Decline in value - cost, life and methods

MODULE 2 | 2.14.1 | STUDENT COMPANION

Under the general rules, a depreciating asset's cost is deducted over its effective life, using either prime cost or diminishing value, for the days the asset is held. Cheap assets get a shortcut: an immediate deduction or a low-value pool. The decline in value is always worked out in full, and the deduction is then cut back for any private use.

Who uses the general rules

Two groups. Non-business individuals, such as employees and investors, and businesses: large businesses, and small business entities that choose not to use simplified depreciation (lesson 2.17).

	Lowest cost	In between	Everything else
Non-business individual (employee, investor)	**$300 or less** Written off at once, 100% deduction (s 40-80(2))	**More than $300 but less than $1,000** Low-value pool, if the taxpayer chooses	**$1,000 or more, or not pooled** Depreciate over effective life
Business (large, or a small business not using the simplified rules)	**$100 or less** Written off at once, 100% deduction	**More than $100 but less than $1,000** Low-value pool, if the taxpayer chooses	**$1,000 or more, or not pooled** Depreciate over effective life
Low-value pool rates	**18.75%** Low-cost asset, first year in the pool: no counting of days	**37.5%** Last year's closing balance, plus any low-value asset added	

The $300 write-off (s 40-80(2)) is for non-business individuals only. The asset must be used mainly to earn non-business income, and must not be part of a set costing more than $300. Identical or similar items bought in the same year are added together.

The low-value pool (Subdivision 40-E)

- **Low-cost asset:** costs less than $1,000, excluding GST. Rate 18.75% in its first year in the pool, with no apportionment for days.
- **Low-value asset:** written down using diminishing value to an opening adjustable value under $1,000. Rate 37.5% from the year it joins.
- **Last year's closing balance:** 37.5%.
- Pool one low-cost asset, and every later low-cost asset must follow. Low-value assets stay optional. Nothing leaves the pool.
- Only the taxable-use share of an asset's cost goes in.

Example. Opening balance $1,600 × 37.5% = $600. New $800 asset × 18.75% = $150. Deduction $750. Closing balance $1,600 + $800 - $750 = $1,650.

Software

Type	Treatment
In-house software (bought or developed mainly for your own use)	Prime cost over 5 years
Software development pool (development spending, solely for a taxable purpose)	Year 1 nil; years 2, 3 and 4, 30% each; year 5, 10%. The choice is irrevocable. A new project in a later year starts a separate pool
Off-the-shelf software with a life of 1 year or less; periodic licence fees	General deduction when incurred (s 8-1)

Cost and effective life

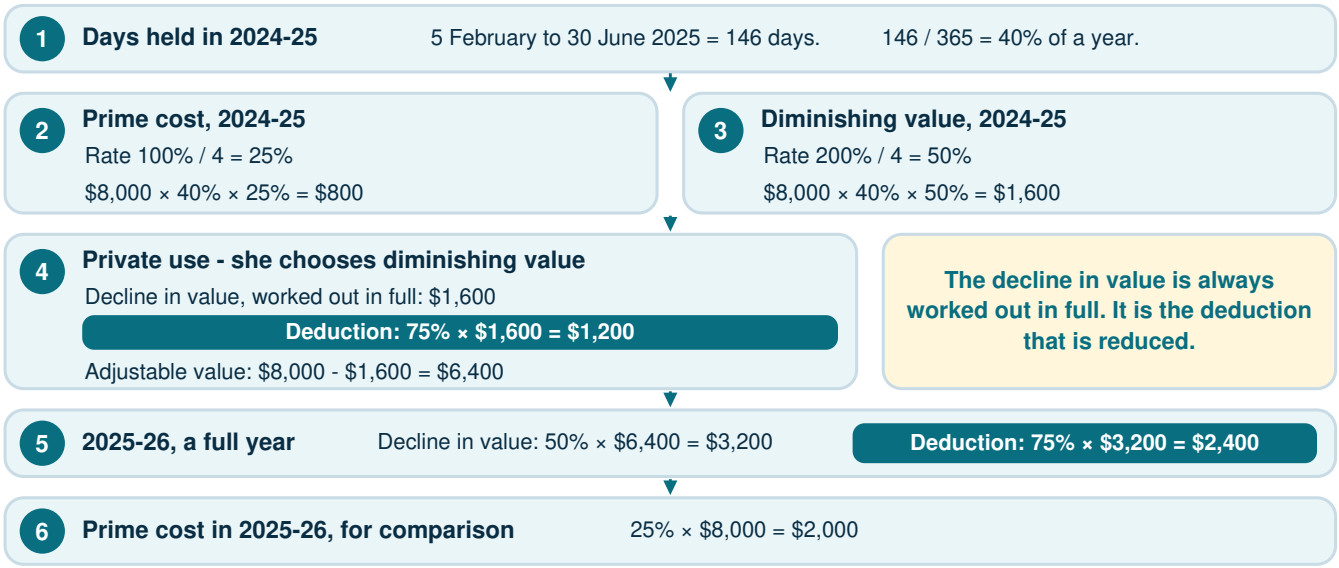
Cost = first element (what it costs to start holding the asset) + second element (later spending to bring it to its present condition and location), less any GST credit. The first element is not only cash: where the buyer also gives something in kind (for example, doing work for the seller), its market value is part of the cost. A price of $13,200 including GST is a cost of $12,000 to a GST-registered business, and $13,200 to a buyer who is not registered.

