TR 98/1 - Income tax: determination of income; receipts versus earnings

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Australian Taxation Office

Taxation Ruling 98/1

Taxation Ruling

Income tax: determination of income; receipts versus earnings

other Rulings on this topic

TR 93/27; TR 93/28; TR 94/32

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*This Ruling, to the extent that it is capable of being a 'public ruling' in terms of Part IVAAA of the **Taxation Administration Act 1953**, is a public ruling for the purposes of that Part. Taxation Rulings TR 92/1 and TR 97/16 together explain when a Ruling is a public ruling and how it is binding on the Commissioner.*

***[Note:** This is a consolidated version of this document. Refer to the Legal Database (*https://www.ato.gov.au/law*) to check its currency and to view the details of all changes.]*

What this Ruling is about

Class of person/arrangement

1. Under subsections 6-5(2) and (3) of the *Income Tax Assessment Act 1997* (ITAA 1997) taxpayers must include in assessable income the gross income derived.

2. Where income is earned in one year of tax but received in another, the adoption of an appropriate method of determining when income is derived under subsections 6-5(2) and (3) in a relevant year of income is an issue of practical concern to taxpayers and their advisers. Two commonly used methods of determining when income is derived in a relevant year of income are the receipts method and the earnings method. This Ruling discusses the factors that are relevant in determining when, in our view, each method is the correct method to bring income to account for tax purposes.

3.[Omitted.]

4. [Omitted.]

Class of person/arrangement

5. This Ruling applies to individuals and entities who, for tax purposes, must make use of the receipts and/or the earnings method of tax accounting to determine their assessable income.

6. This Ruling is not about the record keeping requirements of taxpayers. It refers only to the question of which method of accounting is likely to provide a substantially correct reflex of income in a relevant year.

7. This Ruling does not apply to income that is subject to specific provisions of the ITAA, e.g. dividends assessable under subsection 44(1) of the ITAA 1936, securities assessable under Division 16E of Part III of the ITAA 1936, or financial arrangements entered into by financial institutions covered by Division 230 of the ITAA 1997. It only applies to income assessable under subsections 6-5(2) and (3) of the ITAA 1997.

Definitions

Receipts method

8. The 'receipts' method is sometimes called the 'cash received' basis or the 'cash' basis. Under the receipts method, income is derived when it is received, either actually or constructively, under subsection 6-5(4) of the ITAA 1997. The effect of that subsection is that income is taken to have been derived by a person although it is not actually paid over, but is dealt with on his/her behalf or as he/she directs.

Earnings method

9. The 'earnings' method is often referred to as the 'accruals' method or the 'cash and credit' method. Under the earnings method, income is derived when it is earned. The point of derivation occurs when a 'recoverable debt' is created.

10. The term 'recoverable debt' is used to describe the point of time at which a taxpayer is legally entitled to an ascertainable amount as the result of having performed an agreed task.[1] A taxpayer may have a recoverable debt even though, at the time, they cannot legally enforce recovery of the debt.[2]

11. Whether there is, in law, a recoverable debt is a question to be determined by reference to the contractual agreements that give rise to the legal entitlement to payment, the general law and any relevant statutory provisions.

Business income and investment income

12. In this Ruling, business income or income from business activities means income generated by activities that amount to the carrying on of a business.

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[1] *Henderson v. FCT* (1970) 119 CLR 612; 70 ATC 4016; (1970) 1 ATR 596 (*Henderson's* case); *Henderson v. FCT* 69 ATC 4049; (1969) 1 ATR 133.

[2] *Barratt & Ors v. FC of T* 92 ATC 4275; (1992) 23 ATR 339 (*Barratt's* case).

13. Investment income can come from any number of sources, but it commonly consists of: dividends; interest; rent; or royalties.

Circulating capital

14. These are the assets that a business, in the normal course of its activities, turns into cash or uses in the day to day operations of the business. Typical examples are stocks for trading, consumable stores and debtors.

Trading income

15. For the purposes of this Ruling, trading income (or income from trading) is income from the sale of trading stock (as defined in subsection 995-1(1) of the ITAA 1997).

Ruling

16. For the purposes of subsections 6-5(2) and (3) of the ITAA 1997, the two commonly used methods of tax accounting for items of income are the receipts and earnings methods.

