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Election out of the 12-month rule

Special rules apply to some short-term transactions if capital gains tax (CGT) and depreciating assets are acquired or disposed of, unless you make the Election out of the 12-month rule.

If you make the election, gains and losses that would otherwise fall under the rule will not be folded into the capital treatment of the asset, but will generally be determined to be assessable or deductible under the general provisions of the measures.

The election must be in writing and is irrevocable. It has effect from the applicable commencement.

Most taxpayers in existence at the applicable commencement date will no longer be able to make an election out of the 12-month rule unless we allow a longer period in which to make the election.

Your applicable commencement date is the first day of the 2003–04 income year, or if that day is earlier than 1 July 2003, the first day of the 2004–05 income year.

How to make the election out of the 12-month rule

An election out of the 12-month rule must be made in writing and should be kept with your tax records. The election should not be sent to us.

There is no prescribed form for the making of an election out of the 12-month rule, but it should include all the following information:

- your name and tax file number (TFN) if you are the taxpayer making the election
- a statement that you choose, under section 775-80 of the *Income Tax Assessment Act 1997* (ITAA 1997), not to have section 775-70 and 775-75 of the ITAA 1997 apply
- your signature
- the date the election was made.

> Example
>
> This choice is made under section 775-80 of the *Income Tax Assessment Act 1997* ('the Act').
>
> I, Joe Taxpayer, choose not to have sections 775-70 and 775-75 of the Act apply to me.
>
> Joe Taxpayer
>
> 18 December 2003

Groups affected by the tax consolidation regime

Tax consolidation provisions may affect particular forex elections if entities are members of a consolidated group. For more information, see Subdivision 715-J of the ITAA 1997.

Acquisition of a CGT asset (election out of 12-month rule)

In the following example, an investor acquires a capital gains tax (CGT) asset and elects not to have the 12-month rule apply.

> Example
>
> On 1 August 2003, Art Ltd enters into a contract to buy a painting for US$500,000 with payment to be made on 1 June 2004.
>
> The exchange rate on 1 August 2003 is A$1.00 = US$0.50. Art Ltd pays for the painting on 1 June 2004. The exchange rate at

this time is A$1.00 = US$0.80.

Art Ltd elected – within the stipulated time from the start of the foreign exchange (forex) measures – not to have the 12-month rule apply.

When will the forex realisation gain or loss arise?

In the above example, Art Ltd will make a forex realisation gain of A$375,000 when it pays for the painting on 1 June 2004.

When Art Ltd enters the contract to purchase the painting, but before it makes any payment to the seller for the painting, it has an obligation to pay foreign currency to the seller.

When Art Ltd pays for the painting, it ceases to have an obligation to pay foreign currency of US$500,000. This obligation was incurred in return for the acquisition of a CGT asset (see subparagraph 775-55(1)(b)(iv)). Therefore, foreign exchange realisation event 4 occurs on 1 June 2004 when Art Ltd ceases to have an obligation to pay foreign currency (subsection 775-55(2)).

Whether the transaction gives rise to a forex realisation gain or loss requires a comparison to be made (in Australian dollar value) between the amount Art Ltd pays for the event happening, and

the proceeds Art Ltd receives for assuming the obligation calculated at the tax recognition time (subsections 775-55(3) and (5)).

Any difference in the amounts due to a currency exchange rate effect will result in a forex realisation gain or loss (section 775-105, and paragraphs 775-55(3)(b) and (5)(b)).

The US$500,000 amount Art Ltd paid as a result of the event happening, is translated into A$625,000 (US$500,000 divided by 0.80) at the time of payment (subsection 960-50(6) Item 11).

The tax recognition time, for the purposes of calculating the proceeds of assuming the obligation, is when Art Ltd acquired the painting on 1 August 2003 (subsection 775-55(7) Item 9).

The proceeds of assuming the obligation is the market value of the painting Art Ltd acquired, being the non-cash benefit it receives for incurring the obligation (paragraph 775-95(b)(i)). The market value of the painting on 1 August 2003 is the sale price of the painting (US$500,000). Art Ltd's proceeds of assuming the obligation

calculated at the tax recognition time is, therefore, A$1,000,000 (US$500,000 divided by 0.50) (subsection 960-50(6) Item 5).

The difference between the amount Art Ltd paid as a result of the event happening and the proceeds of assuming the obligation is A$375,000 (A$1,000,000 minus A$625,000). As this amount arises solely as a result of the currency exchange rate effect, the difference represents a forex realisation gain (subsection 775-55(3)).

How should the forex realisation gain or loss be assessed?

As Art Ltd has elected (under section 775-80) for the 12-month rule not to apply, it must include the A$375,000 forex realisation gain in its assessable income.

The 12-month rule generally provides that the measures do not apply to forex gains and losses on the acquisition or disposal of capital assets if the time between that acquisition or disposal and the due time for payment is not more than 12 months. Such gains and losses are effectively folded into the CGT and/or capital allowances treatment of the assets.

The election out of the 12-month rule, however, overrides this exemption.

Disposal price of CGT asset denominated in foreign currency (election out of 12-month rule)

In the following example, an investor disposes of foreign shares and elects not to have the 12-month rule apply.

This example does not discuss the capital gains tax (CGT) consequences of the disposal of the shares.

Example

Eleanor enters into a contract on 1 July 2005 to dispose of her US shares for US$1,200 in an off-market transaction when the exchange rate is A$1.00 = US$0.50.

She receives payment on settlement on 1 August 2005 when the exchange rate is A$1.00 = US$0.60.

Eleanor has previously elected under section 775-80, within the stipulated time of the foreign exchange (forex) measures

starting, not to have the 12-month rule apply to relevant transactions denominated in foreign currency.

When will the forex realisation gain or loss arise?

Eleanor will make a forex realisation loss of A$400 when she receives payment on 1 August 2005.

When Eleanor is paid foreign currency on 1 August 2005, forex realisation event 2 occurs. At this time, Eleanor ceases to have the right to receive foreign currency (subsections 775-45(1)(a) and (2)).

Eleanor acquires the right to receive the US$1,200 foreign currency in return for the disposal of her US shares. On disposal of those shares, a realisation event occurs for a CGT asset Eleanor owns (subparagraph 775-45(1)(b)(iv)).

Any forex realisation gain or loss on the cessation of Eleanor's right to receive foreign currency is determined by any difference between the Australian dollar value of the amount she receives when the event happens and the forex cost base of her right to receive foreign currency, calculated at the tax recognition time (subsections 775-45(3) and (4)). Generally, the tax recognition time for disposal by contract of a CGT asset is when the disposal contract is entered into, and not when the contract is completed.

Any differences in the amounts due to a currency exchange rate effect will result in a forex realisation gain or loss (section 775-105 and paragraph 775-45(3)(b) and (4)(b))).

The amount Eleanor receives as a result of the event happening is A$2,000 (US$1,200 divided by 0.6) (subsection 960-50(6) Item 11).

The tax recognition time for the purposes of calculating the forex cost base is when Eleanor enters into the contract to dispose of the shares. This occurred on 1 July 2005 (subsection 775-45(7) Item 6).

The forex cost base of Eleanor's right to receive foreign currency is the market value of her US shares, being the non-cash benefit she provides for that right (paragraph 775-85(b)(i)). The market value of the US shares on 1 July 2005 is the price at which the shares were sold (US$1,200). The forex cost base of Eleanor's right calculated at the tax recognition time is, therefore, A$2,400 (US$1,200 divided by 0.50) (subsection 960-50(6) Item 5).

The difference between the amount Eleanor receives when the event happens and the forex cost base of her right to receive foreign currency is A$400 (A$2,400 minus A$2,000). As this amount arises solely as a result of a currency exchange rate effect, the difference represents a forex realisation loss (subsection 775-45(4)).

How should the forex realisation gain or loss be assessed?

As Eleanor had previously elected under section 775-80 for the 12-month rule not to apply, she may deduct the A$400 forex loss from her assessable income.

Disposal of CGT asset denominated in foreign currency – incidental costs (election out of 12-month rule)

Issue

An investor disposes of foreign shares.

Facts

Eleanor acquires USA shares on 1 July 2004 and disposes of them for US$1,200 on 28 July 2005, when the exchange rate is A$1.00 = US$0.50. On disposal of her shares, she incurs brokerage of US$30.

Eleanor receives payment (after deducting brokerage) at settlement on 1 August 2005 when the exchange rate is A$1.00 = US$0.60. Eleanor elects not to have the 12-month rule apply.

Will a forex realisation gain or loss arise when Eleanor receives payment at settlement?

Eleanor will make a forex realisation loss of A$400 on receipt of payment, on 1 August 2005.

Will a forex realisation gain or loss arise when Eleanor pays for the brokerage?

Eleanor will make a forex realisation gain of A$10 on 1 August 2005 when brokerage is paid.

When Eleanor uses the services of a broker to dispose of her shares, she incurs an obligation to pay the brokerage fees for the disposal. When she pays for the brokerage on 1 August 2005, forex realisation event 4 occurs. This is because when the payment is made, Eleanor

ceases to have an obligation to pay foreign currency to the broker (US$30) and she incurs the obligation as part of the second element of the cost base of a CGT asset (subparagraph 775-55(1)(b)(v); paragraph 110-25(3)(b)).

Although Eleanor has not actually paid for the brokerage, she is taken to have paid for it as these amounts have been deducted from the sale proceeds of the shares and have been applied in satisfaction of her obligation to the broker (section 775-110).

