



Translation (conversion) examples

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Acquisition of an overseas rental property

Examples of translation (conversion) rules if you acquire an overseas rental property.

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This fact sheet deals with the circumstance where a taxpayer acquires a rental property, the cost of which is denominated in a foreign currency.

Example scenario

	On 1 February 2005 the taxpayer, a resident of Australia, enters into a contract to acquire a rental property in the USA for a cost of USD200,000. A deposit of USD20,000 is paid on the day the purchase contract is entered into, with the remaining USD180,000 to be paid on settlement on 1 March 2005. The relevant exchange rates are as follows:		
	1 February 2005	AUD1.00 = USD0.65	
	1 March 2005	AUD1.00 = USD0.70	
	The taxpayer is not in the business of buying and selling rental properties, and operates on a cash basis.		

Questions

1.	Will a forex realisation event occur?
2.	What will be the forex gain or loss?
3.	How should any forex gain or loss be assessed?

Will a forex realisation event occur?

Answer

A foreign exchange (forex) realisation event 4 (FRE4) will arise upon payment of the deposit on 1 February 2005, and upon payment of the settlement amount on 1 March 2005.

Reasoning

On entering the contract on 1 February 2005, the taxpayer will incur an obligation to pay foreign currency of USD200,000. Of this amount, a USD20,000 deposit is paid immediately, with an obligation to pay the remaining USD180,000 on settlement.

1 February 2005:

On payment of the USD20,000 deposit, a FRE4 will arise as the taxpayer will have ceased to have an obligation to pay the deposit, and the obligation is incurred in return for the acquisition of a capital gains tax (CGT) asset (subparagraph 775-55(1)(b)(iv) of the *Income Tax Assessment Act 1997* (ITAA 1997)). The time of the event is 1 February 2005 (under subsection 775-55(2) of the ITAA 1997).

1 March 2005:

When the taxpayer pays the remaining USD180,000 purchase price on settlement, the taxpayer's obligation to pay foreign currency (in return for the acquisition of a CGT asset) ceases, and a FRE4 will arise (subparagraph 775-55(1)(b)(iv) of the ITAA 1997). The time of the event is 1 March 2005 (under subsection 775-55(2) of the ITAA 1997).

What will be the forex gain or loss?

Answer

There will be no forex gain or loss on 1 February 2005. There will be a forex gain of AUD19,781 on 1 March 2005.

Reasoning

To determine whether the taxpayer has made a forex realisation gain or loss, subsections 775-55(3) and (5) of the ITAA 1997 require a comparison to be made between:

(i)	the amount paid in respect of the forex realisation event happening, and
(ii)	the proceeds the taxpayer receives for assuming the obligation, or part of the obligation, worked out at the tax recognition time. The proceeds include non-cash benefits which the taxpayer receives for assuming the obligation or part of the obligation.

That part of the difference (calculated in Australian dollars) that is attributable to a currency exchange rate effect will be the forex gain or loss.

The gain or loss on the deposit:

The AUD equivalent of the USD20,000 deposit paid on 1 February 2005 in respect of FRE4 happening is translated at the exchange rate prevailing on 1 February 2005 (subsection 960-50(6) item 5 of the ITAA 1997).

On that day, $\text{USD20,000} = \text{AUD30,769}$ ($\text{USD20,000}/0.65$).

Proceeds of assuming the obligation:

The tax recognition time used to calculate the proceeds of assuming the obligation, occurs when the taxpayer acquires the asset for CGT purposes (subsection 775-55(7) item 9 of the ITAA 1997). This is when the taxpayer enters into the purchase contract on 1 February 2005.

The proceeds of assuming the obligation is determined as the market value of the non-cash benefit the taxpayer has acquired in return for incurring the obligation to pay the USD20,000 deposit.

At the tax recognition time (that is, the time the contract was entered into on 1 February 2005), the market value of the rental property is USD200,000. The proceeds of assuming the obligation to pay the USD20,000 deposit is also USD20,000.

