m2.9C Specific Deduction Provision

Division 25 (Misc. Ded)	s25-5	Managing Tax Affairs/Tax Compliance (not directly related to assessable income)
	s25-10	Repair of Non-Captial Nature
	s25-20	Lease establishment Costs (asso with CAPEX)
	s25-25	Borrowing Cost (asso with CAPEX)
Division 28 (Car)	s.28-15	Method 1: Cents per KM
		Method 2: Log Book
Divison 30 (Gifts/Donations)	s.30-15	*must be endorsed by the Commissioner (registered charity
	Key reqt:	(1)deductible gift recipient (2) gift amt >/+$2 (3)no material benefit received in return
Division 36		
> Tax Loses of Prior Yrs	s.36.10	Current year surplus deductions Less Net Exempt Income
> Future Year Deduction	s.36-15	1. Apply CY deduction first 2. Appy carry-forward tax loses - after reducing by any Net Exempt Income from CY

m2.10C Specific Deduction Limit/Deny

Division 26	s.26-5	1.Fines and Penalties excluded
	s.26-10	3. Employee leave deferred
	s.26-35	2. Payments to related reduced
Division 32	s.32.5	No Deduction for Entertainment
Division 32	s.32-10	Ent. re: Bus Discussion ► Cannot Deduct
*Exception relating to Entertainment	s.32-20	Can deduct - FBT provisions

m2.10C Specific Deduction Limit/Deny (cont)

*Exception relating to Entert-ainment	subdiv 32B	Can deduct - table of Exceptions eg seminar, ent. indusry exp, employer exp (in-house dining)
Division 35		Non-Commercial Business Losses
Division 820		Thin Capitalisation
Division 328		Prepayments for Services (and s.82KZMD ITAA36)

m2.10C.H Non-Comm'l Bus Losses - Div.35

1. Assessable Income Test	s.35-30	Assessable Income(incl. cap gains & bal. adjmnts) of atleast $20k
2. Profit Test	s.35-35	Business has a profit in 3 out of past 5 years (incl CY)
3. Real Property Test	s.35-40	Value of real property used in the business has a total reduced cost base of $500k. Excl dwelling (private use)
4. Other Assets Test	s.35-45	Value of depreciating assets, trading stocks, leased assets & int'l property excl. real property, car, motor cycles used on a continuity basis was at least $100k

Step 1. Look at assessable Income and Other Income
Step 2 . Losses can be offset in the CY if ANY ONE of the four test above are met:
Step 3 Commissioner discretion

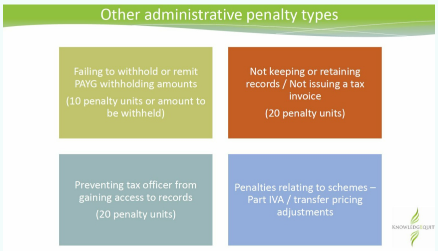
m2.10C.H Commerciality Test

Assessable Income Test	sec 35-30	AI from business including capital gain and balancing adjustment, is**at least $20k**

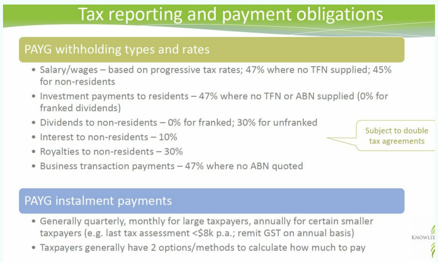
m2.10C.H Commerciality Test (cont)

Profit Test	sec 35-35	Bus activity **resulted in profit** in atleast **3 of the past 5 years incl CY**
Real Property Test	sec 35-40	Real Property or Interest in RP, used in carrying on the business = Reduced Cost Base of **$500k or more. Excludes** dwelling and its adjacent land that is mainly used for private purpose.
Other Assets Test	sec 35 - 45	Depreciating Assets, trading stock, leased assets and Intellectual property of business**are valued atlease $100k.** Excludes cars, motorcycle or similar vehicles.

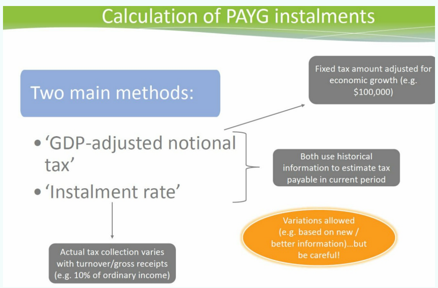
m1.1 Other Administrative Penalty Types



m1.9 PAYG Withholding & Installment Payment



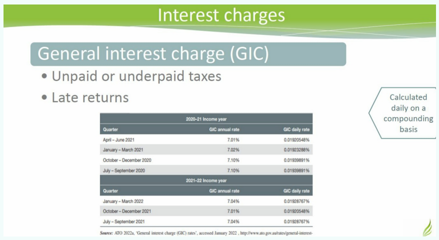
m1.9 PAYG Installment Calculation



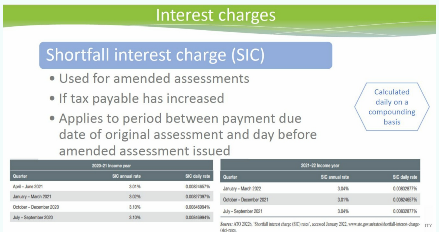
m1.10 PENALTY CATEGORY

Failure to Lodge on Time or In Approved Form	* Taxation Administration Act 1953 s.1 div. 286
	* Penalty Units ($222 from 01/07/2020)
False or Misleading Statement	* Taxation Administration Act 1953 s.1 div. 284
	Base Penalty plus Adjustment

