



TD 2005/37 - Income tax: does section 23AG of the Income Tax Assessment Act 1936 exempt foreign earnings derived by a member of the Australian Defence Force engaged in foreign service for a continuous period of at least 91 days as part of certain United Nations operations?

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 This document has changed over time. This is a consolidated version of the ruling which was published on *12 October 2005*



Taxation Determination

Income tax: does section 23AG of the *Income Tax Assessment Act 1936* exempt foreign earnings derived by a member of the Australian Defence Force engaged in foreign service for a continuous period of at least 91 days as part of certain United Nations operations?

Preamble

*The number, subject heading, date of effect and paragraph 1 of this document are a 'public ruling' for the purposes of Part IVAAA of the **Taxation Administration Act 1953** and are legally binding on the Commissioner.*

1. Yes. Subsection 23AG(2) of the *Income Tax Assessment Act 1936* (ITAA 1936) does not apply to deny the exemption¹ in subsection 23AG(1) of the ITAA 1936 where the United Nations (UN) enters into an agreement with a 'host country'² in relation to certain UN operations (UN Operation)³ and Australia deploys Australian Defence Force (ADF) personnel as part of the UN Operation without entering into a Participation Agreement or similar agreement.

Explanation

2. Subsection 23AG(1) provides that where a resident taxpayer is engaged in foreign service for a continuous period of not less than 91 days, any foreign earnings derived from the foreign service will be exempt from tax in Australia. The term 'foreign service' means service in a foreign country as the holder of an office or in the capacity of an employee and the term 'foreign earnings' includes income consisting of salary and wages and allowances: subsection 23AG(7) of the ITAA 1936.

¹ The interaction between sections 23AG and 23AD of the ITAA 1936 and items 1.1 and 1.2 of the table in section 51-5 of *Income Tax Assessment Act 1997* (subparagraph 23(t)(iii) of the ITAA 1936) is not addressed in this Taxation Determination.

² The nation in which personnel are to be deployed.

³ For the purposes of this Taxation Determination a 'UN Operation' is one that follows the procedure set out at paragraphs 4 to 7.

3. Under subsection 23AG(2), the exemption in subsection 23AG(1) will not apply where the foreign earnings are exempt from income tax in the foreign country only because of any of the conditions set out in subsection 23AG(2). If the foreign earnings are exempt because of one or more of the reasons in subsection 23AG(2), and also exempt because of a reason not listed in the subsection, the subsection does not apply. Consequently, subsection 23AG(1) would apply to make the relevant earnings exempt from tax in Australia.⁴

Procedure for deployment of ADF personnel to UN Operations

4. Generally, UN Operations are governed by a model established by the UN General Assembly. The model arrangement involves the UN entering into an Agreement (Status Agreement) with the host nation.⁵ A participating State, such as Australia, does not enter into this Agreement.

5. The Status Agreement sets out the terms of the deployment, including the privileges and immunities to be afforded personnel serving with the UN Operation. One of its terms provides that personnel serving on the Operation shall be exempt from taxation on the pay and emoluments received from the United Nations or from a participating State and on any income received from outside the host country.

6. The model process then requires the UN to enter into separate agreements, known as 'Participation Agreements', with each of the Governments committing personnel to the Operation. These Participation Agreements refer to and adopt the terms of the Status Agreement in terms stating that personnel provided by the Participating State shall enjoy the privileges and immunities, rights and facilities and comply with the obligations provided for in the Status Agreement.

7. The Department of Defence advise that the general Australian practice is not to enter into a model participation agreement, but to set out the terms of Australian participation in the UN Operation in a Diplomatic Note (or series of Notes) which is exchanged with the UN.

8. Therefore, where Australian Defence Force (ADF) personnel serve as part of a UN Operation, under the model process there will be a Status Agreement between the UN and the host country and a Diplomatic Note issued by Australia to the UN.

Application of 23AG(2)(f)(ii) and 23AG(2) generally

9. Under subparagraph 23AG(2)(f)(ii) an amount of foreign earnings will not be exempt if that amount is exempt from income tax in the foreign country because of:

- (f) an international agreement to which Australia is a party and that deals with:
 - ...
 - (ii) privileges and immunities in relation to persons connected with international organisations...

⁴ TD 2005/14 and TD 2005/15 explain the operation of subsection 23AG(2).

