

**Q** *I have recently received a letter from the Australian Tax Office threatening to tax my foreign income. What should I do?*

**A** In July 2009 the Rudd Labour Government changed the way foreign incomes were taxable for Australian Resident taxpayers.

Under the old rules, if an Australian worked abroad for more than 90 days and paid tax in the country of earning, then it was treated as exempt income in Australia and no tax would be charged on this. Under the new rules, it is fully taxed in Australia and a credit is allowed for any tax paid in the country of earning.

Importantly, these rules only apply to Australian resident taxpayers, which is those living in Australia and just travelling temporarily overseas for work.

Recently, the Australian Taxation Office has increased its Audit activity in this area and is sending letters to many Australians working abroad.

These letters are actually soft Audits to check on the accuracy of the return. The standard letter that has been sent to many is very confusing and suggests that the ATO has “decided” that a persons residency status has been found to be as a “resident” and hence all offshore income should be included as taxable.

This is an very bad practise, designed to try and ensure that the recipient responds with urgency to the request by making the alternative of inaction very costly.

It is essential to understand that this is not the correct treatment for those living legitimately overseas with a long term intention, so if you receive a letter from the tax office similar to these you must:

Act quickly to make initial contact with the Taxation Office, preferably through your Australian Tax Agent.

Make it clear that you are indeed a Non Resident for tax purposes and therefore your Foreign Income is not taxable in Australia and there is no need to alter past returns lodged.

You will be asked to submit a Residency Questionnaire to confirm this, which should be duly completed and returned.

Once this has been attended to then the matter will be concluded in your favour.

If you do not respond to the Questionnaire, you run the risk of the ATO issuing an amended assessment which will include any income they are aware of (including transfers back to Australia) and a sizeable tax and penalty bill may arise. This can be disputed, but it will be a long and troublesome issue which could have been avoided by responding originally.

Surprisingly, the ATO is quite easy to deal with on these matters provided you remain attentive, co-operative and polite so ensure you do not feel threatened by the difficult, but required, administrative process.

If you have any doubt about your situation or concerns, make contact with your advisor or contact our office and we will be pleased to assist you gain a full understanding.

Steve Douglas is the co-founder and Managing Director of Australasian Taxation Services (ATS), established in Singapore in 1995. ATS provides specialist taxation services to people of any nationality investing in Australian property, as well as Australian expatriates living overseas. Areas of specialisation include the Australian taxation aspects of property investment, as well as expatriate and migration planning.