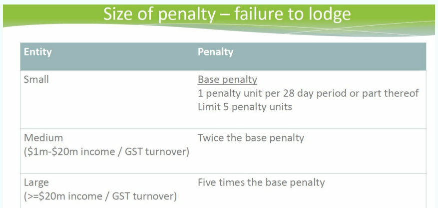
m1.10 GIC - General Interest Charge



m1.10 SIC (Shortfall Interest Charge)



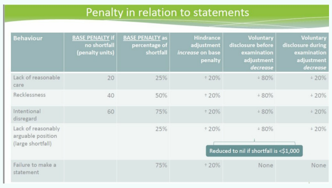
m1.10 SIZE OF PENALTY_Failure Lodge



Size of penalty – failure to lodge

Entity	Penalty
Small	Base penalty 1 penalty unit per 28 day period or part thereof Limit 5 penalty units
Medium ($1m-$20m income / GST turnover)	Twice the base penalty
Large (>=$20m income / GST turnover)	Five times the base penalty

m1.10 PENALTY IN RELATION TO STATEMENTS

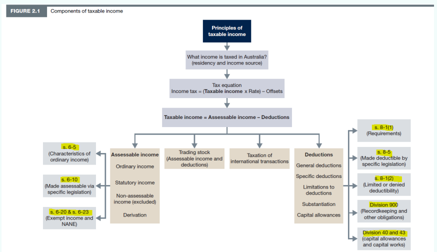


Penalty in relation to statements

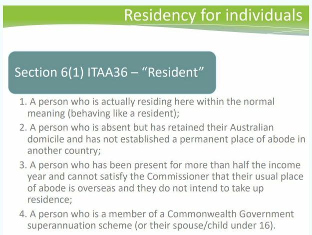
Behaviour	BASE PENALTY if no shortfall (penalty units)	BASE PENALTY as percentage of shortfall	Hindrance adjustment *increase* on base penalty	Voluntary disclosure before examination adjustment *decrease*	Voluntary disclosure during examination adjustment *decrease*
Lack of reasonable care	20	25%	↑ 20%	↓ 80%	↓ 20%
Recklessness	40	50%	↑ 20%	↓ 80%	↓ 20%
Intentional disregard	60	75%	↑ 20%	↓ 80%	↓ 20%
Lack of reasonably arguable position (large shortfall)		25%	↑ 20%	↓ 80%	↓ 20%
Failure to make a statement		75%	↑ 20%	None	None

Reduced to nil if shortfall is <$1,000

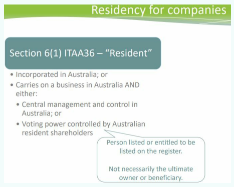
m2.0A - PRINCIPLE OF TAXABLE INCOME



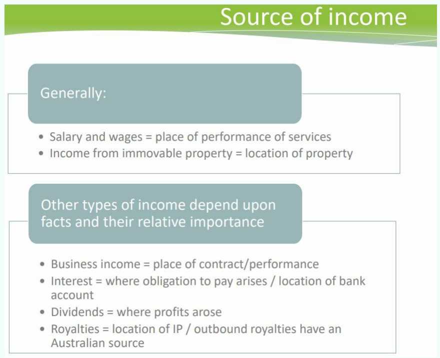
m2.1A Residency for Individual



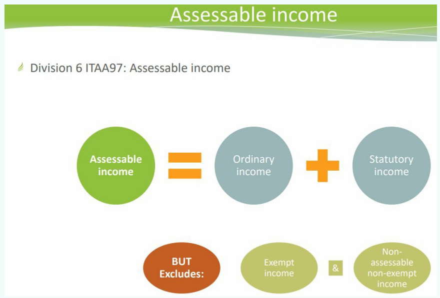
m2.2A Residency for Companies



m2.3A Source of Income



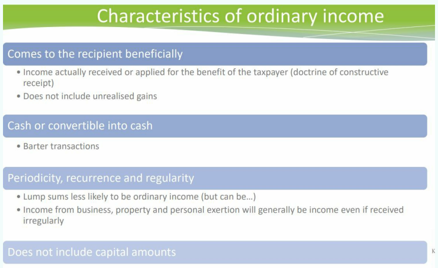
m2.4B - Assessable Income



NOT Assessable Income - [ITAA97 s6.15]

1. Not Ordinary Income [ITAA97 s6-5] and Statutory Income [ITAA97 s6-10]
2. Exempt Income [ITAA97 s6-20]
3. NANE - non assessable and non-exempt income [ITAA97 s6-23]

