TAXATION RULING NO. IT 2285

INCOME TAX : DIVIDEND AND INTEREST REINVESTMENT PLANS REPORTING BY COMPANIES AND ASSESSABILITY OF INCOME AMOUNTS REINVESTED

F.O.I. EMBARGO: MAY BE RELEASED

REF H.O. REF: 86/3244-8 DATE OF EFFECT:

B.O. REF: DATE ORIG. MEMO ISSUED:

F.O.I. INDEX DETAIL

REFERENCE NO:	SUBJECT REFS:	LEGISLAT. REFS:
I 1077967	DERIVATION OF INCOME	19
	DIVIDEND AND INTEREST REPORTING	44 Reg. 11(2)

PREAMBLE Dividend and Interest Reinvestment Plans have been introduced over recent years by many of Australia's leading public companies. The plans provide shareholders, convertible note holders or debenture holders with an option to participate in the plan in respect of part or all of their shares, notes or debentures.

2. Where the holder so elects, the company does not forward a cheque in payment of any dividend or interest entitlement for the particular shares, notes or debentures. Instead, the amount otherwise payable is applied as payment for new ordinary shares in the company.

3. Often, there is a small excess of the amount available for reinvestment over the cost of the new shares issued, the amount of the excess being less than the allotment price of one share. This excess is carried forward by the company on behalf of the shareholder and becomes available for reinvestment at the time of the next payment of dividend or interest on the shares, notes or debentures included in the plan.

RULING 4. Section 44 of the Income Tax Assessment Act provides that dividends paid by a company out of profits to its shareholders are assessable income of the shareholders. The term "paid" in relation to dividends includes credited or distributed. The amount of any dividend applied to the purchase of shares in Dividend and Interest Reinvestment Plans would be assessable income of the shareholder. The operation of section 19 would produce a similar result in relation to the payment of interest, i.e. interest applied towards the purchase of shares would be assessable income of the lender. Plan booklets, prospectuses, etc. recognize that this is so.

5. Participants who are residents for tax purposes and their tax agents, given the absence of a dividend or interest cheque or a deposit to a bank account, will need to exercise care to ensure that the income is disclosed in their returns.

6. In the case of non-resident taxpayers, the company should deduct withholding tax at the appropriate rate from amounts of the dividends or interest.

7. Regulation 11(2) requires a company to furnish statements each year setting out the name, address and amount for each recipient to whom interest in excess of $100, or dividends were paid or credited by the company during the year of income. Dividends or interest dealt with by a company under a reinvestment plan are required to be reported in accordance with the Regulation.

8. Amounts reported to the Taxation Office pursuant to the Regulation are the basis of an internal computer check carried out each year to match the details reported with those details of dividend and interest income disclosed in returns lodged. Discrepancies identified by the matching system are examined to detect omissions of income.

9. Where income is omitted from a return, the income tax law provides for a statutory penalty of double the tax avoided. The penalty applies irrespective of whether the omission was deliberate of not. The Commissioner is empowered, however, to remit part or all of that statutory penalty. IT 2206 sets down guidelines for the exercise of that power.

COMMISSIONER OF TAXATION
28 April 1986