



TD 92/198 - Income tax: when can a taxpayer elect to use replacement value for valuation of trading stock under section 70-45 of the Income Tax Assessment Act 1997 ?

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 This document has changed over time. This is a consolidated version of the ruling which was published on *2 February 2011*

This Determination, to the extent that it is capable of being a 'public ruling' in terms of Part IVAAA of the *Taxation Administration Act 1953*, is a public ruling for the purposes of that Part. Taxation Ruling TR 92/1 explains when a Determination is a public ruling and how it is binding on the Commissioner. Unless otherwise stated, the Determination applies to transactions entered into both before and after its date of issue.

[Note: This is a consolidated version of this document. Refer to the ATO Legal Database (<http://law.ato.gov.au>) to check its currency and to view the details of all changes.]

Taxation Determination

Income tax: when can a taxpayer elect to use replacement value for valuation of trading stock under section 70-45 of the *Income Tax Assessment Act 1997*?

1. To elect replacement value as a method of trading stock valuation, the items must be available in the market and be substantially identical to the replaced items. The replacement value is the amount the taxpayer would have to pay in his normal buying market on the last day of the year of income.
2. There may be situations where the use of replacement value is not an option. In *Parfew Nominees Pty. Ltd. v. FCT* 1986 ATC 4673; (1986) 17 ATR 1017 the taxpayer, whose trading stock was strata title units, elected to use the replacement price method to value its trading stock in accordance with the former subsection 31(1) of the *Income Tax Assessment Act 1936* (the provision replaced by section 70-45 of the *Income Tax Assessment Act 1997*). In the circumstances of that case, the court refused to accept replacement price valuation based on a notional calculation of constructing the same building on the same site as the basis of calculation defied business reality.

Example: 1

(i) *ABC Pty. Ltd. deals in office furniture. Its trading stock includes 1 metre high filing cabinets with 3 shelves. When ABC Pty. Ltd places an order for more filing cabinets it is informed that the 1 metre high cabinets are only manufactured with 2 shelves and not 3. Replacement value is acceptable in this situation as the cabinets are considered substantially identical.*

(ii) *Assume the same situation as above but the only filing cabinets available on the market are now 1.5 metres high with 4 shelves. Replacement value is not appropriate in this situation as the cabinets are not considered substantially identical.*

Example: 2

XYZ are dealers in antique furniture. As it is unlikely that these items of furniture can be replaced, the use of replacement value is not appropriate. XYZ can only elect cost or market selling value.

Commissioner of Taxation

10/12/92

FOI index detail: Reference No. I 1213761

Previously issued as Draft TD 92/D183

Related Rulings: CITCM 497, IT 2648

Subject Ref: Trading stock, replacement price method

Legislative Ref: ITAA 1936 31(1); ITAA 1997 70-45

Case Ref: Parfew Nominees Pty. Ltd. v. FCT 1986 ATC 4673; (1986) 17 ATR 1017

ATO Ref:

ISSN 1038 - 8982