E: advice@barrettwalker.com.au
www.barrettwalker.com.au

A: Suite 8, 150 Chestnut Street, Cremorne
P: (03) 9428 1033

Are those investment returns on **revenue** or **capital** account?

Investment returns can be on revenue or capital account. Similarly, investment expenditure could also be on revenue or capital account. The distinction between revenue and capital is not always clear and the characterization of a receipt will ultimately depend on the circumstances that apply to the taxpayer.

The distinction between an income and capital receipt has been likened to the fruit and the tree, where the capital amount is the tree and the fruit being the return of income from the capital. Generally, an income receipt is regarded as an amount that is regular, recurrent or periodic and income tax applies to a net amount of income. A good example is dividend returns from a shareholding.

However, it is not always clear whether an amount should be treated as income or capital. What may appear to be a capital gain for example may in fact be classified more correctly as income where the taxpayer had entered into a profit-making venture. The intention of the taxpayer when the asset is acquired (or any subsequent change of intention) and the length of the ownership period may be relevant in determining whether a gain is on revenue or capital account. Note also where the amount is a capital return, the investor may have access to the CGT discount provisions which provides a better tax result than would be the case where it is fully taxed as assessable income.

Similarly, the treatment of an outgoing is important to determine whether an immediate deduction is allowable or whether the outgoing forms part of the cost base of a CGT asset.

Matters to be considered when deciding whether an outgoing is revenue or capital in nature include:

- the character of the advantage sought by the outgoing
- the advantage sought by the taxpayer, and
- how the advantage comes about (for example, recurrent payments).

Generally, those holding investment products fall into two categories – traders and longer-term investors.

Traders on revenue account

Generally, where the holder of an investment product carries on activities for the purpose of earning income from buying and selling investments, that holder will be in the business of trading. Generally, a trader:

- holds investment products as trading stock
- includes gross receipts from the sale of investment products as income
- recognises expenses incurred in relation to trading activities as allowable deductions, and
- includes in assessable income investment returns such as interest, dividends and distributions.

Note that where the holder of an investment product enters into an isolated transaction with a profit-making intention, they will not be in the business of trading. However, any net profit from the transaction will be assessable on revenue account.

Investors on capital account

Where investments are held with the intention of earning regular income from those investments, the investor may be seen as generally not carrying on a business. This type of investor generally:

- does not include gross receipts from the sale of investments as income. Any net gain is assessable under the capital gains tax provisions
- cannot include capital losses from the sale of investments against income from any other sources except current or future capital gains (in other words, quarantining these losses)
- cannot include expenses incurred in relation to buying and selling investments as a deduction when incurred. These are taken into account in determining the amount of any capital gain or loss instead, and
- includes investment returns such as interest, dividends and distributions in assessable income.