IT 196 - Plant purchased under hire purchase agreements - treatment of hiring charges

This cover sheet is provided for information only. It does not form part of *IT 196 - Plant purchased under hire purchase agreements - treatment of hiring charges*

This ruling contains references to repealed provisions, some of which may have been rewritten. The ruling still has effect. Paragraph 32 in TR 2006/10 provides further guidance on the status and binding effect of public rulings where the law has been repealed or repealed and rewritten. The legislative references at the end of the ruling indicate the repealed provisions and, where applicable, the rewritten provisions.

Generated on: 13 August 2026, 03:13:09 AM

TAXATION RULING NO. IT 196

PLANT PURCHASED UNDER HIRE PURCHASE AGREEMENTS - TREATMENT OF HIRING CHARGES

F.O.I. EMBARGO: May be released

REF H.O. REF: J 84/2 P2 F361 DATE OF EFFECT:

B.O. REF: DATE ORIG. MEMO ISSUED: 25.10.51

F.O.I. INDEX DETAIL REFERENCE NO:	SUBJECT REFS:	LEGISLAT. REFS:
I 1102311	HIRE PURCHASE CHARGES - PLANT	54 51(1)
	INTEREST	
	INSURANCE	
	DEPRECIATION	

PREAMBLE Representations have been made concerning the treatment for income tax purposes of interest, insurance payments and hiring charges in respect of plant purchased under hire purchase agreements.

RULING 2. In the course of a survey of the practices followed in Branch Offices in regard to the allowance of deductions in respect of the abovementioned items, it has been ascertained that there is substantial consistency in the treatment of this matter.

3. In most instances the deductions are allowed in the light of the claim made by the taxpayer or his agent. If the hire purchase charges, which include interest, insurance, and any other specific charges which cannot be held to constitute part of the actual purchase price of the plant, are claimed separately in the return for the year in which they are paid, deduction in respect thereof is allowable under section 51(1) of the Income Tax Assessment Act. On the other hand, if the hire purchase charges are capitalised and depreciation is claimed on the total cost of the plant to the purchaser, the hire purchase charges are amortised over the estimated life of the plant.

4. The only qualification which has been applied in some offices to the above procedures is that a claim on the first-mentioned basis would only be admitted if the hire purchase charges were shown separately on the face of the agreement. It has been decided, in the light of the decision in Darngavil Coal Co. Ltd. v. Francis 7 T.C.1, that such a distinction could not be maintained. Accordingly, where the taxpayer claims a deduction in respect of the actual hiring charges paid over and above the purchase price element in the instalments, the claim, provided that it is substantiated as to amount, may be allowed.

5. The practice of allowing the basis for a deduction in

accordance with the claim made by the taxpayer is to be continued, and where a claim under either basis is clearly made, no action is to be taken to apply the alternative basis in that case.

COMMISSIONER OF TAXATION