the balancing adjustment assessable or deductible amount on the depreciating asset
- the assessable or deductible amount for any part of the gain or loss on the hedging financial arrangement under the TOFA rules that has not yet been assessed or deducted.

The gain or loss on the hedging financial arrangement won't form part of the termination value of the depreciating asset.

Primary production depreciating assets

Depreciating assets used in primary production and the special rules for working out the decline in value.

In this section

Depreciating assets used in primary production

Water facilities

Fencing assets

Fodder storage assets

Horticultural plants (including grapevines)

Depreciating assets used in primary production

The general principles of UCA apply to most depreciating assets used in primary production.

However, the decline in value of the following primary production depreciating assets is worked out using special rules:

- water facilities you use to conserve or convey water
- fencing assets
- fodder storage assets
- horticultural plants (including grapevines).

For depreciating assets deductible under these special rules, you can't use the general rules for working out decline in value or claim the immediate deduction for depreciating assets costing $300 or less (although some are immediately deductible regardless of cost).

Deductions for these assets are not available to a partnership. Costs a partnership incurs you allocate to each partner who can then claim the relevant deduction for their share of the expenditure.

There are no specific balancing adjustment rules for these depreciating assets. However, the assets may be considered part of the land for CGT purposes.

When the land is disposed of, any deductions you claim, or can claim, for the assets may reduce the cost base of the land. For more information, see Guide to capital gains tax 2025.

Primary producers may also be able to claim deductions for capital expenditure on landcare operations, and electricity connections and phone lines.

Water facilities

A water facility is either:

- a plant or a structural improvement that is primarily and principally for the purpose of conserving or conveying water, including a repair of a capital nature, an alteration, addition or extension to that plant or structural improvement
- a structural improvement that is reasonably incidental to conserving or conveying water, including a repair of a capital nature, or an alteration, addition or extension to that structural improvement.

Examples of water facilities are dams, tanks, tank stands, bores, wells, irrigation channels, pipes, pumps, water towers and windmills.

Examples of structural improvements that are reasonably incidental to conserving or conveying water are a bridge over an irrigation channel, a culvert (a length of pipe or multiple pipes that are laid under a road to allow the flow of water in a channel to pass under the road) and a fence preventing livestock entering an irrigation channel.

You can fully deduct capital expenditure on a water facility if you incur the expenditure at or after 7:30 pm AEST on 12 May 2015. You fully deduct the expenditure in the income year in which you incur it. The total deduction can't be more than the amount of the capital expenditure.

Unless you're an irrigation water provider, you must incur the expenditure primarily and principally for conserving or conveying water for use in a primary production business that you conduct on land in Australia. You may claim the deduction even if you're only a lessee of the land. Reduce your deduction where you don't wholly use the water facility for either:

- carrying on a primary production business on land in Australia
- a taxable purpose.

An irrigation water provider is an entity whose business is primarily and principally the supply of water to entities for use in primary production businesses on land in Australia. The supply of water by the use of a motor vehicle is excluded.

If you're an irrigation water provider, you must incur the expenditure primarily and principally for the purpose of conserving or conveying water for use in primary production businesses conducted by other entities on land in Australia (being entities supplied with water by you). Reduce your deduction if the water facilities use isn't wholly for a taxable purpose.

If the expenditure you incur arises from a non-arm's length dealing and is more than the market value of what the expenditure was for, the amount of the expenditure is taken to be that market value instead.

No deduction is available for capital expenditure you incur on acquiring a second-hand commercial water facility unless you can show that no one else has deducted or could deduct an amount for earlier capital expenditure on the construction, manufacture or previous acquisition of the water facility.

If you're a primary producer and a small business entity, you can choose to work out your deductions for water facilities under either the simplified depreciation rules or these UCA rules. For more information on the simplified depreciation rules, see Small business entity concessions.

You may need to include a recoupment of expenditure on water facilities in your assessable income. If the expenditure is deductible over more than one income year, special rules apply to determine the amount of any recoupment you need to include in assessable income in the year of recoupment and in later income years. An amount you receive for the sale of a water facility for its market value isn't an assessable recoupment.

Fencing assets

A fencing asset is an asset or structural improvement that is a fence, or a repair of a capital nature, or an alteration, addition or extension, to a fence. You must incur the capital expenditure on the construction, manufacture, installation or acquisition of the fencing asset and must be primarily and principally in a primary production business that you conduct on land in Australia. You may claim the deduction even if you're only a lessee of the land.

The term 'fence' takes its ordinary meaning and includes an enclosure or barrier, usually of metal or wood, as around or along a field or paddock. The term 'fence' extends to parts or components of a fence including, but not limited to, posts, rails, wire, droppers, gates, fittings and anchor assemblies.

You can fully deduct capital expenditure on a fencing asset in the income year in which you incur it. The total deduction can't be more than the amount of the capital expenditure.

If you incur expenditure before 7:30 pm AEST on 12 May 2015, the previous UCA that allows you to deduct the capital expenditure on a fencing asset over the effective life of the asset continues to apply.

In addition, you can't deduct an amount for capital expenditure on a fencing asset if the fencing asset is a stockyard, pen or portable fence, or is a repair, alteration, addition or extension to a stockyard, pen or portable fence.

Reduce your deduction where the fencing asset isn't wholly in use:

- for carrying on a primary production business on land in Australia
- for a taxable purpose – for example, for the purpose of producing assessable income.

This prevents primary producers from deducting expenditure on a fencing asset to the extent that the asset is used other than in carrying on their primary production business or for a taxable purpose.

If the expenditure incurred arises from a non-arm's length dealing and is more than the market value of what the expenditure was for, the amount of the expenditure is taken to be that market value instead.

If you're a primary producer and a small business entity, you can choose to work out your deductions for fencing assets under either the simplified depreciation rules or these UCA rules. For more information on the simplified depreciation rules, see Small business entity concessions.

You may need to include a recoupment of expenditure on fencing assets in your assessable income. If the expenditure is deductible over more than one income year, special rules apply to determine the amount of any recoupment to be included in assessable income in the year of recoupment and in later income years. An amount you receive for the sale of a fencing asset for its market value isn't assessable recoupment.

Fodder storage assets

A fodder storage asset is an asset that is primarily and principally for the purpose of storing fodder. It's also a structural improvement, or a repair of a capital nature, or an alteration, addition or extension, to an asset or a structural improvement, that is primarily and principally for the purpose of storing fodder.

The capital expenditure you incur on the construction, manufacture, installation or acquisition of the fodder storage asset must have been incurred primarily and principally for use in a primary production business that you conduct on land in Australia. You may claim the deduction even if you're only a lessee of the land.

