



## Product Ruling

### Income tax: Arafura Pearl Project 2011

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**! This publication provides you with the following level of protection:**

This publication (excluding appendixes) is a public ruling for the purposes of the *Taxation Administration Act 1953*.

A public ruling is an expression of the Commissioner's opinion about the way in which a relevant provision applies, or would apply, to entities generally or to a class of entities in relation to a particular scheme or a class of schemes.

If you rely on this ruling, the Commissioner must apply the law to you in the way set out in the ruling (unless the Commissioner is satisfied that the ruling is incorrect and disadvantages you, in which case the law may be applied to you in a way that is more favourable for you – provided the Commissioner is not prevented from doing so by a time limit imposed by the law). You will be protected from having to pay any underpaid tax, penalty or interest in respect of the matters covered by this ruling if it turns out that it does not correctly state how the relevant provision applies to you.

### **No guarantee of commercial success**

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The Commissioner **does not** sanction or guarantee this product. Further, the Commissioner gives no assurance that the product is commercially viable, that charges are reasonable, appropriate or represent industry norms, or that projected returns will be achieved or are reasonably based.

Potential participants must form their own view about the commercial and financial viability of the product. The Commissioner recommends a financial (or other) adviser be consulted for such information.

This Product Ruling provides certainty for potential participants by confirming that the tax benefits set out in the **Ruling** part of this document are available, **provided that** the scheme is carried out in accordance with the information we have been given, and have described below in the **Scheme** part of this document. If the scheme is not carried out as described, participants lose the protection of this Product Ruling.

### **Terms of use of this Product Ruling**

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This Product Ruling has been given on the basis that the entity(s) who applied for the Product Ruling, and their associates, will abide by strict terms of use. Any failure to comply with the terms of use may lead to the withdrawal of this Product Ruling.

## What this Product Ruling is about

1. This Product Ruling sets out the Commissioner's opinion on the way in which the relevant provision(s) identified in the Ruling section (below) apply to the defined class of entities, who take part in the scheme to which this Ruling relates. In this Product Ruling this scheme is referred to as the Arafura Pearl Project 2011 or simply as 'the Project'.
2. All legislative references in this Product Ruling are to the *Income Tax Assessment Act 1997* (ITAA 1997) unless otherwise indicated. Where used in this Product Ruling, the word 'associate' has the meaning given in section 318 of the *Income Tax Assessment Act 1936* (ITAA 1936). In this Product Ruling, terms defined in the Project agreements have been capitalised.

### Class of entities

3. This part of the Product Ruling specifies which entities:

- are subject to the taxation obligations; and
- can rely on the taxation benefits,

set out in the Ruling section of this Product Ruling.

4. The class of entities who can rely on those tax benefits are referred to as Growers. Growers will be those entities that are accepted to participate in the scheme specified below on or after the date this Product Ruling is made and who have executed the relevant Project Agreements set out in paragraph 38 of this Product Ruling on or before 15 June 2011. They will stay in the scheme until its completion and derive assessable income from this involvement.

5. The class of entities who can rely on the tax benefits set out in the Ruling section of this Product Ruling does **not** include:

- entities who intend to terminate their involvement in the scheme prior to its completion; or do not intend to derive assessable income from it;
- entities who are accepted into this Project before the date of this Ruling or after 15 June 2011;
- entities who participate in the scheme through offers made other than through the Product Disclosure Statement or who enter into an undisclosed arrangement with:
  - the promoter or a promoter associate, or
  - an independent adviser

that is interdependent with scheme obligations and/or scheme benefits (which may include tax benefits or harvest returns) in any way;

- do not pay the Application Money in full on or before 15 June 2011, or an amount consistent with the Terms Payment Facility offered;
- are not granted a Special Permit under paragraph 17(1)(e) of the Fisheries Act 1988 (NT) (Fisheries Act) on or before 15 June 2011;
- enter into finance arrangements with Arafura Pearls Holding Limited or entities associated with this Project, other than a Terms Payment Facility as described in paragraphs 93 to 96 of this Ruling; or
- elect to collect the harvested Pearls and take sole responsibility for the marketing and sale of the harvested Pearls during the Term of the Project.

### **Qualifications**

6. The class of entities defined in this Product Ruling may rely on its contents provided the scheme actually carried out is carried out in accordance with the scheme described in paragraphs 38 to 97 of this Ruling.

7. If the scheme actually carried out is materially different from the scheme that is described in this Product Ruling, then:

- This Product Ruling has no binding effect on the Commissioner because the scheme entered into is not the scheme on which the Commissioner has ruled; and
- this Product Ruling may be withdrawn or modified.

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## ***Superannuation Industry (Supervision) Act 1993***

9. This Product ruling does not address the provisions of the *Superannuation Industry (Supervision) Act 1993* (SISA 1993). The Tax Office gives no assurance that the product is an appropriate investment for a superannuation fund. The trustees of superannuation funds are advised that no consideration has been given in this Product Ruling as to whether investment in this product may contravene the provisions of SISA 1993.

## **Date of effect**

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10. This Product Ruling applies prospectively from 16 February 2011. It therefore applies only to the specified class of entities that enter into the scheme from 16 February 2011 until 15 June 2011 being the closing date for entry into the scheme. Other than paragraph 33 of this Ruling dealing with non commercial losses, this Product Ruling provides advice on the availability of tax benefits to the specified class of entities for the income years up to 30 June 2013. Paragraph 33 of this Ruling provides advice on the application of the non-commercial losses provisions until the year ended 30 June 2015. This Product Ruling will continue to apply to those entities even after its period of application has ended for the scheme entered into during the period of application.

11. However this Product Ruling only applies to the extent that there is no change in the scheme or in the entity's involvement in the scheme.

## **Changes in the Law**

12. Although this Product Ruling deals with the laws enacted at the time it was issued, later amendments to the law may impact on this Product Ruling. Any such changes will take precedence over the application of this Product Ruling and, to the extent of those amendments this Product Ruling will be superseded.

13. Entities who are considering participating in the scheme are advised to confirm with their taxation adviser that changes in the law have not affected this Product Ruling since it was issued.

## **Note to promoters and advisers**

14. Product Rulings were introduced for the purpose of providing certainty about tax consequences for entities in schemes such as this. In keeping with that intention the Tax Office suggests that promoters and advisers ensure that participants are fully informed of any legislative changes after the Product Ruling is issued.

