PS LA 2009/7 (Withdrawn) - Approach to certain trust issues involving Division 6 of Part III of the Income Tax Assessment Act 1936 pending resolution of the Bamford litigation

This cover sheet is provided for information only. It does not form part of *PS LA 2009/7 (Withdrawn) - Approach to certain trust issues involving Division 6 of Part III of the Income Tax Assessment Act 1936 pending resolution of the Bamford litigation*

This practice statement is withdrawn with effect from 2 June 2010. It has been replaced by Law Administration Practice Statement PS LA 2010/1. The ATO view of the decision in Commissioner of Taxation v. Bamford; Bamford v. Commissioner of Taxation [2010] HCA 10 is set out in the Decision Impact Statement for that case.

This document has changed over time. This version was published on *2 June 2010*

This practice statement was originally published on 20 August 2009. Versions published from 21 1 September 2009 available electronically - refer to the online version of the practice statement. Versions published prior to this date are not available electronically. If needed, these can be requested by emailing TCNLawPublishingandPolicy@ato.gov.au .

Generated on: 22 November 2026, 12:53:07 AM

Australian Government
Australian Taxation Office

Practice Statement Law Administration

PS LA 2009/7

This practice statement is withdrawn with effect from 2 June 2010. It has been replaced by Law Administration Practice Statement PS LA 2010/1. The ATO view of the decision in *Commissioner of Taxation v. Bamford; Bamford v. Commissioner of Taxation* [2010] HCA 10 is set out in the Decision Impact Statement for that case.

This practice statement was originally published on 20 August 2009. Versions published from 1 September 2009 are available electronically – refer to the online version of the practice statement. Versions published prior to this date are not available electronically. If needed, these can be obtained from the Corporate Policy and Process Unit in Law and Practice.

FOI status: may be released

This practice statement is issued under the authority of the Commissioner of Taxation and must be read in conjunction with Law Administration Practice Statement PS LA 1998/1. It must be followed by Tax Office staff unless doing so creates unintended consequences or is considered incorrect. Where this occurs Tax Office staff must follow their business line's escalation process.

SUBJECT:	**Approach to certain trust issues involving Division 6 of Part III of the *Income Tax Assessment Act* 1936 pending resolution of the *Bamford* litigation**
PURPOSE:	**To advise staff of the approach to be taken in respect of compliance activities, assessments, administrative penalties, interest charges, collections, rulings, and objections and appeals**

TABLE OF CONTENTS **Paragraph**

BACKGROUND **1**

STATEMENT **4**

Compliance action 9

Deliberate attempts to exploit Division 6 12

Example 1 13

Example 2 17

Example 3 22

Example 4 26

Example 5 30

No deliberate attempt to exploit Division 6 36

Example 6 38

Example 7 39

Example 8 41
Example 9 42
Example 10 43
Example 11 45
Assessments 46
Administrative penalty and interest charges 59
Collection 52
Rulings 53
Objections and appeals 54
Practice Statement PS LA 2005/1 (GA) 56
EXPLANATION **60**

BACKGROUND

1. The meaning of the expressions 'income of the trust estate' and 'share' in section 97 of the *Income Tax Assessment Act 1936* (ITAA 1936)[1] were considered by the Full Court of the Federal Court in its decision in *Bamford v. Commissioner of Taxation* [2009] FCAFC 66 (*Bamford*).

2. The Court rejected the Commissioner's view that 'income of the trust estate' means income according to ordinary concepts finding instead, broadly speaking, that it is that which is treated as income by or under the trust instrument for the purpose of fixing beneficiary entitlements. However, the Court accepted the Commissioner's view that 'share' means the beneficiary's 'proportionate' or 'fractional' interest in the 'income of the trust estate'.

3. Both the taxpayers and the Commissioner have been granted special leave to appeal to the High Court from the decision of the Full Court. On appeal the High Court is expected to consider:

   - what is meant by the expression 'income of a trust estate' as that phrase is used in section 97 and, in particular, whether what is income is to be determined by or under the relevant trust instrument, and
   - what is meant by the expression 'that share' as used in section 97 and, in particular, whether it means 'proportion' or 'amount', or whether it has a variable meaning that depends on the way in which the beneficiary's entitlement is fixed by or under the trust instrument.