Whether the transaction gives rise to a forex realisation gain or loss requires a comparison to be made (in Australian dollar value) between the amount Eleanor paid when the event happened and the proceeds of assuming the obligation calculated at the tax recognition time (subsections 775-55(3) and (5)). Any difference in the amounts due to a currency exchange rate effect will result in a forex realisation gain or loss (section 775-105 and paragraphs 775-55(3)(b) and (5)(b)).

The amount Eleanor paid when the event happened was A$50 (US$30 divided by 0.60) (subsection 960-50(6) Item 5).

The tax recognition time for the purposes of calculating the proceeds of assuming the obligation is when Eleanor incurred the obligation to pay the brokerage on 28 July 2005 (subsection 775-55(7) Item 10).

The proceeds of assuming the obligation to pay the brokerage is the market value of the brokerage service provided to Eleanor, being the market value of the non-cash benefit she acquired in return for incurring the obligation (paragraph 775-95(b)(i)).

The market value of the brokerage service provided to Eleanor on 28 July 2005 is the brokerage amount charged by the broker (US$30). The proceeds of Eleanor assuming the obligation to pay the brokerage calculated at the tax recognition time is therefore A$60 (US$30 divided by 0.50) (subsection 960-50(6) Item 5).

The difference is A$10 (A$60 minus A$50). As this amount arises solely as a result of the currency exchange rate effect, the difference represents a forex realisation gain.

As Eleanor has elected under section 775-80 for the 12-month rule not to apply to her, she must include the A$10 forex realisation gain in her assessable income.

$250,000 balance election

The ordinary operation of the foreign exchange (forex) measures, as contained in Division 775 of the ITAA 1997, is that deposits to, and withdrawals from, foreign currency denominated accounts may give rise to a gain or loss that is realised under the measures.

Withdrawals from an account with a credit (positive) balance will also generally have a consequence under the capital gains tax (CGT) provisions.

However, the $250,000 balance election broadly enables you to disregard certain foreign currency gains and losses on certain foreign currency denominated transaction accounts and credit card accounts (called qualifying forex accounts) with balances below a specified limit.

An election can be made for a qualifying forex account. A qualifying forex account is an account that is:

- denominated in a foreign currency
- either a credit card account, or an account held for the primary purpose of facilitating transactions.

You can elect (in writing) to have the election apply for any number of qualifying forex accounts. An election can be varied (in writing) by adding or removing one or more qualifying forex accounts. Removing an account, or withdrawing an election, does not prevent a fresh election being made for the same account at a later time.

An election generally applies for a particular account from the time the election is made, and continues in force for that account until one of the following applies:

- you cease to hold the account
- the account ceases to be a qualifying forex account
- the election is varied by removing the account
- the election is withdrawn.

However, if you made an election between 17 December 2003 and 16 January 2004, you could specify it to apply from a date between 1 July 2003 and the making of the election. A withdrawal of an election will not have effect before it was made.

An election made after 16 January 2004 will only have prospective effect.

What is the limited balance test?

The limited balance test applies to all of the accounts for which a $250,000 balance election is in force. Credit and debit balances of these accounts are separately added, without netting, to arrive at the total credit balance and the total debit balance.

The limited balance test is passed at a particular time if the total credit balances, and the total debit balances, of all qualifying forex accounts for which an election is in force are each not more than the equivalent of A$250,000.

For the purposes of this test, the foreign currency amounts are translated into Australian currency at the average exchange rate for the third month before the start of the income year.

There is an additional buffering provision. If either the total credit balance, or the total debit balance, is more than the equivalent of A$250,000, but not more than the equivalent of A$500,000, for – subject to certain conditions – a maximum of 2 periods of 15 days or less in an income year, the limited balance test is still passed during such buffering periods.

A forex realisation event 1 that arises on depositing foreign currency to an account is not affected by this election.

However, the election does have the effect that, while the limited balance test is passed, the following gains and losses for qualifying forex accounts for which an election is in force are ignored for tax purposes:

- A forex gain or loss under forex realisation event 2 resulting from you withdrawing an amount from a foreign currency denominated account with a credit balance.
- A forex gain or loss resulting from you depositing an amount into a foreign currency denominated account with a debit balance, but only to the extent that the reduction in the debit balance is a forex realisation event 4 (forex realisation event 1 will still apply to any disposal of foreign currency that occurs by making the deposit).
- A gain or loss under the CGT provisions resulting from you withdrawing an amount from an account with a credit balance, to the extent that gain or loss is attributable to fluctuations in exchange rates.

An election will not necessarily apply to an account for an entire income year. It will depend on when the election takes effect, and when (if at all) the election ceases to have effect.

How do you make a limited balance election?

A limited balance election must be made in writing and should be kept with your tax records. The election should not be sent to us. There is no prescribed form for making a limited balance election, but it should include all the following information:

- your name and TFN (if you are the taxpayer making the election)
- a statement that you elect under section 775-230 of the ITAA 1997 to have Subdivision 775-D of the ITAA 1997 apply to one or more specified qualifying forex accounts held by you
- details of your specified qualifying forex accounts (such as your account numbers and the institutions with which they are held)
- if the election was made on, or before, 16 January 2004, the day on which the election was to come into effect (this cannot be earlier than 1 July 2003)
- your signature
- the date the election was made.

Example

> This limited balance election is made under section 775-230 of the *Income Tax Assessment Act 1997* (ITAA 1997).
>
> I, Joe Taxpayer, elect to have Subdivision 775-D of the ITAA 1997 apply to the following qualifying foreign exchange accounts with effect from today:

Institution	Account name	Account number
XYZ bank	Joe Taxpayer	123 456 789
ABC credit union	Joe Taxpayer	987 654 321

Joe Taxpayer
19 January 2016

How are limited balance test breaches treated?

Once a limited balance election is made, meeting the A$250,000 limit is measured on an ongoing basis.

If the balance of the account or accounts that are the subject of the election breaches the A$250,000 limit, the exemption treatment under the election will cease for the period of the breach. This is subject to a buffering rule, which allows you to retain the $250,000 balance exemption if the breach is remedied within a short period of time.

The buffering rule allows you to continue to meet the limited balance test if all of the following apply:

- The A$250,000 equivalent balance limit is breached no more than 2 times in any one income year.
- All breaches, including those (if any) extending into or beyond the relevant income year, are remedied within 15 days of occurring.
- The balance does not exceed the equivalent of A$500,000.

During the period of the breach, if any of the above conditions are not met, you will become subject to forex realisation gains and losses on both:

- withdrawals from foreign currency denominated accounts with a credit balance (forex realisation event 2)
- deposits into a foreign currency denominated account with a debit balance (forex realisation event 4).

This will be the case from the time the conditions were failed. That is, any forex realisation gains or losses made on withdrawals and deposits during the period after the buffering period has expired will be brought to account during the period of continued breach.

Additionally, any withdrawals made from an account with a credit balance during the time after the buffering period has expired may result in a gain or loss under the CGT provisions during any period of continued breach.

Example

A1 Pty Ltd (A1), a manufacturing company, has a qualifying forex account. It makes a limited balance election as its account generally fluctuates between plus or minus A$250,000. No other account is subject to this election.

A1 sells one of its manufacturing plants for the equivalent of A$300,000 and deposits the money into the qualifying forex account. Immediately after this deposit, the account balance was the equivalent of A$450,000. Ten days later, A1 withdraws the equivalent of A$250,000 from the qualifying forex account.

The balance of the account remains within the plus or minus A$250,000 equivalent limit for the remainder of the income year.

A1 can still apply the $250,000 account rules as the account balance was corrected within the buffering period of 15 days.

If A1 had made the withdrawal more than 15 days after the deposit, the account would not have passed the limited balance test at the time of the withdrawal. This would mean that a gain or loss made under forex realisation event 2 would not be disregarded under the election during the period of the breach.

Facilities rollover election

The ordinary operation of the forex measures is that all tax-relevant foreign currency amounts are converted to Australian currency.

To raise finance, a taxpayer may issue securities under a facility agreement. In these circumstances, taxpayers will often treat the securities in a similar way to loans. If these securities are denominated in a foreign currency, the forex measures will apply.

Therefore, the forex gain or loss realised on the face value of each security issued under a facility (when the obligation to pay the face value of the security is discharged) is brought to tax.

The facilities rollover election allows the issuer of certain securities (that is, the borrower) under certain facility agreements to defer the realisation of gains or losses where the obligation to pay the face value of each such security is discharged by issuing a new security under

the facility agreement. Broadly, the effect is to tax the electing issuer as if it had borrowed by means of a term loan.

An election must be in writing, is irrevocable, and continues to apply until the facility agreement ends.

The facilities rollover election is only available in respect of certain facilities agreements – namely those where:

- the taxpayer has the right to issue eligible securities under the agreement
- another entity or entities must acquire the securities
- the effect of the agreement is that during its term, the taxpayer is able to obtain finance in a particular foreign currency up to the amount specified in the agreement.

The rollover provisions only apply where the facility agreement has a 'must acquire' aspect. If the eligible security is obtained through a 'best endeavours' tender then the security is not treated as analogous to a term loan.

An 'eligible security' can be either a bill of exchange or a promissory note that is:

- non-interest bearing
- issued at a discount
- denominated in a foreign currency
- for a fixed term.

Typically, a bill of exchange will have the features of:

- being an unconditional order in writing
- being addressed by one person to another (and signed by the person giving it)
- requiring the drawee (the person to whom it is addressed) to pay a specified sum of money on demand or at a particular time.

