



Taxation of financial arrangements (TOFA)

Explains the tax treatment of gains and losses on financial arrangements and the elections (choices) you need to make.

TOFA elections

Explains what elections are available under the TOFA rules, and when and how to make them, including election forms.

TOFA compliance

As part of our compliance activities, we may review TOFA taxpayers to ensure they are correctly applying the rules.

PAYG instalments for TOFA entities

Special rules apply to TOFA entities that use the instalment rate (option 2) to calculate their PAYG instalments.

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TOFA press releases

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TOFA and consolidations interaction



Describes changes to the rules governing the interaction between the tax consolidation regime and TOFA rules.

Guide to the taxation of financial arrangements (TOFA)



Guide to the taxation of financial arrangements (TOFA) rules.

TOFA tax return labels – quick reference guide



Tax return labels your clients must complete if they are taxation of financial arrangement (TOFA) entities.

QC 22139

TOFA elections

Explains what elections are available under the TOFA rules, and when and how to make them, including election forms.

Last updated 27 January 2016

The taxation of financial arrangements (TOFA) rules include a number of elections (choices).

The links below take you to information you can use to make the following elections available under the TOFA rules:

- the election for the TOFA rules to apply
- the tax-timing method elections
 - fair value
 - foreign exchange retranslation
 - hedging
 - reliance on financial reports.
- the election for portfolio treatment of fees, discounts and premiums.

For each election, you will find:

- a link to an election form for making it
- an explanation of
 - what the election is

- when it must be made by
- how it can be made.

The early-start election and transitional election for existing financial arrangements can no longer be made - if you previously made any of these elections, you should keep a copy with your tax records.

TOFA elections are complex and cannot be revoked. Before making any TOFA elections carefully consider your circumstances and seek professional assistance if necessary.

Election for the TOFA rules to apply



Explains what the election for the TOFA rules to apply is, and how to make this election.

Tax-timing method elections



What the different tax-timing method elections available under the TOFA rules are.

Election for portfolio treatment of fees, premiums and discounts



How the election for portfolio treatment of fees, premiums, discounts works.

QC 27224

Election for the TOFA rules to apply

Explains what the election for the TOFA rules to apply is, and how to make this election.

Last updated 3 February 2016

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What is this election?

The TOFA rules apply to you if one or more of the following applies:

- you meet certain thresholds
- you hold certain qualifying securities.

If you do not meet the thresholds, you can make the election to have the TOFA rules apply.

Will you meet the thresholds in the year you come into existence?

If you are a new entity, you may wish to have the TOFA rules apply to financial arrangements you start to have in the year you come into existence and later income years. This will happen automatically if you satisfy the **thresholds** in the income year you come into existence - however, you must wait until the end of that income year to work out if you satisfy the thresholds.

If you want to ensure the TOFA rules apply to financial arrangements you start to have in that income year and later income years, you can make this election during that income year. This will mean that even if you don't meet the **thresholds** at the end of that income year, the TOFA rules will still apply.

Example 1

ABC Co is incorporated during the 2013 income year and starts to derive income during this year.

ABC Co forecasts that for the 2013 income year it will meet one of the thresholds, being an aggregated turnover of \$100 million or more - however, later, towards the end of the 2013 income year, ABC Co is unsure whether this will be the case.

ABC Co wants to have the TOFA rules apply to the financial arrangements it started to have in the 2013 income year. To ensure this happens, even if they don't have an aggregated turnover of \$100 million or more, they can make an election for the TOFA rules to apply before the end of the 2013 income year.

How do you make this election?

You can download and complete the TOFA 3 & 4 election for Division 230 to apply form (NAT 73325).

You do not have to notify us of this election, but you should keep a copy of it with your tax records.

You can make this election at any time - however, the time at which you make it will affect which of your financial arrangements will be subject to the TOFA rules.

If you make the election for the TOFA rules to apply, then the TOFA rules apply to financial arrangements you start to have:

- during the income year in which you make the election
- in later income years.

QC 47898

Tax-timing method elections

What the different tax-timing method elections available under the TOFA rules are.

Last updated 3 February 2016

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What are these elections?

You can elect to apply one or more of the following tax-timing methods to calculate your gains and losses under the TOFA rules:

- fair value
- foreign exchange retranslation
- hedging
- reliance on financial reports.

To be eligible to make one or more of the tax-timing method elections, you must prepare financial reports in accordance with the relevant accounting standards and have these reports audited in accordance with the relevant auditing standards. There are also other eligibility criteria for each of the tax-timing method elections that you may need to satisfy.

See also:

- Elective methods

If the tax-timing method elections are not made, then the default methods - realisation and accruals - will apply. Even if you choose to have one or more of the tax-timing method elections apply, there may still be certain financial arrangements to which the default methods will apply.

How do you make these elections?

You can download and complete the TOFA 3 & 4 tax-timing method elections form (NAT 73324).

You do not have to notify us of these elections, but should keep a copy of them with your tax records.

You can make each of these elections separately at any time. The time at which you make a particular tax-timing method election will affect which of your financial arrangements will be subject to that tax-timing method election.

If you make a particular tax-timing method election, then that tax-timing method will apply to *relevant financial arrangements you start to have:

- during the income year in which you make the election
- in later income years.

Example

If	then
You make the hedging tax-timing method election in the 2011 income year	The hedging tax-timing method election will apply to relevant hedging financial arrangements that you start to have in the 2011 income year or a later income year.
You make the foreign exchange retranslation tax-timing method election in the 2012 income year.	The foreign exchange retranslation tax-timing method election will apply to relevant financial arrangements that you start to have in the 2012 income year or a later income year.

Once made, the tax-timing method elections are irrevocable - however, they may cease to apply if your circumstances change.

Relevant financial arrangements are those that are subject to the particular tax-timing method elections that you make.

QC 47899

Election for portfolio treatment of fees, premiums and discounts

How the election for portfolio treatment of fees, premiums, discounts works.

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[What is this election?](#)

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What is this election?

You can elect for portfolio treatment under the accruals method for fees, premiums and discounts associated with certain financial arrangements where the arrangements are part of a portfolio of similar financial arrangements.

This is an irrevocable election to spread the portfolio fees, premiums and discounts over the expected life of the portfolio the financial arrangement is a part of.

To be eligible to make the election for portfolio treatment of fees, premiums and discounts, you must prepare financial reports in accordance with the relevant accounting standards and have these reports audited in accordance with the relevant auditing standards.

See also:

- Information, refer to sections 230-160 and 230-165 of the *Income Tax Assessment Act 1997* (ITAA 1997).

How do you make this election?

To make this election, download and complete the TOFA 3 & 4 election for portfolio treatment of fees, discounts and premiums form (NAT 73734).

You do not have to notify us of this election, but you should keep a copy of it with your tax records.

You can make this election at any time – however, it will generally only apply to financial arrangements you start to have in the income year you make the election or later income years.

QC 47897

TOFA compliance

As part of our compliance activities, we may review TOFA taxpayers to ensure they are correctly applying the rules.

As part of our compliance activities, we will review some taxation of financial arrangements (TOFA) taxpayers to ensure they are correctly applying the TOFA rules to their financial arrangements, and to assess whether the objectives of the TOFA legislation are being met.

TOFA rules have generally applied to all financial arrangements TOFA taxpayers started to have on or after 1 July 2010 (1 July 2009 if they elected to have the TOFA rules apply early).

Managing your TOFA compliance

It is important to review your governance, systems and processes to assess your implementation and continued compliance with the TOFA rules. Some of the things you might review are listed here – note that the list is not intended to be exhaustive:

- [Governance](#)
- [Transitional election](#)
- [Tax-timing methods](#)
- [Voluntary disclosure](#)

Governance

- Review the steps you took to implement TOFA.
- Ensure you have processes and procedures in place to
 - apply the TOFA rules correctly to your current financial arrangements and any new financial arrangements (according to the law and ATO guidance)
 - review major transactions for any TOFA implications (and apply for ATO advice if necessary)
 - ensure you are aware of legislative changes and settled interpretative issues in relation to the TOFA rules.

Transitional election

If you made a transitional election, check that:

- it was validly made and you notified to the Commissioner by the relevant due date
- your transitional balancing adjustment
 - was calculated in accordance with one or both of the relevant methods
 - is spread over your first four TOFA income years and appropriately disclosed in your tax return.

See also:

- Transitional balancing adjustment

Tax-timing methods

Accruals and realisation methods

If these methods apply to your financial arrangements, check that you have systems and processes to ensure that:

- you assess whether gains or losses on each financial arrangement is sufficiently certain, as required by the TOFA rules
- if you want to apply a method whose results approximate that of the compounding accruals method, that you assess it is appropriate to do so.

This may mean that your accounting method and tax treatment may differ.

Tax-timing method elections

If you made any of the tax-timing method elections, check that:

- you were eligible to make them and you have the
 - necessary audited financial reports
 - required accounting systems and controls in place
- you have systems and processes in place to
 - ensure the elections only applied to those arrangements you started to have in or after the income year the election was made (they can also apply to transitional arrangements in certain circumstances)
 - continually monitor that you remain eligible to apply those elections to your financial arrangements
 - identify the financial arrangements where the TOFA gain or TOFA loss is different from the amount in your financial report (if any)
 - ensure the relevant tax-timing method elections continue to apply to your financial arrangements.

See also:

- Tax-timing methods

Hedging method

If you made the hedging method election, check that:

- in accordance with the TOFA rules, you satisfy the record-keeping requirements by
 - ensuring the required documentation was in place for all existing hedging financial arrangements
 - having systems and processes in place to ensure that the required documentation is in place for all new hedging financial arrangements

- the hedging method applies to **all** financial arrangements that are designated as accounting hedges.

Voluntary disclosure

Following your review of your TOFA systems and processes, if you identify an error in relation to your tax affairs, you may wish to make a voluntary disclosure. Where you make a voluntary disclosure, we will consider reducing the amount of shortfall penalties and interest that may apply.