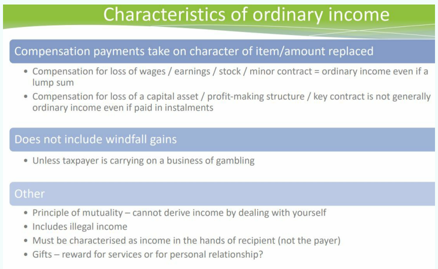
m2.4A Characteristic of Ordinary Income



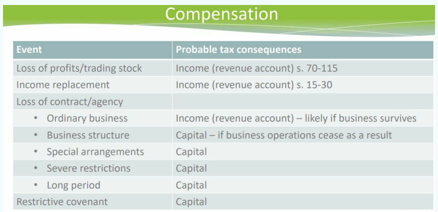
Usually connected with a source:

1. ACTIVE - e.g. Personal or Business Services
2. PASSIVE - e.g. Income as returns on property /investment

m2.4B Characteristic of Ordinary Income



m2.4BCompensation



Compensation

Event	Probable tax consequences
Loss of profits/trading stock	Income (revenue account) s. 70-115
Income replacement	Income (revenue account) s. 15-30
Loss of contract/agency	
• Ordinary business	Income (revenue account) – likely if business survives
• Business structure	Capital – if business operations cease as a result
• Special arrangements	Capital
• Severe restrictions	Capital
• Long period	Capital
Restrictive covenant	Capital

Questions of whether Revenue or Capital Compensation?

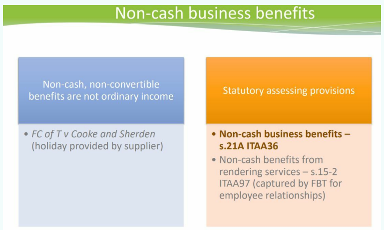
1. Affects the underlying business structure?
2. Normal trading risk for the type of business?
3. Incidental to carrying on ordinary business?

m2.5B Statutory Income Provisions

1. Specific amounts made assessable by the Act
2. ITAA97 s6-10(1) - assessable income which includes amounts that are not ordinary income
3. ITAA97 s.6-10(2) amount not ordinary income but included in AI by provision of assessable income

e.g. Net Capital Gains / Forex Gains / Insurance Bonuses

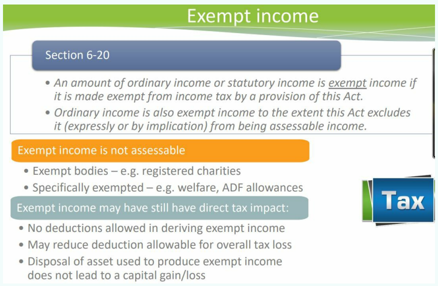
m2.6B Non Cash Business Benefits



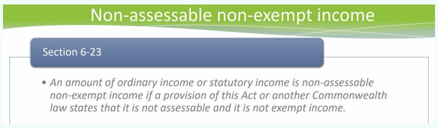
Case 1: Not Cash or Convertible into Cash > Generally NOT an OI > Arise from business relationship [s21A applies] > No exception applies (no entertainment provided by the client) > ARM's LENGHT VALUE ($2,000) - INCLUDED IN ASSESSABLE INCOME

Case 2 ; Not Cash or Convertible into Cash > Generally NOT an OI > Arise from business relationship [s21A applies] > EXCEPTION applies [s.21A] - non deductible entertainment expense of supplier > Value of Non Cash Business Benefit is REDUCED TO NIL

m2.6B Exempt Income



m2.6B NANE



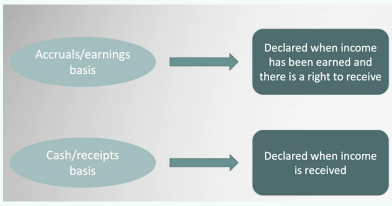
e.g GST

Quiz: A registered charity sells donated goods tru opshop for $110 incl GST.
* $100 - Exempt income (registered charity) s.50-5
* $10 GST - NANE s.17-5(a)

Foreign investors will not be entitled to any franking credits on the FRANKED Dividends.
*wtax on franked dividends is Zero.

Dividends and Interest Income subject to WTAX, the net amount is now NANE [ITAA36 s128D]

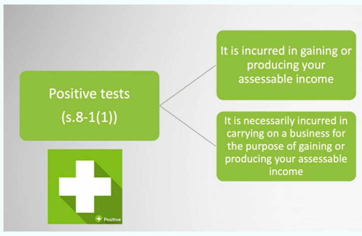
m2.7B Derivation



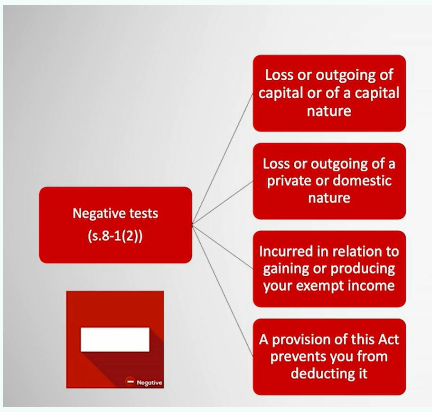
CASH basis - Passive Income (rent, interest, dividends) & Salary and wages

