



**EMBARGO** Budget. Not for release before 7.30 pm AEST, 13 May 1997.

## HIRE PURCHASE ARRANGEMENTS — BALANCING ADJUSTMENT ON DISPOSAL

### Financial Implications (\$m)

1997-98	1998-99	1999-00	2000-01
5	30	20	25

### Explanation

The Government has decided to amend the taxation law to rectify an anomaly in the capital allowance provisions of the income tax law in relation to property acquired under hire purchase or limited-recourse finance.

Under the existing provisions, it is possible for a taxpayer to obtain deductions greater than total amounts expended in relation to the cost of the property that is financed under hire purchase or through limited-recourse borrowing. This can occur when outstanding debts on the property are not paid, and the creditor may only recover the specific asset.

To remove this anomaly, the income tax law will be amended to treat unpaid amounts of the cost of property under hire purchase or limited-recourse finance arrangements as part of the consideration on disposal of the property. This change in the law will apply to disposals of property after 7.30 pm AEST, 13 May 1997, except for disposals that were made under a contract entered into before that time.

### *Example*

#### *Existing Law*

Plant purchased for \$10,000 under a hire purchase agreement may be repossessed for non-payment after two years. If at that time the plant has been depreciated for tax purposes by \$7,000 but the taxpayer has paid only \$4,000 of the hire purchase cost, the taxpayer would have obtained a tax gain which exceeds costs by \$3,000. A further deduction would be available to the taxpayer equal to the difference between the depreciated value of \$3,000 and the taxpayer's disposal price — in this case nil because the plant was repossessed. For a total outlay of \$4,000, the taxpayer's deductions would be \$10,000.

#### *Amended Law*

The \$6,000 of the unpaid cost under the hire purchase arrangement — adjusted if necessary for any further amount the taxpayer was required to pay — would be treated as consideration on disposal,

thereby creating a balancing charge of \$3,000 (\$6,000 less the depreciated value) to offset the \$7,000 depreciation already deducted. The taxpayer's net tax deductions then would be \$4,000 — equal to net outlays.

**The above material is a full extract of the description of the measure as contained in *Budget Paper No 2: Budget Measures 1997-98*. This paper explains all outlays and revenue measures, and is available from Australian Government Bookshops or from the Treasury Internet site at <http://www.treasury.gov.au/budget>**

CANBERRA  
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