



PS LA 2004/12 - Consolidation - general shortcuts for resetting the tax cost under Division 705 of the Income Tax Assessment Act 1997 for depreciating assets for which the decline in value is worked out under Division 40 of that Act

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Practice Statement Law Administration

PS LA 2004/12

This Practice Statement is an internal ATO document and an instruction to ATO staff.

Taxpayers can rely on this Practice Statement to provide them with protection from interest and penalties in the following way. If a statement turns out to be incorrect and taxpayers underpay their tax as a result, they will not have to pay a penalty, nor will they have to pay interest on the underpayment provided they reasonably relied on this Practice Statement in good faith. However, even if they do not have to pay a penalty or interest, taxpayers will have to pay the correct amount of tax provided the time limits under the law allow it.

SUBJECT:	Consolidation – general shortcuts for resetting the tax cost under Division 705 of the <i>Income Tax Assessment Act 1997</i> for depreciating assets for which the decline in value is worked out under Division 40 of that Act
PURPOSE:	To set out approaches to general shortcuts that are acceptable to the ATO

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BACKGROUND AND CONTEXT

1. This Practice Statement applies to those depreciating assets whose decline in value is worked out under Division 40 of the *Income Tax Assessment Act 1997* (ITAA 1997) and to which subsection 701-55(2) of the ITAA 1997 applies. These assets will be referred to as ‘depreciating assets’ in this Practice Statement. The references to tax written down values should be read as references to ‘adjustable value’ or ‘terminating value’, as appropriate. All legislative references in this Practice Statement are to the ITAA 1997, unless otherwise indicated.
2. Some corporate groups and their advisers are reporting practical difficulties in seeking to comply with the strict letter of the requirements of Division 705 when allocating their allocable cost amounts (ACA) across depreciating assets on an asset-by-asset basis.
3. Some corporate groups hold many thousands of such assets. Moreover, many corporate groups operate different fixed asset systems across different divisions, usually due to acquisitions, different site locations and other historical reasons.
4. Taxpayers forming consolidated groups have been weighing up the transitional costs and benefits of not sticking with existing tax values for depreciating assets on formation against the costs of undertaking this work and have, in some cases, opted to stick with existing tax values. It was always envisaged that this ‘stick’ approach during transition would provide a cost-effective way of transferring assets into consolidated groups. However, the ATO appreciates that many groups will want to avail themselves of the tax concessions that can arise under the law when they reset the tax values of their assets during the transitional period.
5. Capital allowance deductions are a significant tax deduction item across corporate groups and the integrity of the underlying processes to calculate

these deductions is important for the integrity of the tax base. This is particularly important for consolidating groups that seek to obtain the benefit of an uplift in asset tax values. Their systems, processes and records need to be adequate to demonstrate entitlement and assure all parties that the benefit is not being abused.

6. The ATO also needs to ensure that the systems and approaches used by taxpayers do not undermine other aspects of previous tax reforms in relation to the removal of accelerated depreciation and broadbanding and the review of effective lives. The ATO could not accept a shortcut approach that had the effect of undoing these other law changes or that was likely to have the effect of conferring a benefit over and above the benefit that would be obtained from a precise application of the law.
7. In its compliance casework, the ATO will continue to undertake risk reviews of uplifts in asset tax values in the context of consolidation. Reviews will cover:
 - the calculations
 - the assumptions used
 - any significant increases in capital allowance deductions
 - the processes used to calculate these amounts
 - the allocation of the uplift between classes of assets, and
 - the oversight processes used by groups.
8. The ATO objective in these reviews is to gain assurance that the outcomes of the approach adopted by consolidating groups in resetting asset tax values are in line with the intent of Divisions 705 and 40. The ATO will take corrective action in any case where the approach adopted is not able to be audited or the audit activity reveals material discrepancies.
9. Where the necessary systems are in place and the information is accessible without major practical difficulties, the ATO expects that those systems will be used and that there will be a very high degree of precision in the allocation of reset asset tax values to depreciating assets. It is not acceptable for taxpayers with good systems to do precise calculations and shortcut calculations and 'cherry pick' the best tax outcomes.
10. In cases where there are practical difficulties, the ATO expects taxpayers to use best endeavours to deal with the difficulties and arrive at an allocation that is as close as practicable to what is required by the law. The ATO expects that particular attention will be given to the group's major or significant assets. The ATO also expects that those best endeavours and reasonable approaches will include recourse, as necessary, to sound market valuation principles, techniques and allocation processes to identify reliable substitutes for the process envisaged by the law. The substitute processes must be able to produce outcomes that give a high level of confidence that there are no material discrepancies.