Typically, a promissory note will have the features of:

- being an unconditional promise in writing
- being made by one person to another (and signed by the person making the promise)

- engaging the maker of the promise to pay a specified sum of money on demand or at a particular time (this is usually fixed)
- being typically issued for 90, 120 or 180 days.

A facilities rollover election must be made within 90 days of the first eligible security being issued under the facility agreement, or within 90 days of the applicable commencement date. However, taxpayers with an applicable commencement date of 1 July 2003 could also make the election between 17 December 2003 and 16 January 2004.

If an election is made within 90 days of the first eligible security being issued under the facility agreement, the election is taken to have been in effect from immediately before that security is issued.

If an election is not made within 90 days of the first eligible security being issued under the facility agreement, but is made within 90 days of the applicable commencement date or between 17 December 2003 and 16 January 2004 (whichever is later), the election takes effect from the applicable commencement date.

Making a facilities rollover election

A facilities rollover election must be made in writing and should be kept with the taxpayer's tax records.

The election should not be sent to the ATO.

There is no prescribed form for the making of a facilities rollover election, but it should include:

- the name and TFN of the taxpayer making the election
- a statement that, under section 775-195 of the ITAA 1997, the taxpayer chooses rollover relief for a specified facility agreement
- details of the specified facility agreement (sufficient details to identify, or a copy of the agreement)
- the signature of the person making the election
- the date the election was made.

Example

> This choice is made under section 775-195 of the *Income Tax Assessment Act 1997*.

> I, Joe Taxpayer, choose to have rollover relief apply to the attached facility agreement.
>
> Joe Taxpayer
>
> 18 December 2015

Functional currency election

The ordinary operation of the foreign currency translation measure is that, broadly, all tax-relevant amounts are translated into Australian currency.

The functional currency election (choice) allows certain entities or parts of entities that keep their accounts solely or predominantly in a particular foreign currency, to choose that foreign currency as their functional currency to work out their annual net income, which is then translated into Australian dollars.

Who can make a functional currency election?

Entities that can make a functional currency election are:

- residents who must prepare financial reports under section 292 of the *Corporations Act 2001*
- residents carrying on a business at or through an overseas permanent establishment
- foreign residents carrying on a business at or through an Australian permanent establishment
- offshore banking units
- attributable taxpayers of a controlled foreign company (CFC)
- transferor trusts.

A functional currency election **must** be in writing.

When does an election start?

For entities other than attributable taxpayers of CFCs, an election applies from the start of a particular income year if either:

- the relevant entity is in existence at the start of an income year and the election is made within 90 days of the start of that income year, or between 17 December 2003 and 16 January 2004
- the entity comes into existence during an income year and the election is made within 90 days of the entity coming into existence, or between 17 December 2003 and 16 January 2004.

If neither of these apply, the election applies from the start of the following income year.

For attributable taxpayers of CFCs, an election applies from the start of the CFC's particular statutory accounting period if either:

- you are an attributable taxpayer at the start of a statutory accounting period and the election is made within 90 days of the start of that statutory accounting period, or between 17 December 2003 and 16 January 2004
- you become an attributable taxpayer for the CFC during the CFC's statutory accounting period and the election is made within 90 days after the beginning of the CFC's statutory accounting period or between 17 December 2003 and 16 January 2004, whichever is later.

If neither of these apply, the election applies from the start of the following statutory accounting period.

An election to use a functional currency continues in force until one of the following occurs:

- if an entity withdraws the election immediately after the end of the income year (or, in the case of attributable taxpayers of CFCs, the end of the statutory accounting period) in which the withdrawal is made
- immediately after the end of the income year in which the entity ceases to be required to prepare financial reports under section 292 of the *Corporations Act 2001*.

Groups affected by the tax consolidation regime

Tax consolidation provisions may affect particular forex elections if entities are members of a consolidated group. For more information, see Subdivision 715-J of the ITAA 1997.

For more information around functional currency, see Guide to functional currency rules.

Retranslation election

The foreign exchange (forex) measures (in Division 775 of the ITAA 1997) generally apply a first-in, first-out (FIFO) ordering rule to calculate the cost or value of a fungible foreign currency asset, right or obligation. For example, if you have a foreign currency denominated account with a credit balance, withdrawals from your account are broadly treated as a part cessation of a right (that is, the right to receive the foreign currency), the cost of which is calculated on a FIFO basis.

However, a retranslation election can be made to instead bring to account gains and losses from a qualifying forex account on a retranslation basis. For many taxpayers, the retranslation method will be simpler to use to calculate gains or losses than the FIFO ordering rule, although retranslation may bring to account gains or losses that would otherwise be unrealised.

A qualifying forex account is an account denominated in a foreign currency that is either a credit card account, or an account held for the primary purpose of facilitating transactions.

How does the TOFA Act affect qualifying forex accounts?

The *Tax Laws Amendment (Taxation of Financial Arrangements) Act 2009* (TOFA Act) received royal assent on 26 March 2009.

The TOFA Act made 2 important changes relevant to qualifying forex accounts:

It extended the definition of a qualifying forex account by removing the requirement that it be an account with an authorised deposit-taking institution or similar financial institution.

It provided for an additional 90 day period from 26 March 2009 to 24 June 2009 to make a retrospective retranslation election for certain qualifying forex accounts (this is explained below).

When do you have to make a retranslation election by?

As a consequence of the TOFA Act, there are now 3 periods in which a retranslation election can be made.

If the retranslation election is made at this time …	Then the election will apply for these periods …
Between 17 December 2003 and 16 January 2004	The election can be made to apply for a date **on or after 1 July 2003**. This means the election may have retrospective application.
On or after 17 January 2004 (except for elections made between 26 March 2009 to 24 June 2009 as outlined below)	The election can be made to apply from a date **on or after the day the election is made**. This means the elections cannot have retrospective application.
Between 26 March 2009 and 24 June 2009 (This is the further election provided for in the TOFA Act.)	The election can be made to apply for a date **on or after 1 July 2003**. This means the election may have retrospective application.

What details must be in a retranslation election?

A retranslation election must be made in writing and should be kept with your tax records. The election should not be sent to us. There is no prescribed form for the making of a retranslation election, but it should include all the following information:

- your name and TFN (if you are the taxpayer making the election)
- a statement that you choose retranslation under section 775-270 of the ITAA 1997 for one or more specified qualifying forex accounts held by you
- details of your specified qualifying forex accounts (for example, account numbers and the institutions with which they are held)
- if the election was made between either 17 December 2003 and 16 January 2004 or 26 March 2009 and 24 June 2009, the day on

which the election is to come into effect (this may be retrospective, but it cannot be earlier than 1 July 2003)

- your signature
- the date the election was made.

Example

> This choice is made under section 775-270 of the *Income Tax Assessment Act 1997*.
>
> I, Joe Taxpayer, choose retranslation for the following qualifying forex accounts with effect from today:

Institution	Account name	Account number
XYZ bank	Joe Taxpayer	123 456 789
ABC credit union	Joe Taxpayer	987 654 321

> Joe Taxpayer
> 19 January 2016

How does a retranslation election apply?

There is no limit on the number of qualifying forex accounts this election can be made for or on the balances of those accounts.

An election generally applies for an account from the time the election is made and ceases at the earliest of the following:

- when you cease to hold the account
- your account ceases to be a qualifying forex account
- your election being withdrawn (a withdrawal of an election will not have effect before it was made).

The first retranslation period after making an election begins when the election takes effect. Subsequent retranslation periods start on the first day of every subsequent income year for which the election remains in effect.

Each retranslation period ends when an election ceases to apply or on the last day of an income year for which the election remains in effect.

You can elect at any time for a particular account and the treatment generally applies prospectively from the time of election. An election will not necessarily apply to an account for a whole income year. It will depend on when the election takes effect, and when (if at all) the election ceases to have effect.

How do you calculate a gain or loss on a qualifying forex account?

To calculate the forex gain or loss for a qualifying forex account, do the following:

> Calculate the closing balance of the qualifying forex account for the relevant translation period by translating the foreign currency balance into Australian currency at the exchange rate applicable at the end of the retranslation period.
>
> less
>
> The result of calculating the amount of the opening balance of the qualifying forex account for the relevant translation period by translating the foreign currency balance into Australian currency at the exchange rate applicable at the beginning of the retranslation period (see below).
>
> less
>
> The total of all deposits made to the qualifying forex account for the relevant translation period each translated into Australian currency at the exchange rate applicable at the time of the deposit.
>
> plus
>
> The total of all withdrawals made to the qualifying forex account for the relevant translation period each translated into Australian currency at the exchange rate applicable at the time of the withdrawal.
>
> A positive amount worked out under the formula will be a forex realisation event 8 gain, while a negative amount worked out under the formula will be a forex realisation event 8 loss.

If the election is in force over the start of an income year, that is, if one retranslation period immediately follows another, the exchange rate applicable at the beginning of the retranslation period is the exchange rate applicable at the end of the previous retranslation period.

Gains and losses under forex realisation events 2 and 4 and capital gains tax (CGT) events C1 and C2 that happen to a qualifying forex account are disregarded if you have a choice in effect for that qualifying forex account when the event happens.

QC 17059

Guide to functional currency rules

Information about functional currency rules, eligibility and the implications for tax accounting and reporting.

Last updated 27 March 2026

How to use the functional currency rules guide

The electronic version of this document is the only authorised version. Printed copies may be out of date.

Read this guide to find out more about the functional currency rules, including:

- eligibility requirements
- the implications for tax accounting and
- tax reporting.