STATEMENT

4. Pending a determination by the High Court in *Bamford* on the appeals, staff are to observe the following directions when dealing with trust issues arising under Division 6 of Part III (Division 6).

[1] All subsequent legislative references are to the ITAA 1936 unless indicated otherwise.

5. Staff should continue to undertake compliance work involving trusts in the specific circumstances outlined in this Practice Statement (see paragraphs 9 to 45 of this practice statement). Any assessment that issues as a result of this work should be based on the Commissioner's view of 'income of a trust estate' and 'share'.[2] If the taxpayer has previously relied on the decision of the Full Court in *Bamford*, or on the basis of an alternative view about the operation of Division 6 that is reasonably open, and providing a tax avoidance scheme is not involved, there would be no liability for administrative penalties in respect of any relevant shortfall amount and it would be appropriate for staff to consider remitting interest charges (see paragraphs 49 to 51 of this practice statement). Such alternative views may also provide a reasonable basis for settling tax disputes (see paragraph 58 of this practice statement). Where assessments are disputed, recovery action may be deferred unless there is a serious risk to collection (see paragraph 52 of this practice statement).

6. Staff actioning a ruling, objection or appeal should, as far as possible, seek the agreement of the relevant parties to the matter being deferred pending the resolution of the *Bamford* litigation (see paragraphs 53 to 55 of this practice statement). If, however, it is not possible to defer finalising the matter then staff should apply the Commissioner's view of 'income of a trust estate' and 'share', noting, however, the decision of the Full Court in *Bamford* and the fact that the case is before the High Court.[3]

7. Staff should advise taxpayers if there is a possibility that their cases will be affected by the *Bamford* litigation.

8. To ensure consistency of approach, staff must notify the SME Risk manager trusts of any audit, objection, ruling or litigation case that involves the assessment of the net income of a trust by emailing Trust Risk Manager@ato.gov.au.

Compliance action

9. Staff should not select cases for active compliance solely with a view to applying the Commissioner's view as to the meaning of 'income of a trust estate' or 'share' in Division 6, other than in the circumstances outlined in paragraph 12 of this practice statement.

10. However, staff should continue to use data matching and other compliance tools to, for example, locate trusts engaged in aggressive tax planning and/or detect under reporting by beneficiaries and/or trustees.

11. If in these other cases, outlined at paragraphs 36 to 45 of this practice statement, there is a dispute about the calculation of the section 95 net income or who should be assessed on it, any assessments and/or amended assessments which may be raised should be based on the Commissioner's view of 'income of the trust estate' and 'share'.

[2] See paragraph 64 of this practice statement for a summary of the Commissioner's views.
[3] See paragraph 64 of this practice statement for a summary of the Commissioner's views.

Deliberate attempts to exploit Division 6

12. Staff may undertake active compliance work solely with a view to applying the Commissioner's view of 'income of a trust estate' and 'share' where:

    - trustees and/or beneficiaries adopt a different view from the Commissioner as to the meaning of 'income of a trust estate' and/or 'share' to deliberately effect a mismatch between the beneficiaries' entitlements and the tax outcomes with the result that some or all of the tax liability in respect of the trust's section 95 net income is avoided (see Example 1 of this practice statement). Such cases are to be distinguished from those where the trustee and beneficiaries have adopted a different view from the Commissioner as to 'income of a trust estate' and/or 'share' in order to ensure that the tax liability in respect of the trust's section 95 net income falls on, and is met by, those who *have* obtained the benefit of the underlying trust income or gains (see Examples 2, 3 and 4 of this practice statement)
    - there are reasonable arguments to suggest that Part IVA or a specific anti-avoidance/integrity provision such as section 100A (aimed against trust stripping schemes) may apply to alter the way the net income is allocated as between the trustee and the beneficiaries (see Example 5 of this practice statement), or
    - it is reasonably arguable, on the facts of the case, that aspects of the arrangement that affect the application of Division 6 are a sham or of no legal effect (for example, the purported resolutions to appoint income to a loss trust that were disregarded in *Raftland v. Commissioner of Taxation* [2008] HCA 21; 68 ATR 170; [2008] ATC 20-029).

