

STD 1999/1 - Classification of AC adaptors; valuation of AC adaptors



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Sales Tax Determination

Title: **Classification of AC adaptors;
valuation of AC adaptors**

Background

This Determination sets out the Australian Taxation Office (ATO) view on what goods are *AC adaptors* so that they might be classified as adaptors and exempt from sales tax. It also provides a basis for determining the value attributable to AC adaptors in cases where they are packaged together with other goods and sold for one inclusive price.

In *Dick Smith Electronics Pty Ltd v. FC of T* 97 ATC 5089; (1997) 37 ATR 346 (*Dick Smith* case) the court considered four devices that were each labelled as AC adaptors, with three of them also described in an owner's manual accompanying the goods as AC adaptors. The devices in each case had suitable plugs to enable connection to a standard mains electrical supply and connection to the appliance. The devices each adapted the 240 volt alternating current (AC) to an electricity supply suitable for powering the relevant appliance - a low voltage direct current (DC).

The Court determined that the goods in question were adaptors, within both the ordinary English meaning and popular usage.

See also Sales Tax Determination STD 96/7, which was issued on 19 June 1996 and discusses powerboards that are exempt as adaptors.

Issues

1. What goods are AC adaptors so that they are exempt from sales tax as *adaptors*?
 2. What value is attributable to exempt AC adaptors in cases where they are packaged with other goods and sold for one inclusive price?
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Decision

1. Goods are AC adaptors and exempt as adaptors under paragraph (a) of subitem 43(3) in Schedule 1 to the *Sales Tax (Exemptions and Classifications) Act 1992* (ST(E&C)Act) where each of the following criteria is satisfied:

The goods are separate from the appliance to which they supply power and:

- (a) are able to be connected to a fixed electrical installation (socket outlet) either directly by means of a plug or indirectly through a separate connector or cable;
- (b) are able to be connected to an appliance to be powered either directly by means of a plug or indirectly through a separate connector or cable;
- (c) adapt 240 volt AC electricity supply to a low voltage DC electricity supply suitable for powering appliances;
- (d) have an enclosure or housing for a transformer, rectifier, (or converter) and filter to provide the electrical adaptation of the electricity supply;
- (e) directly provide power to an appliance enabling it to function by utilising that power; and
- (f) do not merely provide a set of contact terminals against which a battery is able to be placed for the purpose of being charged or recharged so that the battery might then deliver power to an appliance.

Where goods have design or functional features that do not meet these criteria and taxpayers are unsure of the classification, they should ask the ATO for a private ruling.

2. ***Valuation of AC adaptors***

- (a) Where an AC adaptor, is packed with other goods and sold together for one inclusive price:
 - if the parties to the sale have not allocated a particular amount to the AC adaptor, the value attributable to the adaptor is the price for which it could reasonably be expected to have been sold if sold separately; but

- if the selling price of the bundle is less than the sum of the individual prices of the goods, in the absence of evidence to show a better apportionment, the value of all the goods in the bundle should be discounted in proportion to the discount allowed for the whole bundle.
- (b) In the following situation a taxpayer may apply the Safe Harbours set out in the table below in determining the value attributable to an AC adaptor:
- an AC adaptor is packed with other goods, one of which is an electronic appliance to which the AC adaptor supplies power; and
 - the goods are sold together as a product bundle for one inclusive price; and
 - the parties to the sale have not allocated a particular amount to the AC adaptor.

(A Safe Harbour is a practical basis for calculating value in respect of particular dealings that the ATO accepts as completely satisfying the taxpayer's sales tax obligations in relation to those dealings.)

Taxable value of product bundle	Value of AC adaptor
\$20.00 or less	25% of taxable value of bundle
more than \$20 but not more than \$100	\$ 5.50
more than \$100 but not more than \$500	\$21.00
more than \$500	\$42.00

While it is not mandatory to apply the above Safe Harbours, a taxpayer who elects to use a Safe Harbour to determine the value of any AC adaptor, must apply the relevant Safe Harbour value to all transactions with any AC adaptor where the conditions for the application of a Safe Harbour are present.

Date of effect

This Determination is effective immediately and replaces any previous private rulings to the extent they are inconsistent with it. Nothing in this Determination may be taken as automatically authorising a refund before the date of effect of the Determination. Credit claims are considered on their individual merits.