STATEMENT

What the law requires in resetting tax values and effective lives for depreciating assets when consolidating – the 4 main steps

11. The legislation sets out 4 main steps that operate in sequence for consolidating entities that wish to reset the tax values of depreciating assets:

(a) Step 1 – Resetting the tax values

This involves working out how much of the ACA for an entity should be allocated to the depreciating assets having regard to their market value.

(b) Step 2 – Allocation of the appropriate proportion of the ACA for the entity to the various depreciating assets on an asset-by-asset basis

(c) Step 3 – Applying the tax cost setting amount (TCSA) limiters and redistributing or foregoing the remaining unallocated part of the ACA applicable to the depreciating assets as a result of Steps 1 and 2

The cost setting limiters are included in

- section 705-40 (which limits the uplift for depreciating assets, trading stock and revenue assets to the greater of the market value and the joining entity's terminating value for the asset)
- sections 701-80 and 705-45 (which allow a consolidating entity to choose between preserving accelerated depreciation at the loss of any uplift in value or taking advantage of the uplift)
- section 705-50 (which reduces the uplift in cases where depreciation benefits have given rise to unfranked or partly franked dividends that were not distributed to and fully taxed in the hands of an individual taxpayer), and
- section 705-57 (which reduces the uplift in certain cases where assets are un-grandfathered for capital gains tax purposes).

(d) Step 4 – Continuing or resetting the write-off rate for the value of each depreciating asset in accordance with subsection 701-55(2)

Where the taxpayer was using the prime cost method and there is no uplift in the value of an asset under steps 1, 2 and 3, the consolidated group can continue to write-off the asset over the part of the effective life of that asset that remained at the time of consolidation. If there is an uplift, a new effective life has to be chosen using the effective life options available under the law.

Where the diminishing value method was being used in respect of an asset, the law requires the consolidated group to use the effective life previously being used for that asset and calculate the annual write-off on that basis.

12. Some taxpayers have raised with the ATO concerns they have about their ability to apply the legislation on an asset-by-asset basis (at least the ability to apply the law to all their assets) and have asked the ATO to specify acceptable alternatives. Other taxpayers have asked whether the ATO would accept a single-line adjustment for depreciation to reflect the overall asset value uplift for depreciating assets that can arise in the context of forming a consolidated group for tax purposes.

13. This Practice Statement sets out the streamlined approaches that the ATO will accept in relation to the 4 main steps set out in paragraph 11 of this Practice Statement, together with any relevant qualifications.

When can taxpayers use the general shortcuts

14. General shortcuts are not available where taxpayers have the systems and processes in place to directly apply the requirements of the law and arrive at precise calculations. Where the taxpayer has precise information in relation to some assets, it is expected that precise calculations will be made and the application of the shortcuts limited to the other depreciating assets.
15. Shortcuts are not to be applied to the major or significant assets within the group. While the description does not lend itself to exhaustive definition, a major or significant asset is one that, based on an objective business assessment in the context of the particular business, is central, integral or a key part of the business or it represents a significant component of the net identifiable assets. It is expected that major or significant assets will represent the bulk of the value in relation to the fixed asset register.
16. The ATO expects comprehensive documentation of the approaches used in applying any shortcuts.
17. The general shortcuts will be available in appropriate cases for the transition into a consolidated group, including in the case of late adopters. The ATO expects that the systems and processes used to allocate the uplift or reduction for the purposes of the ACA calculation are able to be audited, both by the corporate group and the ATO, to ensure they properly support the collection and recording of relevant information, enable tax deductions to be properly calculated and do not produce material errors.
18. The general shortcuts set out in this Practice Statement are not a substitute for proper systems and processes that are free of material errors. Where taxpayers have weaknesses in their systems and processes, the ATO expects taxpayers to make appropriate adjustments when preparing their tax returns and that improvements to their systems and processes will be progressively made.
19. Some suggested general shortcuts have been rejected on the basis that they:
- do not provide sufficient confidence in relation to the setting of effective life or the continuity of prime cost or diminishing value accounting
 - present long-term compliance assurance issues, or
 - raise the possibility of a material cost to the revenue that was not intended by the legislation.
20. The method involved in implementing any shortcut has to be appropriate to the asset mix, the nature of the categories of asset within that mix and the materiality of the amounts involved. It must have regard to the spread of values across the asset register and the categories of assets within it. It also needs to have regard to the range of effective lives of assets within the register and how that pattern relates to the spread of values. The method may require separate approaches to different categories of assets with the outcomes being combined to produce the proper allocation of uplift or reduction across the full range of depreciating assets. The higher the asset values and the wider the spread of effective lives, the more care is needed and the more exacting the approach that is required.