Example 1

13. *In a particular year the trustee of a family trust derives $250,000 of ordinary income of which $245,000 is applied to acquire a holiday home for the family. The trust deed provides the trustee with a power to appoint income and capital amongst a single class of discretionary objects. It also confers a broad power to characterise receipts and outgoings as on income or capital account.*

14. *In the relevant year one of the discretionary objects is in a loss position for tax purposes.*

15. *The trustee, in purported exercise of its power under the deed, determines that the purchase of the holiday home involved an outgoing on income account and that consequently the income of the trust legally available for distribution for the year is $5,000. The trustee further resolves that this amount is to be appointed to the loss beneficiary. The trustee contends that as the loss beneficiary is presently entitled to all of the income of the trust for section 97 purposes, so all of the net income of the trust is assessable to the loss beneficiary. This would have the result that the net income of the trust would not be subject to tax.*

16. *The contended result involves a clear mismatch between the loss beneficiary's entitlements and the tax outcomes; all of the section 95 net income is assessed to the loss beneficiary but the bulk of the income is accumulated in the fund for the benefit of all the beneficiaries. The Commissioner would select an arrangement of this kind for active compliance in order to apply his view of 'income of the trust estate'.*

Example 2

17. *In a particular year the trustee of a family trust does not derive any ordinary income but makes a net capital gain of $100,000. The trust deed provides the trustee with a power to appoint income and capital amongst a single class of discretionary objects. It also confers a broad power to characterise receipts and outgoings as on income or capital account.*

18. *In the relevant year one of the discretionary objects is in a loss position for tax purposes.*

19. *The trustee, in purported exercise of its power under the deed, determines that the income of the trust legally available for distribution for the year is $100,000 and the amount is to be appointed to the loss beneficiary. The amount of $100,000 is subsequently distributed to the loss beneficiary.*

20. *The trustee takes the view that the section 95 net income of the trust (that is, the net capital gain) should be included in the assessable income of the loss beneficiary. This would result in the amount being offset by the beneficiary's prior year tax losses.*

21. *Although the loss beneficiary would not be liable to tax in respect of the net capital gain there is no mismatch between the loss beneficiary's entitlements and the tax outcomes. In contrast to Example 1 of this practice statement, the section 95 net income is assessed to the loss beneficiary in circumstances where the beneficiary has obtained the full benefit of the underlying gain. The result is broadly consistent with PS LA 2005/1(GA). As the loss beneficiary is at law within the class of objects permitted under the deed to benefit from the exercise of the trustee's power to appoint income, the Commissioner would not select an arrangement of this kind for active compliance merely to apply his view of 'income of the trust estate'.*

Example 3

22. *In a particular year the section 95 net income of a unit trust that is a managed investment trust is $1,000,000 comprising a $600,000 net capital gain and $400,000 of net rental income. The trust deed provides that the distributable income of the trust equals the taxable income of the trust in each year of income (excluding franking credits) unless the trustee determines that the distributable income shall be some other amount.*

23. *The trustee makes a cash distribution of $1,000,000 to unitholders according to the number of units held. The trustee advises unitholders in their annual distribution advices of their proportionate share of the $1,000,000 taxable income.*

24. *The trustee takes the view that the section 95 net income of the trust (that is, including the net capital gain of $600,000) should be included in the assessable income of the unitholders – consistent with the advice to unitholders in their annual distribution advices.*

25. *There is no mismatch between the unitholders' entitlements and the tax outcomes. The Commissioner would not select an arrangement of this kind for active compliance merely to apply his view of 'income of the trust estate'.*