ACCRUAL basis - Business Income (large scale transactions & invoice issuance)

m2.8C General Deduction - Positive Limb



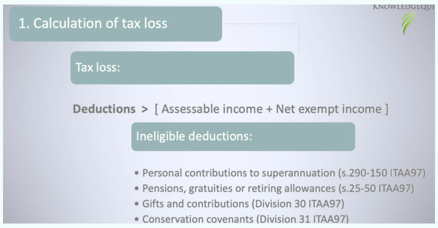
m2.8C - General Deduction - Negative Limb



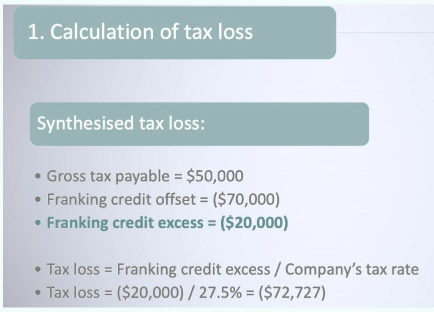
m2.9C - Specific Deduction Provisions (sec 8-5)

m2.10C - Specific Limitation to Deduction

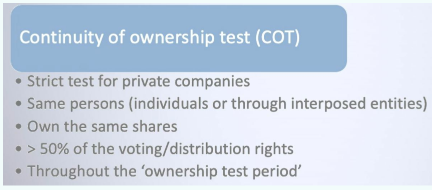
m2.10C. - Company Losses Key Element



m2.10C. - Synthesize Tax Loss



m2.10C. - Loss Recoupment Rules - COT Period

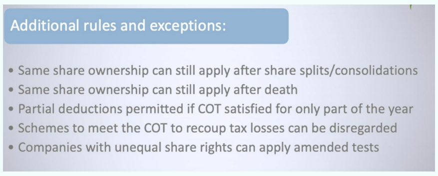


Tax Losses: start of loss year to end of recoupment year

Capital Losses: start of loss year to end of recoupment year

Bad debts: day the debt incurred to end of claim year

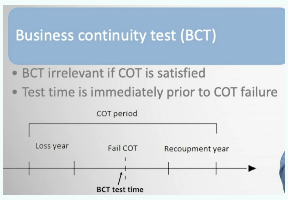
m2.10C. COT Addl Rules & Exceptions



m2.10C. - WH Company & Div 166 Company

m2.10C. COT - WH Company & Div 166 Company

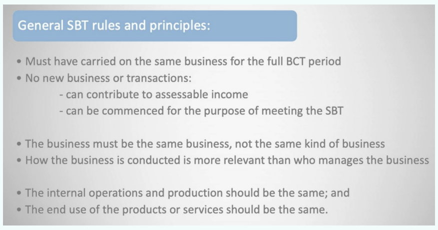
m2.10C. Loss Recoupment Rules - BCT



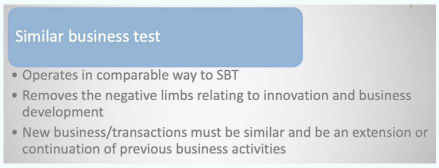
BCT is done immediately after COT FAILED, which means,it is not the business of the last year is tested, only the business carried on immediately prior to the change of ownership

BCT is fulfilled if passed this 2 tests - Same & Similar Continuity Test

m2.10C. BCT SBT - Same Business Test



m2.10C. BCT - Similar Business Test



Similar business test factor:

1. Similarity between **assets** of former and new business.
2. Similarity between **activities** of former and new business.
3. Similarity of **identity** between old and new business
4. To what **extent** did a new **business evolve** from developments in old one?

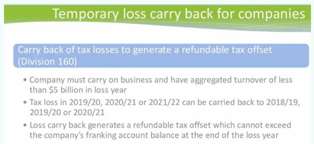
m2.10C. Utilisation of Available Losses

Loss recoupment satisfied [COR or BCT] > can NOW Carry forward and utilise losses	
First apply against net Exempt Income > Requirement	
Apply any Remaining Tax Losses > Choice	

Loss Deduction Rules:

* Oldest available losses must be utilized first
* No deduction can be made where excess franking credits exist
* Deduction of losses cannot result in excess franking offsets.

m2.10C. Temp Loss Carry Back Tax Offset



m2.10C.Temp Loss Carry Back Tax Offset - Case

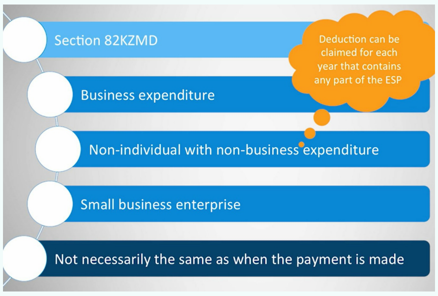
Temporary loss carry back for companies

The financial records of Company A (tax rate of 30%) show the following:

	2020/21	2019/20	2018/19
Tax loss	($900 000)	-	-
Net exempt income	-	-	$5 000
Taxable income	-	$700 000	$400 000
Tax paid (@30%)		$210 000	$120 000
Closing franking account balance	$280 000		
Loss carry back		($495 000)	($405 000)