Effective life is how long the asset can be used for a taxable purpose by anyone, not only its current holder, in years and part years. Use the Commissioner's estimate (TR 2022/1) or assess it yourself. Recalculate if circumstances change.

The two methods

	Works on	Formula	Pattern
Prime cost - the straight-line method (s 40-75)	Cost, every year	**Cost × (days held / 365) × (100% / effective life)**	The same amount every full year
Diminishing value (s 40-72)	Base value: cost in the first year, then the opening adjustable value (cost less decline in value so far)	**Base value × (days held / 365) × (200% / effective life)**	Starts at double the prime cost rate, on a balance that shrinks every year
	Diminishing value: 200% for assets first held on or after 10 May 2006. Before that, 150% (s 40-70).		
Three rules for both methods	**1.** Choose asset by asset - the choice cannot be changed for that asset	**2.** Days held are counted from the start time	**3.** The bottom of the fraction stays at 365, even in a leap year

Adjustable value = cost less decline in value to date. **Private use** reduces the deduction, not the decline in value, so the adjustable value falls by the full decline.



Choosing. Diminishing value brings deductions forward. Prime cost keeps them level, which can suit a taxpayer in a tax loss.

Adjusted prime cost (s 40-75(3)). After a recalculated effective life, or a second element of cost added in a later year: (opening adjustable value + that cost) × (days held / 365) × (100% / remaining effective life).

Key figures for 2024-25

Item	Figure
Immediate deduction - non-business individual	Asset costing $300 or less
Immediate deduction - business	Asset costing $100 or less
Low-cost asset / low-value asset	Less than $1,000
Low-value pool rates	18.75% first year; 37.5% after that
Prime cost rate	100% / effective life
Diminishing value rate	200% / effective life (150% if first held before 10 May 2006)
Days-held fraction	Days held / 365, even in a leap year
In-house software	5 years, prime cost
Software development pool	0%, 30%, 30%, 30%, 10%
Car limit	$69,674

Practice questions

MODULE 2 | 2.14.1 | TRY THESE BEFORE THE WORKED ANSWERS

Question 1 - Which rule applies?

Each purchase below was made in the 2024-25 income year, and every asset is new. None of the taxpayers uses the small business simplified depreciation rules. For each purchase, state which rule applies - immediate deduction, low-value pool or depreciation over effective life - and explain why. Where the taxpayer has a choice, say so. Where GST is mentioned, work out the asset's cost first.

(a) Ksenia Okonjo is an employed building inspector. She pays $280 for a laser distance measurer that she uses only in her job.

(b) Wystan Tolhurst owns a rental unit. He buys eight identical dining chairs for the unit at $70 each. He has never had a low-value pool.

(c) Emmerich Szymanski is an employed town planner. He pays $880 for a standing desk that he uses only for work. Two years ago he set up a low-value pool for another low-cost asset, and the pool still has a balance.

(d) Currawong Haulage Pty Ltd is a large transport company, registered for GST. It pays $66, including GST, for a wall clock for its depot.

