Australian Government
Australian Taxation Office

Timor Sea Treaty – Joint Petroleum Development Area instructions 2006

Information to help you complete
your 2006 tax return

WHO SHOULD USE THESE INSTRUCTIONS?

Use these instructions if you have earned income for performing work or services in the Joint Petroleum Development Area (JPDA) as defined in the Timor Sea Treaty (the treaty).

To ensure you fill in your tax return correctly, either use these instructions yourself or give them to your registered tax agent.

BACKGROUND

The treaty was signed on 20 May 2002 and applies from that date.

The treaty is an agreement between Australia and Timor-Leste (formerly East Timor) which creates the JPDA. It provides the framework for how the petroleum resources within the JPDA are to be shared. The treaty grants 90% of the petroleum resources to Timor-Leste and 10% to Australia.

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Lodge your tax return online

For a fast, secure and easy way to prepare and lodge your tax return online, use e-tax – available free from our website.

For more information, visit **www.ato.gov.au**

OUR COMMITMENT TO YOU

We are committed to providing you with advice and information you can rely on.

We make every effort to ensure that our advice and information is correct. If you follow advice in this publication and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we must still apply the law correctly. If that means you owe us money, we must ask you to pay it. However, we will not charge you a penalty or interest if you acted reasonably and in good faith.

If you make an honest mistake when you try to follow our advice and you owe us money as a result, we will not charge you a penalty. However, we will ask you to pay the money, and we may also charge you interest.

If correcting the mistake means we owe you money, we will pay it to you. We will also pay you any interest you are entitled to.

If you feel this publication does not fully cover your circumstances, please seek help from the Tax Office or a professional adviser.

The information in this publication is current at October 2006. We regularly revise our publications to take account of any changes to the law, so make sure that you have the latest information. If you are unsure, you can check for a more recent version on our website at **www.ato.gov.au** or contact us.

HOW SELF-ASSESSMENT AFFECTS YOU

Self-assessment means the Tax Office uses the information you give on your tax return and any related schedules and forms to work out your refund or tax liability. We do not take any responsibility for checking the accuracy of the details you provide, although our system automatically checks the arithmetic.

Although we do not check the accuracy of your tax return at the time of processing, at a later date we may examine the details more thoroughly by reviewing specific parts, or by conducting an audit of your tax affairs. We also have a number of audit programs that are designed to continually check for missing, inaccurate or incomplete information.

What are your responsibilities?

It is your responsibility to lodge a tax return that is signed, complete and correct. Even if someone else – including a tax agent – helps you to prepare your tax return and any related schedules, you are still legally responsible for the accuracy of your information.

What if you lodge an incorrect tax return?

If you become aware that your tax return is incorrect, you must contact us straight away.

Initiatives to complement self-assessment

There are a number of systems and entitlements that complement self-assessment, including:
- the private ruling system (see below)
- the amendment system (if you find you have left something out of your tax return)
- your entitlement to interest on early payment or over-payment of a tax debt.

Do you need to ask for a private ruling?

If you are uncertain about how a tax law applies to your personal tax affairs, you can ask for a private ruling. To do this, complete a *Private ruling application form (non-tax professionals)* (NAT 13742–01.2006), or contact us.

Lodge your tax return by the due date, even if you are waiting for the response to your application. You may need to request an amendment to your tax return once you have received the private ruling.

We publish all private rulings on our website. (Before we publish we edit the text to remove information that would identify you.)

SOURCE OF INCOME

The treaty specifies that for the purposes of the taxation laws of Australia and Timor-Leste, the JPDA is deemed to be part of Australia and Timor-Leste. Therefore, income derived from working in the JPDA is sourced in both Australia and Timor-Leste.

The effect of the treaty is that:

- **residents of Australia** are taxed on their total JPDA income at resident rates of tax, with a foreign tax credit allowed for the lesser of:
  - the Australian tax payable on the net assessable JPDA income* and
  - the tax paid to Timor-Leste
- **residents of Timor-Leste** are taxed on 10% of their net assessable JPDA income* at non-resident rates of tax
- **residents of countries other than Australia and Timor-Leste** are taxed on their total JPDA income at non-resident rates of tax, with a rebate allowed equal to 90% of the Australian tax payable on their net assessable JPDA income*.

