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Guide to foreign income tax offset rules 2024

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Abstract:

Check if you can claim a foreign income tax offset (FITO), how to calculate the amount and what rules apply.

Check if you can claim a foreign income tax offset (FITO), how to calculate the amount and what rules apply.

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Check if you are eligible for FITO and the rules that apply for entitlement.

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Eligibility and rules for the FITO

Check if you are eligible for FITO and the rules that apply for entitlement.

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Eligibility for FITO

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.

These rules apply for income years that start on or after 1 July 2008. Different rules apply for income periods up to 30 June 2008; see [How to claim a foreign tax credit 2007–08](#) (NAT 2338).

You may be entitled to claim a tax offset for the foreign tax you have paid on income, profits or gains (including gains of a capital nature) that are included in your Australian assessable income. In some circumstances, the offset is subject to a limit.

To be entitled to a foreign income tax offset, you must both:

- have [actually paid](#), or be deemed to have paid, an amount of [foreign income tax](#)
- include the income or gain on which you paid foreign income tax [in your assessable income](#) (or your [non-assessable non-exempt \(NANE\) income under section 23AI or 23AK of the Income Tax Assessment Act 1936 \(ITAA 1936\)](#)) for Australian income tax purposes.

Rules for claiming FITO

Differences between the Australian and foreign tax systems may lead to you paying foreign income tax in a different income year from when the income or gain is included for Australian income tax purposes. You might have paid the foreign tax in an earlier or later income year. However, the offset can only be claimed after the foreign tax is paid.

If you paid foreign income tax after the year in which the related income or gains have been included in your Australian tax return, you can claim the offset by requesting an [amended assessment](#) for that year. You have up to 4 years to request an amendment to your assessment from the date you paid the foreign income tax. You should also request an amendment if there is an increase or reduction in the amount of foreign income tax you paid that counts towards the offset.

The foreign income tax offset applies to [foreign income tax](#) imposed on all forms of income, profits and gains (including gains of a capital nature) and to all taxpayers, whether individuals or other entity types.

While the offset mainly applies to Australian resident taxpayers, in the limited circumstances where the foreign income of a [foreign person or non-resident](#) is taxed as assessable income in Australia, they may be able to claim the offset.

In very limited circumstances, foreign tax imposed on [Australian source income](#) may count towards a foreign income tax offset.

From 1 January 2019, Australia's [hybrid mismatch rules](#) may operate to deny deductions or include amounts in assessable income where certain requirements are met. This may impact your tax return.

Calculating the offset

You claim the [foreign income tax offset](#) in your income tax return.

If claiming an offset of \$1,000 or less, you only need to record the actual amount of foreign income tax paid that counts towards the offset (up to \$1,000).

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

The offset is calculated in a different way for Australian resident individuals in receipt of the Joint Petroleum Development Area (JPDA) income as an employee under the Timor Sea Maritime Boundaries Treaty with Timor-Leste.

Before you calculate your net income, you must convert all foreign income, deductions and foreign tax paid to Australian dollars.

All types of income are treated the same for the purposes of working out the foreign income tax offset.

Record keeping

To claim a foreign income tax offset, you will need to keep adequate [records](#) of your foreign income and tax paid.

Attributed foreign income

If you have interests in a foreign entity, your share of its income may be attributed to you for income tax purposes, even if the income has not yet been distributed.

If you have [attributed foreign income](#), you may be entitled to a foreign income tax offset for foreign income tax, income tax, or withholding tax paid by a controlled foreign company (CFC) in which you hold an interest.

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When a FITO applies

Check if you meet the conditions for a FITO to apply to you.

On this page

- [Foreign tax must be foreign income tax](#)
- [Tax must have been paid, or deemed to have been paid](#)
- [Foreign income tax must have been paid on your income](#)

Foreign tax must be foreign income tax

To count towards a tax offset, foreign income tax must be imposed under a law other than an Australian law and be either:

- a tax on income
- a tax on profits or gains, whether of an income or capital nature
- any other tax, being a tax that is subject to an agreement covered by the *International Tax Agreements Act 1953*.

The foreign income tax includes taxes similar to Australian withholding tax that is imposed in place of a tax on the net amount of income.

The foreign income tax must be correctly imposed under the relevant foreign law and in accordance with any tax treaty the country has with Australia. For example, if country A is limited under a tax treaty to taxing interest derived in that country by an Australian resident at a rate of up to 10%, but country A imposes a domestic tax rate of 25% for interest derived by all foreign residents, only 10% of the tax counts towards the tax offset. The taxpayer would need to seek a refund of the balance (that is, 15%) from country A's tax authority.

See [Attachment A](#) for a list of countries and other jurisdictions that have a tax treaty with Australia.

The foreign income tax may be imposed at a national, state, provincial, local, municipal or supra-national level; an example of a supra-national tax is that imposed by the European Union on pensions paid to its former employees.

Foreign taxes not included

The following types of foreign tax don't count towards a foreign income tax offset:

- inheritance taxes
- annual wealth taxes
- net worth taxes
- taxes based on production
- credit absorption taxes – a tax that is payable only because the taxpayer or another entity is entitled to a foreign income tax offset in Australia

- unitary taxes – that is tax on
 - income, profits or gains of a company derived from sources within the country where the tax is imposed
 - income, losses, outgoings or assets of the company (or of an associated company) derived, incurred or situated outside that country, except where the tax is either
 - of an associated company is a resident of the foreign country for the purposes of the law of the foreign country
 - for the purposes of granting any form of relief for tax imposed on dividends received by one company from another company.

Penalties, fines and interest don't qualify as foreign income tax.

If you are unsure about whether a specific foreign tax is a foreign income tax, you can write to us and request a private binding ruling.

Tax must have been paid, or deemed to have been paid

To count towards a tax offset, the foreign income tax must have been paid by the taxpayer or be deemed to have been paid by them. It is not enough that the tax is payable.

If the taxpayer is entitled to a refund of the foreign income tax, or if another benefit worked out by reference to the amount of the foreign income tax (other than a reduction in the amount of the foreign tax) is received as a result of a tax payment, the tax is not considered to have been paid.

It is not necessary for you to have paid the foreign income tax in the same income year in which the income or gain on which the tax has been paid is included in your income for Australian income tax purposes. The tax could be paid before or after the income year in which you derive the income. However, the offset can only arise when the foreign income tax is paid, and it is applied to the income year in which the relevant income or gain is included in your assessable income (or your NANE income under section 23AI or 23AK); see [Special amendment rules for foreign income tax offsets](#).

Example 1: foreign income tax paid in following income year

A resident taxpayer holds shares overseas for the income year ending 30 June 2023. The taxpayer receives dividends from these shares during that income year. The taxpayer pays foreign income tax on the income from the shares in the income year ending 30 June 2024.

Under Australian tax law, the taxpayer must include income from the dividends in their assessable income for 2022–23. However, only when the taxpayer pays the foreign income tax are they eligible for a tax offset.

