



Understanding Depreciation — Quick Reference Guide

Introduction

This factsheet is an introduction about how depreciation works for tax purposes and in detail, it covers the following:

- *What is depreciation*
- *Diminishing value vs Straight line value*
- *Calculating depreciation*

What is Depreciation

As a business you are generally allowed to claim depreciation as a deduction in your income tax return, which may reduce your tax to pay.

Depreciation accounts for the reducing value of your business assets over time, due to wear and tear.

For tax purposes, the reducing value of your assets is recognised from when it's first used in business until it's sold or no longer needed.

Depreciation basics

As a business you'll need to make depreciation deductions on your assets each year. Deductions are made on assets that you:

- own
- are buying under a hire purchase agreement.

The amount of your depreciation deduction will vary depending on the:

- cost of the asset
- depreciation method used, and
- Depreciation rate.

If you're registered for VAT you'll need to calculate depreciation on the VAT- **exclusive** cost of the asset. If you're not registered for VAT you'll need to calculate your depreciation on the VAT - **inclusive** cost of the asset.

It's important that you keep accurate records of your assets for filing your annual depreciation claims.

What can I depreciate?

Assets that attract depreciation: Generally, you can claim depreciation deductions on business assets that you keep in your business for longer than a year. The Asset value is determined by the cost of the asset including any additional amounts paid for transport, installation or making it ready to use.

Assets that are subject to depreciation must meet the following criteria:

- valued at \$500.00 or more NZD
- expected asset life span greater than 1 year

However, there are some assets that you cannot claim depreciation for. These include:

- land
- trading stock
- assets that you elect not to depreciate intangible assets like goodwill
- patents
- low cost assets (less than \$500) that you claim as a full deduction

If an asset is for private use as well as business use, then you can only claim depreciation on the percentage used for business.

Understanding apportionment

As a small to medium business you are likely to have assets that are used for both personal and business use.

To claim the business portion in your income tax return you will be required to apportion the business use verses the personal use. Below is the most popular apportionment method use in the Cook Islands.

Apportionment by direct attribution

Direct attribution means splitting the use of goods or services between the taxable use and any private or exempt use. You can use this method for calculating both private and exempt use.

Example: Use of a motor vehicle for both private and business purposes

If a motor vehicle is used for both private and business purposes you must keep a logbook for a minimum of three months to work out the business and private use of the motor vehicle.

You can use the result of this three-month record to make claims for the business share of your vehicle expenses over the next three years.

Income Tax Act 1997.
Value Added Tax Act 1997.



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Apportionment by direct attribution cont...

This is provided that your business use of the vehicle doesn't change by more than 20%. If this happens, you'll have to keep a logbook again for another three-month period.

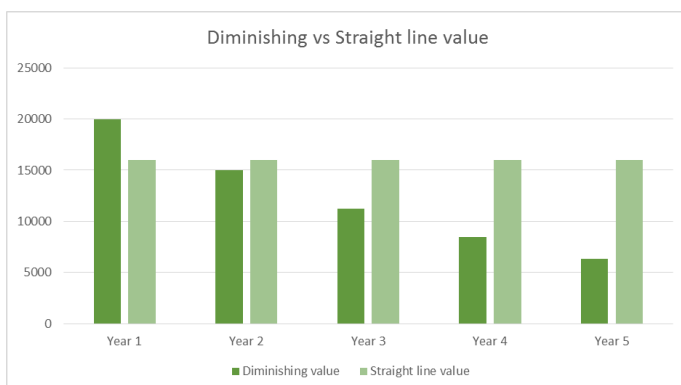
Example : Use of motor vehicle = 60% Business Use 40% Private use.

If the asset (Cars) costs \$80,000 (after VAT if entitled to claim it) and has an effective life of 5 years, you can claim 20% of its cost, or \$16,000 in each of the five years. Less 40% for Private use of the motor vehicle.

The Cost includes the amount you paid for the asset as well as any additional amounts paid for transport, installation or making it ready to use.