⁵ For the purposes of this Taxation Determination, we have assumed that the Status Agreement entered into between the host country and the UN is identical in all terms to the 'Model Status-of-Forces Agreement for Peace-Keeping Operations' A/45/594 issued on 9 October 1990 as Agenda Item 76, Forty-fifth session.

10. Thus, foreign earnings will not be exempt under subparagraph 23AG(2)(f)(ii) if both of the following conditions are satisfied:

- Australia is a party to an international agreement dealing with privileges and immunities in relation to persons connected with international organisations and, because of the agreement, foreign earnings derived from service in the foreign country are exempt from income tax in that country; and
- there are no reasons outside of those listed in subsection 23AG(2) for exempting the foreign earnings.⁶

11. The Status Agreement is an 'international agreement' which relates to privileges and immunities for persons connected with the UN which is an international organisation. The executed Agreement operates to exempt the foreign earnings of ADF personnel engaged in the UN Operation. Therefore, the critical question is whether Australia, directly or indirectly, is a party to the Status Agreement.

12. As stated in paragraph 4, Australia is not a party to the Status Agreement. Therefore, the reason in subparagraph 23AG(2)(f)(ii), for why the foreign earnings are exempt in the host country, cannot apply to the Status Agreement. Further, the Diplomatic Note, either alone or when read together with the Status Agreement, does not satisfy the requirements of subparagraph 23AG(2)(f)(ii).

13. As a result, the exemption from tax in the host country provided by the Status Agreement is not a reason listed in subsection 23AG(2). Consequently, all foreign earnings of ADF personnel earned as a result of deployments under the process described in paragraphs 4 to 7, are exempt from tax in Australia under subsection 23AG(1) (provided the other requirements of the subsection such as those outlined in paragraph 2 are satisfied).

14. This Taxation Determination does not apply if:

- a UN operation and subsequent ADF deployment occurs under arrangements not based on the model process in the manner described above; or
- the host nation has a law that corresponds to the *International Organisations (Privileges and Immunities) Act 1963* or its regulations as contemplated in paragraph 23AG(2)(e)

In these circumstances ADF members would need to approach the Tax Office for advice on the application of section 23AG.

Example

15. *The Government of Rwanda and the United Nations (UN) executed an 'Agreement on the Status of the United Nations Assistance Mission for Rwanda (UNAMIR)' on 5 November 1993 ('the Status Agreement'). Article 26 of the Status Agreement exempts from taxation the 'pay and emoluments' received by members of the UNAMIR. Rwanda does not have a Double Tax Agreement with Australia and it generally imposes taxation on employment income.*

16. *Sascha, an Australian resident taxpayer, served in Rwanda as a member of the UNAMIR for a continuous period of 180 days. Pursuant to Article 26 of the Status Agreement, the salary and wages that Sascha received while on deployment in Rwanda are exempt from taxation in Rwanda.*

⁶ As noted in Footnote 4, TD 2005/14 and TD 2005/15 explain the operation of subsection 23AG(2).

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17. *Subsection 23AG(2) does not apply to deny the exemption because the reason for exemption from taxation in Rwanda is not a reason listed in subsection 23AG(2). In addition, Australia is not a party to any 'international agreement' for the purposes of subparagraph 23AG(2)(f)(ii), nor is there any other reason listed in subsection 23AG(2) present to deny the exemption.*

18. *As Sascha served in Rwanda for a continuous period of not less than 91 days, the salary and wages she received in relation to that service are exempt from Australian taxation under subsection 23AG(1) for the reasons stated above.*

Date of effect

19. This Determination applies to years commencing both before and after its date of issue. However, it does not apply to taxpayers to the extent that it conflicts with the terms of settlement of a dispute agreed to before the date of the Determination (see paragraphs 21 and 22 of Taxation Ruling TR 92/20).

Commissioner of Taxation

12 October 2005

Previous draft:

TD 2005/D5

Related Rulings/Determinations:

TR 92/20; TD 2005/14; TD 2005/15

Subject references:

- defence force overseas service
- exempt income
- foreign income
- peacekeeping

Legislative references:

- TAA 1953 Pt IVA
- ITAA 1936 23AD
- ITAA 1936 23AG
- ITAA 1936 23AG(1)
- ITAA 1936 23AG(2)
- ITAA 1936 23AG(2)(e)
- ITAA 1936 23AG(2)(f)(ii)
- ITAA 1936 23AG(7)
- ITAA 1997 51-5
- International Organisations (Privileges and Immunities) Act 1963

ATO references

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