


IT 2308 - Income tax: depreciation of plant acquired otherwise than by purchase

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TAXATION RULING NO. IT 2308

INCOME TAX : DEPRECIATION OF PLANT ACQUIRED OTHERWISE
THAN BY PURCHASE

F.O.I. EMBARGO: May be released

REF

H.O. REF: 84/16901-3

DATE OF EFFECT:

B.O. REF:

DATE ORIG. MEMO ISSUED:

F.O.I. INDEX DETAIL

REFERENCE NO:	SUBJECT REFS:	LEGISLAT. REFS:
I 1137405	DEPRECIATION	56 60 62

OTHER RULINGS ON TOPIC IT 167

PREAMBLE

Section 54 of the Income Tax Assessment Act authorises an income tax deduction for depreciation on plant and articles owned by a taxpayer and used by him for the purpose of gaining or producing assessable income. The annual deduction allowable is calculated by applying the appropriate rate of depreciation to the cost of or the depreciated value of the plant or articles.

2. Situations arise from time to time where plant or articles for use for the purpose of gaining or producing assessable income are acquired by a taxpayer otherwise than by purchase. The acquisition of property by way of inheritance or gift affords an illustration. Official practice in these situations is stated at paragraph 101 of Income Tax Order No. 1217 to be:-

"Where property is acquired otherwise than by purchase, for example, by inheritance or gift, the taxpayer acquiring the property is not entitled to any greater allowance for depreciation than that which would have been allowable to the testator if he had lived, or to the donor if he had retained the property. Generally, the allowance will be based on the depreciated value of the property immediately prior to the date of acquisition."

3. In some cases the property may not have been plant or articles in the hands of the testator or vendor, i.e. it may not have been used for the purpose of gaining or producing assessable income, e.g. a motor vehicle. In such circumstances an income tax deduction to the taxpayer for depreciation would be based on a notional depreciated value at the date of inheritance or gift, i.e. a value calculated by applying the appropriate depreciation rate to the cost of the property to the testator or donor.

RULING

4. This office recently had occasion to consider whether any income tax deduction for depreciation was allowable where a taxpayer acquired property by way of a prize in an art union and subsequently used the property as plant in his business operations. It was decided that acquisition of the property should be treated in the same way as an acquisition of property by inheritance or gift. Income tax deductions for depreciation would be allowable to the taxpayer calculated on the cost of the property to the sponsor of the art union, i.e. the amount upon which depreciation deductions would have been based had the sponsor retained the property and been entitled to income tax deductions for depreciation on the property.

5. This decision may be followed in comparable cases.

COMMISSIONER OF TAXATION
30 May 1986

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