**Goods and Services Tax**

15. All fees and expenditure referred to in this Product Ruling include the Goods and Services Tax (GST) where applicable. In order for an entity (referred to in this Ruling as a Grower) to be entitled to claim input tax credits for the GST included in any creditable acquisition it makes, it must be registered or required to be registered for GST and hold a valid tax invoice.

**Ruling****Application of this Ruling**

16. Subject to the stated qualifications, this part of the Product Ruling sets out in detail the taxation obligations and benefits for a Grower in the defined class of entities who enters into the scheme described at paragraphs 38 to 97 of this Ruling.

17. The Grower's participation in the Project must constitute the carrying on of business of primary production. Provided the Project is carried out as described below, the Grower's business of primary production will commence at the time of execution of their Management Agreement.

**Small business concessions**

18. From the 2007-08 income year, a range of concessions previously available under the Simplified Tax System (STS), will be available to an entity if it carries on a business and satisfies the \$2 million aggregated turnover test (a 'small business entity').

19. A small business entity can choose the concessions that best suit its needs. Eligibility for some small business concessions is also dependent on satisfying some additional conditions. Because of these choices and the eligibility conditions the application of the small business concessions to Growers who qualify as a 'small business entity' is not able to be dealt with in this Product Ruling.

**Assessable income****Section 6-5**

20. That part of the gross sales proceeds from the Project attributable to the Grower's produce, less any GST payable on those proceeds (section 17-5), will be assessable income of the Grower under section 6-5.

**Deduction for Application Fee and terms payment administration fee*****Section 8-1, Division 27 and section 40-880 of the ITAA 1997 and sections 82KZME and 82KZMF of the ITAA 1936***

21. A Grower may claim tax deductions for the following fees and expenses on a per interest basis, as set out in the Table below.

<b>Fee Type</b>	<b>Year ending 30 June 2011</b>	<b>Year ending 30 June 2012</b>	<b>Year ending 30 June 2013</b>
<b>Application Fee</b>	\$1,067 See notes (i), (ii), and (iii)	Nil	Nil
<b>Terms Payment Administration Fee</b>	Must be calculated See note (iv)	Must be calculated See note (iv)	Must be calculated See note (iv)

**Notes:**

- (i) If the Grower is registered or required to be registered for GST, amounts of outgoing would need to be adjusted as relevant for GST (for example, input tax credits); Division 27.
- (ii) The Subscription Sum of \$7,645 per Interest includes a fee for acquiring the Grower's Panels totalling \$6,578, and an Application Fee of \$1,067 for Initial Management Services to be provided in the Initial Management Period. The Application Fee is deductible under section 8-1 in the income year ending 30 June 2011. The part of the Subscription Sum for the Grower's Panels may not be deductible in full in the year ended 30 June 2011. Paragraphs 22 to 30 of this Ruling explain the tax benefits relating to the Grower's Panels.
- (iii) This Ruling does not apply to Growers who choose to prepay fees. Subject to certain exclusions, amounts that are prepaid for a period that extends beyond the income year in which the expenditure is incurred may be subject to the prepayment provisions in sections 82KZME and 82KZMF of the ITAA 1936. Any Grower who prepays such amounts may request a private ruling on the taxation consequences of their participation in the Project.
- (iv) The administration fee payable to Arafura Pearls Holding Limited in respect of a Terms Payment Agreement is not deductible in full when it is incurred. Under section 40-880 it is deductible on a straight line basis over five income years (see paragraphs 102 to 103 of this Ruling).

**Deductions for capital expenditure incurred for the Grower's Panels (Non-small business entities)*****Division 40***

22. A Grower who is **not** a 'small business entity' (see paragraph 110 of this Ruling) will also be entitled to tax deductions for the Grower's Panels in accordance with Division 40.

23. The Application Fee of \$7,645 per Interest includes \$6,578 for the purchase of 13 Grower's Panels. Each Grower's Panel is a 'depreciating asset'. The cost of the asset is the amount paid by each Grower, which is \$506 per Grower's Panel. The decline in value of the asset is calculated using the formula in either subsection 40-70(1) (diminishing value method), subsection 40-75(1) (prime cost method) or section 40-440 (low value pool). An asset is eligible for the 'low value pool' where the asset is a 'low cost asset', that is, its cost is less than \$1,000, per subsection 40-425(2). If the Grower is registered or required to be registered for GST, the amount of an outgoing would need to be adjusted as relevant for GST (for example, input tax credits): Division 27.

24. Both the diminishing value method and prime cost method formulas rely on the 'effective life' of the Grower's Panel. As there has been no determination of the 'effective life' of a Grower's Panel by the Commissioner, Growers must self-assess an 'effective life' (section 40-105). The Grower's Panels will be placed onto a long line system, in sea, and first used during the income year ending 30 June 2011. The Responsible Entity will advise Growers when that occurs to enable Growers to calculate the deduction for the decline in value.

25. Each Grower's Panel in which they hold an interest is a 'low-cost asset' (see paragraph 27 of this Ruling) and can be allocated to a 'low-value pool'. Once any 'low-cost asset' of a Grower is allocated to a 'low-value pool', all other 'low-cost assets' the Grower starts to 'hold' in that year or a later year must be allocated to that pool. If the Grower has already allocated an asset to a 'low-value pool', the Grower's Panels assets must also be allocated to that pool. Otherwise, the Grower must decide whether to create a 'low-value pool'. If the assets are allocated to a 'low-value pool', the capital expenditure on the Grower's Panels will be deducted under the diminishing value methodology of the pool based on a rate of 18.75% in the year the Grower's Panels are first used and a rate of 37.5% in subsequent years (section 40-440).

**Deductions for capital expenditure incurred for the Grower's Panels (small business entities)*****Subdivision 328-D***

26. A Grower who is a 'small business entity' (see paragraph 117 of this Ruling) will also be entitled to tax deductions relating to Grower's Panels. Deductions relating to the 'cost' of Grower's Panels must be determined under Division 328.

27. Under Division 328, if the 'cost' of a 'depreciating asset' at the end of the income year is less than \$1,000 (a low-cost asset), it can be claimed as an immediate deduction when first used or 'installed ready for use'. This is so provided the Grower is an 'small business entity' for the income year in which it starts to 'hold' the asset and the income year in which it first uses the asset or has it 'installed ready for use' to produce assessable income. If the Grower is registered or required to be registered for GST, amounts of outgoing would need to be adjusted as relevant for GST (for example, input tax credits): Division 27.