Once the foreign tax is paid, the taxpayer lodges an amended 2022–23 tax return to claim an offset for the foreign income tax paid.

Tax paid by someone else

A taxpayer is treated as having paid foreign income tax on all or part of their income where the tax has been paid in respect of that income, either:

- by someone else on their behalf under an arrangement with the taxpayer
- under the law relating to that tax.

This tax-paid deeming rule ensures that the right taxpayer obtains the tax offset. It applies in situations where the foreign income tax has actually been paid by someone else in a representative capacity for the taxpayer, with the latter bearing the economic burden of the tax. Specifically, it applies where foreign income tax has been paid by either:

- a deduction or withholding
- a trust in which the taxpayer is a beneficiary
- a partnership in which the taxpayer is a partner
- the taxpayer's spouse.

Example 2: foreign income tax withheld and paid by someone else

Tim, an Australian resident, derives interest income of \$1,000 from a foreign country. As that country's laws require the payer of the interest to withhold tax at a rate of 10%, Tim receives \$900 (\$1,000 less tax of \$100). Although he has not directly paid the foreign income tax, Tim is taken to have paid that tax because it was paid under the law relating to the foreign income tax. Tim includes \$1,000 in his Australian assessable income and claims a foreign income tax offset of \$100.

Example 3: foreign income tax paid on partnership net income

A partnership of 2 Australian partners with equal interests in all income of the partnership derives net income of \$1,000 from a foreign country on which \$100 of foreign income tax is paid.

Each partner includes \$500 in their assessable income, being their share of the net income of the partnership. They will both be entitled to a foreign income tax offset to the extent that foreign income tax is paid on the amount that is part of their assessable income.

The foreign income tax paid is apportioned according to each partner's share of the net income of the partnership included in their assessable income. As a result, each claims an offset for \$50 of foreign income tax, as this is the proportionate amount of foreign income tax they are taken to have paid on the amount included in their assessable income, that is:

$$(500 \div 1,000) \times \$100$$

Example 4: foreign income tax paid on joint income

Married couple Arthur and Lucy, both Australian residents, derive net rental income from a foreign country. Under that country's laws, joint filing of tax returns is allowed. Consequently, the net rental income is included in their jointly-filed return and income tax is paid jointly on that income. However, under Australian tax law, each person must show their share of the net rental income in their own tax return. Although the foreign income tax has been jointly paid under the laws of the foreign country, Arthur and Lucy are each deemed to have paid their relevant share of the foreign income tax that has been paid jointly.

Example 5: foreign income tax paid by trustee

The S trust estate derives rental income from commercial property investments in a foreign country, on which the trustee pays foreign income tax. Samantha, an Australian resident, is the sole beneficiary of the S trust estate and is presently entitled to all its income. As such, she is assessed on the whole of the trust's net income. Although Samantha hasn't directly paid the foreign income tax, she is deemed to have paid it.

Special tax-paid deeming rules for trust estate beneficiaries

A specific rule deems a taxpayer to have paid the relevant foreign income tax for a share of trust income. The rule applies where the taxpayer is presently entitled to a share of the trust income that can be directly or indirectly attributed to income received by the trust. This income is that on which foreign income tax has already been paid by an entity, being an entity other than the trust itself. This tax-paid deeming rule applies where:

- section 6B of the ITAA 1936 treats an amount of assessable income as being attributable to another amount of income having a particular character or source
- foreign income tax has been paid in respect of the other amount of income
- the assessable income attributed under section 6B is less than it would have been if the foreign income tax had not been paid.

These rules ensure that a beneficiary of a trust can be deemed to have paid the relevant tax on its share of trust income that is attributable to income that flows through the trust (or chain of trusts) on which foreign income tax is paid by another entity.

The amount of the foreign income tax that is taken to have been paid by the taxpayer is the amount by which the income included in their assessable income has been reduced because of the payment of the foreign income tax.

Example 6: foreign withholding tax on income of trust

Holly is the sole beneficiary of the B trust estate and is presently entitled to all its income. B trust derives foreign dividend income of \$100,000, on which foreign dividend withholding tax of \$10,000 is paid. B trust subsequently distributes all its

income to Holly (that is, \$90,000 net of withholding). As Holly's share of the trust income is attributable to the dividend income received by B trust (by virtue of section 6B of the ITAA 1936), she can treat the withholding tax paid on the dividend as having been paid by her. Holly also includes \$100,000 in her assessable income.

Example 7: foreign withholding tax deemed paid by ultimate beneficiary

Tim, an Australian resident, is the only unit holder in Managed Fund A, which in turn is the only unit holder in Managed Fund B, which has an interest in a US company. Both managed funds are unit trusts. The US company pays a dividend of \$1,000 to Managed Fund B, on which withholding tax of \$150 is payable, making the net distribution \$850. This amount of \$850 flows through both managed funds to Tim. The terms and conditions of the 2 managed funds are such that Tim is the beneficial owner of the shares on which the dividend was paid.

Tim grosses up the \$850 by the amount of the \$150 withholding tax and includes \$1,000 in his assessable income. As Tim's share of the trust income is attributable to the dividend income received by Managed Fund B, he can treat the withholding tax paid on the dividend as having been paid by him (even though the amount included in his assessable income is attributable to the dividend income that has flowed through a chain of trusts).

Foreign income tax not treated as paid by the taxpayer

A taxpayer is not entitled to a tax offset for foreign income tax to the extent they, or any other entity, are entitled to either:

- a refund of the foreign tax
- any other benefit worked out by reference to the amount of foreign income tax (other than a reduction in the amount of the foreign income tax).

The entitlement to a benefit may arise from the exploitation of arbitrage opportunities resulting from mismatches in debt and equity classifications and the different status granted to foreign hybrid entities. An example of this is where an enhanced yield is obtained by a taxpayer entering into a structured financing arrangement.

However, the taxpayer may still be entitled to a tax offset where the only benefit is a tax reduction for the taxpayer. This may also reflect a reduction in the tax liability of another entity (such as that provided by an imputation credit, a rebate of tax or a similar type of concession). This entitlement to a tax offset can only be provided where this concession does not result in a refund to the taxpayer or other entity.

Example 8: foreign income tax refunded not treated as paid by the taxpayer

In a foreign country, Austco derives net rental income on which income tax of \$50,000 is paid in that country.

Austco later finds out that it is entitled to a special concession in the foreign country, under which the \$50,000 is fully refunded. Accordingly, Austco is taken to not have paid foreign income tax on that income.

When Austco lodges its Australian tax return, it will not claim the foreign income tax offset in relation to this amount.

If Austco had lodged its Australian tax return before finding out about the special concession in the foreign country and being refunded the tax, it would request an amended assessment to reduce its foreign income tax offset claim by the full amount.

Foreign income tax must have been paid on your income

To count towards a tax offset, the foreign income tax must have been paid on income, profits or gains that are included in your income for Australian income tax purposes.

