TD 92/D204 - Income tax: when is the construction cost of an access road incurred by a person carrying on timber operations for the purpose of gaining or producing assessable income an allowable deduction?

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Draft Taxation Determinations (TDs) represent the preliminary, though considered, views of the ATO. Draft TDs may not be relied on; only final TDs are authoritative statements of the ATO.

Draft Taxation Determination

Income tax: when is the construction cost of an access road incurred by a person carrying on timber operations for the purpose of gaining or producing assessable income an allowable deduction?

1. Section 124E of the *Income Tax Assessment Act 1936* defines 'access road' as meaning a road (including a bridge, culvert or similiar work forming part of the road) constructed primarily and principally for the purpose of providing access to an area so as to enable:

(a) the planting or tending of trees in the area; or
(b) the removal from the area of timber felled in the area;

and defines 'timber operations' as meaning:

(a) the planting or tending of trees for felling;
(b) the felling of standing timber;
(c) the removal of felled timber; or
(d) the milling or other processing of felled timber.

2. Subsection 124F(1) allows a deduction for the construction cost of an access road (as defined) incurred by a person in connection with the carrying on by him of timber operations (as defined) for the purpose of gaining or producing asessable income.

3. Under subsection 124F(2) the construction cost is deductible by equal annual instalments over the estimated useful life of the access road, or 25 years, whichever is the less.

Example 1:

XYZ Pty Ltd carries on timber operations. It pays $100,000 for an access road during the year ended 30 June, 1990. It pays a further $18,000 during the year ended 30 June,1991. The road will be used in these operations for ten years.

Deduction allowable for the year ended 30 June, 1990 -

$$\frac{100,000}{10} \qquad \$10,000$$

Deduction allowable for the year ended 30 June, 1991 -

Construction costs during the year ended 30 June, 1990	*100,000*
Construction costs during the year ended 30 June, 1991	*18,000*
	118,000
Deduction 30 June, 1990	*10,000*
	108,000

Amount Deductible

$$\frac{108,000}{9} \qquad \$12,000$$

Example 2:

The company pays $100,000 for an access road during the year ended 30 June, 1991. The road will be used in the timber operations for 30 years.

Deduction allowable for the year ended 30 June, 1991-

$$\frac{100,000}{25} \qquad \$4,000$$

Commissioner of Taxation
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