


IT 89 - Depreciation - plant used in excess of normal hours

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TAXATION RULING NO. IT 89

DEPRECIATION - PLANT USED IN EXCESS OF NORMAL HOURS

F.O.I. EMBARGO: May be released

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DEPRECIATION

55

PLANT USED

CONTINUOUSLY

PREAMBLE

Since the publication of the 1974 Revision of Income Tax Order No. 1217, which omitted the formula which appeared in paragraphs 43 and 44 of Pt. 2 of the 1960 Revision, several enquiries were received regarding the manner in which the deduction for depreciation was to be calculated in future where plant was used in excess of normal hours.

RULING

2. It is evident that the formula contained in the previous edition of the Order has led to the presumption, for which there is no foundation in law, that plant used on a multiple shift basis can be subject to a depreciation rate ascertained simply by applying a mathematical formula to the rates specified in the Order. The application of the formula in this manner has given rise to claims for unrealistically high rates of depreciation, particularly in cases where the plant is of a type designed for continuous use. It has therefore been decided that the formula should no longer be used and that depreciation rates applicable to new plant used in excess of normal hours should be fixed in accordance with the relevant provision of the law.

3. Section 55(1) of the Assessment Act requires the Commissioner in the first calculation of depreciation to base his determination upon an estimate of the effective life of the plant. The extent to which plant is used, or to be used, continuously or in excess of one working shift is an element which could have a bearing on the effective life of the unit. In respect of plant acquired during the year ended 30 June 1975 the standard depreciation rates specified in the 1974 Order should, subject to section 57AC, normally be applied in the absence of information indicating that the rate is inadequate and an application for an automatic increase in the standard rate based simply on the score of excess working time should be rejected.

4. Where a taxpayer claims that excess working time or other unusual conditions of use will reduce normal effective life of a new unit of property, full details should be referred to Head Office for consideration.

5. It is considered that the Commissioner is empowered to make only the one calculation for the purposes of section 55. Consequently, where a rate of depreciation on plant currently in use has been fixed by reference to the excess working time formula content in earlier Orders, the rate so determined should continue to be applied to that unit until it has been scrapped, sold or wholly written-off. the fact that the plant in question was not subject to abnormal use in a year after the original determination was made does not provide grounds for a reduction in the rate of depreciation.

COMMISSIONER OF TAXATION