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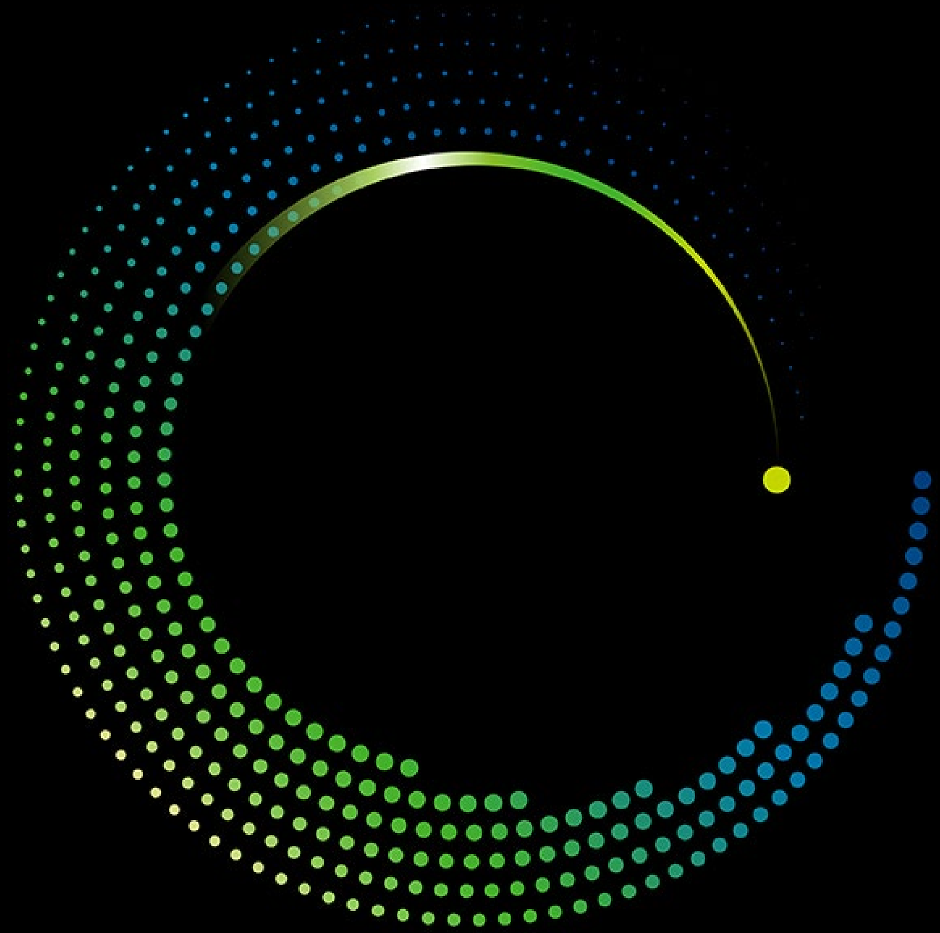

Tax Newsletter

Timely news and information on national tax issues

Alternative method for analyzing the sale of fully depreciated fixed assets

In transfers of assets (movable or immovable) between related parties, it is common to find that the sale price considers the book value of the asset as its basis. However, this value may not coincide with the current market price of the asset, and thus result in non-compliance with the arm's length principle in the transaction.

Under normal conditions, the application of the *Comparable Price Method (CPM)* in its internal or external version should be evaluated for this type of transaction. However, under this methodology, there is a limitation in the market (local and international) in that it is difficult to identify public information for similar transactions in order to apply a direct comparison.

Therefore, it is necessary to apply an alternative methodology of analysis when dealing with assets that meet the following conditions: (1) their depreciation in accounting has resulted in their value being close to or equal to zero; and (2) due to the characteristics of the asset, there is no valuation provided by an independent third party (expert appraiser or original supplier).

Normally, it is the taxpayer's responsibility to adopt the depreciation calculation method that best suits its policies, business activity, or characteristics of the asset.

However, many taxpayers commonly find that their assets have an accounting value close to zero even when their estimated impairment and functionality allows for several more periods.

That is, that their "fully depreciated" assets can continue being used for generating ordinary income, and thus implicitly contain a market or realization value that is different from their accounting value.

In this respect, with the purpose of increasing the level of reliability in transactions consisting of the sale of assets between related parties, there is the possibility of applying an adjustment to the book value by using economic references that are available in public databases. With this source of public information, it is possible to document the percentages of estimated depreciation for different types of assets based on the industry they belong to.

Thus, depending on the statistics of each industry, it is possible to obtain a more realistic estimated useful life with respect to the use associated with these types of assets. Following is a hypothetical example:

Asset	Accounting Value	Reference Value
Computer equipment (Acquisition cost)	$10,000	$10,000
% Depreciation	25%	10%
Useful life	4 years	10 years
Balance to be depreciated (at the end of year 4)	$0	$6,000

According to this example, by using a source of public information, the adjusted and more realistic depreciation rate is 10%, that is, a useful life of 10 years instead of the 4 years that the taxpayer would ordinarily apply.

Under this premise, it is possible to conclude that upon transferring this asset at the end of year 4 and recalculating its accumulated depreciation with respect to the statistics of the industry, its balance to be depreciated ($6,000) would represent a cost consistent with the asset's useful life, and subsequently it would be possible to estimate the profit or *Markup* that the seller would obtain through a profit margin (generally a Return on Assets).

This method of analysis is presented as an alternative, and therefore it is important to check that no internal comparables are available, including those agreed upon by other related parties and independent third parties, **since these could better reflect the taxpayer's specific situation.**

In these cases, the public information obtained consolidates the market data and may not consider specific situations that require a particular analysis.

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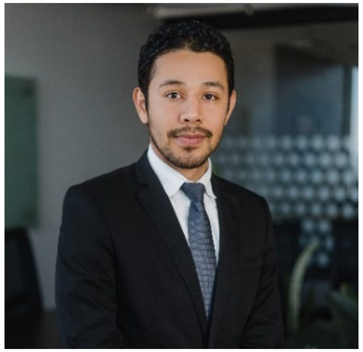

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Tax Calendar

Use our 2024 Tax Calendar to keep informed about:

Tax Obligations before the Tax Office (Ministerio de Hacienda)

Municipal Tax Obligations

Payroll Management Obligations

August 2024

S	M	T	W	T	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

To learn more about **August's** obligations:

Download the 2024 Tax Calendar

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