RESIDENCY STATUS

Residency status is determined by the laws of each country. Generally, we consider you to be an Australian resident for tax purposes if:

- you have always lived in Australia or you have come to Australia and live here permanently, or
- you have been in Australia for more than half of the financial year (unless your usual home is overseas and you do not intend to live in Australia).

The standards we use to determine residency status are not the same as those used by the Department of Immigration and Multicultural Affairs.

In limited circumstances you may be considered to be a resident of both Australia and Timor-Leste. The treaty contains rules to determine the country in which you are a resident solely for the purposes of the treaty.

If you are unsure of your residency status, access the 'Are you a resident?' tool on our website **www.ato.gov.au** or phone the Personal Tax Infoline on **13 28 61**.

ZONE TAX OFFSET

The JPDA does not qualify as a remote or isolated area of Australia for purposes of the zone tax offset.

COMPLETING YOUR AUSTRALIAN INCOME TAX RETURN

To ensure that your tax return is filled out correctly and to prevent delays with your assessment you need to complete your tax return by following these instructions.

STEP 1 Complete the SCHEDULE OF ADDITIONAL INFORMATION on the last page of these instructions.

STEP 2 Attach your completed schedule to page 3 of your tax return. Print **X** in the **YES** box at *Taxpayer's declaration* question **2a** on page 8 of your tax return.

❗ USING E-TAX

To complete a schedule using e-tax, click on the **Additional information** button in the e-tax interview screen – this button can be accessed on the **Spouse details** screen (click on **Spouse details** in the navigator bar). A blank notepad will be displayed. Enter the heading SCHEDULE OF ADDITIONAL INFORMATION – ITEM 19 – JOINT PETROLEUM DEVELOPMENT AREA followed by the appropriate sentence on the last page (**A**, **B**, **C** or **D**). For example, if you were a resident of Australia for the whole year you complete the schedule as follows:

SCHEDULE OF ADDITIONAL INFORMATION – ITEM 19 – JOINT PETROLEUM DEVELOPMENT AREA

I was a resident of Australia for the whole year.

STEP 3 Go to the part or parts of these instructions that apply:

- If you ticked **A** on the schedule of additional information go to **Part 1 – Resident of Australia**.
- If you ticked **B** go to **Part 2 – Resident of Timor-Leste**.
- If you ticked **C** go to **Part 3 – Resident of another country**.
- If you ticked **D** you may need to apportion your JPDA income and complete more than one part. You will need to follow the instructions in:
  - **Part 1** for the period that you were a resident of Australia
  - **Part 2** for the period that you were a resident of Timor-Leste
  - **Part 3** for the period that you were a resident of another country.

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* Net assessable JPDA income is assessable JPDA income less allowable deductions relating to that income.

PART 1 – RESIDENT OF AUSTRALIA

Use this part if you were an Australian resident for tax purposes during 2005–06.

What you need

- All your payment summaries for the 2005–06 income year
- Details of your JPDA income and any foreign tax paid – from your employer, your pay slips or foreign tax assessments
- *TaxPack 2006* and *TaxPack 2006 supplement* if you are completing a paper tax return. See **More information** on page 6 to find out how to get copies of these publications.

You need to know

You are taxed on your net assessable JPDA income at resident rates of tax with a foreign tax credit allowed for the lesser of:

- the Australian tax payable on your net assessable JPDA income, and
- the tax paid to Timor-Leste.

What you need to do

You will need to use worksheets 1 and 2 to complete the following items on your tax return:

- item **1** – income
- items **D1** to **D5** – work-related expenses
- item **19** – foreign source income.

Follow these steps to complete your tax return.

STEP 1 Complete worksheet 1 below for each payment summary that includes JPDA income. Worksheet 1 shows you how to deal with your JPDA income and deductions.

