IT 174 - Plant leasing transactions - residual values

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TAXATION RULING NO. IT 174

PLANT LEASING TRANSACTIONS - RESIDUAL VALUES

F.O.I. EMBARGO: May be released

REF H.O. REF: J146/569 P8 F374 DATE OF EFFECT:

B.O. REF: DATE ORIG. MEMO ISSUED: 16.01.81

F.O.I. INDEX DETAIL

REFERENCE NO:	SUBJECT REFS:	LEGISLAT. REFS:
I 1100283	LEASED PROPERTY	26AAB
	RESIDUAL VALUES	54
	DEPRECIATION	55
	PLANT	56(1B)

OTHER RULING ON TOPIC IT 28

PREAMBLE A review was made of the policy on plant leasing transactions covered in a statement issued on 21 October 1960 (now IT 28), especially as it related to residual values.

2. Accepting that, not only is leasing a legitimate method of providing plant and other equipment for use in a business, it is also a permanent and common factor in capital planning calculations, we are not in a position where drastic alterations to the current guidelines may readily be made. It has, of course, always been recognised that a leasing transaction may be a disguised purchase/sale on terms and the current requirements are aimed at distinguishing between such a transaction and a genuine lease.

3. Careful consideration has been given to the view that the leasing guidelines (now availabe as IT 28), particularly in relation to residual values, do not reflect the current economic realities of the business world. The area causing most concern is that covering the leasing and subsequent re-sale of motor vehicles. However, in view of the introduction of sections 26AAB and 57AF into the Act, it is hoped that the problems in this area might now be controlled. The matter will, of course, be reviewed if experience discloses that they fail to correct the abuses they are intended to overcome.

RULING 4. In relation to plant other than motor vehicles, it is felt that in the vast majority of cases, the present guidelines are adequate. It is appreciated that, due to inflation, the market value of plant upon the termination of a lease may be in excess of the residual value calculated four years or more earlier in accordance with the guidelines. But equally, it may be much less which is what is presently being claimed in respect of, for example, much computer oriented equipment. Consideration has been given to the view that the residual value should represent a bona fide estimate of the market value of the plant on the termination of the lease but this approach would

immediately raise the problem as to how the Taxation Office would estimate market value in several years' time or check such an estimate, particularly in relation to specialised plant. Reliance upon expert opinion (and in most cases the lessees would be such experts) could put our administration of this area in a much worse position than adherence to the guidelines would.

5. It is confirmed, therefore, that the current guidelines should continue to be applied in considering leasing transactions.

COMMISSIONER OF TAXATION