TR 93/28 - Income tax: basis of assessment of income derived from securities purchased and sold cum interest

Taxation Ruling

Income tax: basis of assessment of income derived from securities purchased and sold cum interest

other Rulings on this topic

TR93/27; IT 2276; CITCM 811; ITR 88 (Vic.)

contents para

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 clarifies when, for the purposes of the *Income Tax Assessment Act 1936* ('the Act'), income is derived by taxpayers from investments in fixed and variable 'cum interest' securities. In particular, this Ruling clarifies when income is derived where such securities are purchased or sold between coupon dates.

2. This Ruling applies to all taxpayers who invest in such securities and whose taxable income is calculated on an accruals basis. This Ruling does not apply to circumstances where the principal and interest components of a security are marketed separately for the purposes of section 159GZ of the Act.

Ruling

3. The common law rule is that interest accrues *de die in diem* (day by day). Accordingly, interest accrues on a daily basis on fixed and variable interest securities where the terms and conditions of their issue do not disturb the common law rule.

4. Subject to what is said at paragraphs 6 and 8, taxpayers who invest in fixed or variable interest securities cum interest, and whose taxable income is calculated on an accruals basis, should bring interest derived from those securities to account for tax purposes on a due and receivable basis. The interest income should not be returned on a daily accruals basis or returned at the time of disposal of the security through an adjustment to its cost price. An example of the due and receivable approach is set out at paragraph 47 of this Ruling.

5. Where securities are transferred cum interest during an interest coupon period a purchaser does not acquire the right to interest (future

income) separate from the source of that income. The consideration given by a purchaser is an outlay of a single indivisible sum. The amount referable to the accrued interest component of a fixed or variable interest security should not be treated by the purchaser as a deduction from, or reduction to, interest derived, nor as an adjustment to the purchase price.

6. In light of the circumstances outlined at paragraphs 44 and 45 of this Ruling, 'financial institutions' that return their interest income on a basis consistent with Taxation Ruling TR 93/27 should adopt a similar method of returning interest income derived from their investments in fixed and variable interest securities. This is subject to any terms and conditions attaching to a security not disturbing the ordinary rule that interest accrues on a daily basis. The method adopted should properly reflect the amount of interest derived in respect of each security that is attributable to the period beginning on the date the financial institution acquired ownership of the security cum interest, and ending on the date of disposal of the security.

Date of effect

7. Subject to what is said at paragraphs 8 and 9**,** this Ruling applies (subject to any limitations imposed by statute) for years of income commencing both before and after the date on which it is issued. To the extent that this Ruling is concerned with changes in interpretation, those changes operate in favour of taxpayers. Consequently, if a taxpayer has a private ruling which is inconsistent with this Ruling, then this Ruling will only apply to that taxpayer from and including the 1992-3 year of income unless the taxpayer asks that it apply (subject to any limitations imposed by statute) to earlier income years.

8. Financial institutions that have previously adopted the due and receivable basis prescribed in this Ruling for fixed and variable interest securities, and are within the circumstances described at paragraph 46, may:

(i) if favourable to the taxpayer, continue to tax account for the accrued interest component of such securities on the due and receivable basis prescribed in this Ruling; or

(ii) continue to adopt the due and receivable basis prescribed in this Ruling for all fixed and variable interest securities owned as at the date of this Ruling and adopt the daily accruals basis for all securities acquired after the date of this Ruling.

9. This Ruling does not apply to financial institutions to the extent that it conflicts with the terms of a settlement of a dispute agreed to

before the date of issue of this Ruling (see paragraphs 21 and 22 of Taxation Ruling TR 92/20).

Explanations

Fixed and variable interest securities

10. A common characteristic of the fixed and variable interest securities dealt with in this Ruling is that the securities are purchased and sold 'cum interest' rights. That is, when a security is sold 'cum interest' (as opposed to securities sold during an ex interest period), the purchaser receives for its own benefit the full amount of interest that has accrued since the last interest coupon date. Clarification has been sought as to the appropriate tax accounting treatment to be adopted by taxpayers for income derived from investments in certain fixed or variable cum interest securities where such securities are acquired or disposed of between interest coupon dates. That is, should a daily accruals method be applied so that the interest is brought to account on a day by day basis over the period the security is owned or should income be returned on a due and receivable basis? The issue arises in respect of fixed and variable interest securities where the principal and interest components are not marketed separately for the purposes of section 159GZ of Division 16E of Part III of the Act.