Example 4

26. *In a particular year, the section 95 net income of a family trust is $100,000 comprising a $60,000 net capital gain and $40,000 of net rental income. The trust deed provides that the distributable income of the trust equals the taxable income of the trust in each year of income (excluding franking credits) unless the trustee determines that the distributable income shall be some other amount.*

27. *The trustee does not determine otherwise, so the distributable income of the trust for the year is $100,000. The trustee resolves to distribute this 'income' to the family members in the following proportions:*

Family Member 1	*10%*	*$10,000*
Family Member 2	*10%*	*$10,000*
Family Member 3	*30%*	*$30,000*
Family Member 4	*Balance remaining (that is, 50%)*	*$50,000*

28. *The income is subsequently so distributed. The trustee takes the view that the section 95 net income of the trust (that is, including the net capital gain of $60,000) should be included in the assessable income of the beneficiaries in these amounts.*

29. *There is no mismatch between the beneficiaries' entitlements and the tax outcomes. The result is broadly consistent with PS LA 2005/1(GA). The Commissioner would not select an arrangement of this kind for active compliance merely to apply his view of 'income of the trust estate'.*

Example 5

30. *In a particular year the trustee of a family trust derives $100,000 of income. The trust deed has two classes of beneficiaries – those entitled to share in income and those entitled to share in the capital – and the membership of these two classes is different. The trustee has the power to appoint income and capital within the two classes of beneficiaries respectively. The deed also confers on the trustee a power to determine whether receipts and outgoings are on income or capital account.*

31. *Having received advice on effective strategies for minimising tax, and in accordance with the terms of that advice:*

    - *the trustee, in purported exercise of a power under the deed, amended the deed to admit into the class of income objects of the trust a tax exempt charity, and*
    - *the trustee determined to characterise $95,000 of the income as a capital receipt for the purposes of the deed.*

32. *The trustee appoints the $5,000 of income to the charity and the remaining $95,000 is appointed, as capital, to a family member who is an eligible capital beneficiary. The trustee contends that as the charity is presently entitled to all of the income of the trust for section 97 purposes, so all of the net income of the trust is to be attributed to the charity. This would result in the net income of the trust being free of tax.*

33. *Prior to the year in question, the only entities to have benefited from a distribution of income from the trust were members of the family for whom the trust was settled.*

34. *The facts of this example are such as to raise the potential application of Part IVA. The Commissioner would select an arrangement of this kind for active compliance and would apply his view of 'income of the trust estate' and, in the alternative, Part IVA.*

35. *Moreover, in a trust of this kind, the Commissioner would be likely to question whether the trustee was authorised, under the trust deed, to recharacterise what was clearly an income receipt as capital (that is, on the basis that the seemingly broad power to recharacterise receipts should be read down to give effect to the distinction made by the settlor between those beneficiaries to whom income could be appointed and those to whom capital could be appointed).*

No deliberate attempt to exploit Division 6

36. In other cases, where there has been no deliberate attempt to exploit Division 6, staff should not undertake compliance action solely to review the basis on which the section 95 net income of a trust has been allocated.

37. If for some other reason, however, there is a dispute about the way the trustee has calculated the section 95 net income of the trust, any assessments and/or amended assessments which are raised in respect of the adjusted net income should be based on the Commissioner's view of 'income of the trust estate' and 'share'.

Example 6

38. *Having reviewed the affairs of a trustee, the Commissioner reaches the opinion that a specific expense treated by the trustee as deductible when calculating the net income of the trust for a year was not deductible. The trustee disputes the Commissioner's view as to the deductibility of the expense. In ascertaining which party bears the tax liability in relation to the adjusted net income, the Commissioner will apply his view of 'income of the trust estate' and 'share'.*

Example 7

39. *Having reviewed the affairs of a trustee, the Commissioner determines that a particular item of income derived by the trustee during a year was not taken into account by the trustee when calculating the net income for that year and another receipt was inappropriately treated as having been derived on capital rather than revenue account. The trustee disputes the Commissioner's view that any income was omitted or that the receipt was mischaracterised. In ascertaining which party bears the tax liability in relation to the adjusted net income, the Commissioner will apply his view of 'income of the trust estate' and 'share'.*

40. Similarly, the Commissioner's view of 'income of the trust estate' and 'share' should be applied if there is a dispute with a trustee and/or beneficiaries as to the legal effect, for trust purposes, of a clause of a deed or a related resolution that bears on the identity of the beneficiaries who are 'presently entitled' to the trust income and are therefore liable to be taxed in respect of a share of the section 95 net income.

