



5–7 September 2023

MCEC Melbourne

20 CPD Hours

Spark change



Practical application and implications of section 100A

– Part 2

Presenters:

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Facilitator:

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Content

Session outline

Background (hidden content)

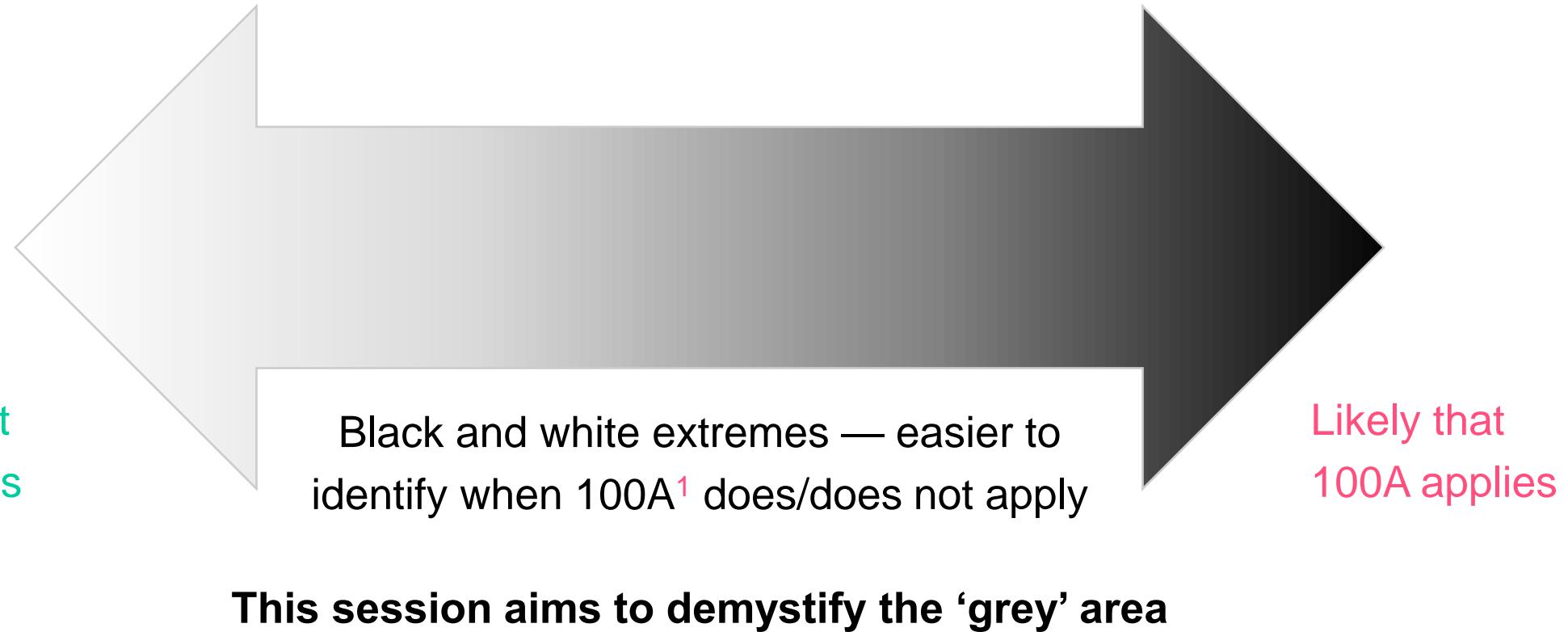
Recent developments (hidden content)