28. A Grower's Panel is a 'depreciating asset'. Each Grower holds an interest in each of their Grower's Panels which are a 'low-cost asset' as defined in subsection 40-425(2). It cannot be allocated to a 'general small business pool' (section 328-180). A deduction equal to the amount of the Grower's expenditure for the Grower's Panels is available in the income year in which they are used or 'installed ready for use'. The Grower's Panels will be placed onto an in sea long line system and first used during the income year ending 30 June 2011. The Responsible Entity will advise Growers when that occurs to enable Growers to calculate the deduction for the decline in value.

**Treatment of harvested Pearls as trading stock*****Section 328-285***

29. A Grower who is a 'small business entity' (see paragraph 107 of this Ruling) may, in some years, hold harvested Pearls that will constitute trading stock on hand. Where, for such a Grower, for an income year, the difference between the value of all their trading stock at the start and a reasonable estimate of it at the end, is less than \$5,000, they can choose not to account for that difference under the ordinary trading stock rules in Division 70 (subsection 328-285(1)).

30. Where the small business entity chooses to account for changes in the value of their trading stock for an income year, they will have to do a stock take and account for the change in the value of all their trading stock (Subdivision 70-C).



**Section 70-35**

31. A Grower who is **not** a 'small business entity' may, in some years, hold harvested Pearls that will constitute trading stock on hand. Where, in an income year, the value of trading stock on hand at the *end* of an income year exceeds the value of trading stock on hand at the *start* of an income year a Grower must include the amount of that excess in assessable income.

32. Alternatively, where the value of trading stock on hand at the *start* of an income year exceeds the value of trading stock on hand at the *end* of an income year, a Grower may claim the amount of that excess as an allowable deduction.

**Division 35 – deferral of losses from non-commercial business activities*****Section 35-55 – annual exercise of Commissioner's discretion during the period beginning with the income year ended 30 June 2011 and concluding with the income year ended 30 June 2015***

33. For each of the income years from 2010-2011 to 2014-15, the Commissioner will exercise the discretion in subsection 35-55(1) once the following conditions are satisfied for the year concerned:

- the Grower carried on their business of pearl farming during the income year; and
- the business activity that is carried on is not materially different to that in the scheme described in this Product Ruling; and
- the Grower has incurred a taxation loss for the income year from carrying on that business activity.

34. If these conditions are met for a given year, the Commissioner will exercise the discretion for that year under:

- paragraph 35-55(1)(b) for a Grower in the Project who satisfies the income requirement in subsection 35-10(2E); and;
- paragraph 35-55(1)(c) for a Grower in the Project who does not satisfy the income requirement in subsection 35-10(2E).

35. If the Commissioner determines that the discretion will not be exercised for a particular year or years the Grower will be informed of that decision and the reasons. In any year where the discretion is not exercised losses incurred by a Grower will be subject to the loss deferral rule in section 35-10 and the Grower will not be able to offset the losses from the Project against other assessable income.

36. The issue of this Product Ruling of itself does not constitute the exercise of the Commissioner's discretion in subsection 35-55(1) for any income year.

## Prepayment provisions and anti-avoidance provisions

### ***Sections 82KZME, 82KZMF, 82KL and Part IVA***

37. For a Grower who commences participation in the Project and incurs expenditure as required by the Lease and Management Agreement, the following provisions of the ITAA 1936 have application as indicated:

- expenditure by a Grower does not fall within the scope of sections 82KZME and 82KZMF (but see paragraphs 103 to 104 of this Ruling);
- section 82KL does not apply to deny the deductions otherwise allowable; and
- the relevant provisions in Part IVA will not be applied to cancel a tax benefit obtained under a tax law dealt with in this Ruling.

## Scheme

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38. The scheme that is the subject of this Ruling is specified below. This scheme incorporates the following documents:

- Application for a Product Ruling received on 19 October 2010 as constituted by documents received on 19 October 2010;
- **Application for Section 17 Permit under the Northern Territory Fisheries Act 1988**, received on 19 October 2010;
- Draft **Section 17 Permit**, received on 13 January 2011;
- **Application to nominate a natural person to take control of a licensed operation under Section 14 of the Fisheries Act**, received on 19 October 2010;
- Copy of English Company's Island – North Arnhem Land Agreement between Toomebridge Proprietary Limited, Arafura Pearls Proprietary Limited, The Arnhem Land Aboriginal Land Trust, The Aboriginal Owners and The Northern Land Council (Site Agreement) signed and dated 11 September 1997, received on 13 January 2011;
- Product Disclosure Statement (PDS), received on 19 October 2010;
- **Constitution** received on 19 October 2010;
- **Terms Application Form**, received on 19 October 2010;

- **Management Agreement** between Arafura Pearls Holdings Ltd and the Grower, received on 19 October 2010;
- Copy of the Deed of Assignment of Lease between The Arnhem Land Aboriginal Land Trust (lessor), Toomebridge Pty Ltd (assignor), Arafura Pearls Holdings Ltd (assignee) and The Northern Land Council dated 27 April 2006, received on 19 October 2010;
- Three Pearl Oyster Fishery Licences and three Pearl Oyster Culture Licences (Pearling Licences) issued by the Northern Territory government on 1 January 2011 allowing the cultivation of pearl oysters on the above site;
- **Application and Power of Attorney Form** received on 19 October 2010; and
- Draft Compliance Plan received, on 13 January 2011.

**Note:** certain information has been provided on a commercial-in-confidence basis and will not be disclosed or released under Freedom of Information legislation.

39. All Australian Securities and Investment Commission (ASIC) requirements are, or will be, complied with for the term of the agreements.

40. The documents highlighted are those that a Grower may enter into. For the purposes of describing the scheme to which this Ruling applies, there are no other agreements, whether formal or informal, and whether or not legally enforceable, which a Grower, or any associate of a Grower, will be a party to, which are a part of the scheme. The effect of these agreements is summarised as follows.

### Overview

41. The main features of the Arafura Pearl Project 2011 are as follows:

Location	Elizabeth Bay, Northern Territory
Type of business to be carried on by each Grower	Cultivating, producing and harvesting South Sea Pearls
Term of the Project	Approximately 6.5 years
Number of Project Interests for cultivation	2,350
Size of each Project Interest	405 Spat
Minimum allocation per Grower	2 Project Interests
Initial cost	\$7,645 per Project Interest

Ongoing costs	Deferred Management Fee Sales and Marketing Fee
Other costs	Deferred Management Fee Shortfall Manager's Bonus Insurance premiums

42. The Project will be a registered managed investment scheme under the *Corporations Act 2001*. Arafura Pearls Holdings Limited has been issued with an Australian Financial Service Licence 296246 and will be the Responsible Entity for the Project.

