IT 359 - Taxation treatment afforded to financed purchase of aircraft as it relates to depreciation, investment allowance and spare parts

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TAXATION RULING NO. IT 359

TAXATION TREATMENT AFFORDED TO FINANCED PURCHASE OF AIRCRAFT AS IT RELATES TO DEPRECIATION, INVESTMENT ALLOWANCE AND SPARE PARTS

F.O.I. EMBARGO: May be released

REF
H.O. REF: 81/4265 F4 DATE OF EFFECT:

B.O. REF: DATE ORIG. MEMO ISSUED: 09.10.81

F.O.I. INDEX DETAIL

REFERENCE NO:	SUBJECT REFS:	LEGISLAT. REFS:
I 1071140	DEPRECIATION - AIRCRAFT	51(1)
	DEPRECIATION - HIRE PURCHASE CHARGES	54
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	SPARE PARTS - DEPRECIATION	82AB(1)
	SPARE PARTS - AVIATION INDUSTRY	82AH

OTHER RULINGS ON TOPIC : IT 59, IT 68, IT 77, IT 93, IT 94, IT 95, IT 96

PREAMBLE

This Office has advised a company as to the correct taxation treatment which should be afforded the purchase of an aircraft and associated spare parts through a hire purchase agreement.

RULING

2. If a company takes an aircraft on lease under an agreement which confers on the company a right to purchase the aircraft at the end of the lease for a nominal sum, the agreement would constitute a hire purchase agreement.

3. So far as deductions for depreciation are concerned there are two methods open to the company either of which is acceptable to this office. Firstly, depreciation may be based on the actual cost price of the aircraft with the hiring charges being deductible under section 51 of the Income Tax Assessment Act as and when they are incurred. Alternatively, where the term of the hire purchase agreement corresponds to the effective life of the aircraft as determined under section 55, the hiring charges may be capitalised and depreciation based on the total cost to the company of the aircraft.

4. The depreciation deduction is initially based on the cost of an eligible unit of property. The investment allowance deduction, on the other hand, is based upon the capital expenditure incurred in the acquisition or construction of a new unit of eligible property. Although the taking of the aircraft on hire under a hire purchase agreement would represent an acquisition of the aircraft the investment allowance deduction would be based on the cost price of the

aircraft excluding the hiring charges which are expenditure of a revenue nature.

5. Spare engines, engine mountings, propellers and other spare parts which are described in the aviation industry as rotable, cyclic or insurance spares purchased with an aircraft are regarded as integral parts of the unit of property represented in the aircraft. Accordingly expenditure on spares of this nature qualifies for depreciation and investment allowance deductions in the year in which the aircraft is first used or installed ready for use.

6. Other spare parts are treated as consumable or expendable. Provided the quantity of spare parts purchased does not exceed that which is necessary for the normal day-to-day opertion of the aircraft, a deduction is allowable in the year in which expenditure is incurred.

7. The investment allowance deduction would not be forfeited by reason of the fact that the aircraft was acquired overseas and flown to Australia with or without passengers. Nor would it be forfeited if, after 12 months use in Australia, it is used for occasional, or irregular flights to destinations outside Australia.

COMMISSIONER OF TAXATION

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