(e) Currawong Haulage also pays $704, including GST, for a pallet jack. The company has never had a low-value pool.

(f) Currawong Haulage pays $27,500, including GST, for a tyre-changing machine.

Question 2 - Two methods, a part year and private use

Solveig Zammit is a music teacher employed by a school. She is not registered for GST. On 24 November 2024 she buys a cello for $6,000 and starts using it that day. She uses it 80% for her teaching work and 20% for her own playing in a community orchestra, which is private. She adopts an effective life of 8 years.

(a) How many days does Solveig hold the cello in the 2024-25 income year, and what fraction of 365 is that?

(b) Using the prime cost method, calculate for 2024-25 and for 2025-26: the decline in value, Solveig's deduction, and the adjustable value at 30 June.

(c) Do the same using the diminishing value method.

(d) Which method gives the larger total deduction over the two years, and by how much? Give one reason a taxpayer might still prefer the other method.

Question 3 - Two kinds of pool

Part A - Low-value pool. Ruairi Engstrom is an employed draftsman who is not registered for GST. He set up a low-value pool three years ago for low-cost assets, and its closing balance at 30 June 2024 was $2,400. In 2024-25 he buys two new assets:

Asset	Date bought	Cost	Use
Drafting table	3 March 2025	$720	100% work
Noise-cancelling headset	10 May 2025	$480	50% work, 50% private

(a) Calculate Ruairi's low-value pool deduction for 2024-25.
(b) Calculate the pool's closing balance at 30 June 2025.
(c) Both assets were bought late in the income year. Does that reduce the deduction?
(d) Ruairi also owns a camera that he has been depreciating under the prime cost method. Its opening adjustable value at 1 July 2024 was $700. Can he allocate it to the pool?
(e) If nothing is added to the pool or sold in 2025-26, what is the pool deduction for that year?

Part B - Software development pool. Wattlebird Hire Pty Ltd is a large equipment-hire company. In the 2024-25 income year it pays a developer $80,000 (excluding GST) to build a booking system that it will use solely in its own business, and it allocates the expenditure to a software development pool.
(f) What can Wattlebird Hire deduct in each income year from 2024-25 to 2028-29?
(g) In 2025-26 Wattlebird Hire commissions a second, separate software development project. Can that spending go into the same pool? Can the company choose not to pool it?

Worked answers

MODULE 2 | 2.14.1 | WORKED ANSWERS - ATTEMPT THE QUESTIONS FIRST

Answer 1

(a) Immediate deduction of $280. Ksenia is a non-business individual, the asset cost $300 or less, and she uses it mainly (here, only) to earn salary, which is non-business income. It is not part of a set and she bought no similar items, so s 40-80(2) gives a 100% deduction in 2024-25. An asset written off this way cannot go into a low-value pool.

(b) No immediate deduction. Each chair costs less than $300, but identical items bought in the same year are added together: 8 × $70 = $560, which is more than $300. Each chair is still a low-cost asset (it costs less than $1,000), so Wystan has a choice:

- allocate the chairs to a low-value pool: 18.75% × $560 = $105 for 2024-25, whatever the purchase date; or
- depreciate them over their effective life under either method.

If he chooses the pool, every low-cost asset he acquires in 2024-25 or later must also be pooled.

(c) Low-value pool - no choice this time. The desk costs more than $300 but less than $1,000, so there is no immediate deduction. It is a low-cost asset, and because Emmerich has already allocated a low-cost asset to a low-value pool in an earlier year, every later low-cost asset must go into that pool (s 40-430(1)). Deduction for the desk in 2024-25: 18.75% × $880 = $165. From 2025-26 it is part of the closing balance, written down at 37.5%.

(d) Immediate deduction. Cost: $66 less the GST credit of $6 ($66 × 1/11) = $60. A business asset costing $100 or less is written off at once, a 100% deduction of $60.

(e) A choice between the low-value pool and effective life. Cost: $704 less the GST credit of $64 ($704 × 1/11) = $640. That is more than $100 but less than $1,000, so there is no immediate deduction, and the pallet jack is a low-cost asset. Currawong Haulage can:

- allocate it to a low-value pool: 18.75% × $640 = $120 for 2024-25 (and then pool every later low-cost asset); or
- depreciate it over its effective life.