11. Securities may be classified as inscribed (that is, where a register of investors is maintained) or uninscribed (that is, where a register of investors is not maintained as is the case with bearer securities). Most fixed interest securities fall within the general category of transferable inscribed money market securities. Bonds sometimes have a coupon attached to enable the holder to collect interest. The coupons are numbered and dated and marked with the amount of interest payable on their surrender. Detachable coupons are a feature of bearer bonds but these types of securities now represent a minor part of the overall securities market.

12. For ease of reference the term 'coupon date' will be used throughout this Ruling to denote the time at which payment rights to interest arise for each interest (coupon) period under a fixed or variable interest security.

13. The fixed interest markets in Australia involve issuing and trading in Commonwealth government bonds, State government securities (commonly known as semi-government securities, an example being New South Wales Treasury Corporation bonds), Commonwealth government corporate bonds (for example, Telecom bonds), State corporate bonds and, to a lesser extent, corporate bonds, mortgage-backed securities and, most recently, Matilda bonds

(securities denominated in $Aust., issued in Australia by foreign sovereign and multi-national borrowers). The market in fixed interest securities is very much professional and wholesale, with relatively minimal participation from retail (household) investors.

14. The Australian Financial Markets Association booklet '*How Australia's Fixed Interest Markets Operate*' illustrates the key role that the fixed interest securities markets have in the financial system. As well as providing investments for banks, life offices, pension funds, overseas investors, other financial intermediaries and companies, they also provide a fund raising mechanism for the Commonwealth and State governments, and companies. Commonwealth bonds are sold by the Reserve Bank of Australia as agent for the Commonwealth government and the yields on Commonwealth Bonds serve as a benchmark for other interest rates in the financial market. Average daily turnover is currently around $3 billion to $4 billion each for Commonwealth and State securities.

15. A fixed interest security consists of a series of future coupon (interest) payments usually of equal size, and the repayment of the principal at maturity. An example of a variable interest security is a security under which interest payable on the security at the due date is calculated based upon the Consumer Price Index plus a margin. We understand that the volume of variable interest securities traded is presently small but anticipated to grow. Variable interest securities can be issued by the previously mentioned categories of issuers.

16. Generally, a purchaser wishing to buy a parcel of securities approaches the seller to complete a transfer and acceptance form ('T & A form'). Upon execution the purchaser provides the seller with a bank cheque and then lodges the T & A form with the relevant registry.

17. Most securities registers in Australia are not computerised although computerisation is progressing. In the future it is likely that the name of the purchaser of widely traded fixed interest securities will be automatically recorded on a central register so that the identity of the investor or trader who has the rights to interest payable is able to be readily ascertained. Presently most security registers in Australia are on a manual system and it is generally the case that registers are closed off for periods ranging from 7 to 15 days to allow the registrars to update their security ownership records, process coupon payments and issue interest cheques. The period during which a security register is closed off is commonly referred to as the 'ex interest' period.

18. During the ex interest period sales of securities may continue to be made. However, changes in ownership are not registered during

this period and purchasers do not obtain any rights to interest. The consideration payable for securities sold ex interest during these periods is reduced accordingly.

Nature of interest under cum interest securities

19. The common law principle is that interest accrues on a day by day basis (that is, *de die in diem*) even if payable only at intervals (cf. *The State of South Australia v. The Commonwealth of Australia* 92 ATC 4066 at 4072; (1992) 23 ATR 10 at 19; *Chow Yoong Hong v. Choong Fah Rubber Manufactory* (1961) 3 All ER 1163 at 1167; (1962) AC 209 at 217; *Willingale (H.M. Inspector of Taxes) v. International Commercial Bank Limited* (1978) 52 TC 242 ('*Willingale*') at 269 & 271; *In re Rogers' Trusts* (1860) 62 ER 408 at 409)). Interest is therefore apportionable under the general law in respect of time (cf. *Halsbury's Laws of England*, 4th ed., Vol. 32 at para 106; Vol. 16 at para 1250; *Conveyancing Act 1919 (NSW)*, subsection 144(1)).

20. However, it also appears that the common law principle that interest accumulates day by day may be overridden by the terms of a suitably worded loan agreement (cf. *F C of T v. Australian Guarantee Corporation Limited* 84 ATC 4642 ('*AGC*') at 4659-60; (1984) 15 ATR 982 at 1004-5); *Willingale*, supra at TC 273).