For a fodder storage asset to satisfy the 'primarily and principally' test, its main purpose (other than some incidental or other minor purpose, but not necessarily the sole purpose) must be to store fodder. For example, if a shed was built for the purpose of storing hay but is occasionally you use it to store a neighbour's tractor when you borrow it twice a year, the shed will be an asset that is primarily and principally for the purpose of storing fodder.

The term 'fodder' takes its ordinary meaning and refers to food for livestock. It's usually dried like grain, hay or silage but can include liquid feed supplements. Examples of typical fodder storage assets include:

- silos
- liquid feed supplement storage tanks
- bins for storing dried grain
- hay sheds
- grain storage sheds
- above-ground bunkers for silage.

If you incur a capital expense on a fodder storage asset, you can immediately deduct the cost in the income year you incur it, if you incur the expense either:

- on or after 19 August 2018
- before 19 August 2018, but you use or first install the asset ready for use on or after 19 August 2018.

You can deduct one-third of capital expenditure you incur in an income year if:

- you incur the capital expenditure after 7:30 pm AEST on 12 May 2015 but before 19 August 2018
- you use or first install the asset ready for use before 19 August 2018.

You can deduct this same amount in each of the following 2 income years. The total deduction over the 3 income years can't be more than the amount of the capital expenditure.

If you incur the expenditure before this time, the previous UCA that allows you to deduct the capital expenditure on a fodder storage asset over the effective life of the asset continues to apply.

Reduce your deduction in any income year where the fodder storage asset isn't wholly in use:

- for carrying on a primary production business on land in Australia
- for a taxable purpose – for example, for the purpose of producing assessable income.

This prevents primary producers from deducting expenditure on a fodder storage asset to the extent that the use is for other than in carrying on their primary production business or for a taxable purpose.

No deduction is available for capital expenditure you incur to acquire a second-hand fodder storage asset unless you can show that no one else has or will claim a deduction amount for earlier capital expenditure on the construction, manufacture or previous acquisition of the fodder storage asset.

If the expenditure you incur arises from a non-arm's length dealing and is more than the market value of what the expenditure was for, the amount of the expenditure is that market value instead.

If you're a primary producer and a small business entity, you can choose to work out your deductions for fodder storage assets under either the simplified depreciation rules or these UCA rules. For more information on the simplified depreciation rules, see Small business entity concessions.

You may need to include a recoupment of expenditure on fodder storage assets in your assessable income. If the expenditure is deductible over more than one income year, special rules apply to determine the amount of any recoupment to be included in assessable income in the year of recoupment and in later income years. An amount you receive for the sale of a fodder storage asset for its market value isn't an assessable recoupment.

Horticultural plants (including grapevines)

A horticultural plant is a live plant or fungus that is cultivated or propagated for any of its products or parts.

You can claim a deduction for the decline in value of horticultural plants, provided all the following apply:

- you own the plants (lessees and licensees of land are treated as if they own the horticultural plants on that land)
- you use them in a business of horticulture to produce assessable income
- you incur the expense after 9 May 1995 (or for grapevines, on or after 1 October 2004).

Base your deduction for the decline in value of horticultural plants on the capital expenditure you incur in establishing the plants. This doesn't include the cost of purchasing or leasing land, or expenditure in draining swamp or low-lying land or on clearing land. It would include, for example both:

- the costs of acquiring and planting seeds
- part of the cost of ploughing, contouring, fertilising, stone removal and topsoil enhancement relating to the planting.

You can't claim this deduction for forestry plants.

If you incur expenditure arising from a non-arm's length dealing and it exceeds the market value of what the expenditure was for, take the expenditure amount to be that market value instead.

The period over which you can deduct the expenditure depends on the effective life of the horticultural plant. You can choose to work out the effective life yourself or you can use the effective life determined by the Commissioner, see Effective life of an asset. If the effective life of the plant is less than 3 years, you can claim the establishment expenditure in full generally in the year in which the first commercial season starts.

If the effective life of the plant is 3 or more years, you can write off the establishment expenditure over the maximum write-off period, which generally begins at the start of what is expected to be the plant's first commercial season. If the plant is destroyed before the end of its effective life, you're allowed a deduction in that year for the remaining unclaimed establishment costs less any proceeds, for example, insurance payout.

Table: Plants with an effective life of 3 or more years

Effective life	Annual write-off rate %	Maximum write-off period
3 to less than 5 years	40	2 years 183 days
5 to less than 6⅔ years	27	3 years 257 days
6⅔ to less than 10 years	20	5 years
10 to less than 13 years	17	5 years 323 days
13 to less than 30 years	13	7 years 253 days
30 years or more	7	14 years 105 days

Where ownership of the horticultural plants changes, the new owner can continue claiming the balance of capital expenditure they incur in establishing the plants on the same basis.

If you're a primary producer and a small business entity, you must use UCA to work out your deductions for horticultural plants. For more information on the simplified depreciation rules, see Small business entity concessions.

You may need to include a recoupment of expenditure on horticultural plants in your assessable income. As the expenditure may be deductible over more than one income year, special rules apply to determine the amount of any recoupment you include in assessable income in the year of recoupment and in later income years. An amount you receive for the sale of a horticultural plant for its market value isn't an assessable recoupment.

Capital expenditure deductible under UCA

When you can claim capital expenditure deductions under uniform capital allowances.

In this section

Deductible capital expenditure

Landcare operations

Electricity connections and phone lines

Environmental protection activities (EPA)

Mining and quarrying, and minerals transport

Project pools

Business related costs – section 40-880 deductions

Carbon sink forests

Deductible capital expenditure

The following types of capital expenditure are deductible under UCA:

- landcare operations primary producers, other landholders and rural land irrigation water providers incur
- electricity connections or phone lines primary producers and other landholders incur
- environmental protection activities (EPA)
- exploration and prospecting, see Mining and quarrying, and minerals transport
- rehabilitation of mining and quarrying sites, see Mining and quarrying, and minerals transport
- petroleum resource rent tax, see Mining and quarrying, and minerals transport
- certain capital expenditure directly connected with a project, see Project pools
- expenditure incurred in establishing trees in a carbon sink forest
- certain business-related costs.

Generally, to work out your deductions you need to reduce the expenditure by the amount of any GST input tax credits you can claim for the expenditure. You may be able to deduct, or include in your assessable income, increasing or decreasing adjustments that relate to the expenditure. Special rules apply to input tax credits on expenditure you allocate to a project pool.