A conversation with the ATO

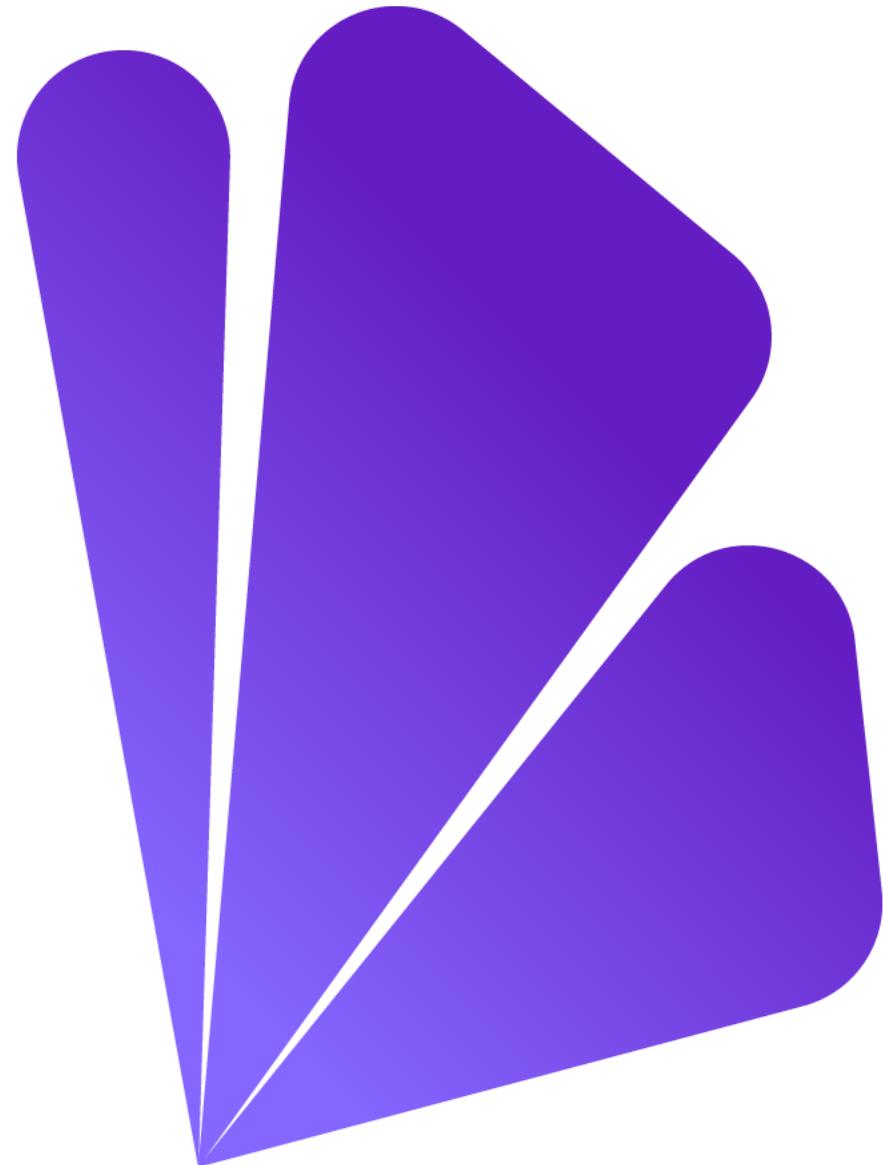
Case studies × 9

Practical takeaways

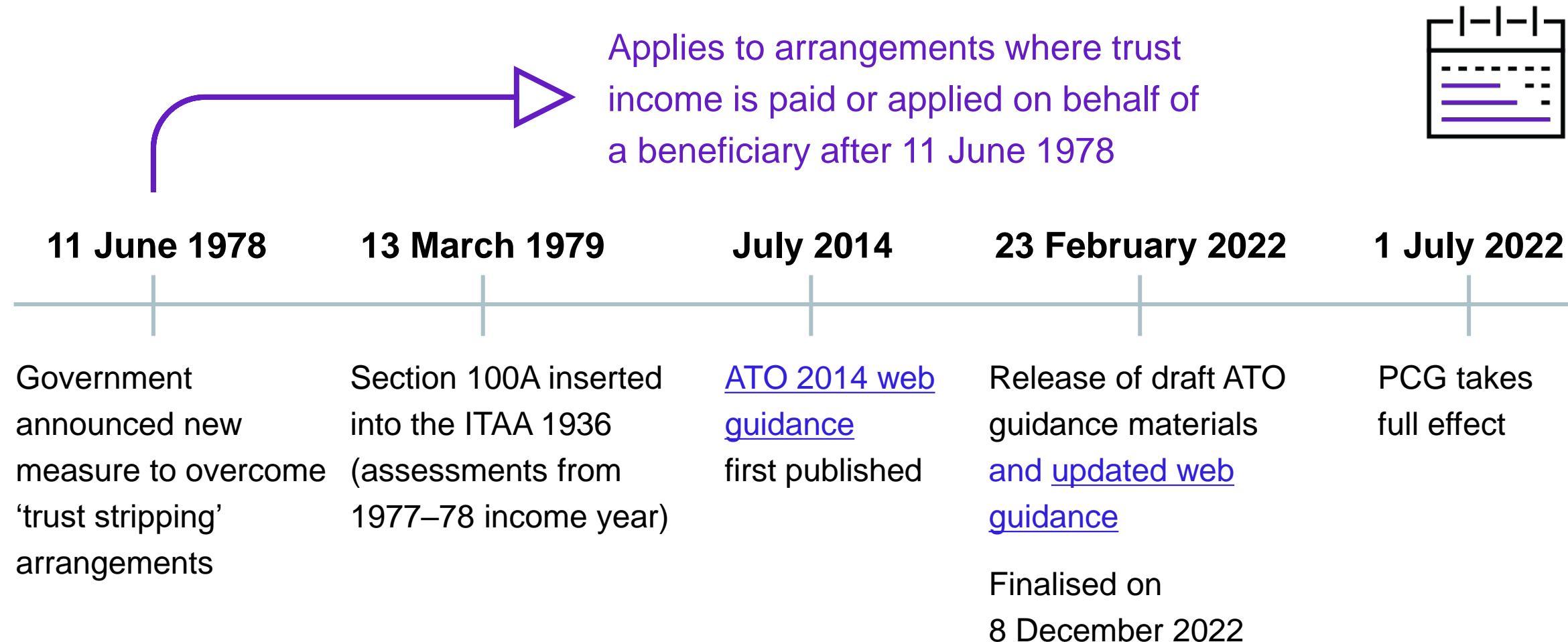
Session objective



Background



Section 100A | History of developments

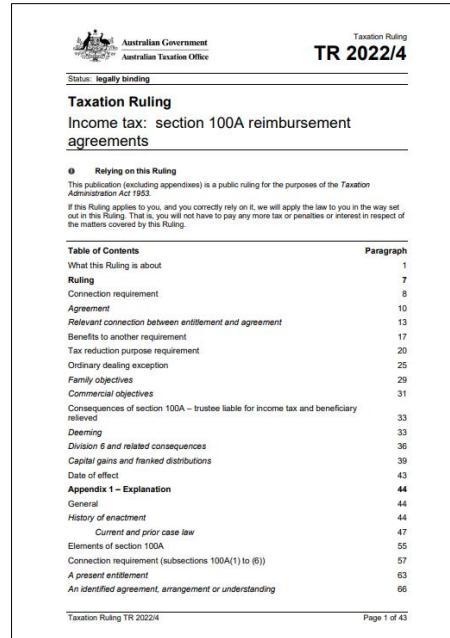


Section 100A | Final ATO guidance

[TR 2022/4](#)

Income tax: section 100A
reimbursement agreements

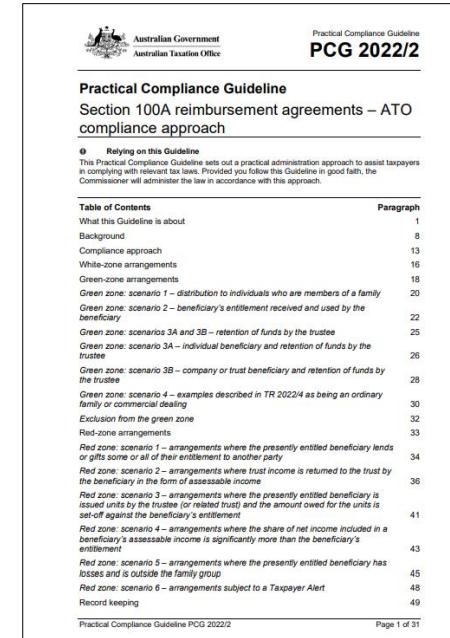
[TTI submission](#)



[PCG 2022/2¹](#)

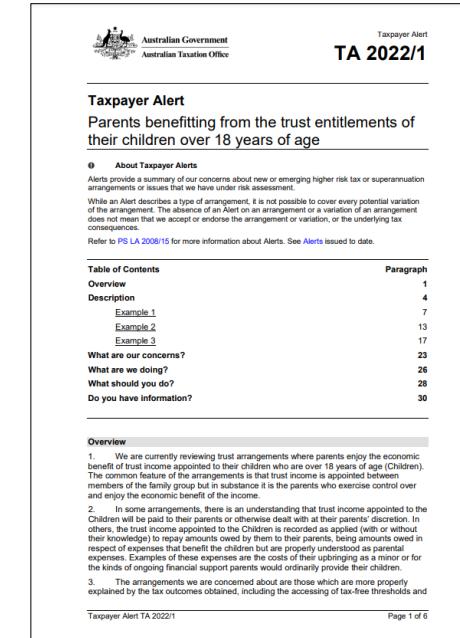
Section 100A reimbursement
agreements – ATO compliance
approach

[TTI submission](#)



[TA 2022/1²](#)

Parents benefitting from the
trust entitlements of their
children over 18 years of age



¹ Compendium exists

² Not released in draft

Requirements for section 100A to apply

1. A beneficiary who is not under a legal disability has a present entitlement (**PE**) to a share of trust income
2. PE arose out of a reimbursement agreement (**RA**)
3. A benefit is provided to someone other than the beneficiary
4. Exclusions:
 - Agreement excludes one that was **not** entered into for a purpose of reducing (or deferring) a person's income tax
 - Agreement was not entered into in the course of **ordinary family or commercial dealing** (**OFCD**)



Section 100A | Flow chart

100A(1) and (2)

Is there a s 97 beneficiary (not under a legal disability)
who is PE to a share of trust income?

100A(7)

Is the PE connected with a RA?

- RA requires an ‘agreement’ (can be informal)
- RA = payment of money or transfer of property to, or the provision of services or other benefits for, someone other than the beneficiary

100A(8)

Was the agreement one that was **NOT** entered into
for a purpose of reducing a person’s income tax?

100A(13)

Was the agreement entered into in the course of
‘ordinary family or commercial dealing’?

Yes ↓

Yes ↓

No ↓

No

No

Yes

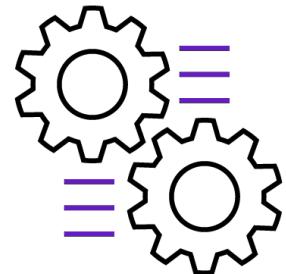
Yes

No

**Section 100A
does not apply**

Section 100A applies

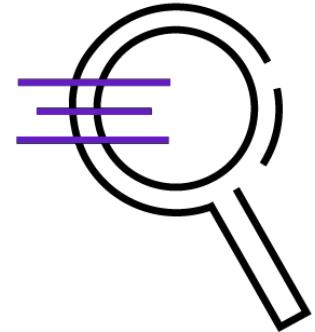
Consequences of section 100A applying



- Beneficiary is **treated as if they are not PE** to that share of the trust income and were never PE to it
 - No one is PE to that share of the trust income for tax law purposes
 - This is the case even if there is a default beneficiary clause in the deed
 - Beneficiary remains PE to the trust income under trust law concepts
- **Trustee is assessed under section 99A**
- Franking credits still available to the trustee (but no refund of excess credits)
- Commissioner can amend an assessment at any time for the purpose of giving effect to 100A — **unlimited amendment period¹**

