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 document has changed over time. This is a consolidated version of the ruling which was published on *20 June 2018*

Generated on: 21 November 2026, 05:01:53 AM

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
Term of lease						
1st year	60	63.75	65.63	67.5	68.5	70
2nd year	45	52.5	56.25	60.0	62.5	65
3rd year	30	41.25	46.88	52.5	55.0	60
4th year	15	30.0	37.50	45.0	50.0	55
5th year	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
Term of lease						
1st year	60	63.75	65.63	67.5	69.83	71.25

2ndyear	45	52.5	56.25	60.0	63.75	67.50
3rd year	30	41.25	46.88	52.5	58.13	63.75
4th year	15	30.0	37.50	45.0	52.50	60.00
5th year	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 Term of the lease]

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 at 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 asset.

Commissioner of Taxation
22/7/93

FOI INDEX DETAIL: Reference No. I 1215663 Previously issued as Draft TD 93/D109
Related Determinations:
Related Rulings: IT 28
Subject Ref: leasing; residual values; car lease.
Legislative Ref:
Case Ref:
ATO Ref: NO 92/1936-6

ISSN 1038 - 8982