Small business entities that chose to use the simplified depreciation rules (except primary producers) may deduct capital expenditure under these UCA only if the expenditure isn't part of the cost of a depreciating asset. Primary producers that use the simplified depreciation rules can choose to deduct certain depreciating assets under UCA, see Small business entity concessions.

Landcare operations

You can claim a deduction in the year you incur capital expenditure on a landcare operation for land in Australia.

Unless you're a rural land irrigation water provider, the deduction is available to the extent you use the land for either:

- a primary production business
- in the case of rural land, carrying on a business for a taxable purpose from the use of that land, except a business of mining or quarrying.

You may claim the deduction even if you're only a lessee of the land.

A rural land irrigation water provider is an entity whose business is primarily and principally supplying water to entities for use in primary production businesses on land in Australia or businesses (except mining or quarrying businesses) using rural land in Australia. The supply of water by the use of a motor vehicle is excluded.

If you're a rural land irrigation water provider, you can claim a deduction for capital expenditure you incur on a landcare operation for either:

- land in Australia that other entities (entities that you supply with water) use at the time for carrying on primary production businesses
- rural land in Australia that other entities (entities that you supply with water) use at the time for carrying on businesses for a taxable purpose from the use of that land (except a business of mining or quarrying).

A rural land irrigation water provider's deduction is reduced by a reasonable amount to reflect an entity's use of the land for a non-taxable purpose after the water provider incurs the expenditure.

A landcare operation is one of the following:

1. erecting fences to separate different land classes in accordance with an approved land management plan
2. erecting fences primarily and principally to keep animals out of areas affected by land degradation to prevent or limit further degradation and to help reclaim the areas
3. constructing a levee or similar improvement
4. constructing drainage works (other than the draining of swamp or low-lying land) primarily and principally to control salinity or assist in drainage control
5. an operation primarily and principally for eradicating or exterminating animal pests from the land
6. an operation primarily and principally for eradicating, exterminating or destroying plant growth detrimental to the land
7. an operation primarily and principally for preventing or combating land degradation other than by erecting fences
8. an extension, alteration or addition to any of the assets described in 1, 2, 3 or 4 above or an extension of an operation described in 5, 6 or 7 above.
9. a repair of a capital nature, to an asset that is deductible under a landcare operation
10. constructing a structural improvement that is reasonably incidental to levees or drainage works deductible under a landcare operation
11. a repair of a capital nature, or an alteration, addition or extension, to a structural improvement that is reasonably incidental to levees (or similar improvements) or drainage works deductible under a landcare operation.

An example of a structural improvement that may be reasonably incidental to drainage works is a fence you construct to prevent livestock entering a drain that you construct to control salinity.

You can't claim a deduction for landcare operations if the capital expenditure is on plant unless it is on certain fences, dams or other structural improvements. You work out the decline in value of plant not deductible under the landcare provisions using the general rules for working out decline in value, see Methods of working out decline in value.

There are no specific balancing adjustment rules for a depreciating asset on which you incur capital expenditure that is deductible under the landcare provisions. That asset may, however, be considered part of the land for CGT purposes.

If a levee is constructed primarily and principally for water conservation, it would be a water facility and you can't claim a deduction under these rules. You would need to work out its decline in value under the rules for water facilities.

If you're a rural land irrigation water provider and you can deduct expenditure under both the water facilities and landcare operation rules, you can only deduct the expenditure as expenditure on a water facility.

You can't deduct an amount for landcare operations if any entity can deduct an amount for that expenditure, in any income year, under the carbon sink forest rules.

If you incur the expenditure from a non-arm's length dealing and it exceeds the market value of what the expenditure was for, you must take the expenditure amount to be that market value instead.

A recoupment of the expenditure may be included in your assessable income.

The deduction isn't available to a partnership. Costs incurred by a partnership are allocated to each partner who can claim a deduction for their share of the relevant capital expenditure.

Capital expenditure on a landcare operation may be incurred on a depreciating asset. However, if the expenditure is deductible under these rules, you can't use the general rules for working out decline in value or claim the immediate deduction for certain depreciating assets costing $300 or less.

If you incur the capital expenditure on a depreciating asset and you're a primary producer and a small business entity, you can choose to work out your deductions for these depreciating assets using either the simplified depreciation rules or these UCA rules. For more information on the simplified depreciation rules, see Small business entity concessions.

Electricity connections and phone lines

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

- connecting mains electricity to land on which a business is carried on for a taxable purpose or upgrading an existing connection to that land
- a telephone line on, or extending to, land on which you carry on a primary production business.

If you incur expenditure from a non-arm's length dealing that exceeds the market value of what the expenditure was for, the expenditure amount is taken to be that market value instead.

A recoupment of the expenditure may be included in your assessable income.

These deductions are not available to a partnership. Costs incurred by a partnership are allocated to each partner who can claim a deduction for their share of the relevant capital expenditure.

Such capital expenditure may be incurred on a depreciating asset. However, if the expenditure is deductible under these rules, you can't use the general rules for working out decline in value or claim the immediate deduction for depreciating assets costing $300 or less.

If you incur the capital expenditure on a depreciating asset and you're a primary producer and a small business entity, you can choose to work out your deductions for these depreciating assets using either the simplified depreciation rules or these UCA rules. For more information on the simplified depreciation rules, see Small business entity concessions.

There are no specific balancing adjustment rules for a depreciating asset on which you incur deductible capital expenditure under these rules. That asset may, however, be considered part of the land for CGT purposes.

Environmental protection activities (EPA)

You can claim an immediate deduction for expenditure you incur for the sole or dominant purpose of carrying on EPA. EPA are undertaken to prevent, fight or remedy pollution, and to treat, clean up, remove or store waste from your earning activity. These activities can also apply to a site on which another entity carried on a business that you acquire and carry on substantially without unchanging as your earning activity. Your earning activity is one you carried on, carry on or propose to carry on for one or more of these 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 EPA relating to a site you lease or have a granted right to use the site and where another entity causes the pollution or waste.

The deduction isn't available for:

- EPA bonds and security deposits
- expenditure on acquiring land
- capital expenditure on constructing an extension, alteration or improvement to a building, structure or structural improvement
- expenditure to the extent that you can deduct an amount for it under another provision.

You can't deduct expenditure on EPA that is also for an environmental impact assessment of your project as expenditure on EPA. However, if it is capital expenditure directly connected with a project, you could deduct it as a project amount over the project life, see Project pools.

If you incur expenditure that forms part of the cost of a depreciating asset, it isn't deductible as expenditure on EPA if a deduction is available for the decline in value of the asset.

You may need to include a recoupment of the expenditure in your assessable income.

