

IT 2520 - Income tax : investment allowance on commander telephone systems

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TAXATION RULING NO. IT 2520

INCOME TAX : INVESTMENT ALLOWANCE ON COMMANDER TELEPHONE SYSTEMS

F.O.I. EMBARGO: May be released

REF N.O. REF: 87/5842-5 DATE OF EFFECT: Immediate

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F.O.I. INDEX DETAIL

REFERENCE NO: SUBJECT REFS: LEGISLAT. REFS:

I 1011050 INVESTMENT ALLOWANCE 82AB
UNIT OF PROPERTY
INTERNAL TELEPHONE SYSTEM
PABX
COMMANDER TELEPHONE SYSTEM

OTHER RULINGS ON TOPIC : IT 63, IT 2142, IT 2257

PREAMBLE This Ruling supersedes Taxation Ruling No. IT 2257, and is issued in consequence of a decision of the Federal Court of Australia reported as FCT v Veterinary Medical & Surgical Supplies Limited, 88 ATC 4642; 19 ATR 1593 in which Pincus J. dismissed the Commissioner's appeal from a decision of the Administrative Appeals Tribunal (Mr. P.M. Roach, Senior Member) reported as Case U132, 87 ATC 771; AAT Case 99 (1987) 18 ATR 3690.

2. The issue before the Tribunal and on which the Commissioner sought to appeal to the Federal Court, was whether the entirety of a Commander telephone system, including 7 handsets, constituted a "unit of property" within the meaning of section 82AB of the Income Tax Assessment Act so as to qualify for an investment allowance.

FACTS 3. During the year ended 30 June 1983, the taxpayer company installed a new Commander telephone system in its small warehouse complex. The telephone system comprised a central processing unit, station modules, installation costs and 7 handsets, at a total cost of \$5,142. The taxpayer claimed an investment allowance on the total cost of the system, arguing that the entire system constituted a new unit of eligible property. The Commissioner considered that the central processing unit, station modules and installation costs (at a total cost of \$2,909) constituted a unit of eligible property while each handset, costing \$240 each with an installation cost of \$79 each, constituted a separate unit of property. If each handset was a separate unit of property, no deduction for investment allowance would be available for each handset because the cost of each did not exceed \$500 as prescribed by section 82AB. The Commissioner calculated the investment allowance on the cost of the unit of property to be \$2,909 at 18%.

DECISION

4. The Tribunal considered that both common sense and authority led to the conclusion that some components of a telephone communications system which are inoperable by themselves as a means of telephone communication cannot themselves constitute a "unit of property". The handsets and the other components of the system were mechanically interdependent and could not be physically separate. Accordingly, the entirety of the taxpayer's telephone system, including the 7 handsets, as installed constituted a "unit of property".

5. On appeal from the decision of the Tribunal, the Federal Court, Pincus J., held that the appeal involved no question of law within the meaning of subsection 44(1) of the Administrative Appeals Tribunal Act 1975, and, accordingly, the Court had no jurisdiction to hear it. The question whether the telephone system was a unit of property was one of fact and degree. However, Pincus J. stated (obiter) that, if the appeal had been one on a question of law, he would have upheld the Tribunal's conclusion that the entire system constituted a single unit of property. Applying a function test, namely, "the function must be, so to speak, the external function - the practical use to which the unit is able to be put in the taxpayer's business", his Honour considered that each element should be treated as part of a system intended to function as a whole and that a handset can do nothing by itself. In his view, where a system consisting of diverse elements is acquired as a system intended to function as a whole and each element interacts with at least one other, one should find unity in the function of the whole system, at least where the elements are physically connected.

RULING

6. The Commissioner accepts that the Federal Court was correct in deciding that there was no question of law (in the Tribunal's decision) to found the Federal Court's jurisdiction.

7. The Commissioner also accepts the view of Pincus J. that the entire telephone system, including the 7 handsets, constituted a single "unit of property".

8. A change in office policy is considered necessary. This Ruling therefore supersedes Taxation Ruling No. IT 2257, which states that each item in a Commander system is to be treated as a separate unit of property. Outstanding claims and objections are to be resolved on the basis that the entirety of a Commander telephone system is a single "unit of property" for investment allowance purposes. The same approach should be adopted with other internal telephone, PABX and intercom systems. This Ruling also supersedes paragraph 7 of Taxation Ruling No. IT 63, which states that a switchboard and each handset (and possibly the cabling) would be regarded as separate units of property.

COMMISSIONER OF TAXATION
2 March 1989