Glossary

1936 Act	*Income Tax Assessment Act 1936.*
1997 Act	*Income Tax Assessment Act 1997.*
A New Tax System	*Tax Reform: not a new tax, a new tax system. The Howard Government's Plan for a New Tax System*, August 1998, AGPS.
A Strong Foundation	A discussion paper released by the Review of Business Taxation, November 1998, AGPS.
AASB	Australian Accounting Standards Board. The body with legal responsibility for promulgating accounting standards.
accelerated depreciation (deduction)	Where the tax deduction allowed for the decline in value of an asset is brought forward relative to the expected decline in the value of the asset.
accruals taxation	The spreading of gains and losses for tax purposes over the period to which they relate.
active business exemption	An exemption from the **FIF measures** that is available for interests in company **FIFs** engaged in a wide range of activities.
active income test	An exemption from the **CFC measures** that is available for **CFCs** that satisfy an active income test.
ADF	Approved Deposit Fund. A fund for the deposit and investment of **eligible termination payments**. Amounts must be withdrawn when an investor reaches age 65.
adverse selection	The situation where a taxpayer undertakes a transaction to produce a particular tax result which is advantageous to the taxpayer but adverse for Government tax revenue.
An International Perspective	An information paper commissioned by the Review of Business Taxation, December 1998, AGPS.
anti-tax-deferral rules	Anti-tax-deferral rules seek to claw back tax deferral benefits by taxing residents on their share of certain profits accumulated by a foreign company or foreign trust that would be taxable if the entity were a resident of Australia. The rules comprise the **CFC, FIF and transferor trust measures** (including related measures in the general trust provisions).
associates	A tax term with differing technical meanings, but generally signifying a relationship (whether of blood, business or shareholding) between taxpayers.
ATO	Australian Taxation Office.

balancing adjustment	A comparison of the disposal proceeds for a depreciable asset with its **tax written down value**, with the difference being either assessable or deductible. In the context of the disposal or maturity of a financial asset or liability, balancing adjustment refers to the change in value of an asset or liability to be included in assessable income, or allowed as a tax deduction, which has not previously been brought to account for tax purposes.
balancing adjustment rollover relief	Allows **balancing adjustments** to be deferred for transfers of depreciable assets between certain related parties.
balancing charge	An assessable **balancing adjustment**.
balancing charge offset	Allows a taxpayer to defer **balancing charges** in respect of plant by setting them against the deductible value of other plant items.
bank bill swap rate (BBSW)	A bank bill reference rate used in settlement terms such as the Australian Bankers' Association Terms and Conditions.
bifurcation	Splitting an asset or liability into its separate components. In relation to a hybrid instrument, this entails splitting the instrument into its debt and equity components.
blackhole expenditure	Business expenditure which currently does not qualify for deduction over an appropriate period of time.
broadbanding	The grouping of a range of depreciation rates into a single rate, usually equal to the highest rate in the range.
capital gain	Increased value of an asset over its purchase price. Gains arising under the **CGT** rules can be offset by both realised income and **capital losses**.
capital gains tax averaging	**Capital gains** assessable under the CGT regime may be 'averaged' to reduce the impact of taxpayers moving into a higher marginal tax rate as a result of the receipt of gains.
capital losses	Reduced value of assets relative to their purchase prices. Capital losses arising under the **CGT** rules can be offset against **capital gains** realised in the same or subsequent years. This is referred to as **loss quarantining**.
CFC	Controlled Foreign Company. Broadly, a CFC is a foreign company controlled by five or fewer Australian residents.
CFC measures	The Controlled Foreign Company measures apply where Australians 'control' a foreign company. In particular, amounts from investments and arrangements that are likely to be significantly influenced by taxation considerations may be assessed to Australian residents at the time they are earned by a CFC, rather than if and when the amounts are remitted to Australia.