Loss carry back tax offset for 2020/21:
2018/19: ($405 000 - $5 000) x 30% = $120 000
2019/20: $495 000 x 30% = $148 500
Total tax offset = $120 000 + $148 500 = $268 500
(less than franking account balance in 2020/21 so not restricted)

m2.10C.G Prepayment - ITAA36 Prt III Sub.H

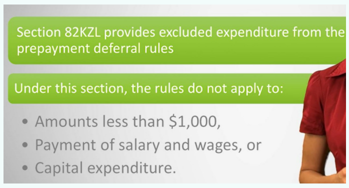


ESP - Eligible Service Period
* A loss or outgoing from an advance payment is usually incurred for s.8-1 purposes when paid (TR 97/7).

* Court have rarely applied the accounting principle matching principles.

* Exception for finance and insurance companies issuing discounted bills [Coles Myer Finance Ltd v FC of T]

m2.10C.G Prepayment - s. 82KZL Exclusion



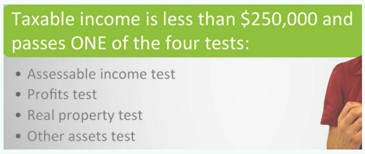
82KZL ► falls under sec 8-1 (Gen. Deduction)
SBE who have NOT CHOSEN to apply s. 82KZMD
INDIVIDUALS with non-business expenditures

Full Deductions if: (1) Expenditure relates to ESP =< 12 months (no greater than 12 mths); and
(2) Ends by 30 June of the ff income year

Prorata if: ESP > 12 months
► Period in a year / ESP

eg George Ind, with passive rental income

m2.10C.H Non-Commcl Bus. Loss - Div. 35

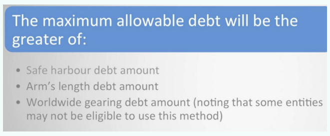


Division 35 purpose - quarantine tax losses from non-commercial activity to prevent deductibility against unrelated assessable income (individual income).

Rules: 1. Carried Forward & 2. Deducted from any future income from that activity.

Applied to: (1) Individuals conducting a business (2) Sole Trader or Partner
Does Not Apply To: (1) Passive Investment Income (2) Hobbies**

m2.10C.I Thin Capital'n > Debt:Equity Ratio



Outward investor takes priority if also an inward investor (Foreign Controlled)
Debt attributed to foreign permanent establishment is excluded from adjusted average debt
Only Australian operations are subject to thin capitalisation rules

Debt Deduction (Interest & Finance chargers) against Assessable Income in Australia

m2.10C.I Thin Capitalisation-Safe Harbour

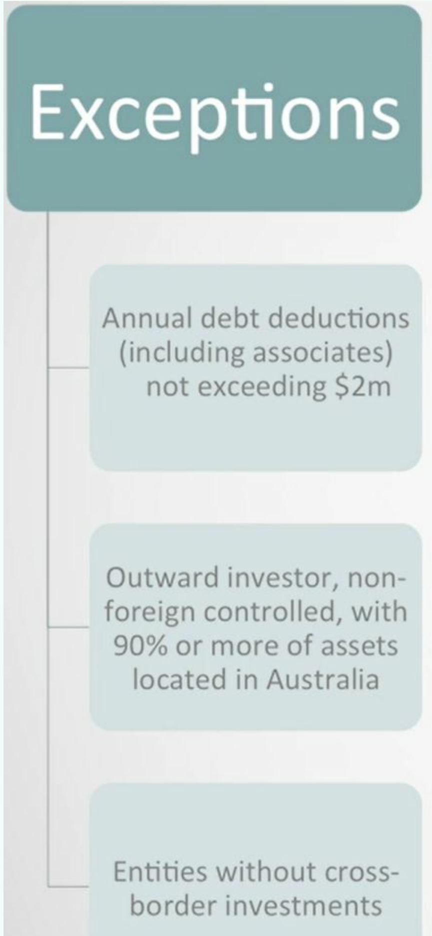
Calculate safe harbour debt amount (s.820-205)		
Average value Australian assets	($50m + $52m)/2 + ($5m + $5m)/2	$56m
Subtract associate entity debt	$0 associate entity debt	($0m)
Subtract non-debt Australian liabilities	$1m leave provisions	($1m)
Net Australian assets funded by debt and equity		**$55m**
Safe harbour debt amount	**$55m x 60%**	**$33m**

m2.10C.I Thin Capital'n-Safe Harbour

Assets : Au Property 20x6 ($50m) 20x7 ($52m)
Au Plant 20x6 ($5m) 20x7 ($5m)

