



TD 2005/27 - Income tax: consolidation: is a unit in a cash management trust a retained cost base asset?

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 This document has changed over time. This is a consolidated version of the ruling which was published on *22 June 2005*



Taxation Determination

Income tax: consolidation: is a unit in a cash management trust a retained cost base asset?

Preamble

*The number, subject heading, date of effect and paragraph 1 of this document are a 'public ruling' for the purposes of Part IVAAA of the **Taxation Administration Act 1953** and are legally binding on the Commissioner.*

1. No. To be a retained cost base asset, a unit in a cash management trust would need to be a right to receive a specified amount of Australian currency: paragraph 705-25(5)(b) of the *Income Tax Assessment Act 1997* (ITAA 1997). Our views on the meaning and effect of that paragraph are set out in Taxation Ruling TR 2005/10. That Ruling states that a retained cost base asset in terms of paragraph 705-25(5)(b) of the ITAA 1997 consists of an indefeasible, present right to the actual or constructive receipt of a fixed, nominal amount of Australian currency.
2. A number of banks, merchant banks, broking firms and building societies operate cash management trusts. These trusts operate with a trust deed, a trustee overseeing activities and a management company responsible for investment strategy. Cash management trusts are managed investment schemes registered under the *Corporations Act 2001* and are not listed on any securities exchange.
3. Interests in a cash management trust, which are called units, represent a share in the trust's collective asset pool. Certain rights are attached to units and these rights are exercisable by the investors who own these units (unit holders). Investors in a cash management trust acquire units in the trust proportionate to the amount of money they invest. For example, an investor placing \$5,000 into a cash management trust at a buy price of \$1.25 per unit will acquire 4,000 units, ignoring fees and transaction costs.
4. Subject to the *Corporations Act 2001*, the trust deed and other terms on which units are held, unit holders can redeem their units at any time. Various formulae are used to ensure that the amount for which a unit is redeemed is a *pro rata* share in the trust's collective asset pool. Therefore, where there is accumulated net income awaiting distribution or an accumulated net loss of the trust fund, a unit's value will reflect its proportionate share of that income or loss. This remains the case even where the redemption price of a unit is fixed under the relevant trust deed because the amount that such a unit holder is entitled to be paid on redemption is still subject to adjustment for any accumulated net income or net losses. There is, then, no fixed and nominal amount which a unit holder has a present right to receive on acquiring a unit in a cash management trust.

5. Where a cash management trust fund is terminated in accordance with the trust deed or becomes not liquid (subsection 601KA(4) of the *Corporations Act 2001* defines what is a 'liquid scheme'), there is no right to receive a specified amount of Australian currency in terms of paragraph 705-25(5)(b) of the ITAA 1997. On termination, a unit only entitles the unit holder to a share in the net proceeds from the realisation of the fund's investments. Where the trust becomes not liquid, a unit holder is only able to withdraw from the trust if an offer of withdrawal is made. If such an offer is not made, the unit holder has no right to withdraw from the trust (refer to sections 601KB to 601KE of the *Corporations Act 2001*). The right to payment conferred by a unit in a cash management trust fund is therefore defeasible.

6. Cash management trust funds may also contain other features which alone would result in a unit held by a unit holder not being a retained cost base asset in terms of paragraph 705-25(5)(b) of the ITAA 1997. For example, the trust deed may provide the management company with the right to transfer assets to a unit holder rather than paying Australian currency in satisfaction of all or part of a redemption request or to effectively cancel units held by a unit holder to meet the accumulated net losses of the trust fund.

Date of effect

7. This Determination applies to years commencing both before and after its date of issue. However, it does not apply to taxpayers to the extent that it conflicts with the terms of settlement of a dispute agreed to before the date of the Determination (see paragraphs 21 and 22 of Taxation Ruling TR 92/20).

Commissioner of Taxation

22 June 2005

<i>Previous draft:</i>	- unit
TD 2004/D90	- unit holder
<i>Related Rulings/Determinations:</i>	<i>Legislative references:</i>
TR 92/20; TR 2005/10	- TAA 1953 Pt IVAAA
<i>Subject references:</i>	- ITAA 1997 705-25(5)(b)
- cash management trust	- Corporations Act 2001
- consolidation	- Corporations Act 2001 601KA(4)
- not liquid	- Corporations Act 2001 601KB
- retained	- Corporations Act 2001 601KC
- retained cost base asset	- Corporations Act 2001 601KD
	- Corporations Act 2001 601KE

ATO references

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