

# ***IT 2437 - Income tax : foreign tax credit system - foreign taxes eligible for credit against Australian income tax***

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TAXATION RULING NO. IT 2437

INCOME TAX : FOREIGN TAX CREDIT SYSTEM - FOREIGN TAXES  
ELIGIBLE FOR CREDIT AGAINST AUSTRALIAN INCOME TAX

F.O.I. EMBARGO: May be released

REF

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| REFERENCE NO: | SUBJECT REFS:       | LEGISLAT. REFS: |
|---------------|---------------------|-----------------|
| I 1218651     | FOREIGN TAX CREDIT  | 6AB(2)          |
|               | SYSTEM - CREDITABLE | 6AB(6)          |
|               | FOREIGN TAXES       | 160AF           |

PREAMBLE

New Division 18 of the Income Tax Assessment Act (inserted by the Taxation Laws Amendment (Foreign Tax Credits) Act 1986 and first applicable to assessments for the year of income commencing 1 July 1987) provides for the granting of credits in respect of foreign tax. Subsection 160AF(1) provides that a resident taxpayer, whose assessable income includes foreign income on which the taxpayer has paid foreign tax, is entitled to a credit against the Australian tax payable of the amount of that foreign tax, up to the amount of Australian tax payable on the foreign income.

2. Subsection 6AB(2) specifies in general terms the nature of the foreign taxes for which credit is allowable. First, the tax must be imposed by the law of a foreign country, whether it be at national, state, local or other government level (subsection 6AB(6)). Secondly, it must be either :

- . a tax imposed upon income or upon profits or gains, whether of an income or capital nature;
- . a tax deemed, under section 160AFC, to have been paid in respect of a dividend (i.e., underlying foreign company tax on profits out of which a dividend is paid by a related foreign company to an Australian resident company); or
- . a tax subject to a comprehensive taxation agreement to which Australia is a party and having the force of law under the Income Tax (International Agreements) Act 1953.

3. However, the subsection specifically excludes from its ambit a foreign tax that is a unitary tax, as defined in subsection 6AB(6). (A further Ruling concerning unitary taxes is proposed.)

4. The law does not identify specific taxes of particular countries as being either creditable or not creditable; that has been left to be determined by the application of the above criteria on a case by case basis.

5. Essentially, foreign tax must be imposed on a basis substantially equivalent to that on which the Income Tax Assessment Act operates. That is, it must be imposed on the basis of a taxpayer's net income or gains, whether of an income or capital nature, or be a withholding tax on outgoing payments (imposed as a final tax and not be later creditable against the ultimate foreign tax liability of the taxpayer) similar to the Australian withholding tax on the gross amount of outgoing dividends and interest payments. This has been the basis which has been used in the past to measure whether a foreign tax qualifies as a tax that would render an Australian resident recipient of the income upon which it is imposed eligible for the exemption from Australian tax provided by paragraph 23(q) of the Assessment Act.

6. In order to assist taxpayers to more readily understand which foreign taxes are creditable for purposes of the foreign tax credit system a list of creditable foreign taxes is set out in this Ruling. The taxes included in the list will be creditable whether imposed on an assessment basis or by way of a final withholding tax.

7. The list is not exhaustive and will be revised when enquiries in relation to the nature of certain other foreign taxes presently under examination have been finalised and in the light of experience gained in administration of the new provisions. The list will also need to be updated periodically as a consequence of changes in other countries' taxes and as other foreign taxes are admitted as creditable taxes. Future Rulings to be issued on this basis will be in the form of an updated consolidated list of creditable taxes (rather than a series of lists to supplement that set out in this Ruling). It will, however, contain the usual reference to earlier Rulings on the topic. Consideration is to be given to the inclusion in the future Rulings of further points of principle which may clarify the status of particular types of foreign taxes and the development of a list of non-creditable taxes so as to assist taxpayers where the creditability of a particular tax is doubtful.

8. Taxpayers who seek credit for foreign taxes not identified in the following list (or in the subsequent Rulings) should supply details of those taxes in the relevant income tax returns. The details to be provided should include :

- . the precise title of the tax;
- . the title of the law under which the tax is imposed;
- . whether the tax is levied by a national, state or local authority and the name of that authority; and
- . a description of the nature of the tax and the basis for its implementation.