Reasons

*We have based our decision on the following legislative provisions:
Paragraph 43(3)(a) in Schedule 1 to the Sales Tax (Exemptions and Classifications) Act 1992*

Paragraph (a) of subitem 43(3) in Schedule 1 to the ST(E&C)Act provides sales tax exemption for:

‘The following goods, if they are of a kind ordinarily used in connection with fixed electrical installations in consumers’ premises:

(a) adaptors’.

The term *adaptor(s)* is not defined in the sales tax legislation. In these circumstances the principles of statutory interpretation require the term to bear its ordinary meaning unless there is a special technical or trade meaning.

and case law:

Dick Smith Electronics Pty Ltd v. Commissioner of Taxation 97 ATC 5089; (1997) 37 ATR 346

In the *Dick Smith* case, the court reached the conclusion that Parliament intended the term *adaptors* to have its ordinary meaning.

The *New Shorter Oxford English Dictionary* defines the verb ‘to adapt’ as:

‘Fit, adjust, (to); make suitable (to or for) Alter or modify to fit for a new use, new conditions, etc...’.

It also defines ‘adaptor’ as:

‘A device allowing connection of pieces of equipment ... unable to be connected directly ... an electrical fitting of this nature, usu. One enabling more than one plug to be connected to the same socket’.

The *Macquarie Dictionary*, 2nd ed, (1991) defines ‘adaptor’ as:

‘4. an accessory plug for connecting a piece of apparatus fitted with one type of terminals to a supply point with a different type’.

In the *Dick Smith* case the court found that the relevant dictionary meanings and trade usage of the term *adaptors* in the electrical industry are one and the same. In terms of its ordinary meaning an ‘adaptor’ is something that adapts. The technical, practical and commercial reality is that the devices being considered by the court, which were labelled as AC adaptors, convert 240 AC power to DC power suitable for use by appliances.

The court (per Tamberlin J) further considered that application of the popular usage test would lead to the conclusion the goods were adaptors for the purposes of paragraph 43(3)(a) of the ST(E&C) Act.

Because the court decision was based on ordinary English meaning and popular usage there was no need to resort to the essential character test in this case. The court found that even if essential character was an appropriate test, the essential character of the goods was to adapt current by transforming and converting power to make it suitable for use in certain appliances. They were adaptors.

Having regard to the decision of the court, the required elements of an adaptor are:

Labelling or description

The manner in which goods are labelled or are described by the manufacturer on packaging or in instruction manuals cannot be conclusive. Regard must be given to what the goods are and, in the case of AC adaptors, the function they perform.

If a device is labelled as an adaptor, AC adaptor or AC/DC adaptor, or is described in those terms in an owner's instruction manual, that is just one indication it might meet the ordinary meaning or be regarded in popular usage as an AC adaptor. The device will still need to satisfy other criteria before it can be accepted as an AC adaptor that is exempt as an adaptor.

If a device is labelled or described as a transformer, converter, charger or battery recharger, it may still be classified as an AC adaptor if it satisfies other criteria that apply to AC adaptors.

Physical adaptation

The device must provide a means of physical adaptation of the connection from one form to another, i.e., from the fixed electrical installation (socket outlet) to the different plug connector on the appliance to be powered.

The connection of the device to the socket outlet may take the form of a suitable plug attached to or forming part of the device. Alternatively, the connection may be made indirectly through a separate connector or cable with suitable connection points. The separate connector or cable is not part of the adaptor.

Electrical adaptation

The device must provide an electrical adaptation of the supply from the fixed electrical installation (240 volt AC) to an electricity supply suitable for powering an appliance. This is usually a low voltage DC. The court in the *Dick Smith* case was not required to consider whether a device transforming 240 volt AC supply to some other voltage AC supply was an adaptor. Such devices are not the subject of this Determination.

Enclosure for components

The device provides an enclosure for housing the various components required to provide both the physical adaptation and the electrical adaptation. The latter components include a transformer (to transform the high voltage of the mains supply to a low voltage suitable for the appliance), a rectifier or converter (to convert the current from AC to DC) and a filter (which provides a more uniform level of DC supply).

Providing power to an appliance

Each of the devices considered by the court in the *Dick Smith* case provided power in a suitable form to enable the appliance to perform its designed function. That was an integral and essential component in enabling the device to be regarded in its ordinary meaning or in popular usage as an AC adaptor or in establishing its essential character as an AC adaptor. To be exempt as an adaptor, the device must directly provide power to an appliance while connected to the appliance enabling it to function by utilising that power.

Battery charger

A device that provides a charge to a battery or restores charge to a discharged battery so the battery might then be inserted into or be attached to an appliance to enable it to function, is not an AC adaptor and is not an adaptor.