17. When accounting for income in respect of a year of income, a taxpayer must adopt the method that, in the circumstances of the case, is the most appropriate. A method of accounting is appropriate if it gives a substantially correct reflex of income. Whether a particular method is appropriate to account for the income derived is a conclusion to be made from all the circumstances relevant to the taxpayer and the income.

18. The receipts method is likely to be appropriate to determine:

- income derived by an employee;
- non-business income derived from the provision of knowledge or the exercise of skill possessed by the taxpayer; and
- business income where the income is derived from the provision of knowledge or the exercise of skill possessed by the taxpayer in the provision of services, subject to the qualifications listed at paragraph 45.

19. As a general rule, the receipts method is appropriate to determine income derived from investments. However, there are exceptions to the general rule (refer paragraphs 47 and 48).

20. The earnings method is, in most cases, appropriate to determine business income derived from a trading or manufacturing business.

21. In cases not clearly within the descriptions at paragraphs 18 to 20, the factors that may assist to determine the correct method of accounting for income are set out in paragraphs 52 to 59. In the majority of cases we expect that the earnings method would be the most appropriate method of determining the income that has been derived for tax purposes.

22. Where a taxpayer has business income from more than one business activity, a separate evaluation should be made for each activity and a determination made as to which method is appropriate for the accounting of that income. In most cases, the same method is likely to be appropriate for income from all of these business activities. Fine distinctions are not necessary where the differences between the various business activities are not significant.

Date of effect

23. This Ruling applies to income years commencing both before and after its date of issue. However, this Ruling will not apply to taxpayers to the extent that it conflicts with the terms of a settlement of a dispute agreed to before the date of issue of this Ruling (see paragraphs 75 and 76 of Taxation Ruling TR 2006/10).

Previous Rulings

24. [Omitted.]

25. [Omitted.]

Explanations

Derived

26. For many taxpayers the income they derive in a year is the income received in that year: *Brent v. FC of T.*[3] For other taxpayers

[3] (1971) 125 CLR 418 at 429; 71 ATC 4195 at 4200; (1971) 2 ATR 563 at 571 (*Brent's* case).

the income they derive in a year is the income earned in that year: *Henderson's* case.[4]

Method of accounting

27. A taxpayer determines when income is derived by adopting a method of accounting for income. When accounting for income, for tax purposes, a taxpayer must adopt the method of accounting that, in the circumstances, is appropriate. A method of accounting is appropriate if it gives a 'substantially correct reflex' of that income. This is the principle established in *Carden's* case.[5]

28. Whether a method gives a 'substantially correct reflex' and therefore is appropriate is a conclusion to be made from all circumstances relevant to the taxpayer and the income. It is necessary, according to Dixon J in *Carden's* case,[6] to:

> ' ... discover what gains have during the period of account come home to the taxpayer in a realized or immediately realizable form.'

29. Appropriateness of the accounting method used by a taxpayer is the sole test for determining which method of accounting should be used: *Henderson's* case;[7] *Brent's* case;[8] and *Barratt's* case.[9]

30. Only one method of accounting is appropriate to any one item of income; there is no choice available.[10]

Consistency of method of accounting

31. A taxpayer who accounts for items of income on a receipts basis should continue to adopt that method until it is no longer appropriate. That will occur when the taxpayer's circumstances show the earnings method of accounting is the more appropriate method by which the income should be determined for tax purposes. This may occur because of the expansion of the business, or because the taxpayer may become involved in trading or manufacturing activities.

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4 at CLR 647; ATC 4018; ATR 598.

5 *The Commissioner of Taxes (South Australia) v. The Executor Trustee and Agency Company of South Australia Limited* (1938) 63 CLR 108 (*Carden's* case).

6 at CLR 155.

7 per Barwick CJ at CLR 648; ATC 4019; ATR 599.

8 per Gibbs J at CLR 429; ATC 4200; ATR 571.

9 per Gummow J at ATC 4280; ATR 344.

10 *Henderson's* case.

32. Similarly, a taxpayer who accounts for items of income on an earnings basis should continue to account for income in this way until changes in circumstances make that basis inappropriate (see paragraphs 42, 43, 47 and 48).

Case law approach: weighing of the circumstances

33. Rather than setting down hard and fast rules, the approach of the courts, when deciding whether one or another method of accounting for income was appropriate, has been to weigh the total circumstances of a taxpayer and the income to determine whether the accounting method produces the correct reflex of income for the year.