For example, where a person receives a dividend from a foreign company, the foreign income tax on the underlying company profits (the source of the dividend) is not paid in respect of the shareholder's dividend income. Similarly, a person receiving a pension from a foreign superannuation fund has not paid the foreign income tax levied on the income of the superannuation fund. In both of these cases, the tax that has been paid relates to the income or gains of the other entity, which is being taxed in its own right.

However, where an entity has been formed under a foreign country's laws and profits are taxed in the hands of its members then income tax imposed by that country on a distribution to an Australian member may be counted towards their tax offset. This is the case even where the entity is treated as a company for Australian tax purposes and the distribution is characterised as a dividend.

Example 9: foreign partnership treated as company and foreign income tax deemed to have paid for the dividend distribution

Aust Super Fund is a trustee of a complying superannuation entity and an Australian resident taxpayer with a 2% interest in a US limited partnership.

Under US tax law, the US limited partnership is treated as fiscally transparent, that is, it is not taxed on its profits, but tax is instead borne by the partners on their share of the partnership distribution.

Aust Super Fund's share of the US limited partnership's profits is \$1 million, on which tax of \$350,000 is withheld by the partnership (under US tax law). The tax is imposed in accordance with the Australia–US tax treaty.

Under Australian tax law, Aust Super Fund has not made an election under former subsection 485AA(1) of the ITAA 1936 or paragraph 830-10(2)(b) of the *Income Tax Assessment Act 1997* (ITAA 1997) to treat the US limited partnership as a foreign hybrid limited partnership. Accordingly, the US limited partnership is taxed under Australian tax law as a company in accordance with Division 5A of Part III of the ITAA 1936.

The net amount of \$650,000 received by Aust Super Fund is characterised as a dividend for Australian tax law purposes and is included in its assessable income. Although Aust Super Fund has not paid the US tax of \$350,000 personally (as the US limited partnership has been taxed on the distribution on a withholding basis) it will be treated as having paid it, as the US tax is imposed on the distribution, rather than on the underlying profits, of the US limited partnership out of which the distribution is made.

Aust Super Fund is also required to gross-up its assessable income by the \$350,000 of foreign income tax that it is deemed to have paid in relation to the dividend distribution.

Example 10: foreign income tax paid on foreign property

A resident taxpayer receives rental income of \$5,000 from foreign property, on which \$1,000 of income tax is paid in the foreign country. As the resident taxpayer includes the \$5,000 of rental income in their Australian assessable income, the requirement for the foreign income tax to be paid on income included in the resident taxpayer's Australian income has been met.

Foreign income tax paid on part of an amount included in your income

In some situations, only part of an amount on which foreign tax has been paid is included in Australian assessable income. When this occurs, only that proportion of the foreign income tax which equates to the proportion of foreign income included would be available as a tax offset.

In other situations, the foreign income tax paid relates to only part of an amount included in the taxpayer's income for Australian income tax purposes. This typically applies where a foreign source gain on which foreign income tax has been paid is part of a net amount included in a taxpayer's assessable income. When this occurs, the foreign income tax counts towards the tax offset only to the extent that it is paid in respect of that part of the amount that is included in the taxpayer's assessable income.

For example, this may be relevant where a taxpayer has both a capital gain and a capital loss, and only the net amount is included in their assessable income. Under the rules applying to capital gains and capital losses, a taxpayer can choose the order in which capital losses are offset against gains. In particular, a taxpayer can choose to offset capital losses (whether current year or prior-year unapplied net capital losses) first against domestic capital gains or foreign gains on which no foreign tax has been paid. Such an ordering of the losses maximises the foreign source capital gain component of a net capital gain on which foreign income tax has been paid.

If only part of a foreign capital gain is assessable in Australia (for example, the gain is subject to the discount capital gains concessions in Division 115 of the ITAA 1997) the foreign tax paid on the gain must be apportioned accordingly. This includes, where a foreign capital gain is distributed to a unitholder of a managed investment trust (MIT) or attribution managed investment trust (AMIT). In such circumstances,

when calculating your FITO, the 'Foreign tax offset applicable to discountable capital gains' shown at Part C – Tax offsets of the [Attribution Managed Investment Trust Member Annual \(AMMA\) statement](#) or Standard Distribution Statement (SDS) must be reduced for discounted capital gains.

Example 11: foreign income tax paid on part of an amount included in assessable income

Company C derives the following capital gains and losses on disposals of assets during the year.

| Capital gains and losses on disposals | |
|--|-----------------|
| Capital gains or losses | Amount |
| Domestic capital gain on land | \$100,000 |
| Foreign capital gain on asset B (no foreign tax paid) | \$50,000 |
| Foreign capital gains on asset C (on which foreign income tax of \$2,000 is paid) | \$20,000 |
| Domestic capital loss on asset A | \$160,000 |
| Net capital gain | \$10,000 |

As the foreign income tax offset can only apply where foreign income tax has been paid on an amount included in the taxpayer assessable income, company C chooses to offset its domestic capital loss on asset A of \$160,000; firstly against the domestic gain on land of \$100,000; then \$50,000 against the foreign capital gain on asset B on which no foreign income tax has been paid; and the balance of \$10,000 against the foreign capital gain on asset C. Therefore, the net capital gain of \$10,000 relates to the foreign capital gain on asset C. As this is the amount included in assessable income on which foreign income tax has been paid, the proportionate share of tax paid of \$1,000 (that is, $(10,000 \div 20,000) \times 2,000$) counts towards company C's foreign income tax offset.

Where foreign income tax is paid on a foreign source gain, but the taxpayer is in an overall capital loss situation for the income year because of other capital losses, none of the foreign income tax paid counts towards a tax offset because the gain is not included in the taxpayer's assessable income.

Example 12: no foreign income tax offset – foreign income not included in assessable income

On the sale of an asset, an Australian-resident taxpayer makes a foreign source capital gain of \$10,000, on which foreign income tax of \$2,000 has been paid.

The taxpayer also realises a capital loss of \$10,000 on the disposal of an Australian asset.

The loss of \$10,000 is offset against the foreign gain of \$10,000, which results in no net capital gain being included in the taxpayer's assessable income. As their assessable income does not include an amount on which foreign income tax has been paid, the taxpayer is not eligible for a foreign income tax offset for the foreign income tax paid on the foreign source capital gain.

The same principle applies where foreign income tax has been paid on an amount that forms part of a partnership or trust's assessable income, but because there is an overall partnership or trust loss for the year (rather than there being net income) the relevant foreign income is not included in the partner or beneficiary's assessable income.

Deferred non-commercial business losses

Foreign income tax paid on foreign source business income counts towards a foreign income tax offset, regardless of whether there is a net business loss from the activity, because all foreign business income forms part of the taxpayer's assessable income. In this respect, the treatment of business losses differs from the treatment of a net capital gain where only the net amount is included in assessable income.

However, when calculating the [offset limit](#) similar principles apply for deferred business losses as apply for capital losses.

If a taxpayer has both Australian and foreign source income and prior-year deferred losses, from the same or similar business activity, they can choose whether the losses are taken to be a deduction against the business income from the Australian source or the foreign source. For example, they can choose to offset deferred losses first against Australian business income, until the Australian business income is reduced to nil, and then against the foreign business income.