CFC-type rules	Rules adopted by other countries that are similar to the **CFC measures**.
CGT	Capital gains tax.
CIV	**Collective investment vehicle**.
claw-back	Process of subsequently reducing the amount of a deduction or concession previously granted to the taxpayer. **Balancing charges** are an example of claw-back.
close out	The liquidation of a position or the fulfilment of an obligation by taking an equal and opposite position.
closely held entity	Could be defined as entities where 20 or fewer individuals hold, directly or indirectly, 75 per cent or more of the interest in the profits or **contributed capital** of the entity. For the purposes of applying the **anti-tax-deferral rules** in an international context, a trust is treated as closely held if five or fewer Australian beneficiaries have a 50 per cent or greater interest in the income or property of a foreign trust.
closing balance	The value of a financial asset or liability at the end of a period. See also **opening balance**.
collective investment vehicles (CIVs)	**Widely held entities** that distribute all income annually (for example, cash management trusts). See also **flow-through taxation**.
company	A body corporate or any other unincorporated association or body of persons, other than a partnership.
comparable tax country	A country whose tax rates and laws are broadly similar to Australia's. Australian companies can generally claim an exemption for non-portfolio dividends and branch profits derived from activities that are taxed without concession in these countries.
compliance costs	Generally, costs of complying with the tax laws.
complying superannuation fund	A superannuation fund that qualifies for a concessional tax rate — 15 per cent — because it complies with prudential and other specified requirements.
conduit entities	Entities consistently distributing to their owners all (or nearly all) income earned.
conduit income	The income arising from a **conduit investment**.
conduit investment	Where foreign source income flows through an Australian resident entity to non-resident investors.
consolidation (of entities)	The taxation of wholly owned entities as a single taxpayer. Transactions between members of a 'consolidated group' are ignored for income tax purposes.

continuity of ownership test	Where the same persons owned shares that carry more than 50 per cent of all voting, dividend and capital rights in the company, in both the loss year (the year the loss is incurred) and the claim year (the year the loss is being written off against income or gains). In the case of trusts, the test is whether the same persons held more than 50 per cent of the rights in the income and capital of the trust from the loss year to the claim year.
contracting out	See **outsourcing**.
contributed capital	Cash and other assets provided to an entity by its members in exchange for an ownership interest in the entity. In some circumstances, other amounts may be taken to be contributed capital (for example, as part of transitional arrangements for existing trusts entering the new entity tax system).
controlling interest	This term has various definitions in income tax law, but in *A Platform for Consultation*, has a general meaning of an interest in an entity that exerts control rather than one based on a specific percentage ownership.
convertible note	A note that gives its owner the right to exchange it for other securities at some future date or under certain conditions.
converting preference share	A preference share that compulsorily converts, at a specified date, into a number of ordinary shares of the issuer with values equalling or exceeding the preference share's issue price.
cost base	The cost base of an asset is its acquisition cost plus any other capital costs expended on the asset.
coupon	The right to interest payments attached to bonds.
coupon rate	The rate of interest that is payable on a bond, calculated by reference to its **face value**.
CSF	**Complying Superannuation Fund**.
DA	Deferred Annuity.
DCT	**Deferred Company Tax**.
debt forgiveness	Debt forgiveness occurs where a debt is released or waived for less than full value. Tax legislation dealing with aspects of the forgiveness of commercial debts was introduced in 1996.
debt/equity hybrids	A financial instrument which has the characteristics of both debt and equity, and which can also incorporate derivative characteristics.
deep discount security	A security that provides a return wholly or principally in price appreciation rather than through coupons (for example, a **zero coupon bond**).

defeasance (of a liability)	The actual or effective transfer or cancellation of a liability, usually for consideration.
deferral advantage	Refers to benefits to taxpayers from deferring the payment of tax, for example by not disposing of a **CGT** asset with an embedded gain. The deferral advantage comes from not having to pay tax as income accrues.
deferred company tax	See Chapter 15.
deferred interest security	A security under which the payment of interest is deferred for a substantial period.
derivatives	Financial instruments whose value is dependent on the value of, or changes in the value of, an underlying transaction, commodity or index. Examples include options, futures contracts, forward sale contracts and interest or currency swaps.
diminishing value method	The method of calculating depreciation deductions by applying a rate of write-off to the annual **tax written down value** of an asset.
discount	The difference between the issue or purchase price of a security and its **face value**.
discretionary trusts	A trust where the allocation of trust income and capital to beneficiaries is at the discretion of the trustee.
distribution (by an entity)	Broadly, a distribution occurs when value has been shifted from an entity to a member, and includes a payment (in cash or kind) upon winding up.
dividend withholding tax (DWT)	A tax levied on unfranked dividends paid to non-resident shareholders, usually at the rate of 15 per cent. Other countries also impose DWT on outgoing dividends.
Division 9C	'Assessable Income Diverted Under Certain Tax Avoidance Schemes', *Income Tax Assessment Act 1936*. Entities which would otherwise be **tax exempt** are specifically made liable to pay tax on income which is diverted to them as part of a tax avoidance agreement.
Division 16E	A Division of the 1936 Act which provides that returns on certain **deep discount and deferred interest securities** are assessable or deductible on an accruals basis (see Appendix A of Chapter 5).
double taxation	Where economic income is taxed more than once. This can occur inadvertently under Australian law or from a combination of Australian and foreign laws where the double taxation of taxable income is not corrected by relief available under the foreign tax credit system or under a **DTA**.