See also:

- [Voluntary disclosures](#)

QC 25193

PAYG instalments for TOFA entities

Special rules apply to TOFA entities that use the instalment rate (option 2) to calculate their PAYG instalments.

Last updated 9 September 2019

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[Partners in partnerships and trust beneficiaries](#)

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[Apply to use the TOFA method early](#)

Pay as you go (PAYG) instalments help you budget for your income tax and keep a healthy cash flow. By making regular payments during the year you won't have to pay a large tax bill when you lodge your tax return.

When you lodge your tax return, all the amounts you've paid during the year will be offset against any tax you owe for the year.

If you pay instalments using the **instalment rate (option 2)** there are special rules for working out your instalment income if you are a:

- [beneficiary of a trust](#) where the trust is a taxation of financial arrangements (TOFA) entity
- [partner of a partnership](#) where the partnership is a TOFA entity
- [TOFA entity](#) (except individuals).

Individuals will only use these rules if they are working out their share of instalment income of a relevant partnership or trust.

Partners in partnerships and trust beneficiaries

If you're a partner or beneficiary of a TOFA entity, find out how to calculate your share of instalment income:

- PAYG instalments for partnerships

Example: Trust with 30 June balance date

XYZ Trust's first TOFA year was the income year ending 30 June 2018.

The trustee of XYZ Trust provided the beneficiaries of XYZ Trust with the instalment income information. The beneficiaries of the trust use the instructions at PAYG instalment for trusts to work out their instalment amount from the trust in each instalment quarter.

TOFA entity

If you're a TOFA entity, you'll use the TOFA method to calculate your instalment income.

If you are a **company, trust or partnership**, your instalment income is the total of:

- ordinary income – earned from business and investment activities (excluding TOFA gains)
- net TOFA income – TOFA gains minus TOFA losses. If the result is negative, use zero.

If you are a **superannuation fund**, your instalment income is the total of:

- ordinary income and statutory income – earned from the super fund's activities (excluding TOFA gains)
- net TOFA income – TOFA gains minus TOFA losses. If the result is negative, use zero.

When to use the TOFA method

You will start to use the TOFA method to calculate your instalment income when both of the following apply:

- We give you a new PAYG instalment rate in the first instalment quarter of an income year.
- The tax return we used as a basis to give you the new rate
 - included TOFA gains and TOFA losses
 - was for the 2011 income year or a later income year. For a TOFA entity with an early-balancing, substituted accounting period (SAP), this is the 2012 income year or a later income year.

Some TOFA entities can choose to start using the TOFA method one year earlier – see [Apply to use the TOFA method early](#).

Example 1: TOFA entity with a 30 June balance date

Austin Co. made TOFA gains and losses during their income year ending 30 June 2018 (their 2018 income tax year). Austin Co. lodged their 2018 income tax return on 15 January 2019.

Austin Co. **did not** use the TOFA method for calculating instalment income for the two instalment quarters that followed the lodgment of their 2018 income tax return (the quarters ending 31 March 2019 and 30 June 2019). This was because the conditions for using the TOFA method had not yet been met.

Austin Co. could only use the TOFA method after we issued them a new PAYG instalment rate during the first instalment quarter of their 2020 income tax year (the 1 July – 30 September 2019 quarter). Austin Co. will use the TOFA method for calculating instalment income for that and all future instalment periods.

Example 2: TOFA entity with a 31 December early balancing SAP

Mike Co. made TOFA gains and losses during their income tax year ending 31 December 2018 (their 2019 income tax year). Mike Co. lodged its 2019 income tax return, which included these TOFA gains and losses, on 15 July 2019.

Mike Co. **did not** use the TOFA method for calculating instalment income for the two instalment quarters that followed the lodgment of their 2019 income tax return (the quarters ending 30 September and 31 December 2019). This was because the conditions for using the TOFA method had not yet been met.

Mike Co. could only use the TOFA method after we issued them a new PAYG instalment rate during the first instalment quarter of their 2020 income tax year (the 1 January – 31 March 2019 quarter). Mike Co. will use the TOFA method in that and all future instalment periods.

Apply to use the TOFA method early

TOFA entities can request to start using the TOFA method one year earlier.

We will accept your request if we are satisfied it is reasonable.

To start using the TOFA method early, you must write to us at least **28 days before** the end of the first quarter of an income year and:

- advise that you want to use the TOFA method for calculating PAYG instalments early
- provide the information we need to calculate a new PAYG instalment rate.

Information you need to give us

If the last tax return you lodged did not include TOFA gains and TOFA losses you'll need to provide that information to us.

If your last tax return was for an income year before the TOFA rules applied to you, you must work out what your TOFA gains and losses and other income and deductions would have been had the TOFA rules applied to you in that income year.

Once you have worked this out, you must tell us:

- your TOFA gains and losses
- all other income and deductions.

This will allow us to calculate what your taxable income would have been if the TOFA rules applied to you in that income year.

There are additional disclosures for TOFA entities that include a life insurance business, for more information see [TOFA](#).

Where to send your notification

Send your request by mail to:

- **Australian Taxation Office**
Attention: Technical Leadership Group, PG&I
GPO Box 9977
MELBOURNE VIC 3001

QC 25240

Interactions between TOFA labels and PAYG instalment rate

Understand how TOFA tax return labels may affect your PAYG instalment rate calculation.

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[TOFA reporting impact on the PAYG instalment rate](#)

[How the PAYG instalment rate is calculated](#)

TOFA reporting impact on the PAYG instalment rate

The way you report TOFA gains and losses in your income tax return (ITR) can affect your pay as you go (PAYG) instalment rate calculation. Correctly capturing and disclosing TOFA gains and losses in your ITRs can be challenging if you're subject to the TOFA rules with a large volume of financial arrangements. However, incorrectly reporting the TOFA gains and losses can result in an inappropriate PAYG instalment rate.

The example uses company income tax return labels. However, the key reporting principles equally apply to trust and partnership income tax returns.

How the PAYG instalment rate is calculated

If you've been issued with a PAYG instalment rate, the instalment rate calculation is $(\text{Notional tax} \div \text{base assessment instalment income}) \times 100$ where:

- notional tax is adjusted tax on adjusted taxable income reduced by adjusted tax on adjusted withholding income of the base year – note that the base year generally refers to the most recent income tax return lodged year
- for non-TOFA entities, Base Assessment Instalment Income (BAII) = ordinary income earned from business and investment activities as reported in the base year
- for TOFA entities, BAII = ordinary income earned from business and investment activities in the base year
 - **minus** Total TOFA gains
 - **plus** Net TOFA income
 - where Net TOFA income = Total TOFA gains – Total TOFA losses.

The PAYG instalment rate formula has 2 main components consisting of notional tax and BAII. Both components are usually derived from the relevant labels of the most recently lodged ITR. If either component is 0 or less, the instalment rate will default to 0.

For TOFA entities, there is an extra step within the calculation of the TOFA entity's BAII which involves deducting all income attributable to TOFA from ordinary income earned from business and investment activities and adding back net income attributable to TOFA.

TOFA labels impacting the PAYG instalment rate

Where Total TOFA gains and Total TOFA losses aren't reported correctly in the tax return, an incorrect PAYG instalment rate may be issued, and tax payments may be inappropriately deferred.

See which labels will impact the PAYG instalment rate calculation.

Base assessment instalment income

BAll is calculated using the following labels:

- 6S Total income
- 6J Unrealised gains on revaluation of assets to fair value
- 6D Gross distributions from partnerships (if <0) (see [Note 1](#))
- 6R Other gross income (if <0) (see [Note 2](#))

BAll is calculated as follows:

- $6S - 6J - 6D \text{ (if } < 0) - 6R \text{ (if } < 0)$

Note 1: Gross distributions from partnerships (label 6D) are only deducted in the calculation of ordinary BAll when the reported label is a negative amount, meaning when 6D is less than zero. If the amount is a positive amount (when 6D is greater than zero), it's not deducted in the calculation of ordinary BAll.

Note 2: Other gross income (label 6R) is deducted in the calculation of ordinary BAll only when the reported label is a negative amount, meaning when 6R is less than zero. If the amount is a positive amount (when 6R is greater than zero), it's not deducted in the calculation of ordinary BAll.

TOFA method BAll

TOFA method BAll is calculated using the following additional labels:

- 7E TOFA income from financial arrangements not included in item 6
- 8S TOFA 3&4 gains from unrealised movements in the value of financial arrangements
- 8T TOFA gains
- 8U TOFA losses.

TOFA method BAll is calculated as follows:

- $BAll + 7E + 8S - 8T + (8T - 8U)$

The formula also uses [BAll](#) which is calculated from other labels from the income tax return.

Example: how company ITR labels are reflected in the PAYG instalment rate calculation

Bank A enters into a financial arrangement with an external party on 1 October 2021. The fair value of the financial arrangement at the time of entering into the arrangement was \$99 million.

Bank A has elected to use all TOFA methods. Bank A's financial year and substituted accounting period ends on 31 December.

Bank A sells the financial arrangement on 31 January 2022 for its fair value at the time of \$100 million.

The fair value of the financial arrangement for the relevant dates are as follows:

- \$99.75 million on 31 December 2021, and
- \$100 million on 31 January 2022.

In addition, Bank A is required to use the instalment rate method of calculating the amount of PAYG instalment payable for each period.

Accounting journal entries during the year ended 31 December 2021 attributable to the financial arrangement

Date	Account name	Debit	Credit
1 October 2021	Financial Arrangement	\$99,000,000	-
1 October 2021	Cash	-	\$99,000,000
31 December 2021	Revaluation of financial arrangement	\$750,000	-
31 December 2021	Fair value gains (P&L)	-	\$750,000

During the income year ended 31 December 2021, Bank A also derived interest income of \$4 million on 31 December 2021. The TOFA rules are also applicable on the entire amount.