21. Beaumont J, in analysing the construction of the 'Special Conditions' governing a debenture issue by the taxpayer in *AGC* said (at ATC 4659-60; ATR 1004):

> 'It is possible to imagine a case where, on the true construction of their contract, parties make provision for the payment or crediting of a special kind of premium, entitlement to which springs into existence, for the first time at a remote future date. It would be a feature of such a contract that, if it did not run its full term, because, say, insolvency or even voluntary liquidation intervened before the due date (time would be of the essence), the lender would have no entitlement to interest as such. At best, the lender would be able to claim for general damages on the footing that a valuation of his future claim would be required. <u>Certainly, he could not claim for interest accrued due at that point of time</u>...' (Underline added)

His Honour then qualified the above observation (at ATC 4660; ATR 1004):

> 'Unattractive features of this kind suggest that a special agreement along these lines is unlikely to be made, at least between parties at arm's length.' (Underline added)

22. In *AGC* the 'Special Conditions' provided that the relevant debenture stock 'will earn and be credited with interest at redemption'. Despite this, however, Beaumont J held that the 'Special Conditions' only operated to defer payment and crediting of interest until redemption and did not affect the position that interest was intended to accrue throughout the whole of the term of the debentures. At ATC 4660; ATR 1005 his Honour commented further on the circumstances in which it would be accepted that the common law nature of interest is altered:

> 'In my view, consistently with his primary objective, the draftsman did not intend to disturb the ordinary position that interest accrues due on a daily basis over the period of the investment. It is significant, in this regard, first, that what was being dealt with was interest in the conventional sense and, secondly, that it was to be calculated from the date of investment... It was not, in my opinion, intended to convert the subject of the transaction from interest, accruing due on a daily basis, into some sort of premium, liability for which was to spring into existence, for the first time, when the day for redemption occurred. Too arrive at the latter position would, in my view, require the most explicit language to that effect.' (Underline added)

23. In *Case F26* 74 ATC 132; 19 CTBR (NS) *Case 44*, the No. 3 Board of Review unanimously held that the capital cost of government bonds and semi-government securities acquired by a building society was the amount paid to acquire the securities and the building society was not entitled to any portion of those outlays as expenditure on revenue account to acquire the future interest income. At ATC 153; CTBR (NS) 313-4 Mr Dempsey (Member), disagreed with counsel for the taxpayer and held that it was not correct to say that interest on the securities accrued *de die in diem.* The interest was payable on given due dates as was the case in *Wigmore (H.M. Inspector of Taxes) v. Thomas Summerson and Sons, Limited* (1925) 9 TC 577 ('*Wigmore's case*').

24. In *Wigmore's case* (supra) the taxpayer company had been assessed under the U.K. *Income Tax Act 1918* in respect of an amount of interest deemed to have accrued on a series of 5% War Loan Stock in the period between the last payment of interest and the date of the company's sale of the Stock cum interest, it being contended by the Inland Revenue Commissioners that the price received by the

company on sale of the Stock included this accrued interest. In considering this point Rowlatt J said (supra at TC 581):

> 'This stock... is sold *en bloc* for a sum for principal and accrued and accruing interest; and it is not true to say in fact that in the purchase price there is necessarily to be found a sum as purchase money of the accrued interest exactly equivalent to the amount of interest which has accrued...The truth of the matter is that the seller does not receive "interest", and "interest" is the subject matter of the taxation. He receives the price of the expectancy of interest, and that is not the subject of taxation, and the whole thing, I think, really depends upon that fallacy. In truth you cannot put the case without relying on the theory that the interest accrues *de die in diem*.' (Underline added)

25. The latter part of Rowlatt's J judgment reflects an important concession made by counsel for the United Kingdom Inland Revenue that interest income under the War Loan Stock could not be treated as accruing *de die in diem* and apportionable in the case of a holder who held continuously from year to year.

26. The decisions in *Wigmore's case* and ATC *Case F26*; CTBR *Case 44* (supra) must now be read in light of the statements subsequently made by the Federal Court in *AGC* (supra). An examination by this Office of prospectuses supporting various security issues has not revealed any express agreements that could be considered to disturb the common law rule that interest accrues *de die in diem*. On the basis that securities are acquired in the market on terms and conditions identical to those that exist between the issuers of those securities and the original subscribers, and those terms and conditions do not override the common law rule that interest accrues *de die in diem*, we consider that interest payable on fixed and variable interest securities accrues on a daily basis.