DTA	Double tax agreement. A treaty between two countries outlining each country's taxing rights over certain forms of income flowing between the two countries. Broadly such agreements are designed to prevent double taxation between the relevant countries and ensure that one of the countries has a taxing right over income.
economic depreciation	The actual deterioration in the value of an asset.
economic income	Net receipts plus changes in net asset values.
effective life depreciation	The rate of depreciation derived from the effective life of an asset.
eligible termination payment	A lump sum payment from a superannuation provider or an employer upon the cessation of a person's employment or attaining a specified age — usually age 65. Eligible termination payments are taxed at concessional rates.
embedded option	An implicit option embedded in another asset, for example, a share or a debt.
endowment policy	A life insurance policy under which a policyholder pays a fixed regular premium for the duration of the policy and receives a specified sum of risk insurance. An endowment policy is paid out on a selected maturity date or the earlier death of the insured.
endowment warrant	A long-dated equity call option over particular shares, which has a variable exercise price and date.
entity	Under general income tax law — *any* taxpayer including an individual, company, partnership or trust. For the purposes of *A New Tax System* and this paper, entity generally means business structures *other than* individuals or partnerships.
entity chain	Refers to a series of entities through which distributions of profits are made.
equity swap	A swap where one party receives payments based on the change in value of an equity (or equity index) and/or dividends, and may make payments based on an interest rate. The other party makes payments based on equity returns and may receive payments based on interest rates.
ETP	**Eligible Termination Payment**.
excess imputation credits	Tax credits passed from an entity to a member that the member can not use because of insufficient tax payable on other income.
exchange traded instrument	A financial instrument with standardised features that is traded on an established exchange.
exempt income	Income that is not subject to income tax. The expenses related to earning exempt income are not deductible.

exempts	See **tax exempts**.
externality	An externality refers to the benefits or costs of economic behaviour which are not captured in the pricing or costing decisions of the investor.
extinguishment gains	The gain of a borrower who, because of the extinguishment or forgiveness of a debt (see **debt forgiveness**), may retain some or all of the money originally advanced by the lender without the need to repay it.
face value	The stated value of an instrument (which may differ from its issue price or its market value).
fair value	The amount for which an asset or liability can be exchanged or settled between knowledgeable and willing parties acting at arm's length.
FBT	Fringe Benefits Tax. The tax payable by employers under the *Fringe Benefits Tax Assessment Act 1986* on certain fringe benefits paid in respect of employees and their associates.
FDA	Foreign dividend account. A mechanism by which certain **conduit income** can be passed on to foreign owners without bearing Australian tax.
FIA	Foreign income account. A similar intention to a **FDA**. See Chapter 31.
FIF	Foreign investment fund. A foreign company or foreign trust (other than a deceased estate).
FIF measures	The foreign investment fund measures operate to assess Australians on interests in amounts held offshore in a non-controlled foreign company or foreign trust.
finance lease	A lease where substantially all the risks and benefits of ownership are passed to the lessee. For example, a lease for the substantial estimated life of the leased asset. See also **operating lease**.
financial arrangement	A financial asset or liability.
Financial System Inquiry	The Inquiry into Australia's financial system established in June 1996 and chaired by Mr Stan Wallis, commonly called the 'Wallis Inquiry'. The final report of the Inquiry was presented in March 1997.
fixed entitlement	Where an entity member (or investor) has a vested and indefeasible interest in a share of the entity income or capital.
fixed leg	In relation to an **interest rate swap**, the fixed rate payments of the swap. See also **floating leg**.
fixed rate bond/debt	A bond or other debt instrument that carries a fixed interest rate.