Offsetting the losses in this way maximises the foreign source component of the net business income, which will maximise any claim for the foreign income tax offset.

Exempt or non-assessable non-exempt income

Foreign income tax paid on amounts that are exempt or non-assessable non-exempt (NANE) income in Australia does not count towards a foreign income tax offset, except where the taxpayer derives NANE income under section 23AI or 23AK of the ITAA 1936.

Example 13: no foreign income tax offset - NANE income

Austco, an Australian-resident company, wholly owns Foreignco, which pays a dividend of \$10 million to Austco, out of which foreign income tax of \$2 million is paid. This dividend is not paid out of previously attributed income. As the dividend is NANE income of Austco under section 768-5 of the ITAA 1997, the foreign income tax paid of \$2 million does not count towards Austco's tax offset.

Foreign income must be grossed up

Where you have paid foreign income tax on an amount that forms part of your assessable income, you must include the gross amount (including any tax paid by you) in your assessable income on your tax return.

Example 14: grossing up foreign income

An Australian-resident taxpayer invests directly in a foreign company which pays a dividend of \$100, from which it deducts \$15 withholding tax.

The taxpayer must gross-up the net distribution of \$85, adding the foreign income tax withheld of \$15, to show \$100 in their tax return as assessable income. This is the amount on which the taxpayer is assessed for income tax purposes.

Attributed income

A special grossing-up rule applies to attributable taxpayers that are deemed to have paid foreign income tax that is actually paid by their controlled foreign company (CFC). In respect of the attributed income of a CFC, a notional deduction is allowed for any foreign income tax, income tax or withholding tax it pays. The attributable taxpayer includes in their assessable income this net amount multiplied by their attribution percentage. As a result, the attributable taxpayer is effectively entitled to a deduction for foreign income tax, income tax or withholding tax paid on an amount included in the CFC's attributed income.

Where the attributable taxpayer is deemed to have paid the foreign income tax that is actually paid by the CFC and counts that towards their tax offset, they have to gross-up their attributed income by the amount of foreign income tax (including withholding tax) they are deemed to have paid.

There are special rules for claiming an offset for [foreign income tax paid on attributed income](#).

Example 15: grossing up foreign income – attributed income

A Co is an Australian-resident company with a 100% interest in Y Co, a controlled foreign company (CFC). Y Co works out its notional assessable income as \$1.2 million and claims a notional allowable deduction of \$200,000 for foreign tax paid by it, resulting in attributed income of \$1 million. A Co includes the amount of \$1 million in its assessable income under section 456 of the ITAA 1936, as its attribution percentage is 100%. A Co is also required to treat the foreign income tax paid by Y Co as having been paid by it under the special tax-paid deeming rules that apply to attributable taxpayers. As a result, A Co is required to gross-up its attributed income of \$1 million by the \$200,000 of foreign income tax that it is deemed to have paid.

Continue to: [Calculate your FITO or offset limit](#)

Calculate your FITO or offset limit

How to work out your FITO or offset limit.

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- [Joint Petroleum Development Area income and FITO](#)
- [Claiming your FITO](#)
- [How to calculate your offset limit](#)
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About the FITO limit

You claim the FITO in your tax return. First check if the amount you claim is subject to a foreign income tax offset limit.

As a non-refundable tax offset, the foreign income tax offset reduces your income tax payable (including Medicare levy and Medicare levy surcharge).

Under the tax offset ordering rules, the foreign income tax offset is applied after all other non-refundable tax and non-transferable offsets. Once your tax payable has been reduced to nil, any unused foreign income tax offset is not refunded to you and can't be carried forward to later income years.

FITO up to \$1000

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 that counts towards the offset (up to \$1,000).

FITO more than \$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 and cannot be refunded to you.

Joint Petroleum Development Area income and FITO

For Australian resident individuals with Joint Petroleum Development Area (JPDA) income, the foreign income tax offset for an employee is the lesser of:

- Australian tax payable on the net assessable JPDA income (JPDA income less allowable deductions relating to that income)
- Timor-Leste tax paid on JPDA employment income.

The foreign income tax offset limit does not apply to this income.

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.

Claiming your FITO

You claim the foreign income tax offset in your income tax return. For help completing that part of the income tax return, see:

- Individuals – [Individual tax return instructions supplement 2024](#)
- Companies – [Company tax return instructions 2024](#)
- Partnerships – [Partnership tax return instructions 2024](#)
- Trusts – [Trust tax return instructions 2024](#)
- Funds – [Fund income tax return instructions 2024.](#)

Before you calculate your net income, you must convert all foreign income, deductions and foreign tax paid to Australian dollars.

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. See [Example 16: Foreign income tax offset limit](#). The offset limit is based on a comparison between your tax liability **and** the tax liability you would have if certain foreign-taxed and foreign-sourced income and related deductions were disregarded.

Step 1: Work out your income tax payable

Work out the income tax payable by you (including Medicare levy and Medicare levy surcharge) for 2023–24, excluding penalties and interest and disregarding any tax offsets.

Step 2: Work out your income tax that would be payable if you disregarded certain foreign income and related deductions

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

- your assessable income didn't include
 - any amount on which foreign income tax has been paid that counts towards your foreign income tax offset

- any other income or gains from a non-Australian source
- you were not entitled to the following (where such deductions are actually allowable)
 - 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 about assessable income
 - an amount of the foreign loss component of one or more tax losses deducted in the income year.

For the purpose of this step, where deductions relate exclusively to the disregarded income amounts, you should assume that you were not entitled to the deductions.

Whether a deduction is reasonably related to the disregarded assessable income amounts will be a question of fact depending on the circumstances of the taxpayer. The meaning of 'reasonably related to' is broad and it includes a relationship that may either be direct or indirect, provided that the relationship consists of a real connection. However, a merely remote relationship is insufficient.

Where deductions relate to both disregarded income amounts and other assessable income (as would typically be the case with head office and general administration expenses) you will need to apportion the deductions on a reasonable basis.

Allowable deductions for items such as gifts, contributions, superannuation and tax agent's fees are not considered to be reasonably related to any amount on which foreign income tax has been paid or other non-Australian source income.

Where foreign income is subject to averaging (for example, where the special professional income rules or primary production income rules apply) only the foreign income for the current year is excluded at this step. It is not necessary to separate the Australian and foreign amounts for prior years.

Step 3: Work out the foreign income tax offset limit

Subtract the result of step 2 from step 1. If the result is greater than \$1,000, this is your offset limit.