Liability: Bank loan 20x6 ($40m) 20x7 ($40m)
Leave Prov 20x6 ($1m) 20x7 ($1m)
Interest Expense - $3mil

m2.10C.I Thin Capitalisation-Exceptions

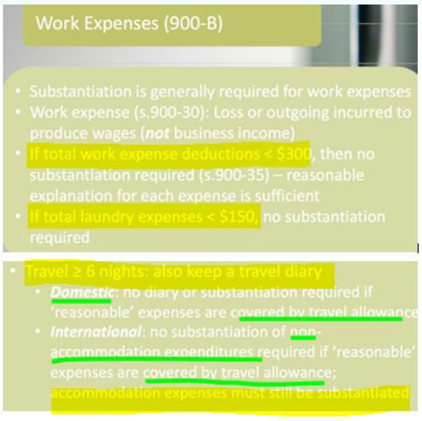


Exception means **THIN CAPITALISATION DO NOT APPLY**

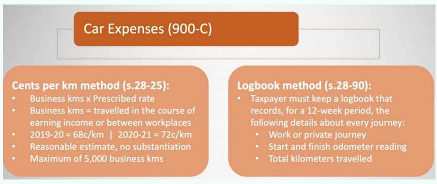
m2.10C.I Thin Capitalisation - Definition

Inward Investor	Foreign investor with Au Branch
Inward Investor	Foreign Controlled Resident Entity
Outward investor; not Foreign Controlled	Resident Co. with single overseas branch

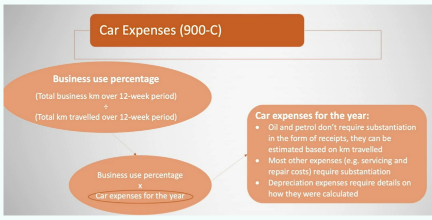
m2.11C Substantiation - Work Expenses (900-B)



m2.6C Substantiation-Car Expense (900-C)



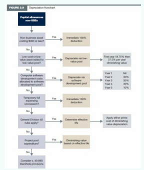
m2.6C Substantiation -Car Expense (900-C)



m2.6C Substantiation - Bus Travel Exp (900-D)

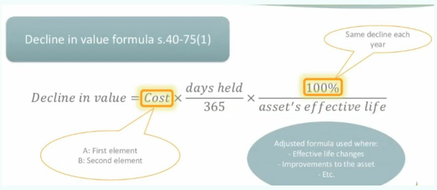
►**NO Allowance - ALL Expense** must be substantiated
►If substantiation is required and no receipt is received from supplier - taxpayer can create the invoice only when: (1) Expense =<$10 and (2) Max. =<$200 p.a.
►Can use bank statement if no date in the receipt
►If nature of the expense not stated, taxpayer can enter details

m2.14D Depreciation Flowchart



m2.14 Rental Properties Allowable Ded.

m2.14 s.40-75(1) - Prime Cost Method-



Straight Line Depreciation

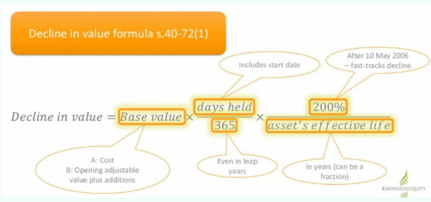
First Year with second element

m2.14 s.40-75(1) - Prime Cost Method - Change

Change Year
* Must adjust the formula in s.40-75(1) and it occurs in 2 situations:
1. Recalculate effective life; or
2. Include a 2nd element cost amount in a year after the installation year..

Effective Life = 9.17years
= 10 years -0.83 years (304/365)

m2.14 s.40-72 - Diminishing Value Method



Can be used on Assets held post 9th May 2006
Diminishing Value Method Not Eligible for intangible assets (**except for Copyright**)

First Year ► Base Value = Asset's Cost
Sub Years ► Base Value = Opening Adjustable Value + New Second Element Costs

m2.14 s.40-72 Diminishing-Value Method

Most intangible assets are not eligible for DVM.

Tangible Asset (not acquired from associate) second-hand auction subject to DVM.

Tangible Asset (acquired from associate) so long that taxpayer is using DVM - continue using same method.

Second element costs are not depreciated separately but form part of the base value.

Any changes to the effective life during a year affects the calculation for that entire year onwards – that is, that there is no pro-rata decline calculation for part of the year.

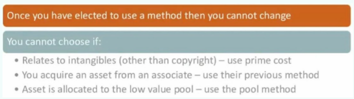
Key Notes

m2.14 s40-72 Diminishing Value - Change

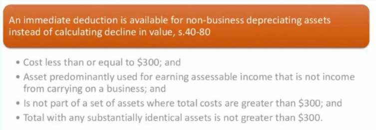
Sub Year ► **Base Value** = Opening Adjustable Value + New Second Element Costs
= $83,343 + $5,000
= $88,343

For a Change of Effective Life = **Calculated for the Entire Year**, No prorata decline calculation for part of the year

m2.14 Depreciation Choice of Method



m2.14D Non-SBEs - Assets of $300< s.40-80



m2.14 Non-SBEs Low Value Asset Pool

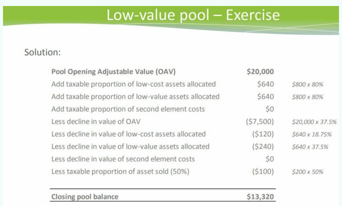
Low-Cost Assets (addon)	s. 40-425(2)	cost < $1,000.00	(18.75%) 1st yr of available-for-use
Low-Value Assets	s. 40-425(5)	opening ajustable value (OAV) <$1,000; more than $300.00	(37.50%) previously depreciated while the opening ajustable value (OAV)