The calculation is:

$$\$80,000 \times (365/365) \times 20\% = \$16,000 - 40\% = 16,000 - 6400 = 9600$$



Diminishing Value vs Straight Line (Prime) Value

- The **Straight line** (Prime Cost) method assumes that the value of a depreciating asset decreases uniformly over the assets effective life.
- The **Diminishing value** method assumes that the value of a depreciating asset decreases more in the early years of the assets effective life.

Straight line (Prime Cost) method

Under the straight line (also known as the prime cost) method, you claim a fixed amount each year based on the following formula:

Asset's cost \times (days held/365) \times (asset % listed in 'Depreciation' schedule)

Example

If the asset (Cars) costs \$80,000 (after VAT if entitled to claim it) and has an effective life of 5 years, you can claim 20% of its cost, or \$16,000 in each of the five years.

The Cost includes the amount you paid for the asset as well as any additional amounts paid for transport, installation or making it ready to use. The calculation is:

$$\$80,000 \times (365/365) \times 20\% = \$16,000$$

Diminishing value method

The following formula is used for the diminishing value method:

Base value \times (months held/12) \times (Rate as listed on Depreciation Schedule%) = Depreciation value

Example

If the asset (Car) costs \$80,000 (after VAT if entitled to claim it) and has an effective life of 5 years, you can claim 25% of its cost.

$$\$80,000 \times (12/12) \times (25\%) = \$80,000 \times 25\% = \$20,000$$

The cost includes the amount you paid for the asset (excluding GST if entitled to claim it) as well as any additional amounts paid for transport, installation or making it ready to use.

The base value reduces each year by the decline in the value of the asset. This means the base value for the second year will be \$60,000 (\$80,000 – \$20,000); that is, \$80,000 minus the \$20,000 decline in value in the first year.

The claim for the second year will be:

$$\$60,000 \times (12/12) \times (25\%) = \$60,000 \times 25\% = \$15,000$$

In the third year, the base value will be \$45,000 and the claim will be \$11,250.

In the fourth year, the base value will be \$33,750 and the claim will be \$8,437.50.

This will continue until the 'effective life' span or value reaches zero.

Part year apportionment

If you started to hold the asset before 10 May 2018, the formula for the diminishing value method is:

$$\text{Base value} \times (\text{months held}/12) \times (\text{value } \%)$$

$$\text{Or } 80,000 \times (8/12) \times (25\%) = 80,000 \times 0.67 \times 25\% = 13,400$$

Note: If you begin ownership of the asset from 1 – 15 of the month, you will begin depreciating the asset in the current month. *E.g. Purchase Car on 08 May 2018, Depreciation of the asset begins May 2018.*

If you begin ownership of an asset from 16 – 31 of the month, you will begin depreciating the asset in the following month. *E.g. Purchase Car on 18 May 2018, Depreciation of the asset begins June 2018.*



Log online for more

Go to **tax.cookislands.gov.ck** to register. You will be emailed in return with a temporary password, which can be changed to your preferred password when you log in. For assistance contact Revenue Management on 29365.



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DEPRECIATION RATES FOR TAX

(effective from 1 January 2018)

ASSETS	LIFE	MAXIMUM RATES Diminishing Value	DEPRECIATION Straight Line Value
Agriculture & Aquaculture			
Boats (Aluminium)	12	15%	8.5%
Bush Cutters & Chainsaws	4	33%	25%
Compressors	4	33%	25%
Generators	10	18%	10%
Lawnmowers	4	33%	25%
Liferafts	15	15%	7%
Outboard Motors	5	25%	20%
Ropes & Floats	8	20%	12.5%
Pumps	12	15%	8.5%
Tractors	12	15%	8.5%
Water Tanks	15	10%	7%
Audio, Video & Photography			
Cameras - Digital	4	33%	25%
Cameras - Other	5	25%	20%
Compact Disc & DVD players	4	33%	25%
Microphones	4	33%	25%
Musical Instruments	8	20%	12.5%
Recording Equipment	5	25%	20%
Rental DVDs & Videos	3	50%	33%
Speakers	4	33%	25%
Stereos & Televisions	4	33%	25%
Video Cameras	4	33%	25%
Building & Engineering Industry			
Battery Chargers	4	33%	25%
Compactors	4	33%	25%
Concrete Cutters	4	33%	25%
Concrete Mixers	8	20%	12.5%
Cranes	15	10%	7%
Cutting Machines	10	18%	10%
Drills	4	33%	25%
Heavy Machinery	12	15%	8.5%
Lathes & Presses	10	18%	10%
Saws	10	18%	10%
Scaffolding	12	15%	8.5%
Tools (Electric & Pneumatic)	4	33%	25%
Trailers/ Trolleys/ Carts	10	20%	10%
Welding Equipment	10	18%	10%



