

## New Foreign Income Tax Offset Rules

If you have assessable income from overseas, you must declare it in your Australian income tax return. If you have paid foreign tax in another country, you may be entitled to an Australian foreign income tax offset, which provides relief from double taxation.

From 1 July 2008, foreign tax credits have been replaced with a foreign income tax offset. Your excess foreign tax credits from the period 1 July 2003 to 30 June 2008 must be converted to an amount called 'pre-commencement excess foreign income tax' before they can be utilised.

Unlike the previous system of foreign tax credits (applying up to 30 June 2008), in working out the amount of the offset, you no longer have to quarantine your foreign income into separate classes. All types of income are treated the same for the purposes of working out the foreign income tax offset.

### WHEN A FOREIGN INCOME TAX OFFSET APPLIES

To be entitled to a foreign income tax offset:

- the foreign tax must be foreign income tax
- you must have actually paid, or be deemed to have paid the foreign income tax, and
- the income or gain on which you paid foreign income tax must be included in your assessable income in Australia.

The offset is available in the income year in which the income or gain (on which the foreign income tax has been

paid) forms part of your assessable income in Australia.

### HOW TO CALCULATE YOUR FOREIGN INCOME TAX OFFSET

You claim the foreign income tax offset in your income tax return.

To claim a foreign income tax offset of up to \$1,000, you only need to record the actual amount of foreign income tax paid on your assessable income (up to \$1000).

If you are claiming a foreign income tax offset of more than \$1,000, you have to work out your foreign income tax offset limit. This may result in your tax offset being reduced to the limit. Any foreign income tax paid in excess of the limit is not available to be carried forward to a later income year.

If you paid foreign income tax after the year in which the related income or gains have been included in your assessable income, you may amend your assessment for that year to claim the offset.

As a non-refundable tax offset, the foreign income tax offset reduces your income tax payable (excluding Medicare levy). Under the tax offset ordering rules, it is applied after all other non-refundable tax non-transferable offsets. Once your tax payable has been reduced to nil, any unused foreign income tax offset is not refunded to you, nor can it be carried forward to later income years.

### HOW TO CALCULATE YOUR OFFSET LIMIT

If you are claiming a foreign income tax offset of more than \$1,000, you will first need to work out your foreign income tax offset limit.

#### Step 1

Work out the income tax payable by you for the relevant income year disregarding any tax offsets. This amount does not include Medicare levy, Medicare levy surcharge, penalties or interest.

#### Step 2

Work out the income tax that would be payable by you (excluding the Medicare levy and surcharge, penalties and interest), disregarding any tax offsets, if the following assumptions were made:

- your assessable income did not include:
  - any amount included in your assessable income on which foreign income tax has been paid that counts towards your foreign income tax offset, and
  - any other income or gains from a non-Australian source, and
- you were not entitled to the following:
  - debt deductions attributable to your overseas permanent establishment
  - any other deductions (other than debt deductions) that are reasonably related to any amount covered by the first dot point above, and
  - an amount of the foreign loss component of one or more tax losses deducted in the income year.

#### Step 3

Take away the result of step 2 from step 1. If the result is greater than \$1000, this is your offset limit.