Accounting journal entries during the year ended 31 December 2021 attributable to the interest income

Date	Account name	Debit	Credit
31 December 2021	Cash	\$4,000,000	-
31 December 2021	Interest	-	\$4,000,000

During the income year ended 31 December 2021, Bank A revalued a piece of land that it owns for a more accurate representation of its financials in the statement of financial position. The land was revalued, resulting in a gain of \$2 million which is in this instance reflected in its Profit & Loss (P&L) account, as the land was previously revalued resulting in a \$2.5 million loss. Note that the gain in relation to the revaluation of land is not subject to the TOFA rules.

Accounting journal entries during the year ended 31 December 2021 attributable to the revaluation surplus

Date	Account name	Debit	Credit
31 December 2021	Land	\$2,000,000	-
31 December 2021	Gain on revaluation (P&L)	-	\$2,000,000

Disclosures in Company Income Tax Return for the income year ended 31 December 2021

Income tax return label	Amount
6F Gross interest	\$4,000,000
6J Unrealised gains on revaluation of assets to fair value	\$2,750,000
6S Total income	\$6,750,000
8T Total TOFA gains	\$4,750,000
8S TOFA 3&4 gains from unrealised movements in the value of financial arrangements	\$750,000

Calculating the PAYG instalment rate with the year ended 31 December 2021 as the base year

For the year ended 31 December 2021:

- Bank A had a total income of \$6,750,000
- Assume that Bank A's notional tax is \$800,000.

Working out base assessment instalment income (BAII)

Calculation element	Value
6S Total income	6,750,000
<i>less</i> 6J Unrealised gains on revaluation of assets	2,750,000
<i>less</i> 6D Gross distribution from partnerships, if 6D is less than zero (see Note 1)	0
<i>less</i> 6R Other gross income, if 6R is less than zero (see Note 2)	0
BAIL	4,000,000

Note 1: When label 6D is a negative amount, the deduction of Gross distribution from partnerships in this formula effectively adds back the income otherwise reducing total income.

Note 2: When label 6R is a negative amount, the deduction of Other gross income in this formula effectively adds back the income otherwise reducing total income.

Working out TOFA BAIL

Calculation element	Value
BAIL	4,000,000
<i>plus</i> 7E TOFA income from financial arrangements not included in Item 6	0
<i>plus</i> 8S TOFA 3&4 gains from unrealised movements in the value of financial arrangements	750,000
<i>less</i> 8T Total TOFA gains	4,750,000
<i>plus</i> (8T Total TOFA gains <i>less</i> 8U Total TOFA losses)	=4,750,000
TOFA BAIL	4,750,000

The PAYG instalment rate for Bank A is calculated using the following formula:

- $(\text{Notional tax} \div \text{TOFA BAIL}) \times 100$
- $(\$800,000 \div \$4,750,000) \times 100$

PAYG instalment rate therefore equals to 16.84%.

Accounting journal entries during the year ended 31 December 2022 attributable to the financial

arrangement

Date	Account name	Debit	Credit
31 January 2022	Revaluation of financial arrangement	\$250,000	-
31 January 2022	Fair value gains (P&L)	-	\$250,000
31 January 2022	Cash	\$100,000,000	-
31 January 2022	Financial arrangement	-	\$100,000,000

During the income year ended 31 December 2022, Bank A also derived interest income of \$5 million on 31 December 2022. The TOFA rules are also applicable on the entire amount.

Accounting journal entries during the year ended 31 December 2022 attributable to the interest income

Date	Account name	Debit	Credit
31 December 2022	Cash	\$5,000,000	-
31 December 2022	Interest	-	\$5,000,000

During the income year ended 31 December 2022, Bank A also derived rental income of \$500,000 on 31 December 2022 for renting out the land that it owns. Note that the rental income is not subject to the TOFA rules.

Accounting journal entries during the year ended 31 December 2022 attributable to the rental income

Date	Account name	Debit	Credit
31 December 2022	Cash	\$500,000	-
31 December 2022	Rent	-	\$500,000

Disclosures in Company Income Tax Return for the year ended 31 December 2022

Income tax return label	Amount
6F Gross interest	\$5,000,000
6G Gross rent and other leasing and hiring income	\$500,000
6R Other gross income	\$250,000
6S Total income	\$5,750,000
8T Total TOFA gains	\$5,250,000

Calculating the PAYG instalment rate with the year ended 31 December 2022 as the base year

For the year ended 31 December 2022:

- Bank A had a total income of \$5,750,000
- Assume that Bank A's notional tax is \$1,000,000.

Working out base assessment instalment income (BAII)

Calculation element	Value
6S Total income	5,750,000
<i>less</i> 6J Unrealised gains on revaluation of assets	0
<i>less</i> 6D Gross distribution from partnerships, if 6D is less than zero	0
<i>less</i> 6R Other gross income, if 6R is less than zero	0
BAII	5,750,000

Working out TOFA BAI

Calculation element	Value
BAII	5,750,000
<i>plus</i> 7E TOFA income from financial arrangements not included in Item 6	0
<i>plus</i> 8S TOFA 3&4 gains from unrealised movements in the value of financial	0

arrangements	
<i>less</i> 8T Total TOFA gains	5,250,000
<i>plus</i> (8T Total TOFA gains <i>less</i> 8U Total TOFA losses)	= 5,250,000 - 0 =5,250,000
TOFA BAI	5,750,000

The PAYG instalment rate for Bank A is calculated using the following formula:

- $(\text{Notional tax} \div \text{TOFA BAI}) \times 100$
- $(\$1,000,000 \div \$5,750,000) \times 100$

PAYG instalment rate therefore equals to 17.39%.

Company ITR labels relevant to TOFA gains and losses



Use these examples to complete labels in your return relevant to TOFA gains and losses.

Reporting TOFA gains and losses on a gross or net basis



Understand the differences between reporting TOFA gains and TOFA losses on a gross or net basis and its implications.

QC 103531

Company ITR labels relevant to TOFA gains and losses

Use these examples to complete labels in your return relevant to TOFA gains and losses.

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Overview

Companies that have gains or losses from financial arrangements in an income year should record their TOFA gains and TOFA losses in the

following labels of the company tax return.

Company income tax return labels are used throughout this page to illustrate how TOFA gains and losses should be recorded. However, the key reporting principles equally apply to trust and partnership income tax returns.

Label 6 Income

D – Gross distribution from partnerships

Label 6D is the gross distributions from all partnerships, including any share of franking credits attributable to dividends paid by an Australian company.

If TOFA rules apply, Label 6D would show the total distributions from partnerships, which includes all amounts from financial arrangements subject to the TOFA rules.

Example: gross distribution from partnerships

Company A carries on a business in partnership with another party. The partners have agreed to share profits and losses equally.

During the income year, the partnership derives interest income of \$10,000 from the partnership business account. TOFA rules apply to this financial arrangement generating the interest income. There were no other income or losses derived by the partnership, meaning that the net income of the partnership for the income year is \$10,000. This was equally distributed to the partners during the income year.

Company A includes \$5,000 of the distribution from the partnership in Label 6D of the company income tax return, and this amount will also be included in Label 8T Total TOFA gains.

E – Gross distribution from trusts

Label 6E is the total amount of gross distributions received from trusts, including any share of franking credits attributable to dividends paid by an Australian company as advised by the trustee.

If TOFA rules apply, Label 6E would show the total distribution received from trusts which includes all amounts from financial arrangements subject to the TOFA rules.

Example: gross distribution from trusts

Company B is a beneficiary of a discretionary trust.

During the income year, the trust derived net interest income of \$50,000. At the end of the income year, the trustee decided to distribute 20% of the trust's income to Company B.

In this case, Company B will be assessed on \$10,000 net interest income received from the trust. TOFA rules apply to the financial arrangement on which interest income was derived and received by Company B from the trust.

Company B will include the \$10,000 interest income in Label 6E of their company income tax return, and this respective amount will also be included in Label 8T Total TOFA gains.

F – Gross interest

Label 6F is the total interest from all sources, including interest received from or credited by an associate, a shareholder, or an associate of a shareholder. This amount can't be a loss.

If TOFA rules apply, Label 6F would show all interest received or credited to it, which includes all amounts from financial arrangements subject to the TOFA rules.

Example: gross interest

At the start of the current income year, Company C provides a loan of \$1,000,000 to Company D and the interest on the loan is 5% per annum.

At the end of the income year, the interest accrued and paid by Company D to Company C is \$50,000. TOFA rules apply to this financial arrangement, which gave rise to the interest income of \$50,000.

Company C will include \$50,000 of gross interest in Label 6F of their company income tax return and this amount will also be included in Label 8T Total TOFA gains.

H – Total dividends

Label 6H is the total dividends, including:

- all dividends and non-share dividends (franked or unfranked)
- foreign source dividends
- dividends applied under dividend reinvestment plans
- deemed dividends
- liquidators' and other company distributions.

This amount can't be a loss.

If TOFA rules apply, Label 6H would include all unfranked dividends that were paid or credited to it from all sources, which include unfranked dividends from financial arrangements subject to the TOFA rules.

Example: total dividends

Company E holds 200 shares in Company F, an unrelated third party.

At the end of the income year, Company F declared unfranked dividends to be distributed to its shareholders at \$3 per share. Shares constitute a financial arrangement, so TOFA rules apply to determine the tax timing of the dividends paid by Company F to Company E.

Company E will include \$600 of total dividends received in Label 6H of their company income tax return, and this amount will also be included in Label 8T Total TOFA gains.

J – Unrealised gains on revaluation of assets to fair value

Label 6J is the total amount of unrealised gains made on the revaluation of assets and liabilities to fair value that may arise as a result of the adoption of Australian equivalents to the international financial report standards.

If TOFA rules apply, Label 6J includes all unrealised gains on the revaluation of financial arrangements to fair value assessable under the TOFA rules.

Example: unrealised gains on revaluation of assets to fair value

Company G purchased a financial arrangement from an external party at the start of the income year. The fair value of the financial arrangement at the time of purchase was \$900,000.

At the end of the income year the financial arrangement was revalued for a more accurate representation of Company G's financials in its statement of financial position. As a result, the financial arrangement's fair value increased to \$950,000. TOFA rules apply to the fair value gain in relation to the financial arrangement held by Company G.