Example 16: foreign income tax offset limit

Anna, an Australian-resident taxpayer for the year ended 30 June 2024, has income and expenses and pays foreign income tax for the income year as follows:

Example of income and deductions

| Income and deductions | Amount |
|---------------------------------------|-----------|
| Employment income from Australia | A\$22,000 |
| Employment income from United States | A\$6,000 |
| Employment income from United Kingdom | A\$4,000 |

| | |
|--|------------------|
| Rental income from United Kingdom | A\$1,000 |
| Dividend income from United Kingdom | A\$600 |
| Interest income from United Kingdom | A\$400 |
| Total assessable income | A\$34,000 |
| Expenses incurred in deriving employment income from Australia | A\$2,000 |
| Expenses incurred in deriving employment income from United States | A\$450 |
| Expenses incurred in deriving rental income from United Kingdom | A\$250 |
| Interest (debt deduction) incurred in deriving dividend income from United Kingdom | A\$70 |
| Expenses (debt deduction) incurred in deriving interest income from United Kingdom | A\$30 |
| Gift to deductible gift recipient | A\$70 |
| Total allowable deductions | A\$2,870 |
| Taxable income | A\$31,130 |

Foreign income tax paid

| Tax paid | Amount |
|---------------------------------------|-----------------|
| Employment income from United States | A\$1,800 |
| Employment income from United Kingdom | A\$1,200 |
| Dividend income from United Kingdom | A\$60 |
| Interest income from United Kingdom | A\$40 |
| Rental income from United Kingdom | A\$300 |
| Total foreign income tax paid | A\$3,400 |

Anna calculates her foreign income tax offset limit as follows:

Step 1: Work out the tax payable on her taxable income

- Tax on \$31,130: \$3,079.30 (includes Medicare levy)

Step 2: Work out the tax that would be payable if:

- Her assessable income does not include any of the amounts of foreign income (as shown in the table).

Foreign income amounts

| Income | Amount |
|--------|--------|
|--------|--------|

| | |
|---------------------------------------|------------------|
| Employment income from United States | A\$6,000 |
| Employment income from United Kingdom | A\$4,000 |
| Rental income from United Kingdom | A\$1,000 |
| Dividend income from United Kingdom | A\$600 |
| Interest income from United Kingdom | A\$400 |
| Total | A\$12,000 |

- b. Certain expenses are disregarded. These are any expenses that relate to amounts included in her assessable income on which foreign income tax has been paid, provided that tax counts towards her foreign income tax offset, or expenses relating to other non-Australian amounts that are part of her assessable income (excluding debt deductions).

Expenses

| Type of expense incurred | Amount |
|--|---------------|
| Expenses incurred in deriving employment income from United States | A\$450 |
| Expenses incurred in deriving rental income from United Kingdom | A\$250 |
| Total expenses | A\$700 |

Note: The debt deductions of \$100 (\$70 + \$30) that relate to the United Kingdom dividend and interest income are not disregarded, as Anna does not have an overseas permanent establishment. Nor is the deduction of \$70 for the gift to a deductible gift recipient disregarded, as it does not reasonably relate to the excluded assessable income amounts at step 2(a).

Calculation

| Taxable income calculation | Amount |
|--|-----------|
| Total assessable income (disregarding step 2(a) amount) | A\$22,000 |
| Less allowable deduction (disregarding step 2(b) amount) | A\$2,170 |
| Taxable income under step 2 assumptions: | A\$19,830 |

Tax on \$19,830: \$309.70

As \$19,830 is below the Medicare low income threshold, the Medicare levy is not applied.

Step 3: Subtract the result of step 2 from step 1

■ $\$3,079.30 - \$309.70 = \$2,769.60$

This is Anna's foreign income tax offset limit. Although she has paid foreign income tax of \$3,400, her foreign income tax offset is limited to \$2,769.60.

The difference between the foreign income tax that Anna has paid and the offset limit cannot be refunded or carried forward to a future income year.

Offset limit with deferred non-commercial business losses

If a current year foreign business loss is required to be deferred because of the [non-commercial business loss rules](#), then step 2 in the foreign income tax offset limit calculation needs to be adjusted for the amount of any foreign business loss that is deferred. This is done before working out the amount of foreign income and expenses to be disregarded.

To be eligible for the foreign income tax offset where you have a net foreign business loss there must be other foreign income included in assessable income on which foreign income tax has been paid.

To work out the amount of foreign income and expenses to disregard at step 2:

- add back the foreign component of the current year deferred non-commercial business loss to the net foreign income amount
- then subtract the net foreign income from taxable income.

If the net foreign amount is zero or negative after adding back the deferred foreign loss component, then the foreign income tax offset amount will be the lower of the foreign income tax paid or the default foreign income tax offset limit amount of \$1,000.

Example 17: foreign income tax offset limit – deferred non-commercial business losses

Assume for the year ended 30 June 2024 that Karen has:

- an Australian salary of \$60,000
- a \$7,000 business loss made up of
 - \$4,000 Australian loss and
 - \$3,000 foreign loss.

Also assume that the current year loss is required to be deferred as it does not meet one of the 4 non-commercial losses tests.

There is also \$20,000 of other foreign income on which foreign income tax of \$2,000 has been paid. The net foreign income is:

$$(\$20,000 - \$3,000) = \$17,000$$

Add the foreign component of deferred loss back to the net foreign income and then **subtract** the adjusted net foreign income amount from taxable income:

| Taxable income calculation | Amount |
|----------------------------|-----------|
| Salary | A\$60,000 |

| | |
|---|---|
| Australian component of net business loss | (A\$4,000) |
| Foreign component of net business loss | (A\$3,000) |
| Other foreign income (tax paid \$2,000) | A\$20,000 |
| Net foreign income | A\$17,000 |
| Deferred loss added back | A\$7,000 |
| Taxable income | A\$80,000 |
| Net foreign income after adding back foreign component of deferred loss | (A\$17,000 + A\$3,000) = A\$20,000 |
| Taxable income disregarding any foreign income and expenses | (A\$80,000 – A\$20,000) = A\$60,000 |

Step 1: Work out the tax payable on her taxable income

Tax on \$80,000: \$18,067 (includes Medicare levy)

Step 2: Work out the tax that would be payable based on the stated assumptions

Taxable income under step 2 assumptions: \$60,000

Tax on \$60,000: \$11,167 (includes Medicare levy)

Step 3: Subtract the result of step 2 from step 1

$$\text{\$18,067} - \text{\$11,167} = \text{\$6,900}$$

In this situation, all the foreign income tax of \$2,000 would be available as a tax offset as the foreign income tax offset limit exceeds the foreign income tax paid.

Special amendment rules for foreign income tax offsets

Differences between the Australian and foreign tax systems may lead to you paying foreign income tax in a different income year to that in which you include the related income or gains in your income for Australian income tax purposes.

If you paid foreign income tax after the year in which the related income or gains have been included in your income, you can amend your assessment for that year to claim the offset. You can lodge an amended assessment within 4 years of paying foreign income tax that counts towards your tax offset. This time period applies irrespective of when the income or gains were included in your income for Australian income tax purposes. In this situation, the foreign income tax must be paid after you have lodged your Australian income tax return for the relevant year.

The 4-year amendment period also applies where there has been an increase or decrease in the amount of foreign income tax paid that counts towards your tax offset. The special amendment rules also apply to amendments initiated by us, which may have the effect of extending the normal [period of review](#). In these cases, the

4 year period starts when the increase in foreign income tax has been paid or when the foreign income tax has been reduced, for example, by a refund.