43. An offer to participate in the Project will be made through a Product Disclosure Statement (PDS). The Project will involve the cultivation, production and harvesting of Australian South Sea Pearls. The term of the Project will be approximately 6.5 years with harvests in years 4 and 6.

44. A Grower that participates in the Project will do so by acquiring an interest in the Project that will consist of a minimum of two Project Interests, with each Project Interest being a right to 405 Spat at the Commencement Date and 13 proprietary Grower's Panels.

45. Applicants are required to execute the Power of Attorney contained in the PDS. The Power of Attorney irrevocably appoints Arafura Pearls Holdings Limited to enter into, on behalf of the Grower, a Management Agreement and any other agreements required to hold an interest in the Project.

46. For the purposes of this Ruling, Applicants who are accepted to participate in the Project and who execute the Management Agreement on or before 15 June 2011 will become Growers.

47. The offer under the PDS is for a maximum of 2,350 Interests in the Project. The project has a maximum allocation of 2,350 Interests per calendar year. There is no minimum subscription required for the Project to commence. However, the Responsible Entity may accept over subscriptions subject to the availability of Oysters, Pearl Oyster Culture Licence Units, and Pearl Oyster Fishery Licence Units.

48. The Project is to be conducted at Elizabeth Bay in the Northern Territory (the Site) and will be run in conjunction with existing pearl farming operations on the Site. The Responsible Entity has a Site Agreement with the Arnhem Land Aboriginal Land Trust, the Aboriginal owners, and the Northern Land Council with an existing term until 3 September 2018. This agreement is over the land and sea based areas of the Site and covers an area in excess of 500 square kilometres. Crown leases in relation to the sea areas have also been granted.

49. Each Grower will use their Interests for the purpose of carrying on a business of cultivating, producing and harvesting South Sea Pearls and the sale of harvested produce.

### **Fisheries Act and Fisheries Regulations 1992 (NT)**

50. In accordance with the Fisheries Act, the Responsible Entity holds Pearling Licences that allow the Responsible Entity to cultivate pearl oysters on the Site.

51. Under the Fisheries Act, the Responsible Entity holds 140 Permanent Oyster Culture/Fishery Licence Units. In accordance with the Fisheries Regulations 1992 (NT) the Responsible Entity can complete 1,150 first seeding operations for every Licence Unit held during the licensing year. The Responsible Entity also has access to another 95 units of Quota through lease arrangements.

52. The Project will proceed on the basis that all Growers who enter into the Management Agreement will be granted a Special Permit under paragraph 17(1)(e) of the Fisheries Act on or before 15 June 2011.

53. The Special Permit allows the Grower to do such things under the terms and conditions of the Management Agreement that would otherwise be unlawful without the Special Permit. This ruling will not apply to Growers who have not been granted a Special Permit on or before 15 June 2011.

54. The Special Permit:

- expires on the 'Completion Date' specified in the Management Agreement;
- does not apply to persons who have ceased to be a Grower under the Management Agreement;
- expires if the Responsible Entity's Pearling Licences are cancelled or not renewed;
- does not expire on the transfer of the Responsible Entity's Pearling Licences that the prospective transferee has satisfied the Director of Fisheries that the operation of the Management Agreement with the Growers will continue in the same manner as the arrangement with the Responsible Entity; and
- is suspended if, at any time, the Responsible Entity's Pearling Licences are suspended, but the suspension is lifted subject to the approval of the Director of Fisheries, at such time when the suspension on the Responsible Entity's Pearling Licences are lifted.

55. The Special Permit will impose the following conditions:

- a Grower shall only engage in aquaculture in accordance with the conditions specified in the Pearling Licences, and must comply with all provisions of the Fisheries Act, its Regulations, and the Pearl Oyster Culture Industry Management Plan;
- a Grower will only engage in pearl aquaculture in accordance with the terms and conditions of the Management Agreement;
- a Grower shall require the Responsible Entity to lodge an executed copy of the Management Agreement with the Director of Fisheries;
- a Grower shall not agree to vary the terms of the Management Agreement without first requiring the Responsible Entity to submit the proposed variation for approval by the Director of Fisheries;
- a Grower shall cause the Responsible Entity to notify the Director of Fisheries in writing if the Management Agreement is terminated; and
- a Grower shall provide to the licensee where required pearling sales data for the completion of the returns document.

## **Constitution**

56. The Constitution establishes the Project and operates as a deed binding all Growers and Arafura Pearls Holdings Limited. The Constitution sets out the terms and conditions under which Arafura Pearls Holdings Limited agrees to act as Responsible Entity and thereby manage the Project. Upon acceptance into the Project, Growers are bound by the Constitution by virtue of their participation in the Project.

57. In order to acquire an interest in the Project, the Grower must make an application for Interests in accordance with clause 11. Among other things, the application be completed in a form approved by the Responsible Entity, signed by or on behalf of the Applicant, lodged at the registered office of the Responsible Entity and, unless subject to a Terms Payment Facility, accompanied by payment of the Application Money in a form acceptable to the Responsible Entity.

58. Under clause 3.1 of the Constitution, the Responsible Entity holds the Application Money on bare trust. The Responsible Entity will deposit all Application Moneys received from applicants in the Application Fund (clause 11.3).

59. Once the Responsible Entity has accepted the application and the Management Agreement has been executed and remain in force (clause 12) the Application Money may be transferred and applied against the fees due under the Management Agreement (clause 14).

