SOUTH AUSTRALIA

STATE TAXATION OFFICE

Financial Institutions Duty — **Circular No. 41 (formerly FID Circular No. 3)**

MATURITY AND ROLLOVERS OF BILLS OF EXCHANGE

Historical Use Only

Enquiries made by the State Taxation Office indicate that some financial institutions are not conforming with the provisions of the Financial Institutions Duty Act, 1983 ('the Act") when a commercial bill matures or is rolled over.

A bill of exchange is an asset of the holder of the bill and it is money for the purposes of the Act. The receipt of a bill, other than as a receipt during the course of short term dealings, attracts Financial Institutions Duty at the rate of 0.1% pursuant to **Section 29** of the Act.

The process of discounting bills and the incidence of financial institutions duty can be analysed as follows:

1. When a bill is discounted by a customer with a financial institution, two events take place:

   1.1 the physical act of receiving the bill, and

   1.2 the relevant accounting entries, the debit to the Bill Suspense Account by the discounted value of the bill and the credits to the customer's account and (including at times) the financial institution's fees account etc. *(Note: A Bill Suspense account could be called different names by various financial institutions).*

2. Both these events result in the financial institution incurring a receipt for the purposes of the Act. Double duty is avoided by the operation of **Section 7 (4)** of the Act which exempts from financial institutions duty the physical receipt of the bill.

3. Financial institutions duty at the rate of 0.1% is payable on the amounts:

   3.1 credited to the customer's account (duty would not be payable where the customer is a Short Term Money Market Operator registered pursuant to Section 26 of the Act and the account to which the credit is posted has been approved as a Short Term Dealing account under Section 32 of the Act), and

   3.2 credited to the institution's revenue accounts such as fees etc.

4. On maturity of the bill (the bill being held by the financial institution) the institution debits the customer's account with the face value of the bill and credits the Bill Suspense Account and

the Discount Revenue Account with the discounted value and the difference between the face value and the discounted value of the bill, respectively.

5. Financial institutions duty at the rate of 0.1% is payable on the amounts:

   5.1 credited to the Bill Suspense Account, and

   5.2 credited to Discount Revenue Account

   Exemption: If the Bill concerned was one drawn, accepted or endorsed by the financial institution where the term is not more than 185 days, the face or nominal value is not less than $50,000 and the receipt satisfies the amount of the financial institution's engagement on the bill, there will be no liability on the amount credited to the Bill Suspense Account - **[Section 7 (2)(o)].**

6. Frequently, due to the continuous need for finance , a customer "rolls over" these bills. A new bill is issued to secure payment for the old bill. In practice the issue of new or replacement bills and the maturing of the old bills are rarely contemporaneous.

7. In the situation where a bill is replaced by another, a number of financial institutions have chosen to make marginal ('netted' as an alternative word) adjustments to both the customer's account and the Bill Suspense Account. These entries have been made as an alternative to making full accounting entries in relation to the maturing of the old bill (as shown at 5 above) and the issue of a new bill for the discounted value (as shown in 1 above).

8. In the past such marginal (nett) adjustments were the exception rather than the rule. With the advent of financial institution duty, the financial institutions make these marginal adjustments through the medium of suspense accounts. The financial institutions consider these adjustments made through the suspense accounts to be "solely in accordance with its internal accounting practices" **[Section 6(7)]** and do not consider them to be dutiable receipts. This Office's opinion is that these accounting manoeuvres have not avoided the incidence of financial institutions duty.

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RULING

Discounting of a Bill

Financial institutions duty is payable on;

- the discounted value of the bill credited to the customer's account when a customer discounts a bill with a financial institution, and

- the amount credited to various revenue accounts of the financial institution, contemporaneously with the credit to the customer's account

- (the sum of these credits would be equal to the debit to the Bill Suspense Account)

Maturity of a Bill

Financial institutions duty is payable on;

- the amount credited to the Bill Suspense Account on maturity, and
- the amount credited to Discount Revenue Account etc.

(the sum of those credits would be equal to the debit to the customer's account or to the incoming cash consideration or the discounted value of another bill of exchange).

Exception: If the Bill concerned was one drawn, accepted or endorsed by the financial institution where the term is not more than 185 days, the face or nominal value is not less than $50,000 and the receipt satisfies the amount of the financial institutions engagement on the bill, there will be no liability on the amount credited to Bill Suspense Account - **[Section 7(2)(o)]**.

Rollover of Bill

When bills are rolled over, financial institutions duty is payable on the maturity of the old bill and on the discounting of the new bill according to the principles set out in **Discounting of a Bill** and **Maturity of a Bill** above, notwithstanding the use of suspense accounts to make marginal (netted) adjustments.

When a financial institution uses marginal (netted) adjustments it must calculate financial institutions duty liability disregarding the marginal adjustments.

This is the legal basis of liability.

However, in view of the interpretation taken in all other mainland States this Office considers, that it would be of sufficient compliance with provisions of the Financial Institutions Duty Act if the financial institutions use the netted approach in calculating financial institutions duty when commercial bills are rolled over.

These rulings are based on the principles that each time a bill replaces another, there is a receipt of money (bill) by the financial institution, and each time a bill matures, there is a receipt of money by the financial institution, replacing the matured bill.

23 December, 1991 COMMISSIONER OF STAMPS

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