


TD 93/D13 - Income tax: is an income tax deduction allowable for factoring fees incurred by the taxpayer when debts are factored by the taxpayer to a related party?

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This document has been finalised by TD 93/83.

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Draft Taxation Determination

Income tax: is an income tax deduction allowable for factoring fees incurred by the taxpayer when debts are factored by the taxpayer to a related party?

1. Yes, factoring fees are allowable deductions under subsection 51(1) of the *Income Tax Assessment Act 1936*, where :

- (i) there is a factoring arrangement,
- (ii) the factoring arrangement is based on ordinary business or commercial standards, and,
- (iii) there are no unusual circumstances or tax avoidance implications.

Note: Capital gains tax implications have not been considered in this Determination.

Example:

XYZ Ltd has book debts of \$10,000. It enters into a factoring arrangement with its subsidiary, ABC Ltd. ABC Ltd acquires the debts from XYZ Ltd at face value less the agreed factoring fee of 5 percent of face value.

The \$500 factoring fee is an allowable deduction under subsection 51(1), provided the factoring arrangement is comparable to normal commercial standards in the taxpayer's industry and there are no tax avoidance implications.

Commissioner of Taxation

21/01/93

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