# *TD 93/D249 - Income tax: can a taxpayer after lodging its return, but before any assessment is made, alter the figure for closing stock by adopting a different basis of valuation to that on which the return was originally prepared?*



This document has been finalised by TD 94/10.

Taxation Determination **TD 93/D249**



**Draft Taxation Determinations (TDs) represent the preliminary, though considered, views of the ATO. Draft TDs may not be relied on; only final TDs are authoritative statements of the ATO.**

# Draft Taxation Determination

## Income tax: can a taxpayer after lodging its return, but before any assessment is made, alter the figure for closing stock by adopting a different basis of valuation to that on which the return was originally prepared?

1. Subsection 31(1) of the *Income Tax Assessment Act 1936* allows a taxpayer the option of valuing each article of trading stock on hand at the end of the year of income at cost price, market selling value or the price at which it can be replaced. Although the provision is silent on the method and timing for exercising the option, it is necessary for a taxpayer to elect the method of valuation in order to ascertain whether or not there is a taxable income for a particular year.

2. It is the Commissioner's opinion that the valuation option is exercised at the time the taxpayer ascertains whether or not there is taxable income. The method elected will be evident in the taxpayer's calculation of taxable income or loss as disclosed in the tax return.

3. Where the taxpayer makes a valid election and the Commissioner makes an assessment or is deemed to have made an assessment in accordance with that election it is not open to the taxpayer to vary the election by way of requesting an amendment or objecting to the assessment. This is because the assessment, in that particular, would not be considered by the Commissioner to have been made on an incorrect basis. The assessment would have been made by applying the law properly to the facts as disclosed by the taxpayer.

4. Where the taxpayer has lodged a return but no assessment has been made it is open for the Commissioner to accept a request from the taxpayer to vary the information disclosed in the return. The Commissioner will allow the taxpayer to choose a different method of valuation of closing stock to that originally chosen at any time before an assessment is made.

*Example 1*

*Jarrah Pty Ltd carries on a business of manufacturing furniture. In calculating its income from trading for the year ended 30 June 1993 the company valued its closing stock of timber at $25,000, ie the price at which it can be replaced. In that particular year it did not have a taxable income but made a $4,000 loss. Following lodgment of its return the company realised that it had claimed a deduction of $5,000 for legal expenses that were of a capital nature. Making an adjustment to exclude this deduction would give rise to a taxable income of $1,000. The company wanted to offset this adjustment by reducing the value of its closing stock. This could be achieved by choosing the cost price method to give a valuation of $20,500. The net result would be a loss for the year of $500.*

*The Commissioner will allow the taxpayer to choose the different method of valuation. The taxpayer should advise the Commissioner of the changes to its income derived during the year and the deductions and losses claimed.*

*Example 2*

*Snow Pty Ltd carries on a business of retailing ski equipment. In calculating its income from trading for the year ended 30 June 1991 the company valued its closing stock of skis at $45,000, ie the market selling value. In that particular year it did not have a taxable income but made a $6,000 loss. In 1993 a taxation audit was conducted into the company. It was advised that adjustments would be made disallowing $14,000 in deductions incurred on overseas travel by the directors. This would give rise to a taxable income of $8,000. The company advised the auditors that it wanted to offset the effect of this adjustment by choosing to value its closing stock at cost price, which was a figure of $35,000. The net result would be a loss for the year of $2,000.*

*The Commissioner will allow the taxpayer to choose the different method of valuation and this will be taken into account in determining whether or not the taxpayer has a taxable income.*

**Commissioner of Taxation**
30/9/93

FOI INDEX DETAIL: Reference No.
Related Determinations:
Related Rulings:
Subject Ref: trading stock; closing stock; valuation
Legislative Ref: ITAA 31(1)
Case Ref:
ATO Ref: NO 93/4918-9
ISSN 1038 - 8982