IT 2264 - Income tax : expenditure on minor items of plant and equipment

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TAXATION RULING NO. IT 2264

INCOME TAX : EXPENDITURE ON MINOR ITEMS OF PLANT AND EQUIPMENT

F.O.I. EMBARGO: May be released

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PREAMBLE

For some years it has been the practice of this office to allow mining companies, including petroleum mining companies, to write off, i.e. to claim income tax deductions for, expenditure on minor items of plant and equipment in the year in which the expenditure is incurred rather than to require them to claim income tax deductions by way of depreciation and balancing charges on disposal. As a corollary to the practice any amounts received in respect of the disposal of minor items of plant and equipment are included in assessable income.

2. The practice has its origin in the fact that mining companies, in the ordinary course of conducting their mining operations, continually acquire or replace a large number of minor items of plant and equipment. The number of items acquired in a year may run into many thousands - they are continually being used up in the mining operations. It is acceptable to the companies' auditors if the cost of the minor items is treated as a revenue expense in the yearly accounts of the companies.

3. From an income tax revenue point of view the practice is considered to be largely neutral. The various minor items of plant and equipment have a limited life - the fact that they are subject to continual expenditure indicates this. The amount of income tax deduction allowed by writing off the expenditure in the year in which it is incurred is not seen as differing markedly from the amount of the income tax deduction that would be obtained by allowing depreciation and balancing charge adjustments. Against this background it is convenient for both the companies and this office to eliminate from depreciation schedules attached to income tax returns the mass of detail of each item of minor plant and equipment.

RULING

4. It has been decided that the practice may be continued, i.e. where the cost of minor items of plant and equipment does not exceed $500 per item, the cost may be written off, i.e. claimed as an income tax deduction, in the year in which it is incurred.

5. Deduction on this basis will not be available for:

(a) items of plant and equipment involved in any new establishment or complete re-equipment or refurnishing of all or a major section of an office, laboratory, workshop or other accommodation;

(b) items of plant and equipment capitalised in a company's books of account;

(c) expenditure in respect of which depreciation is not allowable; and

(d) expenditure which is deductible under Divisions 10 or 10AA.

6. Any company permitted to adopt the practice should include a statement in each return of income showing the total amount sought to be deducted and confirming that the amount does not include amounts in respect of items listed in the preceding paragraph. Approval to adopt this practice should be given on the understanding that all proceeds from the disposal, loss or destruction of the relevant minor items of plant and equipment will be returned as assessable income in the year of receipt.

7. It would be difficult to justify limiting the practice to mining companies. There are companies engaged in activities other than mining whose scale of operations is similar to mining companies and requires continual expenditure on the acquisition of large numbers of low cost items of plant of a relatively short life - they may be permitted to adopt the practice subject to the same sorts of conditions that apply to mining companies. It would not be appropriate, however, to extend the practice to leasing companies. Depreciation is an essential element in the basis upon which returns of income are lodged by leasing companies.

8. It is expected that companies permitted to adopt this practice would do so in good faith. In any case where a company attempts to manipulate the practice to gain a greater benefit, e.g. allocating costs of $500 or less to components of a plant item or arranging a major refurnishing over two income years, the company should be required to account for minor items of plant and equipment in depreciation schedules.

COMMISSIONER OF TAXATION
26 February 1986

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