TD 93/142 - Income tax: in calculating the residual value of a leased item, may a lower residual value than those outlined in IT 28 be adopted in light of the more generous depreciation rates?

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This Determination, to the extent that it is capable of being a 'public ruling' in terms of Part IVAAA of the *Taxation Administration Act 1953*, is a public ruling for the purposes of that Part . Taxation Ruling TR 92/1 explains when a Determination is a public ruling and how it is binding on the Commissioner. Unless otherwise stated, this Determination applies to years commencing both before and after its date of issue. However, this Determination does not apply to taxpayers to the extent that it conflicts with the terms of a settlement of a dispute agreed to before the date of issue of the Determination (see paragraphs 21 and 22 of Taxation Ruling TR 92/20).

Taxation Determination

Income tax: in calculating the residual value of a leased item, may a lower residual value than those outlined in IT 28 be adopted in light of the more generous depreciation rates?

1. No. The residual value of a leased item should reflect its market value at the end of the lease, not its written-down value.

2. The table at para. 20 of IT 28 is intended to be a rough guide to the minimum market value of items with different effective lives. It is based on a straight-line amortisation of the cost of an item over its effective life, requiring a minimum residual value of 75% of the cost written down in that way. It is not based on actual depreciation allowable, whether by the diminishing value method or at accelerated or broadbanded rates, although the table in IT 28 was set out, for convenience, according to prime cost depreciation rates.

3. A table based on effective lives, rather than depreciation rates, is set out below and applies to leases entered into before 1 July 2018.

Minimum residual values – percentage of cost

	Plant and machinery classified according to effective life in years					
	5	6.66	8	10	13.3	20
Total leased period						
1 year	60	63.75	65.63	67.5	68.5	70
2 years	45	52.5	56.25	60.0	62.5	65
3 years	30	41.25	46.88	52.5	55.0	60
4 years	15	30.0	37.50	45.0	50.0	55
5 years	nil	18.75	28.13	37.5	45.0	50

3A. The following table corrects the figures for the 13.3 and 20-year effective life columns and applies to leases entered into after 30 June 2018:

Minimum residual values – percentage of cost

	Plant and machinery classified according to effective life in years					
	5	6.66	8	10	13.3	20
Total leased period						
1 year	60	63.75	65.63	67.5	69.83	71.25
2 years	45	52.5	56.25	60.0	63.75	67.50
3 years	30	41.25	46.88	52.5	58.13	63.75
4 years	15	30.0	37.50	45.0	52.50	60.00
5 years	nil	18.75	28.13	37.5	46.88	56.25

The figures in the above table follow the methodology set out in paragraph 2 of this Determination which can also be expressed as:

> Minimum residual value as a percentage of cost = 75% - [(75% / Effective life) x Total leased period]

3B. The first column in the table set out in paragraph 3A of this Determination titled 'Total leased period' provides that the minimum residual value should be calculated based on the total number of years the asset has been leased for, whether this has resulted from a single lease or multiple lease agreements. The minimum residual value should be calculated using the cost of the asset at the commencement of the total lease period.

4. A residual value lower than those outlined in the applicable table may be used where a well considered and fair estimate of the likely market value of the item at the end of the lease would result in a lower value.

Example 1

5. *An asset with an effective life of 20 years, acquired after 26 February 1992 and before 1 July 2001, is leased for 4 years.*

The 20-year effective life column in the table in paragraph 3 of this Determination should be used to determine an acceptable minimum residual value, even though the prime cost rate of depreciation for such an asset would now be 13%. In the absence of evidence indicating that the asset would have a lower market value at the end of the lease, the minimum acceptable residual value for the item would be 55% of the cost of the asset.

Example 2

6. *A car with an effective life of 8 years, acquired on 1 July 2012, is leased for 5 years.*

Using the 8-year effective life column in the table at paragraph 3 the minimum residual value will be 28.13% of the cost of the car. This percentage of cost was determined as follows:

> Minimum residual value as a percentage of cost = 75% - [(75% / 8) x 5] = 28.13%

In the absence of evidence indicating that the car would have a lower market value at the end of the lease, the minimum acceptable residual value for the car would be 28.13% of the cost of the car.

Example 3

7. *A car with an effective life of 8 years is acquired after 30 June 2018 and leased for a period of 1 year. At the conclusion of that lease, a new lease is entered for 2 years. Using the 8-year effective life column in the table in paragraph 3 of this Determination and the total leased period of 3 years, the minimum residual value will be 46.88% of the cost of the car. The table applies the same irrespective of whether the car is leased through the same leasing company or another leasing company.*

Commissioner of Taxation
22/7/93

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