60. In summary, the Constitution also sets out provisions relating to:

- appointment of Arafura Pearls Holdings Limited as the Responsible Entity for the Project and the creation of the Application Fund and the Proceeds Fund (clause 2.5);
- holding of Project Property by the Responsible Entity and the interest of the Applicants in the Application Fund and Growers in Project Property (clause 3);
- Responsible Entity's powers in relation to investments (clause 4);
- resolution of complaints made by the Grower in relation to the Responsible Entity (clause 5);
- termination of the Project and the winding up of the Project and agreements that the Responsible Entity has entered into with the Growers relating to the Project (clause 6);
- right of the Responsible Entity to indemnity out of Project Property (clause 8);
- Responsible Entity's powers in relation to borrowing (clause 9);
- distribution of Net Proceeds of Sale to Growers and pooling of monies received by the Responsible Entity (clause 16);
- Responsible Entity's powers and duties relating to the management of the Project (clause 17);
- appointment of agents to perform tasks (clause 19);
- assignment of a Grower's interest in the Project and the transmission of a Grower's interest in the Project as a consequence of the death, bankruptcy or mental incapacity of a Grower (clauses 21 and 22);
- retirement and removal of the Responsible Entity (clause 25); and
- keeping and maintaining a register of Growers who hold an interest in the Project (clause 26).

## ***Acceptance of Applications***

61. The Grower's participation in the Project commences on the date the Grower's Management Agreement is executed and Project Interests are allocated to the Grower.

62. Under clauses 11 and 12 of the Constitution, the Responsible Entity will accept an application, and an applicant will be issued an Interest in the Project and become a Grower where, amongst other things, the following conditions are satisfied:

- the Applicant has paid the Application Money in full at the time of lodging the Application, unless the Applicant has been accepted subject to the Terms Payment Facility (see paragraphs 90 to 93 of this Ruling);
- the Responsible Entity has accepted the Application;
- after its acceptance of an Application, the Responsible Entity must prepare a Management Agreement that specifies the Grower's Pearl Farms that have been allocated by the Responsible Entity;
- the Responsible Entity must execute the Management Agreement and execute the Management Agreement on behalf of the Applicant pursuant to the Power of Attorney; and
- the Responsibility Entity is able to release the Application Moneys in accordance with clauses 13 and 14 of the Constitution.

63. Clause 11.3 details the following options for payment of the Application Money:

- payment in full at the time the Application is lodged;
- where the application is accepted under the Terms Payment Facility offered by the Responsible Entity, 10% of the Application Money is paid by 15 June 2011, with the balance payable in accordance with the terms and conditions of the Terms Payment Facility, but no later than 12 months from the date the Grower is accepted to participate in the Project;
- a deposit, being a percentage of the Application Money, as determined by the Responsible Entity, with the balance due and payable, where a Management Agreement is executed, on or before 15 June 2011;
- an Application will only be accepted subject to finance where the Responsible Entity is satisfied that the full amount of the Application Money will be paid to the Responsible Entity by 30 June 2011. Where Application Money is not received in full by 30 June 2011, the Management Agreement will be invalidated and the applicant will take no part in the Project.



64. The Responsible Entity may accept applications under the PDS on or before 15 June 2011. This Ruling only applies to Growers who commence participation in the Project on or before 15 June 2011.

### **Compliance Plan**

65. As required by the *Corporations Act 2001*, the Responsible Entity has prepared a Compliance Plan. The purpose of the Compliance Plan is to ensure that the Responsible Entity manages the Project in accordance with its obligations and responsibilities contained in the Constitution and that the interests of Growers are protected.

### **Management Agreement**

66. Under the Management Agreement, the Responsible Entity agrees to provide access and services to the Grower for the purpose of cultivating and producing Australian South Sea Pearls on the Grower's Pearl Farm. The Grower's Pearl Farm is defined as 'the Oysters, the Panels, the Grower's Panels and that part of the Project Area that the Grower has the right to use for the purpose of cultivating Pearls under this agreement'.

67. The Management Agreement will commence on the date the Responsible Entity accepts the Grower's application under the PDS (the Commencement Date) and shall continue until the Completion Date. The Completion Date is the earlier of, the date of payment of the final distribution of proceeds from the Second Harvest or 31 December 2017.

68. The Grower will be allocated the right to 405 Spat (juvenile hatchery-reared oysters) and 13 Grower's Panels per Project Interest at the Commencement Date. The Grower's Project Interest will be located on Panels (both Grower's Panels and Responsible Entity owned Panels), which will be identified by a reference number. The Grower has the right to access the Grower's Pearl Farm for the purpose of cultivating, producing and harvesting Pearls (clauses 2 and 3).

69. Although the Grower bears the risk of survival of the Oysters, within 18 months of the Commencement Date, the Responsible Entity will replace any dead Spat with live Spat (or Oysters) to ensure the Grower has at least 177 Spat (or Oysters) for each Project Interest (clause 15.1).

70. At the expiration or termination of the Project, the Grower must yield up to the Responsible Entity all surviving and dead Oysters, and the Panels (clause 6.3).

## ***Management Services***

71. Under the Management Agreement, the Grower appoints the Responsible Entity to supervise and manage all commercial pearling activities on the Grower's Pearl Farm and to perform the Services listed in the Schedule to the Management Agreement (the Schedule).

72. During the Initial Management Period, from the Commencement Date to 30 June 2011, the Responsible Entity will provide Initial Management Services (clause 14.1 and the Schedule), including:

- access for the Grower to the Grower's Pearl Farm;
- the right to utilise the benefit of the annual Quota;
- place the Spat and the Oysters in 15 pocket Panels; and
- transporting the Spat from the land based hatchery for placement on the Long Line System.

73. From 1 July 2011 until the Completion Date, the Responsible Entity will provide Ongoing Management Services (clause 16.1 and the Schedule), including:

- the right to utilise the benefit of the Annual Quota;
- establishing a marketing plan to enable the orderly marketing of the Pearls and co-ordinate the marketing process;
- transferring Spat and Oysters into 15 and 8 pocket Panels;
- operating cleaning teams and cleaning vessels to assist with maintaining the Spat and the Oysters;
- cleaning the Spat and the Oysters by hand and by machine;
- assisting with stock taking of the Spat and the Oysters;
- cleaning, maintaining, and positioning the Long Line System;
- attending to pre-seeding routines, seeding and post seeding routines including turning and x-raying;
- attending to the Harvest of the Pearls;
- attending to the marketing of the Pearls;
- maintaining records of production results;
- providing administration, management information and accounting services;
- providing management reports to the Grower on an annual basis;

- access for the Grower to the Pearl Farm;
- the right to access, grow out and otherwise utilise the Spat/Oysters;
- providing proper identification of the Grower's Oysters;
- providing equipment and infrastructure; and
- providing exclusive access to the Panels for the Growers.

74. The Responsible Entity will not undertake any work on behalf of a Grower prior to the Grower being issued and Interest in the Project.