You can use this guide if you are:

- an Australian resident or a non-resident with a permanent establishment in Australia and both of the following apply
  - you keep your accounts solely or predominantly in a particular foreign currency

  - you wish to work out your taxable income (or tax loss) using that foreign currency – that is, using your 'applicable functional currency'
- a non-resident disposing of indirect interests in real property in Australia and the sole or predominant currency in which you keep your accounts at the time of disposal is a foreign currency. The application of functional currency rules is mandatory in this situation.

This guide does **not** cover income from overseas permanent establishments of resident taxpayers.

Functional currency translation rules

The functional currency translation rules are an exception to the core foreign currency translation rules.

Under the core foreign currency translation rules, amounts in a foreign currency must be translated into Australian dollars (A$). There are also rules about when and at what exchange rate a translation is to take place for a given type of transaction.

Under the functional currency rules, you can use a currency other than A$ as the unit of account to work out your taxable income or tax loss. The core foreign currency translation rules continue to apply to amounts and transactions not covered by the functional currency rules.

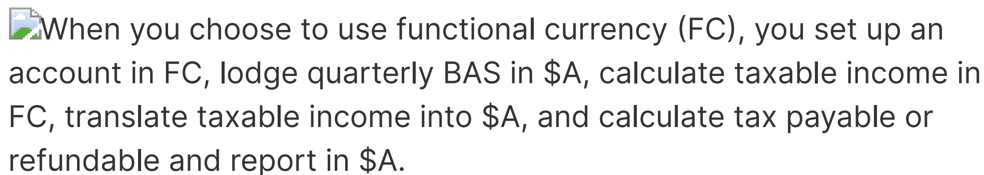
If you are an eligible taxpayer who keeps your accounts solely or predominantly in a particular foreign currency, you can choose to use that foreign currency as the unit of account to work out your taxable income or tax loss.

If you have made such a choice (that is, an effective functional currency choice), you do not translate transactions you undertake in either a foreign currency or in your applicable functional currency into A$. Rather, you translate only your net amount of taxable income or tax loss calculated in your applicable functional currency into A$.

The core foreign currency translation rules are contained in section 960-50 of Subdivision 960-C of the *Income Tax Assessment Act 1997* (ITAA 1997).

The functional currency translation rules are contained in section 960-80 of Subdivision 960-D of the ITAA 1997.

How the functional currency rules work


When you choose to use functional currency (FC), you set up an account in FC, lodge quarterly BAS in $A, calculate taxable income in FC, translate taxable income into $A, and calculate tax payable or refundable and report in $A.

Once you choose to use a non-Australian dollar applicable functional currency, you must use that currency as the unit of account in your day-to-day tax accounting. After working out your taxable income or tax loss in the applicable functional currency, you must translate that amount into A$ to report on your tax return.

You must also carry out your instalment income calculations in your applicable functional currency and translate that amount into A$ for reporting purposes.

Eligibility to account in a functional currency

Only certain taxpayers can choose to work out their taxable income or tax loss using a non-Australian dollar applicable functional currency. This guide is relevant only if you are either of the following:

- a resident who must prepare financial reports under section 292 of the *Corporations Act 2001*
- a non-resident carrying on business through a permanent establishment in Australia.

Your applicable functional currency is the sole or predominant currency in which you keep your 'accounts' at the time you choose to use functional currency.

'Accounts' means ledgers, journals, statements of financial performance, profit and loss accounts, balance sheets and statements of financial position and includes statements, reports and notes attached to, or intended to be read, with such items.

Find out more in subsection 960-70(4) of the ITAA 1997.

The following taxpayers using a non-A$ applicable functional currency are **not** covered in this guide:

- Australian residents carrying on business through overseas permanent establishments, using a non-A$ applicable functional currency to work out their taxable income or loss
- attributable taxpayers in respect of controlled foreign companies (CFC) and transferor trusts, using a non-A$ applicable functional currency to work out the 'attributable income' of the CFC or transferor trust.

When to make a functional currency choice

The functional currency rules started to apply on 1 July 2003.

Ordinarily, if you choose to use a foreign currency as your applicable functional currency to work out your taxable income or tax loss, your choice will take effect after the end of the tax year during which you made it.

You must make your functional currency choice in writing.

In some circumstances, you can make your functional currency choice after the start of the tax year in which you intend it to take effect. This is referred to as a 'backdated start up choice'. You must make a 'backdated start up choice within 90 days of either of the following:

- the start of the tax year, if your entity existed at that time
- the day your entity came into existence, if it did not exist at the start of the tax year.

See details on:

- when your choice takes effect in subsection 960-60(1) of the ITAA 1997
- making your choice in writing in subsection 960-60(2) of the ITAA 1997
- making a backdated start up choice in section 960-65 of the ITAA 1997.

Withdrawing an existing functional currency choice and substituting a new choice

You can withdraw your existing functional currency choice if the functional currency you are using ceases to be the sole or predominant currency in which you keep your 'accounts'. Your functional currency choice withdrawal will take effect from the end of the tax year in which you withdraw it.

Your withdrawal:

- cannot be backdated
- must be made in writing
- should be available as part of the business's tax records.

After your previous functional currency choice is withdrawn, you can make a choice to use the new sole or predominant currency in which you keep your accounts to work out your taxable income or tax loss. You must make this choice in writing. If you don't make a new functional currency choice, the core foreign currency translation rules will apply, which means that all amounts must be translated into A$.

See details on:

- when your choice of currency ceases to be your main currency for accounts in subsection 960-90 of the ITAA 1997
- when your functional currency choice withdrawal will take effect in items 1 and 2 of subsection 960-90(1) of the ITAA 1997
- making a choice to use the new sole or predominant currency in which you keep your accounts in subsection 960-90(3) of the ITAA 1997.

Documenting your choice to use a non-Australian dollar applicable functional currency

When making your written choice to use a non-Australian dollar currency as your applicable functional currency, include all the following:

- the name and tax file number of the entity making the choice

- the use to which the functional currency is being put – for example, to work out taxable income or tax loss
- the date the choice takes effect
- the unit of account that the entity intends to use as its functional currency
- the signature of the entity's public officer and the date the written functional currency choice was signed.

You do not need to send your written functional currency choice to us. However, it should be available as part of your business' tax records.

Non-functional currency amounts you receive or pay

All amounts included in working out your taxable income or tax loss must be in the applicable functional currency. This means you must translate all amounts you receive or pay in another currency, including A$ amounts, into the applicable functional currency.

The functional currency translation rules, including applicable exchange rates, follow the principles in the core foreign currency translation rules for translating foreign currency amounts to A$. This is covered in subsection 960-50(6) of Subdivision 960-C and also subsection 960-80(6) of Subdivision 960-D of the ITAA 1997.

However, the A$ is treated as a foreign currency while your applicable functional currency is not a foreign currency for the purposes of working out your taxable income or tax loss in the applicable functional currency. This is covered in subsection 960-80(1) of the ITAA 1997.

A foreign exchange (forex) realisation gain or loss may arise for certain amounts if there is a difference in prevailing exchange rates at the relevant times. For example, the exchange rate applicable at the time you incur an amount may be different from the exchange rate applicable when you pay it. In this situation, changes in the value of the A$ against the applicable functional currency can bring about a forex gain or loss – an example follows.

Example 1: trigger of foreign currency loss

Stellar Rex Incorporated (Stellar Rex), a USA company with a branch (permanent establishment) in Australia, chooses to account for their Australian branch's taxable income in a functional currency. For Stellar Rex's purposes, US dollars (US$) is the applicable functional currency and A$ is a foreign currency.

Stellar Rex contracts to purchase a depreciating asset from an Australian company in A$ as follows:

Year 1

Stellar Rex contracts to purchase the asset for A$10,000. Stellar Rex holds the asset from the date of contract.

At the contract time, A$1.00 = US$0.50.

Therefore, the cost of the asset in the applicable functional currency is US$5,000.

Year 2

13 months after beginning to hold the asset, Stellar Rex pays A$10,000 for the asset.

At this time A$1.00 = US$0.55, so the A$10,000 Stellar Rex pays is equivalent to US$5,500.

A forex realisation loss of US$500 is made under Forex realisation event (FRE) 4 when Stellar Rex pays A$10,000 for the asset in year 2. As the payment was made more than 12 months after first holding the asset, the loss is not a short-term forex realisation loss – refer to section 775-75 of the ITAA 1997.

Therefore, Stellar Rex will take this loss into account as an allowable deduction when calculating the taxable income or tax loss of its Australian branch for year 2. The taxable income of the Australian branch is calculated in US$ and translated into A$ at the end of the tax year for the purpose of working out the amount of A$ income tax it is liable to pay.

Find out more about foreign currency translation (conversion) rules.

Pre-choice amounts

Special translation rules apply to amounts that are attributable to transactions or events that happened before your current functional

currency choice took effect ('pre-choice' amounts). Pre-choice amounts that are relevant for working out your taxable income or tax loss for a year after your functional currency choice takes effect must be translated into your applicable functional currency in accordance with these special rules. This includes pre-choice amounts that are denominated in the same non-A$ currency as your applicable functional currency.

See details on:

- examples of an amount in subsection 960-80(2) of the ITAA 1997
- special translation rules in section 960-85 of the ITAA 1997.

If you haven't previously made a functional currency choice, you should translate a relevant pre-choice amount as follows:

- firstly, into A$ at the exchange rate applicable at the time of the transaction or event
- secondly, into the applicable functional currency at the exchange rate at the time your functional currency choice took effect.

If you have previously made a choice to use a non-A$ currency as your applicable functional currency, you should translate a relevant pre-choice amount:

- firstly, into the previous applicable functional currency at the exchange rate applicable at the time of the transaction or event
- secondly, into the new applicable functional currency at the exchange rate at the time your new functional currency choice took effect.