Example 8

41. *During a particular year a trustee, in purported exercise of a power of appointment, determined to distribute income of the trust to a particular person in their capacity as beneficiary of the trust. On review, the Commissioner concludes that the person did not in fact meet the description of a person entitled under the terms of the deed to benefit from an exercise of the trustee's power to appoint income. In determining the extent to which the beneficiaries who were entitled under the deed to benefit are taxed under Division 6 on the net income of the trust for the year, the Commissioner will apply his view of 'income of the trust' and 'share'.*

Example 9

42. *During a particular year, a beneficiary purported to disclaim their interest in a trust. On review, the Commissioner concludes that the disclaimer was legally ineffective. As with Example 8 of this practice statement, in determining the extent to which the beneficiaries who were entitled under the deed to benefit are taxed under Division 6 on the net income of the trust for the year, the Commissioner will apply his view of 'income of the trust estate' and 'share'.*

Example 10

43. *During a particular year, a trustee in exercise of a power to appoint income of the trust resolved to distribute the 'net income of the trust disclosed in the income tax return [for that year]'. However, the income tax return in fact disclosed a loss. On review, the Commissioner determined that the trust did have an amount of section 95 net income but that, on its terms, the resolution was ineffective to make any beneficiary presently entitled to any of the income of the trust. In determining the identity of the parties on whom the liability to pay tax in respect of the trust's section 95 net income falls, the Commissioner will apply his view of 'income of the trust estate' and 'share'.*

44. The Commissioner's view of 'income of the trust estate' and/or 'share' should also be applied if, for any reason, there is any part of the section 95 net income of a trust that has not been brought to account for tax purposes.

Example 11

45. *In a particular year, the section 95 net income of a trust is wholly comprised of a net capital gain. A beneficiary is made entitled to the underlying profit. Either due to inadvertence or a difference of views as to 'income of the trust estate', neither the trustee nor the beneficiary returns the net income. In determining who should be taxed under Division 6, the Commissioner will apply his view of 'income of the trust' and 'share'.*

Assessments

46. Given the High Court will, on appeal, review aspects of the Full Court's decision in *Bamford*, such as the meaning of 'income of the trust estate' and 'share', staff should, in the circumstances outlined in paragraphs 12 to 45 of this practice statement, also consider raising alternative assessments against beneficiaries and the trustee based on different views of the law and/or the facts as appropriate.

47. In making alternative assessments, staff should take as the basis for the primary assessment the Commissioner's views of 'income of the trust estate' and/or 'share'. Law Administration Practice Statement PS LA 2006/7 contains more information about the making of alternative assessments. In such cases, any recovery action would be in relation to the primary assessment only.

48. If making a trustee assessment, staff should apply the Commissioner's administrative practice that applies to income years ended 30 June 2005 (or later substituted accounting period) and later income years. Under that practice, an original assessment will only be made within four years from the later of the due date for lodgement of the trust return or the actual lodgement date of the return, except where there has been fraud or evasion.

Administrative penalty and interest charges

49. In assessing 'shortfall amounts' that arise as a result of the Commissioner applying Division 6 in accordance with his view of 'income of the trust estate' and 'share', staff should recognise that while the *Bamford* decision is still subject to further appeal processes, the Full Court's views have to be given due weight.

50. Insofar as the trustees and beneficiaries of a trust who are not involved in a tax avoidance scheme have prepared returns on the basis of the views of the Full Court in *Bamford*, or on the basis of an alternative view about the operation of Division 6 that is reasonably open having regard to other relevant authorities,[4] staff should accept that the taxpayer has taken 'reasonable care to comply with the taxation law' and that their position is 'reasonably arguable' for the purposes of Division 284 of Schedule 1 to the *Taxation Administration Act 1953* (TAA). In these circumstances there will be no liability for administrative penalty in respect of a relevant 'shortfall amount' (or part thereof).

