



# 1991 INCOME TAX RETURNS

## Money Subscribed to Licensed Management and Investment Companies

A deduction may be allowable for share capital subscribed, before 1 July 1991, to a Management and Investment Company (MIC). The MIC must have been granted a licence under the Management and Investment Companies Act 1983 before 1 July 1991. The deduction is allowable in respect of application and allotment moneys and calls, and any amounts paid as premiums on shares. To qualify, the taxpayer must pay these amounts directly to the MIC and be either an initial subscriber for shares in the MIC or have acquired the shares as a result of the death of an initial subscriber. Generally, the deduction is allowable in the income year in which the capital subscriptions are paid.

In order to retain the full benefit of the deduction, a subscriber is required to retain ownership of the shares for a period of 4 years. This 4 year retention period commences:

- in the case of partly paid-up shares - on the last day subscriptions were paid on the shares;
- in the case of fully paid-up shares - on the day the shares became fully paid-up. However, if shares were fully paid-up at the time the licence was granted, the 4 year retention period commences on the day the licence was granted.

If the shares are disposed of during the 4 year retention period, any deduction otherwise allowable will be adjusted as follows:

- if the disposal occurs in the first 2 years, the deduction will be totally withdrawn;
- if the disposal occurs in the third year, 50 per cent of the deduction will be withdrawn;
- if the disposal occurs in the fourth year, 25 per cent of the deduction will be withdrawn.

Shares in a licensed MIC will be treated as having been disposed of if any of the following events occur:

- the shares are sold or otherwise disposed of;
- the licence of the MIC is revoked or is not renewed by the MIC Licensing Board;
- the shares are redeemed by the MIC;
- the shares are cancelled or wholly paid-off by the MIC as part of a capital reduction;
- the shares are forfeited for non-payment of a call;
- the shares are partly paid-off by reason of a reduction in the share capital of the MIC. In this case as many shares as reflects the reduction in paid-up value would be taken to have been disposed of.

### DEDUCTION SAFEGUARDS

Safeguarding provisions in the law prevent taxpayers who hold an indirect interest in MIC shares from entering

into arrangements to avoid the need to hold their MIC shares for 4 years to retain the full benefit of the deductions. This indirect interest may be through ownership of shares in another company or through a partnership or trust interest.

In the case of an indirect interest in a private company, the provisions enable the Commissioner to treat the company as having disposed of such number of shares in an MIC as, in his opinion, is commensurate to the shareholding disposed of by the shareholder who has indirectly benefited from deductions allowed to the company. Similar rules apply if an interest in a partnership or trust, entitled to a deduction for capital subscribed to an MIC, is disposed of.

### INFORMATION TO BE SHOWN IN RETURNS

**The amount of deduction claimed for moneys paid to a licensed MIC should be shown at the 'Other deductions' item of returns for partnerships and trusts. For individuals, the amount of the claim should be shown in Form I at Question 26, 'Management and investment company subscriptions'. For companies, the amount of the claim should be shown at label R in the Expenses group on the company return form. The claim should be clearly identified in partnership and trust returns as a 'Licensed management and investment company incentive' deduction.**

### INFORMATION TO BE KEPT BY SHAREHOLDERS

A copy of the certificate evidencing subscriptions should be kept by the shareholder for future reference. If the certificate evidencing subscriptions is not available, other documentary evidence must be kept which shows:

- the name of the licensed management and investment company;
- the number of shares subscribed for during the year;
- the par value of the shares and the amount of any share premiums;
- where the shares have already been allotted - the registered numbers of the shares;
- the amount and date of each payment made during the year of income for application and allotment moneys, calls and share premiums.

### SHARES PREVIOUSLY HELD BY ANOTHER SHAREHOLDER

If the shares in respect of which a deduction is claimed were previously held by another shareholder, the name of the former shareholder and the manner in which ownership of the shares was transferred should be kept by the investor.