

IT 2227 - Income tax : interest charged on overdue customer accounts

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TAXATION RULING NO. IT 2227

INCOME TAX : INTEREST CHARGED ON OVERDUE CUSTOMER
ACCOUNTS

F.O.I. EMBARGO: May be released

REF

H.O. REF: 85/3320-2
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DATE OF EFFECT:

B.O. REF:

DATE ORIG. MEMO ISSUED:

F.O.I. INDEX DETAIL

| REFERENCE NO: | SUBJECT REFS: | LEGISLAT. REFS: |
|---------------|--|-----------------|
| I 1194323 | ASSESSABLE INCOME - INTEREST ON OVERDUE ACCOUNTS | 25(1) |

PREAMBLE

It is usual for some trading concerns, particularly retail trading concerns, to provide some form of credit facility for their customers. It is the practice to charge interest on customers' accounts when they become overdue.

2. This office was asked recently to provide advice on the correct method of returning the interest income. It had been suggested that interest charged to an account but not received at the end of the year of income should not be treated as assessable income at that time but at the time when the interest is paid.

RULING

3. Where the provision of credit to customers is a regular feature of the operations of a business and interest charged accrues on a daily basis any interest owing by customers at the end of the year of income would represent, according to ordinary business and commercial principles, part of the earnings of the business for the year. It follows, therefore, that the interest owing by customers at the end of the year is assessable income derived in that year.

COMMISSIONER OF TAXATION
21 November 1985

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