The special amendment rules apply only where you have paid foreign income tax or there has been an increase or decrease in the tax paid that counts towards your tax offset. In all other circumstances, the normal amendment rules apply.

For example, where an audit by us has detected an incorrect calculation of the foreign income tax offset limit affecting the amount of the foreign income tax offset previously claimed, we can only amend a taxpayer's assessment within the usual time limits set out in section 170 of the ITAA 1936.

Example 18: amendment for foreign income tax offset

Aust Co, an Australian resident company, sells a rental property in the US, making a gain in 2022–23. The gain is taxed in the US and Australia. Aust Co pays the US income tax before lodging its Australian return for 2022–23.

In February 2024, Aust Co receives a refund of part of the US tax paid because of the favourable outcome of a dispute over the calculation of the gain. An amendment to Aust Co's 2022–23 assessment to reflect the reduction in US tax paid, and consequently its foreign income tax offset can be made on or before February 2028.

Continue to: [Record keeping for FITO](#)

Record keeping for FITO

Check the records you need to keep to support a claim for the FITO.

On this page

- [Keeping FITO records](#)
- [Written evidence](#)
- [You must keep the evidence](#)
- [We may ask you to get information from overseas](#)

Keeping FITO records

As with your tax affairs, you need [written evidence](#) to support a claim for a foreign income tax offset, and you must [keep such evidence](#) so you can provide it to us on request.

If we require [information that is held overseas](#) we will advise you in writing, giving you time to provide it.

If you use a tax agent to prepare and lodge your return, you need to advise them if you have earned any income on which foreign income tax has been paid and provide them with evidence of payment of the tax.

Written evidence

Written evidence of foreign tax paid should include the following details:

- the amount of foreign income or gains in the foreign currency
- the foreign tax year in which the income or gains were derived
- the nature and amount of foreign tax levied on the foreign income or gains
- the date on which the foreign tax was paid
- whether the tax paid represents an advance, instalment, or final foreign tax payment for the relevant foreign income or gains.

You should provide the best available evidence to show that foreign tax has been paid. You are not entitled to a credit for foreign tax if that foreign tax has been refunded to you.

Written evidence of paying foreign tax

The following documents are acceptable evidence of the payment of foreign tax:

- A statement from the foreign tax authority setting out the particulars that would normally be recorded on a notice of assessment, a similar official receipt, or other document evidencing payment of foreign income tax. If the foreign notice has no provision for a cash register receipt, taxpayers will be required to provide a separate receipt to indicate that the foreign tax liability has been paid. A notice

of assessment which does not show that the foreign tax has been paid will not constitute sufficient proof that the tax shown on such a notice has been paid.

- A certificate for deduction of withholding tax issued by the person who pays the interest, dividends or any other income that is subject to a deduction of foreign tax.
- A distribution statement, or a similar document from a trustee of a managed fund or unit trust, stating the amount of foreign tax paid. For example, the details of foreign tax paid shown in trust distribution advice provided to beneficiaries or unitholders will generally be sufficient to support a claim for a foreign income tax offset.
- Payslips, payment summaries or similar documents that shows the amount of foreign tax paid will be accepted where there is no requirement in a foreign country to lodge an income tax return.
- A copy of the foreign income tax return, accompanied by a receipt verifying that the foreign tax, as calculated on the basis of the return, has been paid.
- A letter from the relevant foreign tax authority stating all taxes for that income year have been paid.

You must keep the evidence

You don't need to provide the written evidence with your tax return, but you must retain the original documents because we may need to see them at a later date.

Generally, you must keep records for 5 years after you prepared or obtained them, or after you completed the relevant transactions or acts, whichever is later.

We may amend an income tax assessment for an income year within 2 years of issuing the notice of assessment for that year in the case of individuals and small and medium businesses, or 4 years for other taxpayers.

This period of review may be extended by an order of the Federal Court of Australia or with your consent. Where this occurs, you must keep your records for 5 years or to the end of the period during which the assessment may be amended, whichever is later.

The period of review may also be extended by the effect of [special amendment rules](#) that allow an assessment to be amended within 4 years of a payment of foreign income tax or an increase or decrease in the tax paid.

You don't need to keep records where the Commissioner of Taxation has notified you that they are not required, or where your company has gone into liquidation and been finally dissolved.

We may ask you to get information from overseas

If we believe that information relevant to your assessment is held overseas, you may receive an offshore information notice asking you to get the information for us within 90 days.

If you need extra time, you should apply in writing before the time runs out.

Continue to: [Foreign income tax paid by a controlled foreign company](#)

Foreign income tax paid by a controlled foreign company

Check your eligibility for FITO if you have attributed foreign income and the controlled foreign company pays the tax.

On this page

- [FITO and attributed foreign income](#)
- [Resident company with interest in a CFC](#)
- [Foreign income tax paid on NANE income](#)

FITO and attributed foreign income

If you have [attributed foreign income](#), you may be entitled to a foreign income tax offset for foreign income tax, income tax or withholding tax paid by the controlled foreign company (CFC) in which you hold an interest.

A foreign income tax offset may arise:

- for a [resident company that is an attributable taxpayer with a CFC interest](#) and includes an amount in its assessable income under sections 456 or 457 of the ITAA 1936
- for resident taxpayers that receive a [distribution that is treated as non-assessable non-exempt \(NANE\) income](#) under sections 23AI or 23AK of the ITAA 1936.

In these circumstances, the attributable taxpayer is deemed to have paid foreign income tax in respect of their CFC interest, with the tax paid counting towards their tax offset. In their assessable income, the section 456 and 457 amounts must be grossed up by the amount of the foreign income tax that is deemed to have been paid.

Resident company with interest in a CFC

A resident company with a CFC interest can treat foreign income tax as having been paid by them in respect of their attributed income if the following conditions are met:

- their assessable income includes an amount under sections 456 or 457 of the ITAA 1936 in relation to their CFC interest
- where the income is included in the company's assessable income under section 457, foreign income tax, income tax, or withholding tax has been paid by the CFC
- where the income is included in the company's assessable income under section 456, foreign income tax, income tax or withholding tax has been paid by the CFC on part or all of its notional assessable income for its relevant statutory accounting period

- they have an attribution percentage of 10% or more, worked out at the end of the CFC's statutory accounting period for a section 456 amount or at residence-change time for a section 457 amount.

If these conditions are met, the amount of foreign income tax they are deemed to have paid is worked out as follows:

- for a section 456 amount; the sum of the foreign income tax, income tax or withholding taxes paid for the statutory accounting period of the CFC multiplied by the attributable taxpayer's attribution percentage (worked out at the end of the CFC's statutory accounting period)
- for a section 457 amount; the sum of the foreign income tax, income tax or withholding taxes paid, to the extent that they are attributable to the section 457 amount included in the company's assessable income.

