

ST 2366 - SALES TAX : AIDS TO MANUFACTURE - RECONDITIONING OF MOTOR VEHICLE ENGINES

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TAXATION RULING NO. ST 2366

SALES TAX : AIDS TO MANUFACTURE - RECONDITIONING OF
MOTOR VEHICLE ENGINES

F.O.I. EMBARGO: May be released

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REFERENCE NO:	SUBJECT REFS:	LEGISLAT. REFS:
I 1211300	RECONDITIONING MOTOR VEHICLE ENGINES MANUFACTURE AIDS TO MANUFACTURE GOODS	SALES TAX ASSESSMENT ACT (NO.1), SECTION 3 SALES TAX (EXEMPTIONS AND CLASSIFICATIONS) ACT, ITEM 113C, FIRST SCHEDULE.

OTHER RULINGS ON TOPIC: ST 2170

PREAMBLE Paragraph 6 of Taxation Ruling No. ST 2170 indicated that the reconditioning of motor vehicle engines is manufacture for sales tax purposes. Statements followed in the ruling that indicated that in some cases "goods" as defined in sub-section 3(1) of Sales Tax Assessment Act (No.1) were produced and that in other cases "second-hand goods", which are excluded from the definition of "goods" and therefore are not taxable on their sale, were produced (i.e., where the value of new components did not clearly predominate in the reconditioned article).

2. The further question of whether engine reconditioners are entitled to purchase reconditioning equipment free of sales tax as "aids to manufacture", as defined in the First Schedule to the Sales Tax (Exemptions and Classifications) Act, was recently considered.

3. This involves the 2 situations described above. First, where "goods" as defined (new goods), are produced by the reconditioning process, i.e., the value of new and imported components clearly predominate in the final reconditioned engine. The second situation arises where locally used components clearly predominate and "second-hand goods", i.e., those excluded from the definition of "goods", are produced by the reconditioner.

4. In the second situation ST 2170 states that reconditioners will meet their sales tax liability by the payment of sales tax on any new parts or materials, or imported second-hand parts or materials, that have been used in the reconditioning process. These reconditioners are not required to register for sales tax purposes as manufacturers.

RULING 5. Exemption under the aids to manufacture provisions is available for machinery and equipment for use exclusively or primarily and principally in the manufacture of goods. When these provisions were introduced into the law in 1945 their

purpose was explained as follows:-

"The exemption will apply to machinery, implements and apparatus for use exclusively, or primarily and principally, in the manufacture of goods. It will not apply to machinery, implements and apparatus for use exclusively, or primarily and principally, for repairs, or for other purposes not involving the manufacture of goods."

6. The clear intention of the provision was to provide exemption for production equipment used in the manufacture of new goods, i.e., goods liable to payment of sales tax. The purpose of the provision was to ensure that goods going into use or consumption in Australia are not taxed twice through payment of tax on the equipment to produce the goods and again on the goods when they are sold.

7. It follows that exemption under the aids to manufacture provisions applies only to equipment used to produce new goods. It does not extend to situations where the activities do not involve the manufacture of new goods, for example, where second-hand reconditioned engines are produced.

8. Thus, where "goods", as defined, (or new goods), are produced by engine reconditioners they are entitled to sales tax exemption on equipment used as aids to manufacture in their reconditioning operations. They are required to register for sales tax purposes as manufacturers and account for tax on the new engines produced.

9. On the other hand, motor vehicle reconditioners who do not produce new goods, are not entitled to purchase reconditioning equipment free of sales tax under the "aids to manufacture" provisions. Their sales tax liability will be satisfied by the payment of sales tax on any new parts or materials or imported second-hand parts or materials that have been used in the reconditioning process, as indicated in ST 2170, and also by the payment of sales tax on equipment used in the reconditioning process.

10. In situations where a reconditioner produces both new goods and second-hand goods and the same equipment is used in the reconditioning processes, an assessment of the degree of use of such equipment will be necessary to determine whether the equipment qualifies for exemption as aids to manufacture. To qualify for exemption as an aid to manufacture the reconditioning equipment would have to be for use primarily and principally in the reconditioning of used engines that results in the manufacture of new goods. If reconditioners have any doubts about this area of their operations then they should contact the nearest Australian Taxation Office for advice.

COMMISSIONER OF TAXATION
22 October 1987