34. In *FCT v. Dunn*[11] Davies J, when discussing whether one method or another was appropriate, said:

> 'On the other hand, the question was not entirely one of law. The issue was the appropriate means of computing the income derived by the taxpayer. The circumstances of his occupation, how it was carried on and what records and books were kept were matters to be taken into account, and evidence as to accounting principles and practice was relevant. All these are matters of fact.'

35. In *Carden's* case Dixon J said:[12]

> 'The considerations which appear to me to affect any such question are to be found in the nature of the profession concerned and, indeed, the actual mode in which it is practised in a given case.'

36. In some cases the individual circumstances of the taxpayer and the income, when weighed, provide no clear direction or conflicting indicators as to which method of accounting is appropriate. It is our view that, in these cases, the earnings method would generally prevail unless it is an ' ... artificial, unreal and unreasonably burdensome method of arriving at the income derived'.[13]

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[11] 89 ATC 4141 at 4144; (1989) 20 ATR 356 at 358 (*Dunn's* case).

[12] at CLR 157.

[13] *FC of T v. Firstenberg* (1976) 27 FLR 34 at 58; 76 ATC 4141 at 4155; (1976) 6 ATR 297 at 314 (*Firstenberg's* case).

Ordinary accounting principles and commercial practice

37. Ordinary accounting principles and commercial practice are relevant,[14] in the same way as these principles and this practice are relevant with respect to the concept of income for the purposes of subsections 6-5(1) to (3) of the ITAA 1997.

38. The weight to be given to accounting principles and commercial practice depends, of course, on their relevance to the particular case.

Effect of incorporation

39. We would expect that a substantially correct reflex of a company's business income would be given by the earnings method, except where that method was an ' ... artificial, unreal and unreasonably burdensome method of arriving at the income derived'.[15] The factors that would mitigate against the receipts method being appropriate for business income of a company include:

- the commercial and accounting principles and practices governing accounts kept by companies generally require the accruals (earnings) method of bookkeeping; and
- a company generally relies upon employees; it is not able to provide personal services.

Case law approach: non-trading income

40. In relation to non-trading income, the general rule is that there must be a receipt; ' ... there must be something "coming in"; that is, for income tax purposes, receivability without receipt is nothing' (from *Law of Income Tax*, Sir Houldsworth Shaw and Mr Baker, quoted by Dixon J in *Carden's* case,[16] and by Rich ACJ in *Permanent Trustee Co (NSW) v. FC of T*[17]).

41. Generally, for non-trading income, it is when amounts are received that they have, applying the words of Dixon J,[18] 'come home to the taxpayer in a realized or immediately realizable form'.

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[14] *Carden's* case; *Brent's* case; *Dunn's* case; *Arthur Murray (NSW) Pty Ltd v. FC of T* (1965) 114 CLR 314; (1965) 39 ALJR 262; (1965) 14 ATD 98 (*Arthur Murray*).

[15] *Firstenberg's* case at FLR 58; ATC 4155; ATR 314.

[16] at CLR 155.

[17] (1940) 2 AITR 109 at 111; (1940) 6 ATD 5 at 13.

[18] *Carden's* case at CLR 155.

Employment income

42. Income from employment would normally be assessable on a receipts basis.[19] Salary, wages or other employment remuneration are assessable on receipt even though they relate to a past or future income period.[20]

Non business income from the provision of knowledge or exercise of skill

43. Income of this type would result from a single or isolated contract primarily involving the use of a taxpayer's particular skill or knowledge. Where the provision of knowledge or exercise of skill possessed by the taxpayer does not amount to the carrying on of a business, the income is assessable on a receipts basis.[21]

Business income derived from the provision of knowledge or exercise of skill possessed by the taxpayer

44. Where an individual taxpayer, as opposed to a company (refer to paragraph 39), provides his/her knowledge or exercises skill as part of a business carried on by the taxpayer, the income of the business may represent a reward for the provision of those personal services. Where the income results primarily from the services rendered, or work performed by the taxpayer personally, it is generally assessable on a receipts basis.[22]

45. However, the presence of any of the following factors to a significant degree, would indicate that the income is not simply a reward for the provision of personal services by the taxpayer:

(a) the taxpayer's income producing activities involve the sale of trading stock;[23]

(b) the outgoings incurred by the taxpayer, in the day to day conduct of the business, have a direct relationship to income derived;[24]

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[19] per McInerney J in *Firstenberg's* case at FLR 57; ATC 4154; ATR 313.

