TR 94/7 - Income tax: tax shortfall penalties: guidelines for the exercise of the Commissioner's discretion to remit penalty otherwise attracted

This cover sheet is provided for information only. It does not form part of *TR 94/7 - Income tax: tax shortfall penalties: guidelines for the exercise of the Commissioner's discretion to remit penalty otherwise attracted*

This document has changed over time. This is a consolidated version of the ruling which was published on *6 January 1994*

Generated on: 28 November 2026, 02:57:31 AM

Taxation Ruling

Income tax: tax shortfall penalties: guidelines for the exercise of the Commissioner's discretion to remit penalty otherwise attracted

other Rulings on this topic

IT 2517

contents	para
What this Ruling is about	**1**
Ruling	**2**
Date of effect	**13**
Explanations	**14**

This Ruling, 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 Ruling is a public ruling and how it is binding on the Commissioner.*

What this Ruling is about

1. This Ruling provides guidelines as to the manner in which the discretion contained in subsection 227(3) of the *Income Tax Assessment Act 1936* (ITAA) may be exercised to remit penalty otherwise payable under sections 226G, 226H, 226J, 226K, 226L and 226M (the shortfall sections) of the ITAA. This ruling applies to the 1992-93 income year and substituted accounting periods.

Ruling

2. The discretion to remit penalty otherwise attracted under a shortfall section should be exercised in only those exceptional cases where, having regard to all of the circumstances, the application of a particular shortfall section and/or the rate of penalty prescribed under that section would provide a clearly unreasonable or unjust result. However, the guidelines provided by this Ruling do not fetter authorised officers when exercising the discretion to remit. Each case should be decided on the basis of its own facts and circumstances.

3. Other rulings dealing with the imposition of additional tax are:

- TR 94/2 Transitional arrangements for 1992-93 substituted accounting periods;
- TR 94/3 Calculation of tax shortfall and allocation of additional tax;
- TR 94/4 Reasonable care, recklessness and intentional disregard;

- TR 94/5 Reasonably arguable; and
- TR 94/6 Voluntary disclosures.

4. The explanatory memorandum to the *Taxation Laws Amendment (Self Assessment) Act 1992*, which introduced the shortfall sections into the ITAA, lists three examples where it may be appropriate to remit the statutory penalties otherwise attracted (see pages 98 - 99 of the Explanatory Memorandum).

5. These are:

(a) where an authority that is material to whether a taxpayer's treatment of a matter is reasonably arguably correct is published immediately before the taxpayer lodges its return of income, in circumstances where the taxpayer could not reasonably be expected to have been aware of the authority's existence;

(b) where a taxpayer, because of an extraordinary transaction, exceeds the threshold beyond which the reasonably arguable position test applies, and the circumstances of the case are such that it would be unjust to penalise the taxpayer solely by reason of failing that test;

(c) where the application of the special rules in respect of partners and trustees imposes an overly burdensome penalty on the defaulting partner or trustee.

6. Other cases where a remission, in whole or in part, may be appropriate are listed below. The list is not exhaustive, but it should be borne in mind that it will be in only exceptional cases that remission of the prescribed penalties will be warranted.

(i) Timing adjustments

7. In some cases a tax shortfall may represent an amount of tax deferred rather than an amount of tax permanently avoided. In such cases there may be scope to remit, in whole or in part, the prescribed penalty.

8. The case for remission is strongest where there is a one year only deferral of tax, for example, where an amount of assessable income is included by a taxpayer in a year later than the year in which it was correctly assessable. Assuming that penalty is otherwise attracted, a partial remission of the prescribed penalty may be warranted in these kinds of cases depending on the circumstances.

9. A factor that would influence the level of remission in cases where there is a one year only deferral of tax would be if, in addition to a deferral of tax, there has been an amount of tax avoided because

of a reduction in the rates of the tax between the two years in question. In general, a remission of the prescribed penalty in respect of that part of a tax shortfall that represents the amount of tax that would have been permanently avoided because of the change of rates would not be warranted.

10. At the other end of the spectrum are cases where the taxpayer's treatment of an item in effect amounts to a permanent deferral of income, such as cases involving trading stock valuations, reserves and provisions. Such cases would not generally warrant concessional treatment, but would be subject to the normal rates of penalty prescribed in the shortfall sections.

(ii) Income disclosed in another taxpayer's return in the same year of income

11. Where, in the correct tax year, income of a taxpayer has been incorrectly included by another taxpayer, and in overall terms no tax has been avoided, for example, because the same rates of tax apply to the assessments in question, then any additional tax attracted because of the first taxpayer's tax shortfall should be fully remitted.

12. In similar circumstances, but where some tax has been avoided in overall terms, for example, because of differing tax rates between the two taxpayers, then any additional tax attracted should be remitted so that the penalty is effectively only imposed on the net tax avoided in overall terms.

Date of effect

13. This Ruling applies where the Commissioner's discretion under subsection 227(3) to remit penalty attracted under a shortfall section is exercised after the date on which this Ruling is issued in respect of the 1992-93 income year and substituted accounting periods.

Explanations

14. The shortfall sections provide for specific rates of penalty for breaches of certain set standards. This replaces the former system where penalty was attracted at a rate of 200% and remitted at the discretion of the Commissioner in virtually every case to provide a rate of penalty commensurate with the culpability of the taxpayer's behaviour (see Taxation Ruling IT 2517).

15. The new system specifies the penalties attracted for specific kinds of behaviour, and does not contemplate for most cases a further reduction from the rates set in the legislation. A major objective of the new penalties is to promote certainty in respect of the rates of penalty attracted and that objective would be compromised if the specified rates were regularly remitted.

16. However, the new system does recognise, through the remission power, that there will be certain exceptional cases where the penalty standards or the rates of penalty prescribed, if applied rigidly, may provide an unintended or unjust result. The discretion to remit penalties otherwise attracted should accordingly be administered in a fashion which ensures that the objectives of the new penalty system are achieved, but without causing oppressive results. For example, penalty otherwise attracted under a shortfall section in respect of a year of income will generally be remitted in full if the law is changed retrospectively after the taxpayer has lodged a return for the year(s) affected by the retrospective changes.

17. While this Ruling provides guidelines as to when the discretion to remit penalties should be exercised, officers should treat each case individually and make a decision based on the merits of the particular case.

Commissioner of Taxation

6 January 1994

ISSN 1039 - 0731

ATO references
NO 93/2071-7
BO

Previously released in draft form
as TR 93/D23

Price $0.40

FOI index detail
reference number
I 1014151

subject references
- additional tax
- discretion
- remission
- self assessment
- tax shortfall penalties

legislative references
- ITAA 226G, 226H, 226J, 226K, 226L, 226M, 227(3)