

# ***IT 2178 - Income Tax : co-operative companies : distributions to members by way of debentures***



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TAXATION RULING NO. IT 2178

INCOME TAX : CO-OPERATIVE COMPANIES : DISTRIBUTIONS TO  
MEMBERS BY WAY OF DEBENTURES

F.O.I. EMBARGO: May be released

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DATE OF EFFECT:

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I 1193381

CO-OPERATIVE COMPANIES 120  
DISTRIBUTIONS TO MEMBERS  
BY WAY OF DEBENTURES

FACTS

Under the Agreement which exists between a particular co-operative company and its members, the company is required to distribute the net profits arising from its operations to the members who supplied the produce in relation to which the company carried on its activities. The Agreement provides that the Board of Directors may issue debentures in full or partial satisfaction of a member's entitlement to any distribution of profit.

2. The debentures which are unsecured attract interest payable annually. Members cannot call in or compel payment of the amount unless the company has not paid interest within six months of its being due. Otherwise the debentures are redeemable in whole or in part at the discretion of the Board. The debentures are negotiable between members subject to the approval of the Board.

RULING

3. The distribution of company profits to members through the issue of debentures are accepted as distributions of assessable income of the company within the meaning of paragraph 120(1)(a) - the amounts of the debentures are allowable as income tax deductions in terms of that paragraph.

4. So far as members are concerned the amounts of debentures issued to them is considered to represent assessable income in the year in which the debentures are issued. In essence the amounts of debentures represent part or all of the consideration paid to members for supplying produce to the company, i.e. they are part of the proceeds of the members' businesses.

COMMISSIONER OF TAXATION  
24 JULY 1985

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