



TD 92/198 - Income tax: when can a taxpayer elect the replacement price method for the valuation of trading stock under subsection 31(1)?

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 This document has changed over time. This is a consolidated version of the ruling which was published on *10 December 1992*

This Determination, to the extent that it is capable of being a 'public ruling' in terms of Part IVA of the *Taxation Administration Act 1953*, is a public ruling for the purposes of that Part. Taxation Ruling TR 92/1 explains when a Determination is a public ruling and how it is binding on the Commissioner. Unless otherwise stated, the Determination applies to transactions entered into both before and after its date of issue.

Taxation Determination

Income tax: when can a taxpayer elect the replacement price method for the valuation of trading stock under subsection 31(1)?

1. To elect replacement price as a method of trading stock valuation, the items must be available in the market and be substantially identical to the replaced items. The replacement price is the amount the taxpayer would have to pay in his normal buying market on the last day of the year of income.
2. There may also be situations where the use of replacement price is not an option under subsection 31(1). In *Parfew Nominees Pty. Ltd. v FCT* (1986) 17 ATR 107, (1986) ATC 4673 the taxpayer, whose trading stock was strata title units, elected the replacement price method. In the circumstances of that case, the court refused to accept replacement price valuation based on a notional calculation of constructing the same building on the same site as the basis of calculation defied business reality.

Example: 1

(i) ABC Pty. Ltd. deals in office furniture. Its trading stock includes 1 metre high filing cabinets with 3 shelves. When ABC Pty. Ltd places an order for more filing cabinets it is informed that the 1 metre high cabinets are only manufactured with 2 shelves and not 3.

The replacement price method is acceptable in this situation as the cabinets are considered substantially identical.

(ii) Assume the same situation as above but the only filing cabinets available on the market are now 1.5 metres high with 4 shelves.

The replacement price method is not appropriate in this situation as the cabinets are not considered substantially identical.

Example: 2

XYZ are dealers in antique furniture.

As it is unlikely that these items of furniture can be replaced, the use of replacement price is not appropriate. XYZ can only elect cost price or market selling value.

Commissioner of Taxation
10/12/92

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