

Edited version of private ruling

Authorisation Number: 92225

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Ruling

Questions:

Are payments received from electricity retailers, for power generated by solar panels and exported to the grid, assessable income?

No.

Are you entitled to a deduction for expenses associated with solar panels on your private residence such as depreciation or installation costs?

No.

This ruling applies for the following period(s):

Year ended 30 June 2009

Year ended 30 June 2010

Year ended 30 June 2011

Year ended 30 June 2012

Year ended 30 June 2013

The scheme commences on:

1 July 2008

Relevant facts and circumstances

You have installed photo voltaic solar panels on the roof of your home.

Your system generates a maximum of approximately 1,750KWH per year generating a small amount of income.

Under the legislation, the electricity retailer will be required to credit you 50.05 cents/kwh plus GST for the electricity exported to the grid. The amount you receive is calculated based on the gross tariff.

You are required to meter your solar electricity separately to the electricity you use.

You are provided with a combined bill (invoice) that covers both the energy you use plus the energy you produce and provides you with either a credit or a payment to your account if requested.

Relevant legislative provisions

Income Tax Assessment Act 1997 Section 6-5.
Income Tax Assessment Act 1997 Section 6-10.
Income Tax Assessment Act 1997 Section 8-1.

Reasons for decision

While these reasons are not part of the private ruling, we provide them to help you to understand how we reached our decision.

Sections 6-5 and 6-10 of the *Income Tax Assessment Act 1997* (ITAA 1997) provides that the assessable income of a resident taxpayer includes ordinary income and statutory income derived directly or indirectly from all sources during the income year.

Generally, if an amount received is not considered ordinary income or statutory income, it is not included in assessable income.

Ordinary income

Whether a receipt or a credit is income according to ordinary concepts is determined based on a number of factors. These factors include the motivation for undertaking that activity, how the activity is undertaken and whether there is a real prospect of profit from the activity. If the characteristics of the activity change, the receipts or credits from the activity may become or cease to be income according to ordinary concepts as a result of those changes.

In your case

You installed solar panels on your private residence to generate electricity and will receive either a credit on your electricity bill or a payment from the electricity retailer for the electricity exported to the grid. Taking into account the amount of equipment used to generate the electricity and the current pricing structure, there is no realistic prospect of profit from this activity. You produce the electricity for a domestic purpose only.

The credits or payments that you receive from electricity generation would not be classed as income according to ordinary concepts under your present arrangement.

Statutory income

There are no specific legislative provisions relating to credits or payments received from electricity supplies, therefore it is not statutory income.

Conclusion

Any credits or payments you receive from the electricity retailer for the power generated by your solar panels and exported to the grid are not considered ordinary income or statutory income and, therefore, are not included in your assessable income.

Deductions

Section 8-1 of the ITAA 1997 allows a deduction for any loss or outgoing to the extent that it is necessarily incurred in carrying on a business for the purpose of gaining or producing your assessable income.

However, no deduction is allowable under section 8-1 of the ITAA 1997 for outgoings to the extent they are of a capital, private or domestic nature or are incurred in gaining or producing exempt income.

In your case the you installed photo voltaic solar panels on your residential premises. The solar panels do not generate assessable income and were installed for a private purpose. As such you are not entitled to a deduction for expenses in relation to depreciation or the cost of installation.

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