fixed trust	A trust where the beneficiary's entitlements to income and capital are fixed, such as a unit trust.
FLIC	Film Licensed Investment Companies. Such companies are registered under the *Film Licensed Investment Company Act 1998*. Investors in these companies receive tax concessions.
floating leg	In relation to an **interest rate swap**, the floating rate payments of the swap. See also **fixed leg**.
floating rate debt	A debt instrument that carries a variable interest rate. See also **variable rate debt/instrument**.
flow-through taxation	Taxation of distributed income of **collective investment vehicles** in the hands of investors. Tax does not apply at the entity level, and income retains its character on distribution. Entity losses do not flow through to investors. **Tax-preferred income** may or may not be taxed on distribution.
foreign exchange gains and losses	Gains and losses arising from changes in foreign exchange rates.
forward (exchange) rate	A rate agreed now at which foreign currency is to be bought or sold at a future date.
forwards, forward contracts	A future commitment whose terms are established now.
fractional compounding	The compounding of returns for part of a period.
franking account	Account for recording franking credits (for example, arising from company tax paid) and franking debits (for example, arising from franked distributions). Used for determining the extent to which distributions may be franked (that is, credited with tax paid).
franking credit trading measures	Measures announced in the 1997-98 Budget to prevent streaming and trading in franking credits.
fringe benefit	A non-cash benefit of a private nature provided by an employer (or an employer's associate) to an employee (or associate of the employee) as a result of the employment relationship.
full franking	A system which requires all distributions of profit from an entity to be fully taxed (at the entity level) before distribution to members (see Chapter 15).
full integration	A tax principle proposed in *A New Tax System* and *A Strong Foundation*, whereby entities are considered to be extensions of their ultimate owners. It is acknowledged that *full* integration is impractical.
gain asset	An asset which, if sold, would result in a capital gain.

grantee	A person who is granted rights over an asset by another person who owns those rights (for example, the lessee under a lease).
grantor	A person who grants rights over assets they own to others (for example, the lessor under a lease).
gross-up	Where an individual receives income upon which tax has already been paid, such as dividends, the income is grossed up to the tax inclusive amount. In respect of fringe benefits, because benefits are provided directly to the employee, the value of those benefits is effectively an after-tax value to the employee. The value of fringe benefits is grossed up to the corresponding before-tax value using the effective top marginal rate of personal income tax (currently 48.5 per cent).
grouping provisions	Provisions of the income tax law which, for limited purposes, allow companies that are members of the same **wholly owned group** to be treated as parts of a single entity for taxation. Examples are the loss transfer provisions and particular capital gains tax rollover provisions.
hedge tax rules	Rules that change the tax treatment of a transaction by reference to another transaction or position to ensure both sides of a hedge transaction receive consistent tax treatment.
hedge, hedging	A commercial risk management tool, whereby a business seeks to use an asset or liability to offset the risk in relation to another asset or liability. Derivatives are often used for this purpose.
hidden trusts	In the international tax context means a trust where Australians are involved in some way, but their involvement or the existence of the trust is disguised by some means.
hybrid trust	A trust in which the trustee has a discretion as to the application of the trust income or capital but there is at least one beneficiary with a fixed interest in that income or capital which cannot be affected by the exercise of the discretion.
implicit interest rate	An interest rate applicable for a financial instrument which is not explicitly expressed in terms of a rate of return on a principal sum.
imputation	The system whereby entities pass tax credits for tax paid at the entity level to their members (or investors) on payment of a profit distribution.
inbound investment	Investment by foreign investors into Australian businesses.
inflation-linked capital indexed bond	A bond whose capital return is explicitly linked, at least in part, to the inflation rate.
in-house provision	Where a service is performed or a good is supplied within the entity.

