

***TD 93/D59 - Income tax: can an employee obtain a deduction for depreciation in relation to an item of plant used for income producing activities when he or she is subsequently reimbursed for the cost of the item ?***



TD 93/145.

Draft Taxation Determinations (TDs) represent the preliminary, though considered, views of the ATO. Draft TDs may not be relied on; only final TDs are authoritative statements of the ATO.

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## Draft Taxation Determination

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### **Income tax: can an employee obtain a deduction for depreciation in relation to an item of plant used for income producing activities when he or she is subsequently reimbursed for the cost of the item ?**

1. Yes. Section 51AH of the *Income Tax Assessment Act 1936* does not apply to reduce a deduction for depreciation.
2. If an employee is reimbursed in respect of an amount of a work-related loss or outgoing and the reimbursed amount is not included in the employee's assessable income, section 51AH applies to reduce the amount of the loss or outgoing allowed or allowable to the employee by the amount of the reimbursement.
3. If the employee is reimbursed for the cost of an item of plant used for income-producing activities, section 51AH does not apply to reduce a deduction for depreciation because depreciation is not a loss or outgoing allowed or allowable to the employee.
4. The depreciation provisions allow the owner of an item of plant to deduct the capital cost of the item over its effective life. The annual depreciation amount is calculated by reference to the cost or depreciated value of the plant and the appropriate prime cost or diminishing value rate applicable to its effective life.
5. Where the effective life is less than 3 years, or the initial cost does not exceed \$300, the depreciation rate is 100% for plant acquired after 1 July 1991 unless the taxpayer nominates a depreciation rate of less than 100% (subsection 55(2)). The deductible amount of depreciation is based on the period and the extent to which the property is used for income producing activities.
6. If plant acquired by an employee is used in income producing activities then the employee is entitled to a deduction for depreciation. Where the employee is subsequently reimbursed by his or her employer for the cost of the item, that reimbursement is not taken into account in calculating the deductible amount of depreciation because the reimbursement is, in general, a separate transaction which does not affect the initial cost of the item.
7. However, if the cost of the item is subject to a discount or rebate on acquisition of the property, then the cost for depreciation purposes is the cost after the amount of the discount or rebate is deducted.

*Example:*

*Employee X acquires a computer and a briefcase for use in work-related activities at a cost of \$3000 and \$150 respectively. X's employer subsequently reimburses X for the total cost of the briefcase and part of the cost of the computer.*

*The briefcase is used by X solely for work-related activities and the computer is used 70% of the time in work related-activities. X is entitled to calculate the annual depreciation amount based on the initial costs of \$3000 and \$150. The deductible amount in relation to the computer would be limited to 70% of the annual depreciation amount.*

**Commissioner of Taxation**

04/03/93

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Related Determinations: Draft TD92/D60

Related Rulings:

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Legislative Ref: ITAA 51AH; ITAA 54; ITAA 55(2).;

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ATO Ref: AC 752 Pt 5

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