Tax Facts - Capital Allowances

Deductions for the decline in value of depreciating assets are available under the Uniform capital allowance (UCA) system.In addition to the rules for depreciating assets, deductions are allowed for certain other capital expenditure. Small business entities have the option of choosing simplified depreciation rules.

Land, trading stock and most intangible assets (excluding exceptions such as intellectual property and in-house software) are not depreciating assets.

The decline in value is calculated by spreading the cost of the asset over its effective life, using one of two methods:

- **Prime cost method** – decline in value each year is calculated as a percentage of the initial cost of the asset
- **Diminishing value method** – decline in value each year is calculated as a percentage of the opening depreciated value of the asset.

MORE: Australian Taxation Office (ATO) Decline in value calculator.

For most depreciating assets, taxpayers can either self-assess the effective life, or use estimates published by the ATO. Taxpayers can recalculate, either up or down, the effective life of an asset if the circumstances of use change and the effective life initially chosen is no longer accurate. An improvement to an asset that increases its cost by 10% or more in a year may result in an obligation to recalculate the effective life of the asset.

Decline in value of cars is restricted to the car limit. Luxury car leases are treated as a notional sale and purchase, with decline in value restricted to the car limit.

The decline in value of certain depreciating assets with a cost or opening adjustable value of less than $1000 can be calculated through a low-value pool. The decline in value for depreciating assets in the pool is calculated at an annual diminishing value rate of 37.5%.