

CR 2011/103 - Income tax: assessable income: tennis officials: Tennis Officials Australia Inc

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Class Ruling

Income tax: assessable income: tennis officials: Tennis Officials Australia Inc

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ⓘ This publication provides you with the following level of protection:

This publication (excluding appendixes) is a public ruling for the purposes of the *Taxation Administration Act 1953*.

A public ruling is an expression of the Commissioner's opinion about the way in which a relevant provision applies, or would apply, to entities generally or to a class of entities in relation to a particular scheme or a class of schemes.

If you rely on this ruling, the Commissioner must apply the law to you in the way set out in the ruling (unless the Commissioner is satisfied that the ruling is incorrect and disadvantages you, in which case the law may be applied to you in a way that is more favourable for you – provided the Commissioner is not prevented from doing so by a time limit imposed by the law). You will be protected from having to pay any underpaid tax, penalty or interest in respect of the matters covered by this ruling if it turns out that it does not correctly state how the relevant provision applies to you.

What this Ruling is about

1. This Ruling sets out the Commissioner's opinion on the way in which the relevant provisions identified below apply to the defined class of entities, who take part in the scheme to which this Ruling relates.

Relevant provisions

2. The relevant provisions dealt with in this Ruling are:
- section 6-5 of the *Income Tax Assessment Act 1997* (ITAA 1997);
 - section 8-1 of the ITAA 1997; and
 - section 15-2 of the ITAA 1997.

All legislative references in this Ruling are to the ITAA 1997 unless otherwise indicated.

Class of entities

3. The class of entities to which this Ruling applies comprises all individuals who receive payments from the following divisions of Tennis Officials Australia to officiate at tennis tournaments within Australia:

- Tennis Officials Australia Inc. – Victoria Division Inc;
- Tennis Officials Australia Inc. – New South Wales Division Inc;
- Tennis Officials Australia Inc. – Tasmania Division Inc;
- Tennis Officials Australia Inc. – SA Division Inc;
- Tennis Officials Australia Inc. – Australian Capital Territory Division Inc;
- Tennis Officials Australia Inc. – Queensland Division Inc ; and
- Tennis Officials Australia Inc. – Western Australia Division Inc.

These divisions are collectively referred to as 'TOA divisions' in this Ruling.

4. This Ruling does not apply to payments made to individuals by Tennis Australia or an affiliated member association of Tennis Australia (as defined in the Tennis Australia Constitution) for officiating at tennis tournaments organised by Tennis Australia or an affiliated member association of Tennis Australia. TOA divisions are not affiliated member associations of Tennis Australia.

5. The entities described in paragraph 3 of this Ruling to whom this Ruling applies are collectively referred to in this Ruling as officials.

Qualifications

6. The Commissioner makes this Ruling based on the precise scheme identified in this Ruling.

7. The class of entities defined in this Ruling may rely on its contents provided the scheme actually carried out is carried out in accordance with the scheme described in paragraphs 11 to 22 of this Ruling.

8. If the scheme actually carried out is materially different from the scheme that is described in this Ruling, then:

- this Ruling has no binding effect on the Commissioner because the scheme entered into is not the scheme on which the Commissioner has ruled; and
- this Ruling may be withdrawn or modified.

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Date of effect

10. This Ruling applies from 1 July 2011. However, this Ruling will 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 this Ruling (see paragraphs 75 and 76 of Taxation Ruling TR 2006/10).

Scheme

11. The following description of the scheme is based on information provided by the applicant. The following documents, or relevant parts of them form part of and are to be read with the description:

- Applications for Class Ruling dated 6 July 2011, and
- Further information provided by letter dated 19 September 2011

12. Tennis Officials Australia Incorporated is the peak body for the representation of tennis officials in Australia. The objects of Tennis Officials Australia include:

- upholding the laws and regulations of the game of tennis as adopted by the International Tennis Federation; and
- being the body responsible for the collection and dissemination of an accurate knowledge of the rules of the game of tennis and the training, testing and assessment of officials to administer those rules.

13. Tennis tournaments are organised by Tennis Australia, member associations of Tennis Australia or local clubs. TOA divisions are not involved in organising or running the tennis tournaments.