So Company G will include \$50,000 of total unrealised gains on revaluation of its financial arrangement to fair value in Label 6J of its company income tax return and this respective amount will also be included in Label 8T Total TOFA gains and Label 8S TOFA gains from unrealised movements in the value of financial arrangements.

R – Other gross income

Label 6R is the total amount of other gross income not already included in other item 6 Income labels.

If TOFA rules apply, Label 6R includes all assessable gains from the company's financial arrangements to which the TOFA rules apply,

where they haven't already been included in other item 6 Income labels.

Example: other gross income

Company H purchased a financial arrangement from an external party at the start of the income year. The fair value of the financial arrangement at the time of purchase was \$980,000.

At the end of the income year, Company H disposed of the financial arrangement to another external third party for \$1,000,000. TOFA rules apply to the financial arrangement.

As such, Company H will include \$20,000 of other gross income in Label 6R of its company income tax return to reflect the realised gain on disposal of its financial arrangement and this amount will also be included in Label 8T Total TOFA gains.

Label 6 Expenses

E – Bad debts

Label 6E is the bad debt expense incurred for the income year excluding accounting provisions for doubtful debts. A deduction for bad debts is allowable only if the bad debt has previously been included in assessable income, or for money lent in the ordinary course of the business of lending money by a company carrying on that business.

If TOFA rules apply, Label 6E would include all of the company's deductible bad debts which includes amounts from financial arrangements subject to the TOFA rules.

Example: bad debts

Company U is an Authorised Deposit-taking Institution and lends money in the ordinary course of its business.

At the beginning of the income year, Company U provided a loan of \$100,000 to a third party, Company U expects to receive the full amount of this loan at maturity, which is the end of the income year, plus interest of 8% per annum.

During the income year, it was discovered that the third party had cashflow problems and the loan would be impaired. At maturity, Company U was only able to recover 70% of the total loan amount, and the \$8,000 representing interest accrued in respect of the loan. After taking reasonable steps to determine that the debt can't be recovered, Company U has written off the 30% portion of the principal loan amount as 'bad' in its accounting records.

As Company U satisfies paragraph 25 – 35(3)(b) in relation to claiming a deduction for bad debts and the TOFA rules also apply

to this financial arrangement. Company U will include \$30,000 as a bad debt expense in label 6E of its company income tax return and this amount will also be included in Label 8U Total TOFA losses.

V – Interest expenses within Australia

Label 6V is the interest expense incurred on money borrowed from Australian sources.

If TOFA rules apply, Label 6V would include all interest expense incurred by the company on money borrowed from Australian sources, which includes interest on financial arrangements subject to the TOFA rules.

Example: interest expenses within Australia

Company J obtained a loan from an external third party based in Australia in the previous income year. The principle of the loan is \$100,000 and interest payable on the loan is 8% per annum.

During the current income year, interest expense incurred by Company J in relation to this loan is \$8,000. TOFA rules apply to the loan, being a financial arrangement.

Company J will include \$8,000 representing interest expenses within Australia in Label 6V of its company income tax return. The amount will also be included in Label 8U Total TOFA losses.

J – Interest expenses overseas

Label 6J is the interest expense incurred on money borrowed from overseas sources.

If TOFA rules apply, Label 6J would include all interest expense incurred by the company on money borrowed from overseas sources, which includes interest on financial arrangements subject to the TOFA rules.

Example: interest expenses overseas

Company K obtained a loan from an external third party based in the US. The principle of the loan is \$100,000 and is denominated in AUD. The interest payable on the loan is 10% per annum.

During the current income year, interest expense incurred by Company K in relation to this loan is \$10,000. TOFA rules apply to the loan, being a financial arrangement.

Company K will include \$10,000 representing interest expenses overseas in Label 6J of its company income tax return. The amount will also be included in Label 8U Total TOFA losses.

G – Unrealised losses on revaluation of assets to fair value

Label 6G is the total amount of unrealised losses made on the revaluation of assets and liabilities to fair value that may arise as a result of the adoption of Australian equivalents to the international financial report standards.

If TOFA rules apply, Label 6G includes all unrealised losses on the revaluation of a financial arrangement to fair value deductible under the TOFA rules.

Example: unrealised losses on revaluation of assets to fair value

Company L purchased a financial arrangement from an external party at the start of the income year. The fair value of the financial arrangement at the time of purchase was \$900,000.

At the end of the income year the financial arrangement was revalued for a more accurate representation of Company L's financials in its statement of financial position. As a result, the financial arrangement's fair value decreased to \$850,000. TOFA rules apply to the fair value loss in relation to the financial arrangement held by Company L.

So Company L will include \$50,000 of total unrealised losses on revaluation of its financial arrangement to fair value in Label 6G of its company income tax return. The amount will also be included in Label 8U Total TOFA losses.

S – All other expenses

Label 6G is the total amount of unrealised losses made on the revaluation of assets and liabilities to fair value that may arise as a result of the adoption of Australian equivalents to the international financial report standards.

If TOFA rules apply, Label 6S includes any deductible losses from the company's financial arrangements to which the TOFA rules apply, where they haven't already been included in other item 6 Expense labels.

Example: all other expenses

Company M purchased a financial arrangement from an external party at the start of the income year. The fair value of the financial arrangement at the time of purchase was \$920,000.

At the end of the income year, Company M disposed of the financial arrangement to another external third party for \$900,000 due to operational needs. TOFA rules apply to the financial arrangement.

As such, Company M will include \$20,000 in Label 6S All other expenses of its company income tax return to reflect the loss on

disposal of its financial arrangement. This amount will also be included in Label 8U Total TOFA losses.

Label 7 Reconciliation to taxable income or loss

E – TOFA income from financial arrangements not included at item 6

Label 7E is a reconciliation label used to ensure that the total TOFA gains label (8T) is equivalent to the total amounts from financial arrangements subject to the TOFA rules included in Item 6 Income labels (6D, 6E, 6F, 6H, 6J and 6R).

If TOFA rules apply, Label 7E includes any additional assessable gains from financial arrangements not already included in Item 6 Income labels.

Example: TOFA income from financial arrangements not included at item 6

Company N owns a depreciating asset which it intends to sell in the near future. Due to concerns around the market value of the depreciating asset falling, it enters into a forward contract to sell the depreciating asset for \$100,000 where the depreciating asset is to be delivered in 9 months-time and the \$100,000 is payable in 12 months-time.

When the depreciating asset is delivered by Company N to the purchaser, the market value of the depreciating asset was \$93,000. The application of the TOFA rules mean that at the time of delivery, Company N starts to have a financial arrangement being the right to receive \$100,000 in 3 months' time.

Additionally, at the time of delivery, Company N is taken to have received an amount equal to the market value of the depreciating asset. So the termination value of the depreciating asset is \$93,000 and its adjustable value is \$90,000, given by its initial cost less any decline in value.

In 3 months-time, Company N receives the \$100,000 as part of the contract. In this case, Company N has elected to use the hedging tax-timing method, and the TOFA rules apply to the financial arrangement in relation to the right to receive \$100,000 after the delivery of the depreciating asset.

So Company N will include the \$7,000 gain (\$100,000 minus \$93,000) in relation to the contract in label 7E of its income tax return in the income year the depreciating asset was delivered and this amount will also be included in label 8T Total TOFA gains.

For completeness, there is also a \$3,000 gain (\$93,000 minus \$90,000), that is attributable to the depreciating asset's termination value that is greater than its adjustable value at the time of delivery, which is a balancing adjustment under the TOFA

rules. This amount is recorded separately in Company N's income tax return in Label 7B Other assessable income.

W – TOFA deductions from financial arrangements not included at item 6

Label 7W is a reconciliation label used to ensure that the total TOFA losses label (8U) is equivalent to the total amounts from financial arrangements subject to the TOFA rules included in Item 6 Expense labels (6E, 6V, 6J, 6G and 6S).

If TOFA rules apply, Label 7W includes all additional losses allowable from financial arrangements not already included in Item 6 Expenses labels.

Example: TOFA deductions from financial arrangements not included at item 6

Company O owns a depreciating asset which it intends to sell in the near future. Due to concerns around the market value of the depreciating asset falling, it enters into a forward contract to sell the depreciating asset for \$50,000 where the depreciating asset is to be delivered in 9 months-time and the \$50,000 is payable in 12 months-time.

When the depreciating asset is delivered by Company O to the purchaser, the market value of the depreciating asset was \$60,000. The application of the TOFA rules mean that at the time of delivery, Company O starts to have a financial arrangement being the right to receive \$50,000 in 3 months' time.

Additionally, at the time of delivery, Company O is taken to have received an amount equal to the market value of the depreciating asset. So the termination value of the depreciating asset is \$60,000 and its adjustable value is \$49,000, determined by its initial cost less any decline in value.

In 3 months-time, Company O receives the \$50,000 in relation to the contract. In this case, Company O has elected to use the hedging tax-timing method, and the TOFA rules apply to the financial arrangement in relation to the right to receive \$50,000 after the delivery of the depreciating asset.

So Company O will include the \$10,000 loss (\$60,000 minus \$50,000) in relation to the contract in label 7W of its income tax return in the income year the depreciating asset was delivered, and this amount will also be included in label 8U Total TOFA losses.

For completeness, there is also an \$11,000 gain (\$60,000 minus \$49,000), that is attributable to the depreciating asset's terminating value less the adjustable value at the time of delivery, which is a balancing adjustment under the TOFA rules.

This amount is recorded separately in Company O's income tax return in Label 7B Other assessable income.

Label 8 Financial and other information

T –Total TOFA gains

Label 8T is the total of all assessable TOFA gains from financial arrangements already included in item 6 and item 7.

If TOFA rules apply, Label 8T should be equivalent to the total income from financial arrangements subject to the TOFA rules already included in labels 6D, 6E, 6F, 6H, 6J, 6R and 7E.