The tax that is deemed to have been paid by the resident company counts towards its foreign income tax offset. The section 456 and 457 amounts must be grossed up by the amount of the foreign income tax that is deemed to have been paid.

Example 19: foreign income tax paid by a CFC

Austco, an Australian resident company, owns 50% of the paid-up capital of Foreignco, a CFC. Foreignco's attributable income for the statutory accounting period is worked out as \$1 million, which takes into account a notional allowable deduction for foreign income tax that Foreignco has paid of \$200,000. As Austco's attribution percentage is 50%, it includes \$500,000 under section 456 in its assessable income for the income year in which the CFC's statutory accounting period ends.

Austco meets the conditions for the tax-paid deeming rules to apply for its interest in the CFC because:

- it is a resident company
- foreign income tax has been paid by the CFC in respect of the amount included in its notional assessable income for the relevant statutory accounting period
- it has an attribution percentage of 10% or more at the end of the relevant statutory accounting period.

The amount of foreign income tax that Austco is deemed to have paid on its attributed income is the \$200,000 paid by Foreignco, multiplied by Austco's attribution percentage of 50%, that is, \$100,000. Austco must also gross-up its assessable income by the \$100,000 of foreign income tax that it is deemed to have paid.

Tax-paid deeming rule applies only to a resident company directly subject to attribution

The tax-paid deeming rule only applies to resident companies that are directly subject to attribution under sections 456 or 457. Where a resident company is a partner in a partnership or a beneficiary in an Australian trust with a CFC interest, the

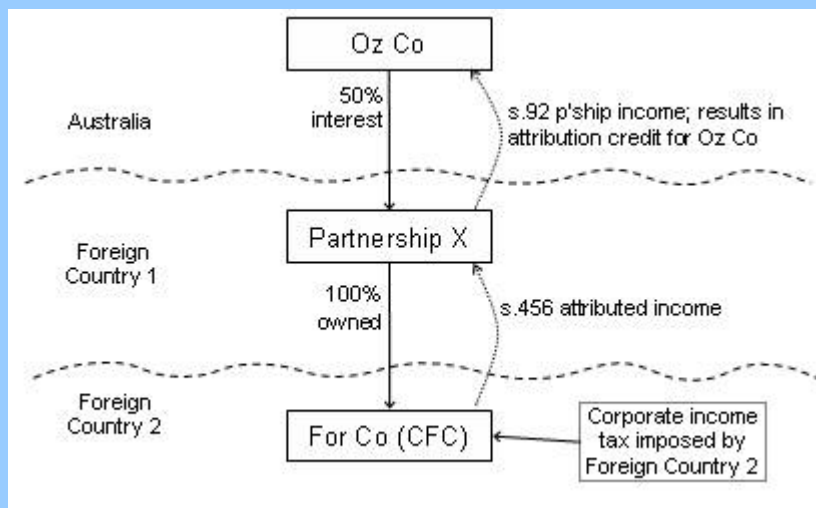
resident company is assessed on their share of the partnership or trust net income under sections 92 or 97 of the ITAA 1936, rather than under sections 456 or 457.

In this case, the partnership or Australian trust is the attributable taxpayer and it includes in its net income the relevant attribution amount under sections 456 or 457. As the partnership or Australian trust is not a resident company and the resident company is not the attributable taxpayer, the tax-paid deeming rules can't apply to the CFC interests held by the resident company through a partnership or Australian trust.

Example 20: tax-paid deeming rule applies only to a resident company directly subject to attribution

Oz Co Pty Ltd, a Part X Australian resident, has a 50% interest in Partnership X formed in Foreign Country 1. Partnership X wholly owns For Co, a company that is resident in Foreign Country 2. For Co is a CFC for Australian tax purposes.

During the income year, For Co pays income tax under the laws of Foreign Country 2.



The relationship between Oz Co, Partnership X and For Co

As Partnership X is a partnership for Australian income tax purposes, Oz Co's assessable income will include its share of the partnership's net income, calculated as if it were an Australian resident.

As For Co is a CFC and Partnership X is an attributable taxpayer by virtue of it being an Australian partnership for the purposes of Part X of the ITAA 1936, the partnership net income includes attributed income under section 456 of the ITAA 1936.

In calculating For Co's attributed income, a notional allowable deduction is allowed for the foreign income tax paid. However, the foreign income tax paid by For Co does not count towards Oz Co's foreign income tax offset for the relevant income year because Oz Co is not treated, pursuant to section 770-135 of the ITAA 1997, as having paid the foreign income tax for the purposes of subsection 770-10(1) of the ITAA 1997.

Foreign income tax paid on NANE income

Resident taxpayers are entitled to a foreign income tax offset for foreign income tax they pay on an amount that is non-assessable non-exempt (NANE) income of the taxpayer, under sections 23AI or 23AK of the ITAA 1936.

For more information, see Chapter 1 and 4 of the [Foreign income return form guide](#).

Only foreign income tax amounts that are paid in respect of income that is NANE under sections 23AI or 23AK count towards a tax offset. The amount of foreign income tax taken to be paid on the distribution is not affected by the tax-paid deeming rules that apply to previously attributed income amounts included in the taxpayer's assessable income.

The foreign income tax will be a withholding amount on a dividend distribution. Where the tax is paid by someone else under the law of a foreign country, the tax-paid deeming rules apply to treat the attributable taxpayer as having paid the foreign income tax, providing it can be demonstrated that such tax is paid in respect of the section 23AI or 23AK amounts.

The tax offset limit is increased by the relevant amount of foreign income tax paid in respect of section 23AI or 23AK amounts.

Example 21: foreign income tax paid on NANE income

Lynette owns 100% of Forco paid-up capital. She has previously included in her assessable income \$1 million in respect of Forco, under section 456. Forco subsequently declares and pays a dividend of \$1 million to Lynette, on which withholding tax of \$100,000 is imposed.

As the dividend amount does not exceed her attribution account surplus in relation to Forco, it is treated as NANE income under section 23AI. Lynette is also deemed to have paid the \$100,000 foreign income tax withheld (which counts towards her tax offset) as it is paid in respect of the dividend income.

Where a resident taxpayer is a partner in a partnership or a beneficiary of an Australian trust with a CFC interest, the partnership or trust is the attributable taxpayer. These entities include, in their net income, the relevant attributed amount under sections 456 or 457. In turn, the partner or beneficiary includes, in their assessable income, their share of the partnership or trust net income that relates to the attributed amount.

However, where a CFC makes a distribution to the partnership or trust out of profits that have been previously subject to attribution, the attribution account rules ensure that the resident partner or beneficiary with an interest in the partnership or trust will get the benefit of section 23AI.

If the foreign entity was previously treated as a foreign investment fund (FIF), determine if the entity made a distribution to an Australian resident out of profits that had been previously subject to attribution. The attribution account rules ensure that the income received by the Australian resident would get the benefit of section 23AK. If the distribution is subject to foreign income tax, the amount of foreign tax paid counts towards a foreign income tax offset.