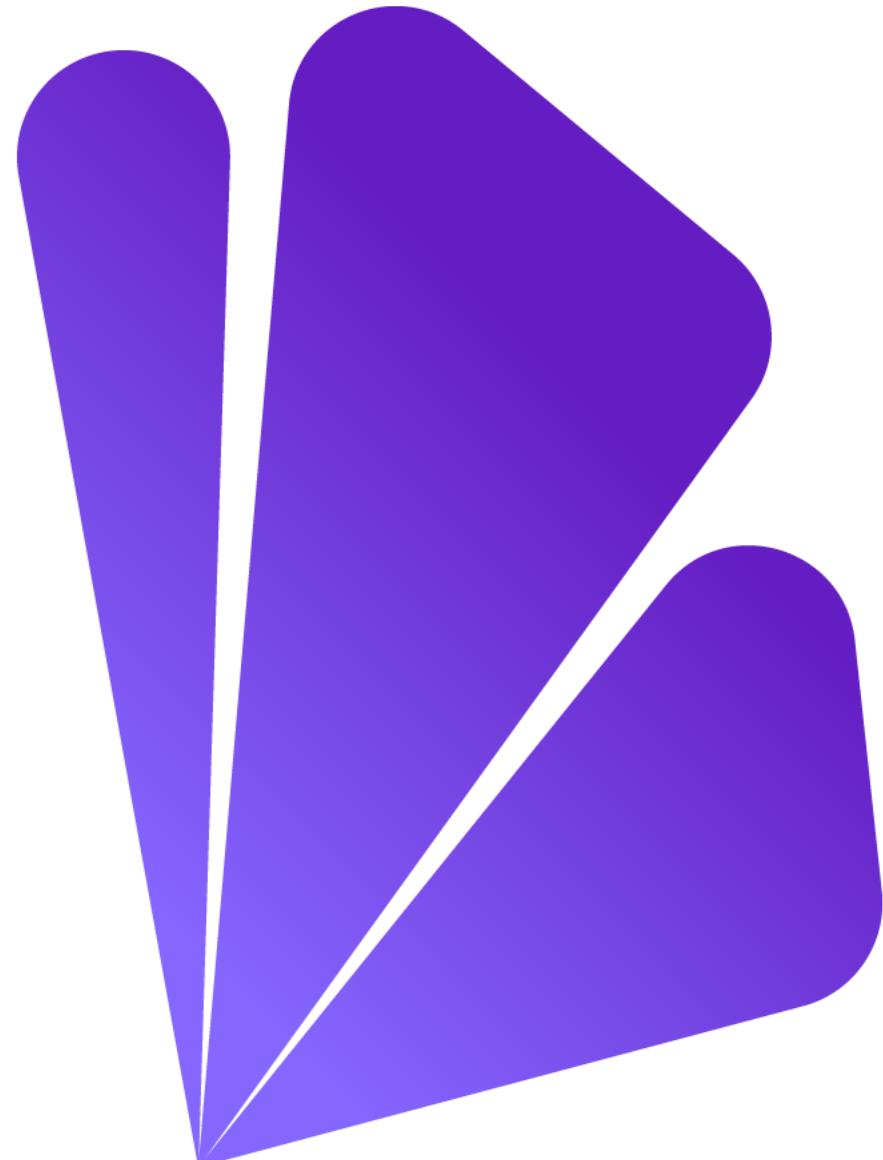
¹ Item 17 of the table in subsection 170(10) of the ITAA 1936
Includes assessments of beneficiaries

Section 100A | Historical case law



- *Re East Finchley Pty Limited v Commissioner of Taxation* [1989] FCA 481 (24 November 1989)
- *Prestige Motors Pty Ltd as trustee of Prestige Toyota Trust v Commissioner of Taxation* [1997] FCA 346 (13 May 1997)
- *Idlecroft Pty Ltd v Commissioner of Taxation* [2005] FCAFC 141 (5 August 2005)
- *Raftland Pty Ltd as trustee of the Raftland Trust v Commissioner of Taxation* [2008] HCA 21 (22 May 2008)

Recent developments



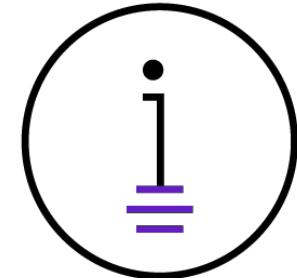
Section 100A | Recent case law

- **Guardian**

[Commissioner of Taxation v Guardian AIT Pty Ltd ATF Australian Investment Trust¹](#)

[2023] FCAFC 3, Perry, Derrington and Hespe JJ

- Hearing on 25 August 2022; judgment reserved until 24 January 2023
- Appeal from [Guardian AIT Pty Ltd ATF Australian Investment Trust v Commissioner of Taxation](#) [2021] FCA 1619 (21 December 2021), Logan J
- [Draft ATO Decision impact statement](#) — issued 24 April 2023



- **BBlood**

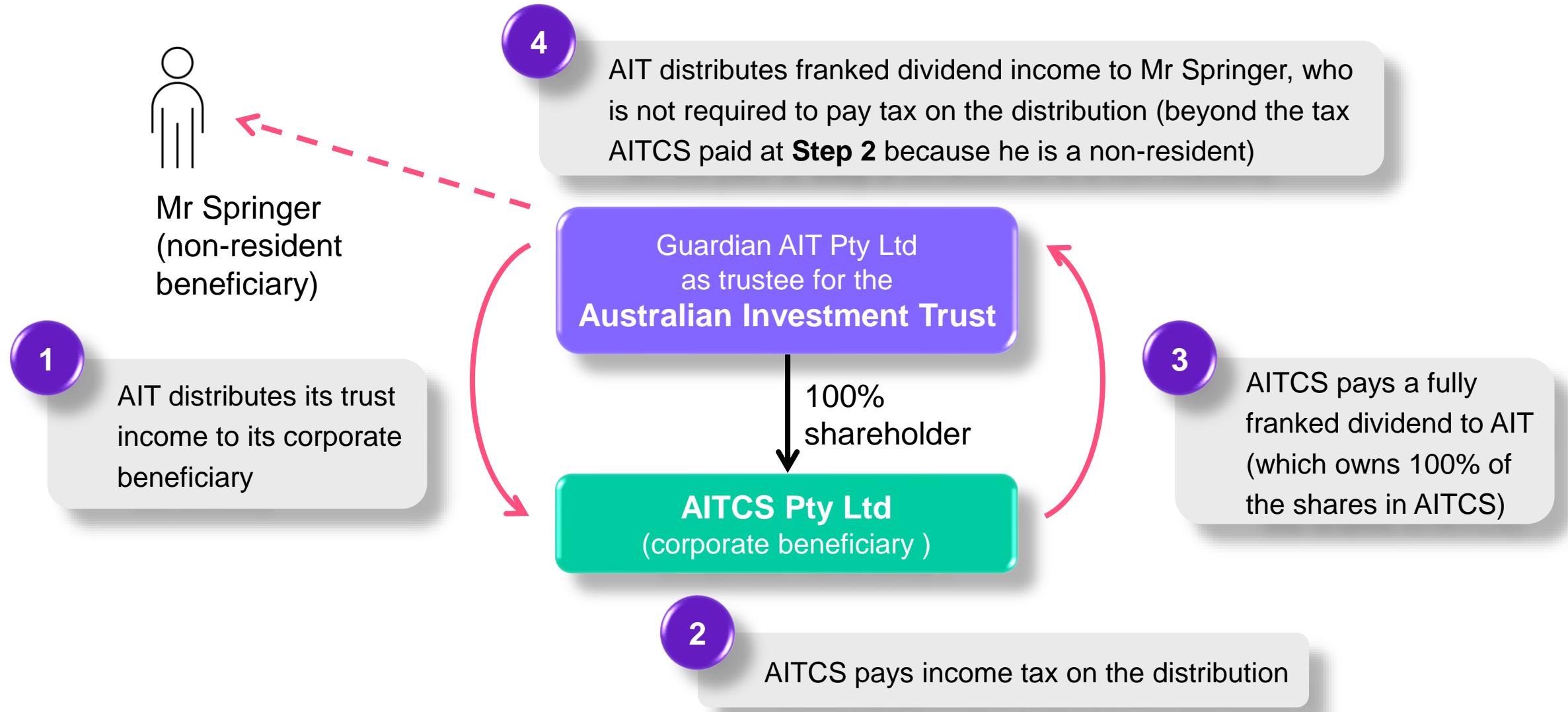
[B&F Investments Pty Ltd as trustee for the Illuka Park Trust v Commissioner of Taxation](#)

[2023] FCA 89 (9 June 2023), Moshinsky, Colvin and Hespe JJ

- Appeal from [BBlood Enterprises Pty Ltd v Commissioner of Taxation](#) [2022] FCA 1112 (19 September 2022), Thawley J
- Held share buy-back arrangement was subject to 100A

¹ See example 5 of the ATO's [2014 web guidance](#)

