

TD 93/142A1 - Addendum - 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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Addendum

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?

This Addendum is a public ruling for the purposes of the *Taxation Administration Act 1953*. It amends Taxation Determination TD 93/142 to:

- include in the table the minimum residual values for depreciating assets with an effective life of 8 years
- correct the figures in the effective life columns for 13.3 years and 20 years with effect from 1 July 2018
- update Example 1 to reflect that accelerated rates of depreciation and broadbanded rates could have only been available to assets acquired after 26 February 1992 and before 1 July 2001
- insert Example 2 to demonstrate the minimum acceptable residual value for a car subject to a lease entered into after 1 July 2002.

TD 93/142 is amended as follows:

1. Paragraph 3

- At the end of the first sentence, insert 'and applies to leases entered into before 1 July 2018'.
- Omit the table; substitute:

Minimum residual values – percentage of cost

	<u>Plant and machinery classified according to effective life in years</u>					
	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

(c) After the paragraph; insert:

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

	<u>Plant and machinery classified according to effective life in years</u>					
	5	6.66	8	10	13.3	20
Term of lease						
1st year	60	63.75	65.63	67.5	69.83	71.25
2nd year	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 = $75\% - [(75\% / \text{Effective life}) \times \text{Term of the lease}]$

2. Paragraph 4

- (a) Omit 'table'; substitute 'applicable table'.
- (b) Omit the example.
- (c) After the paragraph, insert new paragraphs 5 and 6 (and headings):

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 of this Determination 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 = $75\% - [(75\% / 8) \times 5] = 28.13\%$

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.

This Addendum applies on and from 1 July 2002, except for paragraph 3A which applies on and from 1 July 2018.

Commissioner of Taxation
20 June 2018

ATO references

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