in-kind	A distribution of property (such as land or shares) rather than of cash — usually on winding-up an entity. Also known as *in-specie distribution*.
integrity issues	Issues relating to the design of tax law to curtail scope for tax planning and minimisation.
intercorporate dividend rebate	The current system of allowing rebates for dividends passed between companies.
interest rate swap	An agreement to exchange streams of payments calculated by reference to a notional principal amount that may be floating or fixed. A currency swap involves an interest rate swap where the exchanged securities are, additionally, denominated in different currencies. An **equity swap** turns on similar principles.
internal hedge	A **hedge** transaction between business units of a single entity.
internal rate of return (IRR)	Discount rate at which the net present value of a transaction or project is equal to zero (also known as the 'yield'.)
investment account policy	A life insurance policy where the net premium is added to an investment account that is maintained in a pooled fund. A life insurer declares an interest rate for the pooled fund and credits each policyholder account with bonuses at that rate each income year.
investment-linked policy	A life insurance policy where the policyholder purchases units in a pooled fund. The unit might be linked to a specified asset index or to a specified investment portfolio. The unit price is recalculated daily to reflect the investment performance of the assets in the fund.
involuntary receipts	Payments for the involuntary disposal of or loss or damage to an asset or rights over an asset.
IRR	**Internal Rate of Return**.
IWT	Interest withholding tax. A tax levied on interest payments to non-residents at the rate of 10 per cent unless certain exemptions apply. Other countries also impose IWT on outgoing interest payments often also with certain exemptions.
legal disability	A condition (such as being a minor) which precludes trust beneficiaries from being considered as independent adults for tax purposes.
leveraged lease	A lease of an asset that is financed principally by way of a non-recourse loan.
life insurer	A life insurance company or a friendly society that conducts life insurance business.
lifetime annuity	A retirement income product that provides a regular income stream over the life of the investor.

limited partnership	Partnerships formed under the Limited Partnership Acts of several States, whereby the liability of some partners is limited to their initial investment, but where at least one partner has unlimited liability.
listed countries	In the international tax context, means those countries that are listed in the income tax regulations as **comparable tax countries**.
loading of depreciation rates	Increasing by a specified percentage the rate of depreciation determined by reference to the effective life of an asset. For example, the prime cost depreciation rate for an asset with an effective life of 10 years would be 10 per cent. A loading of 20 per cent would increase the rate from 10 per cent to 12 per cent.
lock-in effect	The tendency for taxpayers to hold on to an asset rather than dispose of it where the disposal would trigger the taxing of a gain.
lock-out effect	Refers to a **realisation-based** CGT favouring early disposal of assets with embedded capital losses to offset capital gains.
long position	A taxpayer who gains when an asset increases in value (for example, by owning the asset) has a 'long' position in that asset. See also **short position**.
look-through entity/vehicle	A business structure where the structure itself is not taxed, instead the income is attributed directly to the owners — whether or not the income is actually distributed to them.
loss asset	An asset which, if sold, would result in a **capital loss**.
loss cascading	Loss cascading through a chain of entities is a particular type of **loss duplication**.
loss duplication	Occurs when a single economic loss is recognised by the tax system (as either a deduction or as a **capital loss**) more than once. Specific legislation has not been wholly effective in limiting this duplication.
loss quarantining	A variety of tax measures restricting the ability of taxpayers to deduct particular losses against certain other income or gains. Examples include **capital losses** and foreign losses.
LPR	Legal personal representative. An executor or executrix for a deceased estate.
market making	Creating a market in a particular security by quoting both 'buy' and 'sell' prices for the security.
mark-to-market	The process of valuing an asset or liability at market value at a particular time, and bringing to account in the relevant period the change in that value, adjusted for net cash flows. The undertaking of this process is known as marking to market.

member	A 'member' for the purposes of this paper includes people with an interest in either the income or capital of an entity, and objects of discretionary trusts. Life insurance policyholders may, in some cases, also be treated as members.
MNE	Multinational enterprises.
non-fixed trust	A trust that is not a fixed trust.
non-portfolio investors	Those investors who have an influential interest (however defined) in an entity. Interests of 10 per cent or more are generally treated as non-portfolio.
non-recourse finance	A loan where the lender's rights against the borrower in the event of default are legally or effectively limited to the financed property. Non-recourse loans result in the lender sharing some of the risk of the investment with the borrower.
non-resident	Taxpayers who do not qualify as residents under Australia's tax laws.
non-wasting asset	An asset that does not deteriorate in value over time.
NPV	Net present value. The value of a cash flow, expressed in current dollars by discounting future returns using the relevant interest rate, net of outlays (also discounted).
NRIF	Non-resident investment funds (see Chapter 30).
NRITC	Non-resident investor tax credit (see Chapter 30).
OBU	Offshore banking unit. Broadly, a financial institution can have an OBU in Australia to provide financial intermediation services between **non-residents** (see Chapter 31).
OECD	Organisation for Economic Cooperation and Development.
opening balance	The value of a financial asset or liability at the beginning of a period. See also **closing balance**.
operating lease	A lease where substantially all the risks and benefits of ownership remain with the lessor. For example, a periodic hire of plant. See also **finance lease**.
option	A right, but not an obligation, to acquire or sell an asset at or before a specified date for a specified price.
outbound investment	Investment by Australians in foreign ventures.
outsourcing	Where a service is performed or a good is supplied by an external entity under contract.
par	The nominal value of an instrument. Instruments issued at par (that is, for their par value) are issued neither at a **premium** nor a **discount**.