(f) Depreciation over effective life. Cost: $27,500 less the GST credit of $2,500 ($27,500 × 1/11) = $25,000. An asset costing $1,000 or more cannot be written off at once or pooled as a low-cost asset. Currawong Haulage works out the effective life (the Commissioner's estimate in TR 2022/1, or its own assessment) and chooses between prime cost and diminishing value. The choice cannot be changed later for that asset.

Answer 2

(a) Days held: 24 to 30 November = 7 days, then December 31, January 31, February 28, March 31, April 30, May 31 and June 30. Total 7 + 31 + 31 + 28 + 31 + 30 + 31 + 30 = 219 days. 219 / 365 = 0.6, or 60% of a year. Solveig is not registered for GST, so her cost is the full $6,000.

(b) Prime cost - rate 100% / 8 = 12.5%

	2024-25	2025-26
Decline in value	$6,000 × 219/365 × 12.5% = $450	$6,000 × 365/365 × 12.5% = $750
Deduction (80%)	80% × $450 = $360	80% × $750 = $600
Adjustable value at 30 June	$6,000 - $450 = $5,550	$5,550 - $750 = $4,800

(c) Diminishing value - rate 200% / 8 = 25%

	2024-25	2025-26
Base value	$6,000 (cost)	$5,100 (opening adjustable value)
Decline in value	$6,000 × 219/365 × 25% = $900	$5,100 × 365/365 × 25% = $1,275
Deduction (80%)	80% × $900 = $720	80% × $1,275 = $1,020
Adjustable value at 30 June	$6,000 - $900 = $5,100	$5,100 - $1,275 = $3,825

Under both methods the adjustable value falls by the full decline in value, not by the deduction. The 20% private use reduces only what Solveig can deduct.

(d) Prime cost deductions: $360 + $600 = $960. Diminishing value deductions: $720 + $1,020 = $1,740. Diminishing value gives $780 more over the two years ($1,740 - $960). A taxpayer might still prefer prime cost if they are in a tax loss, or expect a higher taxable income in later years: prime cost leaves more of the deduction for those years. Both methods spread the same $6,000 of cost, so the difference is one of timing. Whichever method Solveig chooses, she cannot change it later for the cello.

Answer 3

Part A

(a) Both new assets cost less than $1,000, so they are low-cost assets, and because Ruairi already has a pool holding low-cost assets, both must be allocated to it. The headset's cost ($480) is more than $300, so it could not be written off at once. Only the taxable-use share of its cost goes into the pool: 50% × $480 = $240.

Pool deduction for 2024-25

Item	Calculation	Deduction
Closing balance from 2023-24	37.5% × $2,400	$900
Drafting table	18.75% × $720	$135
Headset (work share $240)	18.75% × $240	$45
Total deduction for 2024-25		**$1,080**

(b) Closing balance at 30 June 2025: $2,400 + $720 + $240 - $1,080 = $2,280.

(c) No. A low-cost asset gets 18.75% in its first year in the pool whenever it was bought during the year. There is no apportionment for days held.

(d) No. To be a low-value asset, the camera would need to have been written down using diminishing value, to an opening adjustable value under $1,000 (s 40-425(5)). The camera's opening adjustable value is under $1,000, but it has been depreciated under prime cost, so it stays outside the pool and keeps its prime cost schedule.

(e) 37.5% × $2,280 = $855. The pool would then close at $2,280 - $855 = $1,425.

Part B

(f) The booking system is in-house software developed solely for a taxable purpose, so the expenditure can go into a software development pool. The pool gives nothing in the first year, 30% in each of the next three years and 10% in the fifth:

Software development pool deductions

Income year	Rate	Deduction
2024-25	Nil	$0
2025-26	30%	$24,000
2026-27	30%	$24,000
2027-28	30%	$24,000
2028-29	10%	$8,000
Total	**100%**	**$80,000**

(g) No to both. A separate software development pool is required (s 40-450(4)), so the second project's spending, incurred in a later income year, cannot be added to the first pool. And the choice to use a software development pool is irrevocable (s 40-450): once it is made, later software development expenditure must be pooled. The second project therefore goes into a new, separate pool, with nothing deductible in 2025-26 and then 30%, 30%, 30% and 10% over the following four years.