*Low-Value Assets - assets subjected to Diminishing Value and later on the balance is <$1,000.00

Pool Decline in Value (opening adjusted value) + Allocated Asset Decline in Value (newly add-on)

Balancing Adjustment -(sec 40-445) subtract the taxable used % of the termination value from the closing balance. Pool Value cannot go below **ZERO** and the balance goes to Assessable Income.

m2.14D Non-SBEs Low Value Pool - Exercise



Low-value pool – Exercise

Solution:

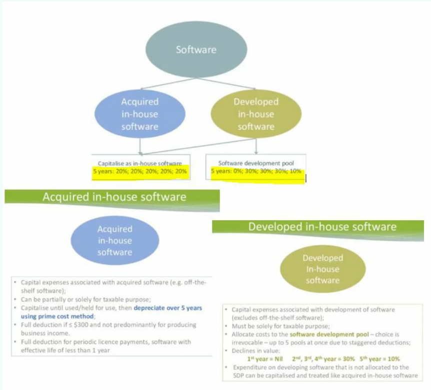
Pool Opening Adjustable Value (OAV)	**$20,000**	
Add taxable proportion of low-cost assets allocated	$640	*$800 x 80%*
Add taxable proportion of low-value assets allocated	$640	*$800 x 80%*
Add taxable proportion of second element costs	$0	
Less decline in value of OAV	($7,500)	*$20,000 x 37.5%*
Less decline in value of low-cost assets allocated	($120)	*$640 x 18.75%*
Less decline in value of low-value assets allocated	($240)	*$640 x 37.5%*
Less decline in value of second element costs	$0	
Less taxable proportion of asset sold (50%)	($100)	*$200 x 50%*
Closing pool balance	**$13,320**	

Case:
Pool opening adjustable value (OAV) is $20,000.
$800 low-cost asset and low-value asset with OAV of $800 added to pool, both with 80% taxable purpose.
No second element costs incurred in the year.
One pooled asset used 50% for a taxable purpose sold this year for $200.

m2.14D Non-SBEs Low-Value Asset Pool

Key Notes:
Remember that low-cost or low-value assets can be allocated to the pool.
In the year in which they are added, the decline in value is calculated using a rate of 18.75% for low-cost assets and 37.5% for low-value assets.
Any second element costs to either of these assets declines at 18.75% in that year of entry. In subsequent years, the pool decline is calculated using a rate of 37.5% on the opening pool balance.

m2.14D Software Development Pool



Intangibles Effective Life
* In-house software = 5 years
* Registered design = 15 years

Acquired asset from associates - use the same

m2.14D Non-SBEs Balancing Adjustment

(Subd 40-D)

Assessable Income = Termination Value > Adjustable Value

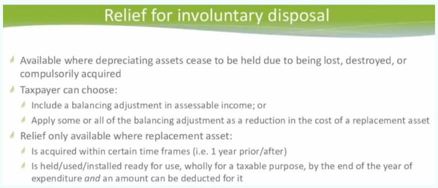
Deduction = Termination Value < Adjustable Value

*Reduced for any non -taxable use of asset

Termination Value s40-300

1. Generally, what you receive in respect of the event (sales proceed or insurance claim)
2. Can be deemed market value (when not dealing at arm's length)

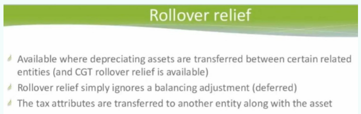
m2.14D Non-SBE- Relief Involuntary Disposal



Rollover Relief

* Available where depreciating assets are transferred bet certain related entities (and CGT rollover relief is available)
* Rollover relief simply ignores a balancing adjustment (deferred)
* The tax attributes are transferred to another entity along with the asset.

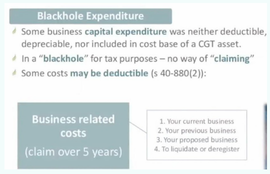
m2.14D Non-SBEs Rollover Relief



m2.15D Temporary Full Expensing - Covid19

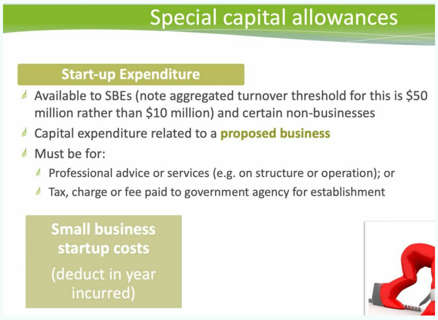
m2.16D Project Pool Expenditure

m2.17D Non-SBE Blackhole Expenditure



s40-880(2)

m2.17D SBEs - Blackhole Expenditures



Normally Blackhole Expenditures is spread over 5 years.

