

IT 26 - Computers - depreciation, investment allowance



TAXATION RULING NO. IT 26

COMPUTERS - DEPRECIATION, INVESTMENT ALLOWANCE

F.O.I. EMBARGO: May be released

REF

N.O. REF: 79/4188 F6

DATE OF EFFECT:

B.O. REF:

DATE ORIG. MEMO ISSUED: 21.12.79

F.O.I. INDEX DETAIL

REFERENCE NO:

SUBJECT REFS:

LEGISLAT. REFS:

I 1100262

COMPUTERS

55

SOFTWARE

82AA

HARDWARE

51(1)

DEPRECIATION

INVESTMENT ALLOWANCE

PREAMBLE

As a result of representations received, the following rulings were issued in relation to the treatment of computer costs for income tax purposes.

RULING

COMPUTER HARDWARE

2. Computer "mainframe" or "hardware" constitute depreciable plant and qualify for investment allowance, the latter being subject to the other requirements of the investment allowance provisions of the Income Tax Assessment Act 1936 being met. Associated delivery and installation costs form part of the total capital cost for depreciation and investment allowance purposes.

3. Computer systems installed on or after 1 July 1976 may be depreciated at the rate of 20% per annum prime cost or 30% per annum diminishing value.

COMPUTER SOFTWARE

4. The costs of "software" or "programs" would normally be allowed as deductions to purchaser in the year in which the costs are incurred. Such costs are accepted as revenue expenses deductible under section 51(1) of the Act. Further, items of computer software or programs would not qualify for investment allowance.

5. Where, however, the software is sold as an integral part of the computer system itself, for example, because of the technical nature of the computer system, the total computer system would be subject to depreciation and the investment allowance.

6. If, under a contract of sale, a separate allocation of price is made for maintenance of a computer, the costs of maintenance would be expenses deductible by a purchaser under section 51(1)

in the year in which the expenses are incurred. Where, however, the contract does not include a separate maintenance fee, but provides for maintenance of the computer, the cost of the computer as invoiced would be taken into account in determining depreciation and investment allowance deductions.

COMMISSIONER OF TAXATION