

TR 93/3A1 - Addendum - Income tax: trading stock of gold miners

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Addendum

Taxation Ruling

Income tax: trading stock of gold miners

This Addendum amends Taxation Ruling TR 93/3 to reflect changes to the law resulting from the operation of the *Tax Law Improvement Act 1997* and the repeal of inoperative provisions by the *Tax Laws Amendment (Repeal of Inoperative Provisions) Act 2006*.

TR 93/3 is amended as follows:

1. Paragraphs 1 and 2

Omit the paragraphs; substitute:

1. Section 70-35 of the *Income Tax Assessment Act 1997* (ITAA 1997)¹ requires a taxpayer carrying on a business to take into account the value of all trading stock on hand at both the beginning and the end of the income year in determining its taxable income for that year. Section 70-45 provides that trading stock must be valued at the end of the income year at either its: cost; market selling value; or replacement value.

2. The income of gold mining businesses became taxable on 1 January 1991. As a result, the value of trading stock on hand must be taken into account in ascertaining the taxable income of a taxpayer carrying on a business of gold mining.

2. Paragraph 3 and heading to paragraph 6

Omit 'section 31' wherever occurring; substitute 'section 70-45'.

3. Paragraph 10

Omit 'TR 92/20'; substitute 'TR 2006/10'.

¹ All legislative references are to the ITAA 1997 unless otherwise indicated.

4. Paragraph 11

Omit the paragraph; substitute:

11. The term **trading stock** is defined in section 70-10(a) to include 'anything produced, manufactured or acquired that is held for purposes of manufacture, sale or exchange in the ordinary course of a business'.

5. Paragraph 15

- (a) Omit 'Our view is'; substitute 'The Commissioner considers'.
- (b) Omit 'the subsection 6(1) definition of trading stock'; substitute 'the definition of trading stock in section 70-10'.

6. Paragraph 16

Omit the paragraph; substitute:

16. Further, the ore to be included in trading stock is to be included as soon as it is severed from the land. There is no reason to delay treating the ore as trading stock until it is stockpiled. Broken ore which is ready to be stockpiled and mined ore which has already been stockpiled, either at the rock face or elsewhere, will be treated as trading stock. Ore which remains attached to the land is not trading stock, even though it may already have been exposed and its value quantified.

7. Paragraph 19 (including heading)

Omit 'section 31' wherever occurring; substitute 'section 70-45'.

8. Paragraph 22

Omit the paragraph; substitute:

22. Accordingly, a forward sale price cannot represent the market value of stock on hand.

9. Paragraph 24

Omit 'adnusted'; substitute 'adjusted'.

10. Paragraphs 29 to 31

Omit paragraphs; substitute:

29. The gold mining industry is a special case due to the high value of the final product; partly treated and untreated gold ore and occasionally gold tailings are traded in the industry. On this basis, the market selling value may be appropriate to determine the trading stock value.

30. The particular item of trading stock must be in a marketable form to identify a market selling value. In general, the market valuation option does not apply to many forms of work-in-progress as demonstrated in the decision in *Parfew Nominees v FCT* 86 ATC 4647. This case indicates that a valuation option in section 70-45 may be unavailable to a taxpayer if it is inappropriate in the circumstances.

31. By way of example, if untreated ore is not a tradable commodity, it will be necessary to value that ore either at its cost or its replacement value. Further, market valuation would not be appropriate in the valuation of broken ore, which does qualify as trading stock, if the amount of gold in the ore is not yet ascertained or capable of reasonable estimation.

11. Paragraph 34

Omit 'section 31'; substitute 'section 70-45'.

12. Legislative references

Omit references; substitute:

- ITAA 1997 70-10
- ITAA 1997 70-10(a)
- ITAA 1997 70-35
- ITAA 1997 70-45
- TAA 1953

13. other Rulings on this topic

Omit 'IT 2085'; substitute 'TR 2006/10'.

This Addendum applies on and from 14 September 2006.

ATO references

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