

TD 93/126 - Income tax: once commissioned plant has been handed over to its owner, is the expenditure incurred by a company in bringing the said plant into a fully operational state, deductible under section 8-1 of the Income Tax Assessment Act 1997 ?

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! This Ruling has been reviewed as part of a project to review public rulings. The ATO view expressed in this Ruling is current as of 30 January 2018.


! This document has changed over time. This is a consolidated version of the ruling which was published on *10 March 2010*

This Determination, to the extent that it is capable of being a 'public ruling' in terms of Part IVAAA of the *Taxation Administration Act 1953*, is a public ruling for the purposes of that Part. Taxation Ruling TR 92/1 explains when a Determination is a public ruling and how it is binding on the Commissioner. Unless otherwise stated, this Determination applies to years commencing both before and after its date of issue. However, this Determination does not apply to taxpayers to the extent that it conflicts with the terms of a settlement of a dispute agreed to before the date of issue of the Determination (see paragraphs 21 and 22 of Taxation Ruling TR 92/20).

[Note: This is a consolidated version of this document. Refer to the Tax Office Legal Database (<http://law.ato.gov.au>) to check its currency and to view the details of all changes.]

Taxation Determination

Income tax: once commissioned plant has been handed over to its owner, is the expenditure incurred by a company in bringing the said plant into a fully operational state, deductible under section 8-1 of the *Income Tax Assessment Act 1997*?

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1. Yes. Once completed plant has been installed and handed over to its owner in an operational state the cost of bringing the plant into full operation would be revenue expenditure and allowable under section 8-1 of the *Income Tax Assessment Act 1997* (ITAA 1997).
2. It is accepted that bringing plant into full operation may involve periods of testing, fine tuning etc. This "switching-on" process may even involve each subsidiary stage being tested and operated progressively to the point where the whole operation is functioning, albeit at something less than 100%. Costs incurred in this process would generally qualify as allowable deductions.
3. For example, the costs of raw materials used in fine tuning the plant qualify as a deduction as do normal overhead expenses relating to that plant such as cleaning and lighting of premises etc. General labour expenses incurred whilst the plant is undergoing its "switching-on" process as well as costs of training staff to operate the new facilities are also allowable deductions.
4. The situation would be considered different however, where plant which has been handed over to the owner by the construction contractor, has not reached an operational state or where deficiencies in design or operation emerge. Additions or modifications to new plant in these circumstances would be considered to be of a capital nature and would become part of the capital construction or installation costs of the plant. Such costs may be eligible for depreciation under section 40-25 of the ITAA 1997.
5. This ruling does not deal with the costs of installation of plant. The taxation treatment for the costs of installation of plant is considered in Taxation Ruling IT 2197.

Commissioner of Taxation

1/7/93

FOI INDEX DETAIL: Reference No. I 1215427 Previously issued as Draft TD 92/D200

Related Determinations:

Related Rulings: IT 2197

Subject Ref: plant set-up costs

Legislative Ref: ITAA 1997 8-1; ITAA 1997 40-25

Case Ref:

ATO Ref: MPS 655/1

ISSN 1038 - 8982