Example 2: sale of assets acquired before making a functional currency choice

Fion Incorporated (FION), a non-resident corporation, operates through a permanent establishment in Australia. FION conducts most of its business in Yen (¥).

In the year ended 30 June (year 1) FION chooses to use ¥ as its applicable functional currency. The choice applies for the year commencing 1 July (year 2).

In the year ended 30 June (year 3) FION sells a tourist resort for ¥600 million, which it had purchased before year 1 for

¥500 million.

As FION's applicable functional currency is ¥, the capital gain or capital loss on the disposal of the tourist resort will be calculated in ¥. However, FION had not made a choice to use ¥ as its applicable functional currency at the time it purchased the tourist resort – that is, it was still using A$ for tax purposes. Therefore, the ¥ cost of the resort is translated to A$ at the exchange rate prevailing at the time of the purchase. This A$ amount is then translated to ¥ at the exchange rate prevailing at the time FION's choice to use ¥ as its applicable functional currency took effect.

For the purposes of this example, the exchange rates were:

- A$1.00 = ¥68.50 at the time FION purchased the resort
- A$1.00 = ¥62.00 at the time FION's functional currency choice took effect.

This means the cost base for the purpose of calculating the capital gain or loss on the disposal of the tourist resort is:

- (¥500,000,000 ÷ 68.50) × 62.00
- = A$7,299,270 × 62.00
- = ¥452,554,745.

The capital gain calculated in FION's applicable functional currency is:

- sale proceeds = ¥600,000,000
- less ¥452,554,745
- capital gain = ¥147,445,255.

Tax reporting and functional currency

The functional currency rules allow you to work out your taxable income or tax loss in your applicable functional currency. However, all tax reporting must still be expressed in A$. When reporting on your tax return or activity statement, work out the reported amounts in your applicable functional currency and then translate these amounts into A$.

For tax reporting purposes, when a translation is needed for label amounts (other than the taxable income amount), use the same translation rate as the taxable income translation rate. If you don't have a taxable income amount in a given income year (that is, you have a tax loss), you should use the same rate you would have used to translate a taxable income amount into A$.

How to treat different amounts

Amount type	Treatment
Amounts used in working out taxable income or tax loss in the applicable functional currency (FC). Note sections 6AB and 6AC of the *Income Tax Assessment Act* 1936 (ITAA 1936) with regard to foreign income and foreign tax and the 'grossing-up' of foreign income to include foreign tax paid.	Include the amount in the taxable income calculation in the FC before translating taxable income from the FC into A$.
Amounts used to work out taxable income or a tax loss that are in a foreign currency. For example: • A$ amounts, including the 'gross-up' amount for a franked dividend • amounts of foreign income, including the 'gross-up' amount for foreign tax paid in respect of that income. Section 6AC of the ITAA 1936 requires the amount of foreign income included in your assessable income to be 'grossed-up' to include any foreign tax you paid in relation to the foreign income. If you receive a franked dividend, section 207-20 of the ITAA 1997 requires you to 'gross-up' your assessable income by the amount of the franking credit – and also entitles	Translate into the FC using the applicable exchange rate for that amount. As 'gross-up' amounts contribute to the calculation of your taxable income or tax loss, you must translate them into the FC. Include the FC value in the taxable income calculation before translating taxable income from FC into A$ – see Example 3 and Example 4.

you to a tax offset equal to the amount of the franking credit.	
Carry-forward losses	Carry-forward losses are allowable deductions that reduce taxable income. Identify the carry forward loss amount in the FC from the previous income year. Include these amounts in the taxable income calculation in the FC before translating taxable income from FC into A$. When reporting the value of a tax loss, translate it from FC into A$.
Tax exempt amounts that reduce carry-forward losses	Tax exempt amounts that reduce carry-forward losses are translated into the FC generally upon being derived. They are then used to absorb the loss to the extent of their value. When reporting the value of a tax exempt amount, translate it into A$.
Foreign income tax offsets (FITO) Subsection 770-10(1) of the ITAA 1997 provides that you are entitled to a foreign income tax offset for foreign income tax you paid in respect of an amount of foreign income that is included in your assessable income in a year of income. (FITO in relation to the 'attributable income' of a CFC is not dealt with in this guide.)	The value of foreign income tax offset amounts is not used in working out taxable income, except for when calculating the 'attributable income' of a controlled foreign company (CFC) or transferor trust. The core foreign currency translation rules apply, and the value of foreign tax paid used to calculate foreign income tax offsets is translated into A$ when the foreign tax is paid – see [Example 3](#).

Franking credits	A credit that arises in the franking account of an entity (a franking credit) is a tax offset. The amount of the tax offset you are entitled to as a result of receiving a franked dividend is not translated into your FC. Your tax offset amount will equal the A$ amount of the franking credit attached to the dividend you received before it was translated into functional currency. Add the A$ value of franking credits to your franking account without translation into FC – see Example 4. You must keep your franking account in A$.
Tax offsets and rebates	Tax offsets and rebates are not used to work out taxable income or a tax loss. The core foreign currency translation rules apply. If the amount is already in A$, then no translation takes place. If the amount is in a non-A$ currency, translate the amount into A$. Do not translate into FC first.
Values expressed in law Paragraph 960-80(2)(i) of the ITAA 1997 covers this.	Translate these amounts to FC at the applicable rate – see Example 5.

Example 3: foreign income tax offsets

In this example, you choose US dollars (US$) as your applicable functional currency.

Calculate your assessable income

¥115 = US$1.00 = A$2.00.

¥11,500 derived by you consisting of:

- ¥10,350 cash and ¥1,150 tax withheld in Japan.

To work out your taxable income, translate ¥11,500 into the US$ FC as follows:

- ¥11,500 = US$100 added to assessable income.

Taxable income in US$, including the amount you received in ¥, is translated into A$ at the end of the tax year. If, between the time you derived the income and tax year end, the relative value of the US$–A$ changes, this change will be reflected in the amount of A$ assessable income you will eventually bring to account. In this example, if at year end US$1.00 = A$1.75, then you will report the A$ assessable income you received from the ¥11,500 transaction as A$175.

Calculate your FITO

Translate the ¥1,150 tax withheld amount into A$ as follows:

- ¥1,150 = A$20.

A$20 is used in calculating the amount of the foreign income tax offset, being the lesser of the amount of the foreign tax paid or the Australian tax payable on the foreign income.

Example 4: franking credits

US$1.00 = A$2.00

XYZ Corporation (XYZ) is an Australian resident company, which chooses to use US$ as its applicable functional currency.

XYZ derives a fully franked dividend as follows:

- A$70 cash.

- A$30 gross-up amount (franking credit value).

To find out more, refer to subsection 207-20(1) of the ITAA 1997.

Assessable income calculation

XYZ translates A$100 ($70 + $30) into US$ as follows:

- A$100 × 0.5 = US$50.

At the end of the tax year, US$50 (and other taxable income values) are translated into A$ at regulation rate.

Franking account balance

Add A$30 to franking account balance. No translation takes place.

Example 5: application of translation rule to a monetary limit

Exact Limited (Exact) has made a valid choice to use US$ as its applicable functional currency. In year 1, Exact purchases a car for US$40,000. At the time, the price is equivalent to A$72,700.

If the car limit under section 40-230 of the ITAA 1997 was A$60,000 in year 1, Exact would apply that provision by converting the limit to US$33,012. The first element of the US$ cost of a car is therefore reduced to that amount.

Mandatory application of functional currency for indirect Australian real property interests

If:

- you are a foreign resident
- a CGT event happens in relation to a CGT asset that is an indirect Australian real property interest for you, and
- at the time of the CGT event, the sole or predominant currency in which you keep your accounts is a currency other than Australian currency

you must use the applicable functional currency to work out the amount of any capital gain or capital loss. Subsection 960-61(2) of the ITAA 1997 covers this.

This requirement applies to CGT events that happen on or after 12 December 2006.

Capital gains and losses

There are 2 steps to work out a capital gain or capital loss.

Step 1 translate an amount that is not in the applicable functional currency into the applicable functional currency.

Step 2 translate the amount of any capital gain or capital loss into Australian currency.

See more details at table item 6 of subsection 960-80(1) of the ITAA 1997.

Exchange rates to apply

Different exchange rates apply to the translation of amounts that are elements in the calculation of capital gain or loss.

See more details at subsection 960-80(4) of the ITAA 1997.

The exchange rate to be used when translating amounts will be either the:

- rate at the time the costs are incurred
- rate at the time of the CGT event.

Exchange rate applicable at the time the costs are incurred

Amounts relating to the payments made and costs incurred that form part of the cost base of a CGT asset, are translated into your functional currency at the exchange rate applicable at the time the costs are incurred.

See details in:

- table item 5 of subsection 960-50(6) of the ITAA 1997
- TR 2007/5 *Income tax: functional currency – when is an amount not in the 'applicable functional currency'?* paragraphs 110 and 153.

Exchange rate applicable at the time of the CGT event

Amounts which are relevant for working out the capital gain or capital loss (capital proceeds or market value of other property) on the happening of a CGT event, are translated into the applicable functional currency at the exchange rate applicable at the time of the CGT event.

See details in:

- table item 5 in subsection 960-50(6) of the ITAA 1997
- subsection 960-80(6) of ITAA 1997
- TR 2007/5 *Income tax: functional currency – when is an amount not in the 'applicable functional currency'?*

Amount of capital gain or capital loss calculated in the applicable functional currency

This amount is translated into the Australian currency at the exchange rate applicable at the time of CGT event.

