


TD 94/D115 - Income tax: where an account for trading stock provides for a discount which can be paid in cash, accumulated in an account or transferred to an affiliated person, persons or company, and the full purchase price is paid, can the retailer claim a deduction for the full purchase price?

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Draft Taxation Determination

Income tax: where an account for trading stock provides for a discount which can be paid in cash, accumulated in an account or transferred to an affiliated person, persons or company, and the full purchase price is paid, can the retailer claim a deduction for the full purchase price?

1. No. Where discounts are provided for prompt payment, the retailer is entitled to an allowable deduction under sub section 51(1) for the net amount only, i.e. the discounted purchase price of the goods (see paragraph 9 of Draft Taxation Ruling TR 94/D4).
2. A specialist wholesaler has implemented a plan where retailers are given an opportunity of accumulating trading discounts (incentives/rebates), wholly or in part, which may be applied towards the acquisition of new shares in the supplier company.
3. The retailer has the option of paying the net amount or an amount up to the gross amount of the account. In the latter event the discount/incentive rebate (the excess over the net amount) is credited to an incentive/rebate account in the retailer's name or that of a nominated person(s) or company.
4. Prior to forwarding a remittance advice in payment of their monthly account, customers must indicate that they wish to establish an incentives/rebates account and nominate how much, if any, of their discount is to be accumulated in that account. The incentives/rebates account will not attract interest and can be transferred and credited to another incentives/rebates account in the name of an affiliated person, or persons or company.
5. There is no obligation to apply the account to the acquisition of shares, nor to leave any balance in the account indefinitely. The retailers can withdraw from the fund at any time.
6. When the discount has been credited to the retailers and has been taken into account for tax purposes by allowing the net amount only as an allowable deduction, the crediting of the discount to the incentive/rebate account has no effect on the assessable income of the retailer.

FOI INDEX DETAIL: Reference No.

Related Determinations:

Related Rulings: TR 94/D4

Subject Ref: allowable deductions; assessable income; cash settlement discount; discount; prompt payment;
settlement discount; trading stock

Legislative Ref: ITAA 19; ITAA 25(1); ITAA 51(1)

Case Ref: *FC of T v. Clarke* (1927) 40 CLR 246; *Tindal v. FC of T* (1946) 72 CLR 608; 15 CTBR Case 15; (1986)
29 CTBR (NS) Case 24; (1970) 16 CTBR (NS) Case 29

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