CANTERBURY EMPLOYERS' CHAMBER OF COMMERCE

WE KNOW

FINANCE

FIXED ASSET REGISTER

QUICK GUIDE

FIXED ASSET RECORDS

- An asset is something the business owns
- A fixed asset is an asset you generally expect to use in your business for more than a year
- You cannot deduct the full cost of purchasing these assets from your taxable income in the year of purchase - you can, however, claim depreciation
- You need to prove the purchase and sale of any fixed asset with a tax invoice
- If you start using a private asset for business purposes or if you keep business assets for private use after you stop operating, you have to confirm that the asset is valued at market value- this may mean getting an independent valuation
- Using a fixed asset register is a good way to keep track of these assets.

FIXED ASSET REGISTER

Description	Serial Number	Cost of value	Date Purchased	Remarks
Laser Printer	721	$890.00	01/10/08	
Personal Computer	722	$2,500.00	01/10/08	
Software	723	$1,000.00	25/11/08	
Desk	724	$500.00	28/3/10	
Chair	725	$250.00	28/03/10	
Car	726	$30,000.00	02/04/10	
Modem	727	$85.00	02/04/10	
Reception Desk	728	$1,000.00	15/06/10	
Telephone System	729	$490.00	15/06/10	
Pictures	730	$500.00	20/06/10	
Café Table	731	$250.00	12/07/10	
Refrigerator	732	$900.00	12/07/10	

Note: The cost of value excludes GST if you are registered for GST.

DEPRECIATION METHODS FOR FIXED ASSETS

- In most circumstances you can choose between the diminishing value and straight line methods of calculating depreciation
- You do not have to use the same depreciation method for all your assets, but you must use whatever method you choose for an asset for the full year
- You can change methods for any asset from year to year
- You can elect not to depreciate an asset
- The depreciation rates for various assets are set by Inland Revenue, and are based on the cost and useful life of the asset being depreciated.

- The general depreciation rates both diminishing value and straight line apply as follows:
  - **1993-2005 asset rates:** Use for assets acquired on or after 1 April 1993 and before 1 April 2005, and buildings acquired on or after 1 April 1993 and before 19 May 2005, and
  - **2006 and future years asset rates:** Use for assets other than buildings acquired on or after 1 April 2005 and buildings acquired on or after 19 May 2005.

1. **Diminishing value depreciation**
   The amount of depreciation is worked out on the adjusted tax value of the asset. This value is the original cost less any depreciation already claimed in previous years. If you are registered for GST the original cost price should not include GST you have already claimed in your GST return.

   Example
   A car purchased in May 2010 has a depreciation rate of 306% diminishing value. The cost (excluding GST) was $30,000

	Year 1	**Year2**	**Year 3**
Cost price	$30,000	$30,000	$30,000
Less depreciation already claimed	$0	$9,000	$6,300
Adjusted tax value	$30,000	$21,000	$14,700
Depreciation rate	30%	30%	30%
Claim this amount	$9,000	$6,300	$4,410

2. **Straight line depreciation**
   Depreciation is calculated on the original cost price of the asset, and the same amount is claimed each year. If you are registered for GST, the cost excludes any GST you have already claimed in your GST return.

   Example
   If the car in the example above is depreciated using the straight line method, the rate is 21%. The GST exclusive cost is $30,000, so the depreciation to claim each year is $6,300 ($30,000 x 21% = $6,300).

3. **Pooling assets**
   You may use a pool system to depreciate low-value assets collectively rather than individually and depreciate them as though they were a single asset
   - You must use diminishing value depreciation rates for pooled assets
   - You can pool assets that:
     - Individually cost $2,000 or less, or have been depreciated so the adjusted tax value is $2,000 or less, and
     - Are used 100% for business, or are liable for fringe benefit tax if the business use is less than 100%
   - Each pool is depreciated using the diminishing value method, at the lowest rate applying to any asset in the pool.

Assets costing $500 or less (including loose tools?
Low value assets (assets that cost less than $500) are deductible in the year they are acquired or created, provided:

- They are not purchased from the same supplier at the same time as other assets to which the same depreciation rate applies (unless the entire purchase costs less than $500).

- The assets will not become part of an asset that is depreciable, for example, the cost of materials to build a wall in a factory

- They were purchased on or after 19 May 2005 (the threshold before 19 May 2005 was $200.00).

