IT 2119 - Income tax : substitution of semi-government or local government securities by a central borrowing authority

TAXATION RULING NO. IT 2119

INCOME TAX : SUBSTITUTION OF SEMI-GOVERNMENT OR LOCAL GOVERNMENT SECURITIES BY A CENTRAL BORROWING AUTHORITY

F.O.I. EMBARGO: May be released

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F.O.I. INDEX DETAIL

REFERENCE NO:	SUBJECT REFS:	LEGISLAT. REFS:
I 1122340	SUBSTITUTION OF SEMI-GOVERNMENT OR LOCAL GOVERNMENT SECURITIES	23K

PREAMBLE State governments (except Tasmania) have established central borrowing authorities (CBAs) to borrow on behalf of their semi-government authorities. In each case, the CBA has been given the power to substitute its securities for existing securities issued by semi-government authorities. Also, in South Australia, a central borrowing authority with a similar power of substitution has been established to consolidate borrowings of local government bodies.

2. For income tax purposes the substitution by a CBA of one security for another may be regarded as a realisation of the original security at its market price on the day of substitution, and an acquisition of the CBA security at the same price on that day. Dealers in securities would be taxed on any gains and could deduct any losses on the realisation, although no effective change of investment occurred. Other investors could also be effected by a substitution, e.g., where an investor had purchased the security within 12 months of the substitution.

3. Section 23K has now been inserted into the Income Tax Assessment Act 1936 - by section 6 of the Income Tax Assessment Amendment Act (No. 4) 1984 (Act No. 124 of 1984) which received Royal Assent on 19 October 1984 - and will operate so that, in certain circumstances, there are no tax consequences when securities are substituted by CBAs.

RULING 4. Where, on or after 8 August 1984, a security is issued by a CBA on a matched term basis in substitution for a semi-government or local government security, the CBA security will be deemed by section 23K to be a continuation of the original security. In other words, the CBA security will be treated as if it was purchased on the same day and at the same cost as the original security, so that there will be no tax consequences in respect of the substitution of the original security but only on the ultimate disposal of the CBA security.

5. For these purposes, a CBA security will be taken to have been issued on a matched term basis if it has the same maturity date, coupon rate and face value as the security it replaces. Minor variations in the date interest payments are to be made under a new CBA security are permitted, provided the payment date is within 31 days of the date on which interest was due and payable under the original security.

6. A "central borrowing authority" is defined as one of the authorities or agencies specified in section 23K or any other public authority of a State that is empowered to issue securities in substitution for other securities. The authorities or agencies specified are:

- the New South Wales Treasury Corporation;
- the Victorian Public Authorities Finance Agency;
- the Victoria Transport Borrowing Agency;
- the Queensland Government Development Authority;
- the Treasurer of Western Australia;
- the South Australian Government Financing Authority; and
- the Local Government Finance Authority of South Australia.

7. Where securities are substituted by a CBA other than on a matched term basis as provided for in section 23K and discussed in paragraph 5, that section will have no application to the substitution.

COMMISSIONER OF TAXATION
6 December 1984

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