STB 26 - Taxable Value for Manufacturers

Sales Tax Bulletin

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Taxable Value for Manufacturers

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Australian Taxation Office

Withholding and Indirect Taxes

About this bulletin

This bulletin gives manufacturers some assistance in calculating the taxable value of goods they sell or apply to their own use (AOU), where an exemption doesn't apply. It is a public ruling for the purposes of section 77 of the *Sales Tax Assessment Act 1992* and may be relied upon by any person to whom it applies. It replaces any previous private or public rulings, if they are inconsistent with this bulletin, and is current as at 1 September 1997.

Warning: We regularly revise our publications to take into account changes in the law so if you are seeking to rely on anything contained in this bulletin, you should make sure that this edition is the latest.

The bulletin is based on **Taxation Ruling SST 6** Sales Tax : taxable value, a copy of which is available:

- from your local Tax Office; and
- on the Internet at http://www.ato.gov.au

If, after reading this bulletin, you need more information on how the sales tax law affects your business, contact your local Tax Office on **13 28 66** for the cost of a local call.

Overview

Under the sales tax law, the amount of tax payable on assessable goods is determined by multiplying what is known as the taxable value of the goods by the tax rate applicable to the goods.

Arm's length rule

Where parties are not dealing at arm's length and this affects the price of the goods, the sales tax law requires that the taxable value of the goods reflects a price for which the goods could reasonably be expected to have been sold under an arm's length transaction. This bulletin must be read as subject to this rule.

Taxable value - manufacturers who sell by wholesale

A wholesale sale is a sale to a person who is purchasing goods to resell them, such as a retailer. The taxable value of a wholesale sale is *the price for which the goods were sold*. As a general rule, this will include all amounts you charge the purchaser, up to the point when the purchaser owns the goods.

Example: You sell goods to a retailer for $200 before tax. This is a wholesale sale, as the retailer will resell the goods. The taxable value of the goods will be $200, as this is *the price for which the goods were sold.*

If you need information on how the taxable values of goods you sell are affected by:

- freight and insurance costs
- finance charges
- warranty charges
- trade incentive payments

please call your local Tax Office on **13 28 66** (local call cost).

Taxable value - manufacturers who sell by retail

A retail sale is a sale to an end user. When you sell by retail, the taxable value is the price for which you could reasonably have been expected to sell the goods by wholesale under an arm's length transaction. This is known as the *notional wholesale selling price*.

The taxable value is easy to determine when you sell the same type of goods by wholesale in significant quantities in comparable circumstances as your retailed goods. The following paragraphs give some simple methods of arriving at this value.

If you sell by both wholesale and retail

To arrive at the taxable value of the goods you have sold by retail, you can use one of the following 2 methods, depending upon the circumstances:

1. the actual wholesale price of similar goods sold in significant quantities to arm's length retailers in Australia in comparable circumstances; or

Example: You sell goods by retail for $290 (excluding tax). If you also sell similar goods to arm's length retailers for $200 before tax in comparable circumstances, the taxable value of the goods you sell by retail will be $200 (ie the wholesale price), as this is the price for which you could reasonably have been expected to sell the goods by wholesale.

2. if you sell by wholesale at a range of arm's length selling prices, you can use the weighted average of your wholesale prices to arrive at the taxable value. For more details about this, contact the Tax Office on **13 28 66** for the cost of a local call.

If you only sell by retail

The Tax Office would expect that you would normally sell by wholesale at a price reflecting the sum of manufacturing cost, any research and development costs, wholesale selling expenses and a fair wholesale profit.

A simplified formula (known as a Safe Harbour) for finding this figure is available for manufacturers who sell goods by retail but do not sell significant quantities of similar goods to arm's length retailers in Australia in comparable circumstances. It is calculated easily by taking the *manufacturing cost* plus one third of the difference between that amount and the retail selling price (excluding tax) of the goods. A Safe Harbour is a statement of how to calculate taxable value that the Tax Office accepts as completely discharging a taxpayer's liability.

Manufacturing cost means the sum of:

- the cost of materials used to manufacture the particular goods;
- the cost of labour used directly in the manufacturing operations; and
- production, manufacturing or factory overheads.

Example: You sell goods by retail for $80 (before tax). If the manufacturing cost of the goods is $50, the taxable value is $60, calculated as follows:

$50 + 1/3 of (80 - 50) = 50 + 10 = $60.

For simplicity, once a taxable value has been calculated in this way, it can then be expressed as a percentage off the retail selling price. In this example, it is retail selling price (before tax) less 25% (ie $80 - 25% = $60).

Taxable value - applying goods to your own use (AOU)

In some cases you may manufacture goods for sale and then AOU some of them in circumstances where an exemption doesn't apply. This would include using goods yourself, giving goods away and using goods in repair work. It does not include selling the goods.

Once again the taxable value is the *notional wholesale selling price* of the goods, and this can be arrived at by using one of the methods explained above, whichever is applicable to your circumstances.

If you manufacture goods for your own use and don't sell similar goods, you can calculate the *notional wholesale selling price* as manufacturing cost + 10%. 'In house' printers may calculate their taxable value of AOU printing on the basis of:

(i) cost of materials

plus (ii) direct labour

plus (iii) 150% of direct labour

plus (iv) 10% of the sum of (i), (ii) and (iii)

What if I have a current private ruling from the Tax Office?

Some private rulings may conflict with the principles in this bulletin and with **Taxation Ruling SST 6** Sales Tax: taxable value. These private rulings lapsed on 1 October 1996.

Private rulings that issued before 30 June 1992 lapsed on 1 July 1997. All other private rulings will lapse 5 years from the date they were issued by the Tax Office.

Do you need more information?

If you have any questions or need more information about how the sales tax laws apply to you, please contact your local Tax Office:

- **by phone -** on our national enquiry number **13 28 66**. You can ring this number from anywhere in Australia for the cost of a local call; or
- **in person -** by visiting the enquiry counter at your nearest Tax Office. Tax Office addresses are listed in TaxPack, as well as in your White Pages telephone directory.[1]

[1]Produced by the Withholding and Indirect Taxes Program of the Australian Taxation Office. NAT 2451.09.97