
Indexation example

Below is an example from the EM of how the indexation formula is to work.

The example appears to indicate that there will be a difference, from an indexation perspective, based on how an asset acquisition is funded despite the overall incurred cost being the same.

The example provides that indexation only applies from when an instalment is paid to a vendor (ie a vendor finance model with instalments). If this is compared to a bank funded acquisition with a single payment to the vendor (albeit repayments to the bank would be periodical), then the full amount would appear to be indexed from day one. Given that the total amount of acquisition cost under either financing model is the same, it will be interesting to see whether this apparent inconsistency is removed.

Example

- > Marcus agrees to acquire an investment asset in July 2027 for 10 equal quarterly instalments of \$10,000. Each payment is made quarterly with the final instalment paid on 1 April 2030.
- > Each instalment is treated as a separate amount of expenditure incurred at the time it is paid.
- > Marcus cannot treat the \$100,000 as a single cost as this is different to the real cost of the asset that was paid over time.
- > Instead, each of the ten \$10,000 payments forms part of the first element of the cost base at the point in time it is paid and is indexed accordingly.

As always please reach out to your Engagement Partner to discuss how these changes will affect your individual circumstances.