Gains and losses on interest bearing securities

27. Before proceeding to deal specifically with the appropriate method under which the accrued interest component of fixed and variable interest securities should be brought to account for taxation purposes it is necessary to first examine the related question of how gains and losses on disposal of such securities should be treated for taxation purposes.

28. Profits gained, or losses incurred, by taxpayers as a result of the sale or redemption of interest bearing securities will generally fall for assessment under either the general provisions of the Act (subsections 25(1) and 51(1)) or, where a security is acquired after 10 May 1989, the traditional securities provisions (sections 26BB and 70B). Prior to the introduction of the traditional securities provisions, the assessability and deductibility of gains and losses that arose from the sale or redemption of a security generally depended upon the nature of the vendor's activities, the type of security and the circumstances of its acquisition. Thus gains and losses made on the sale or redemption of securities were characterised having regard to whether the securities were revenue assets, pre- or post- 19 September 1985 capital assets, or (for dealers and traders in securities) trading stock.

29. The general principle governing the assessability of profits (or conversely the deductibility of losses) arising on the sale of investments is that propounded by Lord Justice Clerk in *Californian Copper Syndicate v. Harris* (1904) 5 TC 159 at 166, where his Lordship said:

> 'It is equally well established that enhanced values obtained from realisation or conversion of securities may be so assessable, where what is done is not merely a realisation or change of investment, but an act done in what is truly the carrying on, or carrying out of a business.'

The principle so stated has been applied in relation to trading banks (cf. *Punjab Co-operative Bank Limited, Amritsar v. Commissioner of Income Tax, Lahore* (1940) AC 1055, and to insurance companies (cf. *Colonial Mutual Life Assurance Society Limited v. F C of T* (1946) 73 CLR 604; and *Australasian Catholic Assurance Co. Limited v. F C of T* (1959) 100 CLR 502). These cases extended the principle to apply to investments generally and not merely to those which consist of government securities. (See also (1964) 14 TBRD 236 *Case P52* at 236-7; 11 CTBR (NS) 437 *Case 75* at 437-8).

30. The acquisition of interest bearing securities, whether by purchase or subscription, and their realisation by sale, redemption or conversion, is an integral part of the business carried on by a financial institution (cf. TBRD *Case P52*, CTBR (NS) *Case 75* (supra); ATC *Case F26*, CTBR (NS) *Case 44*, supra at ATC 155, CTBR (NS) 316). Generally speaking, financial institutions invest in such securities on market in their normal business operations.

31. Gains and losses made by taxpayers who carry on a business of investment are considered to be assessable or deductible under subsection 25(1) or subsection 51(1) of the Act. Canberra Income Tax Circular Memorandum No. 811 sets out our long standing view that realised profits and losses arising from transactions involving

Commonwealth Loans and other securities that are derived or incurred in the course of carrying on a banking or insurance business are properly to be taken into account in arriving at the taxable income of that business. Taxation Ruling IT 2276 also deals with the liability to income tax of profits and losses made by general insurance companies on realisation of investments.

32. On the other hand, where profits derived from realising securities do not constitute income under ordinary concepts, and the securities are acquired after 10 May 1989, it is likely that such gains are assessable (or conversely, such losses are deductible) under the traditional securities provisions of the Act. In order for a security to qualify as a traditional security for the purposes of sections 26BB and 70B, it must satisfy the definition of 'security' contained in subsection 159GP(1) and the definition of 'traditional security' contained in subsection 26BB(1). Amendments to section 70B contained in the *Taxation Laws Amendment Act (No. 5) 1992*, effective from 1 July 1992, *inter alia*, restrict the availability of deductions for losses incurred on the disposal or redemption of traditional securities to situations where the holder disposes of the security on a secondary market.

Transfers of fixed and variable interest securities

33. Interest is money agreed to be paid on a loan or an amount payable as damages for the non-payment of a debt or other sum of money on the proper day. Further, interest is calculated at a rate proportionate to the amount of principal and to the time during which the non-payment continues. See Jowitt's *Dictionary of English Law,* 2nd edition.

