


# ***IT 2402 - Income tax : absorption cost basis of valuing trading stock - fringe benefits tax***

 This cover sheet is provided for information only. It does not form part of *IT 2402 - Income tax : absorption cost basis of valuing trading stock - fringe benefits tax*

 This ruling contains references to repealed provisions, some of which may have been rewritten. The ruling still has effect. Paragraph 32 in TR 2006/10 provides further guidance on the status and binding effect of public rulings where the law has been repealed or repealed and rewritten. The legislative references at the end of the ruling indicate the repealed provisions and, where applicable, the rewritten provisions.

TAXATION RULING NO. IT 2402

INCOME TAX : ABSORPTION COST BASIS OF VALUING TRADING  
STOCK - FRINGE BENEFITS TAX

F.O.I. EMBARGO: May be released

REF N.O. REF: 86/10914-0 DATE OF EFFECT:

B.O. REF: DATE ORIG. MEMO ISSUED:

F.O.I. INDEX DETAIL

REFERENCE NO:	SUBJECT REFS:	LEGISLAT. REFS:
I 1210915	TRADING STOCK - VALUATION OF ABSORPTION COST METHOD - FRINGE BENEFITS TAX	31(1)

OTHER RULINGS ON TOPIC IT 2350

PREAMBLE

Taxation Ruling No. IT 2350 sets out the official view that the absorption cost method is the correct means of ascertaining the cost of trading stock on hand at the end of a year in a manufacturing business. For the purposes of sub-section 31(1) of the Income Tax Assessment Act the cost price of manufactured trading stock on hand at the end of the year includes not only material and direct labour costs but also an appropriate proportion of production overhead costs without which the trading stock on hand would not be produced at all.

2. This Office was recently asked whether Fringe Benefits Tax should be taken into account as a production overhead cost when valuing stock on hand under the absorption cost basis for a manufacturing business.

RULING

3. Fringe Benefits Tax is not regarded as a cost which ought to be added to the cost of manufactured goods for absorption costing purposes. It is seen as too remote from the process of manufacturing goods and is considered to be of a similar nature to the expenses listed in paragraph 13 of Taxation Ruling No. IT 2350.

COMMISSIONER OF TAXATION  
28 May 1987