Translated at the exchange rate applying at the tax recognition time of 1 February 2005, the proceeds of assuming the obligation for the USD20,000 deposit = AUD30,769 ($\text{USD20,000}/0.65$).

In relation to the USD20,000 deposit, the AUD equivalent of the taxpayer's proceeds of assuming the obligation (AUD30,769) is the same as the AUD equivalent of the amount the taxpayer pays to discharge that part of the obligation (AUD30,769). This is because the taxpayer assumed the obligation to pay the deposit (1 February 2005) and discharged that obligation on the same day (1 February 2005). As there is no difference in these amounts, the taxpayer does not make a forex realisation gain or loss on the deposit.

The forex gain or loss on the remaining settlement amount:

The AUD equivalent of the remaining USD180,000 paid on 1 March 2005 in respect of FRE4 happening is translated, under section 960-

50(6) item 5 of the ITAA 1997, at the exchange rate prevailing on 1 March 2005.

On that day, $\text{USD}180,000 = \text{AUD}257,142$ ($\text{USD}180,000/0.70$).

Proceeds of assuming the obligation:

As mentioned above, the tax recognition time used to calculate the proceeds of assuming the obligation occurs when the taxpayer acquires the asset for CGT purposes (subsection 775-55(7) item 9 of the ITAA 1997). This is when the taxpayer enters into the purchase contract on 1 February 2005.

The proceeds of assuming the obligation is determined as the market value of the non-cash benefit the taxpayer has acquired in return for incurring the obligation to pay the remaining purchase price of USD180,000.

At the tax recognition time (that is, the time the contract was entered into on 1 February 2005), the market value of the rental property is USD200,000. The proceeds of assuming the obligation to pay the remaining USD180,000 purchase price is USD180,000.

Translated at the exchange rate applying at the tax recognition time of 1 February 2005, the proceeds of assuming the obligation for the remaining purchase price is $\text{USD}180,000 = \text{AUD}276,923$ ($\text{USD}180,000/0.65$).

In relation to the USD180,000 remaining purchase price, the AUD equivalent of the taxpayer's proceeds of assuming the obligation (AUD257,142) is different to the AUD equivalent of the amount the taxpayer pays to discharge that part of the obligation (AUD276,923). This is because the taxpayer assumed the obligation to pay the purchase price (1 February 2005) on a different day to when the taxpayer discharged that obligation (1 March 2005).

The amount paid in respect of the event happening (AUD257,142) falls short of the proceeds of assuming the obligation measured at the tax recognition time (AUD276,923). As the difference between these two amounts is solely due to currency fluctuations, the difference falls within the definition of *currency exchange rate effect* in section 775-105(1)(a) of the ITAA 1997.

Accordingly, under section 775-55(3) of the ITAA 1997 the taxpayer has made a forex realisation gain of AUD19,781 on 1 March 2005.

How should any forex gain or loss be assessed?

Answer

If a choice has been made under section 775-80 of the ITAA 1997, the AUD gain will be assessable on revenue account. If no choice has been

made, the gain will offset the cost base or reduced cost base of the rental property.

Reasoning

If the taxpayer has made a choice under section 775-80 of the ITAA 1997 not to have the 12 month rule in section 775-70 of the ITAA 1997 apply:

The forex gain of AUD19,781 will be included in the taxpayers assessable income under section 775-15 of the ITAA 1997.

If the taxpayer has not made a choice under section 775-80 of the ITAA 1997 not to have section 775-70 of the ITAA 1997 apply:

The forex gain made will be treated in accordance with the table in subsection 775-70(1) of the ITAA 1997.

The requirements of subsection 775-75(1) item 2 of the ITAA 1997 are satisfied because:

- the gain is made pursuant to FRE4
- the obligation, or the part of the obligation, is incurred by the taxpayer in return for the acquisition of a CGT asset
- subsection 775-55(7) item 9 of the ITAA 1997 has determined the tax recognition time (as detailed above), and
- the USD180,000 is paid on 1 March 2005, which is within 12 months of the acquisition date of 1 February 2005 of the rental property.

