TR 93

Facts

P Ltd is a company engaged in the distribution of petroleum products, and has a distribution network which comprises various retail outlets spread all over the island. In respect of a few recent retail outlets, the company has had to bear the cost of the access road to and exit from the retail outlets. The roads are set up either on leased property or form part of public roads.

Points in issue

a) Whether the initial costs of the roads are eligible for annual allowance?
b) Whether the future costs of maintaining the roads are allowable expenses?

Rulings

(i) The provisions of Section 24 (1) (a) of the Income Tax Act apply to capital expenditure incurred on the acquisition, construction or extension of commercial premises, while the provisions of Section 24 (1) (f) apply to "the acquisition or improvement of any other item of a capital nature which is subject to depreciation under the normal accounting principles. "
The access roads to and exit from the retail outlets do not form part of the commercial premises of the company and are also not capital expenditure of a nature which is subject to depreciation under normal accounting principles. The initial costs of the roads are therefore not eligible for annual allowance.

(ii) It is confirmed that the future costs of maintaining the roads will be allowable as a deduction in the accounts of the Company, in accordance with the provisions of Section 18 of the Income Tax Act.