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Capital allowances - $300 immediate deduction tests

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Capital allowances – $300 immediate deduction tests

The tests you need to satisfy to claim the immediate deduction for non-business depreciating assets costing $300 or less.

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Uniform capital allowances

Under the uniform capital allowance system (UCA), an immediate deduction is allowable for certain assets. The assets must:

- be used mainly to produce non-business assessable income
- cost $300 or less.

The deduction isn't available for any assets used mainly in carrying on a business.

For depreciating assets that cost more than $300, you can claim a deduction for the decline in value.

The tests

To be eligible to claim the immediate deduction for assets costing $300 or less you must be able to satisfy all of the following 4 tests.

Under the capital allowance rules, the immediate deduction is available for depreciating assets you start to hold (for example, buy or receive as a gift) from

1 July 2001.

- Test 1 – the cost of the depreciating asset is $300 or less.
- Test 2 – you use the asset mainly for the purpose of producing assessable income that isn't income from carrying on a business.
- Test 3 – the asset isn't part of a set of assets you start to hold in the income year that costs more than $300.
- Test 4 – the asset isn't one of a number of identical or substantially identical assets you start to hold in the income year that together costs more than $300.

If you're not eligible to claim the immediate deduction, you generally work out any deduction for the asset using its decline in value over it's effective life. Alternatively, you may choose to allocate the asset to a low-value pool.

Note: Portable electronic devices such as laptops, portable printers, personal digital assistants, calculators, mobile phones can't be allocated to a low-value pool.

Test 1

The cost of the depreciating asset is $300 or less.

You can claim an immediate deduction for the cost of a depreciating asset if the cost doesn't exceed $300. The cost of an asset is generally what you pay for it.

If you are entitled to a GST input tax credit in relation to the asset, reduce the cost of the asset by the input tax credit amount before applying this test.

Jointly held assets

If you hold an asset jointly with others, then your interest in the asset is treated as the relevant depreciating asset for the purposes of the UCA. If the cost of your interest in the asset is $300 or less, then you can claim the immediate deduction, even though the depreciating asset costs more than $300.

Example: jointly held assets

John, Margaret and Neil own a rental property together in the proportions of 50%, 25% and 25%. They buy a fridge to replace an existing one damaged by tenants. Based on their respective interests, they contribute $400, $200 and $200 to buy the fridge.

Margaret and Neil can claim an immediate deduction because the cost of their interest in the fridge doesn't exceed $300. John can't claim an immediate deduction because the cost of his interest is more than $300.

Test 2

You use the asset mainly for the purpose of producing assessable income that is not income from carrying on a business.

Some examples of assets used to produce non-business income include:

- a briefcase or tools of trade used by an employee
- freestanding furniture in a rental property
- a calculator used in managing an investment portfolio.

To claim the immediate deduction, you must use the depreciating asset more than 50% of the time for producing non-business assessable income.

As long as you meet this test, you can use the asset for other purposes (such as to carry on a business) and still claim the deduction. However, if you don't use the asset mainly for non-business purposes, you won't be able to claim the deduction.

If you don't use the depreciating asset wholly for a taxable purpose (such as for producing assessable income) during the year, you must reduce your deduction to the extent of the non-taxable use. For example, if you use the asset 20% of the time for private purposes, you would reduce your deduction by 20%.

Example: depreciating asset used mainly to produce non-business assessable income – ignoring any GST impact

Rob buys a calculator for $150. He uses his calculator 40% of the time in his business and 60% of the time for managing his share portfolio. As he uses the calculator more than 50% of the time for producing non-business assessable income, Rob can claim an immediate deduction for it of $150.

If Rob uses his calculator 40% of the time for private purposes and 60% of the time for managing his share portfolio, he would reduce his deduction by 40% to reflect his private use of the asset.

Test 3

The asset is not part of a set of assets you start to hold during the income year that costs more than $300.

Whether items form a set is determined on a case-by-case basis. Items may be regarded as a set if they are either:

- interdependent on each other
- marketed as a set
- designed and intended for use together.

