

PS LA 2004/3 (GA) - Trading stock: valuation of goods taken from trading stock for private use by sole traders or partners in a partnership

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Trading stock: valuation of goods taken from trading stock for private use by sole traders or partners in a partnership

This Law Administration Practice Statement explains how to value goods taken from trading stock for private use by sole traders or partners in a partnership.

This practice statement is an internal ATO document, and is an instruction to ATO staff.

Taxpayers can rely on this practice statement to provide them with protection from interest and penalties in the following way. If a statement turns out to be incorrect and taxpayers underpay their tax as a result, they will not have to pay a penalty. Nor will they have to pay interest on the underpayment provided they reasonably relied on this practice statement in good faith. However, even if they don't have to pay a penalty or interest, taxpayers will have to pay the correct amount of tax provided the time limits under the law allow it.

1. What is this practice statement about?

Subdivision 70-D of the *Income Tax Assessment Act 1997* (ITAA 1997) contains the rules about including the value of an item of trading stock in assessable income if the trading stock is disposed of outside the ordinary course of business or if the item ceases to be trading stock in certain other circumstances.

This practice statement explains the approach we will accept in regard to valuing goods taken from trading stock for private use by sole traders or partners in a partnership.

It also specifies record-keeping requirements.

2. How will items of trading stock taken for private use be valued?

How an item of trading stock taken for private use is valued depends on whether the item continues to be held by the same individual or individuals. If it is, then it is accounted for at cost. If it is not, it is accounted for at market value.¹

So, where an item is taken for private use by:

- a sole trader – it is included in assessable income at cost
- all the partners in a partnership for their joint use – it is included in assessable income at cost, or
- one or more, but not all the partners in a partnership – it is included in assessable income at market value.

However, in regard to this last point, we accept that where the items are of small value such that it is difficult or unreasonable for records to be kept (see section 3 of this practice statement), the items are taken for joint private use of all of the partners in the partnership, and can be accounted for at cost.

3. What records must be kept?

The following records should be kept in relation to goods taken for private use:

- the date the item is taken from stock
- the reason the item is taken
- a description of the item, and
- the cost or market value of the item (see also section 4 of this practice statement).

4. Establishing cost or market value in difficult situations

We recognise that for certain businesses or industries it is difficult to determine the value of an item of trading stock taken for private use. For these taxpayers, we issue a ruling for each income year providing a schedule of values of goods that may be used as a guide to the amounts that we will accept as estimates of the total value of items taken.

The industries where these difficulties may arise include those where the items of trading stock:

- are used in a transformation process, for example baking
- are a range of small items or ingredients, usually of low value
- are not suited to inventory systems, or
- are subject to high turnover, often for cash.

5. Examples

Example 1: Sole trader

Peter Purple operates a sole trader business as a butcher. He takes a leg of lamb home for his private use. The cost of the leg of lamb is required to be included in the assessable income of the business.

¹ See sections 70-90 to 70-110 of the ITAA 1997.

Example 2: Sole trader

Over the income year, Peter Purple the butcher regularly takes home various cuts of meat for his private use. He lives with his wife and a child aged 10.

- Peter may account for the items by recording the cost of the items as he takes them and include the total amount as assessable income of the business for that income year.
- Alternatively, Peter can use the schedule published by the ATO each year to calculate the total value of items taken and include that total in the assessable income of the business for the income year. If he did this, the amount that he would include should be calculated at the butcher's rate for 2 adults and one child (16 years or under).

Example 3: Partnership

Max and Perdita operate a partnership business together as butchers. They have a joint birthday party and decide to have a spit roast. They take a whole pig from trading stock for this purpose. The cost of the whole pig is required to be included in the assessable income of the partnership business.

At other times during the income year, Max and Perdita have separately taken items of trading stock for their private use. Max lives with his wife and a child aged 16, and Perdita lives with her husband and a child aged 17.

- The partnership business may account for the items of trading stock taken at cost and include

the total amount as assessable income of the business for that income year.

- Alternatively, the partnership business can use the schedule published by the ATO each year to calculate the total value of items taken and include that total in the assessable income of the business for the income year. If they did this, the amount that they would include should be calculated at the butcher's rate for five adults (including children over 16 years) and one child (16 years or under).

6. More information

For more information, see:

- Taxation Determination [TD 2017/9](#) *Income tax: value of goods taken from stock for private use for the 2016-17 income year*

Date issued	18 June 2004
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Amendment history

Date of amendment	Part	Comment
21 December 2017	More information & Contact information	Updated
15 June 2016	Examples 2 & 3	Updated to remove references to specific years. Updated examples to remove amounts and instead explain the method.
	More Information	Updated
	Related rulings/Determinations	Updated
	Contact officer details	Updated
14 July 2015	All	Updated to new LAPS style and format.
	Example 3	Updated – modified and elaborated.
15 April 2015	Example 2 & 3	Updated income year from '2013/14' to '2014/15' and 'TD 2014/2' to 'TD 2015/9'.
	Related public rulings	Updated 'TD 2014/2' to 'TD 2015/9'.
	Contact details	Updated.
17 April 2014	Example 2 & 3	Updated income year from '2012/13' to '2013/14' and 'TD 2013/3' to 'TD 2014/2'.
	Related public rulings	Updated 'TD 2012/20' to 'TD 2014/2'.
18 April 2013	Examples	Updated income year from '2011/12' to '2012/13' and reference from 'TD 2012/20' to 'TD 2013/3'.
13 November 2012	Generally	Updated to current corporate publication style.
	Examples	Updated income year from '2010/11' to '2011/12' and reference from 'TD 2011/11' to 'TD 2012/20'.
	References	Updated.
8 July 2011	Various	'Tax Office' updated to ATO as per Style Guide recommendations.
	Contact details	Updated.
	Examples	Dates updated to current year.
	Related public rulings	References updated.

References

Subject references	private use, trading stock, value of goods taken from trading stock
Legislative references	ITAA 1997 4-5 ITAA 1997 Subdiv 70-D ITAA 1997 70-90 ITAA 1997 70-100 ITAA 1997 70-110 ITAA 1997 960-100 ITAA 1997 995-1
File references	2001/001048
Related public rulings	TD 2011/11

	TD 2012/20 TD 2013/3 TD 2014/2 TD 2015/9 TD 2016/9
Related practice statements	PS LA 1998/1
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