


IT 176 - Income tax: rates of depreciation-motor vehicles subject to sale and buy-back agreements

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TAXATION RULING NO. IT 176

RATES OF DEPRECIATION - MOTOR VEHICLES SUBJECT TO SALE
AND BUY-BACK AGREEMENTS

F.O.I. EMBARGO: May be released

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I 1102093

SALE AND BUY-BACK
AGREEMENT
DEPRECIATION
RENTAL CARS

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PREAMBLE

A motor vehicle sales company (A) sought approval to adopt rates of depreciation at variance with standard rates.

2. For a number of years A has leased new vehicles to companies engaged in the business of car rentals. This arrangement is to be replaced by an agreement under which the car rental companies will purchase the vehicles and will resell those vehicles to A at a predetermined price within a specified period of time. Finance for the purchase of the vehicles will be provided under Agreement by A's credit company (A Credit). The usual contract period will be 15 months, and monthly payments of principal will reduce the amount owing on the loan to the buy-back price. On repurchase the car rental companies will pay out the loan provided by A Credit.

3. A has proposed that for depreciation purposes a rental company be allowed to depreciate a vehicle by an amount equal to the difference between the original selling price and the agreed repurchase price. For example, if a vehicle is sold to a rental company for \$3,000 and the agreed repurchase price is \$2,200 and the term of the agreement is 15 months, the car rental company would be entitled to a deduction of \$800 over the period of the contract.

RULING

4. A was advised, subject to the usual reservation regarding advance rulings, that it would be accepted that the vehicles sold by A subject to the buy-back agreement and the loan facility agreement would give rise to a deduction for depreciation in the hands of the purchaser. The proposed basis of calculating depreciation was also approved, but it was pointed out that this basis would also require the consent of the purchaser.

COMMISSIONER OF TAXATION