What are the general shortcuts

Step 1: Resetting the tax value

21. The starting point for the application of acceptable shortcuts is that the taxpayer has properly determined the proportion of the ACA that is properly attributable to depreciating assets, due allowance having been made for other classes of asset, including goodwill, revenue assets and trading stock.
22. The ATO has provided guidance on the resetting of tax cost in the [Consolidation reference manual](#) (the Manual) at [section C2](#)
23. In some cases, valuations have been undertaken on a basis that is inconsistent with the existing fixed assets register. For example, a warehouse may be valued as a single item, whereas the register may show the gantry crane and other items of plant separately. Taxpayers will need to reconcile the 2 on a reasonable basis using soundly based methodologies and ensure that the process is documented and auditable.

Step 2: Allocation of allocable cost amounts to depreciating assets on an asset-by-asset basis

24. Depending on market values, some depreciating assets (or groups of assets) within particular joining entities may in reality experience an increase in their reset tax values, while others may experience a decrease.
25. To the extent that precise information is available, it should be used to allocate ACA to individual assets in order to reduce the risk of error. The approved shortcuts can then be applied to the remaining depreciating assets.
26. In some cases, taxpayers may be able to demonstrate that certain categories of assets have either increased or decreased in value but may not be able to say what the increase or decrease is in relation to each particular asset within the category. Set out in this Practice Statement is a set of shortcuts the ATO will accept for dealing with such categories.
27. For the ATO to be able to accept a shortcut based on a category of assets, it has to be satisfied that an asset-by-asset approach is not practicable and that the category contains assets that have sufficient similarity in their characteristics and use such that an approach based on the category is unlikely to produce anomalies or material errors.

(i) Identify assets that were subject to accelerated depreciation and reduce uplift where accelerated depreciation is preserved

28. A key plank of the consolidation measure is that where there is an uplift in the tax cost of a depreciating asset, and an entity elects to retain the uplift, the taxpayer is then not able to use the accelerated write-off that was available prior to 11:45 am (AEST) on 21 September 1999. Alternatively, a group may choose to preserve accelerated depreciation, within the limits of the grandfathering provisions, and forego the uplift in value that would otherwise be available for those assets under consolidation, without being able to reassign that uplift to other assets. (Refer to sections 701-80 and 705-45.)
29. A head company will therefore need to identify all the group assets that were the subject of accelerated depreciation. Since not all assets acquired prior to 11:45 am on 21 September 1999 qualify for accelerated depreciation (assets that are not plant are excluded), it is accepted that regard would have to be had to the depreciation rate previously applicable and the acquisition dates to assist this process. The head company will need to record any choice it makes to preserve

accelerated depreciation. The amount of the uplift that would otherwise apply to those assets is lost and cannot be spread among other assets.

30. Where a taxpayer is unable to identify an asset subject to accelerated depreciation, the ATO cannot accept an approach that seeks to preserve that benefit because the consequential reduction in ACA required by the law cannot be audited. The only option for the taxpayer is to treat its assets as falling outside the accelerated depreciation regime. In this way, the taxpayer receives the benefit of the uplift but must choose a new effective life or continue to use the previous effective life of those assets as set out in this Practice Statement.