9. Return forms for the 1987/88 and subsequent years of

income, or accompanying instructions, will also provide information concerning the details to be supplied. Decisions as to whether particular foreign taxes not included in this Ruling (or in subsequent Rulings) are creditable taxes under the foreign tax credit system will be taken in National Office. Branch Offices should therefore refer enquiries received, or claims in returns, in relation to such taxes to National Office for consideration and advice. It would assist with the processing of returns if taxpayers were to supply relevant details to National Office as soon as a liability to pay such a foreign tax becomes apparent.

RULING 10. Subject to the provisions of Division 18 of Part III of the Income Tax Assessment Act, a taxpayer will be entitled to a credit against Australian tax payable on foreign income for the following foreign taxes paid in respect of that income :

ARGENTINA

Income tax (Impuesto a las ganancias)  
Tax on casual gains (Impuesto sobre los beneficios eventuales)

AUSTRIA

Income tax (Einkommensteuer)  
Corporation tax (Körperschaftsteuer)  
Tax on Interest Yields (Zinsertragsteuer)  
Directors' tax (Aufsichtsratsabgabe)  
Tax on commercial and industrial enterprises (Gewerbesteuer), only where levied on a basis other than capital or the sum of wages

BANGLADESH

Income tax

BELGIUM

Individual income tax (impôt des personnes physiques/personen belasting)  
Corporate income tax (impôt des sociétés/vennootschapsbelasting)  
Income tax on legal entities (impôt des personnes morales/rechtspersonenbelasting)  
Income tax on non-residents (impôt des non-résidents/belasting der nietverblijfhouders)

including the prepayments, the surcharges on these taxes and prepayments, and the communal supplement to the individual income tax.

BRAZIL

Income tax (Imposto de renda)  
Withholding tax on pure income, e.g. interest

or dividends  
Supplementary tax (Imposto suplementar), where  
charged on dividends or branch profits arising  
in Brazil  
Payments to the development funds PIN and PIS (programa  
de integracao nacional/social) and MOBRAL (Fundacao  
moviments brasileiro de alfabetizacao)

BRUNEI

Income tax  
Petroleum income tax

BURMA

Income tax

CANADA

Federal: Income taxes imposed by the Government of  
Canada

Provincial:

ALBERTA

Provincial income tax

BRITISH COLUMBIA

Provincial income tax  
Mining tax  
Mineral resource tax  
Logging tax

MANITOBA

Provincial income tax

NEW BRUNSWICK

Provincial income tax  
Mining tax

NEWFOUNDLAND

Provincial income tax  
Mining tax

NOVA SCOTIA

Provincial income tax  
Mining tax

ONTARIO

Provincial corporation tax on company profits  
Provincial income tax on individuals  
Mining tax

PRINCE EDWARD ISLAND

Provincial income tax

QUEBEC

Provincial corporation tax on company profits  
Provincial income tax on individuals  
Mining tax  
Logging tax

SASKATCHEWAN

Provincial income tax  
Mining royalty tax

CHILE

Income tax (Impuesto a la renta)  
Additional tax (Impuesto adicional)  
Additional tax (Tasa adicional)

CHINA

Individual income tax  
Income tax concerning joint ventures with Chinese and  
foreign investment  
Income tax concerning foreign enterprises  
Local income tax

CYPRUS

Income tax  
Special contributions under Law 55 of 1974 and  
subsequent annual extensions

CZECHOSLOVAKIA

Tax on profits (Dan ze zisku)  
Artists' tax (Dan z prijmu literarni a  
umelecke cinnosti)

DENMARK

Income taxes to the State and to the municipalities  
(indkomstskatterne til staten og til kommunerne)

FINLAND

State income tax  
Communal tax  
Church tax  
Tax withheld at source from non-residents'  
income

FRANCE

Income tax and corporation tax including any  
withholding tax, prepayment (precompte) or advance  
payment with respect to the aforesaid taxes.

