


IT 361 - Procurement and processing fees paid to credit unions whether exempt under Section 23G.

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TAXATION RULING NO. IT 361

PROCURATION AND PROCESSING FEES PAID TO CREDIT UNIONS
WHETHER EXEMPT UNDER SECTION 23G.

F.O.I. EMBARGO: May be released

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CREDIT UNIONS - LOAN FEES

23G

CREDIT UNIONS - PROCURATION FEES

CREDIT UNIONS - PROCESSING FEES

PREAMBLE

The question has been raised whether income exempted by section 23G, being interest received by a credit union in respect of loans to its members, could be extended to include 'procuration' and 'processing' fees charged in connection with the making of such loans.

RULING

2. The credit union concerned charged procuration fees at the rate of \$10 for loans under \$750 and \$20 for loans above that figure. They were designed to cover the costs of documentation associated with the making of loans. The processing fees, on the other hand, were calculated at the rate of \$1 per month of the loan term and were intended to cover, in part, computer processing and other costs relating to the servicing of the borrower's account. Both types of fees were debited to the loan accounts at the time of making the loans.

3. Put into its simplest form, interest is essentially a charge or compensation for the use of money over a period of time. In the circumstances, the procuration fees and the processing fees are considered to fall outside the meaning of the word 'interest' as neither have any tangible relation to the amount borrowed. There also seems to be a clear lack of connection between the quantum of procuration fees and the term of the loan.

4. It has been decided, in these circumstances, that the procuration and processing fees do not qualify for the exemption provided in section 23G.

COMMISSIONER OF TAXATION

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