Continue to: [Special circumstances](#)

Special circumstances

Find out if there are special circumstances for eligibility and the FITO limit for your entity or income type.

On this page

- [Superannuation funds](#)
- [Consolidated groups](#)
- [Life insurance companies](#)
- [Foreign residents](#)
- [Australian source income](#)

Superannuation funds

Limits apply to the foreign income tax offset allowed for foreign income taxes paid by a superannuation fund or approved deposit fund where the fund changes either:

- from a complying superannuation fund to a non-complying superannuation fund
- from a non-resident superannuation fund to a resident superannuation fund.

Where a non-complying fund or a resident fund includes an amount in assessable income under items 2 and 3 in the table in [section 295-320 of the ITAA 1997](#), and the fund paid foreign income tax on that amount (before the start of the income year) the fund is not entitled to a tax offset for the foreign income tax paid by the provider.

Consolidated groups

Only the head company of a [consolidated group](#) or multiple entry consolidated (MEC) group is entitled to a foreign income tax offset for foreign income tax paid on income or gains that are included in its assessable income under the single entity rule. Where a subsidiary member pays foreign income tax on income or gains included in the head company's assessable income, the head company is treated as having paid the tax.

The head company's foreign income tax offset is determined in the same way as for taxpayers outside the consolidation regime.

Life insurance companies

The core rules for the foreign income tax offset also apply to life insurance companies. As the income of life insurance companies is taxed at 2 different rates (ordinary class, taxed at 30%; and complying superannuation class, taxed at 15%), it is necessary to determine the amount of assessable income in each class on which foreign income tax has been paid at step 2 of the [foreign income tax offset limit calculation](#).

Example 22: life Insurance company derives income from different classes

Life Insurance Co derives the following assessable income in each class of income:

| Income class | Assessable income (includes income subject to foreign income tax) | Assessable income subject to foreign income tax | Foreign income tax paid |
|-----------------------------|--|--|-------------------------------|
| Ordinary | A\$5 million | A\$1 million | A\$250,000 |
| Complying superannuation | A\$5 million | A\$2 million | A\$450,000 |

Assuming there are no allowable deductions in relation to the classes of assessable income, the foreign income tax offset limit is worked out as follows:

Step 1: Work out the tax payable on Life Insurance Co's taxable income

Tax in the:

- Ordinary class: $\$5 \text{ million} \times 30\% = \1.5 million
- Complying superannuation class: $\$5 \text{ million} \times 15\% = \$750,000$

Total tax payable for step 1 is \$2.25 million.

Step 2: Work out the tax that would be payable if the income of the 2 classes on which foreign income tax has been paid is not included in Life Insurance Co's assessable income

There are 2 income amounts on which foreign income tax has been paid that need to be excluded from assessable income for the purposes of this step:

- \$1 million that belongs to the assessable income in the ordinary class
- \$2 million that belongs to the assessable income in the complying superannuation class.

In working out the tax that would have been payable had these amounts not been included in assessable income, it is necessary to identify the relevant class to which such amounts belong as follows:

Tax on assessable income excluding the income amount on which foreign income tax has been paid:

- Ordinary class: $(\$5 \text{ million} - \$1 \text{ million}) \times 30\% = \1.2 million
- Complying superannuation class: $(\$5 \text{ million} - \$2 \text{ million}) \times 15\% = \$450,000$

Total tax that would be payable for step 2 is \$1.65 million.

Step 3: Determine the foreign income tax offset limit

Step 1 subtract step 2: $\$2.25 \text{ million} - \$1.65 \text{ million} = \$600,000$

This is the foreign income tax offset limit.

As the actual foreign income tax paid on the 2 income amounts is \$700,000, the foreign income tax offset available to Life Insurance Co is limited to \$600,000 (that is, offset of the \$100,000 foreign income tax paid is denied).

Foreign income tax paid on NANE income derived from segregated exempt assets does not count towards a tax offset.

Changes to Australia's Offshore Banking Unit Regime in 2023–24

As a result of [changes to the Offshore Banking Unit \(OBU\) regime](#), the concessional tax treatment for OBUs has been removed. An OBU's assessable offshore banking income is taxed at the relevant corporate tax rate from the start of its 2023–24 income year. Rules that deem an OBU to have only paid a fraction of its foreign income tax on its assessable offshore banking income no longer apply, meaning that its FITO is to be calculated using the ordinary rules. The changes have effect from the start of an OBU's 2023–24 income year.

Foreign residents

While the offset mainly applies to residents, where the foreign income of a foreign resident is taxed in Australia they may be able to claim an offset.

These circumstances apply where a foreign resident pays income tax in a foreign country on an amount that is included in their assessable income (under Australian tax law) and such tax is imposed because the income is sourced in that country. By contrast, where a foreign country imposes tax on the amount included in an entity's assessable income merely because it is a resident of that country (that is, residence-based taxation) a foreign income tax offset entitlement does not arise if the tax is imposed on income from a source outside the foreign country.

Example 24: foreign resident derived foreign income in Australian PE

XYZ PLC is a United Kingdom resident that carries on a business through a permanent establishment (PE) in Australia. In carrying on such activities, it derives US source income, which is subject to tax in that country. The US source income is derived in connection with the PE activity in Australia, and a combination of Articles 7 and 21 of the Australia–UK tax treaty permits Australia to tax the income and treat it as being derived from sources within Australia, and therefore subject to Australian tax. Given that the US source income is taxed in that country on a source basis, the US tax paid counts towards a tax offset in Australia.

If XYZ pays UK tax on the US source income that is attributable to the Australian PE activity, the tax would be imposed on a residence basis on the non-UK sourced income and would not count towards the taxpayer's tax offset.

Australian source income

While Australian residents are normally subject to foreign income tax only on their foreign source income, the foreign income tax offset applies to all income on which

foreign income tax has been correctly applied. This situation will arise in very limited circumstances.

For example, foreign income tax imposed by Timor-Leste on assessable income derived by an Australian-resident taxpayer from certain activities carried out in the Joint Petroleum Development Area of the Timor Sea will count towards the taxpayer's tax offset.

Continue to: [Attachment A: Countries and other jurisdictions that have a tax treaty with Australia](#)

Attachment A: Countries and other jurisdictions that have a tax treaty with Australia

Countries and jurisdictions that have a tax treaty with Australia are:

- Argentina
- Austria
- Belgium
- Canada
- Chile
- China
- Czech Republic
- Denmark
- Fiji
- Finland
- France
- Germany
- Hungary
- Iceland
- India
- Indonesia
- Ireland
- Israel
- Italy
- Japan
- Kiribati
- Korea
- Malaysia
- Malta
- Mexico
- Netherlands

- New Zealand
- Norway
- Papua New Guinea
- Philippines
- Poland
- Romania
- Russia
- Singapore
- Slovak Republic
- South Africa
- Spain
- Sri Lanka
- Sweden
- Switzerland
- Taiwan
- Thailand
- Turkiye
- United Kingdom of Great Britain and Northern Ireland
- United States of America
- Vietnam