Note that expenditure you incur on or after 19 August 1992 on certain earthworks you construct as a result of carrying out EPA can be written off as a capital works expenditure at a rate of 2.5%.

Mining and quarrying, and minerals transport

To work out your deductions for the decline in value of depreciating assets you use in mining and quarrying, and in minerals transport using the general rules, see Working out decline in value. The general rules for mining and quarrying, and minerals transport either don't apply or are modified for the depreciating assets or capital expenditure, see:

- Immediate deduction for depreciating assets used in exploration or prospecting
- Immediate deduction for expenditure not part of a depreciating asset's cost
- Farm-in farm-out arrangements
- Deduction over time for capital expenditure for projects you carry on.

Immediate deduction for depreciating assets used in exploration or prospecting

The decline in value of certain depreciating assets you first use for exploration or prospecting for minerals (including petroleum), or quarry materials, obtainable by activities carried on for the purpose of producing assessable income, can be its cost. This means you can deduct the cost of the asset in the year in which you start to use it for such activities to the extent that you use the asset for a taxable purpose.

Where the depreciating asset is a mining, quarrying or prospecting right, you first use for exploration or prospecting for minerals (including petroleum) or quarry materials, an immediate deduction is only available for the asset if you acquire it from an Australian government agency or a government entity.

Where the depreciating asset is mining, quarrying or prospecting information and you first use it for exploration or prospecting for minerals (including petroleum) or quarry materials, an immediate deduction is only available for the asset if one of the following tests are met:

- You acquire the mining, quarrying or prospecting right or mining, quarrying or prospecting information from an Australian Government agency or a government entity.
- You acquire the mining, quarrying or prospecting information is a geophysical or geological data package from an entity which predominantly carries on a business of providing mining, quarrying or prospecting information to other entities.
- You create the mining, quarrying or prospecting information or contribute to the cost of its creation.
- You cause the creation of the mining, quarrying or prospecting information or contribute to the cost of its creation by an entity which predominantly carries on a business of providing mining, quarrying or prospecting information to other entities.

If the mining, quarrying or prospecting right or mining, quarrying or prospecting information doesn't meet the requirements above, then there is no immediate deduction of the cost of that asset and the effective life of the asset is the shorter of either:

- the effective life in the table, if one has been determined (see Effective life of intangible depreciating assets that are mining, quarrying or prospecting rights, or mining, quarrying or prospecting information)
- 15 years.

Immediate deduction for expenditure not part of an asset's cost

An immediate deduction is available for payments of petroleum resource rent tax and for expenditure that doesn't form part of the cost of a depreciating asset and that you incur on either:

- exploration or prospecting for minerals, including petroleum, or quarry materials, obtainable by activities you carry on for the purpose of producing assessable income (see, Taxation Ruling TR 2017/1 *Income tax: deductions for mining and petroleum exploration expenditure*)
- rehabilitation of your mining or quarrying sites.

If the expenditure arises from a non-arm's length dealing and is more than the market value of what the expenditure was for, the amount of the expenditure is taken to be that market value instead.

You may include a recoupment of the expenditure in assessable income.

Farm-in farm-out arrangements

A farm-in farm-out (FIFO) arrangement broadly involves an exchange of an interest in a mining, quarrying or prospecting right in return for an 'exploration benefit'. Usually an entitlement to receive exploration services or to have exploration expenditure the other party funds. The tax treatment of FIFO arrangements, prior to amendments in 2014, is outlined in:

- Miscellaneous Taxation Ruling MT 2012/1 *Miscellaneous taxes: application of the income tax and GST laws to immediate transfer farm-out arrangements*
- Miscellaneous Taxation Ruling MT 2012/2 *Miscellaneous taxes: application of the income tax and GST laws to deferred transfer farm-out arrangements*.

Further amendments in 2015 were necessary to ensure that FIFO arrangements didn't have certain tax consequences where those consequences could impede genuine exploration activity.

Deduction over time for capital expenditure for projects you carry on

Expenditure you incur after 30 June 2001 which doesn't form part of the cost of a depreciating asset and isn't otherwise deductible may be a project amount that you can allocate to a project pool for which deductions are available. To be a project amount, mining capital expenditure or transport capital expenditure must be directly connected with carrying on the mining operations or business, respectively.

Mining capital expenditure is capital expenditure you incur on:

- carrying out eligible mining or quarrying operations
- site preparation for those operations
- necessary buildings and improvements for those operations
- providing or contributing to the cost of providing water, light, power, access or communications to the site of those operations
- buildings you use directly for operating or maintaining plant for treating minerals, or quarry materials, that you obtain from those operations
- buildings and improvements for storing minerals or quarry materials or to facilitate minerals treatment
- certain housing and welfare (except for quarrying operations).

Transport capital expenditure includes capital expenditure on:

- a railway, road, pipeline, port or other facility used principally for transporting minerals, quarry materials or processed minerals (other than wholly within the site of mining operations) or the transport of petroleum in certain circumstances
- obtaining a right to construct or install such a facility
- compensation for damage or loss caused by constructing or installing such a facility
- earthworks, bridges, tunnels or cuttings necessary for such a facility
- as part of carrying on your business, contributions you make to someone else's expenditure on the above items.

For information on how to work out deductions, see using a project pool.

Project pools

Under UCA, you can allocate to a project pool certain capital expenditure that is directly connected with a project you carry on (or propose to carry on) for a taxable purpose and write it off over the project life. Each project has a separate project pool.

The project must be of sufficient substance and be sufficiently identified that it can be shown that the capital expenditure said to be a 'project amount' is directly connected with the project.

You're carrying on a project if it involves some form of continuing activity. The holding of a passive investment such as a rental property would not represent sufficient continuing activity to constitute the carrying on of a project.

The capital expenditure is known as a 'project amount' and is expenditure you incur:

- to create or upgrade community infrastructure for a community associated with the project, you must pay for this expenditure (not just incur it) to be a project amount
- for site preparation costs for depreciating assets (other than draining swamp or low-lying land, or clearing land for horticultural plants)
- for feasibility studies or environmental assessments for the project
- to obtain information associated with the project
- in seeking to obtain a right to intellectual property
- for ornamental trees or shrubs.

Mining capital expenditure and transport capital expenditure (see Mining and quarrying, and minerals transport) can also be a project amount that you can allocate to a project pool and for which you can claim a deduction.

The expenditure must not be otherwise deductible or form part of the cost of a depreciating asset you hold.

If the expenditure you incur arises from a non-arm's length dealing and is more than or less than the market value of what the expenditure was for, the amount of the expenditure is that market value instead.