Example: total TOFA gains

Company P is an Authorised Deposit-taking Institution and lends money in the ordinary course of its business. Throughout the current income year, Company P had the following financial arrangements:

- provided a loan of \$1,000,000 to an external third party within Australia and received interest income of \$50,000 – this amount has been included as part of Label 6F Gross interest
- purchased a financial arrangement from an external party and made a gain of \$100,000 on disposal at the end of the income year – this amount has been included as part of 6R Other gross income.

As TOFA rules apply to the financial arrangements. Company P will record its total income from financial arrangements being \$150,000 in Label 8T Total TOFA gains.

U – Total TOFA losses

Label 8U is the total of all allowable TOFA losses from financial arrangements already included in items 6 and item 7.

If TOFA rules apply, Label 8U should be equivalent to the total deductions from financial arrangements subject to the TOFA rules already included in labels 6E, 6V, 6J, 6G, 6S and 7W.

Example: total TOFA losses

Company Q is an Authorised Deposit-taking Institution and lends money in the ordinary course of its business. Throughout the current income year, Company A had the following financial arrangements:

- borrowed \$1,000,000 via a loan from an external third party within Australia and incurred interest expense of \$40,000 – this amount has been included as part of Label 6V Interest expenses within Australia

- purchased a financial arrangement from an external party and made a loss of \$10,000 on disposal at the end of the income year – this amount has been included as part of Label 6S All other expenses.

As TOFA rules apply to the financial arrangements. Company Q will record its total losses from financial arrangements being \$50,000 in Label 8U Total TOFA losses.

S – TOFA gains from unrealised movements in the value of financial arrangements

Label 8S is the total of all TOFA gains included at item 6 as a result of unrealised movements in the value of financial arrangements.

If TOFA rules apply, Label 8S may apply if a company has financial arrangement subject to the TOFA rules and has made certain TOFA tax-timing method elections.

Example: TOFA gains from unrealised movements in the value of financial arrangements

Company R is mandatorily subject to the TOFA rules due to meeting the turnover threshold for the current and previous income years.

At the beginning of the current income year, Company R purchased the following financial arrangements from external parties:

- Financial arrangement 1 where the fair value at the time of purchase was \$900,000.
- Financial arrangement 2 where the fair value at the time of purchase was \$800,000.

At the end of the income year the financial arrangements were revalued for a more accurate representation of Company R's financials in its statement of financial position. As a result, the fair value of the financial arrangements after revaluations were as follows:

- Financial arrangement 1 had a fair value of \$930,000 at the end of the current income year.
- Financial arrangement 2 had a fair value of \$820,000 at the end of the current income year.

TOFA rules apply to the fair value gain in relation to the financial arrangements held by Company R. So Company R will include \$50,000 in Label 8S as the amount is from unrealised movements in the fair value of the financial arrangements.

Note: \$50,000 is also included in Label 6J Unrealised gains on revaluation of assets to fair value and Label 8T Total TOFA gains.

Reporting TOFA gains and losses on a gross or net basis

Understand the differences between reporting TOFA gains and TOFA losses on a gross or net basis and its implications.

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Meaning of 'gross' versus 'net'

The TOFA tax return labels – quick reference guide provides taxpayers with an option to report TOFA gains and TOFA losses on a 'net' basis. This is taking into account that reporting on a "gross" basis could be a compliance burden in separating the financial arrangement gains from the losses for certain types of financial arrangements like derivatives.

In the quick reference guide, reporting on a gross basis means that taxpayers don't net off the expense from the income from the same type of financial arrangement. This is particularly relevant for financial arrangements like loans. The quick reference guide provides a specific example stating that interest income and interest expense should be reported on a gross basis. As an example, \$100,000 interest income and \$40,000 of interest expense in Australia is reported as:

- Gross basis
 - \$100,000 in Label 6F Gross interest; and
 - \$40,000 in Label 6V interest expenses in Australia.
- Net basis:
 - \$60,000 in Label 6F Gross interest.

In contrast, throughout the rest of this page, unless otherwise specified, 'gross' basis is referring to a practice among some taxpayers, involving the inclusion of the value of the notional principal amounts as a TOFA gain or loss, and 'net' basis is referring to situations

involving the inclusion of the actual income or expense – actual gain or loss arising from the financial arrangement, rather than the value of the notional principal amounts associated with the financial arrangements.

Choosing to report on a 'gross' or 'net' basis

We strongly advise taxpayers to report on a net basis in the relevant labels of the income tax returns to:

- avoid income or expenses being significantly inflated unnecessarily and inappropriately.
- ensure a consistent approach to reporting being adopted by taxpayers.

When considering whether to report on a gross or net basis, taxpayers should be aware of other potential implications – even though the choice may not impact the tax payable figure.

How the data can be used

We use the profit and loss information in the company tax return for data analysis purposes, including comparative analysis for risk assessment purposes.

In some cases, we may look at various financial ratios including tax payable relative to total income to analyse a benchmark across an industry.

The total income figure in the company tax return is also reported in the annual corporate tax transparency report which is published on our website. This report is subject to public scrutiny and can lead to incorrect inferences where taxpayers have reported notional principal amounts in total income.

In addition, on 22 June 2023 the Australian Parliament passed legislation establishing the Financial Services Compensation Scheme of Last Resort (CSLR). This scheme is designed to make payments on a last-resort basis to eligible consumers where determinations by the Australian Financial Complaints Authority (AFCA) for compensation remain unpaid in the financial sub-sectors specified in the legislation.

The one-time levy came from the 10 largest banking and insurance groups determined by income reported to us for the 2022 income year. This means ASIC identified the 10 largest banking and insurance groups using the corporate tax transparency report data on total income with the levy being imposed on total income as originally reported in the company income tax return.

Various provisions in the income tax legislation including reporting obligations are dependent on the value of total income, including but not limited to the following:

- the significant global entity concept which defines:

- the population subject to the multinational anti-avoidance law (MAAL) and country-by-country (CBC) reporting,
- the entities required to give the Commissioner a general purpose financial statement
- the entities that may be subject to the diverted profits tax and increased administrative and other penalties
- whether you are considered a small business entity
- whether you are required to pay PAYG instalments on a monthly basis
- whether you are required to complete the Reportable tax position (RTP) schedule
- the R&D tax incentive offset rate for eligible entities.

Use a consistent method

Whether you report using the gross or net basis, you must use the same method consistently throughout the income tax return.

To ensure the method applied remains consistent, we strongly advised that accounting systems be mapped such that:

- The total TOFA gains reported at item 6 and label 7E TOFA income from financial arrangements not included at Item 6 should match the amount reported at label 8T Total TOFA gains
- The total TOFA losses reported at item 6 and label 7W TOFA deductions not included at item 6 should match the amount reported at item 8U Total TOFA losses
- The total TOFA gains reported at item 6 as a result of unrealised movements in the value of financial arrangements should match the amount reported at label 8S TOFA gains from unrealised movements in the value of financial arrangements.

How to report on a net basis

Example: reporting on a net basis

Bank A entered into an FX swap transaction whereby it paid USD 70 million and in return received AUD 100 million. The TOFA rules apply to Bank A and the default method applies to the FX swap. The spot exchange rate is 0.71. Bank A's accounting system picks up the principal amounts as income and expenses – it recorded income of AUD 100 million and expense of AUD 98.59 million (which is the AUD equivalent of USD 70 million at an exchange rate of 0.71).

The better economic reflection of income is AUD 1.41 million (being AUD 100 million less AUD 98.59 million) and Bank A is

encouraged to report on a net basis and include the following in the income tax return:

- AUD 1.41 million into Label 6R Other gross income
- AUD 1.41 million into Label 8T Total TOFA gains.

How Bank A would report the amounts using a net basis compared to a gross basis

Income tax return labels relevant to the FX swap	Net basis	Gross basis
6R Other gross income	\$1,410,000	\$100,000,000
6S Total income	\$1,410,000	\$100,000,000
6S All other expenses	Nil	\$98,590,000
6Q Total expense	Nil	\$98,590,000
6T Total profit or loss	\$1,410,000	\$1,410,000
8T Total TOFA gains	\$1,410,000	\$100,000,000
8U Total TOFA losses	Nil	\$98,590,000

Examples of common types of financial arrangements

The following are examples of how a company should disclose the gains and losses from a financial arrangement depending on the tax-timing method applicable to the financial arrangement.

You should follow priority rules in section 230-40 of the ITAA 1997 to determine which tax-timing method takes priority where more than one tax-timing method apply to a financial arrangement.

The following examples are intended to illustrate the implications to the disclosures in the income tax return depending on the different tax-timing method.

Foreign currency denominated loan – Foreign exchange retranslation method

Example: applying the foreign exchange retranslation method

Company A is an Authorised Deposit taking Institution with aggregated turnover exceeding \$20 million annually. Company A

meets the eligibility criteria to make the foreign exchange retranslation method – general election under the TOFA rules.

During the current income year, Company A obtained a loan of US\$1 million and in accordance with AASB 121, the gains and losses associated with the principal amount, that are attributable to changes in foreign exchange rates, must be recognised in its profit and loss. The terms of the loan specify that the principal of US\$1 million must be repaid at the end of the fourth year. At the time the loan was entered into, Company A incurred a liability of A\$1,428,571.

