# Issue

# Service policies vary in regards to assessing a salvage value when calculating the depreciable basis of an asset. Some Services take salvage value into account and other Services ignore salvage value. The FMR requires assessing a salvage value when the salvage value exceeds 10 percent of the asset’s cost.

# Research

Below outlines the current treatment on how each service complies and what the regulations, accounting guidance and industry standards are for this area.

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| Salvage Value Policy | Air Force | Army | Navy | Marines |
| Use of Salvage Value | Assesses salvage value when applicable | Does not assess salvage value | Does not assess salvage value | Assesses salvage value when >10% of asset cost |
| DoDI 1015.15: No mention of NAFI policy. Has salvage value policy for the Armed Services Exchanges: 6.4.2.6.2.2. “Compute salvage value on personal property when it is expected that proceeds will be received from selling the asset at the end of its useful life and when the salvage value is expected to exceed 10 percent of the asset’s cost. If the salvage value is 10 percent or less of the asset’s cost, the salvage value is not considered material for the purposes of calculating depreciation and is not included when determining the depreciable base.” | N/A | N/A | N/A | N/A |
| FMR Volume 13, Chapter 3. 030306. A. 10. Depreciation: “Also, refer to Volume 4, Chapter 6, paragraph 060205 for the requirements for salvage value to be subtracted from the acquisition cost of fixed assets before computing depreciation.”  Volume 4, Chapter 6. 060205. E. Depreciable Basis (June 2009): “The depreciable basis of a General PP&E asset is the recorded cost reduced by the asset’s salvage value, if such salvage value exceeds 10 percent of the asset’s cost. If the salvage value is 10 percent or less of the asset’s cost, the salvage value is not considered material for purposes of calculating depreciation, and therefore, should not be considered when determining the depreciable basis.” | Follows alternative guidance | Follows alternative guidance | Follows alternative guidance | Follows current guidance |
| FASB ASC 360-10 Summary: Depreciation should be based on the cost of the asset reduced by its estimated salvage value. Typically, salvage values will be nominal or offset by the cost of removing the assets (since the salvage value will not be realized without incurring costs of removal) and, thus, can be ignored. However, in some cases, particularly if the entity expects to dispose of the property before the end of its physical life, salvage may be significant. Salvage value does not exist if the costs to remove the asset exceed the expected amount to be realized. | Follows current guidance | Follows alternative guidance | Follows alternative guidance | Follows current guidance |
| FASAB Handbook SFFAS 44 paragraph A23: “Depreciation systematically and rationally allocates the historical cost of the G-PP&E's service utility to the benefitting periods. The asset’s costs are allocated (i.e., the asset is depreciated) across multiple periods based on asset management plans and formulas, including such variables as expected useful life of the asset, usage patterns, and residual or salvage value, if any.” | N/A | N/A | N/A | N/A |
| Industry Practice: Industry practice is to assess salvage value for assets that are expected to be sold upon retirement. Varying practices exist for determining how salvage value is calculated and for determining what constitutes a significant salvage value. | Follows current guidance | Follows alternative guidance | Follows alternative guidance | Follows current guidance |

# Discussion

At the time this position paper was written, the FMR required the Services to subtract an asset’s salvage value from its cost when determining the asset’s depreciable basis if the salvage value exceeds 10 percent of the asset’s cost. Salvage value can be ignored if it is less than 10 percent of the cost. This guidance is in accordance with GAAP and similar to industry practice since both GAAP and industry practice call for subtracting salvage value from an asset’s cost so that depreciation expense is not overstated. In addition, GAAP and industry practice both recognize that not every salvage value is significant enough to warrant an adjustment to the asset’s depreciable basis. This is the reason why the FMR establishes a 10 percent threshold for salvage value.

The FMR’s 10 percent threshold is comparable to other Government standards as well. The Department of State establishes a standard 10 percent salvage value for all Department-owned assets. Additionally, the IRS has a “10 percent rule” that allows taxpayers to ignore salvage value for depreciation when the salvage value is less than 10 percent of the asset’s cost.

The Services made known the following points about their depreciation expense. Some Services do not assess salvage value since it is difficult to estimate; therefore, these Services ignore salvage value for depreciation. All Services also made it known that they do not usually have instances where salvage value exceeds 10 percent of the asset’s cost. This is sometimes due to DRMO selling and keeping the proceeds of retired assets and other times due to the circumstances of the sale. Nevertheless, some Service-specific policies explicitly mention that salvage value is never to be assessed for depreciation.

# Recommendation

Since a policy that never takes salvage value into consideration can lead to overstating depreciation expense, it is recommended that the current FMR guidance be adopted by all Services. The FMR’s 10 percent threshold for using salvage value ensures that the Services will only have to compute salvage value in cases where salvage value is significant. This recommendation has the benefit of standardizing depreciation across all Services while also recognizing that it is not always feasible or necessary to subtract salvage value when determining an asset’s depreciable basis.

No changes necessary to the 1015.15. The current version of the FMR does not include the 10 percent threshold. As such, the FMR will need to be updated to include the 10 percent threshold for salvage value.

# Service Concurrence

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| Service | Concurrence | Reason for Non-concurrence |
| Air Force | Concurrence on 3/26/2015. **Re-concurred 10/19/2018.** |  |
| Army | Concurrence on 3/26/2015. **Re-concurred 11/2/2018.** |  |
| Marines | Concurrence on 3/26/2015. **Re-concurred 10/31/2018.** |  |
| Navy | Concurrence on 3/26/2015. **Re-concurred 11/2/2018.** |  |

# USD(P&R)/MC&FP Disposition

No further action.

**DFAS Disposition**

Revise DoD FMR to include 10 percent salvage value threshold.

# Forward to DoDIG?

No DoDIG equities.