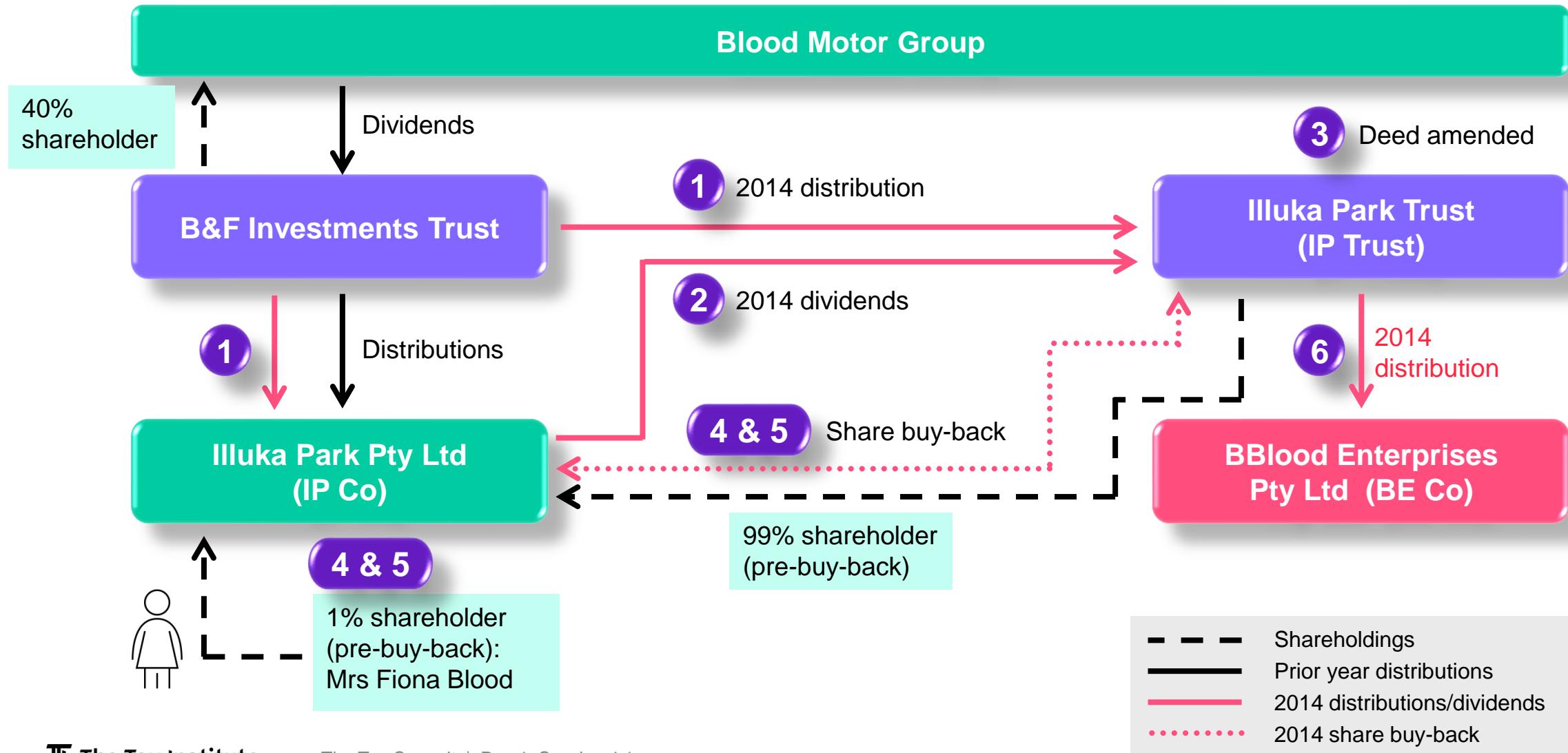
Section 100A | Guardian: structure



Section 100A | Guardian AIT decision

Income year	First instance (FCA)	On appeal (FCAFC)
	Section 100A	Part IVA
2012	<ul style="list-style-type: none"> No reimbursement agreement so 100A did not apply 	Commissioner did not appeal this decision
2013	<ul style="list-style-type: none"> In any case, was 'ordinary family or commercial dealing' 	Did not apply
2014		No reimbursement agreement so 100A did not apply
		Commissioner did not appeal the FCA's decision (UPE managed as Division 7A loan)

Section 100A | BBlood: structure

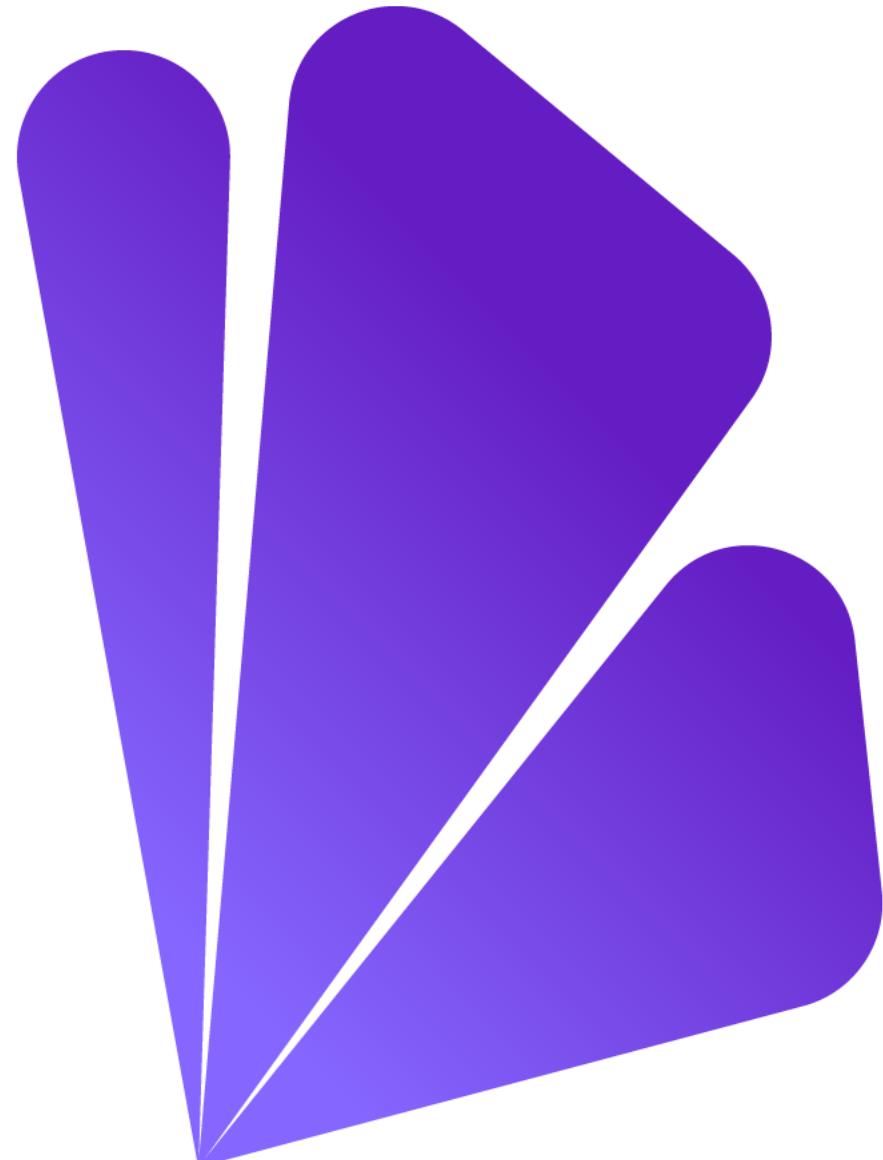


Section 100A | BBlood: Illuka Park steps

Share buy-back and related transactions

1. The trustee of the B&F Investments Trust resolved to distribute the trust income for the period ended 31 March 2014 to:
 - **IP Trust:** \$123,238
 - **IP Co:** remaining \$2,999,496 (UPE)
2. **March and April 2014** | IP Co paid franked dividends to the IP Trust in of \$181,139
3. **13 June 2014** | The IP Trust Deed was varied to amend definition of 'income' — consequence of amendment to the deed meant that the trust income for 2013–14 was **\$304,377**, comprising:
 - distribution made by the B&F Investments Trust on 31 March 2014 of \$123,238
 - dividends paid by IP Co of \$181,139
4. **25 June 2014** | Off-market share buy-back whereby IP Co bought back 99 shares held by the IP Trust for \$99 against share capital account and \$10,189,770 against retained earnings of IP Co. Section 159GZZP of the ITAA 1936 treated \$10m as dividend
5. Franking credits of \$4,367,002 allocated to dividend arising from the share buy-back — wholly sheltered the tax liability
6. **30 June 2014** | Trustee of IP Trust resolved to distribute all the trust income for 2013–14 (\$304,377) to BE Co

A conversation with the ATO



ATO public advice and guidance update

Taxation Ruling
TR 2022/4

 **Australian Government**
Australian Taxation Office **TR 2022/4**

Status: legally binding

Taxation Ruling
Income tax: section 100A reimbursement agreements

Relying on this Ruling
This publication (excluding appendices) is a public ruling for the purposes of the Taxation Administration Act 1953.
If this Ruling applies to you, and you correctly rely on it, we will apply the law to you in the way set out in the Ruling. That is, you will not have to pay any more tax or penalties or interest in respect of the matters covered by this Ruling.