The exchange rate at each point in time are:

- Year 0: A\$1 = US\$0.7
- Year 1: A\$1 = US\$0.8
- Year 2: A\$1 = US\$0.9
- Year 3: A\$1 = US\$0.85
- Year 4: A\$1 = US\$0.75

Breakdown of gains and losses attributable to currency exchange rate movements

Currency exchange movements and associated gains and losses	Year 0	Year 1	Year 2	Year 3	Year 4
Loan outstanding (US\$)	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	
A\$ value of loan	\$1,428,571	\$1,250,000	\$1,111,111	\$1,176,471	\$1,312,500
Tax treatment (gains or losses) under the foreign exchange retranslation method	\$0	\$178,571	\$138,889	-\$65,360	-\$162,500 (see example 2)

Reporting the respective gains and losses attributable to the currency fluctuations in relation to the foreign currency denominated loan in each income tax return

Income tax return	Year 1	Year 2	Year 3	Year 4
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labels relevant to the currency fluctuations of the loan				
6J Unrealised gains on revaluation of assets to fair value	\$178,571	\$138,889	Nil	Nil
6S Total income	\$178,571	\$138,889	Nil	Nil
6G Unrealised losses on revaluation of assets to fair value	Nil	Nil	\$65,360	Nil
6S All other expenses	Nil	Nil	Nil	\$156,862 (see Note)
6Q Total expense	Nil	Nil	\$65,360	\$156,862
6T Total profit or loss	\$178,571	\$138,889	-\$65,360	-\$156,862
8T Total TOFA gains	\$178,571	\$138,889	Nil	Nil
8U Total TOFA losses	Nil	Nil	\$65,360	\$156,862 (see Note)
8S TOFA gains from unrealised movements in the value of financial arrangements	\$178,571	\$138,889	Nil	Nil

Note: During the fourth year, on cessation of the financial arrangement being the repayment of the principle of the loan, Subdivision 230-G balancing adjustment applies and calculates the balancing adjustment to be a loss of \$156,862.

The balancing adjustment is calculated as follows:

$$(1,428,571 - 1,333,333) - 178,571 - 138,889 + 65,360 = -\$156,862$$

Options – Fair value method

Example: applying the fair value method

Company B is an Australian public company with an aggregated turnover exceeding \$100 million annually. Company B meets the eligibility criteria to make the fair value method election under the TOFA rules.

During the current income year, Company B purchased an option to acquire 1 million shares in Company C for \$10 million. As the option is a derivative recognised at fair value through profit or loss for accounting purposes, the fair value method applies to the option. At the end of the fourth year Company B sells the option to an external third party for \$15 million.

Fair value of the option at the end of each year

Movement in fair value and associated gains and losses	Year 1 (fair value)	Year 2 (fair value)	Year 3 (fair value)	> Year 4 (disposal)
Fair value as at year end	\$14,000,000	\$17,000,000	\$13,000,000	\$15,000,000
Tax treatment (gains or losses) under the fair value method	\$4,000,000	\$3,000,000	– \$4,000,000	\$2,000,000 (see Note)

Reporting respective gains and losses attributable to the fair value movement in the value of the option in the company tax return

Income tax return labels relevant to the fair value movements of the option	Year 1	Year 2	Year 3	Year 4
6J Unrealised gains on revaluation of assets to fair value	\$4,000,000	\$3,000,000	Nil	Nil
6R Other gross income	Nil	Nil	Nil	\$2,000,000

				(see Note)
6S Total income	\$4,000,000	\$3,000,000	Nil	\$2,000,000
6G Unrealised losses on revaluation of assets to fair value	Nil	Nil	\$4,000,000	Nil
6Q Total expense	Nil	Nil	\$4,000,000	Nil
6T Total profit or loss	\$4,000,000	\$3,000,000	– \$4,000,000	\$2,000,000
8T Total TOFA gains	\$4,000,000	\$3,000,000	Nil	\$2,000,000 (see Note)
8U Total TOFA losses	Nil	Nil	\$4,000,000	Nil
8S TOFA gains from unrealised movements in the value of financial arrangements	\$4,000,000	\$3,000,000	Nil	Nil

Note: During the fourth year, on cessation of all of Company B's rights and obligations under the option, Subdivision 230-G balancing adjustment applies and calculates the balancing adjustment to be a gain of \$2,000,000.

The balancing adjustment is calculated as follows:

$$(\$15,000,000 - \$10,000,000) - \$4,000,000 - \$3,000,000 + \$4,000,000 = \$2,000,000$$

Multiple financial arrangements – Reliance on financial reports method

Example: applying reliance on financial reports method

Company C is an Authorised Deposit taking Institution with aggregated turnover exceeding \$20 million annually. Company A meets the eligibility criteria to make the reliance on financial reports election under the TOFA rules.

Company C holds 2 million shares in Company A and is an equal share partner of a partnership with Company E.

At the beginning of the current income year, Company C entered into the following financial arrangements:

- Borrowed \$10 million via a loan from an external third-party lender in Australia. The terms of the loan specify that interest payable on the loan is 5% per annum and the principle must be paid at the end of the seventh year.
- Borrowed \$1 million via a loan from an external third-party lender in Australia. The terms of the loan specify that interest payable on the loan is 15% per annum and the principle must be repaid at the end of the fourth year.
- Loaned \$15 million to an external third-party borrower in Australia. The terms of the loan specify that interest payable on the loan is 6% per annum and the principle must be paid at the end of the sixth year.
- Purchased an option to acquire 1 million shares in Company B for \$8 million, the option expires at the end of the fifth year from the time of purchase.
- Purchased an option to acquire 1 million shares in Company D for \$6 million, the option expires at the end of the sixth year from the time of purchase.

Interest payable in relation to the inbound loans as shown on its audited financial reports at the end of the first 3 years from the current income year

Interest paid	Year 1	Year 2	Year 3
Secured inbound loan	\$500,000	\$500,000	\$500,000
Unsecured inbound loan	\$150,000	\$150,000	\$150,000

Interest receivable in relation to the outbound loans as shown on its audited financial reports at the end of the first 3 years from the current income year

Interest received	Year 1	Year 2	Year 3
Outbound loan	\$900,000	\$900,000	\$900,000

Breakdown of gains and losses attributable to movements in the value of the options purchased as shown on its audited financial reports at the end of the first 3 years from the current income year

Gains or losses associated with fair value of option to acquire shares in Company B

Movement in fair value and associated gains and losses	Year 1	Year 2	Year 3
Fair value option price	\$10,000,000	\$7,000,000	\$6,000,000
Gains or losses	\$2,000,000	– \$3,000,000	–\$1,000,000

Gains or losses associated with fair value of option to acquire shares in Company C

Movement in fair value and associated gains and losses	Year 1	Year 2	Year 3
Fair value option price	\$7,000,000	\$9,000,000	\$11,000,000
Gains or losses	\$1,000,000	\$2,000,000	\$2,000,000

In addition, Company C receives unfranked dividends from Company A and is also entitled to their share of partnership income.

Dividends and partnership income received as shown as its audited financial report for the first 3 years from the current income year

Income received	Year 1	Year 2	Year 3
Dividends received from Company A	\$600,000	\$400,000	\$500,000
Share of partnership income	\$450,000	\$550,000	\$600,000

Note that the unfranked dividends and share of partnership income received by Company C are from financial arrangements subject to the TOFA rules.

Reporting the respective income and expenses attributable to financial arrangements in Company C's income tax return for the relevant income years

Income tax return labels relevant to Company C's financial arrangements	Year 1	Year 2	Year 3
6D Gross distribution from partnerships	\$450,000	\$550,000	\$600,000
6F Gross interest	\$900,000	\$900,000	\$900,000
6H Total dividends	\$600,000	\$400,000	\$500,000
6J Unrealised gains on revaluation of assets to fair value	\$3,000,000 (see Note 1)	Nil	\$1,000,000 (see Note 3)
6S Total income	\$4,950,000	\$1,850,000	\$3,000,000
6V Interest expenses within Australia	\$650,000	\$650,000	\$650,000
6G Unrealised losses on revaluation of assets to fair value	Nil	\$1,000,000 (see Note 2)	Nil
6Q Total expense	\$650,000	\$1,650,000	\$650,000
6T Total profit or loss	\$4,300,000	\$200,000	\$2,350,000
8T Total TOFA gains	\$4,950,000	\$1,850,000	\$3,000,000
8U Total TOFA losses	\$650,000	\$1,650,000	\$650,000
8S TOFA gains from unrealised movements in the value of	\$3,000,000	Nil	\$1,000,000

financial arrangements			
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Note 1: \$3,000,000 is calculated as the gains in unrealised movement from revaluation of Option 1 of \$2 million and the gains in unrealised movement from revaluation of Option 2 of \$1 million.

Note 2: \$1,000,000 is calculated as the losses in unrealised movement from revaluation of Option 1 of \$3 million and the gains in unrealised movement from revaluation of Option 2 of \$2 million.

Note 3: \$1,000,000 is calculated as the losses in unrealised movement from revaluation of Option 1 of \$1 million and the gains in unrealised movement from revaluation of Option 2 of \$2 million.

QC 103533

TOFA legislation

Amends the operation of the consolidations regime and the taxation of financial arrangements (TOFA) rules.

Last updated 27 January 2016

On this page

[Tax and Superannuation Laws Amendment \(2013 Measures No. 2\) Act 2013](#)

[Tax Laws Amendment \(2012 Measures No. 2\) Act 2012](#)

[Tax Laws Amendment \(2011 Measures No. 7\) Act 2011 \(147 of 2011\)](#)

[Income Tax Assessment Amendment Regulations 2011 \(No. 4\)](#)

[Tax Laws Amendment \(2010 Measures No. 4\) Act 2010](#)

[Tax Laws Amendment \(Taxation of Financial Arrangements\) Act 2009](#)

Tax and Superannuation Laws Amendment (2013 Measures No. 2) Act 2013

These amendments clarify and refine the operation of certain aspects of the Taxation of financial arrangements (TOFA) rules which relate to

the core rules, tax-timing methods (accruals and realisation, fair value, hedging financial arrangements), transitional balancing adjustments and eligibility requirements for making certain elections. The amendments apply retrospectively from 26 March 2009, when the TOFA rules started.

See also:

- Tax and Superannuation Laws Amendment (2013 Measures No. 2) Act 2013
- Explanatory memorandum to the *Tax and Superannuation Laws Amendment (2013 Measures No. 2) Act 2013*.

Tax Laws Amendment (2012 Measures No. 2) Act 2012

These amendments alter the rules governing the operation of the interaction between the consolidations regime and the TOFA rules. The amendments apply retrospectively from 26 March 2009, when the TOFA rules started.