14. TOA divisions provide their membership database of officials so that the tournament organisers can source appropriately qualified officials. TOA divisions assist in circulating the details of tournaments to their members and may assist in the selection of appropriate officials.
15. All officials are required to be financial members of their relevant state/territory division.
16. All appointments are on a merit basis. Officials appointed to tournaments are assessed on their ability and further appointments are governed by their capabilities.
17. On average, any one official will officiate at tournaments on less than fifteen days during any calendar year.
18. Officials receive a fee for each tournament at which they officiate. The amounts received depend on the official's level and the number of hours/days they are required to be in attendance.
19. The tournament organiser will pay the relevant TOA division for the officials that are provided for a particular tournament. The relevant TOA division then pays the officials either after each individual tournament or on a monthly or quarterly basis.
20. In some circumstances, officials may receive a travel allowance calculated on a cents per kilometre basis. Additionally, for some tournaments a light lunch may be provided or meal allowance paid.
21. Officials are required to incur their own expenditure for uniforms and other sundry items required when officiating at tournaments.
22. The match fees are not intended to, nor do they usually cover expenses. The purpose of the payment is to encourage participation in local tennis tournaments.

Ruling

23. The tournament fees paid by the relevant state or territory TOA division to officials who officiate at tournaments are not assessable income under sections 6-5 or 15-2.
24. Losses and outgoings incurred by officials in connection with their activities as an official cannot be claimed as a deduction under section 8-1 or any other provision of the ITAA 1997.

Appendix 1 – Explanation

❶ *This Appendix is provided as information to help you understand how the Commissioner's view has been reached. It does not form part of the binding public ruling.*

25. A payment or other benefit received by a taxpayer is assessable income if it is:

- income in the ordinary sense of the word (ordinary income); or
- an amount or benefit that through the operation of the provisions of the tax law is included in assessable income (statutory income).

Ordinary income

26. Subsection 6-5(1) provides that the assessable income of a taxpayer includes income according to ordinary concepts (ordinary income).

27. The legislation does not provide specific guidance on the meaning of ordinary income. However, a substantial body of case law exists which identifies likely characteristics.

28. In *GP International Pipecoaters Pty Ltd v. Federal Commissioner of Taxation*,¹ the Full High Court stated:

To determine whether a receipt is of an income or of a capital nature, various factors may be relevant. Sometimes the character of receipts will be revealed most clearly by their periodicity, regularity or recurrence; sometimes, by the character of a right or thing disposed of in exchange for the receipt; sometimes, by the scope of the transaction, venture or business in or by reason of which money is received and by the recipient's purpose in engaging in the transaction, venture or business.

29. Amounts that are periodical, regular or recurrent, relied upon by a recipient for their regular expenditure and paid to them for that purpose are likely to be ordinary income, as are amounts that are the product in a real sense of any employment of, or services rendered by, the recipient.² Amounts paid in substitution for salary or wages foregone or lost may also be ordinary income.³

¹ (1990) 170 CLR 124 at 138; 90 ATC 4413 at 4420; (1990) 21 ATR 1 at 7.

² *Commissioner of Taxation v. Rowe* (1995) 60 FCR 99; 95 ATC 4691; (1995) 31 ATR 392.

³ *Federal Commissioner of Taxation v. Dixon* (1952) 86 CLR 540 at 568; (1952) 10 ATD 82 at 92; (1952) 5 AITR 443 at 456 (per Fullagar J).

30. Ultimately, whether or not a particular receipt is ordinary income depends on its character in the hands of the recipient.⁴ The whole of the circumstances must be considered⁵ and the motive of the payer may be relevant to this consideration.⁶

31. Where a taxpayer's activities constitute a pastime or hobby rather than an income producing activity, money and other benefits received from the pursuit of that pastime or hobby will not be included in their assessable income as ordinary income, even if the receipts are regular or periodical.

32. A pastime or hobby can be described as a social or personal pursuit of a non-commercial nature. Amounts received from engaging in a pastime or hobby are generally not intended to, and often do not, cover expenses.

33. The Commissioner accepts that the activities of the officials participating at such tournaments are a social or personal pursuit of a non-commercial nature and constitute a pastime or hobby. Consequently, the payments received are not assessable as ordinary income.

34. In forming the opinion that the officials are engaged in a pastime or hobby, the Commissioner has taken into account the number of tournaments at which they are likely to officiate in a year, the amount and the purpose of the payments they can receive, the factors that can motivate their participation, and the level or division of the sporting competition.

Statutory income

35. Section 6-10 refers to assessable amounts that are not ordinary income. These amounts are called statutory income. A list of the statutory income provisions can be found in section 10-5. The most relevant provision to consider for tennis officials is the potential operation of section 15-2.

