


IT 241 - Loss on disposal of plant used only partly for income-producing purposes

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TAXATION RULING NO. IT 241

LOSS ON DISPOSAL OF PLANT USED ONLY PARTLY FOR
INCOME-PRODUCING PURPOSES

F.O.I. EMBARGO: May be released

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F.O.I. INDEX DETAIL		
REFERENCE NO:	SUBJECT REFS:	LEGISLAT. REFS:
I 1101994	PLANT - LOSS ON	54
	DISPOSAL	56
	BALANCING CHARGES	59
		61

OTHER RULINGS ON TOPIC: CITCM 784

PREAMBLE 1. Consideration has been given to the application of CITCM 784 in cases where a taxpayer disposes of plant which has been used only partly for income-producing purposes and the plant is disposed of part way through the year of income.

RULING 2. In applying either sub-section (1) or (2) of section 59 on the disposal, loss or destruction of plant, the relevant factor is the depreciated value of the plant at the time of disposal, loss or destruction. Where plant is disposed of during an income year, a strict application of the law would require the ascertainment of the depreciated value at the date of disposal by allowing under section 54 normal depreciation as calculated under section 56 from the commencement of the income year up to that date. Then the loss on disposal (section 59(1)) or the balancing charge (section 59(2)) would be determined by reference to the depreciated value so calculated and the sale price of the plant.

Example:	Pounds
Depreciated value at 01.07.60	1,000
Depreciation calculated under section 56 - say, 6 months @ 20% pa	100
Depreciated value at date of disposal (31.12.60)	900
Sale Price	700
Deduction allowable under section 59(1) ..	200

3. The total deductions allowable in the above example would thus be:-

Depreciation calculated under section 56	..	100
Loss on disposal - section 59(1)	200
TOTAL	300

In this case, it would make no practical difference if, instead of strictly following the law, the deduction allowable had been calculated as 300 pounds by the short-cut method of deducting the sale price (700 pounds) from the depreciated value at 01.07.60 (1,000 pounds).

4. In some instances where plant is used only partly for income-producing purposes, however, the short-cut method gives an incorrect result. This possibility is not apparent from CITCM 784, as, in the interests of simplification, the sales of plant envisaged in paragraphs 7 to 14 therein were all assumed (though not expressed) to have taken place on 1 July 1954, the date at which the last depreciated value had been calculated.

Example: Where the sale price exceeds both the notional depreciated value and the actual depreciated value. Plant, five sixths of the use of which is for income-producing purposes purchased for 1,075 pounds on 20 May 1959 and sold on 23 June 1960 for 905 pounds.

	Notional Depreciation Calculations		Actual Depreciation Allowed
	Pounds		Pounds
Cost Price at 20.05.59 1,075		1,075
Depreciation to 30.06.59 20	5/6ths	17
Depreciated value at 30.06.59	.. 1,055		1,058
Depreciation to 23.06.60 (51 weeks)	233	5/6ths	194
Depreciated value at 23.06.60	.. 822		864
Sale Price		905
Balancing Charge under section 59(2) (CITCM No.784, paragraph 11)		41

Example: Where the sale price is less than both the notional depreciated value and the actual depreciated value. Plant, three quarters of the use of which is for income-producing purposes purchased for 1,500 pounds on 1 July 1957 and sold on 31 December 1959 for 740 pounds.

Notional Depreciation Calculations	Actual Depreciation Allowed
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	Pounds	Pounds
Cost Price at 01.07.57	1,500	1,500
Depn. to 30.06.58 @ 22 1/2% = 337	337	253
Less - 1/4 private use 84		
Depreciated value at 01.07.58	1,163	1,247
Depn. to 30.06.59 @ 22 1/2% = 262	262	
Less - 1/4 private use 65		197
Depreciated value at 01.07.59	901	1,050
Depn. to 30.12.59 @ 22 1/2% = 101	101	
Less - 1/4 private use 25		76
Depreciated value at 31.12.59	800	974

As the plant was sold for 740 pounds, the deduction allowable under sections 59(1) and 61 would be, as calculated in accordance with CITCM 784, paragraph 9:-

	Pounds
Notional Depreciated Value	800
Less - Sale Price	740
Deduction otherwise allowable - section 59(1)	60
Less - 1/4 private use	15
Deduction allowable - section 61	45

The total deductions allowable for the year ended 30 June 1960 are thus:-

Annual Depreciation	76
Loss on Disposal	45
TOTAL	121

The example is one of the cases in which the total deductions allowable are the same whether the law is strictly applied or whether the short-cut method is followed.

COMMISSIONER OF TAXATION