The deduction for project amounts allocated to a project pool begins when the project starts to operate. For projects that start on or after 10 May 2006 and that only contain project amounts you incur on or after 10 May 2006 the calculation is:

(Pool value **multiplied by**× 200%) **divided by** DV project pool life

The 'DV project pool life' is the project life of a project or the most recent recalculation of the project life of a project.

You calculate the **pool value** for an income year by adding the project amounts you allocate to the pool up to the end of that year *less* the sum of the deductions claims for the pool in previous years (or could claim had you operated the project wholly for a taxable purpose).

The pool value can be subject to adjustments.

If you can claim a GST input tax credit for expenditure you allocate to a project pool, you reduce the pool value in the income year in which you can or become, entitled to the credit by the amount of the credit. Certain increasing or decreasing adjustments for expenditure you allocate to a project pool may also affect the pool value.

If during the 2024–25 income year, you met or otherwise cease to have an obligation to pay foreign currency you incur as a project amount and allocate to a project pool, a foreign currency gain or loss (referred to as a forex realisation gain or loss) may have arisen under the forex provisions. If you incur the project amount in the 2024–25 income year and became due for payment within 12 months after, then adjust the pool value for the income year you incur the project amount by the amount of any forex realisation gain or loss. This is known as 'the 12-month rule'. You're able to elect out of the 12-month rule in limited circumstances, , see Election out of the 12 month rule.

If you elect out of the 12-month rule, don't adjust the pool value , instead, any forex realisation loss is generally deductible, and you include any gain in assessable income.

DV project pool life: You must estimate the project life of your project each year. The project life may not change, but reconsider the question each year. If your new estimate is different from the previous estimate, the DV project pool life you use in the formula is the new estimate project life, not the project life you estimate the previous year.

You calculate the **project life** by estimating how long (in years and fractions of years) it will be from when the project starts to operate until it stops operating. Factors that are personal only to you, such as how long you intend to carry on the project, aren't relevant when objectively estimating project life. Factors outside your control, such as something inherent in the project itself, for example, a legislative or environmental restriction limiting the period of operation, would be relevant.

If there is no finite project life, there is no project and therefore no deduction is available under these rules.

There is no need to apportion the deduction if the project starts to operate during the income year, or for project amounts you incur during the income year.

You reduce the deduction to the extent to which you operate the project for a non-taxable purpose during the income year.

If the project is abandoned, sold or otherwise disposed of in the income year, you can deduct the sum of the closing pool value of the prior income year *plus* any project amounts you allocate to the pool during the income year, after allowing for any necessary pool value adjustments. A project is abandoned if it stops operating and won't operate again.

Your assessable income will include any amount you receive for the abandonment, sale or other disposal of a project.

If you recoup an amount of expenditure you allocate to a project pool or if you derive a capital amount for a project amount or something on which you expend a project amount, you must include the amount in assessable income.

If any receipt arises from a non-arm's length dealing and the amount is more than or less than the market value of what the receipt was for, you're taken to receive that market value instead.

Business related costs – section 40-880 deductions

UCA allows a 5-year write-off for certain business-related capital expenditure, if no other provision either takes the expenditure into account or denies a deduction (known as blackhole expenditure).

Capital expenditure is deductible if you incur it:

- for your business
- for a business that you use to carry on, such as capital expenses you incur in order to cease the business
- for a business you propose to carry on, such as the costs of feasibility studies, market research or setting up the business entity
- as a shareholder, beneficiary or partner to liquidate or deregister a company or to wind up a trust or partnership (and the company, trust or partnership has carried on a business).

If you incur capital expenditure for your existing business, a business that you used to carry on or a business that you propose to carry on, the capital expenditure is deductible to the extent the business is, was or is proposed to be carried on for a taxable purpose.

You can't deduct capital expenditure for an existing business that is carried on by another entity. However, you can deduct capital expenditure you incur for a business that used to be, or is proposed to be, carried on by another entity. The capital expenditure is only deductible to the extent that both:

- the business was, or is proposed to be, carried on for a taxable purpose
- the capital expenditure is in connection with your deriving assessable income from the business and the business that was carried on or is proposed to be carried on.

A 5-year straight-line write-off is allowed for certain capital expenditure incurred to terminate a lease or licence if the expenditure is incurred in the course of carrying on a business, or in connection with ceasing to carry on a business. See Claiming a tax deduction for depreciating assets and other capital expenses.

If you're an individual operating either alone or in partnership, this deduction may be affected by the non-commercial loss rules, see Non-commercial losses.

Example: allowable business related costs

Ralph decides to carry on his existing business through a company. He will continue to carry on the business for a taxable purpose. He will be the only shareholder of the company and he will be entitled to receive all the profits from the business.

Ralph incurs expenses to incorporate the existing business. Legally, he and the company are separate entities. However, Ralph can deduct the incorporation expenses (subject to non-commercial loss rules). This is because the expenditure is for the company to carry on the business and the expenditure is in connection with deriving his assessable income from the business.

The extent to which a business is, was or is proposed to be carried on for a taxable purpose you work out at the time you incur the expenditure. For an existing business or a business proposed to be carried on, you need to take into account all known and predictable facts in all years.

For a business to be 'proposed to be' carried on, you need to be able to sufficiently identify the business and there needs to be a commitment of some substance to commence the business. Examples of such a commitment are establishing business premises, investment in capital assets and development of a business plan. The commitment must be evident at the time the expenditure is incurred. It must also be reasonable to conclude that the business is proposed to be carried on within a reasonable time. This time may vary according to the industry or the nature of the business.

You can't claim a deduction for capital expenditure to the extent to which it:

- can be a deduction under another provision
- forms part of the cost of a depreciating asset you hold, used to hold or will hold
- forms part of the cost of land
- relates to a lease or other legal or equitable right
- would be taken into account in working out an assessable profit or deductible loss
- could be taken into account in working out a capital gain or a capital loss
- would specifically be not deductible under the income tax laws if the expenditure was not capital expenditure
- is specifically not deductible under the income tax laws for a reason other than the expenditure is capital expenditure
- is of a private or domestic nature
- is an amount you incur for gaining or producing exempt income or non-assessable non-exempt income
- is an amount to exclude from the cost or cost base of an asset because, under special rules in UCA or the CGT regimes respectively, the cost or cost base of the asset is to be the market value
- is a return of, or on, capital (for example, dividends paid by companies or distributions by trustees) or a return of a non-assessable amount (for example, repayments of loan principal).

The amount of the expenditure is taken to be market value if the expenditure both:

- arises from a non-arm's length dealing
- is more than the market value of what the expenditure was for.