See also:

- Tax Laws Amendment (2012 Measures No. 2) Act 2012
- Explanatory memorandum to the *Tax Laws Amendment (2012 Measures No. 2) Act 2012*.

Tax Laws Amendment (2011 Measures No. 7) Act 2011 (147 of 2011)

These amendments alter the definition of instalment income of certain taxpayers under the pay-as-you-go regime to include net TOFA gains. The amendments generally apply from the first instalment quarter of an income year following the lodgment of the first income tax return in which a taxpayer reported an assessable gain or deductible loss from their Division 230 financial arrangements.

The amendments also provide the Commissioner with a limited discretion to extend the time for a taxpayer to notify the Commissioner of the making of a transitional election.

See also:

- Tax Laws Amendment (2011 Measures No. 7) Act 2011
- Explanatory Memorandum to the *Tax Laws Amendment (2011 Measures No. 7) Act 2011*

Income Tax Assessment Amendment Regulations 2011 (No. 4)

These amendments give you additional time to comply with a certain aspect of the tax hedge record-keeping requirements relating to the

tax allocation of gains and losses from hedging financial arrangements. The amendments are taken to have commenced on 26 March 2009, when the TOFA rules started.

See also:

- Income Tax Assessment Amendment Regulations 2011 (No. 4) (80 of 2011)
- Explanatory Statement to the Income Tax Assessment Amendment Regulations 2011 (No. 4).

Tax Laws Amendment (2010 Measures No. 4) Act 2010

These amendments make minor policy refinements, technical amendments, and minor technical corrections to address drafting oversights. They relate to the scope of the term 'cash settleable', the deductibility of dividends on certain shares that are debt interests, and the tax-timing methods (accruals and realisation, hedging, and foreign currency retranslation). The amendments apply for income years commencing on or after 1 July 2010, unless a taxpayer elects to apply Division 230 for income years commencing on or after 1 July 2009.

See also:

- The Tax Laws Amendment (2010 Measures No. 4) Act 2010
- The Explanatory Memorandum to the *Tax Laws Amendment (2010 Measures No. 4) Act 2010*.

Tax Laws Amendment (Taxation of Financial Arrangements) Act 2009

These amendments insert Division 230 Taxation of Financial Arrangements into the *Income Tax Assessment Act 1997*, as well as consequential and transitional provisions. Division 230 defines 'financial arrangement' and sets out the tax-timing methods (accruals, realisation, fair value, retranslation, hedging and financial reports) under which gains and losses from financial arrangements will be brought to account for tax purposes.

The amendment constitutes Stages 3 & 4 of the TOFA reforms, which were first announced in the 1992 budget and approved by Government on 11 November 1999 for implementation.

Division 230 commenced on 26 March 2009 and applies for income years commencing on or after 1 July 2010 or, where a taxpayer makes an election to apply Division 230 early, for income years commencing on or after 1 July 2009

See also:

- Tax Laws Amendment (Taxation of Financial Arrangements) Act 2009

- Explanatory Memorandum to the *Tax Laws Amendment (Taxation of Financial Arrangements) Act 2009*

QC 47856

TOFA press releases


A list of press releases and announcements relating to TOFA rules.

Last updated 6 July 2016

The following is a list of press releases and announcements relating to the taxation of financial arrangements (TOFA) rules:

- 14 December 2013 – Integrity restored to Australia's taxation system – Media Release [008/2013](#) 
- 25 November 2011 – Changes to the Income Tax Law Affecting Consolidated Groups – Media Release 159/2011
- 29 June 2010 – New reforms to the taxation of financial arrangements – Media Release 145/2010
- 20 April 2010 – Package of measures to provide greater tax certainty for business finance – Media Release 066/2010
- 4 September 2009 – Further steps to modernise Australia's financial taxation system – Media Release 043/2009
- 26 March 2009 – Taxation of financial arrangements – synthetic and complex arrangements – Media Release 022/2009
- 4 December 2008 – Government introduces major reform of taxation of financial arrangements – Media Release 103/2008

See also:

- [Treasury website](#)  – for more information about TOFA rules, including exposure drafts and industry submissions.

QC 24400

TOFA consolidation

Describes changes to the rules governing the interaction between the tax consolidation regime and TOFA rules.

Last updated 4 February 2016

In 2012 changes were implemented to the rules governing the interaction between the tax consolidation regime and the taxation of financial arrangements (TOFA) rules. For information about whether you are affected and what must you do if you are, refer to **Changes to the operation of the Consolidation and TOFA rules**.

In previous years, the National Tax Liaison Group (NTLG) TOFA Working Group raised the following issues regarding the interaction between the tax consolidation regime and the TOFA rules:

- NTLG TOFA issue 940 *Subsection 701-55(5A) and pre-1 July 2010 financial arrangements*
- NTLG TOFA issue 950 *Subsection 715-375(2) and pre-1 July 2010 financial arrangements*

For information about our compliance approach to these issues, refer to **Interaction of TOFA and the consolidation regime**.

See also:

- Consolidation interactions

Changes to the operation of the Consolidation and TOFA rules



What the changes to the operation of the consolidation and TOFA rules for consolidated groups mean.

Interaction of TOFA and the consolidation regime



The compliance approach dealing with certain issues in relation to TOFA/Consolidation.

QC 47905

Changes to the operation of the Consolidation and TOFA rules

What the changes to the operation of the consolidation and TOFA rules for consolidated groups mean.

Last updated 27 January 2016

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[Who does this affect?](#)

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The government has amended the operation of the rules governing the interaction between the tax consolidation regime and the taxation of financial arrangement (TOFA) rules.

The changes alter the application of the consolidation and TOFA rules for tax consolidated groups, including:

- the tax treatment of financial arrangements upon joining
- the application of the TOFA transitional balancing adjustment provisions in respect of financial arrangements that were acquired from a joining entity.

The changes, contained in Schedule 2 of Tax Laws Amendment (2012 Measures No. 2) Act 2012, received royal assent on 29 June 2012.

They apply retrospectively from 26 March 2009, the commencement date of the TOFA rules.

Who does this affect?

You may be affected by these changes if:

- you are a head company of a tax consolidated group
- the TOFA rules apply to you
- one or both of the following are satisfied
 - you had an entity join the tax consolidated group before the TOFA rules started to apply to you and made a transitional election to apply the TOFA rules to your existing financial arrangements
 - you had an entity join the tax consolidated group after the TOFA rules started to apply to you.

What must you do if affected?

If you are affected by these changes, you should review your position and consider whether any assessment in relation to a previous year needs to be amended.

If your assessments are not in accordance with the new law, you will need to seek amendments.

Information on requesting an amendment

For general information on how to request an amendment, including what information should be provided, refer to [Guide to correcting](#)

mistakes and disputing decisions.

To assist us to understand amendments requests, you should provide the following information:

- for amendments in respect of a **pre-TOFA joining**
 - a list of the financial arrangements whose transitional balancing adjustment and/or gains or losses worked out under Division 230 of the *Income Tax Assessment Act 1997* (ITAA 1997) are altered by the changes
 - the name of the entity that joined the consolidated group with those financial arrangements
 - the transitional balancing adjustment gain or loss in respect of those financial arrangements before the changes and after those changes
 - the amount of the gain or loss made under Division 230 in respect of those financial arrangements before the changes and after those changes for each income year that you are requesting an amendment
- for amendments in respect of a **post-TOFA joining**
 - a list of the financial arrangements whose gains or losses worked out under Division 230 of the ITAA 1997 are altered by the changes
 - the name of the entity that joined the consolidated group with those financial arrangements
 - the amount of the gain or loss made under Division 230 in respect of those financial arrangements before the changes and after those changes for each income year that you are requesting an amendment.

Tax shortfall penalties and interest

If you lodged a tax return in accordance with the law prior to these changes and a tax shortfall arises as a result of an amendment made because of these changes:

- no tax shortfall penalties will apply
- any interest attributable to the shortfall, up to the date of enactment of the law change, will be remitted. In addition, any interest accruing after the date of enactment will be remitted to you if you actively seek to amend your returns within a reasonable time after 29 June 2012.

If you lodged a tax return on the basis of anticipated changes to the law, see **PS LA 2007/11** for the ATO administrative treatment of shortfall penalties and interest attributable to the shortfall.

If your tax liability is reduced following an amended assessment, we may owe you an amount of interest. Refer to **PS LA 2011/23** for the

circumstances in which interest is payable by us.

Legislation and supporting material

- Tax Laws Amendment (2012 Measures No. 2) Act 2012
- Explanatory Memorandum

Media release

Media release No. 159 issued on 25 November 2011 by the former Assistant Treasurer.

Further assistance

If you are impacted by these changes and would like further assistance, email tfa@ato.gov.au

QC 26345

Interaction of TOFA and the consolidation regime

The compliance approach dealing with certain issues in relation to TOFA/Consolidation.

Last updated 27 January 2016

We have outlined our compliance approach in relation to two of the issues on the interaction of TOFA and the consolidation regime which were raised in the former National Tax Liaison Group (NTLG) TOFA Working Group.

Issues 940 and 950 were first raised in March 2011 and have been discussed at number of NTLG TOFA Working Group and Finance and Investment Sub-committee meetings since then.

See also:

- NTLG TOFA issue 940 *Subsection 701-55(5A) and pre-1 July 2010 financial arrangements*
- NTLG TOFA issue 950 *Subsection 715-375(2) and pre-1 July 2010 financial arrangements*

Our compliance approach

We have received advice which explains that, while both Subsection 701-55(5A) and Subsection 715-375(2) can be interpreted to achieve their clear policy intent, it is by no means certain that a court would arrive at the same conclusion.

We have decided to accept this advice and will administer our active compliance program on the basis of both asset and liability sides operating as intended (issues 940 and 950 respectively).

Members of the former NTLG Working Group and Finance and Investment Sub-committee were advised in the TOFA consultation of 20 December 2013, that we consider the operation of both provisions should be tested in the courts. We are seeking a single test case in which the operation of both provisions is at issue, as it is desirable that both provisions are considered by the court.

