

DIVIDENDS & FOREIGN INCOME

Dividends Paid or Credited by Non-resident Companies

If you are a temporary resident and receive dividends from a non-resident company you will not need to show the dividend on your Australian Income Tax Return.

If you are a shareholder of a New Zealand franking company that has paid a dividend that is franked with Australian franking credits, you may be eligible to claim a Franking Tax Offset.

Non-resident companies, other than certain New Zealand franking companies, are not subject to the imputation system and you will not be entitled to claim a Franking Tax Offset for any tax paid by the company.

However, you may find that foreign tax has been withheld from the dividend so that the amount paid or credited to you is reduced.

In most circumstances, you will be liable to pay Australian income tax on the dividend. You must include the full amount of the dividend at item 20 'Foreign source income and foreign assets or property' on your Tax return for individuals (supplementary section) 2019. This means including the amount you are paid or credited plus the amount of any foreign tax which has been deducted. You may be able to claim a foreign income tax offset for the foreign tax paid.

In certain circumstances, foreign dividends may be exempt from tax. For example, they may be exempt to avoid any double taxation, or exempt because the portfolio out of which the dividends have been paid has already been taxed at a comparable rate.

There are special rules which need to be satisfied for you to claim a foreign income tax offset.

Dividends Denominated in a Foreign Currency

All assessable dividends received that are denominated in a foreign currency must be translated into Australian dollars before being included on your Australian tax return.

Dividends Paid or Credited to Non-resident Shareholders

Non-resident individuals can also be paid or credited franked dividends or unfranked dividends from Australian resident companies. However, they are taxed differently from resident shareholders.

If your residency status alters during the year (for example, you became a resident in the second half of the year) there may be occasions where withholding tax was not deducted from payments made to you before you became a resident. If this happens, you should attach a schedule to your tax return explaining your circumstances. We can work out the amount of withholding tax you have to pay on these dividends and advise you of this amount.

Franked Dividends

If you are a non-resident of Australia, the franked amount of dividends you are paid or credited are not subject to Australian income and withholding taxes. The unfranked amount will be subject to withholding tax. However, you are not entitled to any franking tax offset for franked dividends. You cannot use any franking credit attached to franked dividends to reduce the amount of tax payable on other Australian income and you cannot get a refund of the franking credit. You should not include the amount of any franked dividend or any franking credit on your Australian tax return.

Unfranked Dividends

The other type of dividend a resident company may pay or credit to you is an unfranked dividend. There is no franking credit attached to these dividends.

The whole or a portion of an unfranked dividend may be declared to be 'Conduit Foreign Income' on your dividend statement. To the extent that the unfranked dividend is declared to be Conduit Foreign Income, it is not assessable income and is exempt from withholding tax.

Any other unfranked dividends paid or credited to a non-resident are subject to a final withholding tax.

Withholding tax is imposed on the full amount of the unfranked dividends. That is, no deductions may be made from the dividends, and a flat rate of withholding tax is applied whether or not you have other Australian taxable income. Withholding tax is also deducted from the unfranked amount of any partly franked dividends that you are paid or credited.

Withholding tax is deducted by the company before a dividend is paid, so you will be paid or credited only the reduced amount. It is deducted at a rate of 30% unless you are a resident of a country with which Australia has entered into a tax treaty that varies the amount of withholding tax that can be levied on dividends.

Australia has entered into tax treaties with more than 40 countries and the rate of withholding tax on dividends is limited to 15% in most of these agreements. Details of the rates that apply to residents of specific countries can be obtained from us. Dividends paid on shares that are classified as non-equity shares under the debt and equity rules are treated as interest payments for withholding tax purposes. For the residents of many countries, the rate of withholding tax on these payments is 10%.

The withholding tax on unfranked dividends is a final tax, so you will have no further Australian tax liability on the dividend income. Therefore, if the only income you earned was dividend income which was a fully franked dividend or an unfranked amount of a dividend which either has withholding tax deducted or declared to be conduit foreign income, you do not need to lodge an Australian tax return.

If you were paid or credited dividends which were not fully franked and were not declared to be conduit foreign income (and from which withholding tax was not deducted) you should attach a separate schedule to your tax return showing details of those dividends. We can work out the amount of withholding tax you have to pay on these dividends and advise you of this amount.

However, if that dividend is paid to you under a demerger that happened on or after 1 July 2002 and the head entity has not elected that it be assessable, you do not need to include it on your tax return even though it is an unfranked dividend and no withholding tax has been paid on that dividend.

Deductions

You cannot claim any expenses incurred in deriving dividends which are not assessable in Australia, including any dividend which you do not need to show on your Australian tax return.

Should you have any questions or require further information on this subject please don't hesitate to get in touch.

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