PS LA 2000/5 (Withdrawn) - Currency exchange rates and the annual deductible amount for foreign pensions

⚠ This cover sheet is provided for information only. It does not form part of *PS LA 2000/5 (Withdrawn) - Currency exchange rates and the annual deductible amount for foreign pensions*

⚠ This practice statement has been withdrawn from 7 June 2006. Please refer instead to TD2006/D20.

⚠ This document has changed over time. This version was published on *7 June 2006*

FOI status: may be released

This Practice Statement is issued under the authority of the Commissioner and must be read in conjunction with Law Administration Practice Statement PS LA 1998/1. It must be followed by ATO officers unless doing so creates unintended consequences. Where this occurs ATO officers must follow their Business Line's escalation process.

SUBJECT:	**Currency exchange rates and the annual deductible amount for foreign pensions**
PURPOSE:	**To provide guidance to ATO staff regarding the correct exchange rate to use when calculating the annual deductible amount for a foreign pension.**

STATEMENT

1.   ATO officers must use the average yearly exchange rate when converting the deductible amount of a foreign pension into its Australian dollar value for income tax purposes.

EXPLANATION

2.   For income tax purposes, resident Australian taxpayers are required to declare income from all sources, both in and out of Australia. They are taxed on their taxable income, which is their total assessable income less allowable deductions.

3.   Income wherever derived and deductions wherever incurred must be expressed in Australian currency (subsection 20(1) of the *Income Tax Assessment Act 1936* (ITAA)).

4.   Taxable pension and annuity income is the income left after subtracting the deductible amount from the total pension or annuity income. The deductible amount is the portion of the undeducted purchase price of the pension or annuity calculated in accordance with the formula in subsection 27H(2) of the ITAA.

5.   Broadly, the undeducted purchase price represents capital contributed towards the purchase price of the pension by the pension recipient, for which he or she did not, and will not be entitled to receive a tax deduction in Australia.

6.   Personal contributions towards the purchase of a foreign pension or annuity will not have been deductible in Australia. Therefore, any foreign pension or annuity that includes personal contributions in its purchase price will have an undeducted purchase price for Australian taxation purposes.

7.   When the pension or annuity income is paid directly to an Australian account, the transferee bank will convert the income to Australian dollars using the exchange rate applicable on the date of transfer of the funds. Taxpayers may add up all the converted payments to determine the value in Australian currency of their foreign pension or annuity income.

8.   Foreign pension or annuity income derived by Australian resident taxpayers that is not transferred to Australia is to be converted to Australian currency using either the exchange rate that applied at the time of each payment, or the average exchange rate for the year the pension or annuity was paid.

9.   The undeducted purchase price of a foreign pension or annuity is determined in the relevant foreign currency. The formula in subsection 27H(2) of the ITAA is then used to calculate the deductible amount, also in the foreign currency.

10.   Once identified, the deductible amount must be converted to Australian currency using the average exchange rate for the year.

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subject references:	annual deductible amount; exchange rates; foreign pension income; pension and annuity income; undeducted purchase price
legislative references:	ITAA 1936 20(1) ITAA 1936 27H(2)
related public rulings:	IT 2498
file references:	NO 2000/8116