[20] *Case 29* 1 TBRD 88; 1 CTBR (NS) 225 *Case 57*; and *Case B53* 2 TBRD 223; 2 CTBR (NS) 125 *Case 27*.

[21] *Brent's* case at CLR 429; ATC 4200; ATR 571.

[22] *Carden's* case; *Dunn's* case; *Firstenberg's* case.

[23] *Carden's* case; *J Rowe and Son Pty Ltd v. FC of T* (1971) 124 CLR 421; 71 ATC 4157; (1971) 2 ATR 497 (*Rowe's* case).

[24] *Carden's* case; *Barratt's* case.

(c) the taxpayer relies on circulating capital or consumables to produce income;[25] or

(d) the taxpayer relies on staff or equipment to produce income.[26]

46. The presence of any of the above factors to a significant degree indicates that the earnings method may be the appropriate basis for determining income in respect of the relevant year. In cases where the above distinction is unclear, it may be necessary to consider the other circumstances relevant to the taxpayer and to the way the income is earned (refer paragraphs 52 to 59).

Investment income

Interest

47. The general principle is that interest is only derived, or arises, when it is received or credited.[27] This general rule is subject to the overall principle that the appropriate method is that giving a substantially correct reflex of income. So exceptions to the general rule include (but are not limited to):

- interest from a business of money lending carried on by the taxpayer;
- interest derived by a financial institution (Taxation Ruling TR 93/27); unless from a 'non-accrual loan' (Taxation Ruling TR 94/32);
- interest derived on a customer's overdue account where the provision of credit to customers is a regular feature of the business activities of the taxpayer and the interest is charged on an accruals basis. The interest owing by customers at the end of the year is assessable income derived in that year, even though it has not yet been received;
- interest derived by taxpayers, whose other income is calculated on an accruals basis, who invest in fixed or variable interest securities cum interest (Taxation Ruling TR 93/28); and

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[25] *Carden's* case; *Barratt's* case.

[26] *Barratt's* case.

[27] refer comments of Dixon J in *Carden's* case at CLR 155; also *In Re Income Tax Acts* (1897) 23 VLR 312; *St Lucia Usines and Estates Co Ltd v. Colonial Treasurer of St Lucia* [1924] AC 508; *Leigh v. Inland Revenue Commissioners* [1928] 1 KB 73; 9 CTBR (NS) 95 *Case 11*; *Whitworth Park Coal Co Ltd v. IRC* [1959] 3 All ER 703; and *Case F26* 74 ATC 132; 19 CTBR (NS) 291 *Case 44.*

- interest from deposits made in the ordinary course of carrying on a business, where the business income is properly assessable on the earnings basis, may be derived on a due and receivable basis. An example of this would be a large trading business that actively manages its funds on deposits.

Rent and royalties

48. Rent and royalties are generally assessable when received or applied at the taxpayer's direction. However, where rent or royalties are business income, a substantially correct reflex of that income may be given by use of the earnings basis.

Case law approach: business income from trading

49. In relation to trading income, the general rule is that 'debts due but not yet paid must be included' in gross income (from *Law of Income Tax*, Sir Houldsworth Shaw and Mr Baker, quoted by Dixon J in *Carden's* case[28]). Accordingly, business income from manufacturing or trading is, generally, to be determined by the earnings method. This is because, in relation to those types of activities, the book debts represent what was previously trading stock or circulating capital: see *Carden's* case[29] and *Rowe's* case.[30]

50. When referring to trading stock in *Rowe's* case,[31] Menzies J stated that:

> 'In a system of annual accounting, ordinary business considerations would indicate that what becomes owing to a company for trading stock sold during a year should, in some way, be brought into account to balance the reduction of trading stock which the transaction effects. Any other method of accounting would lead to a misrepresentation of the trader's financial position.'

51. In *Rowe's* case[32] Menzies J also made the following statement:

> ' ... income from the sale of stock is derived when the stock is sold and a debt is created. It need not be payable in the year of income.'

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[28] at CLR 155.

[29] CLR 108.

[30] CLR 421; ATC 4157; ATR 497.

[31] at CLR 448; ATC 4158; ATR 499.

[32] at CLR 450; ATC 4160; ATR 500.

