


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

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

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 |

(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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