

Foreign Pensions and Annuities

Most foreign pensions and annuities are taxable in Australia, even if tax was withheld from your payment by the country from which the payment came. You may claim a foreign income tax offset at this item if:

- The country from which your foreign pension or annuity came withheld tax from your payment
- You were not entitled to seek a refund of the foreign tax from that country, and
- The foreign pension or annuity is also taxable in Australia.

Investing in Overseas Property

Income from investments in overseas property is generally foreign source income. If you have earned income from an overseas property that is included in your assessable income, you must declare it in your Australian income tax return. If you have paid foreign tax in another country on that income, you may be entitled to an Australian foreign income tax offset, which provides relief from double taxation.

RENTAL INCOME

Rental and other rental-related income is the full amount of rent and associated payments that you receive, or become entitled to, when you rent out your property – whether it is paid to you or your agent. You must include your share of the full amount of rent you earn in your tax return.

Associated payments may be in the form of goods and services. You will

need to work out the monetary value of these.

You must include as rental income any assessable amounts relating to limited recourse debt arrangements involving your rental property.

HOW TO CALCULATE YOUR NET FOREIGN RENT

Step 1

Work out the assessable amount of your foreign rental income. If you had foreign tax taken away from this income, add it back to the amount you received.

Step 2

Add up any deductible expenses that you incurred in relation to your foreign rental income. Take away this amount from the amount you worked out at step 1 to get your net taxable foreign rental income. If your deductible expenses incurred exceed this income, you have made a loss equal to the excess.

CAPITAL GAINS

Australian residents are generally taxed on any capital gains made on overseas property and must declare the gain in their income tax return.

If the gain is taxable in Australia and you have paid foreign tax on it, you may be entitled to a foreign income tax offset.

Foreign Employment Income

Foreign employment income is income that is derived from working as an employee outside Australia by Australian residents. It includes salary, wages, commissions, bonuses and allowances. It may be paid by an overseas or an Australian employer.

Foreign employment income is exempt from Australian tax if:

- You are a resident of Australia

- You are engaged in continuous foreign services as an employee for 91 days or more, and

- Your foreign earnings are not excluded from exemption by the non-exemption conditions.

Your taxable foreign employment income is any foreign employment income that does not qualify as exempt income, less any deductible expenses you incurred in earning that income. This amount will be taxed in Australia at normal marginal tax rates (plus Medicare levy and Medicare levy surcharge if applicable).

PROPOSED CHANGES IN TAX EXEMPTION FOR FOREIGN EMPLOYMENT INCOME

Currently, certain foreign employment income earned by Australians working overseas for a continuous period of 91 days or more is exempt from income tax. The original intent of this measure was to relieve double taxation; however, in practice little foreign tax may actually be paid on the foreign income concerned.

Per The Commonwealth Budget 2009-10 Part 2 released on 12 May 2009, the Government will target the income tax exemption for foreign employment income, with effect from 1 July 2009. The exemption will apply to income earned as an aid worker, a charitable worker, under certain types of government employment or on projects that are in the national interest.

Instead, foreign employment income will generally become taxable and taxpayers will be entitled to a foreign income tax offset for foreign tax paid on the foreign employment income. This will relieve double taxation for those individuals, for more details, visit: www.budget.gov.au