Business income: the in-between cases

52. Many taxpayers derive business income of a type that is not clearly covered by the non-trading, or trading, distinction. For such taxpayers the factors listed at paragraphs 53 to 59 may be particularly relevant. Generally, we consider that the circumstances mentioned in paragraphs 53 to 59, if significant, indicate that the earnings method should be used, except in those circumstances where it is an ' ... artificial, unreal and unreasonably burdensome method of arriving at the income derived'.[33]

Size of business

53. The larger the business structure, the more likely is the reliance on employees and capital equipment to generate income and the more likely the earnings method of accounting is appropriate.[34] In this regard, the size and function of any related entity should be taken into consideration.[35]

Circulating capital and consumables

54. Income may be generated by circulating capital or consumables and not by the taxpayer's services.[36]

55. Where a taxpayer relies, to a significant extent, on circulating capital or consumables to produce income it is likely that the appropriate method for determining income is the earnings method.[37] Similarly, where a taxpayer's employees directly generate significant income, the earnings method is likely to be appropriate to account for that income in the relevant year.[38] Also, where other variable costs of the taxpayer's business have a direct relationship, and significantly contribute, to the income produced, that income should be brought to account using the earnings method.

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[33] *Firstenberg's* case at FLR 59; ATC 4155; ATR 314.

[34] *Henderson's* case.

[35] *Barratt's* case.

[36] *Case F13* 6 TBRD 80; 5 CTBR (NS) 84 *Case 15*.

[37] *Carden's* case; *Dunn's* case; *Barratt's* case.

[38] *Henderson's* case; *Barratt's* case.

Capital items

56. The reliance placed by the taxpayer on the use of capital items, such as plant and machinery, to produce income is relevant. This is particularly so where expenses relating to the capital items have a direct relationship to the income produced. The greater the reliance, the greater the likelihood that the earnings method is the appropriate accounting method.[39]

Credit policy and debt recovery

57. The debt collection policy of a taxpayer, who readily gives credit, and who relies on amounts owing by debtors to support drawings or other payments, is a relevant indicator. For example, where a taxpayer has formal procedures for extending credit and collecting debts, the earnings basis is likely to be the more appropriate accounting method.[40] The opposite conclusion could be reached where, subject to other factors, a taxpayer did not usually provide credit, the likelihood of debt recovery was low and recovery was generally not pursued.[41]

Books of account

58. The ITAA does not prescribe the books of account that a taxpayer carrying on a business must keep. All that is required is that the records kept ' ... record and explain all transactions and other acts': subsection 262A(1) of the ITAA 1936.

59. However, where the books of account are kept, the way they are kept is relevant but not determinative to the question of when income has been derived. The question is still whether the accounting method used produces the correct reflex of income for the relevant year.[42]

Examples

Example 1

60. Phoebe and Nancy are hairdressers carrying on a business in partnership. They own and run the business and do not have any

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[39] *Barratt's* case.

[40] *Barratt's* case.

[41] *Carden's* case.

[42] *Henderson's* case; *Dunn's* case; *Barratt's* case; *Case F13* 6 TBRD 80; 5 CTBR (NS) 84 *Case 15*; *Firstenberg's* case.

employees. The business has few capital assets but stocks and sells a small range of hair care products. The sale of these products is not a significant part of business activities and does not significantly contribute to the assessable income of the business. Phoebe and Nancy have always accounted for their income on a cash received basis.

61. Phoebe and Nancy earn income from rendering their personal services and skills and from the sale of trading stock. However, because of the relatively insignificant contributions made to income of the business by the sale of trading stock, the receipts method of accounting would provide the correct reflex of the income in this case. However, the trading stock of the business must still be accounted for under section 70-35 of the ITAA 1997.

Example 2

62. Mr Done is a sole practitioner accountant. Mr Done's practice also acts as an agent for a building society. His practice, including the income from his agency, is small with five regular employees (two of whom are family members). None of his regular employees have professional qualifications and Mr Done takes responsibility for all work that emanates from his office. On infrequent occasions Mr Done hires an assistant accountant to do particular work for the practice.

63. The consistent business procedure maintained in his practice for many years is that records are kept and income tax returns are prepared on the basis of cash received. Except for one or two clients who are billed on a quarterly basis, clients are billed when work is complete. No substantial credit is given or relied on by the practice.