ELECTING NOT TO DEPRECIATE

If you do not want to claim depreciation on an asset, and you want to avoid paying tax on depreciation recovered when that depreciation was not claimed, you must elect to treat the asset as not depreciable.

Let us know if you are making an election by notifying us in your tax return for the income year when:

- you purchase your asset
- you change the use of your asset from non-business to business
- you elect not to depreciate an asset that you have never claimed depreciation on - the election of this asset will apply for each year after the asset was purchased.

The focus is on an asset-by-asset election on whether to depreciate each item or not. Once you have notified IRD of your election not to depreciate an asset you cannot claim depreciation on it in future years. An example of where you may not want to claim depreciation is where you work from home and you have a small area set aside for business purposes, such as an office.

Although it is mandatory to claim a depreciation deduction, there can be instances where you may not want to. If you do not want to claim depreciation on an asset, and you want to avoid paying tax on depreciation recovered when that depreciation was not claimed, you should elect not to treat the asset as depreciable.

Let IRD know if you are making an election by notifying them in your tax return for the income year when:

- you purchase your asset
- you change the use of your asset from non-business to business
- you elect not to depreciate an asset that you have never claimed depreciation on. The election of this asset will apply for each year after the asset was purchased.

The focus is on an asset-by-asset election on whether to depreciate each item or not. Once you have notified us of your election not to depreciate an asset you cannot claim depreciation on it in future years. An example of where you may not want to claim depreciation is where you work from home and you have a small area set aside for business purposes, such as an office.

WHERE DEPRECIATION HAS BEEN CLAIMED ON THE BUSINESS AREA OF YOUR HOME

If you claim depreciation on the business area set aside in your home, you must include the depreciation recovered in your tax return when you cease using your home for business purposes, or when you sell your home.

The following example is based on a business (office) floor area of 10% of the total floor area of the house.

Original purchase price of house (excluding land value)	$140,000
Total depreciation claimed (over 5 years)	$2,100
Adjusted tax value	$137,900
Sale price	$200,000
Gain on sale	$62,100
Depreciation recovered	$2,100

When a building is sold for more than its adjusted tax value, the depreciation recovered is taxable income. The amount of depreciation recovered is the lesser of:

- the original cost price of the building, minus the adjusted tax value, or
- the sale price, minus the adjusted tax value.

COMPUTER SOFTWARE

The cost of software is a capital expense and must be depreciated. The cost includes paying for rights to use, purchasing upgrades and developing in-house packages.

ACCOUNTING FOR DEPRECIATION

In your income tax return, you must claim depreciation - or 'wear and tear' - on most fixed assets (unless you elect not to depreciate - see "Depreciation methods for fixed assets"). A fixed asset is something that your business owns and that you expect to use for business purposes for more than a year. There are some assets that do not depreciate, for example, land or trading stock.

You cannot claim the cost of an asset as a business expense against your income.

Use our Depreciation rate finder to look up the depreciation rate for any asset. Once you know the rate, you can calculate depreciation and record the asset's adjusted tax value (cost price less all depreciation calculated since you bought it).

Deductions for assets you no longer use
You may claim the remaining adjusted tax value of a depreciable asset that you have not disposed of if:

- you no longer use the asset in a business or to produce income, and
- neither you nor an associated person intends to use the asset in a business or in the future to derive gross income, and
- the cost of disposing of the asset would be more than any proceeds from disposing of the asset, and
- the asset is neither a building nor an asset being depreciated using the pooling method.

From the 2002/2003 income year, you are no longer required to apply for this deduction. You may deduct the remaining adjusted tax value of the asset if all of the above conditions are met.

However, for previous years you have to complete the *Application for a deduction of an asset no longer used (IR720)*.

SELLING AND DISPOSING OF ASSETS

If you sell or dispose of an asset for a different amount from its adjusted tax value, you must generally make an adjustment in your end-of-year tax return to account for the loss or gain.

This information has been compiled from various guides on the Inland Revenue website (www.ird.govt.nz). For detailed information on Depreciation read "Depreciation – a guide for business (IR260) - http://www.ird.govt.nz/forms-guides/number/forms-200-299/ir260-guide-depreciation.html.