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Taxation Ruling TR 2022/4
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Practical Compliance Guideline PCG 2022/2

 **Australian Government**
Australian Taxation Office **PCG 2022/2**

Practical Compliance Guideline
Section 100A reimbursement agreements – ATO compliance approach

Relying on this Guideline
This Practical Compliance Guideline sets out a practical administration approach to assist taxpayers in complying with relevant laws. Provided you follow the Guideline in good faith, the Commissioner will administer the law in accordance with this approach.

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Practical Compliance Guideline PCG 2022/2
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Taxpayer Alert
TA 2022/1

 **Australian Government**
Australian Taxation Office **TA 2022/1**

Taxpayer Alert
Parents benefitting from the trust entitlements of their children over 18 years of age

About Taxpayer Alerts
Alerts provide a summary of our concerns about new or emerging higher risk tax or superannuation arrangements or issues that we have under review/reassessment.

While Alerts do not have the force of law, they are designed to cover many potential variations of the arrangement. The absence of an Alert on an arrangement or a variation of an arrangement does not mean that we accept or endorse the arrangement or variation, or the underlying tax consequences.

Refer to [PS LA 2009/15](#) for more information about Alerts. See [Alerts issued to date](#).

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Overview

- We are currently reviewing trust arrangements where parents enjoy the economic benefit of trust income appointed to their children who are over 18 years of age (Children). The common feature of the arrangements is that trust income is appointed between members of the family but the substance is that the parents who exercise control over and manage the economic benefit of the trust.
- In some arrangements, there is an understanding that trust income appointed to the Children will be paid to their parents or otherwise dealt with at their parents' discretion. In others, the trust income appointed to the Children is recorded as applied (with or without their consent) and the parents then make the arrangements for the Children's benefit in respect of expenses that benefit the Children but are properly understood as parental expenses. Examples of these expenses are the costs of their upbringing as a minor or for the kind of ongoing financial support parents would ordinarily provide their children.
- The arrangements we are concerned about are those which are more properly explained by the tax outcomes obtained, including the accessing of tax-free thresholds and

Taxpayer Alert TA 2022/1
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Draft [Decision impact statement](#) — following [Guardian](#) and [BBlood](#) decisions

Decision impact statement

Commissioner of Taxation v Guardian AIT Pty Ltd ATF Australian Investment Trust

Court citation/s:	[2023] FCAFC 3
Venue:	Federal Court of Australia
Venue reference no:	QUD 36 of 2022; QUD 37 of 2022
Judge name/s:	Perry, Derrington, Hispe JJ
Judgment date:	24 January 2023
Appeals on foot:	No
Decision outcome:	Partly favourable to the Commissioner

Impacted advice

Impact
The ATO is reviewing the impact of this decision on related advice and guidance products.

- TR 2022/4
- PS LA 2009/15

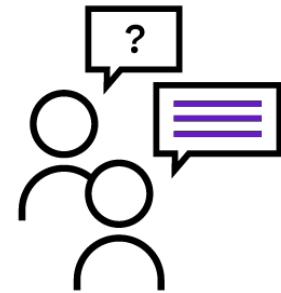
Summary
This Decision Impact statement outlines the ATO's response to this case, which concerns the application of the anti-avoidance provisions in section 100A and Part IV A of the Income Tax Assessment Act 1936 (ITAA 1936). All legislative references in this Decision Impact statement are to the ITAA 1936.

Brief outline of facts
Mr Springer had conducted several business ventures in Australia through various Australian Investment Trusts (AIT), the trustee of which in relevant years was Guardian AIT Pty Ltd (Guardian).
Mr Springer was a member of the eligible class of beneficiaries of the AIT and a non-resident for tax purposes during the 2012, 2013 and 2014 income years. In June 2012, Corporate Services Pty Ltd (ATCO) was incorporated (with Guardian holding 100% of the issued shares) and became a member of the eligible class of beneficiaries of the AIT. During the relevant income years, Mr Springer exercised

¹ In the Decision Impact statement, all references to Guardian will be in its capacity as trustee for the AIT.

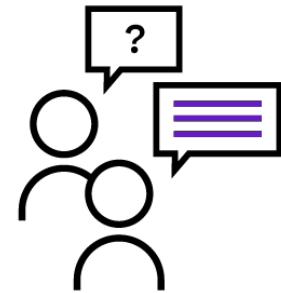
A conversation with the ATO

- Tax return usually doesn't provide the visibility of a '100A risk'
 - further enquiries are needed to understand the risk level
- Can a risk review of a group lead to an enquiry regarding 100A ?
- How does it get on the radar?
- What raises a red flag before the ATO even commences a review?
- Understanding and agreeing on the facts pre-dispute is paramount
- Compliance cases tending to be readily sorted into 3 categories:
 - Ascertained and agreed that 100A does not apply to the arrangement
 - Taxpayer concedes that 100A does apply
 - Those that challenge the finding

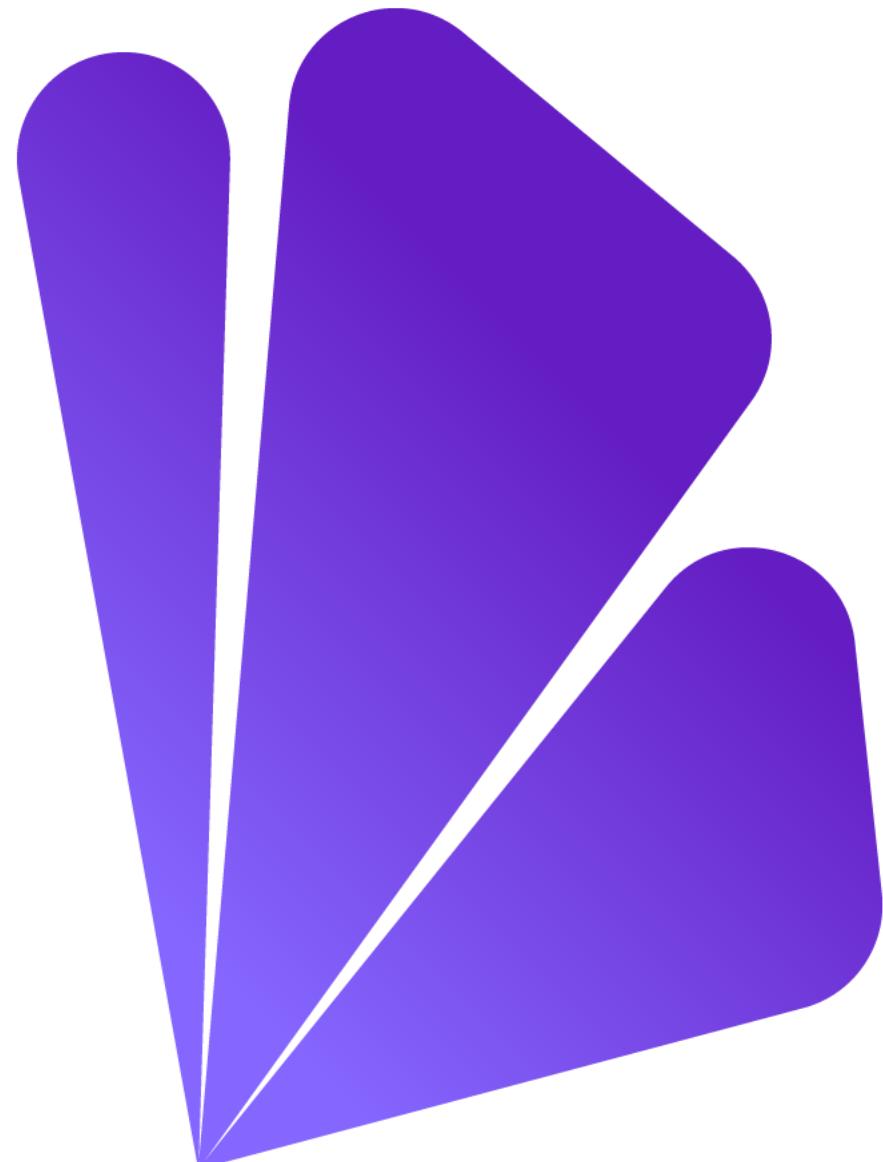


A conversation with the ATO

- Permanent disconnect between profit and cash versus temporary use of the funds
- What is the role of 100A if the beneficiary doesn't receive the benefit within a perceived time? If beyond 2 years, can the OFCD exception explain the behaviour?
- What factors indicate a low risk of ATO compliance resources being allocated?
 - Beneficiary ultimately receives the benefit
 - Company's PE remains unpaid but the UPE is managed as a complying loan under Div 7A
- Paying a UPE:
 - Within 2 years doesn't mean 100A cannot apply to the arrangement
 - More than 2 years later doesn't mean 100A will apply



Case studies



1 | UPE paid within 2 years



Facts

- Discretionary trust distributes income to adult beneficiary
- UPE paid to beneficiary in cash within 2 years
- Beneficiary retains the benefit of the distribution

Is there a 100A issue with this arrangement?