FRENCH POLYNESIA (TAHITI)

Corporation tax (Impot sur les benefices)

des societes)  
Territorial solidarity tax (Prelevement  
territorial de solidarite)  
Extraordinary solidarity tax (Prelevement  
exceptionnel de solidarite)

#### FIJI

Income tax (including basic tax and normal tax)  
Non-resident dividend withholding tax  
Interest withholding tax  
Royalty withholding tax  
Dividend tax  
Land sales tax

#### GERMAN DEMOCRATIC REPUBLIC

Corporation tax (korperschaftsteuer)  
Trade tax (Gewerbsteuer) to the extent that it is  
computed by reference to trading profits  
Wages tax (Lohnsteuer)

#### GERMANY (FEDERAL REPUBLIC)

Income tax (Einkommensteuer) including the surcharge  
(Erganzungsabgabe) thereon  
Corporation tax (korperschaftsteuer) including the  
surcharge (Erganzungsabgabe) thereon  
Trade tax (Gewerbsteuer) only where it is levied  
on a basis other than capital or pay-roll

#### GREECE

Income tax, including schedular or analytical tax

#### HONG KONG

Tax on earnings, profits and interest,  
comprising:  
- salaries tax  
- profits tax  
- interest tax

#### HUNGARY

Income taxes (a jovedelemadok)  
Profit taxes (a nyeresegadok)  
Enterprises special tax (a vallalati kulonado)  
Contribution to communal development (a kozsegf-  
ejlesztesi hozzajarulas)  
Levy on dividends and profit distributions of  
commercial companies (a kereskedelmi tarsasagok  
osztalek es nyereseg kifizetesei utani illetek)

#### INDIA

Income tax, including any surcharge thereon

Income tax and super tax levied by States on  
agricultural income  
Surtax imposed on chargeable profits of companies

#### INDONESIA

Income tax (pajak pendapatan)  
Company tax (pajak perseroan)  
Withholding tax on interest, dividends and royalties  
(pajak atas bunga, dividen dan royalty)

#### IRELAND

Income tax  
Corporation tax  
Capital gains tax

#### ITALY

Individual income tax (Imposta sul reddito delle  
persone fisiche)  
Corporate income tax (Imposta sul reddito delle  
persone giuridiche) even if they are collected  
by withholding taxes at source  
Local tax on income (Imposta locale sui redditi)  
Communal tax on capital appreciation of real property  
(Imposta comunale sull'incremento di valore degli  
imm (INVIM)), where charged on a capital gain also  
chargeable in Australia.

#### ISRAEL

Income tax (including capital gains tax)  
Company tax  
Tax on gains from the sale of land under the  
Land Appreciation Tax Law

#### JAPAN

Income tax  
Corporation tax  
Enterprise tax, so far as payable on profits or  
income  
Local (Prefectural or municipal) inhabitant taxes, so  
far as payable on profits, income or chargeable  
gains from sources in Japan

#### KENYA

Income tax

#### REPUBLIC OF KOREA

Income tax  
Corporation tax  
Inhabitant tax  
Defence tax, where charged by reference to income



tax or corporation tax.

#### LUXEMBOURG

Income tax on individuals (Impot sur le revenu  
des personnes physiques)  
Tax on fees of directors of companies (Impot sur les  
tantiemes)  
Corporation tax (Impot sur le revenu des collectivites)  
Tax on the total amount of wages and salaries (Impot  
commercial communal Y compris limpot sur le total des  
salaries), except in so far as it is computed on a  
basis other than profits.

