



In detail

Detailed information about the taxation of financial arrangements.

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.

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TOFA tax return labels

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

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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 2016 income tax returns.

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:

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	
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
Gross interest	
11J	Gross interest
Dividends	
12K	Unfranked amount

Other assessable foreign source income	
23B	Gross

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
12B1	Interest expenses overseas
12L1	Other amounts

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:

- [Company tax return instructions 2016](#)
- [Partnership tax return instructions 2016](#)
- [Trust tax return instructions 2016](#)
- [Fund income tax return instructions 2016](#)
- [Self-managed superannuation fund annual return instructions 2016](#)

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