- Has a benefit been provided to someone other than the beneficiary under an RA? ✓
- Is there a tax purpose? ✓
- Can the arrangement be excluded as an OFCD? Potentially

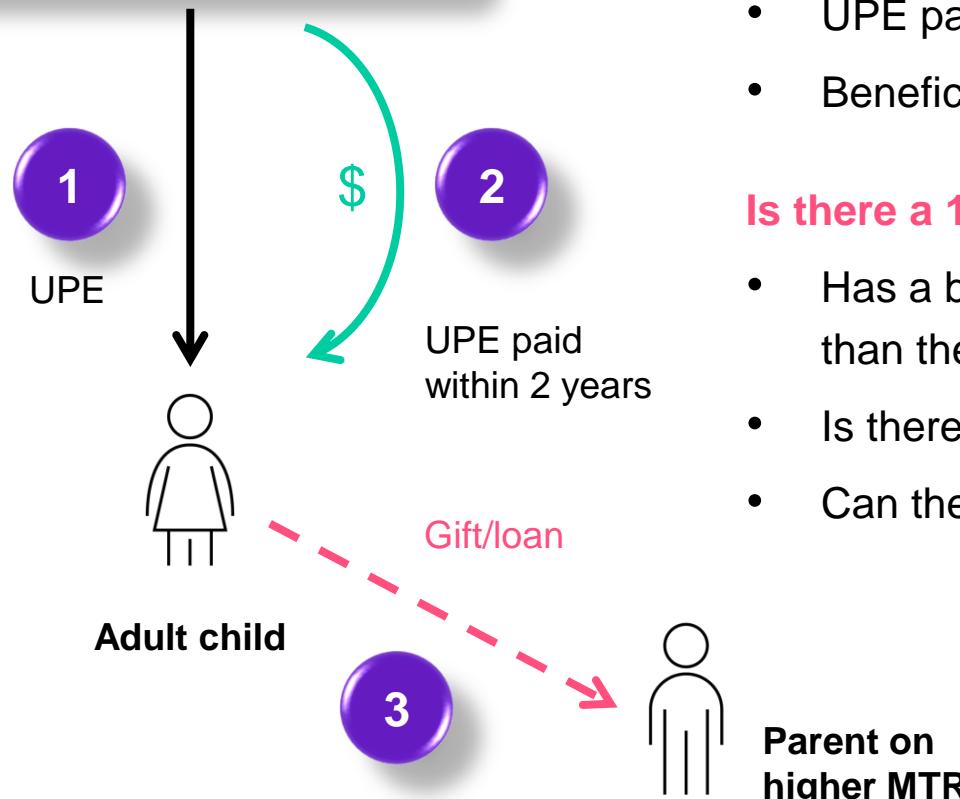
Adult child



- Within green zone
- Low risk of 100A applying

2 | UPE paid within 2 years, with gift/loan

Discretionary Trust



Facts

- Discretionary trust distributes income to adult beneficiary
- UPE paid to beneficiary in cash within 2 years
- Beneficiary gifts/loans the amount to parent on higher MTR

Is there a 100A issue with this arrangement?

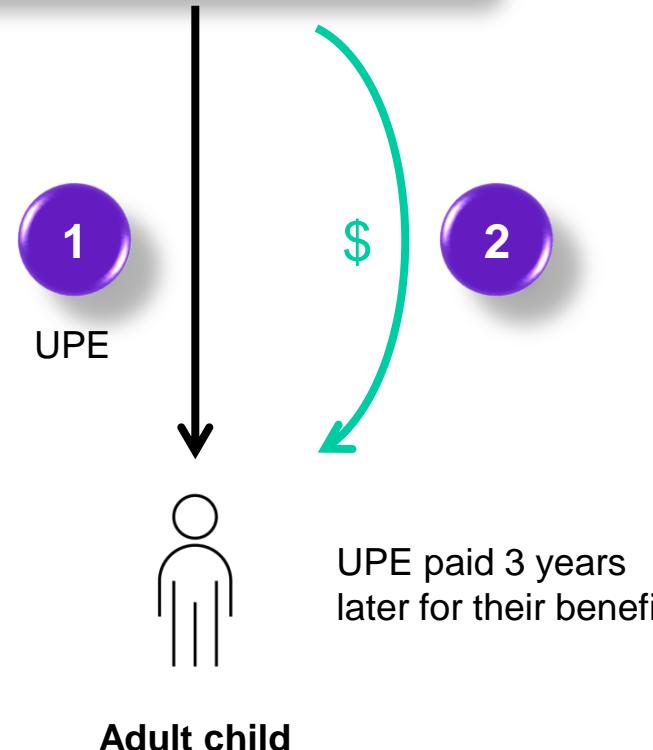
- Has a benefit been provided to someone other than the beneficiary under an RA? ✓
- Is there a tax purpose? ✓
- Can the arrangement be excluded as an OFCD? Unlikely



- Within red zone
- High risk of 100A applying

3 | UPE paid outside 2 years

Discretionary Trust



Facts

- Discretionary trust distributes income to adult beneficiary
- UPE paid to beneficiary 3 years later in cash
- Trustee has use of funds until UPE paid to beneficiary who retains the benefit of the distribution

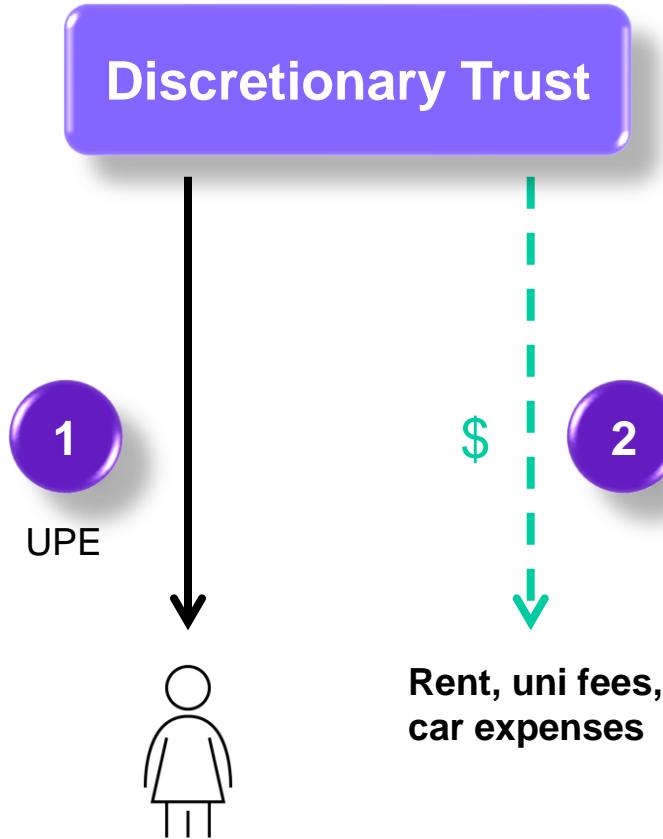
Is there a 100A issue with this arrangement?

- Has a benefit been provided to someone other than the beneficiary under an RA? 
- Is there a tax purpose? 
- Can the arrangement be excluded as an OFCD? Potentially



- Outside green zone
- But low risk of 100A applying

4 | UPE applied to beneficiary's expenses



Facts

- Discretionary trust distributes income to adult beneficiary
- Beneficiary directs UPE be applied against their expenses
- Trustee promptly pays expenses on behalf of beneficiary

Is there a 100A issue with this arrangement?