64. It is accepted that Mr Done would find the earnings method an artificial, unreal and unreasonably burdensome method for arriving at the income derived. The particular circumstances that, on balance, would indicate this are:

- Mr Done is the owner, operator and sole professional of a small professional practice;
- he has been in business for many years and has always kept accounts on a receipts basis;
- most clients are billed when work is completed and no substantial credit is given or relied on; and
- the accountancy practice has no trading stock nor substantial fixed and circulating capital.

65. It is therefore accepted that a 'substantially correct reflex' of Mr Done's income is calculated by the receipts method.

Example 3

66. Keith is a handyman who contracts with people to do a variety of jobs including repairing fences, fixing household items and small painting jobs. As part of this work, Keith is occasionally required to supply materials such as wood, nails and paint. Keith accounts for the income from the business on a receipts basis.

67. The materials purchased and used by Keith do not significantly contribute to his income. Keith is not considered to rely, to a significant degree, on circulating capital or consumables to produce income. Keith's income is considered to be derived from his services or personal efforts.

68. It is considered that, for purposes of tax, a substantially correct reflex of Keith's business income is given by use of the receipts method.

Example 4

69. Tammie is a dentist who runs her own practice. Tammie employs another qualified dentist, Brian, two full time dental assistants and one full time receptionist/secretary. Although the majority of the patients who attend the practice are seen by Tammie, Brian performs work independently of Tammie and the income Brian generates is significant.

70. The equipment Tammie owns and uses in her business includes expensive and specialised dental chairs, drills and an X-ray machine. While Tammie requests patients pay at the time of each consultation, she regularly allows credit to patients and sends a reminder of the amount outstanding where necessary.

71. The relevant factors in this example are:

- the income generated by Brian is significant;
- Tammie relies on capital items, i.e., the equipment she owns and uses in the business; and
- she extends credit and has procedures for the collection of debts.

72. It is considered that, for purposes of tax, a substantially correct reflex of Tammie's business income is given by use of the earnings method.

Example 5

73. Linda is a sole practitioner doctor who runs her own practice. Linda employs a secretary, Frank, and a nursing assistant, Neil, who works under Linda's direction and supervision to perform minor tasks.

Linda is a registered Medicare provider and bills Medicare for a percentage of her clients. In her practice Linda uses some diagnostic equipment such as a blood pressure monitor and scales. Linda accounts for the income from her practice on a receipts basis.

74. The existence of Linda's support staff and diagnostic equipment does not, of itself, make the earnings method the more appropriate method for determining the income of the practice for tax purposes. Nor does the fact that she is a registered Medicare provider and bills Medicare direct, necessarily make the earnings method the more appropriate method.

75. It is considered in this case that the income of the practice is derived predominantly from Linda's personal services. Linda does employ two staff, but she does not rely on them, to a significant extent, to produce her income. While Linda does use some diagnostic equipment, she does not rely on it to a significant extent to produce her income.

76. It is considered that, for purposes of tax, a substantially correct reflex of Linda's business income is given by use of the receipts method.

Example 6

77. Roger is the sole shareholder, director, and employee of a company. Roger's company owns and hires out a backhoe. The business rents the backhoe out at a fixed rate per hour. The rate is for the backhoe and Roger's labour. The business never rents the backhoe out separately. For the purposes of taxation, the company has always returned the income from its business on the basis of cash received.

78. The company derives income through the efforts of its employee; it is also considered that it relies to a significant extent on a capital asset, the backhoe, to derive income.

79. In industry terms, Roger's business has a small annual turnover and he has no related service entities. Roger's business does use some circulating capital and consumables, such as tyres, petrol and registration. However, unlike trading stock that directly produces assessable income, expenses of this type, while necessary for the income producing activity carried on, do not directly produce income.

80. The business does not usually extend credit and requests payment on completion of a job. The company maintains simple books of account, recording income when received. Also for purposes other than taxation (e.g., under the Corporations Law) the business records income on a receipts basis, although the business accounts do record debtors and creditors.

81. The answer in this example is not straightforward because of the reliance on a significant capital asset and the existence of a corporate structure that usually suggests the earnings method is the more appropriate method of accounting. However, having regard to all of the circumstances relevant to the company management and ownership and the way it conducts its income earning activities it is considered that, on balance, for the purposes of taxation the earnings method is an artificial, unreal and unreasonably burdensome method of arriving at the income derived. Accordingly, the receipts method is the more appropriate method for the company to determine its business income.

Detailed contents list

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