



TD 93/85 - Income tax: property development: how are indirect costs apportioned for the purposes of calculating depreciation on plant under section 54 of the Income Tax Assessment Act 1936 and a deduction for capital expenditure on certain buildings under Division 10D of Part III of the Act?

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 This document has changed over time. This is a consolidated version of the ruling which was published on 13 May 1993

This Determination, to the extent that it is capable of being a 'public ruling' in terms of Part IVA 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, this Determination applies to years commencing both before and after its date of issue. However, this Determination does not apply to taxpayers to the extent that it conflicts with the terms of a settlement of a dispute agreed to before the date of issue of the Determination (see paragraphs 21 and 22 of Taxation Ruling TR 92/20).

Taxation Determination

Income tax: property development: how are indirect costs apportioned for the purposes of calculating depreciation on plant under section 54 of the *Income Tax Assessment Act 1936* and a deduction for capital expenditure on certain buildings under Division 10D of Part III of the Act?

1. Indirect costs may be allocated in accordance with the proportion that the direct cost of plant bears to the direct cost of buildings: see *B.P. Refinery (Kwinana) Limited v FC of T* (1961) 12 ATD 204. Where any other method is employed it must be justified by sound accounting principles and practical considerations.
2. Indirect costs are those which cannot be allocated directly to plant or buildings by reference to accounting records or other documentation.
3. Where items of furniture, fittings or plant are acquired and have no nexus to indirect costs, their cost should not be included in calculations apportioning indirect costs.

Example :

A developer incurs costs of \$100 for facilities erected on a building site for the use of all construction workers. This amount is considered to be an indirect expense that is applicable to both the cost of plant and the building. Total direct building costs are \$700 while total direct plant and furniture costs are \$350 consisting of \$300 for an air-conditioning system and \$50 for furniture. After allocation of indirect expenses, the developer's total building costs for division 10D purposes are \$770 and total plant and furniture costs for section 54 purposes are \$380.

The indirect cost is allocated in the ratio 300:700 between plant and buildings respectively. The cost of the furniture is not included for the purposes of apportionment because there is no nexus to the indirect costs, but its cost forms part of the total cost of plant for the purposes of section 54.

Commissioner of Taxation

13/5/93

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Related Determinations: PD 92/125

Related Rulings:

Subject Ref: indirect cost allocation; deductions for capital expenditure; depreciation

Legislative Ref: ITAA 54; ITAA Part III Div 10D

Case Ref: B.P. Refinery (Kwinana) Limited v FC of T (1961) 12 ATD 204

ATO Ref: PD/20A

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