You deduct 20% of the expenditure in the year you incur it and in each of the following 4 years.

Certain start-up expenditure is fully deductible in the income year you incur it if either:

- you're a small business entity, or would be if the aggregated turnover threshold was less than $50 million
- you're not in business in the income year and aren't connected with, or an affiliate of, an entity that carries on a business that isn't a small business entity or has an aggregated turnover of more than $50 million.

See, Certain start-up expenses immediately deductible.

Even if the business ceases or the proposed business doesn't commence (for example, if there is an unforeseen change in circumstances), you may claim the deduction over the 5 years. You can claim deductions for expenditure for a proposed business before you carry on the business. However, if you're an individual taxpayer, the non-commercial loss rules may defer your deductions for pre- and post-business expenditure, see Non-commercial losses.

You may include a recoupment of the expenditure in your assessable income.

Carbon sink forests

You can claim a deduction, subject to certain conditions, for the expenditure you incur in establishing trees in a carbon sink forest. You can claim a maximum capital write-off rate of 7% of the expenditure incurred in establishing the trees (conditions apply).

You'll find the rules in Subdivision 40-J of the ITAA 1997 and in Claiming a deduction for carbon sink forest.

Small business entity concessions

Eligibility for small business entity concessions, simplified depreciation rules and rollover relief.

In this section

Eligibility for concessions

Simplified depreciation rules

Rollover relief

Eligibility for concessions

Small business entities may qualify for a range of tax concessions. You're a small business entity for an income year if both of the following apply:

- you carry on a business in that year
- you have an aggregated turnover of less than $10 million.

The aggregation rules use the concepts of 'connected with' (which is based on control) and 'affiliates' to determine whether the turnover of any related business needs to be included in the aggregated turnover of your business.

Businesses that aren't small businesses because their aggregated turnover is $10 million or more but less than $50 million can access an immediate deduction for certain start-up expenses and for prepaid expenditure.

If you're a small business entity, you may be eligible for small business deductions such as the following.

Simplified depreciation rules

If you're an eligible small business entity, you may choose to calculate deductions for your depreciating assets using these rules.

Small business entities can claim an immediate deduction for eligible depreciating assets under the instant asset write-off limit.

For an asset which you claim a 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 you incur after the end of the income year the asset was written off
- less than the instant asset write-off limit
- incurred between 1 July 2024 and 30 June 2025

Other depreciating assets and cost additions are pooled in a general small business pool and deducted at the rate of 30%. Newly acquired assets are deducted at 15% (half the pool rate) in the first year, regardless of when they were acquired during the year.

The limit at which a small business writes off the total balance of the general small business pool is aligned with the relevant instant write-off limit.

There have been changes to the instant asset write-off limit over recent years. See, Small business support – instant asset write off.

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 (for example, you can't opt out of instant asset write-off)
- only claim a deduction for the portion of the asset you use for business or other taxable purposes and not for the portion for private use.

If you don't want to apply the instant asset write-off, you need to opt out of the simplified depreciation rules for the 2024–25 income year.

If you choose to opt out of the simplified depreciation rules, for assets you allocate to the general small business pool, you must continue to apply the simplified depreciation rules.

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

5-year lock out rule

The 5-year 'lock out' rule is suspended until 30 June 2025. This rule prevented small business entities from re-entering the simplified depreciation regime if they opted out.

If you are a small business entity that had previously chosen to use these simplified depreciation rules but in a later year chose to stop using this concession, you can again choose to use the simplified depreciation rules until 30 June 2025.

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

For more information, see Simpler depreciation for small business.

Rollover relief

As part of the small business tax concessions, you may be able to defer any gain or loss resulting from a transfer of a depreciating asset between entities with the same economic ownership under the small business restructure rollover concessions, which apply from 1 July 2016.

Modifications, under the Commissioner's remedial power, may apply to the asset disposal to prevent unintended tax consequences where both:

- a transfer takes place on or after 8 May 2018
- the asset you transfer satisfies conditions under a small business restructure rollover.

For more information, see:

- Small business restructure rollover
- Commissioner's remedial power CRP 2017/2 *Taxation Administration (Remedial Power – Small Business Restructure Roll-over) Determination 2017*.

Certain start-up expenses immediately deductible

When certain start-up expenses are immediately deductible under section 40-880 of the ITAA 1997.

In this section

Section 40-880

Professional advice and services relating to structure and operations

Payments to Australian Government agencies

Eligible taxpayers

Assets for which deductions are claimed under UCA

Capital expenditure deductible under UCA

In-house software

Primary producers

Section 40-880

Section 40-880 of the *ITAA 1997* allows certain start-up expenditure to be immediately deductible if **all** the following apply:

- it relates to a business that you propose to carry on
- you incur the expenditure either
  - in obtaining advice or services relating to the structure you propose or the operation of the business you propose
  - in payment to an Australian Government agency of fees, taxes or charges relating to setting up the business or its operating structure
- in that income year in which you claim the deduction, you either
  - were a small business entity, or would be a small business entity if the aggregated turnover threshold was less than $50 million
  - didn't carry on a business and were not connected with, or an affiliate of, an entity carrying on a business that was not a small business entity or had an aggregated turnover of more than $50 million.

Professional advice and services relating to structure and operations

Professional advice and services that may be deductible under this section include:

- advice from a lawyer or accountant on how to best structure the business
- services such individuals or firms may provide in setting up legal arrangements or business systems for such structures.

It doesn't include the cost of acquiring assets that the business may use.

Similarly, advice and services in relation to the operation of the business you propose includes professional advice on the viability of the business. It also includes due diligence where you purchase an existing business and the development of a business plan.

Payments to Australian Government agencies

Payments of taxes, fees or charges relating to establishing the business or its structure to an Australian Government agency may be immediately deductible under this section.

An Australian Government agency is a Commonwealth, state or territory government (or an authority of these). Local governments are an authority of the relevant state or territory government.

Broadly, this category of expenditure includes regulatory costs you incur in setting up the new business. Examples include the costs associated with creating the entity that may operate the business (such as the fee for creating a company) and costs associated with transferring assets to the entity which is intended to carry on the proposed business (for example, the payment of stamp duty).

It doesn't include expenditure relating to taxes of general application such as income tax. The payment of these general taxes doesn't relate to establishing a business or its structure but instead to the operation and activities of the businesses. Such general taxes are also not normally deductible under section 40-880 of the *ITAA 1997*.

Eligible taxpayers

Immediate deductibility is also limited to expenditure by certain entities, with the effect of excluding expenditure incurred by larger businesses.