See details in:

- table item 5 in subsection 960-50(6) of the ITAA 1997
- TR 2007/5 *Income tax: functional currency – when is an amount not in the 'applicable functional currency'?*

Reporting during the year

Business activity statements

When completing a business activity statement (BAS):

1. calculate your instalment income in the applicable functional currency
2. translate your instalment income into Australian dollars at the appropriate rate
3. complete label **T1** of the BAS accordingly.

Company tax return

The functional currency rules allow some taxpayers to choose to work out their taxable income or tax loss by using a non-A$ currency as their applicable functional currency (FC).

All amounts disclosed on the company tax return must be disclosed in A$.

When a label amount is accounted for in a non-A$ FC, that sum should be translated into A$ using the same functional currency translation rate (shown at label **8N Functional currency translation rate** of the company tax return) used to translate the taxable income or tax loss figure.

The following amounts are always accounted for in A$, and not in the FC:

- Label **7 J Franking credits**
- Label **7 C Australian franking credits from a New Zealand Company**.

The following amounts do not need to be translated into A$ before completion of the return:

- Label **7 R Tax losses deducted**
- Label **7 S Tax losses transferred in**.

Tax losses are allowable deductions from taxable income. If you carry forward losses, you should account for and claim them in your FC. Report any losses used during the income year at label **7R** by translating the value of the loss used into A$ at the FC translation rate.

As mentioned above, label **8N** is where you show the exchange rate used to translate the FC taxable income figure (and many other figures on the company tax return) into A$.

At label **8N**, show the translation rate the company used to translate the taxable income figure from the FC into A$. The translation rate is the amount the FC amount is divided by to get an equivalent amount of A$. That is, the number of non-A$ currency units that equal one A$ rounded to 4 significant figures – see Examples for labels **8N** and **8O**.

Label 8O – functional currency chosen

Label **8O** is where you show your chosen FC using the 3-letter code from the international standard ISO 4217 – 'Currency codes'. See the

list of Currency codes for label 8O.

Labels **8N** and **8O** must be completed by:

- Australian resident taxpayers who use FC to work out their taxable income or tax loss
- foreign residents carrying on an activity or business at, or through, an Australian permanent establishment, who use FC to work out their taxable income or tax loss.

You should not complete labels **8N** and **8O** if you are an Australian resident taxpayer using FC only to work out the attributable income of a controlled foreign company (CFC) or transferor trust.

The following are examples of correctly completed labels **8N** and **8O**. The exchange rates used are from 3 March 2026.

Examples for labels 8N and 8O

Applicable FC	Label N	Label O
US Dollar	.7104	USD
Yen	111.82	JPY
New Zealand Dollar	1.1966	NZD
Won	1041.30	KRW
Rupiah	11981	IDR

As mentioned previously, if you choose to use FC, you should account for the value of any carry-forward losses using that FC.

The value of those tax losses and net capital losses carried forward to later income years should be reported in A$ at 'Losses information' – labels **13U** and **13V** – on the company tax return.

Calculation statement

The calculation statement on the company tax return shows you how to work out the amount of tax payable or refundable. It starts with the 'Taxable income' figure at label **A**. This figure should have been worked out earlier, using the applicable FC and then translated into A$.

Other figures in the calculation statement are either of the following:

- A$ amounts, such as pay as you go (PAYG) instalments raised
- amounts translated into A$ previously, such as any foreign income tax offset.

Currency codes for label 8O

These currency codes are from international standard ISO 4217 – Currency codes.

A–F, G–K, L–P, Q–U, V–Z

A

- Afghan Afghani – AFN
- Albanian Lek – ALL
- Algerian Dinar – DZD
- Angolan Kwanza – AOA
- Argentine Peso – ARS
- Armenian Dram – AMD
- Aruban Guilder – AWG
- Azerbaijani Manat – AZN

B

- Bahamian Dollar – BSD
- Bahraini Dinar – BHD
- Bangladeshi Taka – BDT
- Barbados Dollar – BBD
- Belarusian Ruble – BYN
- Belize Dollar – BZD
- Bermudian Dollar – BMD
- Bhutanese Ngultrum – BTN
- Bolivian Boliviano – BOB

- Bosnia & Herzegovina Convertible Marks – BAM
- Botswanan Pula – BWP
- Brazilian Real – BRL
- British Pound – GBP
- Brunei Dollar – BND
- Burundi Franc – BIF

C

- Cambodian Riel – KHR
- Canadian Dollar – CAD
- Cabo Verde Escudo – CVE
- Caribbean Guilder - XCG
- Cayman Islands Dollar – KYD
- CFA Franc BCEAO – XOF
- CFA Franc BEAC – XAF
- CFP Franc – XPF
- Chilean Peso – CLP
- Chinese Yuan Renminbi – CNY
- Colombian Peso – COP
- Comorian Franc – KMF
- Congolese Franc – CDF
- Costa Rican Colon – CRC
- Cuban Peso – CUP
- Czech Koruna – CZK

D

- Danish Krone – DKK
- Djibouti Franc – DJF
- Dominican Peso – DOP

E

- East Caribbean Dollar – XCD
- Egyptian Pound – EGP
- El Salvador Colon – SVC
- Eritrean Nakfa – ERN
- Ethiopian Birr – ETB
- Euro – EUR

F

- Falkland Islands Pound – FKP
- Fijian Dollar – FJD

G

- Gambian Dalasi – GMD
- Georgian Lari – GEL
- Ghanaian Cedi – GHS
- Gibraltar Pound – GIP
- Guatemalan Quetzal – GTQ
- Guernsey Pound Sterling – GBP
- Guinean Franc – GNF
- Guyanese Dollar – GYD

H

- Haitian Gourde – HTG
- Honduran Lempira – HNL
- Hong Kong Dollar – HKD
- Hungarian Forint – HUF

I

- Icelandic Krona – ISK

- Indian Rupee – INR
- Indonesian Rupiah – IDR
- Iranian Rial – IRR
- Iraqi Dinar – IQD
- Isle of Man Pound Sterling – GBP
- Israeli New Sheqel – ILS

J

- Jamaican Dollar – JMD
- Japanese Yen – JPY
- Jersey Pound Sterling – GBP
- Jordanian Dinar – JOD

K

- Kazakhstani Tenge – KZT
- Kenyan Shilling – KES
- Kuwaiti Dinar – KWD
- Kyrgystani Som – KGS

L

- Laotian Kip – LAK
- Latvia Euro – EUR
- Lebanese Pound – LBP
- Lesotho Loti – LSL
- Liberian Dollar – LRD
- Libyan Dinar – LYD
- Lithuania Euro – EUR

M

- Macanese Pataca – MOP

- Macedonia Denar – MKD
- Malagasy Ariary – MGA
- Malawian Kwacha – MWK
- Malaysian Ringgit – MYR
- Maldivian Rufiyaa – MVR
- Mauritanian Ouguiya – MRU
- Mauritius Rupee – MUR
- Mexican Peso – MXN
- Moldovan Leu – MDL
- Mongolian Tugrik – MNT
- Moroccan Dirham – MAD
- Mozambique Metical – MZN
- Myanmar Kyat – MMK

N

- Namibia Dollar – NAD
- Nepalese Rupee – NPR
- New Zealand Dollar – NZD
- Nicaraguan Cordoba Oro – NIO
- Nigerian Naira – NGN
- North Korean Won – KPW
- Norwegian Krone – NOK

O

- Omani Rial – OMR
- Other – OTH

P

- Pakistani Rupee – PKR

- Panamanian Balboa – PAB
- Papuan Kina – PGK
- Paraguayan Guarani – PYG
- Peruvian Nuevo Sol – PEN
- Philippine Peso – PHP
- Polish Zloty – PLN
- Pound Sterling – GBP

Q

- Qatari Rial – QAR

R

- Romanian New Leu – RON
- Russian Ruble – RUB
- Rwandan Franc – RWF

S

- Saint Helena Pound – SHP
- Samoan Tala – WST
- Sao Tome and Principe Dobra – STN
- Saudi Riyal – SAR
- Serbian Dinar – RSD
- Seychelles Rupee – SCR
- Sierra Leonean Leone – SLE
- Singapore Dollar – SGD
- Solomon Islands Dollar – SBD
- Somali Shilling – SOS
- South African Rand – ZAR
- South Korean Won – KRW

- South Sudanese Pound – SSP
- Sri Lankan Rupee – LKR
- Sudanese Pound – SDG
- Surinam Dollar – SRD
- Eswatini Lilangeni – SZL
- Swedish Krona – SEK
- Swiss Franc – CHF
- Syrian Pound – SYP

T

- Taiwanese New Dollar – TWD
- Tajikistani Somoni – TJS
- Tanzanian Shilling – TZS
- Thai Baht – THB
- Tongan Pa'anga – TOP
- Trinidad and Tobago Dollar – TTD
- Tunisian Dinar – TND
- Turkish Lira – TRY
- Turkmenistan New Manat – TMT
- Tuvalu Australian Dollar – AUD

U

- UAE Dirham – AED
- Ugandan Shilling – UGX
- Ukrainian Hryvnia – UAH
- Uruguayan Peso – UYU
- US Dollar – USD
- Uzbekistan Sum – UZS

V

- Vanuatuan Vatu – VUV
- Venezuelan Bolivar Soberano – VES
- Vietnamese Dong – VND

Y

- Yemeni Rial – YER

Z

- Zambian Kwacha – ZMW
- Zimbabwe Gold – ZWG

QC 17626

General information on average rates

General information on using average rates in relation to forex measures.