Typically, such a device does not have a plug or suitable connection to enable connection to an appliance. It has a set of contact terminals that are aligned with the appropriate terminals of the relevant battery. Placement of the battery in contact with those terminals and connection of the device to the AC supply causes the battery to obtain a charge or to be recharged. The essential character of such a device and its description in popular usage would be a battery charger or battery recharger. It is not an AC adaptor and is not exempt as an adaptor.

However, a device that meets the required criteria for an adaptor specified on pages 2, 5 and 6 of this Determination, and provides power in a suitable form to a battery charger (rather than to the battery) is an AC adaptor and is exempt as an adaptor.

Value of AC adaptors

AC adaptors sold as part of a bundle

Where AC adaptors are packed with other goods and sold together for one inclusive price, there is commonly a need to know the price for which the AC adaptor is sold. Examples are seen in the *Dick Smith* case where the exempt adaptors were packed with taxable goods such as baby monitors or personal CD players.

If the parties to the sale have not allocated a particular amount to the AC adaptor, the value of the adaptor needs to be apportioned as required by section 95 of the *Sales Tax Assessment Act 1992*. In terms of subsection 95(1), the taxable value of the AC adaptor is the price for which the adaptor could reasonably be expected to have been sold if it had been sold separately. That price may be difficult to determine in particular circumstances.

Even if it is possible to ascertain the value of an AC adaptor sold in a bundle for one inclusive price, it may be the case that the selling price of the bundle (excluding sales tax) is less than the sum of the individual prices of the goods in the bundle. This circumstance is recognised at paragraph 1.12 of Taxation Ruling SST 6 '*Sales tax: taxable value*'. It is there indicated that, in the absence of evidence to show a better apportionment, each of the taxable values should be discounted in proportion to the discount allowed for the bundle or package.

For example:

Tax exclusive selling price of Portable CD player package: \$129.
Selling price of the goods in the package:

CD player	\$100
Battery	\$30
Manual	\$5
AC adaptor	\$22

Total price of goods \$157.

The sum of the individual prices is \$157. If the entire package is actually sold for \$129, the discount applied to the whole package is 17.84%. This means the discounted value of the AC adaptor is \$18.07. The relevant calculation is as follows:

$$129/157 \times 100/1 = 82.16\%.$$

The value attributable to the AC adaptor is:

$$\$22 \times 82.16\% = \$18.07.$$

Safe Harbour for AC adaptors

Recognising that there may be difficulties involved in determining the value of an AC adaptor packed with other goods and sold together for one inclusive price, the ATO has worked with industry representatives to develop a range of Safe Harbour values for use by affected taxpayers.

This involved examination of a wide range of goods where it was agreed that an AC adaptor formed part of the bundle. The Safe Harbour values apply only to those goods that are AC adaptors, and only where the conditions in paragraph 2(b) on page 3 of this Determination are satisfied.

The Safe Harbour values are those set out in the table on page 3 of this Determination.

For example, if an AC adaptor is sold as part of a bundle of goods for one inclusive selling price (excluding sales tax) of \$18, the value of the AC adaptor is 25% of \$18, which equals \$4.50.

If an AC adaptor is sold as part of a bundle of goods for one inclusive price (excluding sales tax) of \$35, the value of the AC adaptor is \$5.50.

The Safe Harbour arrangement is a concession to taxpayers to enable them to determine a value for an AC adaptor when it may otherwise be difficult to determine that value. This may be either because the AC adaptor does not have a known wholesale selling price or because a particular amount is not allocated to the AC adaptor when it is sold as part of a product bundle. Because of the concessional nature of the Safe Harbour, a taxpayer seeking to rely on its terms must apply the relevant Safe Harbour value to all transactions with any AC adaptor where the conditions for the application of a Safe Harbour are present.

**Communication
of the Decision**

This Determination has been made available for publication by the sales tax publishing houses.

Commissioner of Taxation

24 February 1999

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Previous draft:

[No draft issued](#)

Related Rulings/Determinations:

[STD 96/7](#); [SST 6](#)

Subject references:

[classification of AC adaptors](#); [safe harbour values](#); [sales tax](#)

Legislative references:

[ST\(E&C\)A: Subitem 43\(3\)\(a\) of Schedule 1](#)

[STAA: section 95](#)

Case references:

[Dick Smith Electronics Pty Ltd v. FC of T 97 ATC 5089](#); [\(1997\) 37 ATR 346](#)

ATO references:

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