TR 93/29 - Income tax : motor vehicle dealers : valuation of stock on hand : motor vehicles traded in

Taxation Ruling
Income tax : motor vehicle dealers : valuation of stock on hand : motor vehicles traded in

This Ruling, to the extent that it is capable of being a 'public ruling' in terms of Part IVAAA of the ***Taxation Administration Act 1953****, is a public ruling for the purposes of that Part . Taxation Ruling TR 92/1 explains when a Ruling is a public ruling and how it is binding on the Commissioner.*

*[**Note:** This is a consolidated version of this document. Refer to the ATO Legal Database (http://law.ato.gov.au) to check its currency and to view the details of all changes.]*

contents para

What this Ruling is about

1. This Ruling explains how motor vehicle dealers should apply section 70-45 of *Income Tax Assessment Act 1997* (ITAA 1997) to the valuation of motor vehicles traded in.

Ruling

2. Motor vehicle dealers often retain traded vehicles for the purposes of resale in the normal course of business. Where these vehicles remain on hand at the end of the year of income, section 70-45 of the ITAA 1997 allows a motor vehicle dealer the option of valuing each of the vehicles at its cost, market selling value or the replacement value.

Cost

3. Cost is the trade-in price shown on the contract plus any additional expenses incurred in bringing the vehicle into its existing condition and location at the end of the year of income.

Market selling value

4. Market selling value is the value at which a vehicle could be sold in the dealer's retail market at the end of the year of income.

Replacement price

5. Replacement value is the price which a motor vehicle dealer would pay in the dealer's buying market in order to acquire a substantially identical vehicle at the end of the year of income.

6. In determining this price, the dealer must either use:

(a) an independent valuation; or

(b) a recognised industry guide.

An independent valuation is one provided by a suitably qualified arms-length valuer.

7. Where the dealer wishes to use replacement value, the same method, either (a) or (b), must be used at the end of the year of income for all traded-in vehicles valued at replacement value.

Date of effect

8. This Ruling applies to years commencing both before and after its date of issue. However, the Ruling does not apply to taxpayers to the extent that it conflicts with the terms of a settlement of a dispute agreed to before the date of issue of the Ruling (see paragraphs 21 and 22 of Taxation Ruling TR 92/20).

Explanations

Cost price

9. An industry practice has been to value a traded-in vehicle at a notional cost. This notional cost was the actual cost adjusted for any under or over allowance. This treatment is not consistent with section 70-45 of the ITAA 1997 and should not be used.

Replacement value

10. An independent valuation is considered to be the most accurate method of determining the replacement value of a traded motor vehicle on hand at the end of the year of income.

11. A recognised industry guide represents average values only and is less accurate for individual vehicles. An industry guide only

provides an adequate valuation when applied to all such stock on hand.

12. To prevent the selective use of a recognised industry guide, it is the requirement of this Ruling that:

> **where** a recognised industry guide is used to determine the replacement value of a trade-in for the purposes of section 70-45 of the ITAA 1997,
>
> **then** this method must be used for all trade-ins valued at replacement value for that income year.

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