TR 93/D25 - Income tax : motor vehicle dealers: valuation of stock on hand: motor vehicles traded in

This document has been finalised by TR 93/29.

Australian Taxation Office

Draft Taxation Ruling
Income tax : motor vehicle dealers: valuation of stock on hand: motor vehicles traded in

contents para

Draft Taxation Rulings (DTRs) represent the preliminary, though considered, views of the Australian Taxation Office.

DTRs may not be relied on by taxation officers, taxpayers and practitioners. It is only final Taxation Rulings which represent authoritative statements by the Australian Taxation Office of its stance on the particular matters covered in the Ruling.

What this Ruling is about

1. This Ruling explains how motor vehicle dealers should apply subsection 31(1) of the *Income Tax Assessment Act 1936* to the valuation of motor vehicles traded in.

Ruling

2. Motor vehicle dealers often retain traded vehicles for the purposes of resale in the normal course of business. Where these vehicles remain on hand at the end of the year of income, subsection 31(1) allows a motor vehicle dealer the option of valuing each of the vehicles at its cost price, market selling value or the price at which it can be replaced.

Cost price

3. Cost price is the trade-in price shown on the contract plus any additional expenses incurred in bringing the vehicle into its existing condition and location at the end of the year of income.

Market selling value

4. Market selling value is the value at which a vehicle could be sold in the dealer's retail market at the end of the year of income.

Replacement price

5. Replacement price is the price which a motor vehicle dealer would pay in the dealer's buying market in order to acquire a substantially identical vehicle at the end of the year of income.

6. In determining this price, the dealer must either use:

(a) an independent valuation; or

(b) a recognised industry guide.

An independent valuation is one provided by a suitably qualified valuer, not being an associate of the motor vehicle dealer or a person with whom the dealer deals in the normal course of business.

7. Where the dealer wishes to use replacement price, the same method, either (a) or (b), must be used at the end of the year of income for all traded-in vehicles valued at replacement price.

Date of effect

8. This Ruling applies to years commencing both before and after its date of issue. However, the Ruling 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 Ruling (see paragraphs 21 and 22 of Taxation Ruling TR 92/20).

9. Where a motor vehicle dealer has been valuing traded-in vehicles other than in accordance with this Ruling (that is, the final Taxation Ruling based on this Exposure Draft Taxation Ruling), the dealer may

(a) make no alteration to previous years' assessments and simply adopt the correct method for closing stock valuations for the purposes of the first return lodged after the date of this Ruling, or

(b) subject to the limitations in section 170 concerning the amendment of assessments, request adjustments to the stock valuations for earlier years and adopt the correct method for valuation in the future.

Explanation

Cost price

10. An industry practice has been to value a traded-in vehicle at a notional cost price. This notional cost was the actual cost adjusted for any under or over allowance. This treatment is not consistent with subsection 31(1) and should not be used.

Replacement price

11. An independent valuation is considered to be the most accurate method of determining the replacement price of a traded motor vehicle on hand at the end of the year of income.

12. A recognised industry guide represents average values only and is less accurate for individual vehicles. An industry guide only provides an adequate valuation when applied to all such stock on hand.

13. To prevent the selective use of a recognised industry guide, it is the requirement of this Ruling (that is, the final Taxation Ruling based on this Exposure Draft Taxation Ruling) that:

> **where** a recognised industry guide is used to determine the replacement price of a trade-in for the purposes of subsection 31(1),
>
> **then** this method must be used for all trade-ins valued at replacement price for that income year.

Commissioner of Taxation

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