



TD 27 - Capital Gains:What value is given to leased equipment for the purpose of section 160ZZS ?

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CGT Determination Number 27

Capital Gains: What value is given to leased equipment for the purpose of section 160ZZS ?

Determination

1. The appropriate value to be attributed to leased equipment is the market value of the lease and not the capitalised value of the underlying equipment.

2. The market value of the lease would be the amount for which the lessee could dispose of the lease at arm's length.

Note: If an arrangement is to be accepted as a lease for income tax purposes the lessee can have no right, express or implied, to purchase the leased equipment at the expiry of the lease (IT 28).

Example:

In July 1985, a company enters into a (4) four year lease of equipment. The equipment is valued at \$800,000.

The company has no residual entitlement to the equipment at the end of the lease.

On 1 July 1988, upon change of the major shareholders in the company, section 160ZZS operates to deem assets of the company acquired before 20 September 1985 to have been acquired on 1 July 1988, at their market value (IT 2340).

The value of the underlying equipment at 1 July 1988 is \$1,000,000 and the market value of the lease is \$50,000.

The lease is deemed by section 160ZZS to be an asset acquired on 1 July 1988 with a cost base of \$50,000.

COMMISSIONER OF TAXATION

28 November 1991

Market value

Legislative Ref: 160ZZS ATO Ref: CGT Cell; CGT Determination No 11; IT 28; IT 2340.

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