IT 2105 - Motor vehicle depreciation limit - lease finance companies - finance or actuarial method of accounting for lease income

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TAXATION RULING NO. IT 2105

MOTOR VEHICLE DEPRECIATION LIMIT
- LEASE FINANCE COMPANIES
- FINANCE OR ACTUARIAL METHOD OF ACCOUNTING FOR LEASE INCOME

F.O.I. EMBARGO: May be released

REF H.O. REF: 83/7729-4 (F19, 21) (79/3861 F53) DATE OF EFFECT:

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F.O.I. INDEX DETAIL

REFERENCE NO:	SUBJECT REFS:	LEGISLAT. REFS:
I 1070831	MOTOR VEHICLE DEPRECIATION LIMIT	25(1) 57AF

FACTS Section 57AF of the Income Tax Assessment Act 1936 provides that, where the cost of a motor vehicle exceeds the motor vehicle depreciation limit specified therein, the cost for the purpose of calculating depreciation allowable under the Act is deemed to be the motor vehicle depreciation limit.

2. Representations have been made to this office that some finance companies whose operations include the leasing of motor vehicles to which the depreciation limit applies are avoiding the application of section 57AF by the practice of returning income derived from the leasing of the vehicles on a finance or actuarial basis.

RULING 3. The Explanatory Memorandum to Income Tax Assessment Amendment Act (No. 2) 1980, the Act which introduced section 57AF into the Principal Act, states that the limit in sub-section 57AF(2) will apply in relation to all cars and station wagons which are not excluded units of property and in respect of which depreciation is allowable. The statement continues:

> "It (sub-section 57AF(2)) will thus apply to vehicles owned and let out on lease by finance companies or other lessors. Where finance companies use a finance or actuarial method of calculating the amount of taxable income - in which case an allowance for depreciation is reflected in the calculations - an appropriate adjustment will be made in calculating the taxable income of the finance company to reflect the depreciation cost limit that applies to the vehicles concerned".

4. The adjustment to reflect the depreciation limit through the finance method is determined by use of the formula -

(C - V) (C - X)

C where:

C = cost of the motor vehicle,
V = residual value under the lease agreement, and
X = the relevant depreciation limit applicable to the vehicle in the hands of the lessor.

5. The amount resulting from the application of this formula is to be included in assessable income over the period of the lease to reflect the depreciation limit.

6. The returns of companies who derive income from the leasing of motor vehicles and who return that income by a finance or actuarial method should be scrutinised to ensure that adjustments as described above are made to give effect to section 57AF. In any particular case where it is not readily apparent from the return of income that the adjustments have been made, appropriate enquiries should be instituted to ascertain whether the requirements of the law are being observed.

COMMISSIONER OF TAXATION
19 September 1984