


TD 93/83 - Income tax: is a deduction allowable under subsection 51(1) of the Income Tax Assessment Act 1936 for factoring fees incurred when debts are factored to a related party?

 This cover sheet is provided for information only. It does not form part of *TD 93/83 - Income tax: is a deduction allowable under subsection 51(1) of the Income Tax Assessment Act 1936 for factoring fees incurred when debts are factored to a related party?*

This Determination, to the extent that it is capable of being a 'public ruling' in terms of Part IVAAA of the *Taxation Administration Act 1953*, is a public ruling for the purposes of that Part. Taxation Ruling TR 92/1 explains when a Determination is a public ruling and how it is binding on the Commissioner. Unless otherwise stated, this Determination applies to years commencing both before and after its date of issue. However, this Determination does not apply to taxpayers to the extent that it conflicts with the terms of a settlement of a dispute agreed to before the date of issue of the Determination (see paragraphs 21 and 22 of Taxation Ruling TR 92/20).

Taxation Determination

Income tax: is a deduction allowable under subsection 51(1) of the *Income Tax Assessment Act 1936* for factoring fees incurred when debts are factored to a related party?

1. Yes, factoring fees are allowable deductions under subsection 51(1), where :
 - (i) there is a factoring arrangement,
 - (ii) the factoring arrangement is based on ordinary business or commercial standards, and,
 - (iii) there are no unusual circumstances or tax avoidance implications.

Example:

XYZ Ltd has book debts of \$10,000. It enters into a factoring arrangement with its subsidiary, ABC Ltd. ABC Ltd acquires the debts from XYZ Ltd at face value less the agreed factoring fee of 5 percent of face value.

The \$500 factoring fee is an allowable deduction under subsection 51(1), provided the factoring arrangement is comparable to normal commercial standards in the taxpayer's industry and there are no tax avoidance implications.

Commissioner of Taxation

13/5/93