IT 2197 - Income tax : installation costs of plant and equipment

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TAXATION RULING NO. IT 2197

INCOME TAX : INSTALLATION COSTS OF PLANT AND EQUIPMENT

F.O.I. EMBARGO: May be released

REF H.O. REF: 84/5650-0 DATE OF EFFECT: Immediate
83/3199; J63/447

B.O. REF: DATE ORIG. MEMO ISSUED: 23 July 1985

F.O.I. INDEX DETAIL

REFERENCE NO:	SUBJECT REFS:	LEGISLAT. REFS:
I 1199465	INSTALLATION COSTS - LEASED PLANT PLANT-LEASING COSTS DEPRECIATION - COMPUTER EQUIPMENT	51(1) 54

OTHER RULINGS ON TOPIC IT 21

RULING This Office has had occasion recently to consider the extent to which income tax deductions may be allowed for expenses incurred either by an owner or by a lessee in the installation of plant and equipment to be used for the purpose of producing assessable income.

2. The purpose of this ruling is to restate the official approach to be followed in this area.

3. At the outset it is important to make a distinction between two categories of expenditure which may be associated with the installation of plant and equipment. The first, which is referred to in this ruling as installation expenses, embraces such items as freight and delivery costs, customs duty and other import levies, minor re-arrangements and removal of plant and equipment within the relevant premises - i.e., expenses which may be incurred in getting the plant and equipment to the site and putting it in place.

4. The second category, which is referred to as structural alterations and ancillary items of plant and equipment, covers expenses which may be necessary to make way for the new plant and equipment, e.g., the demolition of existing plant and equipment and consequent clearing of a site, structural alterations to a building etc. It also covers ancillary items of equipment which may be necessary to the operation of the major items of new plant and equipment, e.g., a free access floor for a computer.

Installation Expenses

5. Where the owner of plant and equipment incurs installation expenses the cost forms part of the total cost of the plant and equipment upon which depreciation and investment allowance deductions may be allowed. In appropriate cases the

cost may be subject to deduction in the manner permitted under other provisions of the Income Tax Assessment Act, e.g., Division 10, 10AA, 10AAA, etc.

6. Expenditure incurred by a lessee on installation expenses may be allowed as a deduction under sub-section 51(1). The expenditure is considered to partake of the same nature as the payments under the lease for the plant and equipment, i.e., it is part of the costs incurred for the use of the plant and equipment and, therefore, of a revenue nature. This will be the case whether the lessee incurs the installation expenses personally or pays an amount by way of reimbursement to the lessor for installation expenses. To this extent paragraph 1 of Taxation Ruling No. IT 21 is withdrawn.

Structural Alterations and Ancillary Items of Plant and Equipment

7. Costs incurred in the demolition of existing plant and generally clearing a site for the installation or erection of new plant and equipment is of a capital nature and no income tax deduction will be allowable either to an owner or to a lessee.

8. Costs incurred in making structural alterations to a building in which plant and equipment is located are also of a capital nature but income tax deductions may be allowable in respect of the cost, e.g., under Division 10, 10A, 10AA, 10AAA, 10C or 10D.

9. Expenditure incurred by the owner of new plant and equipment on ancillary items of plant and equipment will qualify for deduction in the same way as is available generally. The same result will follow if the lessee of new plant and equipment incurs expenditure on ancillary items of plant and equipment of which the lessee is the owner. If, on the other hand, the lessee leases ancillary items of plant and equipment, the lease charges will be allowable as income tax deductions under sub-section 51(1).

10. To the extent that there are installation expenses associated with the ancillary items of plant and equipment they should be treated in the same manner as is set out in paragraphs 5 and 6. In a case recently considered in this Office a taxpayer was required to lease from Telecom certain data transmission lines necessary for the operation of new computer facilities installed by the taxpayer. In addition to the lease rentals for the data transmission lines the taxpayer was required to pay an initial connection fee. Both the lease rentals and the initial connection fee were accepted as deductible under sub-section 51(1).

COMMISSIONER OF TAXATION
25 September 1985