### ***Seeding***

75. The Responsible Entity shall determine when to seed the Oysters. The timing of seeding is subject to Oyster health and seasonal conditions (clause 16). However, seeding of the Oysters over the Term of the Project is expected to take place as follows:

- the First Seeding Operation approximately two years after the Commencement Date; and
- the Second Seeding Operation of those Oysters that were successfully harvested and produced a commercially saleable pearl, at approximately four years after the Commencement date.

76. When seeding, the Responsible Entity must comply with the Oyster Quota that allows the Responsible Entity to seed 115 Oyster per Project Interest held by the Grower per year.

77. If appropriate under the Fisheries Act, Fisheries Regulations and other relevant legislation, the Responsible Entity may replace healthy Vomit Oysters with Virgin Shell (clause 16.2).

78. If the number of Oysters available to be seeded at the First Seeding Operation for all Growers in the Project exceeds the Quota limit, then the Responsible Entity must, in order to comply with the Quota limit, reduce the number of Oysters to be seeded on behalf of each Grower on a pro rata basis (clause 16.3).

### ***Harvesting and Sale***

79. The Responsible Entity shall determine the times to harvest the Pearls in accordance with Good Industry Practice. The two main harvests will take place approximately four and six years after the Commencement Date (clause 16.4).

## **Pooling of Crops and Grower's Entitlement to Net Proceeds**

80. The Management Agreement sets out provisions relating to the Grower's Entitlement to Gross Pearl Sales. This Product Ruling only applies where the following principles apply to the pooling and distribution arrangements:

- only Growers who have contributed Pearls are entitled to benefit from distributions of Harvest Proceeds from the pool; and
- any pooled Pearls must consist only of Pearls contributed by Growers participating in the Project.

## **Fees**

81. In consideration of the services performed and the rights granted under the terms of the Management Agreement, the following fees will be payable by the Grower:

- the Subscription Sum;
- Deferred Management Fee
- Deferred Management Fee Shortfall;
- Sales and Marketing Fee; and
- Manager's Bonus.

## ***Subscription Sum***

82. The Subscription Sum of \$7,645 for a Project Interest consists of:

- an amount for the acquisition of the Grower's Panels totalling \$6,578;
- a fee for placement and transportation services of the Spat of \$996; and
- a Responsible Entity fee of \$71.

83. The Subscription Sum must be paid in full by 15 June 2011 (unless payable under a Terms Payment Agreement). The Application Fee of \$1,067 is for Initial Management Services to be provided in the Initial Management Period up to 30 June 2011 (clause 14.2).

## ***Deferred Management Fee***

84. The Deferred Management Fee is payable in consideration for the Responsible Entity performing the Ongoing Management Services. The Deferred Management Fee is 33% of the Gross Pearl Sales. 'Gross Pearl Sales' means the gross amount received by the responsible Entity from the sale of the Non-Electing Growers' Pearls.

85. The Deferred Management Fee is payable from the Grower's share of the Gross Pearl Sales at the conclusion of each Harvest (clause 17.1).

***Deferred Management Fee Shortfall***

86. If, at the conclusion of the Project, there is a Deferred Management Fee Shortfall, the Responsible Entity will invoice the Grower for the amount of the Deferred Management Fee Shortfall. Non-Electing Growers may direct the Responsible Entity, in writing, to deduct the Deferred Management Fee Shortfall from the Grower's Proportional Interest in the Gross Pearl Sales (clause 17.2).

87. The Deferred Management Fee Shortfall will be the difference between the sum of the Deferred Management Fee and the Sales and Marketing Fee charged under the terms of the Management Agreement and the sum of the following amounts:

<b>Income Year</b>	<b>Amount per Project Interest</b>
2011-12 (Year 1)	\$1,276
2012-13 (Year 2)	\$616
2013-14 (Year 3)	\$1,848
2014-15 (Year 4)	\$990
2015-16 (Year 5)	\$1,056
2016-17 (Year 6)	\$616
2017-18 (Year 7)	\$88
<b>Total</b>	<b>\$6,490</b>

***Sales and Marketing fee***

88. In consideration of sales and marketing services performed as part of the Ongoing Management Services, a Non-Electing Grower will pay the Responsible Entity a Sales and Marketing Fee based on 11% of the Gross Pearl Sales. The Sales and Marketing Fee is payable from the Non-Electing Grower's share of the Gross Pearl Sales at the conclusion of each Harvest (clause 17.4).

***Manager's Bonus***

89. At the end of the final harvest, if the total net return per Non-Electing Grower's Interest exceeds an internal rate of return of 16% per Interest, then the Grower shall pay the Responsible Entity a Manager's Bonus equal to 11% of that excess (clause 18).

## **Finance**

90. Growers can pay the Application Fee in full upon application, or with a deposit at application with the balance payable by 30 June 2011, or Growers can apply to pay under the Terms Payment Facility offered by Arafura Pearls Holdings Limited.

91. Other than those Growers paying the Application Fee under a Terms Payment Facility, Growers cannot rely on any part of this Ruling if the Application Amount is not paid in full on or before 15 June 2011 by the Grower, or on the Grower's behalf by a lending institution. Where an application is accepted subject to finance approval by any lending institution, Growers cannot rely on this Ruling if written evidence of that approval has not been given to the Responsible Entity by the lending institution on or before 15 June 2011. The lending institution must provide the full amount of the loan monies to the Responsible Entity no later than 30 June 2011.

92. Only the finance arrangements set out below are covered by this Product Ruling. A Grower cannot rely on this Product Ruling if they enter into a finance arrangement with Arafura Pearls Holdings Limited that materially differs from those set out in the documentation provided to the ATO with the application for this Product Ruling and summarised below. A Grower who enters into a finance arrangement with an independent lender external to the Project may request a private ruling on the deductibility or otherwise of interest incurred under finance arrangements that are not covered by this Product Ruling.

## ***Terms Payment Facility***

93. Where the Responsible Entity accepts an application from a Grower to pay the Application Fee under a Terms Payment Facility a deposit of 10% of the Application Fee is payable on or by 15 June 2011 with the balance payable by nine equal monthly instalments with the first being due on 31 July 2011. Growers may pay out their Terms Payment Facility at any time prior to the expiry of the Terms Payment Facility period. The full amount of the Application Fee must be paid no later than 12 months from the date the Grower is accepted to participate in the Project.

94. Growers will only be considered for a Terms Payment Facility where they complete the required application form and the Responsible Entity is satisfied, on or prior to 15 June 2011, as to their capacity to pay the full amount of the Application Fee in accordance with the Terms Payment Facility. An administration fee of \$400 is payable.

