


ST 2429 - SALES TAX : RECONDITIONED MOTOR VEHICLE ENGINES

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TAXATION RULING NO. ST 2429

SALES TAX : RECONDITIONED MOTOR VEHICLE ENGINES

F.O.I. EMBARGO: May be released

REF N.O. REF: 84/5558-9 DATE OF EFFECT: Immediate

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F.O.I. INDEX DETAIL

REFERENCE NO:	SUBJECT REFS:	LEGISLAT. REFS:
I 1103505	DEFINITION OF "GOODS" AND "MANUFACTURE"	SALES TAX ASSESSMENT ACT (NO 1); SUBSECTIONS 3(1) AND 3(8)

OTHER RULINGS ON TOPIC ST 2170

PREAMBLE This Ruling considers an alternative method from that outlined in Taxation Ruling No. ST 2170 for determining whether manufactured reconditioned engines are "goods" as defined for sales tax purposes.

2. Taxation Ruling No. ST 2170 considered the question of whether the reconditioning of motor vehicle engines is manufacture and, if so, whether the manufactured engines are "goods" as defined for sales tax purposes. That Ruling determined that the reconditioning of motor vehicle engines whether short, intermediate or long is considered to be more than a repair process and constitutes manufacture. It also states that reconditioned engines are to be treated as "goods" if the value of new parts or materials clearly predominates. This Ruling considers an alternative test based on volume and weight components.

RULING 3. As indicated in Taxation Ruling No. ST 2170 the reconditioning of engines is considered to be manufacture. To determine whether new goods have been produced in the reconditioning process it is appropriate to consider a volume/weight test.

4. Ordinarily, the reconditioning of engines commences with a used or second-hand engine block, head or sump which forms the bulk of the reconditioned engine. The volume/weight test involves a consideration of whether the volume or weight of the new components (including any imported components which may have been used overseas but not in Australia) clearly predominates. The volume/weight test is appropriate because in many instances the reconditioned engine is largely made up of second-hand parts which retain their character as goods that have previously gone into use or consumption in Australia and therefore will not result in "goods" as defined being produced.

5. In some instances the volume or weight of new components may predominate. Where this occurs, the value test generally will also be satisfied because the second-hand parts used would

normally have little value in comparison with the new parts. In this situation, the reconditioned engines are "goods" as defined and tax is payable on a sale value equivalent to the wholesale selling price of the reconditioned engines. Where the reconditioner's activities constitute the manufacture of goods, parts for use in those activities may be acquired free of sales tax.

6. The volume/weight test will generally not be satisfied with the reconditioning of engines that have previously gone into use in Australia. This is because the volume and weight of the used engine block and other second-hand parts will generally predominate over the new parts used. Where this situation arises there will be no sales tax liability on the sale of the reconditioned engine. Tax will be payable, however, on any new parts or materials, or imported second-hand parts or materials, that have been incorporated in these reconditioned engines. The tax liability arises under subsection 3(8) of Sales Tax Assessment Act (No. 1), which deems materials used in the reconditioning process to be applied to the reconditioner's own use. Ordinarily, the tax liability of a reconditioner producing such goods will be met by payment of tax at time of purchase on any new parts used and by payment of tax at time of importation on any imported parts used.

7. This Ruling should be read in conjunction with Taxation Ruling No. ST 2170.

COMMISSIONER OF TAXATION
30 June 1988