

Over-depreciation worksheet

After testing depreciating assets for reduction of the tax cost setting amount because they are revenue-like assets (→ 'Reduction for revenue-like assets (step C)', C2-4-530), consider whether a reduction (or further reduction) to the amount is required for each over-depreciated asset → 'Reduction for over-depreciated assets (step D)', C2-4-610; section 705-50, *Income Tax Assessment Act 1997* (ITAA 1997); Explanatory Memorandum to New Business Tax System (Consolidation) Bill (No.1) 2002, paragraph 5.44.

The first step is to ascertain whether each item of plant is over-depreciated.

Is an asset over-depreciated?

<u>Test for each depreciating asset</u>		Test satisfied? yes/no	\$ excess amount
At the joining time:			
M	Does market value exceed adjustable value?	<input type="text"/>	<input type="text"/>
N	Does cost exceed adjustable value?	<input type="text"/>	<input type="text"/>
If the answer is YES to both questions, the asset is over-depreciated by the lesser of M and N			<input type="text"/>

The tax cost setting amount for an over-depreciated asset is reduced by the least of the over-depreciation amount (calculated above), the excess of the tax cost setting amount over its terminating value, and the tax deferral amount.

→ calculation following page

Over-depreciation reduction

<u>Test for each over-depreciated asset</u>	\$ amount
Over-depreciation amount	
(a) Over-depreciation amount from previous table	<input type="text"/>
Tax cost setting amount exceeds terminating value	
(b) Excess of the tax cost setting amount over its terminating value	<input type="text"/>
Tax deferral amount	
(c) <i>Start with</i> the amount of unfranked dividends paid by the joining entity before the joining time, that were subject to section 46 or 46A rebate	<input type="text"/>
(d) The amount of the profits paid as dividends in (c) above – (the <i>qualifying profits amount</i>) that were not subject to tax because of the over-depreciation of the asset – but count only to the extent they were not counted in ACA step 4 and to the extent the deductions for over-depreciation did not form part of a loss that reduced the ACA under step 5, were not counted in ACA step 4 (but the depreciation did not generate a tax loss to be subtracted from the entry ACA at step 5)	<input type="text"/>
(e) The extent to which the dividend in (c) – adjusted to amount in (d) – was <i>not</i> further distributed (directly or indirectly) to a taxpayer who was <i>not</i> entitled to such a rebate. This is the <i>tax deferral amount</i>	<input type="text"/>
(f) Transitional rule on formation	
<i>Add</i> – The tax deferral amount is increased to include any unfrankable <i>undistributed</i> profits accrued to head company and included in ACA step 3 (under transitional rules) to the extent that those profits were not subject to tax because of deductions for depreciation representing over-depreciation, and the deductions did not form part of a loss that reduced the ACA under step 5 (subsection 701-30(3) IT(TP)A)	<input type="text"/>
(g) Tax deferral amount (result after (c), (d), (e) and (f))	<input type="text"/>
Reduction of tax cost setting amount is the lesser of (a), (b) and (g)	<input type="text"/>

Note

Changes to the over-depreciation provisions

The over-depreciation provisions in the tax cost setting rules have been modified for an entity that becomes a member of a consolidated group between 9 May 2007 and 30 June 2009. In this case a head company will only need to look at five years of dividend history immediately before the joining time to determine whether an over-depreciation adjustment is required in relation to the joining entity's asset. Effective from 1 July 2009, the over-depreciation adjustment in section 705-50 has been repealed, so it will no longer apply to over-depreciated assets of entities that become subsidiary members of a consolidated group on or after that date. → *Tax Laws Amendment (2010 Measures No. 1) Act 2010* (No. 56 of 2010)

References

Income Tax Assessment Act 1997, section 705-50 and subsection 995-1(1); as amended by *Tax Laws Amendment (2010 Measures No. 1) Act 2010* (No. 56 of 2010), Schedule 5, Part 6

Explanatory Memorandum to the Tax Laws Amendment (2010 Measures No. 1) Bill 2010, Chapter 5

Revision history

Section C2-3-210 first published 2 December 2002.

Further revisions are described below.

Date	Amendment	Reason
6.5.11	Minor changes to reflect the repeal of section 705-50, effective 1 July 2009.	Legislative amendment.