These factors bring the treatment of the forex gain within subsection 775-70(1) item 2 of the ITAA 1997.

The result is that the forex gain is not included in the taxpayer's assessable income (under section 775-15 of the ITAA 1997). Instead, it reduces the cost base or reduced cost base of the rental property. The cost base or reduced cost base of AUD307,692 (USD200,000/0.65) will therefore be reduced by AUD19,781.

Note: The 12 month rule generally provides that the forex gains and losses made in respect of capital assets are treated on capital account where the time between acquisition and payment is less than 12 months. Electing out of the 12 month rule means forex gains will be immediately assessable, and forex losses immediately deductible, to the taxpayer. For more information on the 12 month rule, refer to Foreign exchange (forex): the 12 month rule.

See also:

- [Translation of foreign currency rental expenses](#)
- [Translation of foreign currency rental income](#)

Trading stock valuations

Examples of translation (conversion) rules for trading stock valuations.

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This fact sheet deals with the translation of trading stock values assuming the taxpayer has not chosen to use an average rate of exchange for foreign currency amounts.

Example scenario

On 1 May 2004 Classic Cars orders and pays US\$3,000 for gearboxes from its supplier. The effect of the terms of the contract is such that these items become Classic Car's stock on hand when payment of the items is made. These items remained on hand at year's end. The exchange rate on 1 May 2004 is A\$1.00 = US\$0.50. On 30 June 2004, the market selling value of these gearboxes is US\$3,100. The replacement value is also US\$3,100. The exchange rate on 30 June 2004 is A\$1.00 = US\$0.60.

How should Classic Cars translate the value of their on hand trading stock at the end of an income year if they value the trading stock using the:

cost method	The exchange rate to use is the rate prevailing on 1 May 2004. The translated value is A\$6,000.
market selling value method	The exchange rate to use is the rate prevailing on 30 June 2004. The translated value is A\$5,167.
replacement value method	The exchange rate to use is the rate prevailing on 30 June 2004. The translated value is A\$5,167.

Explanation

Subsection 960-50(1) of the *Income Tax Assessment Act 1997* (ITAA 1997) requires an amount of foreign currency to be translated

into Australian currency. Translation of the value of trading stock depends on the method by which Classic Cars has elected to value its trading stock under section 70-45 of the ITAA 1997.

1. If Classic Cars elects to value its trading stock using the **cost method**, the applicable exchange rate is the rate prevailing when the trading stocks become on hand (subsection 960-50(6) Item 3 of the ITAA 1997). In this example, the gearboxes become Classic Cars's stock on hand on 1 May 2004. The rate prevailing on 1 May 2004 is the applicable exchange rate.

The translated value is therefore A\$6,000 (US\$3,000/0.50).

2. If Classic Cars elects to value its trading stock using the **market selling value method**, the rate prevailing at the end of the income year (in this example 30 June 2004) is the applicable exchange rate (subsection 960-50(6) Item 4 of the ITAA 1997).

The translated value is A\$5,167 (US\$3,100/0.60).

3. If Classic Cars elects to value its trading stock using the **replacement value method**, the rate prevailing at the end of the income year (in this example 30 June 2004) is the applicable exchange rate (subsection 960-50(6) Item 4 of the ITAA 1997).

The translated value is A\$5,167 (US\$3,100/0.60).

See also:

- Foreign exchange rates

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Translation of foreign currency rental expenses

Examples of translation (conversion) rules for foreign rental expenses.

Last updated 1 March 2016

This fact sheet deals with the appropriate exchange rate to use to translate foreign rental expenses into Australian dollars for tax purposes where the taxpayer has not chosen to use average exchange rates under the regulations.

Example scenario

A taxpayer who is an Australian resident acquires a rental property in New Zealand from which rental income is derived.

The taxpayer is not in the business of renting properties, and operates on a cash basis. The rental property is managed by a real estate agent in New Zealand. The taxpayer took out a loan to acquire this property.