STEP 2 Complete all parts of your tax return except:

- **O** item **19**
- **TOTAL SUPPLEMENT TAX OFFSETS**
- item **T**
- **TOTAL TAX OFFSETS**

STEP 3 Complete worksheet 2 on page 4. Worksheet 2 shows you how to work out your foreign tax credit in respect of your net assessable JPDA income. In the course of completing worksheet 2, you will complete **O** item **19** on your tax return (supplementary section). If you are using e-tax, read the note **Are you using e-tax?** on the next page before using worksheet 2.

STEP 4 Complete the remainder of your tax return.

WORKSHEET 1: Net JPDA income subject to tax in Australia and Timor-Leste

Complete this worksheet for each payment summary showing JPDA income.

		Jose*		You
Total gross income shown on your payment summary	(a)	$ 120,000	(a)	$
Total gross JPDA income included on your payment summary	(b)	$ 96,000	(b)	$
Subtract (b) from (a).	(c)	$ 24,000	(c)	$
Divide (b) by 10.	(d)	$ 9,600	(d)	$
Add (c) and (d). Write the amount at (e) at item **1** on your tax return.	(e)	$ 33,600	(e)	$
Subtract (d) from (b). Include the amount at (f) at: ■ **E** item **19** on page 10 of your tax return (supplementary section) ■ the 'Foreign employment income' column (screen 2308), item **19** of e-tax	(f)	$ 86,400	(f)	$
Total work-related expenses directly related to your JPDA income.**	(g)	$ 500	(g)	$
Divide (g) by 10. The amount at (h) is the amount of work-related expenses relating to your JPDA income. Show these expenses at **D1** to **D5** on your tax return or in e-tax.	(h)	$ 50	(h)	$
Subtract (h) from (g). The amount at (i) is the total of your work-related expenses relating to your JPDA income (for the next step). If using e-tax, show the amount at (i) in the 'Deductible expenses' column (screen 2308), item **19** of e-tax.	(i)	$ 450	(i)	$
Subtract (i) from (f). Include the amount at (j) at **L** item **19** (e-tax will do this automatically).	(j)	$ 85,950	(j)	$
Subtract (g) from (b). The amount at (k) is your net assessable JPDA income.	(k)	$ 95,500	(k)	$

* See the example on the next page.

** Work-related expenses are explained at questions **D1** to **D5** in *TaxPack* and e-tax. If you have more than one payment summary with JPDA income, claim all your JDPA work-related expenses against the payment summary with the highest JPDA income.

EXAMPLE

Jose, a driller, lived in Darwin (zone A) when he was not at a drilling site. For part of the year he worked in the JPDA. Jose received a payment summary which showed $120,000 gross salary and wages and tax withheld of $24,528. He received a separate letter advising that the $120,000 included $96,000 relating to his period in the JPDA and that in addition to the $24,528 Australian tax withheld, $18,835 tax had been withheld and paid to Timor-Leste. Jose had work-related expenses of $700 of which $500 related to his work while in the JPDA. Jose contributed $500 to the Red Cross Hurricane Katrina appeal. He has no other income or deductions. Jose has no dependants. He has hospital cover.

Refer to worksheets 1 and 2 to see how Jose would fill them in.

Jose will receive a refund of $2,533, that is, $41,168 (tax payable) – $18,835 (foreign tax credit) – $338 (zone tax offset) – $24,528 (tax withheld).

If Jose had worked in Australia for the full year and had the same income and deductions, he would have completed the tax return differently and had a different tax withheld amount, but his refund would have been exactly the same.

❗ ARE YOU USING E-TAX?

If you are using e-tax, you will only need to complete box (o) on worksheet 2; e-tax will do the remainder of the calculations for you.

If you need to go past (o) you will need to complete the worksheet in full because you will have carry-forward foreign tax credits. You will have a carry-forward foreign tax credit if your 2006 foreign tax credit is less than the amount at (o). Your foreign tax credit is shown on the **Tax offsets available** screen (screen 8102). You navigate to this screen from the **Tax estimate** screen (8101), available on the navigator bar.