34. For there to be borrowed money there must exist a legal relationship of lender and borrower. In addition, an obligation of repayment by the borrower is essential to a loan transaction (cf. *Inland Revenue Commissioners v. Rowntree and Co. Limited* (1948) 1 All ER 482 at 486; *Ferguson v. O'Neil* (1943) VLR 30 at 32). Money is lent where there exists in one party a right to repayment of principal and to payment of interest accrued on the principal. Money lent (the principal) constitutes a debt owing by the borrower (debtor) to the lender (creditor). Interest is the payment which becomes due because the creditor has not had his money at the due date (cf. *Humes Limited v. Comptroller of Stamps (Vic)* 89 ATC 4656 at 4651, (1989) 20 ATR 860 at 865-6; *Riches v. Westminster Bank Limited* (1947) AC 390 at 400).

35. Acquiring a security on subscription creates a borrower/lender relationship between the issuer and the registered owner of the security. That is, the issuer owes a debt equivalent to the face value of the security to its owner. Interest accrues daily on that debt (see paragraph 26) but is payable to the owner of the security at given coupon dates.

36. When the registered owner becomes a vendor and transfers a security, the borrower/lender relationship that existed between the issuer and the vendor is terminated. Moreover, when a security is transferred cum interest during a coupon period the vendor relinquishes, at the date of transfer, rights to interest accrued, but not receivable, at the date of transfer plus rights to all future (expected) interest together with the source of the interest (cf. *F C of T v. The Myer Emporium Limited* (1987) 163 CLR 199 ('*Myer*') at 218). A purchaser acquires a right to receive an income flow unsevered from the source of that income. That is, where fixed and variable interest securities are transferred cum interest during a coupon period, a purchaser does not acquire the right to interest (future income), separate from the source of that income (cf. *Myer*, supra at 218). In such circumstances the full purchase consideration is a single (indivisible) capital outlay (cf. ATC *Case F26*; CTBR *Case 44*, supra; *Wigmore's case*, supra).

37. Notwithstanding that other factors may affect the price of a security at any given time (for example, the time still to run to maturity date and the effect on the financial markets of new security issues), the accrued interest component of a security purchased cum interest is recognised generally in the market as a precisely quantified element in its cost and is separately calculated and identified in settlement confirmations. That is, consideration paid by a purchaser for a security, in part, compensates the vendor for interest accrued since the last coupon date but not receivable at the date of transfer. Although allocating the purchase price between principal and interest may be the generally accepted accountancy practice, the correct taxation treatment is not be determined solely by a taxpayer's method of accounting. As indicated above, the authorities suggest that the capital cost of a security for taxation purposes is the total amount paid for it. It does not necessarily follow that because the component of accrued interest can be identified in the total capital cost of a security that it may, for income tax purposes, be severed from the total cost and invested with a non-capital character. This was made clear in ATC *Case F26*; CTBR *Case 44*, supra at ATC 139; CTBR (NS) 298. The accrued interest component of a fixed or variable interest security should not be treated by the purchaser as a deduction from, or reduction to, interest derived nor as an adjustment to the purchase price.

38. In *The Commissioners of Inland Revenue v. Sir John Oakley* (1925) 9 TC 582 ('*Oakley's case*'), the taxpayer had sold, cum interest, certain 8% Registered Notes of a limited company on 29 November 1922, the eve of the payment of half yearly interest. Due to a delay in the execution of the sale contract, interest on the Notes accrued due and was paid to the vendor taxpayer instead of the purchaser. The interest was then duly handed to the purchaser by the vendor. In holding that the amount paid was income of the purchaser, Rowlatt J acknowledged that curious results arise with respect to accrued interest but nevertheless held (supra, at TC 585):

> 'On the 29th November, although it was the 29th November, he (the taxpayer) sold <u>the whole thing, sold the principal and accrued interest</u>, and the purchaser got it, and there it is, <u>that is where the liability (for income tax) must fall, on the purchaser</u>...' (Underline added)

39. Upon becoming the registered owner during a coupon period, a purchaser of a fixed or variable interest security acquired cum interest rights, acquires the right to all interest accrued from the issuer of that security since the last coupon date. However, part of the coupon payment subsequently received by the purchaser relates to a period in which no borrower/lender relationship existed between the issuer and the purchaser. (See discussion at paragraphs 34 to 37). A portion of the coupon payment cannot therefore be interest in the hands of the purchaser. That is not to say, however, that the receipt is not an income stream derived by the purchaser when due and receivable which is assessable under subsection 25(1) of the Act.

