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 Platform for Consultation	A discussion paper released by the Review of Business Taxation, February 1999, AGPS. (Also located at website http://www.rbt.treasury.gov.au.)
A Strong Foundation	A discussion paper released by the Review of Business Taxation, November 1998, AGPS. (Also located at website http://www.rbt.treasury.gov.au.)
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.
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.
alienation of income	Payments for the **personal services** of an individual are diverted to an **interposed entity,** which may gain a tax advantage from **income splitting,** deductions of undeductible expenditure and lower entity tax rates.
allocated annuity/pension	An account based annuity or pension where a person is required to regularly withdraw an amount from the account within certain legislated limits. The annuity or pension continues until the death of the holder or until the account is exhausted.
An International Perspective	An information paper commissioned by the Review of Business Taxation, December 1998, AGPS. (Also located at website http://www.rbt.treasury.gov.au.)

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).
approved deposit fund (ADF)	A fund for the deposit and investment of **eligible termination payments**. Amounts must be withdrawn when an investor reaches age 65.
arbitration	Adversarial process whereby an independent person chosen by the disputing parties makes a determination that binds the parties after hearing submissions from them.
assignment	The transfer of a right or interest to another, as in the assignment of a lease or of a debt. The person who transfers is called the assignor, the person to whom the transfer is made is called the assignee.
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.
Australian Accounting Standards Board (AASB)	The body with legal responsibility for promulgating accounting standards.
Australian head entity	An Australian resident entity that directly or indirectly wholly owns one or more other entities and which is not itself wholly owned by an Australian resident entity.
Australian subsidiary	An Australian resident member of a **wholly owned group** of entities.
balancing adjustment	The difference between the disposal proceeds for a **depreciable asset** and its **tax written down value**. 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 taxable 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	A **balancing adjustment** that is brought to tax.
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.

blackhole expenditure	Business expenditure which currently does not qualify for deduction over an appropriate period of time.
Board of Taxation	A statutory board with majority membership external to the public sector and accountable to the Treasurer to: ▪ monitor the process of developing and implementing tax policy; ▪ monitor and suggest improvements to the **Charter of Business Taxation;** ▪ advise on consultative processes; ▪ conduct an annual review of the application of the policy framework and processes relating to the general and specific anti-avoidance rules; and ▪ monitor and report on the performance of the taxation system.
broadbanding	The grouping of a range of depreciation rates into a single rate, usually equal to the highest rate in the range.
call option	A call option gives the holder the right to buy the **underlying asset** from the writer of the **option** at or before a specified date for a specified price.
capital gain	Increased value of an asset over its purchase price or **tax value**. 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 current **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**.
carry-forward loss	A loss of an entity that the entity is entitled to carry forward and deduct in a future year.
cash basis	For income tax purposes, income is recognised when it is actually received and expenses when they are actually paid.
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.

Charter of Business Taxation	The framework within which Australian taxation laws affecting business can be consistently developed and maintained. This framework is expressly articulated, conceptually sound and based on agreed **national taxation objectives** and **framework design principles**.
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	An entity meeting the standard definition provided by Recommendations 6.22 and 6.23.
closing balance	The value of an asset or liability at the end of a period. See also **opening balance**.
collective investment vehicles (CIVs)	In broad terms a widely held **fixed trust** that offers managed investments in local and overseas equities, property and securities and fully distributes profits. Defined specifically in Recommendation 16.1.
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 (and related) funds	A **complying superannuation fund**, complying **ADF**, **PST** or **virtual PST**.
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	Foreign source income that flows through an Australian resident **entity** to **non-resident** investors.
consolidation (of entities)	The taxation of a group 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.
contributed capital	Cash and other assets provided to an **entity** by its **members** for or in relation to a member's 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).
controlled foreign company (CFC)	Broadly, a CFC is a foreign company controlled by five or fewer Australian residents.
controlling interest	This term has various definitions in income tax law, but in this report, 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 payable on a bond, calculated by reference to its face value.
cross-functional integrated teams	Teams of Treasury, **ATO** and **OPC** officers, and where appropriate and possible, external representatives, responsible for the development of taxation policy, legislation and administration.
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 hybrid	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 through the difference between its issue price and redemption value on maturity (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	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. See **time value of money**.
deferred annuity	A life insurance policy that allow **life insurers** to hold **ETPs** between the time the ETP is paid and the time the policyholder turns age 65.
deferred company tax (DCT)	See Section 11.
deferred interest security	A security under which the payment of interest is deferred for a substantial period.
depreciable asset	An asset which, at the time it is acquired or created, attracts write-off allowances at a specified rate on the basis that it is expected to deteriorate in value over time.
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 and 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.
double tax agreement (DTA)	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.