When completing item **19** (screen 2308), show the amount you have at (o) on the worksheet in the 'Foreign tax withheld' column.

If you want to work out the amount of your foreign tax credit for yourself, complete the worksheet in full.

Completing the worksheet in full

To complete worksheet 2 in full you will need the amounts for your tax and Medicare items. These are available from your 'Tax estimate' screen (8101). Make sure you have completed all your income, deductions and Medicare items first.

Did you have exempt foreign employment income?

If you have included exempt foreign employment income at **N** item **19** on your tax return (supplementary section) you will not be able to calculate your foreign tax credit using worksheet 2. We will do it for you when you lodge your tax return (using *TaxPack*, e-tax or a tax agent).

On a separate sheet of paper, print:
SCHEDULE OF ADDITIONAL INFORMATION – ITEM 19 – EXEMPT FOREIGN INCOME, and write:

- the amount of your JPDA income
- the amount at (o) from worksheet 2 (the foreign tax credit available on your JPDA income this year)
- the amount at (q) from worksheet 2 (your excess foreign tax credit carried forward from previous years)
- the amount of any other foreign income and foreign tax paid.

Sign the schedule and attach it to page 3 of your tax return with your other schedule.

Check that you have printed **X** in the **YES** box at *Taxpayer's declaration* question **2a** on page 8 of your tax return.

WORKSHEET 2: Foreign tax credit calculation

		Jose		You
Your taxable income as shown on your tax return	(a)	$ 118,800	(a)	$
Calculate your tax using *TaxPack* (see table B1 on page 122) or e-tax[1].	(b)	$ 39,386.00	(b)	$
Calculate your Medicare levy and Medicare levy surcharge (MLS) payable on your taxable income using *TaxPack* (see pages 126–8) or e-tax[1].	(c)	$ 1,782.00	(c)	$
Add (b) and (c).	(d)	$ 41,168.00	(d)	$
Divide (d) by (a).	(e)	0.347	(e)	
Your net assessable JPDA income (the amount shown at (k) in worksheet 1 on page 2)	(f)	$ 95,500	(f)	$
Your gift deductions from item **D8** on your tax return	(g)	$ 500	(g)	$
Add (a) and (g).	(h)	$ 119,300	(h)	$
Divide (a) by (h) (round to at least 3 decimal places).	(i)	0.996	(i)	
Multiply (f) by (i) and round to nearest whole number. This is your adjusted net assessable JPDA income[2].	(j)	$ 95,118	(j)	$
Multiply (e) by (j). This is the Australian tax payable on your adjusted net assessable JPDA income.	(k)	$ 33,005.95	(k)	$
Tax paid to Timor-Leste on your JPDA income as advised by your payer. If using e-tax, show the amount at (o) in the 'Foreign tax withheld' column, item **19** (screen 2308).	(o)	$ 18,835.00	(o)	$
If (o) is equal to or less than (k) leave (p) blank and go to (q). If (o) is greater than (k): ■ show the excess at (p) – this excess amount can be carried forward for up to five years and applied as a credit against future JPDA income ■ include the amount at (k) at **O** item **19** on page 10 of your tax return (supplementary section), then go to **Part 2 – Resident of Timor-Leste** on the next page.	(p)	$	(p)	$
Your excess foreign tax credit relating to JPDA income carried forward from any of the last five years (if any). If using e-tax, show this amount at 'Other foreign income' (screen 2318).	(q)	$ 0	(q)	$
Add (o) and (q). This is your foreign tax credit for your 2005–06 JPDA income.	(r)	$ 18,835.00	(r)	$

If (r) is greater than (k):
■ show the excess at (s) – this amount can be carried forward [see (p)]
■ include the amount at (k) at **O** item **19**, then go to **Part 2 – Resident of Timor-Leste** on the next page.
 	