Deductible expenses are incurred as follows throughout the year in deriving the rental income:

1 July 2005:

- borrowing expenses of NZD1,000
- prepaid interest on loan NZD1,500
(exchange rate AUD1 = NZD1.10)

10 August 2005:

- council rates NZD600
(exchange rate AUD1 = NZD1.20)

22 October 2005:

- the taxpayer purchases and pays for an air conditioning unit for NZD2,000 and takes delivery at the same time
(exchange rate on this day is AUD1 = NZD1.05)

30 October 2005:

- the air conditioning unit is installed in the rental property
(exchange rate on this day is AUD1 = NZ1.10)

15th day of every month:

- real estate agent commission fee of NZD150

Question

At what exchange rate should the NZD expenses be translated into Australian dollars for tax purposes?

Answer

The borrowing and interest expenses should be translated at the exchange rate prevailing on 1 July 2005, the council rates at the exchange rate on 10 August 2005, the air conditioning unit on 30 October 2005, and the commission fee on the 15th day of every month.

Reasoning

Tax relevant amounts denominated in a foreign currency must be translated into Australian dollars under subsection 960-50(1) of the *Income Tax Assessment Act 1997* (ITAA 1997). An expense is an example of an amount under subsection 960-50(2)(b) of the ITAA 1997.

The table in subsection 960-50(6) of the ITAA 1997 sets out special translation rules that apply to various categories of expenses.

Borrowing expenses:

These are expenses the taxpayer can deduct, but must apportion that deduction over five years or the period of the loan, whichever is the shorter (under section 25-25 of the ITAA 1997). As the loan is for a period of greater than five years, the taxpayer will be able to deduct 1/5th of the expenditure in the year commencing 1 July 2005.

The entire NZD1,000 is translated into Australian currency at the exchange rate applicable at the time of payment, even though only 1/5th of the amount is deductible each year. This is because subsection 960-50(6) item 8(a) of the ITAA 1997 provides that the amount is to be translated at the earlier of when it is paid or when it becomes deductible.

The AUD equivalent of the NZD1,000 borrowing expenses is therefore AUD909 (NZD1,000/1.10). For the years ended 30 June 2005 to 30 June 2009, the taxpayer will be allowed to deduct 1/5th of this amount (that is, AUD182).

Interest, council rates, and commission fee expenses:

These are amounts that the taxpayer can deduct. As the taxpayer accounts for income and expenses on a cash basis, they are deductible at the time they are paid. Pursuant to subsection 960-50(6) item 8(a) of the ITAA 1997, the amounts are to be translated to Australian currency at the exchange rate applicable at the time of payment. The interest expense of NZD1,500 is translated at AUD1 = NZD1.10 (the rate prevailing on 1 July 2005), which results in an allowable deduction of AUD1,364.

The council rates are translated at AUD1 = NZD1.20 (the rate prevailing on 10 August 2005), which results in an allowable deduction of AUD500.

The real estate agent commission fee of NZD150 is translated on the 15th day of every month at the rate prevailing on that day.

Air conditioning unit:

The unit is a depreciating asset in respect of which deductions are allowable under Division 40 of the ITAA 1997. The cost of the asset is translated into Australian currency at the earlier of when the taxpayer begins to hold the asset, or when the obligation to pay for it is satisfied (under subsection 960-50(6) item 2(a) and (b) of the ITAA 1997). As the taxpayer begins to hold, and pays for, the unit on 22 October 2005, the exchange rate of AUD1 = NZD1.05 prevailing on this day will be used to work out the cost of the unit. The amount of AUD1,905 (AUD2000/1.05) will be used when working out the decline in value that can be claimed as a deduction (under Division 40 of the ITAA 1997).

Note: Because the taxpayer operates on a cash basis, the expenses become deductible at the same time they pay for them. As no time elapses between when the expenses become deductible, and when the expenses are paid, there are no forex realisation gains or losses on these amounts.

See also:

- [Translation of foreign currency rental income](#)

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Translation of foreign currency rental income

Examples of translation (conversion) rules for foreign rental income.

Last updated 1 March 2016

This fact sheet deals with the appropriate exchange rate to be used to translate foreign rental income into Australian dollars for tax purposes.