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**.

economic depreciation — The actual deterioration in the value of an asset over an income year.

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.

elective hybrid approach — Allows members of a joint venture or general partnership to apply a '**fractional interest approach**' to part of their interest in the transactions, assets and liabilities of the structure and a '**joint approach**' to the remainder, for the purposes of calculating their shares in the taxable income or loss of the structure and gains or losses on the disposal of interests in the structure.

eligible termination payment (ETP) — 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.

employee like manner — **Personal services** provided in a way which is largely similar to the common law definition of an employee.

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.

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 report, entity generally means all companies (including co-operatives and life insurance companies) and limited partnerships and trusts subject to the entity tax regime. It also formally includes CIVs as defined in Recommendation 16.1.

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.

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.
excluded superannuation fund	A superannuation fund with fewer than five members.
exempt income	Income that is not subject to income tax. The expenses related to earning exempt income are not deductible.
existing ordinary life insurance investment policy	A **life insurance investment policy**, other than a policy in what will become a life insurer's **virtual PST**, that is taken out before the date of commencement of the new taxation regime for **life insurers**.
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 gain	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.
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.
family owned entity group	A **wholly owned group** of entities in which the head entity is owned by a single family.
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.
Film Licensed Investment Companies (FLIC)	Such companies are registered under the *Film Licensed Investment Company Act 1998*. Investors in these companies receive tax concessions.
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 AO, 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.
fixed-term annuity/pension	An annuity or pension that is payable for a fixed period.
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	A basis of taxation whereby income is not taxed at an entity level, but flows through to members retaining its character and is then subject to taxation at the member level. There are significant differences, for example in relation to entity losses, in the way this broad concept applies to **collective investment vehicles (CIVs),** partnerships and joint activities, and excluded trusts (see Section 16 for details).
foreign dividend account (FDA)	A mechanism by which certain **conduit income** can be passed on to foreign owners without bearing Australian tax.
foreign exchange gains and losses	Gains and losses arising from changes in foreign exchange rates.
foreign income account (FIA)	An account with a similar purpose to a **FDA**. See Section 21.
foreign investment fund (FIF)	A foreign company or foreign trust (other than a deceased estate).
forward (exchange) rate	A rate agreed now at which foreign currency is to be bought or sold at a future date.
forward work program	A participative and integrated agenda, revised at least annually, for the initiation of policy proposals relating to business taxation.
forward, forward contract	A future commitment whose terms are established now.
fractional interest approach	The approach under which a member of a joint venture or general partnership individually accounts for their share of the structure's receipts and payments, and assets and liabilities in working out their taxable income or loss. The acquisition or disposal of an interest in the structure is treated as the acquisition or disposal of interests in each asset and liability of the structure. Contrasts with the '**joint approach**'.
framework design principles	Broad, robust framework for the development of business taxation policy, legislation and administration.

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).
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.
fringe benefits tax (FBT)	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**.
frozen indexed cost base	The **cost base** or **tax value** of an asset adjusted for movements in the CPI up to and including the September quarter 1999. No indexation will be available for inflation beyond that quarter and hence indexation is said to be 'frozen'.
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**.
full integration	A tax principle whereby entities are considered to be extensions of their ultimate owners. It is acknowledged in ***A New Tax System*** and ***A Strong Foundation***, that *full* integration is impractical.
gain asset	An asset which, if sold, would result in a **capital gain**.
general anti-avoidance rule (GAAR)	A tax law provision, Part IVA of the **1936 Act**, that deals with **tax avoidance** in a generic way (see Section 6).
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. For **fringe benefits**, gross-up refers to the gross salary that would have to be earned at the top effective marginal tax rate (currently 48.5 per cent), to purchase a fringe benefit from after-tax salary. Currently 'grossing-up' is used to calculate the taxable value of fringe benefits to ensure that fringe benefits are taxed on the same basis as salary or wages.
group entity	A member of a **wholly owned group** of entities.