If (r) is less than or equal to (k):
■ leave (s) blank – there is nothing to carry forward
■ include the amount at (r) at **O** item **19**, then go to **Part 2 – Resident of Timor-Leste** on the next page.
	(s)	$	(s)	$

[1] If you are using e-tax, go to the note **Are you using e-tax?** on the previous page. If you had exempt foreign employment income, see **Did you have exempt foreign employment income?** also on the previous page.

[2] If (f) is greater than or equal to (h) and you have no foreign income, (j) equals (a). If the sum of (f) and your net foreign income exceeds (h), then:

$$(j) = \frac{(a) \times (f)}{(f) + \text{net foreign income}}$$

Go to **Part 2 – Resident of Timor-Leste** if you ticked **D** on the schedule on the last page. Otherwise, go to **Check that you have…** on page 6.

❗ A recent change to this worksheet removed steps (l), (m) and (n). If you used an earlier version of this worksheet to complete your income tax return for any year from 20 May 2002, you can now use this new version; and if you get a different value for your foreign tax credit (r) you can lodge a request for an amendment for that year.

PART 2 – RESIDENT OF TIMOR-LESTE

Use this part if you were a resident of Timor-Leste for tax purposes during 2005–06. Otherwise, proceed to **Part 3 – Resident of another country**.

What you need

- All your payment summaries for the 2005–06 income year
- Details of your JPDA income – from your employer or your pay slips
- *TaxPack 2006* and *TaxPack 2006 supplement* if you are completing a paper tax return. See **More information** on the next page to find out how to get copies of these publications.

You need to know

Ten per cent of your income earned for work or services performed in the JPDA is taxed in Australia. Your payer should have deducted Australian tax at the minimum rate of 29% on 10% of your JPDA income.

When completing **D1** to **D5**, you show only 10% of your expenses relating to your work in the JPDA.

What you need to do

Before you start on item **1** of your tax return, complete worksheet 3 for each payment summary that includes JPDA income.

WORKSHEET 3

		Peter*		You
Total gross income shown on your payment summary	(a)	$ 120,000	(a)	$
Total gross JPDA income included on your payment summary	(b)	$ 120,000	(b)	$
Subtract (b) from (a).	(c)	$ 0	(c)	$
Divide (b) by 10.	(d)	$ 12,000	(d)	$
Add (c) and (d).	(e)	$ 12,000	(e)	$

The amount at (e) is the amount you need to include at item **1** on your tax return.

* See the example below.

EXAMPLE

Peter, a labourer, was a resident of Timor-Leste for the whole year. His payment summary shows a gross payment of $120,000 and tax withheld of $3,480. His sole source of income was from the JPDA. Peter had work-related expenses of $200.

Peter will claim $20 (that is, 10% of $200) as his work-related expenses.

Peter will receive a tax refund of $5.80, that is, $3,474.20 (tax payable) – $3,480 (tax withheld).

Go to **Part 3 – Resident of another country** if you ticked **D** on the schedule on the last page. Otherwise, go to **Check that you have…** on the next page.

PART 3 – RESIDENT OF ANOTHER COUNTRY

Use this part if you were a resident of a country other than Australia or Timor-Leste for tax purposes during 2005–06.

What you need

- All your payment summaries for the 2005–06 income year
- Details of your JPDA income – from your employer or your pay slips
- *TaxPack 2006* and *TaxPack 2006 supplement* if you are completing a paper tax return. See **More information** on page 6 to find out how to get copies of these publications.

You need to know

Your net income earned in the JPDA is taxed in Australia. You can claim a rebate of 90% of Australian tax payable on that income. Your payer should have withheld Australian tax on 10% of your JPDA income.

What you need to do

Show all your Australian income (including all JPDA income) and deductions as instructed by *TaxPack 2006* or e-tax.

Use one of the following worksheets to calculate your rebate. Use worksheet 4 if the only Australian income you had was JPDA income; otherwise, use worksheet 5.

WORKSHEET 4

Your taxable income as shown on your tax return	(a)	$
Calculate your tax using *TaxPack 2006* (see table B2 on page 122) or e-tax*	(b)	$
Multiply (b) by 90.	(c)	$
Divide (c) by 100.	(d)	$

The amount at (d) is your JPDA rebate. Include this amount at **C** item **T15 Other tax offsets** on your tax return (supplementary section).