(ii) Allocate the allocable cost amount balance to assets not subject to accelerated depreciation

(a) Exclude major or significant assets from shortcuts and apply legislative requirements to them

31. Major or significant assets not subject to accelerated depreciation should then be identified and specific calculations done to determine the uplifts or reductions applicable to them. Effective life should be established by reference to each major or significant asset, ensuring that there is consistency of method between the joining entity and the head company for working out the decline in value and taking account of Taxation Rulings IT 2685 *Income tax: depreciation* and TR 2022/1 *Income tax: effective life of depreciating assets*, and the statutory rates as appropriate depending on the date the asset was acquired by the joining entity. So, for example, if diminishing value was used by the joining entity prior to consolidation, that method should be used by the head company post-consolidation.

(b) Separate non-major or significant assets into diminishing value and prime cost categories and allocate the allocable cost amount on basis of respective book values for these categories

32. The remainder of the assets in the fixed asset register can then be separated into those to which the diminishing value method was being applied and those to which the prime cost method was being applied. The balance of the ACA uplift or reduction amount is then allocated to each of the categories on a pro rata basis.
33. The ATO expects, generally speaking, that in the context of a shortcut method, the allocation to each of the categories of asset would be based on the respective book values since the relationship of these values to the corresponding market values is likely to be closer than is likely to be the case with the respective tax written down values.
34. This approach is acceptable on the proviso that the book values have been properly established in accordance with the accounting standards and acceptable, reliable approaches to valuation that do not inappropriately skew the allocation of ACA.
35. In cases where the asset has been completely written off for accounting purposes, taxpayers may need to prepare their allocation on an adjusted book value basis, having regard to the realisable value of any asset that has been completely written off. Taxpayers will need to fully document any adjustments to book values and the precise allocation approach used to attribute the uplift or reduction. In such cases, the ATO would need to understand why a positive carry value for accounting purposes is being allocated to an asset that has been completely written off and whether such an approach is consistent with

the adoption of a shortcut (since it implies that detailed information is available at the level of the individual asset). It would also be expected that where a head company seeks to use an adjusted book value, the new value would be adopted for the purposes of the accounting records and financial reporting in relation to the relevant entity.

36. Where adjusted book values are used in the allocation of ACA, the ATO expects that the adjusted book value will be adopted for the purposes of the group's accounting records.
37. Any ACA amount (including the relevant uplift) calculated in accordance with Step 2 (paragraphs 24 to 37 of this Practice Statement) may need to be reduced in accordance with any appropriate TCSA limiters in Step 3 (paragraphs 38 to 46 of this Practice Statement).

Step 3: Applying the tax cost setting amount limiters

38. The consolidation law includes a number of tax cost setting amount (TCSA) limiters to be applied, which have the effect of reducing the amount of the reset tax cost that would otherwise be obtained by allocating ACA to depreciating assets. The relevant provisions include:
 - section 705-40 (trading stock, depreciating assets and revenue assets)
 - section 705-45 (accelerated depreciation assets)
 - section 705-50 (over-depreciated assets), and
 - section 705-57 (loss of pre-CGT status).

(i) Trading stock, depreciating assets and revenue assets

39. Section 705-40 limits the TCSA for depreciating assets to the greater of the asset's market value or the joining entity's terminating value for the asset (that is, the tax written down value for the asset at the joining time). (The treatment of trading stock and revenue assets is not relevant here.) The ATO expects that taxpayers will apply this tax cost limiter on an asset-by-asset basis where the data is available.
40. The requirements of section 705-40 will be regarded as having been met if the taxpayer can demonstrate that either the market value or the terminating value has been adopted.
41. To the extent that asset-by-asset-level data is not available, the ATO will accept that the conditions of section 705-40 have been met if the taxpayer has followed Steps 1 and 2 of this Practice Statement and consistently applies either the market value approach or the terminating value approach to all the assets in the categories for which the detailed asset information is not available. This will allow the taxpayer and the ATO to audit the approach and be confident that the TCSA in aggregate for the category of assets meets one or other of the benchmark tests in section 705-40.

(ii) Accelerated depreciation assets

42. As an adjustment for accelerated depreciation assets has already been made in Step 2 of this Practice Statement, there is nothing further that is required in relation to this TCSA limiter.