#### MACAU

Complementary tax on income (Imposto comp-  
lementar de rendimentos)

#### MALAYSIA

Income tax and excess profit tax  
Supplementary income taxes (i.e. tin profits tax,  
development tax and timber profits tax)  
Petroleum income tax  
Real property gains tax

#### MALTA

Income tax, including prepayments of tax, whether  
made by deduction at source or otherwise

#### MEXICO

Income tax  
Federal District tax on income from capital (Impuesto  
sobre productos de capitales)  
Federal District surcharge, in so far as charged  
on the tax above

#### MONACO

Tax on profits (Impot sur les benefices)

#### NETHERLANDS

Income tax (Inkomstenbelasting)  
Wages tax (Loonbelasting)  
Corporation tax (vennootschapsbelasting)  
Dividend tax (Dividend belasting)

#### NEW ZEALAND

Income tax  
Excess retention tax

#### NORWAY

National tax on income (Inntektsskatt til staten)  
County municipal tax on income (Inntektsskatt til fylkeskommunen)  
Municipal tax on income (Inntektsskatt til kommunen)  
National contributions to the Tax Equalisation Fund (Felleskatt til Skattefordelingsfondet)  
National tax relating to income from the exploration for and the exploitation of submarine petroleum resources and activities and work relating thereto, including pipeline transport of petroleum produced  
National dues on remuneration to non-resident artistes (Skatt til staten vedrorende inntekt og formue i forbindelse med undersokelse etter og utnyttelse av undersjoiske petroleumsforekomster og dertil knyttet virksomhet og arbeid, herunder rorledningstransport av utvunnet petroleum) (avgift til staten av honorarer som tilfaller kunstnere bosatt i utlandet)  
Seamen's tax (Sjomannsskatt)

#### PAKISTAN

Income tax  
Super tax

#### PAPUA NEW GUINEA

The Income tax imposed under the law of Papua New Guinea, including:

- . salary or wages tax;
- . additional profits tax upon taxable additional profits from mining operations;
- . additional profits tax upon taxable additional profits from petroleum operations;
- . specific gains tax upon taxable specific gains; and
- . dividend withholding tax upon taxable dividend income.

#### PHILIPPINES

Income tax imposed by the Government of the Republic of the Phillipines

#### POLAND

Income tax (podatek dochodowy)  
Tax on wages and salaries (podatek ad wynagrodzen)  
Surcharge on the income tax or on the tax on wages or salaries (podatek wyrownawczy)

#### PORTUGAL

Agricultural tax (Imposto sobre a industria agricola)  
Industrial tax (Contribuicao industrial)  
Tax on income from capital (Imposto de capitais)  
Professional tax (Imposto profissional)

Complementary tax (Imposto complementar)  
Tax on capital gains (Imposto de mais-valias)  
Any surcharges on the preceding taxes

#### ROMANIA

Tax on incomes derived by individuals and corporate bodies  
(Impozitul pe veniturile realizate de persoane fizice  
si juridice)  
Tax on the profits of joint companies constituted with  
the participation of some Romanian economic  
organisations and some foreign partners (Impoz-  
itul pe beneficiile societatilor mixte constituite cu  
participare romana si straina)  
Tax on income realised from agricultural activities  
(Impozitul pe veniturile realizate din activitati  
agricole)

#### SINGAPORE

Income tax

#### SOLOMON ISLANDS

Income tax

#### SOUTH AFRICA

Normal tax (the general income tax)  
Non-resident shareholders' tax  
Undistributed profits tax  
Non-residents' tax on interest

#### SPAIN

Individual income tax (Impuesto sobre la renta de las  
personas fisicas)  
Company tax (Impuesto sobre sociedades)  
Local taxes on income

#### SRI LANKA

Income tax

#### SWEDEN

State income tax including sailors' tax and coupon tax  
Tax on undistributed profits of companies and the tax  
on distribution in connection with reduction of  
share capital or the winding-up of a company  
Tax on public entertainers  
Communal income tax

#### SWITZERLAND

The Federal, cantonal and communal taxes on income  
(total income, earned income, income from capital,

industrial and commercial profits and other items of income)

TAIWAN

Business income tax  
Personal income tax  
Withholding tax on interest  
Withholding tax on dividends

THAILAND

Income tax  
Petroleum income tax

TURKEY

Income tax, including withholding or "stoppage"  
tax where charged on net profits  
Corporation tax, where charged on net profits

TUVALU

Income tax

UNITED KINGDOM

Income tax (including surtax)  
Corporation tax  
Capital gains tax

UNITED STATES OF AMERICA

Federal : Federal income taxes imposed by the Internal Revenue Code, but excluding the accumulated earnings tax and the personal holding company tax