95. If a Grower does not pay the required instalments under the Terms Payment Facility, the Responsible Entity will give the Grower notice of default and the amount and any additional costs under the arrangement becomes immediately due and payable. The Responsible Entity may take legal proceedings to recover the amount due, including, taking legal possession of the Grower's Interest in the Project.

96. The total maximum number of Grower's Interests subject to the Terms Payment Facility will be 66% of the maximum number of Grower's Interests offered in the Project.

***Other qualifications relating to finance***

97. This Ruling does not apply if the finance arrangement entered into by the Grower includes or has any of the following features:

- there are split loan features of a type referred to in Taxation Ruling TR 98/22;
- there are indemnity arrangements or other collateral agreements in relation to the loan designed to limit the borrower's risk;
- 'additional benefits' are or will be granted to the borrowers for the purpose of section 82KL of the ITAA 1936 or the funding arrangements transform the Project into a 'scheme' to which Part IVA of the ITAA 1936 may apply;
- the loan or rate of interest is non-arm's length;
- repayments of the principal and payments of interest are linked to the derivation of income from the Project;
- the funds borrowed, or any part of them, will not be available for the conduct of the Project but will be transferred (by any mechanism, directly or indirectly) back to the lender or any associate of the lender;
- lenders do not have the capacity under the loan agreement, or a genuine intention, to take legal action against defaulting borrowers; or
- entities associated with the Project, other than the Terms Payment Facility offered by Arafura Pearls Holdings Limited outlined above, are involved or become involved in the provision of finance to Growers for the Project.

## Appendix 1 – Explanation

**❶** *This Appendix is provided as information to help you understand how the Commissioner's view has been reached. It does not form part of the binding public ruling.*

### **Is the Grower carrying on a business?**

98. For the amounts set out in paragraphs 20 to 27 of this Ruling to constitute allowable deductions the Grower's activities of cultivation, production and harvesting of Australian South Sea Pearls as a participant in the Arafura Pearl Project 2011 must amount to the carrying on of a business of primary production.

99. The general indicators used by the Courts in determining whether an entity is carrying on a business are set out in Taxation Ruling TR 97/11 Income Tax: am I carrying on a business of primary production?

100. More recently, and in relation to a managed investment scheme similar to that which is the subject of this Ruling, the Full Federal Court in *Hance v. FC of T; Hannebery v. FC of T* [2008] FCAFC 196; 2008 ATC 20-085 applied these principles to conclude that 'Growers' in that scheme were carrying on a business of producing almonds (at FCAFC 90; ATC 90).

101. Application of these principles to the arrangement set out above leads to the conclusion that Growers (as described in paragraphs 3 and 4 of this Ruling), who stay in the Project until its completion, will be carrying on a business of primary production involving cultivating and producing Australian South Sea Pearls and harvesting those Pearls for sale.

### **Deductibility of the Application Fee, Deferred Management Fee, Deferred Management Fee Shortfall, Sales and Marketing Fee, and Manager's Bonus**

#### **Section 8-1**

102. The Application Fee, Deferred Management Fee, Deferred Management Fee Shortfall, Sales and Marketing Fee, and Manager's Bonus are deductible under section 8-1. A 'non-income producing' purpose is not identifiable in the arrangement and there is no capital component evident in the Application Fee, Deferred Management Fee, Deferred Management Fee Shortfall, Sales and Marketing Fee, and Manager's Bonus.

103. The tests of deductibility under the first limb of section 8-1 are met. The exclusions do not apply. Provided that the prepayment provisions do not apply (see paragraphs 104 to 108 of this Ruling) a deduction for these amounts can be claimed in the year in which they are incurred (Note: the meaning of incurred is explained in Taxation Ruling TR 97/7).



**Administration Fee payable under a Terms Payment Agreement*****Section 40-880***

104. Growers who elect to pay their Grower's contribution under the Terms Payment Agreement must pay an administration fee of \$400. This expenditure does not constitute a borrowing expense and is therefore not deductible under section 25-25. As it is capital in nature it is also not deductible under section 8-1.

105. However, section 40-880 will allow the Application Fee to be deducted on a straight line basis over five income years. Section 40-880 applies to capital expenditure that is incurred in relation to a business and which is not taken into account elsewhere or denied deductibility under another provision of income tax law.

**Prepayment provisions*****Sections 82KZL to 82KZMF***

106. The prepayment provisions contained in Subdivision H of Division 3 of Part III of the ITAA 1936 affect the timing of deductions for certain prepaid expenditure. These provisions apply to certain expenditure incurred under an agreement in return for the doing of a thing under the agreement (for example, the performance of management services or the leasing of land) that will not be wholly done within the same year of income as the year in which the expenditure is incurred. If expenditure is incurred to cover the provision of services to be provided within the same year, then it is not expenditure to which the prepayment rules apply.

107. For this Project, the only prepayment provisions that are relevant are section 82KZL of the ITAA 1936 (an interpretive provision) and sections 82KZME and 82KZMF of the ITAA 1936 (operative provisions).

***Application of the prepayment provisions to this Project***

108. Under the scheme to which this Product Ruling applies the Application Fee, Deferred Management Fee, Deferred Management Fee Shortfall, Sales and Marketing Fee, and Manager's Bonus are payable in the year in which they are incurred. Accordingly, the prepayment provisions in sections 82KZME and 82KZMF of the ITAA 1936 have no application to this scheme.

109. However, sections 82KZME and 82KZMF of the ITAA 1936 may have relevance if a Grower in this Project prepays all or some of the expenditure payable under the Management Agreement. Where such a prepayment is made these prepayment provisions will also apply to 'small business entities' because there is no specific exclusion contained in section 82KZME that excludes them from the operation of section 82KZMF.

## **Small business entity**

### ***Sections 328-110 to 328-130***

110. A 'small business entity' is an entity that carries on a business and which, in the previous income year, had an 'aggregated turnover' of less than \$2 million or, objectively, is likely to have an 'aggregated turnover' of less than \$2 million in the current year (subsection 328-110(1)). However, an entity cannot be a 'small business entity' if its 'aggregated turnover' in the previous two income years was \$2 million dollars or more (subsection 328-110(3)).