(iii) Over-depreciated assets

43. The ATO-approved shortcut methods for over-depreciated assets are set out in section C2-4-640 of the Manual. The over-depreciation amount calculated on this basis can then be allocated on an asset basis to the extent the information is available. To the extent that there is insufficient information, the remaining amount of over-depreciation can be allocated among the relevant categories of depreciating assets on the basis of their respective book values.

(iv) Loss of pre-CGT status

44. Section 705-57 applies where there is a change in underlying ownership which removes the grandfathering for CGT purposes. Insofar as relevant, it requires a reduction in the ACA allocated to the depreciating assets where the cost base of an asset would be increased as a result of an underlying change in ownership and the TCSA for the asset on consolidation exceeds its tax written down value (referred to as its terminating value). The amount of the reduction is equal to the increase in the cost base for membership interests that would have occurred as a result of the resetting of the cost base to market value when the underlying ownership change occurred, but the reduction cannot reduce the TCSA below the tax written down value for the asset immediately before consolidation. This limit was inserted to contain the revenue cost and to reflect the treatment of such assets outside of consolidation. Where section 705-57 applies, the reduction in ACA cannot be applied to other assets but a capital loss equal to the amount of the reduction arises under subsection 104-500(3) which can be claimed over a 5-year period or carried forward.
45. Taxpayers will have identified the ACA applicable to their depreciating assets by following Steps 1 and 2 of this Practice Statement. The reduction in ACA allocation should be applied on an asset-by-asset basis to the extent that the information is available. Where there is insufficient information, so much of the reduction as has not been applied can be applied across the relevant categories of assets on the basis of their respective book values, where the amount of ACA being allocated to the category exceeds the total of their tax written down values (terminating values). The reduction is limited to the difference between the ACA being allocated to the category and the total of their tax written down values. Where the amount of ACA being allocated to a category does not exceed the total of the tax written down values for the category, no adjustment is required.
46. The ATO will be satisfied with this approach where the head company carefully follows the recommended steps and fully documents its analysis and the factual information on which it is based.

Step 4: Continuing or resetting the write-off rates under subsection 701-55(2)

47. Once the TCSA limiters have been applied, the adjusted amount of ACA (referred to as 'the adjusted ACA' in this Practice Statement) is then written off under section 701-55 and Division 40 in accordance with principles set out in this Practice Statement.

The allocable cost amount and assets in the category

48. In Steps 1 to 3 of this Practice Statement, major or significant assets were excluded and precise calculations were required. To the extent that information is available, the expectation is that it will be used in applying

subsection 701-55(2). In applying Steps 1 to 3 of this Practice Statement, the head company would have separated the depreciating assets for which prime cost was being used by the joining entity from the depreciating assets for which the joining entity was using the diminishing value method.

49. There remain 2 matters to be addressed in Step 4 of this Practice Statement and these are required by subsection 701-55(2). First, there needs to be an effective life worked out for the depreciating assets in each category that has an adjusted ACA amount as a result of applying the limiters in Step 3 of this Practice Statement. Second, the decline in value needs to be worked out for the adjusted ACA for each category of depreciating assets so they can be gradually written off under Division 40 after the date of consolidation.
50. The following shortcuts assume that taxpayers have followed the requirements of Division 40 and the relevant previous legislation. They assume appropriate adjustments to tax written down values have been made for the repeal of both accelerated depreciation (subject to grandfathering and the election allowed under consolidation) and broadbanning, effective from 11:45 am (AEST) on 21 September 1999. They also assume that, where required, taxpayers have adjusted the effective life of assets acquired after 1 July 2001 and that they have made retrospective adjustments where required by Division 40 to correct a previously adopted effective life that on reflection did not meet the statutory requirements.

