IT 2166 - Income tax: basis of assessment for income from chattel leasing transactions

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TAXATION RULING NO. IT 2166

INCOME TAX: BASIS OF ASSESSMENT FOR INCOME FROM CHATTEL LEASING TRANSACTIONS

F.O.I. EMBARGO: May be released

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REFERENCE NO:	SUBJECT REFS:	LEGISLAT. REFS:
I 1187131	INCOME FROM CHATTEL LEASING	25(1)

OTHER RULINGS ON TOPIC IT 2162

PREAMBLE

Taxation Ruling No. IT 2162 restates the official approach to the financial or actuarial method of returning income from chattel leasing transactions. Essentially the Ruling provides a choice of the financial or actuarial method or the traditional method of gross rentals less deductions for depreciation etc. Where a choice is made, that method must be used for all transactions entered into after that date. One or other method may be used but not both. Paragraph 4 of the Ruling requires companies or companies in a group to return income from chattel leasing transactions on the one basis.

2. Since the release of the Ruling a number of enquiries have been received from or on behalf of companies affected by the Ruling asking whether paragraph 4 of the Ruling applies to existing transactions or transactions entered into after the date of the Ruling and whether any time is to be permitted to effect the change required by paragraph 4. A further question has arisen whether the Ruling applies where a company in a group is not wholly owned, e.g., where a leasing company is owned by two arm's length companies.

3. It has been suggested that some time should be given to companies to comply with paragraph 4 because of their need to effect substantial changes to accounting systems. For this reason it has been further suggested that the Ruling should be applied to all leasing transactions entered into during the 1985/86 and subsequent income years.

4. However, not all companies affected by the Ruling have the same balance date. While a number of the companies balance on 30 June each year it is known that some balance on 30 September in lieu of the preceding 30 June and others balance on 31 December each year in lieu of the subsequent 30 June. To delay change in the method of income tax accounting until the 85/86 income year may be seen as giving an advantage to those

companies that balance after 30 June.

RULING

5. The requirement in paragraph 4 of Ruling No. IT 2162 will be satisfied if the common basis of returning income from chattel lease transactions is applied to all transactions entered into on and after 1 July 1985. The income from chattel leases entered into prior to 1 July 1985 may be returned on the same basis as is presently used.

6. Where a company in a group is not a wholly owned subsidiary, the method of bringing to account income from chattel lease transactions entered into on or after 1 July 1985 will depend upon the particular circumstances of each case. As a general rule it would be expected that the same method would be used as is used by the company's shareholders. If the methods used by the shareholders differ, the method used by the controlling shareholder would be adopted. In some cases the controlling shareholder may not be a leasing or finance company and in other cases there may be equal shareholders where the methods used by the equal shareholders vary - in these situations the rentals less depreciation method would be used.

COMMISSIONER OF TAXATION
18 June 1985