51. Similarly, and in accordance with Law Administration Practice Statement PS LA 2006/8, the factors mentioned above should be taken into account when determining whether it is fair and reasonable for the Commissioner to remit any shortfall interest charge or general interest charge imposed under the ITAA 1936 and/or the TAA.

Collection

52. As outlined in the *ATO Receivables Policy* the Commissioner may initiate recovery action for collection of unpaid disputed debts at any time. However, in the circumstances it is reasonable, unless there is evidence of a risk to collection in a particular case, that the Commissioner defer recovery action in affected cases pending a final determination by the High Court.

[4] Including, for these purposes, PS LA 2005/1 (GA).

Rulings

53. Should a request be made for a private, product or class ruling that requires the Commissioner to express a view on the extent of a particular beneficiary's liability to tax under sections 97 or 100, or a trustee's liability under sections 98, 99 or 99A, the ruling should reflect the Commissioner's views as to 'income of the trust estate' and 'share' in Division 6. However in such cases, staff should first seek to obtain agreement from the ruling applicant to defer the issue of the ruling pending the outcome of the *Bamford* litigation.

Objections and appeals

54. If there is a dispute with a taxpayer as to the correctness of an assessment, or any other taxation decision, made by the Commissioner that depends, in whole or in part, on the proper construction of 'income of the trust estate' and/or 'share' in Division 6, and the taxpayer lodges an objection in respect of the decision, staff should seek to obtain agreement from the taxpayer to defer finalising the objection decision. In the event that the taxpayer requires the Commissioner to decide the objection, then the objection should be decided in accordance with the Commissioner's view of 'income of the trust estate' and 'share'.

55. Where a case of this type is currently at the appeal stage, either before the Administrative Appeals Tribunal or the Federal Court, staff should seek to obtain agreement from taxpayers to adjourn the case. If agreement cannot be reached, the court or tribunal should be asked to adjourn the matter pending the outcome of the special leave application and the substantive appeal, if special leave is granted. In the event that the request is rejected and the case proceeds to hearing, the Commissioner's representative should acknowledge that the court or tribunal is bound by *Bamford* but formally submit that the Full Court's view on 'income of the trust estate' is wrong and should request that the court or tribunal reserve its decision until the outcome of *Bamford* is known.

Practice Statement PS LA 2005/1 (GA)

56. Law Administration Practice Statement PS LA 2005/1 (GA) will not be withdrawn pending finalisation of the *Bamford* case and taxpayers will be free to self assess in accordance with its stated terms.

57. Where, however, there is a dispute between the Commissioner and a trustee and/or beneficiaries that falls into one of the categories outlined in paragraphs 12 to 45 of this practice statement, the Commissioner will apply his view of 'income of the trust estate' and 'share'. This follows because a practice statement is not binding upon a court or tribunal; a court or tribunal can only apply the law according to its terms.

58. That is not to preclude, however, the possibility that PS LA 2005/1 (GA) might provide a reasonable basis for settling a tax dispute with a trustee and/or beneficiaries. All settlements must be made in accordance with the Commissioner's *Code of Settlement Practice.*

59. As PS LA 2005/1 (GA) was based on a quantum approach and the existence of a degree of uncertainty, if the decision of the Full Court on the meaning of 'share' were to stand then this practice statement would need to be withdrawn.

EXPLANATION

60. The net (or taxable) income of a trust for a year of income is calculated in accordance with section 95. The section 95 net income is assessed to beneficiaries and/or the trustee in accordance with Division 6 (in particular sections 97, 98, 98A, 99, 99A).

61. Section 97 provides that a beneficiary who is 'presently entitled to a share of the income of the trust estate' is to be assessed on 'that share' of the net income of the trust estate. Section 98 assesses the trustee on behalf of a beneficiary on the beneficiary's share of the net income where the beneficiary is under a legal disability or is a non-resident at year end.