111. An entity's 'aggregated turnover' is the sum of the 'relevant annual turnovers' but with certain amounts excluded (subsections 328-115(1) and 328-115(3)). The 'relevant annual turnovers' are those of the entity itself, any 'connected entity's' annual turnover and any 'affiliate's' annual turnover (subsection 328-115(2)). The meaning of 'connected entity' is explained in section 328-125 and 'affiliate' is explained in section 328-130.

## **Deferral of losses from non-commercial business activities and the Commissioner's discretion**

### ***Sections 35-10 and 35-55***

112. Based on information provided with the application for this Product Ruling, a Grower accepted into the Project in the year ended 30 June 2011 who carries on a business of pearl farming individually (alone or in partnership) is expected to incur losses from their participation in the Project which will be subject to Division 35.<sup>1</sup> These losses will be subject to the loss deferral rule in section 35-10 unless an exception applies or, for each income year in which losses are incurred, the Commissioner exercises the discretion in subsection 35-55(1) on 30 June of that specific income year.

113. The exceptions to the loss deferral rule depend upon the circumstances of individual Growers and are outside the scope of this Ruling.

114. The Commissioner will apply the principles set out in Taxation Ruling TR 2007/6 Income tax: non-commercial business losses: Commissioner's discretion when exercising the discretion.

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<sup>1</sup> Division 35 does not apply to Growers who do not carry on a business or who carry on a business other than as individuals (alone or in partnership).

115. Where a Grower with income for NCL purposes of less than \$250,000 (that is, the Grower satisfies the income requirement in subsection 35-10(2E)) incurs a loss in an income year from carrying on their business activity in a way that is not materially different to the scheme described in this Product Ruling, and the discretion in paragraph 35-55(1)(b) is exercised for that year, the Commissioner will be satisfied that:

- it is because of its nature that the business activity of the Grower will not satisfy one of the four tests in Division 35; and
- there is an objective expectation that within a period that is commercially viable for the pearl farming industry, the Grower's business activity will satisfy one of the four tests set out in Division 35 or produce assessable income for an income year greater than the deductions attributable to it for that year (apart from the operation of subsections 35-10(2) and (2C).

116. Where a Grower with income for NCL purposes of \$250,000 or more (that is., the Grower does not satisfy the income requirement in subsection 35-10(2E)) incurs a loss in an income year from carrying on their business activity in a way that is not materially different to the scheme described in this Product Ruling, and the discretion in paragraph 35-55(1)(c) is exercised for that year, the Commissioner will be satisfied that:

- it is because of its nature that the business activity of the Grower will not produce assessable income greater than the deductions attributable to it; and
- there is an objective expectation that within a period that is commercially viable for the pearl farming industry, the Grower's business activity will produce assessable income for an income year greater than the deductions attributable to it for that year (apart from the operation of subsections 35-10(2) and (2C).

117. A Grower will satisfy the income requirement in subsection 35-10(2E) where the sum of the following amounts is less than \$250,000:

- taxable income for that year (ignoring any loss arising from participation in the Project or any other business activity);
- total reportable fringe benefits for that year;
- reportable superannuation contributions for that year; and
- total net investment losses for that year.

118. In each individual year where the Commissioner's discretion is exercised a Grower within either paragraph 115 or paragraph 116 of this Ruling who would otherwise be required to defer a loss arising from their participation in the Project under section 35-10 until a later income year is able to offset that loss against their other assessable income.

## **Section 82KL – recouped expenditure**

119. The operation of section 82KL of the ITAA 1936 depends, among other things, on the identification of a certain quantum of 'additional benefits(s)'. Insufficient 'additional benefits' will be provided to trigger the application of section 82KL of the ITAA 1936. It will not apply to deny the deduction otherwise allowable under section 8-1 of the ITAA 1997.

## **Part IVA – general tax avoidance provisions**

120. For Part IVA of the ITAA 1936 to apply there must be a 'scheme' section 177A, a 'tax benefit' section 177C and a dominant purpose of entering into the scheme to obtain a tax benefit section 177D.

121. The Arafura Pearl Project will be a 'scheme'. A Grower will obtain a 'tax benefit' from entering into the scheme, in the form of tax deductions for the amounts detailed at paragraph 21 of this Ruling that would not have been obtained but for the scheme. However, it is not possible to conclude the scheme will be entered into or carried out with the dominant purpose of obtaining this tax benefit.

122. Growers to whom this Ruling applies intend to stay in the scheme for its full term and derive assessable income from the harvesting and sale of Pearls. There are no facts that would suggest that Growers have the opportunity of obtaining a tax advantage other than the tax advantages identified in this Ruling. There is no non-recourse financing or round robin characteristics, and no indication that the parties are not dealing at arm's length or, if any parties are not dealing at arm's length, that any adverse tax consequences result. Further, having regard to the factors to be considered under paragraph 177D(b) of the ITAA 1936 it cannot be concluded, on the information available, that participants will enter into the scheme for the dominant purpose of obtaining a tax benefit.

## Appendix 2 – Detailed contents list

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## References

### *Previous draft:*

Not previously issued as a draft

### *Related Rulings/Determinations:*

TR 97/7; TR 97/11; TR 98/22

### *Subject References:*

- carrying on a business
- commencement of business
- fee expenses
- interest expenses
- management fees
- non-commercial losses
- producing assessable income
- product rulings
- public rulings
- tax avoidance
- tax benefits under tax avoidance schemes
- tax shelters
- tax shelters project
- taxation administration
- trading stock

### *Legislative References:*

- ITAA 1936 82KL
- ITAA 1936 Pt III Div 3 Subdiv H
- ITAA 1936 82KZL
- ITAA 1936 82KZLA
- ITAA 1936 82KZM
- ITAA 1936 82KZMA
- ITAA 1936 82KZMB
- ITAA 1936 82KZMC
- ITAA 1936 82KZMD
- ITAA 1936 82KZME
- ITAA 1936 82KZMF
- ITAA 1936 Pt IVA
- ITAA 1936 177A
- ITAA 1936 177C
- ITAA 1936 177D
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- ITAA 1997 35-10
- ITAA 1997 35-10(2)
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- ITAA 1997 40-70(1)
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- ITAA 1997 328-110
- ITAA 1997 328-110(1)
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- TAA 1953
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- Corporations Act 2001
- Fisheries Act 1988 (NT)
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- Fisheries Regulations 1992 (NT)

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- Hance v. FC of T; Hannebery v. FC of T [2008] FCAFC 196; 2008 ATC 20-085:

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