* If using e-tax you must complete all your income, deductions and Medicare items first.

WORKSHEET 5

	Gavin*		You
Your taxable income as shown on your tax return	(a) $ 80,000	(a)	$
Calculate your tax using *TaxPack 2006* (see table B2 on page 122) or e-tax**.	(b) $ 25,824	(b)	$
Divide (b) by (a) (round to at least 3 decimal places).	(c) 0.323	(c)	
Net JPDA income (after any allowable deductions relating to JPDA income)	(d) $ 69,900	(d)	$
Multiply (c) by (d).	(e) $ 22,577.70		$
Multiply (e) by 90.	(f) $ 2,031,993		$
Divide (f) by 100.	(g) $ 20,319.93		$

The amount at (g) is your JPDA offset. Include this amount at **C** item **T15 Other tax offsets** on your tax return (supplementary section).

* See the example below

** If using e-tax you must complete all your income, deductions and Medicare items first.

EXAMPLE

Gavin, a chef, was a resident of Malaysia for the whole year. His Australian taxable income was $80,000, of which $70,000 was JPDA income. Gavin had $100 of work-related expenses relating to his JPDA income. He has no other amount to show at item **T15**. Gavin uses worksheet 5 to calculate his JPDA offset.

Gavin's JPDA tax offset is $20,320. He includes this amount at **C** item **T15** on his tax return (supplementary section) and prints **H** in the claim type box at the right of **C**.

CHECK THAT YOU HAVE…

- completed the labels on your tax return as shown in the relevant parts
- attached your completed SCHEDULE OF ADDITIONAL INFORMATION – ITEM 19 – JOINT PETROLEUM DEVELOPMENT AREA to page 3 of your tax return
- attached your completed SCHEDULE OF ADDITIONAL INFORMATION – ITEM 19 – EXEMPT FOREIGN INCOME to page 3 of your tax return if asked to in **Part 1 – Resident of Australia**.

Check that you have printed **X** in the **YES** box at *Taxpayer's declaration* question **2a** on page 8 of your tax return.

❯ MORE INFORMATION

- Visit **www.ato.gov.au**
- Refer to the publications listed below. Publications are downloadable from our website and available by phoning our Publications Distribution Service on **1300 720 092**
- Phone the Personal Tax Infoline on **13 28 61**

Publications

- *TaxPack 2006* (NAT 0976)
- *TaxPack 2006 supplement* (NAT 2677)
- *Pay as you go (PAYG) withholding special tax tables for payments to individuals performing work or services in the joint petroleum development area (JDPA) as defined in the Timor Sea Treaty* (NAT 7288). This publication explains how your employer calculates the tax to be withheld and paid to Australia.
- *How to claim a foreign tax credit 2006* (NAT 2338)

> **❗ NOTE**
> *TaxPack 2006* and *TaxPack 2006 supplement* are also available from most newsagents from 1 July to 31 October.

COMPLETING THE SCHEDULE

1 Determine your residency for tax purposes (see page 1) for the period(s) during 2005–06 that you were in the JPDA then complete this schedule.

2 Attach the completed schedule to page 3 of your tax return.

3 Print **X** in the **YES** box at *Taxpayer's declaration* question **2a** on page 8 of your tax return.

SCHEDULE OF ADDITIONAL INFORMATION – ITEM 19 – JOINT PETROLEUM DEVELOPMENT AREA

I declare that I worked in the joint petroleum development area.

Name

Tax file number

Please tick the appropriate box.

A ☐ I was a resident of Australia for the whole year.

B ☐ I was a resident of Timor-Leste for the whole year.

C ☐ I was a resident of a country other than Australia or Timor-Leste for the whole year.

D ☐ I changed my residence during the income year (please provide details of the dates that cover each period).

	DAY	MONTH	YEAR		DAY	MONTH	YEAR		
Dates				to				Country	
Dates				to				Country	
Dates				to				Country	

Sign here