Example scenario

A taxpayer resident in Australia has a rental property in New Zealand which is managed by a real estate agent ('the agent'). The agent receives the amount of NZD1,100 in rent from the tenant on the last Monday of every month. After deducting the commission and monthly rental statement fee, the agent deposits the NZD1,000 on the first day of every month into a New Zealand currency bank account the taxpayer holds in New Zealand. It remains there to cover expenses relating to the rental property. The taxpayer is not in the business of renting properties and accounts for income on a cash basis.

Question

At what exchange rate should the New Zealand rental income be translated into Australian dollars for tax purposes?

Answer

The exchange rate that should be used is that prevailing on the day the income is received by the agent, that is, the last Monday of each

month.

Reasoning

Tax relevant amounts denominated in a foreign currency must be translated (converted) into Australian dollars under subsection 960-50(1) of the *Income Tax Assessment Act 1997* (ITAA 1997). Rental income, being ordinary income, is an example of an amount under subsection 960-50(2)(a) of the ITAA 1997.

The table in subsection 960-50(6) of the ITAA 1997 sets out translation rules that apply to various categories of assessable income.

The rental income is an amount of ordinary income and therefore falls within item 6 of the table. As the taxpayer operates on a cash basis, the amount is derived for tax purposes at the time the agent receives the rent - the last Monday of each month.

Under section 775-110 of the ITAA 1997, the taxpayer constructively derives the amount at the time it is received by the agent. Under item 6 paragraph (b) of the table, ordinary income is translated at the exchange rate applicable at the time it is derived. Therefore, the exchange rate prevailing on the last Monday of each month will be used to translate each receipt of NZ currency into Australian dollars.

See also:

- Translation of foreign currency rental property acquisition cost
- [Translation of foreign currency rental expenses](#)

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Translation of notional interest amounts under a hire purchase arrangement

Examples of translation (conversion) rules for deductible notional interest amounts under a hire purchase arrangement.

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This fact sheet deals with the translation of notional interest amounts which are deductible under a hire purchase arrangement.

It does not consider any other amounts which may be deductible or assessable under Division 240 of the *Income Tax Assessment Act 1997* (ITAA 1997).

Example scenario

Phelps Earth Movers Pty Ltd (Phelps) enters into a three year hire purchase arrangement with a US company for an item of earthmoving equipment. The arrangement is entered into on 1 January 2004 with payments in US dollars due on the 1st of each month commencing on 1 February 2004. There are 48 monthly payments - each of US\$2,963.98. The cost or value of the item of equipment at the time of entering into the arrangement is US\$120,000.00.

Assume the following exchange rates:

1 February 2004	A\$1 = US\$0.71
1 March 2004	A\$1 = US\$0.70
1 April 2004	A\$1 = US\$0.69
1 May 2004	A\$1 = US\$0.71
1 June 2004	A\$1 = US\$0.70

Phelps is an ordinary balancer for income tax purposes.

Are there any 'special accrual amounts' in this arrangement?

Yes. The notional interest amounts which are deductible to the notional buyer (Phelps) under Division 240 of the ITAA 1997 are 'special accrual amounts' for the purposes of Subdivision 960-C of the ITAA 1997.

How are the special accrual amounts worked out under Division 240 of the ITAA 1997?

As a hire purchase arrangement, the arrangement set out in the scenario is subject to Division 240 of the ITAA 1997. Under Division 240, the hire purchase arrangement is treated as a notional sale of the earthmoving equipment by the US company, and a notional purchase of the earthmoving equipment by Phelps, financed by a notional loan provided by the US company (sections 240-10, 240-17, 240-20 and 240-25 of the ITAA 1997). Phelps is entitled to deduct notional interest (that is, the implicit interest element of each monthly payment as ascertained under section 240-60) for each income year

during the hire purchase arrangement (that is, the 2003-04, 2004-05 and 2005-06 income years), pursuant to section 240-50.

As the notional loan and amounts Phelps is required to pay under the hire purchase agreement are denominated in a foreign currency, the notional interest that is deductible will be denominated in a foreign currency.