If you carried on a business in the income year, you must be a small business entity or would be a small business entity if the aggregated turnover threshold was less than $50 million.

A small business entity is broadly defined under tax law as an entity that carries on a business and has an aggregate annual turnover of less than $10 million.

Alternatively, if you don't carry on a business in the income year, you must not be connected with or be an affiliate of another entity that carries on a business in the income year if:

- that other entity isn't a small business entity
- that other entity would not be a small business entity if the aggregated turnover threshold was less than $50 million.

Example: start-up expense which can be immediately deducted

Winston Co is a company that is a small business entity and is in the process of setting up a florist business that a separate entity will operate. Winston Co is uncertain as to the best location for the business they are proposing.

Winston Co obtains advice from a consultant to assist in determining a suitable location. The cost of obtaining this advice is fully deductible in the income year in which Winston Co incurs it.

Example: capital expenditure which can't be immediately deducted

Percy already carries on an established small landscaping business. As part of plans to expand and improve his business Percy obtains financial advice about financing the expansion.

As Percy's business is already established, Percy won't be able to claim an immediate deduction for the expense as it isn't a start-up cost. However, Percy may be able to claim a deduction over 5 years, see Business related costs – section 40-880 deductions.

Assets for which deductions are claimed under UCA

For some depreciating assets, you must claim deductions under UCA rather than under the simplified depreciation rules. These depreciating assets include:

- assets you allocate to a low-value or a common-rate pool before you start using the simplified depreciation rules (those assets must remain in the pool and you must claim deductions under UCA)
- horticultural plants
- in-house software where the development expenditure is allocated to a software development pool
- assets you lease out, or are expected to be leased out, for more than 50% of the time on a depreciating asset lease. (This doesn't apply to depreciating assets subject to hire purchase agreements, or short-term hire agreements on an intermittent hourly, daily, weekly or monthly basis where there is no substantial continuity of hiring.)

Depreciating assets used in rental properties are generally excluded from the simplified depreciation rules on the basis that they are subject to a depreciating asset lease.

You can't deduct an amount for a decline in value of second-hand depreciating asset in a residential rental property under the simplified depreciation rules if the amount isn't deductible under UCA.

Capital expenditure deductible under UCA

As the simplified depreciation rules apply only to depreciating assets, you can deduct certain capital expenditure a small business entity incurs that doesn't form part of the cost of a depreciating asset under UCA for deducting capital expenditure.

This includes capital expenditure on certain business-related costs and amounts directly connected with a project.

In-house software

Under UCA, you can choose to allocate to a software development pool expenditure you incur in developing (or having another entity develop) in-house software you intend to use solely for a taxable purpose. Once you allocate expenditure on such software to a pool, you must allocate all such expenditure you incur thereafter (in that income year or in a later year) to a pool.

If you allocate such expenditure to a software development pool either before or since using the simplified depreciation rules, you must continue to allocate such expenditure to a software development pool and calculate your deductions under UCA.

You can capitalise it into the cost of the unit of software developed and claim deductions for the unit of in-house software under the simplified depreciation rules when you start to use it (or install it ready for use) for a taxable purpose, if you either:

- have not previously allocated such expenditure to a software development pool and you choose not to do so this year
- incur the expenditure in developing in-house software that you don't intend using solely for a taxable purpose.

Deductions for in-house software you acquire off the shelf as a small business entity for use in your business are also available under the simplified depreciation rules.

For information on the deductibility of website expenses, see Taxation Ruling TR 2016/3 *Income tax: deductibility of expenditure on a commercial website*.

Primary producers

A small business entity can choose to claim deductions under either the simplified depreciation rules or UCA for certain depreciating assets used in the course of carrying on a business of primary production.

The choice is available for:

- water facilities
- fencing assets
- fodder storage assets
- depreciating assets relating to
  - landcare operations
  - electricity connections and phone lines.

You can choose to claim your deductions under the simplified depreciation rules or UCA for each depreciating asset. Once you have made the choice, you can't change.

Record keeping and worksheets for depreciating assets

Records to keep and worksheets for depreciating assets, low-value pools and rollover relief available under UCA.

In this section

Records to keep for a depreciating asset

Record keeping for low-value pools

Record keeping for rollover relief

Worksheets for depreciating assets and low-value pools

Records to keep for a depreciating asset

You must keep records that show all the following information for each depreciating asset:

- the first and second elements of cost
- the opening adjustable value for 2024–25
- any adjustments made to cost or adjustable value
- the date you start holding the asset and its start time
- the rate or effective life you use to work out the decline in value
- the method you use 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 closing adjustable value for 2024–25
- any recoupment of cost you include in assessable income
- if a balancing adjustment event occurs for the asset in 2024–25, show
  - the date of the balancing adjustment event
  - the termination value
  - the adjustable value on the date of the balancing adjustment event
  - 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 work out the effective life of a depreciating asset where you don't use the effective life determined by the Commissioner
- if you recalculate the effective life of an asset, keep
  - the date of the recalculation
  - the recalculated effective life
  - the reason for the recalculation
  - details of how you work out the recalculated effective life
- original documents such as suppliers' invoices and receipts for expenditure on the depreciating asset.

You must keep additional records if either:

- you acquire an asset from an associate
- you acquire a depreciating asset and either
  - the new user is the same as the former user
  - the new user is an associate of the former user.

See Depreciating asset you acquire from an associate and Sale and leaseback arrangements.

Failure to keep proper records will attract penalties.

Record keeping for low-value pools

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

- the date you start holding the asset
- the date the asset starts in the low-value pool
- the closing low-value pool balance at the end of 2023–24
- any second element of cost you incur in 2024–25 for assets in the pool at the end of 2023–24
- the opening adjustable value of any low-value asset you allocate to the pool in 2024–25
- the first element of cost of any low-cost asset you allocate to the low-value pool in 2024–25
- the second element of cost of low-cost assets and low-value assets you allocate to the low-value pool in 2024–25
- the taxable use percentage of each amount you add to the pool in 2024–25
- the termination value and the taxable use percentage for assets in the pool for which a balancing adjustment event occurs in 2024–25
- the income year and the date of the balancing adjustment event
- the closing pool balance
- the decline in value
- any amount you include in assessable income because the taxable use percentage of the termination value exceeds the closing pool balance
- any recoupment of cost you include 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 allocate to a low-value pool and expect to use for a non-taxable purpose.