36. Subsection 15-2(1) states that:

Your assessable income includes the value to you of all allowances, gratuities, compensation, benefits, bonuses and premiums *provided to you in respect of, or for or in relation directly or indirectly to, any employment of or services rendered by you...

⁴ *Scott v. Federal Commissioner of Taxation* (1966) 117 CLR 514 at 526; (1966) 14 ATD 286 at 293; (1966) 10 AITR 367 at 375; *Hayes v. Federal Commissioner of Taxation* (1956) 96 CLR 47 at 55; (1956) 11 ATD 68 at 73; (1956) 6 AITR 248 at 254; *Federal Coke Co Pty Ltd v. Federal Commissioner of Taxation* 77 ATC 4255 at 4273; (1977) 7 ATR 519 at 539.

⁵ *Squatting Investment Company Limited v. Federal Commissioner of Taxation* (1953) 86 CLR 570 at 627-628 per Kitto J.

⁶ *Scott v. Federal Commissioner of Taxation* (1966) 117 CLR 514 at 527-528; (1966) 14 ATD 286 at 293; (1966) 10 AITR 367 at 376.

37. Amounts that are a reward or remuneration for services rendered, or a product, incident or consequence of employment, come within the scope of subsection 15-2(1).⁷

38. Officials covered by this Ruling are not considered to be employees of any of the TOA divisions or tournament organisers. The payments are considered to be incidental to a pastime or hobby and not a product or incident of any employment or a reward for services rendered by them. As such, the payments are not assessable under section 15-2.

39. As the payments are neither ordinary nor statutory income, they are not assessable income of the officials who receive them.

General deductions

40. As the payments received by the officials are not assessable income, all losses and outgoings that are incurred in connection with these activities are not allowable as a deduction under section 8-1. Nor will a deduction be allowable under any other provision of the ITAA 1997.

Pay As You Go (PAYG) withholding

41. As explained above, payments made to an official engaged in a hobby or pastime activity are not assessable income. The payments are not regarded as withholding payments under Division 12 of Schedule 1 to the *Taxation Administration Act 1953*. A TOA division making payments to officials who are in the class of entities to which this Ruling applies will not be required to withhold amounts from these payments, nor do they have any other associated PAYG withholding obligations – for example, obtaining Tax File Number declarations, providing payment summaries, or annual reporting.

⁷ *Smith v. Federal Commissioner of Taxation* (1987) 164 CLR 513; 87 ATC 4883; (1987) 19 ATR 274.

Appendix 2 – Detailed contents list

42. The following is a detailed contents list for this Ruling:

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References

Previous draft:

Not previously issued as a draft

Related Rulings/Determinations:

TR 2006/10

Subject references:

- hobby vs business
- income
- sport
- sporting organisations
- sports officials
- sportspersons
- voluntary payments to sportspersons

Legislative references:

- ITAA 1997
- ITAA 1997 6-5
- ITAA 1997 6-5(1)
- ITAA 1997 6-10
- ITAA 1997 8-1
- ITAA 1997 10-5
- ITAA 1997 15-2
- ITAA 1997 15-2(1)
- TAA 1953
- TAA 1953 Sch 1 of Div 12
- Copyright Act 1968

Case references:

- Commissioner of Taxation v. Rowe (1995) 60 FCR 99; 95 ATC 4691; (1995) 31 ATR 392
- Federal Coke Co Pty Ltd v. Federal Commissioner of Taxation 77 ATC 4255; (1977) 7 ATR 519
- Federal Commissioner of Taxation v. Dixon (1952) 86 CLR 540; (1952) 10 ATD 82; (1952) 5 AITR 443
- GP International Pipecoaters Pty Ltd v. Federal Commissioner of Taxation (1990) 170 CLR 124; 90 ATC 4413; (1990) 21 ATR 1
- Hayes v. Federal Commissioner of Taxation (1956) 96 CLR 47; (1956) 11 ATD 68; (1956) 6 AITR 248
- Scott v. Federal Commissioner of Taxation (1966) 117 CLR 514; (1966) 14 ATD 286; (1966) 10 AITR 367
- Smith v. Federal Commissioner of Taxation (1987) 164 CLR 513; 87 ATC 4883; (1987) 19 ATR 274
- Squatting Investment Company Limited v. Federal Commissioner of Taxation (1953) 86 CLR 570

ATO references

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