How are the special accrual amounts translated under Subdivision 960-C of the ITAA 1997?

The deductible notional interest payments are calculated in US\$ first – by applying the method statement in subsection 240-60(1) of the ITAA 1997.

The notional interest amounts which are deductible for each income year are then translated into Australian currency at the exchange rate applicable at the time of each monthly payment under Subdivision 960-C of the ITAA 1997.

For the purpose of the tax law, any amount in a foreign currency must be translated into Australian dollars (pursuant to subsection 960-50(1) of the ITAA 1997). Subsection 960-50(5) requires that special accrual amounts be calculated first (without any translation) before the calculated amount is then translated into Australian dollars.

A 'special accrual amount', as defined in subsection 995-1(1) of the ITAA 1997, means an amount that is included in assessable income, or an amount that is a deduction from assessable income, under certain provisions, including Division 240 of the ITAA 1997.

Accordingly, the notional interest amounts as ascertained under section 240-60 of the ITAA 1997 constitute special accrual amounts to the extent they are deductions from the assessable income of Phelps under Division 240 of the ITAA 1997.

For the purpose of working out how much notional interest in Australian dollars it may deduct in an income year in its income tax return, Phelps will use the method statement in subsection 240-60(1) of the ITAA 1997. Pursuant to subsection 960-50(5), it will do this calculation in US dollars.

The figure calculated is then translated into Australian currency at the exchange rate applicable at the time of payment or when it became deductible, whichever occurs first, under Item 8 of the table in subsection 960-50(6).

Subsection 240-50(2) provides that a taxpayer is entitled to deduct notional interest for all 'arrangement payment periods' or parts thereof, in the relevant income year. The arrangement payment periods for Phelps will be monthly, commencing on 1 February 2004.

In Phelps' case, each monthly payment consisting of the deductible notional interest amount, and the non-deductible capital amount, is paid at the same time the deductible notional interest amount is incurred and becomes deductible. Therefore, each deductible notional interest amount is to be translated at the time of the monthly payment in accordance with item 8(a) in the table in subsection 960-50(6) of the ITAA 1997.

Example

Phelps' deductible notional interest amounts for the five monthly payments in the 2003-04 income year are translated into a total of A\$4,881.87. See table below.

Deductible notional interest amounts - Phelps case

Monthly payment due	Monthly payment (US\$)	Arrangement payment period	Deductible notional interest amount (US\$)	Exchange rate when monthly payment due	Deductible notional interest amount (A\$)
1 February 2004	2,963.98	1-29 February 2004	0.00	@ US\$0.71	0.00
1 March 2004	2,963.98	1-31 March 2004	877.77	@ US\$0.70	1,253.00
1 April 2004	2,963.98	1-30 April 2004	862.12	@ US\$0.69	1,249.00
1 May 2004	2,963.98	1-31 May 2004	846.36	@ US\$0.71	1,192.00
1 June 2004	2,963.98	1-30 June 2004	830.48	@ US\$0.70	1,186.47
					4,881.87

Note that both the deductible notional interest amounts and the exchange rates are adopted for the purposes of this fact sheet only.

See also:

- [Translation of profit on notional sale under a hire purchase arrangement](#)

Translation of profit on notional sale under a hire purchase arrangement

Examples of translation (conversion) rules for profits on a notional sale under a hire purchase arrangement.

Last updated 1 March 2016

This fact sheet deals with the translation of special accrual amounts into Australian currency under a foreign currency hire-purchase arrangement where there is a profit on notional sale of property.

It does not consider any other amounts which may be deductible or assessable under Division 240 of the *Income Tax Assessment Act 1997* (ITAA 1997).

Example scenario

Aussie Ltd, a company resident in Australia, acquires a crane from Singapore for S\$115,000 in November 2005. On 15 December 2005, *Aussie Ltd* hires out the crane to *Singapore Co* under a two-year hire-purchase arrangement. The arrangement provides for *Singapore Co* to pay S\$120,000 to *Aussie Ltd* over two years under the terms of the hire-purchase agreement.