If either of the above occurs, you must keep records that show the:

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

Keep records about a depreciating asset allocated to a low-value pool for 5 years, starting from the end of the income year in which you allocate the asset 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, keep the records of the cost for a period of 5 years from the time you incur the expenditure.
- Keep records of acquisitions relating to delayed claims for GST input tax credits for at least 5 years after lodgment. If a claim for input tax credits relates to a depreciating asset in a low-value pool, keep the record of acquisition for 5 years from a date which begins later than the end of the income year in which you allocate the asset 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 UCA apply to the transferee's holding of the depreciating asset
- within 6 months after the end of the transferee's income year in which the balancing adjustment event occurs unless the Commissioner allows a longer period.

The transferee must keep a copy of the notice for 5 years after the asset is:

- disposed of
- lost
- destroyed.

If a transferor and transferee jointly choose rollover relief, the decision must be all the following:

- in writing
- contain enough information for the transferee to work out how UCA or the simplified depreciation rules apply to the transferee's holding of the depreciating asset
- made within 6 months after the end of the transferee's income year in which the balancing adjustment event occurred unless the Commissioner allows a longer period.

The transferor must keep a copy of the agreement for 5 years after the balancing adjustment event occurs.

The transferee must keep a copy of the agreement for 5 years after the next balancing adjustment event that occurs for the asset.

Worksheets for depreciating assets and low-value pools

Get the worksheets and worksheet guidelines for depreciating assets and low-value pools.

Worksheet 1: Depreciating assets

Download worksheet 1: Depreciating assets (PDF 50 KB).

Primary production only and **Non-primary production only**. Use a separate worksheet for each category.

Cost: The cost of a depreciating asset includes the first and second elements of cost. You must adjust the cost of an asset in certain circumstances, such as when the first element of a car's cost exceeds the car limit. If you have adjusted the cost of the asset, include the adjusted cost in this column, see Cost of a depreciating asset.

Opening adjustable value and **Adjustable value at end of year:** The adjustable value of a depreciating asset at any time is its cost reduced by any decline in value up to that time. The opening adjustable value of an asset for an income year is generally the same as its adjustable value at the end of the previous income year.

Balancing adjustment events: Generally, a balancing adjustment event occurs for a depreciating asset when you stop holding it (for example, if you sell it) or when you stop using it and you expect never to use it again, see What happens if you no longer hold or use a depreciating asset?

Termination value: Generally, the termination value is what you receive or are taken to have received for the asset as a result of a balancing adjustment event, such as the proceeds from selling the asset, see Termination value.

Balancing adjustment amounts: If the asset's termination value is greater than its adjustable value, the excess is generally an assessable balancing adjustment amount. If the termination value is less than the adjustable value, the difference is a deductible balancing adjustment amount. If you use the asset for a non-taxable purpose, you reduce the balancing adjustment amount and a capital gain or capital loss may arise, see Depreciating asset used for a non-taxable purpose.

Balancing adjustment relief: This refers to the offsetting of otherwise assessable balancing adjustment amounts for involuntary disposals (see Involuntary disposal of a depreciating asset) or when rollover relief applies, see Rollover relief.

Decline in value: There are 2 methods of working out the decline in value of a depreciating asset, prime cost and diminishing value, see Methods of working out decline in value.

Effective life and **Percentage rate:** Both the prime cost and diminishing value methods are based on a depreciating asset's effective life, see Effective life of a depreciating asset. However, if you're able to use accelerated rates of depreciation (for example, under Backing business investment – accelerated depreciation) you use the relevant percentage rate to work out the decline in value rather than the effective life.

Taxable use percentage: This is the proportion of your use of a particular depreciating asset for a taxable purpose.

Deduction for decline in value: Your deduction for the decline in value of the asset is the decline in value reduced to the extent you used the asset for a non-taxable purpose, see Decline in value of a depreciating asset used for a non-taxable purpose. Your deduction may also be reduced if the asset is a leisure facility or a boat.

Worksheet 2: Low-value pool

Download worksheet 2: Low-value pool (PDF 53KB).

Description of low-value asset: In this column include a brief description of any low-value assets you allocate to the pool for the current year. A low-value asset is a depreciating asset (other than a horticultural plant) that isn't a low-cost asset but that has an opening adjustable value of less than $1,000 worked out using the diminishing value method.

Opening adjustable value of low-value asset: The adjustable value of any depreciating asset at any time is its cost (first and second elements) reduced by any decline in value up to that time. The opening adjustable value of an asset for an income year is generally the adjustable value at the end of the previous income year.

Taxable use percentage: When you allocate an asset to a low-value pool, you must make a reasonable estimate of the percentage of your use of the asset that will be for a taxable purpose over its effective life (for a low-cost asset) or its effective life remaining at the start of the income year it was allocated to the pool (for a low-value asset).

Reduced opening adjustable value of low-value asset: This is the taxable use percentage of the opening adjustable value of any low-value asset you have allocated to the pool for the income year.

Description of low-cost asset or second element of cost of asset in pool: In this column include a brief description of any low-cost assets you allocated to the pool for the income year. A low-cost asset is a depreciating asset (other than a horticultural plant) whose cost (first and second elements) as at the end of the year in which the start time occurred is less than $1,000. Also show in this column a description of any amounts included in the second element of cost of any assets in the pool at the end of the previous year and of any low-value assets allocated for this year. The second element of an asset's cost is capital expenditure on the asset which is incurred after you start to hold it, such as a cost of improving the asset, see Cost of a depreciating asset.

Cost of low-cost asset and second element of cost: Include the cost after you have made any adjustments, such as for GST input tax credits, see Cost of a depreciating asset.

Reduced cost of low-cost asset or second element of cost: This is the taxable use percentage multiplied by:

- the cost of each low-cost asset you allocated to the pool for the income year
- any amounts included in the second element of cost for the income year for assets in the pool at the end of the previous year
- low-value assets which you allocated to the pool in the current income year.

Balancing adjustment events: Generally, a balancing adjustment event occurs for a depreciating asset if you stop holding it (for example, if you sell it) or you stop using it and you expect never to use it again, see What happens if you no longer hold or use a depreciating asset?

Termination value: Generally, the termination value is what you receive or are taken to have received for the asset as a result of a balancing adjustment event, such as the proceeds from selling the asset, see Termination value.

Reduced termination value: This is the taxable use percentage of the asset's termination value. Use the taxable use percentage you estimated when you allocated the asset to the pool. This reduced termination value decreases the amount of the closing pool balance. If it exceeds the amount of the closing pool balance, make that balance zero and include the excess in assessable income. If you use the asset for a non-taxable purpose, a capital gain or capital loss may arise when a balancing adjustment event occurs for the asset, see Balancing adjustment event for a depreciating asset in a low-value pool.