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, 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.
income splitting	Diversion of payments in respect of **personal services** through payment of wages, trust **distributions** or dividends to related parties, prior to the attribution of income to the individual who performed the services.
inflation-linked capital indexed bond	A bond whose capital return is explicitly linked, at least in part, to the inflation rate.
infrastructure borrowings	A special category of tax-advantaged finance designed to encourage private sector investment in infrastructure projects.
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*.

integrated tax design process	Move from the largely sequential tax design process of policy, legislative and administrative development to one which is holistic and fully integrated using cross-functional teams.
integrity issues	Issues relating to the design of tax law to curtail scope for tax planning and minimisation.
inter-agency design committee (IADC)	Standing committee of senior representatives of the Treasury, the **ATO** and the **OPC** accountable for the **integrated tax design process** and product.
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.
interest withholding tax (IWT)	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.
internal hedge	A **hedge** transaction between independent 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').
interposed entity	Company, trust or partnership (whether previously existing or newly created) that receives payments in respect of **personal services** from a **service requirer** on behalf of the **service provider**.
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 of value of, or damage to, an asset or compensation for compulsory rights taken over an asset.

joint approach	The approach under which a member of a joint venture or general partnership includes in their taxable income or loss their share of the taxable income or loss of the structure calculated as if it were a taxpayer. The acquisition or disposal of an interest in the structure is treated as the acquisition or disposal of an asset consisting of the interest. Contrasts with the '**fractional interest approach**'.
legal disability	A condition (such as being a minor) which precludes trust beneficiaries from being considered as independent adults for tax purposes.
legal personal representative (LPR)	An executor or executrix for a deceased estate.
leveraged lease	A lease of an asset that is financed principally by way of a non-recourse loan.
life insurance investment policy	A life insurance policy that has an investment component.
life insurer	A life insurance company or a friendly society that conducts life insurance business.
lifetime annuity/pension	A retirement income product that provides a regular income stream over the life of the investor.
like business activity	Activity that is similar to the activity from which an earlier loss arose but not necessarily the same as the previous activity.
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.
limited recourse finance	A loan where the lender's rights against the borrower in the event of default, while extending beyond the financed property, are legally or effectively limited. Limited recourse loans result in the lender sharing some of the risk of the investment with the borrower. See **non-recourse finance**.
listed collective investment vehicle	A **collective investment vehicle** which is listed on the stock exchange.
listed countries	In the international tax context, those countries 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 (for example, partnership or **CIV**) 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. Existing 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.
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'.
mediation	A process by which parties, together with the assistance of a neutral person, systematically isolate disputed issues in order to develop options, consider alternatives, and reach a consensual statement that will accommodate their needs.
member	A 'member' for the purposes of this report includes people with an interest in either the income or capital of an **entity**, and objects of **discretionary trusts**. Life insurance policyholders, in some cases, may also be treated as members.
MNE	Multinational enterprises.

national taxation objectives	Three major objectives to guide the development of the business taxation system: ▪ Optimising economic growth; ▪ Promoting equity; and ▪ Promoting simplification and certainty.
net present value (NPV)	The value of a cash flow, expressed in current dollars by discounting future returns using the relevant interest rate, net of outlays (also discounted).
new ordinary life insurance investment policy	A **life insurance investment policy**, other than a policy in a life insurer's **virtual PST**, that is taken out on or after the date of commencement of the new taxation regime for **life insurers**.
non-commercial activities	Unprofitable activities carried out by an individual taxpayer, either acting alone or in partnership with another, without a significant commercial purpose or character.
non-depreciable asset	A tangible asset that does not attract write-off at a specified rate.
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 debt	A loan where the lender's rights against the borrower in the event of default are legally or effectively limited, wholly or predominantly, to the financed property.
non-resident	Taxpayers who do not qualify as residents under Australia's tax laws.
NRIF	**Non-resident** investment funds.
NRITC	**Non-resident** investor tax credit.
OECD	Organisation for Economic Cooperation and Development.
offshore banking unit (OBU)	An **entity** that intermediates in financial transactions between **non-resident** borrowers and lenders and is concessionally taxed on its income (excluding **capital gains**) from these activities.
offshore investment trust (OIT)	A trust established under the **OBU** regime to undertake offshore investment activities on behalf of **non-residents**.
OPC	Office of Parliamentary Counsel.
opening balance	The **tax value** of an asset or liability at the beginning of a period. See also **closing balance**.

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 at neither a **premium** nor a **discount**.
part disposal	Occurs when a taxpayer ceases to hold part of an asset. The **tax value** of the asset would be appropriately apportioned between the part retained and the part disposed of.
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	Capital invested in a start-up venture for an extended period of time (typically 4-7 years).
Pay As You Go (PAYG)	The new comprehensive tax payment system that will replace PAYE, PPS, RPS, provisional tax and company instalments.
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.
personal services	Labour performed or skill exercised by an individual, including those rendered to provide a specific result or outcome, in an employee-like manner.
physical stock	Trading stock over which the taxpayer has the power of disposal.
Pooled Development Fund (PDF)	Investment companies registered under the *Pooled Development Funds Act 1992* to provide equity capital to small and medium Australian enterprises.
pooled superannuation trust (PST)	A unit trust used for investing the assets of superannuation funds, **ADFs,** the **virtual PST** business of **life insurers** and other PSTs.
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**.
private ruling	A written expression of the Commissioner of Taxation's opinion as to the way in which a tax law or tax laws would apply to a person in relation to an arrangement in respect of a specified year of income. Private rulings are provided to a particular taxpayer in respect of their particular circumstances.
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** to a **member** is a profit distribution to the extent the entity has available profits.
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.