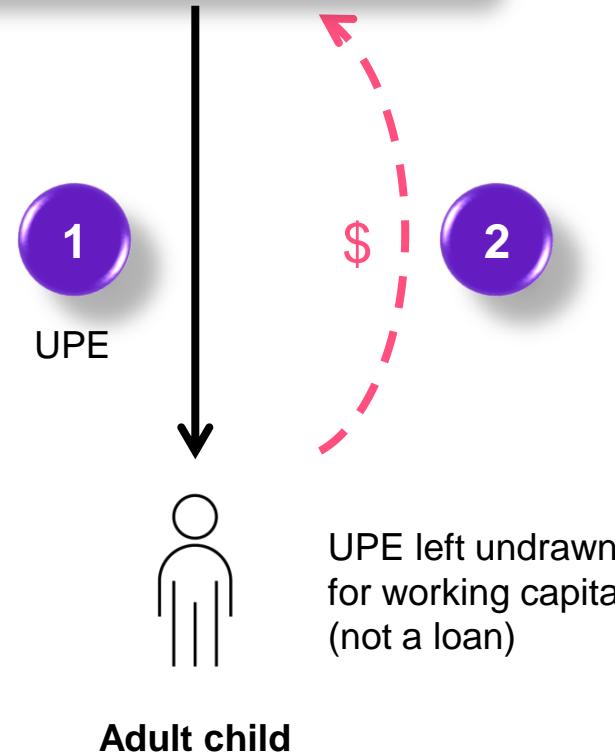
- Has a benefit been provided to someone other than the beneficiary under an RA? ✗
- Is there a tax purpose? ✓
- Can the arrangement be excluded as an OFCD? Not necessary



- Within green zone
- Low risk of 100A applying

5 | UPE left undrawn for working capital

Discretionary Trust



Facts

- Discretionary trust distributes income to adult beneficiary
- UPE left undrawn, beneficiary does not call for payment
- Trustee retains the use of funds for **working capital or investment** until beneficiary calls for payment of the UPE

Is there a 100A issue with this arrangement?

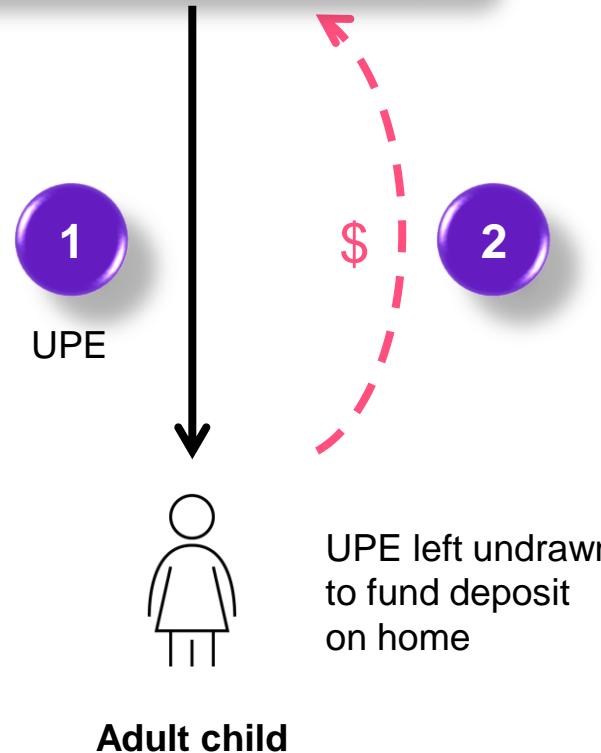
- Has a benefit been provided to someone other than the beneficiary under an RA? 
- Is there a tax purpose? 
- Can the arrangement be excluded as an OFCD? 
- Does it make a difference whether they are involved in the business? 



- Outside green zone
- But low risk of 100A applying

6 | UPE left undrawn for home deposit

Discretionary Trust



Facts

- Discretionary trust distributes income to adult beneficiary
- UPE left undrawn, beneficiary does not call for payment
- Trustee retains the use of funds until beneficiary calls for payment of UPE to apply to deposit on first home

Is there a 100A issue with this arrangement?

- Has a benefit been provided to someone other than the beneficiary under an RA? ✓
- Is there a tax purpose? ✓
- Can the arrangement be excluded as an OFCD? Potentially



- Outside green zone
- But low risk of 100A applying

7 | UPE to loss trust in same ‘family group’

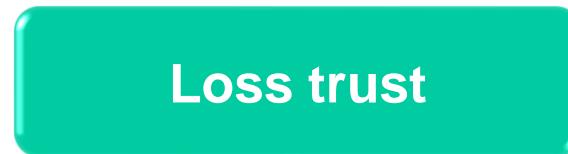


1

UPE

2

UPE left undrawn,
funds retained by
the trustee for
working capital



Facts

- Discretionary trust distributes income to loss trust (same ‘family group’ within the meaning of Sch 2F to the ITAA 1936)
- Trustee retains the use of funds for working capital until beneficiary calls for payment of UPE

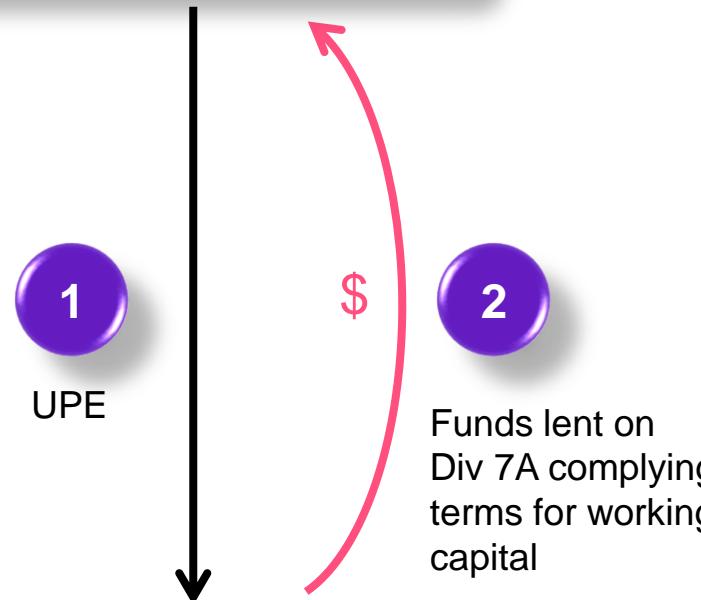
Is there a 100A issue with this arrangement?

- Has a benefit been provided to someone other than the beneficiary under an RA? 
- Is there a tax purpose? 
- Can the arrangement be excluded as an OFCD?

Potentially (paid < 2 yrs)
Unlikely where > 2 yrs or
not paid

- Within green zone (if paid < 2 years)
- Low risk of 100A applying

8 | UPE loaned by corporate beneficiary



Facts

- Discretionary trust distributes income to corporate beneficiary
- UPE left undrawn, beneficiary does not call for payment
- Trustee retains the use of funds for working capital (lent on Div 7A complying terms) until beneficiary calls for payment of UPE

Is there a 100A issue with this arrangement?

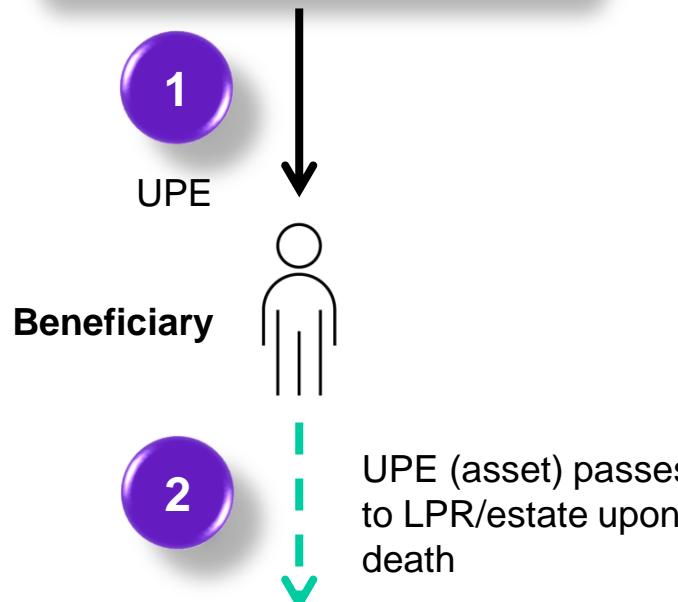
- Has a benefit been provided to someone other than the beneficiary under an RA? ✓
- Is there a tax purpose? ✓
- Can the arrangement be excluded as an OFCD? Potentially
- Does it matter what the trustee does with the funds? Potentially