Part IVA	'Schemes to Reduce Income Tax', *Income Tax Assessment Act 1936*. A general anti-avoidance provision which applies to schemes entered into with the sole or dominant purpose of obtaining tax benefits.
passive income	Mobile income that is readily diverted overseas for tax planning purposes to avoid or defer Australian tax — typically includes interest, dividend and royalty income.
patient capital	A situation where a person is prepared to invest in a start-up venture for an extended period of time (typically 4-7 years).
PAYG	Pay As You Go. The new comprehensive tax payment system that will replace PAYE, PPS, RPS, provisional tax and company instalments.
PDF	Pooled Development Fund. Investment companies registered under the *Pooled Development Funds Act 1992* to provide equity capital to small and medium Australian enterprises.
permanent tax preferences	Tax preferences that are not reversed over time. The non-taxation of certain foreign source dividends at the corporate level could be thought of as a permanent preference. See also **temporary tax preferences**.
perpetual debt	Debt that has no maturity date.
pooling	The aggregation (or pooling) of items of plant having the same depreciation rate. The pool of items is depreciated as if it is a single asset.
portfolio investors	An investor without an influential interest (however defined) in an entity. In relation to international investments, the term usually means investors who hold less than a 10 per cent interest in an entity.
post-CGT assets	Generally, assets which were acquired by the taxpayer on, or after, 20 September 1985.
pre-CGT assets	Generally, assets which were acquired by the taxpayer prior to 20 September 1985.
preference shares	Shares that have preferential rights over ordinary shares, usually in relation to dividends or the repayment of capital in the case of a liquidation of the issuing company.
premium	In relation to a derivative such as an option, the price of the right that is acquired. In relation to a debt instrument, the amount by which the cost price or market value exceeds the **face value**.
price maker	A person or entity that actively quotes both 'buy' and 'sell' prices for a security.

prime cost method	A method of calculating depreciation deductions under which the cost of an asset is written-off evenly over time. There are several prime cost methods. One method is to calculate by reference to the original cost of the asset. The other is to divide the tax written down value by the number of years of remaining effective life.
principal residence	The primary place of residence, or home, of an individual — generally exempt from capital gains tax.
private company	A company which is not a **public company**.
privatisation	Transferring activities from the public to private sector.
profit-participating loan	A loan that provides the creditor with a return that depends, at least in part, on the profitability of the debtor.
profits first rule	Under a profits first rule, a distribution from an entity is a profit distribution to the extent the entity has retained profits.
PST	Pooled superannuation trust. A unit trust used for investing the assets of superannuation funds, **ADFs** and other PSTs.
public company	Includes listed companies, co-operative companies, non-profit companies, friendly societies, and public company subsidiaries. Under the current tax law, the public or private status of a company does not depend on its status for company law purposes.
put option	A put option gives the holder (the buyer of the option) the right to sell the underlying asset to the writer (the seller of the option) at or before a specified date for a specified price.
quarantining of losses	See **loss quarantining**.
rate of return	The amount of money earned from an investment expressed as an annual percentage return on the amount invested.
RDWT	Resident Dividend Withholding Tax (see Chapter 15).
realisation	Exchange of the value in an asset for monetary or other consideration.
realisation-based system	A taxation system in which gains and losses on assets and liabilities are not brought to account for tax purposes until they are received or paid, or the asset or liability is disposed of.
registered charity	A charity included in an ATO register of tax exempt charities or an ATO register for charities which have gift deductibility status. The process for registration is being developed separately from this Review.
risk-free rate (of return)	The rate of interest payable on securities which do not carry any default risk.

