



FOREIGN INCOME TAX OFFSET

This information sheet aims to provide a brief overview of how foreign income tax paid by a controlled foreign company is treated.

Foreign Income Tax Paid by a Controlled Foreign Company

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.

Specifically, 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 Section 456 or 457 of the ITAA 1936; or
- For resident taxpayers that receive a distribution that is treated as non-assessable non-exempt (“NANE”) income under Section 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 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; or
- 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); or
- 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 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.

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

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