


ST 2268 - SALES TAX : SALE VALUE OF AIR CONDITIONING DUCT WORK

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TAXATION RULING NO. ST 2268

SALES TAX : SALE VALUE OF AIR CONDITIONING DUCT WORK

F.O.I. EMBARGO: May be released

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LEGISLAT. REFS:

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SALE VALUE -
AIR CONDITIONING
DUCT WORK

SALES TAX ASSESSMENT
ACT (NO.1); SECTIONS
3 AND 18

OTHER RULINGS ON TOPIC ST 2259

PREAMBLE

Duct work of a kind used in forced draught ventilating or air conditioning systems is taxable at the general rate of 20%.

2. Air conditioning contractors and other duct work manufacturers fabricate duct work to required specifications. Flexible, round and oval duct work in standard sizes and lengths is also manufactured.

3. For the reasons set out in Taxation Ruling No. ST 2259, sales of duct work to installation contractors are retail sales for sales tax purposes. Similarly, by the operation of sub-section 3(4) of Sales Tax Assessment Act (No. 1) and excluding paragraph (f) of the definition of "Sale of goods by wholesale" in sub-section 3(1), the supply of duct work by a contractor in the course of a contract for the supply and installation of duct work is deemed to be a retail sale.

4. As the sale of duct work in these circumstances is a sale by retail, the sale value upon which sales tax is calculated is the amount determined in accordance with sub-section 18(1)(b) of Sales Tax Assessment Act (No. 1), viz -

(i) if the goods are of a class which the manufacturer himself sells by wholesale - the amount for which the goods could reasonably be expected to have been sold by the manufacturer by wholesale; or

(ii) in any other case - the amount for which the manufacturer could reasonably be expected to have purchased identical goods from another manufacturer if the other manufacturer had, in the ordinary course of his business, manufactured the identical goods for sale and had sold them to the first-mentioned manufacturer

by wholesale.

5. It is understood that duct work manufacturers do not generally sell duct work by wholesale. The sale value on which sales tax is required to be calculated is therefore determined by reference to sub-paragraph (ii). For the purposes of uniformity, enquiries have been carried out with a view to establishing a sale value which will be accepted as satisfying the requirements of sub-paragraph (ii).

RULING

6. In the case of fabricated duct work sold by retail a sale value equal to 120% of the sum of -

(a) cost of materials; and

(b) cost of direct fabricating labour;

will be acceptable for the purposes of calculating the sales tax payable.

(NOTE: "direct fabricating labour" does not include indirect costs such as annual leave, sick leave, workers' compensation, payroll tax, etc.)

7. In some situations this value may exceed the amount for which the duct work is sold. This may occur, for example, where a fabricator operates on a lower profit margin. In those circumstances, tax should be calculated on the actual price charged provided that the selling price exceeds the cost of fabricating the duct work. In making that calculation the price charged may be treated as inclusive of sales tax, unless the tax is charged as a separate item. A sale value of less than the cost of production will not be an acceptable sale value for the purposes of paragraph 18(1)(b)(ii).

8. The sale value set out above is not intended to apply to flexible, round and oval duct work sold in standard sizes. The sale value for flexible, round and oval duct work sold in standard sizes will be determined by reference to the price for which it is sold by wholesale. The sale value of duct work sold by wholesale (i.e. to duct work suppliers) is the amount for which the duct work is sold. That sale value also applies where standard sized duct work is sold to installation contractors.

COMMISSIONER OF TAXATION
18 July 1986

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