The exchange rate on 15 December 2005 is A\$1.00 = S\$1.20.

The hire-purchase agreement is treated as a sale (notional sale) of the crane to *Singapore Co* (notional buyer) combined with a loan (notional loan) from *Aussie Ltd* (notional seller).

It is assumed that the crane does not constitute *Aussie Ltd's* trading stock, and is used wholly for income producing purposes. *Aussie Ltd* is an ordinary balancer for income tax purposes.

Is there a 'special accrual amount' in this arrangement?

Yes. The profit on the notional sale of the crane that is assessable to *Aussie Ltd* under subsection 240-35(2) of the ITAA 1997 is a 'special accrual amount' for the purpose of Subdivision 960-C of the ITAA 1997.

Subsection 960-50(1) of the ITAA 1997 provides that any amount in a foreign currency must be translated into Australian currency. Subsection 960-50(5) of the ITAA 1997 requires that a 'special accrual amount' be calculated first (without translation) before it is then translated into Australian dollars.

A 'special accrual amount' is defined in subsection 995-1(1) of the ITAA 1997 to mean an amount that is included in assessable income, or an amount that is a deduction from assessable income under certain provisions including Division 240 of the ITAA 1997.

Accordingly, as the amount is included in Aussie Ltd's assessable income by Division 240, the profit calculated on notional sale is a special accrual amount for the purposes of Subdivision 960-C of the ITAA 1997. This means that in accordance with subsection 960-50(5) of the ITAA 1997, the amount of the profit on the notional sale of the crane is worked out under subsection 240-35(2) in Singapore dollars first (that is, S\$5,000), then it is translated into Australian currency.

How is the special accrual amount worked out under Division 240 of the ITAA 1997?

The above arrangement is treated as a notional sale of the property by Aussie Ltd and a notional purchase of the property by Singapore Co, financed by a notional loan provided by Aussie Ltd (sections 240-10, 240-17, 240-20 and 240-25 of the ITAA 1997). As the crane does not constitute Aussie Ltd's trading stock, Aussie Ltd is required to include in its assessable income any profit on the notional sale of the crane in the year of the notional sale (see subsection 240-35(2) of the ITAA 1997).

The profit on the notional sale of the crane is equal to the excess of the consideration for the notional sale over the cost of the acquisition of the crane by Aussie Ltd.

Under section 240-25, the consideration for the notional sale is taken to be the stated cost of the crane for the purposes of the hire-purchase arrangement. This is also taken to be the notional loan principal.

In this case, the consideration for the notional sale of the crane by Aussie Ltd to Singapore Co is therefore the stated price of S\$120,000. As it cost Aussie Ltd S\$115,000 to acquire the crane, Aussie Ltd will make a profit of S\$5,000 (S\$120,000 - S\$115,000) on the notional sale of the crane, for the purposes of Division 240.

How is the special accrual amount translated under Subdivision 960-C of the ITAA 1997?

The special accrual amount is first calculated without translation, and then translated into Australian dollars using the exchange rate prevailing at the time of the notional sale (15 December 2005).

Subsection 960-50(6) requires that the profit of S\$5,000 be translated into Australian dollars according to the special translation rules. Item 7 of subsection 960-50(6) requires the amount, being an amount of statutory income, to be translated at the earlier of when it is received or is included in Aussie Ltd's assessable income.

The profit on notional sale is not actually received by Aussie Ltd. Rather, it is an amount worked out on the basis of a notional sale which is deemed to occur for the purposes of Division 240. Accordingly, the amount is to be translated at the exchange rate prevailing on the date on which the requirement first arose to include the amount in Aussie Ltd's assessable income. This will be at the start of the hire-purchase arrangement on 15 December 2005, when the notional sale is taken to have occurred (subsection 240-20(1)).

The amount to be included in Aussie Ltd's income for the year ending 30 June 2006 is therefore A\$4,167 (S\$5,000/1.20).

See also:

- [Translation of notional interest amounts under a hire purchase arrangement](#)

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