Chapter 4

Depreciation of computer software

4.1 Schedule 2 of the bill amends the *Income Tax Assessment Act 1997* to increase the period over which taxpayers write off for tax purposes depreciable in-house software, from 2½ to 4 years.

4.2 The measure increases revenue. As some revenue is brought forward (by deferring a deduction), the increase in revenue is projected to peak at $681 million in 2010–11 before settling down to around $70 million in later years.[1]

4.3 The measure aligns the depreciation period for computer software with that for computer hardware.

4.4 The following exchange with Treasury in Budget Estimates suggests the measure is not based on any evidence that software is depreciating more slowly than used to be the case.

> Senator BUSHBY—Do you have evidence that software lasts longer now than it did in the past—its applicability and usefulness?
>
> Mr Brown—The main feature of the costing is that it aligns the effective life of the software with the effective life of the relevant hardware. In terms of the life of software, no.[2]

4.5 Some accountants have challenged it:

> It is a curious change as the rate of technological advances mean that the useful life of software is generally becoming shorter rather than longer. [3]

4.6 However, four years seems more consistent with general views about the useful life of software. A study by Statistics Canada suggests the useful life of computer software was 3 to 5 years.[4] In the United Kingdom software is depreciated at 25 per cent using accelerated depreciation, while in Ireland it is depreciated over seven years.[5]

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1 *Explanatory Memorandum*, p. 5 and *Proof Estimates Hansard – Economics*, 3 June 2008, p. 98.

2 *Proof Estimates Hansard – Economics*, 3 June 2008, p. 99.

3 Mr Mark Whittard, General Manager, Toshiba Australia, cited in *Australian Financial Review*, 15 May 2008, p. 14.

4 John Baldwin et al, 'Estimating depreciation rates for the productivity accounts', Statistics Canada, September 2005, p. 77.

5 Brent Mast, Congressional Research Service, 'Selected international depreciation rates by asset and country', January 2007.

4.7 The accounting treatment of software by some large companies (concentrating on those likely to be large users of software) and agencies is shown in Table 4.1. Given the data shown below, four years does not seem an unreasonable assumption for the useful life of software.

Table 4.1: Depreciation of software: assumed useful lives (years)

Banks		***Government***	
ANZ Bank	3 to 5	Department of Treasury	3 to 5
Commonwealth Bank	3	Australian Taxation Office	5
National Australia Bank	3 to 5	Australian Bureau of Statistics	2 to 28
Westpac	3 to 5	Dep't of Prime Minister & Cabinet	4 to 5
St George Bank	3 to 5	Reserve Bank of Australia	4 to 7
Macquarie Bank	3	***Other***	
Suncorp	3 to 5	Rio Tinto	2 to 5
Other Financial		Telstra	6
Australian Securities Exchange	7 to 10	Metcash	5
Insurance Australia Group	3	Qantas	3 to 5
QBE Insurance	5	Brambles	3 to 7
Challenger Financial Services	5	Toll Holdings	3 to 5

Sources: latest Annual Reports

4.8 A point raised by Treasury is that small business will be insulated from this measure:

> small business is unaffected by this measure because small businesses—that is, those with a turnover of less than $2 million—retain the ability to either write things off immediately if it is under $1,000, or to put it in a pool if it is above that… there are between 1.9 and two million small businesses. They are not going to be affected by this…[6]

6 Mr Matthew Flavel, *Proof Committee Hansard*, 20 June 2008, p. 6.