public ruling	Publicly issued guidelines on tax questions of wide public importance. A written expression of the Commissioner of Taxation's opinion as to the way in which a tax law or tax laws would apply to any person or a class of persons in relation to an arrangement or class of arrangements.
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.
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. The process for registration is being developed separately from this review.
registered managed investment scheme	An investment scheme that is registered with the Australian Securities and Investment Commission pursuant to the *Managed Investments Act 1998*.
registered organisation	A friendly society, an association registered under an Australian law as a trade union or an association of employees that is an organisation within the meaning of the *Workplace Relations Act 1996,* that is currently taxed on its life insurance business under Division 8A of the **1936 Act**.
resident dividend withholding tax (RDWT)	A withholding tax imposed on unfranked **distributions** paid to resident investors.
retirement savings account (RSA)	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.
retranslation	The conversion of any outstanding foreign currency principal, accrued gain or loss or payment to the domestic currency at the spot exchange rate.
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.
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.
sale and leaseback	This refers to the sale and subsequent leasing back of an asset. The asset continues to be used by the original owner. However, the new owner is entitled to the depreciation deductions.
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.
service provider	Individual who performs **personal services** for a **service requirer**.
service requirer	Person or **entity** requiring services who engages a **service provider** for the provision of **personal services**.
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**.
simplified tax system (STS)	Package of measures to assist small business through reduced **compliance costs** — consisting of a cash accounting regime, a simplified depreciation regime and a simplified trading stock regime.
slice approach	Under a slice approach, a **distribution** from an **entity** in respect of the cancellation of a **member's** interest in the entity consists of the **contributed capital,** taxed profits and untaxed profits attributable to the cancelled interest.

small business active assets exemption	An exemption of 50 per cent of all **capital gains** arising on the disposal of active assets subject to capital gains treatment. This exemption is proposed to replace the 50 per cent exemption of capital gains arising on the disposal of goodwill by a small business.
small business active assets rollover	Small businesses — defined for this purpose as those with net assets of less than $5 million — can defer a **capital gains** liability arising from the disposal of active assets by rolling over the gains into the acquisition of replacement active assets.
small business retirement exemption	A **capital gain** realised upon the sale of an active asset by a small business may be exempt from tax if the proceeds are used to fund the owning taxpayer's retirement.
SME	Small or medium enterprises.
spot rate, spot price	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 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) and retains 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 arrangement, synthetic	An arrangement which mimics the economic performance of other transactions with different legal forms. See **synthetic equity**.

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 avoidance	An exploitation of structural loopholes in the tax law to obtain a tax benefit not intended by Parliament.
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 transfer under leasing	Where the benefits of tax preferences (such as **accelerated depreciation**) are transferred between taxpayers on different tax rates under a leasing arrangement.
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 or initial **tax value** 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 with 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** represents 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. For the same reason, Australian controlled foreign entities will be required to be funded to a significant degree by debt rather than equity.
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 arm's-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.
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 relevant **double tax agreement**.
underlying asset	An asset in relation to which a right 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 down.
underlying tax	Tax paid on the profits from which a dividend is paid. In the international context, tax imposed at the **entity** level which may (or may not) be creditable at the investor level. In contrast, taxes imposed directly at the investor level are almost invariably creditable.
underwriting profit/loss	The profit/loss a **life insurer** makes on the risk component of its insurance business.

unlisted CIV	A **collective investment vehicle** which is not listed on the stock exchange.
unlisted countries	In the international tax context, 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.
unrealised gains	The increase in value of an asset over its purchase price which has not been received through disposal.
value shifting	Broadly, 'value shifting' describes transactions and other arrangements which result in the value of an asset being reduced with a consequential increase in the value of another asset. The two assets involved may be owned by the same taxpayer or by different taxpayers.
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.
virtual pooled superannuation trust (virtual PST)	The segregated assets of a **life insurer** that relate to its complying superannuation business and **deferred annuity** business.
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**.
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	An entity meeting the standard definition provided by Recommendation 6.22. Additional provisions relating to **collective investment vehicles** are provided in Recommendation 16.1.
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 repayment at the end of the loan.