

IT 2582 - Income tax : deductibility of interest incurred on moneys borrowed to pay income tax

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TAXATION RULING NO. IT 2582

INCOME TAX : DEDUCTIBILITY OF INTEREST INCURRED ON
MONEYS BORROWED TO PAY INCOME TAX

F.O.I. EMBARGO: May be released

REF

N.O. REF: 89/9235-5

DATE OF EFFECT: Immediate

B.O. REF:

DATE ORIG. MEMO ISSUED:

F.O.I. INDEX DETAIL

REFERENCE NO:	SUBJECT REFS:	LEGISLAT. REFS:
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I 1012131	BORROWINGS TO PAY TAX INTEREST	51(1)
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OTHER RULINGS ON TOPIC: CITCM 616

PREAMBLE

Recently this Office was asked to consider whether interest incurred on moneys borrowed by companies to pay income tax qualified for deduction under the general deductions provision of the Income Tax Assessment Act.

2. The question of a taxpayer's entitlement to such a deduction, where carrying on a business, has been the subject of detailed examination in this Office on two previous occasions, one as far back as 1921, the other in 1951.

3. Those reviews recognised a number of practical difficulties associated with denying a deduction for taxpayers carrying on a business.

4. Consequently, it was decided that "where a taxpayer carries on a business producing assessable income and pays interest on an overdraft, no action is to be taken to disallow the interest attributable to a part of the bank overdraft equal in amount to the income tax paid out of the bank account which is in debit" (paragraph 6, Canberra Income Tax Circular Memorandum No. 616). This practice has ensued till the present day.

5. The recent representations have caused this Office to, once again, consider whether interest on moneys borrowed by businesses to pay income tax qualifies for deduction. In doing so, particular attention has been given to the overall purpose for the making of such borrowings.

RULING

6. Where a taxpayer carries on a business for the purpose of gaining or producing assessable income and, in connection with the carrying on of that business, borrows money to pay income tax (whether to preserve the assets of the business, maximise the return on them, retain sufficient money to fund the business or otherwise) then it is considered that the interest incurred on those borrowings is a normal incident of conducting that business. That is, such an expense is an expense incurred in

carrying on that business and hence qualifies for deduction under the second limb of subsection 51(1) of the Act. The judgment in Begg v. FC of T (1937) 4 ATD 257 is considered to add weight to this decision.

7. This Ruling does not apply to interest on borrowings that are not connected with the carrying on of a business for the purpose of producing assessable income.

COMMISSIONER OF TAXATION
18 April 1990