Last updated 4 March 2020

Translating foreign currency amounts

You can translate foreign currency amounts into Australian currency or an applicable functional currency using:

- average rates
- daily rates
- rates consistent with the rates used when preparing an audited financial report.

Using average rates

You can translate an amount into Australian currency using an exchange rate that is an average of the exchange rates applicable during a period chosen by you. The period may be less than, but not exceeding, 12 months.

However, you cannot use an average rate unless it is a **reasonable approximation** of the exchange rates that would otherwise be applicable if you had used spot rates at the specific translation times provided for by the foreign exchange legislation. You should consider whether the use of an average rate is reasonably likely to approximate the use of spot rates. The examples below provide more detail.

Where to find average rates

Average exchange rates are published to our website. You can find exchange rates for selected countries including average monthly and yearly rates released by the Reserve Bank of Australia (from 1 January 2020) or from Commonwealth Bank of Australia (up to 31 December 2019) as outlined in Taxation Ruling IT 2498. Alternatively, you can use appropriate exchange rates provided by:

- a banking institution operating in Australia including, where relevant, the banking institution through which your foreign income is received
- another reliable external source.

Keep the rate used and the source of rates with your records.

You cannot obtain an average rate (or rates) of exchange from an associate, or from yourself, unless otherwise notified by us.

See also

- Foreign exchange rates
- Taxation Ruling IT 2498 *Income Tax – foreign tax credit system – currency translation of foreign income – trading stock and depreciable plant – basis of returning foreign income – capital gains/losses*

When to start using average rates

The regulations for the use of average rates came into effect from 1 July 2003.

If you previously prepared your tax returns in anticipation of these regulations you should refer to Administrative treatment of retrospective legislation.

Similarly, if you have already prepared a tax return using spot rates of exchange, and did not anticipate the regulations, you are entitled to review your position in light of the regulations now in force.

Translating foreign income derived overseas

You can use either the spot rate at the time the income is derived or an appropriate average rate. You can't use an end of year rate (the rate applying on the **last day** of the income year) to translate foreign income that is not actually received in Australia in the same year it is derived.

Example 1

Maria is an Australian resident who receives a foreign age pension from Italy. The pension is paid to her fortnightly in Euros. Maria may translate her total assessable Italian pension amounts for the income year by using an average annual exchange rate. She does not have to translate the pension into Australian dollars at the exchange rate prevailing at each time the pension payment is received.

Example 2

Veronica receives a fortnightly British age pension paid in pounds sterling. The Australian bank the pension is paid into converts her pension payments into Australian dollars at the time of each payment. Veronica chooses to translate her assessable British pension into Australian dollars using the rate applied by her Australian bank. That is, Veronica adds up the Australian dollar value of her pension as converted by her bank, rather than choosing to use an average annual exchange rate.

Example 3

Oz Retail & Sales regularly buys goods from various retailers in Germany for its trading activities. Goods are ordered in Euros from eight regular suppliers, and Oz Retail & Sales makes about six foreign currency payments each month. Payment is due 30 days from the date of shipment. The goods are considered to be trading stock of Oz Retail & Sales.

In this case, Oz Retail & Sales could use an appropriate average rate of exchange when translating the cost of the acquisition of trading stock for income tax purposes.

Example 4

Peter, an accruals-based taxpayer, is a consultant engineer. He provides professional services to clients in Australia as well as New York. Fees for the New York based clients are written in US dollars at the end of each month, and payment is required within 30 days. The fees are around US$80,000 each month. It would be a reasonable approximation for Peter to translate the US dollar amounts into Australian dollars using an exchange rate based on a yearly or monthly average.

Example 5

Peter (from example 4 above) had also bought an office building in New York for US$3 million during the income year. In this case, it would not be a reasonable approximation to translate the

purchase price of the office building using an average yearly rate.

Example 6

John receives fortnightly rent from a rental property he has in the United Kingdom. The rent is deposited into a bank account in the UK. Throughout the year, he pays miscellaneous expenses such as maintenance and minor repairs, and agent's fees, for the property. It would be reasonable for John to choose to use an average rate of exchange for the rental income and deductions when translating these amounts into Australian dollars.

Example 7

John (from example 6 above) sells the rental property in the following year. As this is a one-off sale of a large capital asset, it would not be appropriate for John to use an average rate of exchange when translating this amount into Australian currency.

QC 18020

Use of first-in first-out method for fungible assets, rights and obligations

Use of first-in first-out method of monetary 'fungible assets'.

Last updated 1 March 2016

What is meant by 'fungible assets, rights and obligations'?

Monetary assets, rights and obligations can be described as 'fungible' because one unit of currency is identical to and interchangeable with any other unit.

As one unit of foreign currency is functionally identical to every other unit of the same currency in a bank account, it is difficult to identify which particular units of foreign currency are withdrawn from a bank account when a withdrawal is made from an account that is in credit.

A similar problem arises in identifying the particular units of foreign currency that are repaid when a deposit is made into an account that is in debit.

Identifying units of foreign currency

The particular unit of currency that is withdrawn or repaid needs to be identified for the purposes of the forex measures.

A withdrawal from a foreign currency denominated bank account that has a credit balance will result in the occurrence of forex realisation event 2 (FRE2) in relation to the amount of the foreign currency withdrawn. In this event there will be a cessation of the right to receive the foreign currency that has been withdrawn from the bank with which the account is held.

A repayment of an amount into an account which is in debit will result in forex realisation event 4 (FRE4). In this event there will be a cessation of an obligation to pay foreign currency.

Applying the first-in first-out (FIFO) method

In order to allocate a cost base or value to a particular unit of foreign currency, or a fungible right or part of a right to receive or pay foreign currency, a first-in first-out ('FIFO') ordering rule is normally applied to the units of foreign currency in the account (subsection 775-145(1) of the ITAA 1997)). Any forex realisation event will apply firstly to the first units of fungible currency deposited or borrowed.

As an alternative to the FIFO method, a taxpayer may be able to make an election to use a weighted average basis providing a retranslation election is not current. Please refer to Foreign exchange (forex): use of weighted average method for fungible rights and obligations for more information.

Example – Using the FIFO method

A foreign currency bank account opened on 1 September 2004 had the following transactions:

Date	Deposit ($US)	Withdrawal ($US)	Account balance ($US)	Exchange rate 1$A = $US
1 September 2004	$1,000		$1,000	$0.7200
15 September 2004	$2,500		$3,500	$0.7000
30 October 2004		$1,000	$2,500	$0.7300
31 December 2004		$3,000	($,500)	$0.7500
15 March 2005		$1,600	($2,100)	$0.7800
30 May 2005	$1,200		($900)	$0.7600
Total	**$4,700**	**$5,600**		

Under this method the cost of each withdrawal or deposit is determined on the assumption that the outstanding balance represents the most recent transaction in the account.

The Australian dollar equivalent (ADE) of the amount deposited and withdrawn from the account is:

Date	Conversion	Deposit ($A)	Withdrawal ($A)
1 September 2004	1,000 0.7200	$1,388.89	
15 September 2004	2,500 0.7000	$3,571.43	
30 October 2004	1,000 0.7300		$1,369.86
31 December 2004	3,000 0.7500		$4,000,00
15 March 2005	1,600 0.7800		$2,051.28
30 May 2005	1,200 0.7600	$1,578.95	
Total		**$6,539.27**	**$7,421.14**

Calculation 1 – FRE 2 arising from withdrawal of US$1,000 on 30 October 2004

Under the FIFO principle, the withdrawal of the US$1,000 is treated as a withdrawal of the deposits on a first-in-first-out basis, such that the amounts deposited at the earlier time are taken to have been withdrawn first. The Australian dollar equivalent (ADE) for this withdrawal is represented by the amount deposited on 1 September 2004 - $1,388.89.

The amount received in respect of the event happening is $A1,369.86.

The forex realisation loss brought to account under FRE 2 is

ADE of withdrawal of $US1,000	$A1,369.86
Less: FIFO ADE cost of $US1,000	$A1,388.89
Forex loss	$A 19.03

Calculation 2 – FRE 2 arising from withdrawal of US$3,000 on 31 December 2004

A right to receive foreign currency existed to the extent of US$2,500 only. In calculating the forex gain or loss, a comparison is made between the ADE of the amount received and the ADE of the forex cost base of its right to receive US$2,500. The additional amount of US$500 withdrawn (US$3,000-US$2,500), represents an obligation incurred on 31 December 2004 to repay the bank.

The ADE of the withdrawal is $3,571.43. The amount received is $A3,333.33 (US$2,500   0.7500).

The forex realisation loss brought to account under FRE 2 is:

ADE of withdrawal of $US2,500	$A3,571.43
Less: FIFO ADE cost of $US2,500	$A3,333.33
Forex loss	$A 238.10

The ADE cost of the outstanding debit balance in the account is $666.67 (US$500   0.7500)

Calculation 3 – FRE 4 arising from deposit of US$1,200 on 30 May 2005

Under the FIFO principle, the deposit of the US$1,200 is treated as a cessation of the obligations incurred each time a withdrawal was made where there was no credit balance. On a first-in first-out basis, the amounts withdrawn at the earlier time are taken to have been repaid first.

When US$1,200 is repaid, it initially reduces the obligation to pay US$500 incurred on 31 December 2004 and then partly (to the extent

of $700) reduces the obligation to repay the withdrawal made on 15 March 2005.