State : As detailed below, but note that any state tax which may be construed as a unitary tax (as defined by subsection 6AB(6) of the Australian Income Tax Assessment Act) is not creditable

ALABAMA

Income tax on individuals  
General income tax

ALASKA

General income tax

ARIZONA

General income tax

ARKANSAS

Income tax

CALIFORNIA

Bank and corporation income tax

Excise (income) tax, except where it represents  
a minimum levy  
Personal income tax  
Insurance companies tax on marine insurance  
companies

COLORADO

General income tax  
Excise (income) tax

CONNECTICUT

Corporation business tax where it is charged on  
income

DELAWARE

Corporation income tax  
Personal income tax

DISTRICT OF COLUMBIA

Individual and corporate income tax

FLORIDA

Corporation income tax

GEORGIA

General income tax

HAWAII

General income tax

IDAHO

General income tax

ILLINOIS

Income tax  
Corporate replacement income tax (personal  
property replacement tax)

IOWA

General income tax

KANSAS

Income tax

KENTUCKY

General income tax

LOUISIANA

General income tax

MAINE

Corporate income tax  
Personal income tax

MARYLAND

Income tax

MASSACHUSETTS

Corporate excise (income) tax, where charged  
on net income  
Personal income tax

MICHIGAN

Income tax  
Single business tax

MINNESOTA

Income tax

MISSOURI

Income tax

MONTANA

Corporate income tax (licence)  
Personal income tax

NEBRASKA

Personal income tax

NEW HAMPSHIRE

Business profits tax

NEW JERSEY

Corporation franchise tax except where it represents  
a minimum levy or is charged on amounts other than  
net income  
Insurance companies tax on marine insurance companies  
Personal income tax

NEW MEXICO

Income tax

NEW YORK CITY

Earnings tax on non-residents where it is charged on  
salaries  
Financial corporation tax where it is charged on  
income  
General corporate (income) tax, where charged on net  
income  
Personal income tax on residents where it is charged  
on salaries

NEW YORK STATE

Personal income tax  
Unincorporated business tax  
Corporation franchise tax, except where it represents  
a minimum levy, is a charge based on capital, or is  
charged on amounts other than net income

NORTH CAROLINA

General income tax  
Financial institutions excise tax, except where it  
represents a minimum levy

NORTH DAKOTA

General income tax

OHIO

Corporation franchise tax when charged on net  
income

Income tax (Canton, Cincinnati, Cleveland,  
Columbus and Toledo)

Net profits tax (Cleveland)

OKLAHOMA

General income tax

OREGON

Corporate (excise) income tax

Personal income tax

PENNSYLVANIA

Corporate net income tax except where it is charged  
on amounts other than net income

Personal income tax

Philadelphia net profits and wages tax

Philadelphia city tax

RHODE ISLAND

Business corporate tax where charged on net income

SOUTH CAROLINA

Income tax

TENNESSEE

Corporate excise (income) tax

UTAH

Corporation franchise tax when charged on net income

VERMONT

Corporate income tax

Personal income tax

VIRGINIA

Direct corporate income tax

Personal income tax

WISCONSIN

Corporate franchise tax

Income tax

U.S.S.R.

Income tax on foreign legal persons

Income tax on the population

WESTERN SAMOA

Income tax

YUGOSLAVIA

Tax on income of a basic organisation of  
associated labour  
Tax on a worker's personal income  
Tax on personal income derived from  
independent exercise of agricultural activity  
Tax on personal income derived from independent  
exercise of economic activity  
Tax on personal income derived from independent  
exercise of professional activity  
Tax on personal income derived from copyrights,  
patents and technical innovations  
Tax on revenue derived from capital and capital  
rights  
Tax on total revenue of citizens  
Tax on income of a foreign person engaged in  
economic and professional activities  
Tax on compensation obtained by a foreign  
person from investments in a domestic organisation  
of associated labour  
Tax on income of a foreign person carrying out  
investment projects  
Tax on revenue of a foreign person carrying on  
passenger and cargo transport.

COMMISSIONER OF TAXATION

30 July 1987