

# GMS Flash Alert

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## Australia – Spotlight Shining More Brightly on Foreign Income Says ATO

As its ability to identify income from overseas increases, the Australian Taxation Office (ATO) is advising taxpayers of their obligation to disclose foreign income.

In a recent media release Assistant Commissioner Karen Foat stated: “If you’re an Australian resident for tax purposes, you are taxed on your worldwide income, so you must declare all of your foreign income no matter how small the amount may be. This may include income from offshore investments, employment, pensions, business and consulting, or capital gains on overseas assets.”<sup>1</sup>

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### WHY THIS MATTERS

Individual taxpayers, including those on international assignment, as well as their employers and their tax service providers, need to be aware that the ATO has stepped up its scrutiny of foreign income. The ability of the ATO to share data on financial account information of foreign residents with over 65 countries has helped raise the visibility of taxpayers with foreign income that could be taxable in Australia.

Taxpayers may wish to fully discuss their situations with their tax advisers and consider appropriate steps to take.

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### Further Details

The ATO provided the examples of untouched [or forgotten] bank accounts earning interest income, rental income from an old family home, and offshore salaries as the types of income needing to be included.

Taxpayers concerned by being taxed twice on such income are reminded that Australia has a foreign income tax offset (FITO) system which generally applies to provide tax relief to the extent the income was taxed offshore.

## Improved Financial Information Sharing

The ATO's heightened visibility of foreign income has been largely brought about by the new Common Reporting Standard (CRS), applying since 1 July 2017, which has allowed the ATO to share data on financial account information of foreign residents with over 65 countries. The information collected includes the name of account holders, account balances, interest and dividend payments, and proceeds from the sale of assets.

Information is also being gleaned from exchange of information agreements with foreign tax authorities and from the Australian Transaction Reporting and Analysis Centre.

## Countries Singled out for Attention

The People's Republic of China, the United Kingdom, Switzerland, Singapore, and the United States were specifically mentioned as countries from which the ATO is receiving financial information. These countries were among those that Australians had many financial dealings with, based on the information being made available to the ATO through the above sources.

## Voluntary Disclosure Could Reduce Penalties

According to the ATO, it has received information pertaining to over 1.6 million offshore accounts holding over \$100 billion.

Taxpayers with foreign income that is assessable in Australia but has not been disclosed have the option of making a voluntary disclosure to the ATO.

### Is There an Advantage to This?

The base penalty amount is generally a fixed percentage of the tax shortfall amount (25 percent for lack of reasonable care, 50 percent for recklessness, and 75 percent for intentional disregard of the law).

However, this base penalty amount can usually be reduced by up to 80 percent where the taxpayer discloses foreign income before the ATO commences an investigation into the taxpayer's affairs. However, once an investigation commences, the base penalty amount relating to any non-disclosed income can normally only be reduced by up to 20 percent, even where the taxpayer assists the ATO.

## FOOTNOTE:

1 See the ATO media release, "[ATO Watching for Foreign Income this Tax Time](#)," last updated 15 August 2019.

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