62. Sections 99 and 99A provide for the trustee to be assessed where there is any part of the net income of the trust that is not assessed to a beneficiary under section 97, to the trustee on behalf of a beneficiary under section 98, or that 'represents income' to which a beneficiary is presently entitled and that is attributable to a period when the beneficiary was not a resident and is also attributable to sources out of Australia.

63. The Commissioner acknowledges that different views are open as to the meaning of the composite expression 'presently entitled to a share of the income of the trust estate'. These views, broadly speaking, relate to:

- what is meant by the income of a trust for the purposes of section 97 (in particular, whether what is income can be affected by the terms of the deed)
- what it is that beneficiaries of a trust need to be presently entitled to in order to avoid a trustee assessment under sections 99 or 99A (whether it is the gross or surplus income and, if the latter, how it is that the surplus is to be calculated), and
- what is meant by the notion of a share for the purposes of section 97 (in particular, whether it means 'proportion' or 'amount', or whether it is to be determined by reference to the manner in which the beneficiary's entitlement is measured by or under the trust instrument).

64. Having regard to the structure of the Act, contextual considerations and the state of existing judicial authority, the Commissioner considers that the better view is as follows:

- 'income of the trust estate' is that which is ordinary income in the hands of the trustee
- the words 'that share' refer to the beneficiary's proportionate or fractional entitlement to so much of the 'income of the trust estate' that has been distributed or that remains available for distribution at the end of the year after the trustee has made provision for the proper revenue outgoings of the trust
- for these purposes, neither the provisions of a trust deed nor a determination by a trustee acting under authority of a trust deed can alter the character of receipts or outgoings in the hands of the trustee, and

- provisions of a trust deed (and or determinations made by a trustee under authority of a trust deed) that govern what is to be treated as income and what is to be treated as capital for the purposes of apportioning receipts and outgoings between those entitled to income and those entitled to capital *will* affect the question of who is presently entitled to that which was ordinary income in the hands of the trustee.

65. In *Bamford* the Full Federal Court held, broadly speaking, that, for the purposes of section 97, 'income of the trust estate' is that which is treated as income by or under the trust instrument for the purpose of fixing beneficiary entitlements and that 'share' means proportion.

66. Both the taxpayers and the Commissioner have been granted leave to appeal to the High Court from the decision of the Full Federal Court. The Tax Office is test case funding the taxpayers' appeal.

67. The decisions by the taxpayers and Commissioner to seek special leave to appeal to the High Court make it desirable in the interests of good administration for the Commissioner to communicate his approach to the application of Division 6 pending resolution of the issues before the Court in *Bamford.*

Amendment history

Date of amendment	Part	Comment
4 November 2009	Paragraphs 3, 4, 46, 65 and 66	Updated to reflect the determination by the High Court on 3 November 2009 of the special leave applications in relation to *Bamford v. Commissioner of Taxation* [2009] FCAFC 66.
1 September 2009	Paragraph 64	The word 'Commissioner's' replaced with 'Commissioner'.

Subject references	Trusts, income, share, net income, trust estate, presently entitled
Legislative references	ITAA 1936 ITAA 1936 Part III Division 6 ITAA 1936 95 ITAA 1936 97 ITAA 1936 98 ITAA 1936 98A ITAA 1936 99 ITAA 1936 99A ITAA 1936 100 ITAA 1936 100A ITAA 1936 Part IVA TAA 1953 TAA 1953 Sch1 Division 284
Related public rulings	
Related practice statements	PS LA 1998/1 PS LA 2005/1 (GA) PS LA 2006/7 PS LA 2006/8
Case references	Bamford v. Commissioner of Taxation [2009] FCAFC 66 Raftland v. Commissioner of Taxation [2008] HCA 21; 68 ATR 170; [2008] ATC 20-029
Other references	ATO Receivables Policy Code of Settlement Practice
File references	1-1ODONHM
Date issued	20 August 2009
Date of effect	20 August 2009
Other Business Lines consulted	