We consider that, while the two provisions are not identically worded, they are both aimed at achieving the same policy goal: the appropriate recognition of TOFA assets and liabilities in a joining case, and that their interpretation is, at least to some extent, 'codependent'.

Consequently, in our view, both provisions achieve their policy aim. This is not a situation where one provision, say Subsection 701-55(5A) achieves its policy aim but the other, section 715-375, does not.

This approach will inform the arguments put in any litigation.

In line with this approach, we will not take compliance action on this issue where a taxpayer lodges their returns on the basis that both provisions achieve their policy aim.

See also:

- Consultation completed – refer to 'Taxation of Financial Arrangements (TOFA) – application of recent amendments to the TOFA rule'

QC 39772

TOFA tax return labels

Tax return labels your clients must complete if they are taxation of financial arrangement (TOFA) entities.

Last updated 14 May 2025

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[Example: reporting TOFA gains and losses](#)

[Company tax returns](#)

[Partnership and trust tax returns](#)

[Fund income tax return](#)

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[Disclosing TOFA gains and losses on gross or net basis](#)

[Further information](#)

Entities are required to apply the taxation of financial arrangement (TOFA) rules if they meet certain asset and aggregated turnover thresholds or have chosen to use the TOFA rules.

The TOFA rules contained in Division 230 of the *Income Tax Assessment Act 1997* (ITAA 1997) determine TOFA entities' tax treatment of gains and losses from financial arrangements.

TOFA taxpayers must complete the following specific TOFA labels:

- Total TOFA gains
- Total TOFA losses.

TOFA taxpayers must also include TOFA gains and losses that are assessable or deductible in an income year in the relevant income or expense labels.

This guide is based on the 2024 income tax return. For later income years, check the currency of the information on this guide by referring to the tax return instructions for the relevant income year.

Example: reporting TOFA gains and losses

Simon Ltd has the following gains and losses from its financial arrangements for the income year ended 30 June 2016:

- term deposit entered into on 10 August 2014 – interest income – \$205,000
- loan entered into on 20 January 2015 – interest expense – \$150,000
- loan entered into on 1 July 2015 – interest expense – \$320,000.

In completing its 2016 tax return, Simon Ltd should include the following:

Label	Item	Amount
6F	Gross interest	\$205,000
6V	Interest expenses within Australia	\$470,000
8T	Total TOFA gains	\$205,000
8U	Total TOFA losses	\$470,000

Where Total TOFA gains and Total TOFA losses are not completed correctly, an incorrect pay as you go (PAYG)

instalment rate may be issued. The tax return instructions identify how to complete the TOFA labels correctly.

Company tax returns

Companies that have gains or losses from financial arrangements in an income year should record their TOFA gains and TOFA losses as follows:

TOFA labels

Reconciliation	
7E	TOFA income from financial arrangements not included at item 6
7W	TOFA deductions from financial arrangements not included at item 6

Financial information	
8T	Total TOFA gains
8U	Total TOFA losses
8S	TOFA gains from unrealised movements in the value of financial arrangements

Relevant income and expense labels

Income	
6D	Gross distribution from partnerships
6E	Gross distribution from trusts
6F	Gross interest
6H	Total dividends
6J	Unrealised gains on revaluation of assets to fair value
6R	Other gross income

Expenses	
6E	Bad debts

6V	Interest expenses within Australia
6J	Interest expenses overseas
6G	Unrealised losses on revaluation of assets to fair value
6S	All other expenses

Partnership and trust tax returns

Partnerships and trusts that have gains and losses from financial arrangements in an income year should record their TOFA gains and TOFA losses as follows:

TOFA labels

Taxation of financial arrangements	
31M	Total TOFA gains
31N	Total TOFA losses

Relevant income and expense labels

Business income and expenses – Income	
5G	Other business income – Primary production
5H	Other business income – Non-primary production

Business income and expenses – Expenses	
5F	Bad debts
5I	Total interest expenses
5N	All other expenses

Reconciliation items	
5A	Income reconciliation adjustments
5B	Expense reconciliation adjustments

Partnerships and trusts – Primary production
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8A	Distribution from partnerships
8Z	Share of net income from trusts
8S	Deductions relating to amounts shown at A and Z

Partnerships and trusts – Non-primary production

8B	Distribution from partnerships, less foreign income
8R	Share of net income from trusts, less capital gains, foreign income and franked distributions
8T	Deductions relating to amounts shown at B and R

Rent

9G	Interest deductions
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Gross interest

11J	Gross interest
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Dividends

12K	Unfranked amount
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Other Australian Income

14O	Other Australian income
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Deductions

16P	Deductions relating to Australian investment income
16R	Deductions relating to Franked distributions (Trusts Only)

Other deductions

18Q	Other deductions
-----	------------------

Other assessable foreign source income

23B	Gross
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Fund income tax return

Funds that have gains and losses from financial arrangements in an income year should record their TOFA gains and TOFA losses as follows:

TOFA labels

Taxation of financial arrangements	
16H	Total TOFA gains
16I	Total TOFA losses

Relevant income and expense labels

Section B: Income	
10C	Gross interest
10D	Net foreign income
10D1	Gross foreign income
10I	Gross distributions from partnerships
10J	Unfranked dividend amount
10N	Trust distributions unfranked amount
10Q	Trust distributions other amounts
10G	Foreign exchange gains
10S	Other income

Section C: Deductions	
11A	Interest expenses within Australia
11B	Interest expenses overseas
11R	Foreign exchange losses
11L	Other deductions

Self-managed superannuation fund annual return

Self-managed superannuation funds that have gains and losses from financial arrangements in an income year should record their TOFA gains and TOFA losses as follows:

Specific TOFA labels

Taxation of financial arrangements	
17H	Total TOFA gains
17I	Total TOFA losses

Other labels in which to include TOFA amounts

Section B: Income	
11C	Gross interest
11D	Net foreign income
11D1	Gross foreign income
11I	Gross distributions from partnerships
11J	Unfranked dividend amount
11M	Gross trust distributions
11S	Other income

Section C: Deductions	
12A1	Interest expenses within Australia
12A2	Interest expenses within Australia – non-deductible expenses
12B1	Interest expenses overseas
12B2	Interest expenses overseas – non-deductible expenses
12L1	Other amounts
12L2	Other amounts – non-deductible expenses

Disclosing TOFA gains and losses on gross or net basis

This information explains whether TOFA gains and TOFA losses should be reported in the relevant labels of income tax returns on a gross or net basis.

Gross basis

Where a TOFA entity reports gains and losses from financial arrangements on a gross basis for accounting purposes, they should reflect these gains and losses on a gross basis in their income tax return. Gross TOFA gains and gross TOFA losses must be separately reported in both the:

- relevant income and expenses labels
- total TOFA gains and total TOFA losses labels.

An example of amounts that should be reported on a gross basis is interest income and interest expense. These will be recognised separately in a TOFA entity's accounting system and in their books of account. Consequently, they will also be separately reported in the income tax return in both the:

- relevant interest income and interest expense labels
- total TOFA gains and total TOFA losses labels.

Net basis

Where a TOFA entity reports gains and losses from financial arrangements on a net basis for accounting purposes, it could be a compliance burden to separate the financial arrangement gains from the losses. Consequently, where these gains and losses are also TOFA gains and TOFA losses, the entity may report a 'net' TOFA gain or 'net' TOFA loss from these financial arrangements in their income tax return in both the:

- relevant income and expenses labels
- total TOFA gains and total TOFA losses labels.

Examples

The following examples are provided to guide how TOFA gains and TOFA losses should be reflected on a gross and net basis in income tax returns.

Example 1: Company tax return

CHW Ltd is a TOFA entity whose tax and accounting year ends on 30 June. The company previously made a TOFA fair value method election. During the income year ending 30 June 2016, it had the following gains and losses from its financial arrangements:

- an overall assessable net gain of \$8,000,000 from its forward exchange contracts (unrealised gain on forward exchange contracts which are fair valued through profit and loss for accounting purposes)
- interest income of \$150,000 from its bank account
- interest expense of \$400,000 from its Australian bank loan.

CHW Ltd's accounting system records all the gains or losses from the forward exchange contracts it enters into during the income year on a net basis, whilst the interest income and interest expense amounts are separately recorded in its accounting system.

The forward contracts, bank account and loan are financial arrangements to which the TOFA rules apply.

CHW Ltd will complete its *Company tax return 2016* as follows:

- \$150,000 at label **F** Gross Interest in item **6**
- \$8,000,000 at label **J** Unrealised gains on revaluation of assets to fair value in item **6**
- \$400,000 at label **V** Interest expenses with Australia in item **6**
- \$8,150,000 at label **T** Total TOFA gains in item **8**
- \$400,000 at label **U** Total TOFA losses in item **8**.

Example 2: Trust tax return

GGM Trust is a TOFA entity. It buys deferred interest securities and government bonds, which it generally holds to maturity. It had \$520,000 of gross interest from the securities it had during the income year ending 30 June 2016.

GGM Trust also entered into a number of derivative contracts which are fair valued through profit and loss for accounting purposes. The gains and losses from the derivative contracts are recorded on a net basis in its accounting system. For the income year ending 30 June 2016, it had a net loss of \$1,500,000 from its derivative contracts.

All the securities, bonds and derivative contracts that GGM Trust had during the income year are TOFA financial arrangements. The trust has previously also made a TOFA fair value method election.

GGM Trust will complete its *Trust tax return 2016* as follows:

- \$1,500,000 at label **N** All other expenses in item **5**
- \$520,000 at label **J** Gross interest in item **11**
- \$520,000 at label **M** Total TOFA gains in item **31**
- \$1,500,000 at **N** Total TOFA losses in item **31**.

Further information

For more detailed information on how to complete TOFA labels, refer to the latest year's tax return instructions:

- [Company tax return instructions](#)
- [Partnership tax return instructions](#)
- [Trust tax return instructions](#)
- [Fund income tax return instructions](#)
- [Self-managed superannuation fund annual return instructions](#)

QC 26779

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