40. The decision in *F C of T v. Morgan* (1961) 106 CLR 517, which addressed the question of apportioning deductions for rates on sale of income producing real estate, is not accepted as authority for the view that accrued interest under a fixed and variable security transferred cum interest rights is severable and separately accountable from the principal for taxation purposes. (See in this regard *Wigmore's case*, supra at TC 581; ATC *Case F26*; CTBR *Case 44*, supra at ATC 139-40; CTBR (NS) 298-9).

41. Subject to what is said at paragraphs 44 to 46 of this Ruling, taxpayers who invest in fixed or variable interest securities cum interest, and whose taxable income is calculated on an accruals basis, should bring income derived from those securities to account for tax purposes on a due and receivable basis.

42. It should also be noted that where the traditional securities provisions of the Act apply to the disposal or redemption of a security, sections 26BB and 70B make no provision for eliminating the accrued interest component from the calculation of the gain or loss on disposal of a security.

43. An example of the due and receivable approach is set out at paragraph 47 of this Ruling.

Financial institutions

44. In Taxation Ruling TR 93/27 we take the view that the straight line daily accruals method is the appropriate basis on which 'financial institutions' (as defined) should bring interest income and expense to account for taxation purposes where the terms and conditions of the relevant contract indicate that the parties do not intend to disturb the ordinary rule that interest accrues on a daily basis over the period of the financial instruments and investments addressed in that Ruling.

45. Certain financial institutions that acquire and dispose of cum interest securities on market, tax account for interest derived from such securities on a daily accruals basis. That is, they treat separately the accrued interest component and bring to account on a straight line basis the interest referable to the period during which they beneficially own the securities. No gain or loss is reflected for tax purposes on disposal of the security. This is in line with the general basis of assessment set out in Taxation Ruling TR 93/27. In the 1992-3 Federal Budget the Treasurer announced the Government's intention to introduce a comprehensive legislative regime for the taxation of financial arrangements on an accruals basis. Under the proposed new regime, gains and losses will be accrued or spread over the term of the financial arrangement. Financial institutions presently adopt an approach broadly consistent with the proposed changes and which is not detrimental to the Revenue. We understand that a change from the daily accruals approach currently adopted will cause severe difficulties in terms of pricing and systems changes for those institutions.

46. In view of these circumstances, but subject to any terms and conditions attaching to a security not disturbing the ordinary rule that interest accrues on a day by day basis, 'financial institutions' that return their interest income on a basis consistent with Taxation Ruling TR 93/27 should adopt a similar method of returning interest income derived from their investments in fixed and variable interest securities. The method adopted should properly reflect the amount of interest derived in respect of each security that is attributable to the period beginning on the date the financial institution acquired ownership of the security cum interest, and ending on the date of disposal of the security.

Example

47. 'A' is an insurance company that invests in fixed and variable interest securities. It acquires for face value a three year $100 fixed interest bond at issue date on 1 December 19x0 (Interest coupon at 12% per annum, payable semi-annually on 1 June and 1 December). 'B', another insurance company that also invests in such bonds as part of its business activities, purchases the bond from 'A' cum interest halfway through an interest coupon period on 1 March 19x2 for $103 ($3 premium representing interest being treated as having accrued since 1 December 19x1). On 1 June a $6 interest coupon is payable on the bond.

Assume further that both 'A' and 'B' have 30 June balance dates and that there have been no other market effects to the value of the bond.

The taxation accounts of 'A' should show the following amounts of income derived on a due and receivable basis:

Income Tax Year Ended	*Income derived*
30/6/x1	$6.00 (25(1))
30/6/x2}	$6.00 (25(1))
30/6/x2}	$3.00 (25(1)/26BB))

'A' has an assessable gain on disposal of $3.00 pursuant to either subsection 25(1) or section 26BB because the sale price of the bond ($103.00) cannot be apportioned between principal and interest.

On the other hand, the taxation accounts of financial institution 'B' should show the following amounts of income derived on a due and receivable basis:

Income Tax Year Ended	*Income derived*
30/6/x1	$ nil
30/6/x2	$ 6.00 (25(1))
30/6/x3	$12.00 (25(1))
30/6/x4}	$6.00 (25(1)
30/6/x4}	($3.00) (51(1)/70B)

'B' has an allowable deduction for loss on disposal of the bond at maturity equal to $3.00 pursuant to subsection 51(1) or section 70B because the acquisition price of the security ($103.00) cannot be apportioned between principal and interest.

Commissioner of Taxation

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