

TD 93/D86 - Income tax: are TFN amounts deducted from the 'tax free income' component of a unit trust distribution?



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This document has been finalised by TD 93/88.

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Draft Taxation Determination

Income tax: are TFN amounts deducted from the "tax free income" component of a unit trust distribution?

1. Yes. Subsection 221YHZC(1A) of the *Income Tax Assessment Act 1936* ("the Act") requires a TFN amount to be deducted from "unattributed income" ie. a distribution to a unitholder where a tax file number (TFN) has not been provided or taken to have been provided by the unitholder in respect of that investment.
2. Unit trusts make their distribution from the accounting income of the trust. There are additional allowable deductions for taxation purposes eg. Division 10D deductions for capital expenditure on certain buildings and section 54 deductions for depreciation. The difference between the distribution of accounting income and the income for taxation purposes is known as the tax free income.
3. Subsection 221YHZA(1) defines "unattributed income" as income payable to an investor at a time when the investor's TFN has not been provided or taken to have been provided. Unattributed income does not distinguish assessable income from non-assessable income. The meaning of the term 'income' in the definition is the same as that used throughout the Act.
4. Income, as such, is not restricted to receipts which are taxable. All income whether exempt or otherwise is, therefore, used to calculate TFN amounts withheld under the TFN provisions. Only capital receipts that cannot otherwise be called income are not used to calculate the TFN amount to be withheld.

Example:

Mary is a unitholder in XYZ Unit Trust. For the year ended 31 December 1992 she was entitled to an income distribution of \$1300 from the Unit Trust comprising fully franked dividends of \$400, \$600 as proceeds from the sale of a building and a tax free amount of \$300. Mary did not provide her TFN to the Unit Trust. A TFN amount of \$337.75 should be deducted from the income distribution.

The required TFN amount to be deducted is calculated as follows:

Total distribution	\$1300.00
LESS: Capital receipt - sale proceeds	\$600.00
TFN amount deducted [$(400 + 300) \times .4825$]	\$337.75

Commissioner of Taxation

15/04/93

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Related Determinations: TD93/87

Related Rulings:

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