


# ***PR 2007/91A1 - Addendum - Income tax: deductibility of interest incurred on borrowings in relation to the Macquarie Fusion Funds - November 2007 Offer***

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## Addendum

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### Product Ruling

#### Income tax: deductibility of interest incurred on borrowings in relation to the Macquarie Fusion Funds – November 2007 Offer

This Addendum is a public ruling for the purposes of the *Taxation Administration Act 1953*. It amends Product Ruling PR 2007/91 to:

- incorporate amendment to Division 247 of the *Income Tax Assessment Act 1997* (ITAA 1997) and Division 247 of the *Income Tax (Transitional Provisions) Act 1997* relating to capital protected borrowings; and
- reflect the ATO view with respect to the application of Division 247 of the ITAA 1997 to interest incurred on the Interest Loan, as set out in Taxation Determination TD 2013/1.

#### PR 2007/91 is amended as follows:

##### 1. Paragraph 16

(a) Omit subparagraph 16(a); substitute:

- (a) an amount equal to the interest incurred on the Investment Loan, in an income year, reduced by an amount reasonably attributable to the cost of capital protection worked out under step 3 of the method statement in subsection 247-75(1) of the *Income Tax (Transitional Provisions) Act 1997* (IT(TP)A 1997) will be deductible under section 8-1 of the *Income Tax Assessment Act 1997* (ITAA 1997);

Under subsection 247-75(1) of the IT(TP)A 1997, the amount reasonably attributable to the cost of capital protection under Division 247 of the IT(TP)A 1997, in an income year, is the amount by which the interest incurred on the Investment Loan exceeds an amount representing the interest that would have been incurred for the income year on the Investment Loan if the following interest rates applied:

- where the interest rate incurred on the Investment Loan is at a fixed rate for all or part of the term of the loan and that fixed rate is applicable to the loan for all or part of the income year – the relevant rate is the Reserve Bank of Australia's Indicator Lending Rate for Personal Unsecured Loans – Variable Rate (the 'personal unsecured loan rate') at the first time an interest amount is incurred during the term of the loan, or the relevant part of the term of the loan (subsection 247-75(2) of the IT(TP)A 1997); and
- where the interest rate incurred on the Investment Loan is at a variable rate for all or part of the term of the loan and a variable rate is applicable to the loan for all or part of the income year – the relevant rate is the average of the personal unsecured loan rates published by the Reserve Bank of Australia during the relevant part of the income year (subsection 247-75(3) of the IT(TP)A 1997);

(b) Omit subparagraph 16(b); substitute:

- (b) the amount reasonably attributable to the cost of capital protection under Division 247 of the IT(TP)A 1997 (the Excess Amount), as worked out under paragraph 16(a) of this Ruling, is treated as if it were incurred only for a notional put option under subsection 247-20(6) of the ITAA 1997 (Division 247 Put Option). The Excess Amount (if any) is not deductible under section 8-1 of the ITAA 1997;
- (ba) Division 247 of the ITAA 1997 and IT(TP)A 1997 will not apply to the Interest Loan. An amount equal to the interest incurred on the Interest Loan will be deductible under section 8-1 of the ITAA 1997;

## 2. Paragraph 21

Omit subparagraph 21(i); substitute:

- (i) the Investors will not choose to repay the Investment Loan or the Interest Loan prior to their maturity or terminate the scheme early.

## 3. Paragraph 24

Omit the paragraph; substitute:

- 24. Division 247 of the IT(TP)A 1997 sets out a methodology for reasonably attributing the cost of capital protection incurred by a borrower under a CPB entered into on

or after 31 October 2007 but on or before 30 November 2007 (section 247-75 of the IT(TP)A 1997). Division 247 of the IT(TP)A 1997 ignores any amount which is not in substance for capital protection or interest, in calculating the cost of capital protection (subsection 247-75(1) of the IT(TP)A 1997).

**4. Paragraph 25**

Omit the paragraph; substitute:

25. Where a borrower enters into an Investment Loan, the amount reasonably attributable to capital protection is worked out under the method statement in subsection 247-75(1) of the IT(TP)A 1997, as set out in paragraph 16(a) of this Ruling.

**5. Paragraph 26**

Omit the paragraph; substitute:

26. Under step 1 of the method statement, the total amount incurred by the Investor under or in respect of the CPB for the income year is the interest incurred on the Investment Loan for the income year.

**6. Paragraph 27**

Omit the paragraph; substitute:

27. Where the total amount incurred by the Investor worked out under step 1 of the method statement is less than the total interest that would have been incurred by the Investor worked out under step 2 of the method statement, there is no amount reasonably attributable to the cost of capital protection. In these circumstances, the total amount of interest incurred on the Investment Loan will be deductible.

**7. Paragraph 28**

Omit the paragraph; substitute:

28. Where the total amount incurred by the Investor worked out under step 1 of the method statement is greater than the total interest that would have been incurred by the Investor worked out under step 2 of the method statement, the Excess Amount is reasonably attributable to the cost of capital protection and is treated as if it were incurred only for a Division 247 Put Option. The Division 247 Put Option is a capital asset for an investor in the Fusion Fund. Therefore, the amount reasonably attributable to the cost of capital protection is capital in nature and not deductible under section 8-1 of the ITAA 1997.

28A. There is no element of capital protection connected with the Interest Loan. No part of the interest incurred by the Investor on the Interest Loan for the income year will therefore be attributable to the cost of capital protection.

## 8. Paragraph 29

Omit the last sentence of the paragraph; substitute: 'As the interest incurred on the Investment Loan, to the extent that it is not reasonably attributable to the cost of capital protection, and the interest incurred on the Interest Loan will be deductible under section 8-1 of the ITAA 1997, notwithstanding the inclusion of a net capital gain in assessable income, section 51AAA of the ITAA 1936 has no application to an Investor.'

## 9. Paragraph 44

Omit the first sentence of the paragraph; substitute: 'If there is an Excess Amount under the method statement in subsection 247-75(1) of the IT(TP)A 1997 and the Investor repays the Investment Loan from their own funds, the Investor will not have invoked the capital protection of the Investment Loan.'

## 10. Legislative references

(a) Omit the legislative references :

- ITAA 1997 247-20
- ITAA 1997 247-20(3)

(b) Insert the legislative references:

- IT(TP)A 1997 Div 247
- IT(TP)A 1997 247-75
- IT(TP)A 1997 247-75(1)
- IT(TP)A 1997 247-75(2)
- IT(TP)A 1997 247-75(3)

This Addendum applies on and from 31 October 2007.

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**Commissioner of Taxation**

20 March 2013

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ATO references

NO: 1-3ELDIYE

ISSN: 1441-1172

ATOlaw topic: Income tax ~~ Product ~~ finance