(i) Working out the effective lives for categories of assets

(a) Threshold test where the joining entity was using the prime cost method for some or all assets

51. Paragraph 701-55(2)(c) provides that where the joining entity was using the prime cost method to work out the decline in value of an asset and the TCSA for the asset does not exceed the terminating value (the closing tax written down value) for the asset, the effective life to be used by the head company is the remainder of the effective life at the joining time.
52. Where the TCSA exceeds the terminating value, paragraph 701-55(2)(d) requires the head company to choose a new effective life using the statutory options in force at the joining time.
53. Both situations first require a comparison between the closing tax written down value and the amount of ACA being pushed down to the asset. Where Steps 1 to 3 of this Practice Statement have been followed, this comparison will be able to be made in relation to those depreciating assets whose decline in value was being worked out using the prime cost method.
54. It is essential that the head company categorise its depreciating assets for which the prime cost method is being used into those that have a value greater than their terminating value (tax written down value) and those that do not. This process needs to be documented and based on sound valuation approaches and judgments that could be supported on a review of tax risks by the head company, its auditors or the ATO. The selected process can rely on the shortcuts set out in this Practice Statement, where appropriate.
55. Where the adjusted ACA amount is equal to or less than the aggregate for the closing tax written down values of a category of depreciating assets, they can continue to be written off on the same declining basis that the joining entity was using and be completely written off for tax purposes over the remaining timeframe the joining entity would have done so, had consolidation not happened.

56. If, in relation to assets for which prime cost is being used, it is not possible to identify which assets have a TCSA in excess of their terminating value (closing tax written down value just prior to consolidation) and which assets have a TCSA lower than their terminating value, but it is known that the adjusted ACA amount for the whole category of assets is higher than their aggregate terminating values, the ATO will accept an approach that treats all assets in the category as having a TCSA higher than their terminating value.

(b) Threshold test where the joining entity was using the diminishing value method for some or all of its assets

57. The assets subject to the diminishing value method should have their values reset based on the pattern of values of assets across that category. The weighting is to be determined on the basis of book values.
58. In circumstances where the joining entity was using the diminishing value method, paragraph 701-55(2)(e) applies and the effective life to be used by the head company is the same effective life as that of the joining entity at the joining time (not the remaining effective life but the total effective life).

(c) Working out the effective life for subsection 701-55(2) in applying the prime cost or diminishing value method post consolidation

59. If, as outlined in this Practice Statement, an adjusted book value approach is required for the purposes of the weighting and the establishing of effective life, taxpayers will need to prepare robust documentation of the adjustments to book value, the precise allocation approach used and the determination of effective life.
60. It is expected that all head companies will have available to them the terminating values for the assets in the joining entity and the rates being used to calculate the decline in values for the depreciating assets.
61. It is also expected that the joining companies will have input the cost figures for their depreciating assets in order to commence the calculation of the decline in value. It is reasonable to expect that the cost figures would be recorded in a date order as the assets are acquired so that part-year claims can be accurately calculated and relevant due diligence and compliance assurance undertaken as required.
62. The rates being used to calculate the decline in values are a useful starting point to establish the effective lives of the relevant depreciating assets. The rates may, however, have been affected by the loading available under the accelerated depreciation regime that applied to assets acquired prior to 1 July 1991 or through the broadbanning approach that replaced accelerated depreciation and applied to assets acquired after 30 June 1991 up to 11:45 am (AEST) on 21 September 1999.
63. The rates applicable to assets acquired after 11:45 am on 21 September 1999 are a direct indication of the effective lives being used by taxpayers to calculate tax deductions under Division 40 for those assets.
64. As a first step, it is therefore necessary to separate the depreciating assets into 3 categories:
- those acquired before 1 July 1991
 - those acquired after 1 July 1991 and before 11:45 am (AEST) on 21 September 1999, and

- those acquired after 11:45 am (AEST) on 21 September 1999.

Assets acquired before 1 July 1991

65. The following formulas can be used to work out the effective lives for assets acquired before 1 July 1991:

$$\text{Prime cost asset} = (100 \div \text{depreciation rate}) \times 1.2$$

or

$$\text{Diminishing value asset} = (150 \div \text{depreciation rate}) \times 1.2$$

66. The formulas reflect the fact that 20% loadings were generally built into pre-1 July 1991 depreciation rates (as an incentive for taxpayers to invest in plant and equipment).

