



NOVEMBER 2020

TAX IMPLICATIONS: BANKING ROYAL COMMISSION COMPENSATION PAYMENTS

The Banking Royal Commission was finalised in February 2019 with the release of the Commissioner's Report. It is only now, 18 months on from the release of the report that we are starting to see refunds, some of significant value, being paid to clients as compensation from these findings. So, what are the tax implications for these compensation payments should you receive one?

The tax treatment is dependent on the character of the payment, the underlying asset and how it was reported in the initial instance. The compensation payment will generally include some or all of the following components:

- Compensation for loss on an investment
- A refund of reimbursement of fees
- Interest component

Loss on an Investment

The compensation for the loss on an investment has two tax outcomes depending on whether you have disposed of the asset or not.

Asset is still held:

If the asset is still held, you will need to reduce the cost base by the amount of the compensation received. This will be reported to the Australian Taxation Office when you dispose of the underlying asset as part of the Capital Gain calculation.

Asset is sold:

If the asset is sold, you will need to amend the previously lodged tax return and correct the Capital Gain or Loss calculation to include the compensation payment as additional capital proceeds received in the year of the disposal of the asset.

Refund or Reimbursement of Fees

The tax treatment of this component depends on whether you claimed a tax deduction for the fees or not. If you claimed a tax deduction for these fees, the refund or reimbursement you received will be included as assessable income in the financial year it is received.

If you did not claim the fees as a deduction, the refund or reimbursement will not be included in your assessable income. However, there may be instances where the fees are included as part of the cost base of the underlying asset. If this is the case, the refund or reimbursement will be a cost base adjustment to the Capital Gain or Loss when you sell the asset.



Interest

The interest component of the payment is assessable as ordinary income and is to be included in the tax return of the financial year it is received.

If you have received a compensation payment and wish to discuss the tax implications further, please contact our office for advice on the matter.

For more information contact us here:

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