The ADE of the proceeds of assuming the obligation is:

Date	Withdrawal ($US)	Rate	Withdrawal ($A)
31 December 2004	$500	500 0.7500	$ 666.67
15 March 2005	$700	700 0.7800	$ 897.44
Total			$1,564.11

The amount paid is $A1,578.95.

The forex realisation loss brought to account under FRE 4 is:

ADE of deposit of $US1,200	$A1,578.95
Less: FIFO ADE proceeds of assuming the obligation of $US1,200	$A1,564.11
Forex loss	$A 14.84

QC 18069

Use of weighted average basis for fungible rights and obligations

Use weighted average basis to translate foreign currency amounts into Australian dollar amounts.

Last updated 1 March 2016

About Forex regulations

Forex regulations have been made which may allow for an alternative to the first-in first-out (FIFO) method to be used when calculating forex gains and losses arising from a forex realisation event (FRE) 1, 2 or 4 for fungible rights and obligations.

An explanation and example of the FIFO method is contained in the fact sheet, Foreign exchange (forex): use of first-in first-out method for fungible assets, rights and obligations.

Using a weighted average basis

The translation of foreign currency amounts into Australian dollar amounts may be made by using a weighted average basis provided an election is made.

This basis cannot be used where a retranslation election has been made. A retranslation election must be withdrawn before a weighted average basis can be used.

Where a weighted average basis is applied to a foreign currency denominated bank account which was subject to the FIFO method or retranslation, the opening balance should reflect the amount that is, or would, be the closing balance under those methods.

A weighted average basis can be calculated using a per-transaction method or an entire-year-of-income method. Either method is acceptable providing it is used consistently. However, the entire-year-of-income method is not appropriate where the fungible thing changes from a right to receive foreign currency to an obligation to pay foreign currency (or vice versa). This will occur, for example, where a bank account denominated in foreign currency moves from a credit balance to a debit balance.

Method 1: Weighted average basis per-transaction method

For a bank account with a credit balance, a weighted average basis calculation is required for each withdrawal. The cost of each withdrawal is calculated by taking the weighted average of all deposits made into the account up to the time of withdrawal.

A similar calculation is required where the bank account has a debit balance (for example, a bank overdraft facility). In these circumstances

the cost of each deposit is calculated by using the weighted average of all withdrawals made up to the time of the deposit.

Method 2: Weighted average basis entire-year-of-income-method

For a bank account with a credit balance, a weighted average basis calculation is determined by taking the weighted average of all deposits made into the account during the entire year of income.

For a bank account with a debit balance (for example, an overdraft facility), a similar calculation is required to ascertain the cost for each deposit. This is calculated by taking the weighted average of each withdrawal made from the account during the entire year of income.

It is not appropriate to use the weighted average basis entire-year-of-income method where the balance of the bank account moves from a credit balance to a debit balance or vice versa.

Example 1: Weighted average per-transaction method

A foreign currency bank account opened on 1 September 2004 had the following transactions:

Date	Deposit ($US)	Withdrawal ($US)	Account balance ($US)	Exchange rate 1$A = $US
1 September 2004	$1,000		$1,000	$0.7200
15 September 2004	$2,500		$3,500	$0.7000
30 October 2004		$1,000	$2,500	$0.7300

31 December 2004		$3,000	($,500)	$0.7500
15 March 2005		$1,600	($2,100)	$0.7800
30 May 2005	$1,200		($900)	$0.7600
Total	**$4,700**	**$5,600**		

The weighted average calculation is made at the time each transaction brings about either a cessation of a right to receive foreign currency (FRE 2) or an obligation to pay foreign currency (FRE 4). This is at the time funds are withdrawn or deposited.

The Australian dollar equivalent (ADE) of the amount deposited and withdrawn from the account is:

Date	Conversion	Deposit ($A)	Withdrawal ($A)
1 September 2004	1,000 0.7200	$1,388.89	
15 September 2004	2,500 0.7000	$3,571.43	
30 October 2004	1,000 0.7300		$1,369.86
31 December 2004	3,000 0.7500		$4,000,00
15 March 2005	1,600 0.7800		$2,051.28
30 May 2005	1,200 0.7600	$1,578.95	
Total		**$6,539.27**	**$7,421.14**

Calculation 1 – FRE 2 arising from withdrawal of US$1,000 on 30 October 2004

The deposits made into the account up to 30 October 2004 are:

Date	Deposit ($US)	ADE ($A)
1 September 2004	$1,000	$1,388.89
15 September 2004	$2,500	$3,571.43
Total	**$3,500**	**$4,960.32**

The weighted average ADE cost of the amount withdrawn ($US1,000) is calculated as follows:

class="indent1">= $US1,000 / $US3,500> = $A1,417.23
$A4,960.32

The forex realisation loss brought to account under FRE 2 is:

ADE of withdrawal of $US1,000	$A1,369.86
Less: Weighted average ADE cost of $US1,000	$A1,417.23
Forex loss	$A 47.37

The ADE cost of the outstanding balance of $US2,500 is $A3,543.09 ($A4,960.32 - A$1,417.23)

Calculation 2 – FRE 2 arising from withdrawal of $US3,000 on 31 December 2004

When $US3,000 is withdrawn from the account having a balance of only $US2,500, the entire amount of $US2,500 ($A3,543.09) is reduced to nil. The account changes from a credit balance of $US2,500 to a debit balance of $US500.

The cost of the withdrawal of $US3,000 comprises two parts:

(a) The ADE for the reduction of the $US 2,500 balance	$A3,543.09
(b) The ADE equivalent of the balance of $US500 at $A1=$US0.7500	$A 666.67
Total	**$A4,209.76**

The forex realisation loss brought to account under FRE 2 is

ADE of withdrawal of $US3,000	$A4,000.00
Less: Weighted average ADE cost of $US3,000	$A4,209.76
Forex loss	$A 209.76

Calculation 3 – FRE 4 arising from deposit of $US1,200 on 30 May 2005

The withdrawals made from the account up to 30 May 2005 are:

Date	Deposit ($US)	Deposit ($A)
31 December 2004 (to the extent of the balance of the account)	$500	$666.67
15 March 2005	$1,600	$2,051.28
Total	**$2,100**	**$2,717.95**

The weighted average ADE cost of the amount deposited ($US1,200) is calculated as follows:

class="indent1">= $US1,200 / $US2,100 = $A1,553.20
$A2,717.95

The forex realisation loss brought to account under FRE 4 is

Example: Forex realisation loss

ADE of deposit of $US1,200

$A1,578.95

Less: Weighted ADE cost of $US1,200

$A1,553.20

Forex loss

$A 25.75

A foreign currency bank account opened on 1 September 2004 had the following transactions:

Date	Deposit ($US)	Withdrawal ($US)	Account balance ($US)	Exchange rate 1$A = US$
1 September 2004	$1,000		$1,000	$0.7200
15 September 2004	$2,500		$3,500	$0.7000
30 October 2004		$1,500	$2,000	$0.7300
31 December 2004	$500		$2,500	$0.7500
15 March 2005		$1,600	$900	$0.7800
Total	**$4,000**	**$3,100**		

Under this method, the weighted average cost of all withdrawals in a year of income is arrived at by calculating the weighted average cost for all deposits made into the account during the year of income.

The Australian dollar equivalent (ADE) of the amount deposited and withdrawn from the account is:

Date	Conversion	Deposit ($A)	Withdrawal ($A)
1 September 2004	1,000 0.7200	$1,388.89	
15 September 2004	2,500 0.7000	$3,571.43	
30 October 2004	1,500 0.7300		$2,054.79
31 December 2004	500 0.7500	$666.67	
15 March 2005	1,600 0.7800		$2,051.28
Total		**$5,626.99**	**$4,106.07**

As the account was opened in the year, the weighted average ADE cost of the amount withdrawn in the year of income ($US3,100) is calculated as follows:

class="indent1">= $US3,100 / $US4,000 = $A4,360.67
$A5,626.99

The forex realisation loss brought to account under the weighted average per year-of-income-method is

ADE of withdrawal of $US3,100	$A4,106.07
Less: Weighted average ADE cost of $US3,100	$A4,360.67
Forex loss	$A 254.60

Making an election to use the weighted average basis

An election to use a weighted average basis must be in writing and specify that it will commence from:

- the day the election is made
- 1 July 2004; or
- if the election is made by 26 July 2005, the applicable commencement date.

and must also state that it applies to:

- all fungible things (to which the election is capable of applying); or
- one or more specified classes of fungible things (if this is reasonably expected to reduce compliance costs); or
- one or more specified fungible things if this would be consistent with their treatment by the entity in their accounting records and those records are prepared in accordance with generally accepted accounting principles (GAAP).

The election does not need to be lodged with the Tax Office.

Example

This choice is made under Subregulation 775-145.01(4) of the Income Tax Assessment Amendment Regulations 2005 (No 2).

I, Joe Taxpayer, choose to use a weighted average basis for the following bank accounts with effect from today:

Financial Institution	Account Name	Account Number
XYZ Bank	Joe Taxpayer	123 456 789

ABC Credit Union	Joe Taxpayer	987 654 321

Joe Taxpayer

19 January 2004

QC 18070

Our commitment to you

We are committed to providing you with accurate, consistent and clear information to help you understand your rights and entitlements and meet your obligations.

If you follow our information and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we will take that into account when determining what action, if any, we should take.

Some of the information on this website applies to a specific financial year. This is clearly marked. Make sure you have the information for the right year before making decisions based on that information.

If you feel that our information does not fully cover your circumstances, or you are unsure how it applies to you, contact us or seek professional advice.

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