



AUSTRALIAN TAX ADVISER

2408 : APRIL 2024

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IN THIS ISSUE

SECTION 1 – PROFESSIONAL DEVELOPMENTS	1
CAPITAL/REVENUE DISTINCTION	1
¶8.1 Taxability of receipts	1
¶8.2 Deductibility of outgoings.....	1
¶8.3 Taxation of capital gains	1
¶8.4 The Commissioner lost on all three issues	3
¶8.5 The Commissioner’s response	4
SECTION 2 – PROFESSIONAL CURRENCY	5
BILLS AND LEGISLATION	5
¶8.6 Legislation currently before Parliament.....	5
¶8.7 Draft legislation	6
¶8.8 Discussion/consultation papers	7
¶8.9 Legislative instruments	8
¶8.10 International tax	9
CASES AND DECISIONS	9
¶8.11 Poultry farmer not entitled to R&D offset.....	9
¶8.12 Licensed car dealer’s entitlement to decreasing LCT adjustments.....	11
¶8.13 Another transfer pricing case	13
¶8.14 Part IVA did not apply to restructuring of a financial services group	15
¶8.15 Inadequate record keeping.....	17
¶8.16 Tax agent banned five years for obstructing tax laws.....	19
¶8.17 FIFO travel and the ‘otherwise deductible’ rule	19
¶8.18 Was an ‘enterprise’ carried on?	21
¶8.19 Part IVA – a rare win for the taxpayer	23
¶8.20 Part IVA again – but this time a loss for the taxpayer.....	26
¶8.21 The Small Business Taxation Division supports ATO penalties.....	29
APPEALS NEWS	30
¶8.22 Access to documents	30
¶8.23 A residency case appealed.....	31
¶8.24 Capital allowances	32

Continued



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IN THIS ISSUE

RULINGS AND GUIDELINES.....	32
¶8.25 Resurrecting old tax debts.....	32
¶8.26 Updates to the ATO website	33
¶8.27 Lodgment deferrals.....	33
¶8.28 Claiming the new skills and training boost	34
¶8.29 Upfront payment agreements.....	35
¶8.30 Foreign residents selling property in Australia.....	35
¶8.31 Class Rulings	36
¶8.32 FBT: Alternative records.....	36
STATE TAXES	41
NEW SOUTH WALES.....	41
¶8.33 Stamp duty.....	41
¶8.34 Payroll tax	42
¶8.35 Land tax	43
¶8.36 Surcharge land tax cases	43
QUEENSLAND	43
¶8.37 Stamp duty.....	43
¶8.38 Land tax	44
ACT	44
¶8.39 Stamp duty.....	44
SECTION 3 – QUESTIONS AND ANSWERS	44
¶8.40 Tax Treaty – Australia and China.....	44
¶8.41 FX transactions – realisation of gains/losses.....	46
¶8.42 Promissory note and in specie transfer of property	47
¶8.43 Division 7A loan to discretionary trust	49
¶8.44 Restrictions on super contributions for retirees	49
¶8.45 Commercial vehicle: GST and depreciation limits.....	50
¶8.46 Inherited main residence cost base.....	51
¶8.47 NSW landholder interest in unit trust via SMSF	52
¶8.48 Small business rollover – sale of shares in non-trading company	53
¶8.49 Corporate trustee as a beneficiary	54

SECTION 1 – PROFESSIONAL DEVELOPMENTS

CAPITAL/REVENUE DISTINCTION

Following the decision in [Bowerman v FC of T](#) discussed in a recent *Australian Tax Adviser*, the ATO has released a [Decision Impact Statement](#) ('DIS') outlining the Commissioner's view on the capital/revenue distinction as it affects both receipts and outgoings from property transactions. In order to better understand the logic of the DIS, some discussion of the rules surrounding the capital/revenue distinction would be appropriate. And I apologise to those readers for whom this is 'old hat'.

¶8.1 Taxability of receipts

Receipts will be *ordinary income* if they are 'income according to ordinary concepts' (in other words, it would be what a person on the 'Clapham omnibus'¹ would consider to be income). Unsurprisingly, given the vagueness of this provision, much of Australia's tax jurisprudence surrounding this topic is devoted to the interpretation of this concept.

Section 6-10(1) and (2) specifically includes *statutory income* in your assessable income. The term 'statutory income' refers to receipts that are not *ordinary income* but are included in a taxpayer's assessable income by virtue of a statutory provision – capital gains are a good example of receipts that are not assessable as ordinary income but are nonetheless assessable under the capital gains tax provisions in Chapter 3 of the ITAA97.

¶8.2 Deductibility of outgoings

A loss or outgoing will be deductible if it meets one or both of the conditions outlined in s 8-1(1)(a) or (b) and is not disqualified by any of the conditions outlined in s 8-1(2).² Significantly losses or outgoings of a capital nature are prohibited under s 8-1(2)(a), so only losses or outgoings of a revenue nature can be deducted. This is one of the core issues addressed by the statement.

¶8.3 Taxation of capital gains

Since gains from capital transactions are not 'income according to ordinary concepts', they are not taxable under s 6-5. So, to tax such receipts, legislators had to introduce specific measures to do it (which it did in 1985). As pointed out above, these measures are to be found in Chapter 3 of ITAA97. A taxable capital gain arises

¹ The phrase 'Clapham omnibus' was reportedly first put to legal use in a judgment by Sir Richard Henn Collins MR in the English Court of Appeal libel case *McQuire v. Western Morning News* (1903) to denote an ordinary person.

² Non-deductible items include:

- (a) A loss of capital or of a capital nature;
- (b) A loss of a private or domestic nature;
- (c) A loss that relates to gaining exempt income;
- (d) A loss that is made non-deductible by a provision in the Act.