



Understanding depreciation

This factsheet tells you about how your business income will be taxed as this will make it easier for you to meet your tax obligations.

Understanding depreciation

As a business you're 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 to 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. However, there are some assets that can't claim depreciation for. These include:

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

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're 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. 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.



Depreciation rates

Effective from 1 January 2006

Assets which cost \$500 or less can be written off immediately.

ASSETS	LIFE	MAXIMUM RATES	
		Diminishing Value	Straight Line Value
Agriculture & Aquaculture			
Boats (Aluminium)	12	15%	8%
Bush Cutters & Chainsaws	4	33%	24%
Compressors	4	33%	24%
Generators	10	18%	12.5%
Lawnmowers	4	33%	24%
Liferafts	15	15%	10%
Outboard Motors	5	25%	17.5%
Ropes & Floats	8	20%	13.5%
Pumps	12	15%	10%
Tractors	12	15%	10%
Water Tanks	15	10%	6.5%
Audio, Video & Photography			
Cameras - Digital	4	33%	24%
Cameras - Other	5	25%	17.5%
Compact Disc & DVD players	4	33%	24%
Microphones	4	33%	24%
Musical Instruments	8	20%	13.5%
Recording Equipment	5	25%	17.5%
Rental DVDs & Videos	3	50%	40%
Speakers	4	33%	24%
Stereos & Televisions	4	33%	24%
Video Cameras	4	33%	24%
Building & Engineering Industry			
Battery Chargers	4	33%	24%
Compactors	4	33%	24%
Concrete Cutters	4	33%	24%
Concrete Mixers	8	20%	13.5%
Cranes	15	10%	6.5%
Cutting Machines	10	18%	12.5%
Drills	4	33%	24%
Heavy Machinery	12	15%	10%
Lathes & Presses	10	18%	12.5%
Saws	10	18%	12.5%
Scaffolding	12	15%	10%
Tools (Electric & Pneumatic)	4	33%	24%
Trailers/ Trolleys/ Carts	10	20%	13.5%
Welding Equipment	10	18%	12.5%



Depreciation rates

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%	6.5%
Maintenance Units	20	10%	6.5%
Solar Panels	25	4%	3%

Food Industry

Barbeques	8	20%	13.5%
Crockery, Cutlery & Glassware	3	50%	40%
Electric & Gas Stoves	8	20%	13.5%
Microwaves	5	25%	17.5%
Ovens	8	20%	13.5%
Baking Equipment	10	17.5%	12.5%

Fuel Industry

Gas Cylinders (LPG)	8	20%	13.5%
Petrol Bowsers	15	15%	10%
Storage Tanks	25	7.5%	5.5%
Underground Tanks	20	10%	6.5%

Leisure

Buoyancy Compensators	3	50%	40%
Cinema Equipment	10	18%	12.5%
Dive Tanks	10	18%	12.5%
Fitness Equipment	5	25%	17.5%
Karaoke Equipment	4	33%	24%
Kayaks	8	20%	13.5%
Pool Tables	15	15%	10%
Trampolines	5	25%	17.5%
Windsurfers	3	50%	40%

Motels & Hotels

Beds	10	18%	12.5%
Cash Registers	5	25%	17.5%
Dishwashers	5	25%	17.5%
Dryers	5	25%	17.5%
Appliances (general)	8	20%	13.5%
Fridges & Freezers	8	20%	13.5%



Depreciation rates

Fryers	15	15%	10%
Lighting	8	20%	13.5%
Mattresses	5	25%	17.5%
Satellite Dishes	15	15%	10%
Solar Heating Units	15	15%	10%
Spa Pools	15	15%	10%
Swimming Pools	25	5%	4%
Washing Machines	8	20%	13.5%

Office Equipment

Air-Conditioning Units	10	18%	12.5%
Alarms	8	20%	13.5%
Blinds & Curtains	8	20%	13.5%
Carpets	5	25%	17.5%
Chairs	10	18%	12.5%
Computers	4	33%	24%
Desks	15	15%	10%
EFTPOS Terminals	4	33%	24%
Facsimile Machines	5	25%	17.5%
Fire Extinguishers	15	15%	10%
Furniture & Fittings	10	18%	12.5%
Mobile Telephones	3	50%	40%
Modems	4	33%	24%
Photocopiers	5	25%	17.5%
Printers	4	33%	24%
Safes	20	10%	6.5%
Scanners	4	33%	24%
Telephone Handsets	4	33%	24%
Telephone Systems	10	18%	12.5%
Water Coolers	8	20%	13.5%

Transportation

Aircraft	25	10%	7.5%
Buses	15	15%	10%
Cars	5	25%	17.5%
Fire Engines	25	7.5%	5.5%
Forkhoists	15	15%	10%
Microlights	5	25%	17.5%
Motorbikes	5	25%	17.5%
Rental Bicycles	2	50%	40%
Rental Cars & Vans	4	33%	24%
Rental Motorbikes	4	33%	24%
Ships (Cargo)	25	7.5%	5.5%
Trucks	10	18%	12.5%
Yachts & Catamarans	15	10%	6.5%

Default Depreciation Rate

10%

(for assets not described above)