rolling foreign exchange hedge	A hedge that reduces an exposure to foreign exchange rate changes and which is periodically renewed, or 'rolled over'.
rollover, rollover relief	Allows assets to be transferred between related entities without triggering **CGT** or other tax consequences. Also refers to the option for taxpayers to defer **CGT** on gains under special provisions of the law, such as those applying for small business or from involuntary disposals of assets.
RSA	Retirement savings account. A retirement savings product operated by banks, life insurance companies and other financial institutions. Amounts credited to RSAs are taxed concessionally at the rate of 15 per cent.
salary sacrifice, salary packaging	An agreement between an employer and employee whereby the cash salary of the employee is reduced, and the employer uses those funds to provide **fringe benefits** for the employee — usually while maintaining the after-tax cost to the employer.
same business test (SBT)	A test which prohibits access to certain deductions (for example, losses and bad debts) unless the entity continues to carry on the same business after a change in its majority ownership as it did before that change. See also **continuity of ownership test**.
scrip-for-scrip	A corporate acquisition method whereby shares in the acquirer are issued to the shareholders of the target company, in consideration for their shares in the target company. A non-cash corporate acquisition.
section 46 rebate	The current system of allowing rebates for dividends passed between companies.
share buy-back	Where a company buys a share in itself from a shareholder of the company. For tax purposes, share buy-backs can be either *on-market* or *off-market*. An *on-market* buy-back arises where the share is listed on an official stock exchange and the buy-back is made in the ordinary course of trading on that exchange. All other buy-backs are *off-market*.
short position	A taxpayer who gains when the value of an asset falls has a 'short' position in that asset. See also **long position**.
slice approach	Under a slice approach, a distribution from an entity in respect of the extinguishment of an ownership interest consists of the **contributed capital** distribution and taxed profits and untaxed profits attributable to the extinguished interest.
SME	Small or medium enterprises.
soft currency	Currency that is expected to depreciate substantially against the base currency, as reflected by the substantially greater interest rate of the soft currency.

spot rate	The price or rate for 'spot settlement' of a transaction. Spot settlement is a market term indicating settlement two business days hence.
spread	The difference between the 'buy' and 'sell' price.
stakeholder	An independent party who holds money, or other property, until a specified event occurs. For example, where a real estate agent holds a deposit prior to the completion of a sale.
straddle	In the taxation context, a straddle is a transaction in which a taxpayer who holds an asset and a liability whose values offset each other, disposes of the item that has decreased in value (thereby realising a tax loss) while retaining the one that has increased in value until a future income period.
straight-line accruals (SLA)	An accounting method where the total gain or loss from an arrangement is spread evenly over the period of the arrangement.
streaming	Ensuring that certain investors receive particular types of income (such as dividends or interest) which have beneficial tax characteristics to them such as franking credits, whereas other owners receive alternative income types with benefits for them.
substituted accounting period (SAP)	Refers to a balance period which does not end on 30 June. Some companies have permission from the ATO to base their income year on one of these substituted periods.
swap	See **interest rate swap** or **equity swap**.
synthetic arrangements, synthetics	An arrangement which mimics the economic performance of other transactions with different legal forms. See **synthetic equity** and Appendix A to Chapter 7.
synthetic equity	Equity that is replicated synthetically, whose terms or conditions are such that, for example, the amount of repayment on maturity is contingent on the value of a reference share or other non-debt instrument, and the periodic payments under the arrangement are similarly contingent on an equity value or similar variable.
tax competition	Competition between countries to attract international investments from other countries by offering, for example, lower tax rates, tax concessions or relaxed administrative practices.
tax co-operative	An entity that meets the criteria in Division 9 of the 1936 Act. Tax co-operatives are subject to some alternative tax rules compared with companies generally. They may be established either under State co-operatives legislation or under the Corporations Law with their constitutions specifically based on co-operative principles.
tax exempts, tax exempt entities	Entities which are exempt from income tax. Examples include government entities, public benevolent institutions, public hospitals and non-resident entities.