Example: set of items – ignoring any GST impact

Brenna, a sales manager, hears about a series of six progressive learning CDs. The CDs are designed to develop selling skills in stages. You move through to the next CD only when you are familiar with the lessons on the previous CD. The CDs are marketed as a set and are designed to be used together. The six CDs would be regarded as a set. The six CDs cost $360 when bought as a set. Brenna finds out she is able to buy the CDs individually for $60 each. Brenna buys one CD each week for six weeks in the same income year at a total cost of $360. Although the cost of each CD is less than $300, Brenna can't claim an immediate deduction for the CDs because they are a set and the cost of the set is more than $300.

A group of assets acquired in an income year can be a set in themselves. This is even if they also form part of a larger set acquired over more than one income year. If the assets acquired in an income year are a set, the total cost of that set must not exceed $300. If the assets acquired in an income year are not a set, the test doesn't need to be satisfied. Assets acquired in another income year aren't taken into account when working out whether items form a set or the total cost of a set.

Example: set of items part of a larger set – ignoring any GST impact

Paula, a primary school teacher, hears about a series of twelve progressive reading books. The books are designed to develop children's reading skills in stages. Pupils move on to the next book only when they have successfully completed the previous book. The first six books are at a basic level while the second six are at an advanced level.

Paula buys one book a month beginning in January and by 30 June she holds the first six books (the basic readers) at a total cost of $240. Because of the interdependency of the books, these six books are a set even though they can be purchased individually and form part of a larger set. An immediate deduction is available for each book because the cost of the set Paula acquired during the income year was not more than $300.

If Paula acquires the other six books (the advanced readers) in the following income year, they would be treated as a set acquired in that year.

Example: not a set – ignoring any GST impact

Mary, an employee, buys a range of tools for her toolkit for work – a shifting spanner, a boxed set of screwdrivers and a hammer. Each item costs $300 or less. While these tools may comprise or add to Mary's toolkit, they're not a set. It would make no difference if Mary purchased the items at the same time and from the same supplier or manufacturer. An immediate deduction is available for all the items, including the screwdrivers. The screwdrivers are a set, as they are marketed and used as a set. However, as the cost is $300 or less the deduction is available.

The concept of a set requires more than one depreciating asset. In some cases, more than one item may be a single depreciating asset. An example would be a three-volume dictionary. This is a single depreciating asset, not a set of three separate depreciating assets, as the three volumes have a single integrated function.

Example: set of items – ignoring any GST impact

Shelley, an editor, spends $400 on a dictionary published in 3 volumes – A to G, H to O and P to Z – as part of her reference library. The dictionary is a single edition, with the 3 volumes having a single integrated function. The books are one depreciating asset and the set test doesn't apply. However, an immediate deduction would not be available because the asset costs more than $300.

Test 4

The asset is not one of a number of identical, or substantially identical assets, you start to hold during the income year that together costs more than $300.

You need to determine whether the depreciating asset is identical or substantially identical to other depreciating assets you acquire in the same income year. If so, the total cost of the assets needs to be more than $300. You don't take items into account that you acquired in another income year.

Items are identical if they are the same in all respects. Items are substantially identical if they are the same in most respects even though there may be some minor or incidental differences. Factors you would consider include colour, shape, function, texture, composition, brand and design.

Example: identical or substantially identical assets

Rick buys eight cane chairs for use around the garden of his rental property. They are the same except for their colour 4 are cream and the others are green. Each chair costs $120. Rick can't claim an immediate deduction for the cost of each individual chair because the chairs are substantially identical and their total cost exceeds $300. The colour of the chairs is only a minor difference which isn't enough to conclude that the chairs are not substantially identical.

Rick also buys a canvas chair for the patio, a high back wooden chair for the bedroom dressing table and a leather executive chair for the study. While these are all chairs, they are not identical or substantially identical. The cost of each of these chairs can be claimed as an immediate deduction if it is $300 or less.

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