- Outside green zone
- But low risk of 100A applying

9 | UPE of deceased beneficiary

Discretionary Trust



Facts

- Beneficiary has a UPE, then passes away
- Beneficiary's UPE is an asset that passes to their LPR/deceased estate

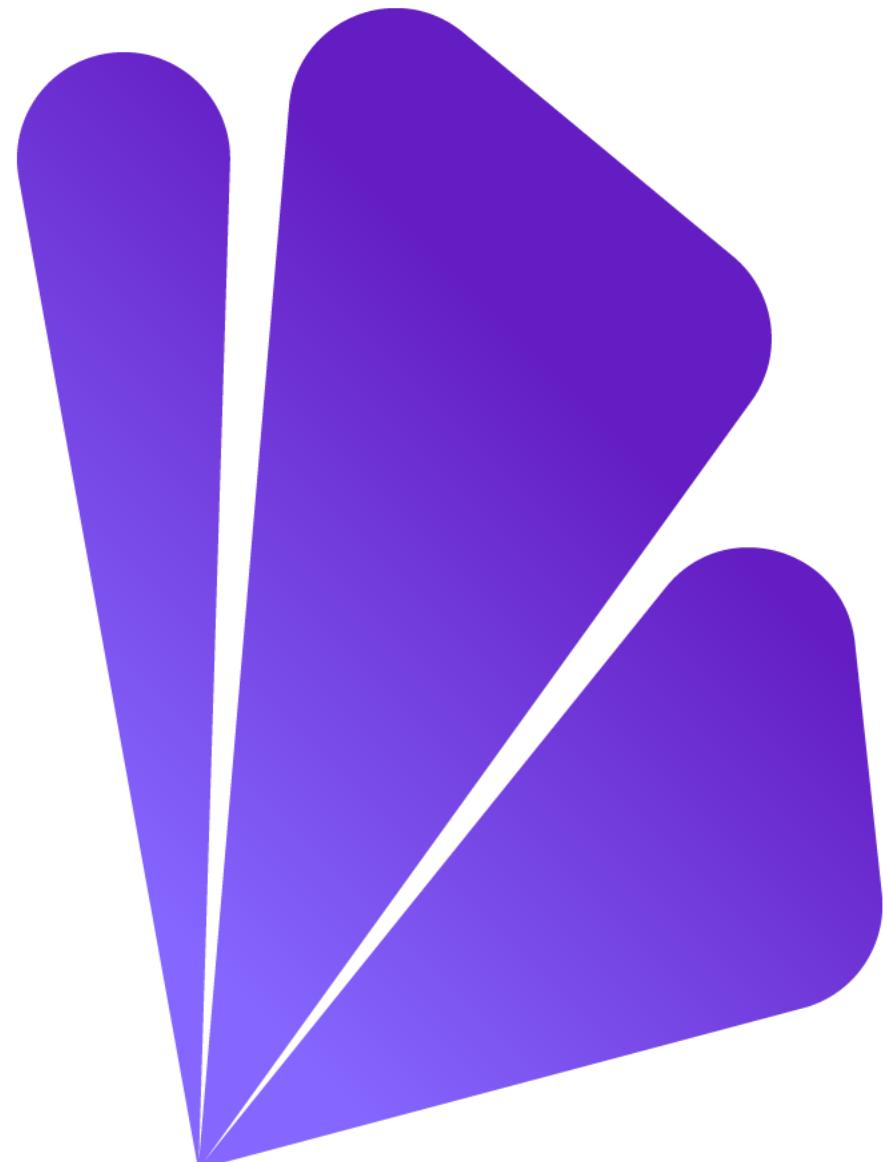
Is there a 100A issue with this arrangement?

- Has a benefit been provided to someone other than the beneficiary under an RA? Unlikely
- Is there a tax purpose? Unlikely
- Can the arrangement be excluded as an OFCD? Likely



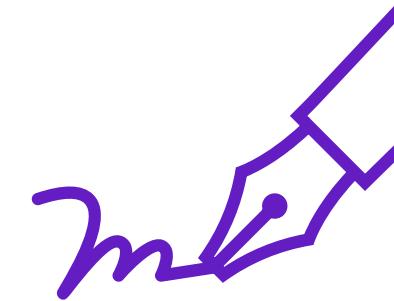
- Low risk of 100A applying

Practical takeaways



What records should you keep?

- Trust deed (including amendments), trustee resolutions, trustee's contact details and details of former trustee(s)
- Notes, records of discussions or meetings explaining the transactions that have happened or calculations made
- Details of how:
 - the beneficiary was notified of their PE to trust income
 - the trust income was received or used by the beneficiary
 - the trustee utilised the beneficiary's PE if they were not paid
- Loan agreements and records showing how loan repayments were satisfied
- File notes of a meeting between trustee and their registered tax agent
- No requirement to document the reasons for the manner of the distribution — risk of the trustee/adviser preparing too much documentation ([Owies v JJE Nominees Pty Ltd¹](#))



¹ [2022] VSCA 142

Practical takeaways

- Trusts 101 — need to understand trust law and fiduciary obligation of trustees
- Be prepared to explain your position
- Evidentiary requirements to support the trustee's position — how is the benefit extinguished or satisfied? Does this change over time? ... the longer the time that passes from the creation of the PE and the satisfaction of that PE, the greater the likelihood of concerns arising
- Understand the ATO's compliance approach in the PCG and review process — having contemporaneous set-off documentation is much better than preparing retrospective documentation once an ATO review has commenced
- Trustees generally know whether they intend to pay the benefit (e.g. to adult beneficiaries on lower MTRs and elderly parents)
 - As a **trustee** — wouldn't you normally just give someone the cash if you want to support them?
 - As a **beneficiary** — if you have a PE, wouldn't you want the cash?
- As a **practitioner** — seek advice/assistance where you feel out of your depth



Checklist

Issue	Consideration
PE under an RA	<ul style="list-style-type: none">• Is the beneficiary PE to a share of income of the trust?• Is the beneficiary under a legal disability?• Did the PE arise in connection with an RA?• Is a benefit received by someone other than the beneficiary under the RA? 

Checklist

Issue	Consideration
PE under an RA	<ul style="list-style-type: none"> • Is the beneficiary PE to a share of income of the trust? • Is the beneficiary under a legal disability? • Did the PE arise in connection with an RA? • Is a benefit received by someone other than the beneficiary under the RA?
Exceptions	<ul style="list-style-type: none"> • Was the agreement one that was NOT entered into for a purpose of reducing (or deferring) a person's income tax liability? • Was the agreement entered into in the course of OFCD?

Checklist

Issue	Consideration
PE under an RA	<ul style="list-style-type: none"> • Is the beneficiary PE to a share of income of the trust? • Is the beneficiary under a legal disability? • Did the PE arise in connection with an RA? • Is a benefit received by someone other than the beneficiary under the RA?
Exceptions	<ul style="list-style-type: none"> • Was the agreement one that was NOT entered into for a purpose of reducing (or deferring) a person's income tax liability? • Was the agreement entered into in the course of OFCD?
Managing the issue	<ul style="list-style-type: none"> • Can the transactions be explained on the basis of familial or commercial dealing? • Does the trustee have notes or records of discussions or meetings that explain the transactions that have happened or calculations made? • Is the behaviour of the parties consistent with the stated objectives?

Abbreviations

Abbreviation	Description
ATO	Australian Taxation Office
Div 7A	Division 7A of Part III of the <i>Income Tax Assessment Act 1936</i>
FCA FCAFC	Federal Court of Australia Full Court of the Federal Court of Australia
HCA	High Court of Australia
ITAA 1936	<i>Income Tax Assessment Act 1936</i>
LPR	Legal personal representative
MTR	Marginal tax rate

Abbreviations

Abbreviation	Description
OFCD	Ordinary family or commercial dealing
PCG	Practical Compliance Guideline
PE	Present entitlement
RA	Reimbursement agreement
TR	Taxation Ruling
TTI	The Tax Institute
UPE	Unpaid present entitlement



Thank you

Please complete your evaluation form



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A large, central purple circle contains the text 'Spark change' in white. Behind it are two smaller, semi-transparent purple circles. From the bottom center, several thin, light-purple lines radiate outwards, some ending in small starburst shapes.

Spark change

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