tax preference or benefit transfer, tax-preferred financing, tax-preferred leasing	Where a high tax rate entity passes on the benefits of tax preferences (such as **accelerated depreciation**) in the form of lower lease or right payments.
tax value	The valuation for tax purposes for each asset or liability in a class of assets or liabilities. For example, an asset whose gains are taxed at realisation has a tax value equal to its relevant **cost base**.
tax written down value	Tax value for a depreciable asset, derived by reducing the original cost of an asset by depreciation deductions allowed in respect of the asset.
taxable Australian asset	An asset held by a non-resident that is subject to Australian **CGT** on realisation. Referred to as an asset with the necessary connection to Australia in the 1997 Act.
taxed-income franking account	A **franking account** that reflects the taxed profits available for distribution. This is the basis under the existing law.
tax-paid franking account	A form of **franking account** whereby entries consist of actual tax paid, rather than after-tax income as at present.
tax-preferred income	Refers to income not included in taxable income for specified taxpayers. This can result from domestic tax incentives or other exemptions including in relation to exempt foreign source income comparably taxed in other countries. It can also result from offsetting previously incurred losses against current income.
temporary tax preferences	Tax preferences that are reversed over time. Accelerated depreciation could be thought of as a temporary preference. See also **permanent tax preferences**.
testamentary trust	A trust established under a will.
thin capitalisation	A requirement for foreign-controlled Australian entities to be funded to a significant degree by equity (capital) rather than by debt to help ensure Australia receives an appropriate share of global business income tax revenue.
time value of money	The concept that an amount of money received today is worth more now than the right to receive that amount in the future.
transfer pricing rules	Tax laws designed to ensure that international transactions are conducted at arms length prices.
transferor trust	A foreign trust to which a resident has made, or is taken to have made, a transfer of property or services.
transferor trust measures	The measures that apply to residents who have directly or indirectly transferred value to a foreign trust. These transferors are treated as controllers and are generally taxed on the undistributed profits of the trust (see Appendix A of Chapter 32).

transitional arrangements	Rules which cover the transition from one set of tax laws to another. For example, transitional arrangements outline whether the new law will apply to *all* target transactions in existence at the time of the change, or only to *new* transactions.
treaty shopping	Occurs where taxpayers select, or 'shop around' for, a country to locate international operations in, the decision being based largely on any advantageous terms of that country's various double tax agreements.
underlying asset	An asset in relation to which another asset is granted. Also, a **CGT** concept, whereby the 'essential' asset is considered, rather than the actual (often more obscure) asset. For example, after a fire the actual asset may be the right to compensation from an insurance company, but the underlying asset might be the building which was burnt.
underlying tax	Tax paid on the profits from which a dividend is made. In the international context, tax imposed at the entity level which may (or may not) be creditable at the investor level. Contrast with taxes imposed directly at the investor level, which are almost invariably creditable.
underwriting profit/loss	The profit/loss a life insurer makes on the risk component of its insurance business.
unlisted countries	In the international tax context, means those countries which are *not* listed **comparable tax countries**. Literally, they are not 'on the list' in the tax regulations and are often tax havens.
value shifting	Where value is shifted out of an asset, often to another asset. For example, voting and dividend rights attaching to shares may be amended, shifting value to the shareholder who (say) now holds all the voting and dividend rights and away from another shareholder. Without special rules no tax liability would be triggered in this case though an effective disposal has occurred.
variable rate debt/instrument	A debt instrument that carries a variable interest rate. See also **floating rate debt**.
vesting	The transfer of trust property from trustee to beneficiary so that legal and beneficial ownership is merged in the hands of the beneficiary.
wash sale	The disposal and effective reacquisition of an asset within a short space of time to access a tax benefit such as a **capital loss**.
wasting asset	An asset (such as manufacturing plant) which, at the time it is acquired or created, can be expected to deteriorate in value over time.
whole-of-life policy	A life insurance policy under which a policyholder pays a fixed regular premium for the duration of the policy and receives a specified sum of risk insurance. A whole-of-life policy is paid out on, or shortly before, the death of the insured.

wholly owned group	A group of companies and/or trusts that are, directly or indirectly, wholly owned by a single holding company or trust and the holding company or trust itself.
widely held entity	In the current law, 'widely held' is defined in relation to unit trusts. Broadly, a unit trust is currently treated as widely-held unless 20 or fewer persons hold 75 per cent or more of the beneficial interests in the income or property of the trust. For the purposes of applying the **anti-tax-deferral rules** in an international context, some foreign trusts are not treated as either widely or closely held.
yield to maturity (YTM)	The **internal rate of return** of a security.
zero coupon bond	A security with no interest payments over the period of the debt. The interest payment is included with the principal payment at the end of the loan.