

This Determination, 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 Determination is a public ruling and how it is binding on the Commissioner. Unless otherwise stated, this Determination applies to years commencing both before and after its date of issue. However, this Determination 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 Determination (see paragraphs 21 and 22 of Taxation Ruling TR 92/20).

Taxation Determination

Income tax: how is the amount accrued by the formula in Division 16E of the *Income Tax Assessment Act 1936* adjusted to reflect amounts paid during an accrual period?

1. Division 16E of Part III of the *Income Tax Assessment Act 1936* (the Act) was enacted to prevent tax deferral opportunities which were available from certain discounted and deferred interest securities. Under Division 16E, the income and deductions from these securities are spread over the term of the security on a basis which reflects the economic gains and losses which have accrued at any point in time.
2. Division 16E applies to a class of securities defined as 'qualifying securities'. Qualifying securities are divided into two groups: 'fixed return securities' and 'variable return securities'. Assessable income and allowable deductions under qualifying securities are brought to account on a six monthly compounding accruals basis.
3. For all qualifying securities issued after 27 January 1994, the assessable or deductible amounts are the accrual amounts calculated under section 159GQB of the Act for each accrual period (six months or a portion of six months) in the term of the security. This calculation includes an adjustment to reflect payments made under the security other than at the end of the relevant accrual period. (A similar adjustment is required for fixed return securities issued before 28 January 1994.)
4. The Explanatory Memorandum to *Taxation Laws Amendment Act (No 2) 1994* contained an example of the calculation of a proper adjustment to reflect payments made other than at the end of an accrual period (Example 4, Chapter 2). The formula in that example is incorrect. The correct formula is:

$$\text{Payment} \times [(1 + \text{'implicit interest rate'})^{(\text{time left in accrual period after payment made/accrual period})} - 1]$$

Applying the correct formula to the facts of that example (set out below) results in an adjustment amount of \$12.35:

Length of accrual period: 6 months
 Implicit interest rate: 5% (per six monthly interval)
 Assume that a payment of \$500 is made 3 months into the accrual period.

$$\$500 \times [(1 + 5\%)^{(3 \text{ months}/6 \text{ months})} - 1]$$

$$\Rightarrow \$500 \times .024695 = \$12.3475 \approx \$12.35$$

Example:

A payment of \$1,000 is made 2 months into a 6 month accrual period. That is, there are 4 months left in the accrual period when the payment is made. If the implicit interest rate for the accrual period is 4%, the required adjustment is:

$$\text{Payment} \times [(1 + \text{'implicit interest rate'})^{(\text{time left in accrual period after payment made}/\text{accrual period})} - 1]$$

$$\Rightarrow \$1,000 \times [(1 + 4\%)^{(4 \text{ months}/6 \text{ months})} - 1]$$

$$\Rightarrow \$1,000 \times .026492 = \$26.492 \approx \underline{\underline{\$26.49}}$$

Commissioner of Taxation

15/12/94

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Related Determinations:

Related Rulings:

Subject Ref: accrual amount; accrual period; Deferred Interest Securities

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