Assets acquired from 1 July 1991 to 11:45 am (AEST) on 21 September 1999

67. In the case of assets to which broadbanning applied, the reference to the depreciation rate takes one back to a range of effective lives rather than a single effective life. For a short period between 1 July 1991 and 26 February 1992, a different broadbanning regime applied, but for simplicity the ATO will accept shortcuts based on the regime that applied through most of the period and which is set out in former section 42-125.
68. Applying the table in former section 42-125, the following assumptions may be applied:
- for assets with an effective life of 25 years or longer, they need to be considered on an asset-by-asset basis
 - for assets in the 13 to fewer than 25 years range of effective lives, a 20-year effective life may be used
 - for assets in the 10 to fewer than 13 years band, a 12-year life may be used
 - for assets in the 6 $\frac{2}{3}$ to fewer than 10 years band, a 9-year effective life may be used
 - for assets in the 5 to fewer than 6 $\frac{2}{3}$ years band, a 6-year effective life may be used, and
 - for assets in the 3 to fewer than 5 years band, a 4-year effective life may be used.

Assets acquired post-11:45 am (AEST) 21 September 1999

69. For assets acquired after 11:45 am (AEST) on 21 September 1999, the law requires the taxpayer to set the effective life of a depreciating asset on the basis of the period (in years, including fractions of years) it can be used. However, Division 40 allows a taxpayer to adopt the Commissioner of Taxation's determination of an effective life and contains a number of statutory capped effective lives in section 40-102, which apply if the effective life determined by the Commissioner and adopted by the taxpayer is a longer period.
70. Assuming that taxpayers have correctly followed the statutory requirements in relation to the settling of the effective lives, the rate of decline used in their tax

deduction calculations will reflect the effective lives and can be worked out in the following way:

$$\text{Prime cost assets} = (100 \div \text{depreciation rate})$$

This will mean that the reset (uplifted) value for depreciating assets within a particular category will need to be written off on the basis of a reset effective life based on the Commissioner's determinations or the statutory rates. This has the effect of lengthening the period over which the asset or category of assets can be written off. It is not appropriate to write-off the asset or the category of assets over the remainder of the effective life that was set and was being used prior to consolidation. It is open to a taxpayer to self-assess the effective life of a depreciating asset but, since this needs to be done on an asset-by-asset basis, it is not an approach that is open in the context of shortcuts that are designed to be applied to categories of assets.

71. In relation to depreciating assets for which the diminishing value method was being used, assuming the effective life has been properly set prior to consolidation, the head company can simply continue to use the rate of decline that the joining entity was using prior to consolidation to write-off the adjusted ACA amount for those assets.
72. Head companies need to be conscious of the fact that while this shortcut allows a quick calculation, they need to be able to demonstrate when required that the effective lives have been correctly set or be able to show that they have adopted the Commissioner's determination or the statutory rate where relevant.

Subsequent disposals

73. Where the shortcuts outlined in this Practice Statement are carefully followed, the ATO will accept the closing written down values produced by their application as the basis for working out any balancing adjustment on the subsequent disposal of an asset.

Alternative shortcuts

74. ATO auditors should be aware that there may be alternative approaches that produce an appropriate outcome consistent with the principles in this Practice Statement. They need to exercise judgment when reviewing the allocation of ACA to depreciating assets, especially where taxpayers have had to take a position on their ACA allocation prior to the issue of the Practice Statement.

Amendment history

12 September 2024

Part	Comment
Throughout	Minor updates made as per current ATO style and accessibility guides.
Contact details	Updated.

13 June 2013

Part	Comment
Generally	Updated to current corporate publication style.
Contact details	Updated.

6 August 2008

Part	Comment
Contact details	Updated.

References

Legislative references	ITAA 1997 Div 40 ITAA 1997 40-102 ITAA 1997 42-125 ITAA 1997 104-500(3) ITAA 1997 701-55 ITAA 1997 701-55(2) ITAA 1997 701-55(2)(c) ITAA 1997 701-55(2)(d) ITAA 1997 701-55(2)(e) ITAA 1997 701-80 ITAA 1997 Div 705 ITAA 1997 705-40 ITAA 1997 705-45 ITAA 1997 705-50 ITAA 1997 705-57
Related public rulings	IT 2685 TR 2022/1
Business line	PG
Other references	Consolidation reference manual
Date issued	15 November 2004
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ATO references

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