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ASSETS	LIFE	MAXIMUM RATES Diminishing Value	DEPRECIATION Straight Line Value
Buildings			
Reinforced concrete, steel, with walls of permanent materials	40	3%	2.5%
Brick stone or concrete without steel or reinforced frame, stucco, steeltex or similar construction with wooden frame	33	4%	3%
Wooden frame (other than specified elsewhere)	33	4%	3%
Glasshouses	20	10%	5%
Maintenance Units	20	10%	5%
Solar Panels	25	4%	4%
Food Industry			
Barbeques	8	20%	12.5%
Crockery, Cutlery & Glassware	3	50%	33%
Electric & Gas Stoves	8	20%	12.5%
Microwaves	5	25%	20%
Ovens	8	20%	12.5%
Baking Equipment	10	17.5%	10%
Fuel Industry			
Gas Cylinders (LPG)	8	20%	12.5%
Petrol Bowsers	15	15%	7%
Storage Tanks	25	7.5%	4%
Underground Tanks	20	10%	5%
Leisure			
Buoyancy Compensators	3	50%	33%
Cinema Equipment	10	18%	10%
Dive Tanks	10	18%	10%
Fitness Equipment	5	25%	20%
Karaoke Equipment	4	33%	25%
Kayaks	8	20%	12.5%
Pool Tables	15	15%	7%
Trampolines	5	25%	20%
Windsurfers	3	50%	33%
Motels & Hotels			
Beds	10	18%	10%
Cash Registers	5	25%	20%
Dishwashers	5	25%	20%
Dryers	5	25%	20%



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ASSETS	LIFE	MAXIMUM RATES Diminishing Value	DEPRECIATION Straight Line Value
Motels & Hotels			
Appliances (general)	8	20%	12.5%
Fridges & Freezers	8	20%	12.5%
Fryers	15	15%	7%
Lighting	8	20%	12.5%
Mattresses	5	25%	20%
Satellite Dishes	15	15%	7%
Solar Heating Units	15	15%	7%
Spa Pools	15	15%	7%
Swimming Pools	25	5%	4%
Washing Machines	8	20%	12.5%
Office Equipment			
Air-Conditioning Units	10	18%	10%
Alarms	8	20%	12.5%
Blinds & Curtains	8	20%	12.5%
Carpets	5	25%	20%
Chairs	10	18%	10%
Computers	4	33%	25%
Desks	15	15%	7%
EFTPOS Terminals	4	33%	25%
Facsimile Machines	5	25%	20%
Fire Extinguishers	15	15%	7%
Furniture & Fittings	10	18%	10%
Mobile Telephones	3	50%	33%
Modems	4	33%	25%
Photocopiers	5	25%	20%
Printers	4	33%	25%
Safes	20	10%	5%
Scanners	4	33%	25%
Telephone Handsets	4	33%	25%
Telephone Systems	10	18%	10%
Water Coolers	8	20%	12.5%
Transportation			
Aircraft	20	10%	5%
Buses	15	15%	7%
Cars	5	25%	20%
Fire Engines	25	7.5%	4%



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(effective from 1 January 2018)

ASSETS	LIFE	MAXIMUM RATES Diminishing Value	DEPRECIATION Straight Line Value
Transportation			
Forkhoists	15	15%	7%
Microlights	5	25%	20%
Motorbikes	5	25%	20%
Rental Bicycles	2	50%	50%
Rental Cars & Vans	4	33%	25%
Rental Motorbikes	4	33%	25%
Ships (Cargo)	25	7.5%	4%
Trucks	10	18%	10%
Yachts & Catamarans	15	10%	7%
Default Depreciation Rate		10%	
(for assets not described above)			