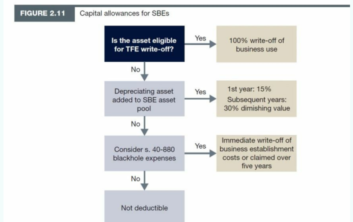
SBE start-up costs can deduct in year incurred.

m2.18 SBEs - Capital Allowances (optional)

Simplified Asset Pooling	Small Business Asset Pool
Immediate Write-Off for Low-Cost Assets	cost threshold - asset costing **less than $150k**
Temporary Full Expensing (TFE) - 06 Oct 2020 7:30pm	Covid19 temporary measure- to be fully written off irrespective of its balance (2020-21, 2021-22 & 2022-23)

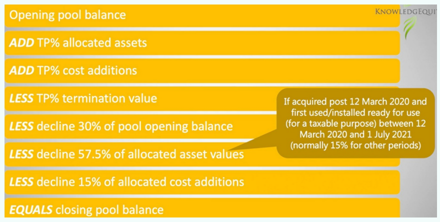
Requirements:
* it carries on a business that year; and
* its aggregated **turnover is less than $10 million**.
Relevant Considerations:
* What is the taxable use percentage for the relevant assets?
* Does the taxpayer have existing assets that have previously been depreciated?
* Are new assets at or below the threshold for immediate write-off
* What are the permitted rates of decline for pooled assets?

m2.18D SBE Cap Allow - Diagram



m2.18 SBE Capital Allowances

m2.18 SBE Capital Allowance - Close Pool Balance



* if the Terminated Value puts the Closing balance to Zero = the excess will be included in Assessable Income

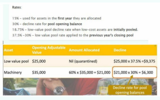
* If the Closing Pool Balance is < the instant asset write-off threshold ($150k) ► Immediate Deduction

m2.18 SBE Capital Allow - First Elect for SBE Pool

Rates:

15% - used for assets in the **first year** they are allocated
30% - decline rate for **pool opening balance**
18.75% - low-value pool decline rate when low-cost assets are **initially pooled**.
37.5% -30% - low value pool rate applied to the **previous year's closing pool**

m2.18D Capital Allow - SBE First Elect



m2.19 Capital Works (ITAA97 Div 43)

Buildings or extensions including alterations or improvements to the building

Alterations and improvements to leased buildings including shop fittings

Driveways, fences and retaining walls

Earthworks

Div 43 - Capital Works - Generally - **SUBJECT from CGT**

Div 40 - Capital Allowances ► **EXEMPT from CGT** (if fully used for taxable purposes)

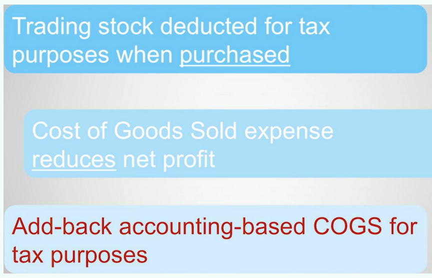
m2.19 Capital Works - Formula

Deduction Rate is based on the **date construction commenced** but

Deductions are **only available** from the *Date Construction was **completed** (assuming the asset is used for income producing or R&D)

m2.19D Rate of Deduct - Capital Works

m2.21E Trading Stock - Adjustment s.70-35



Stock **Closing** > Opening ► Adjusted to **Assessable Income**
Stock Closing < **Opening** ► Adjusted to **Deductions**

Stock On Hand Valuation on each item/per item:
1. at cost
2. at market selling value
3. at replacement value

m2.21E Trading Stock - Exercise

DVD Players: Technological advances; Sales fallen considerably; Reduce sale price to $100

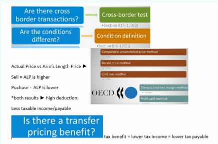
Item	Qty	Cost (ea)	Replacement price (ea)	Market selling price (ea)	Closing value (total)
Tablets	30	$200	$220	$400	$6,000
Televisions	20	$750	$700	$1,400	$14,000
DVD Players	15	Obsolescence value (ea) $100			$1,500
				Closing value	$21,500

m2.24E Trading Stock - Special Rule

Issue	Treatment
Disposal not in the ordinary course of trading – donations, gifts to family / friends, sale of business	• Include market value at date of disposal in assessable income
Notional disposal of trading stock – change in constitution of a partnership	• Include market value at date of change in assessable income • Election can be made to use trading stock value in certain circumstances
Cease to hold item but still own it – take for own personal use	• Include cost price at the date of transfer in assessable income
Stock lost or destroyed	• Include compensation in assessable income.
Death of owner	• Include market value in assessable income • Election can be made in certain circumstances

m2.24E Trading Stock - SBE Concession

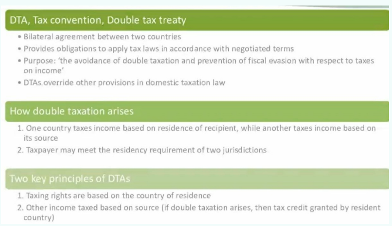
m2.25E International Transactions Process



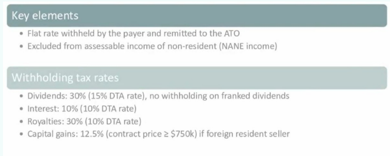
if there's a transfer price benefit, the Commissioner will substitute the arm's length price for tax purposes:

1. taxable income - income tax
2. capital gains/losses - that attracts CGT

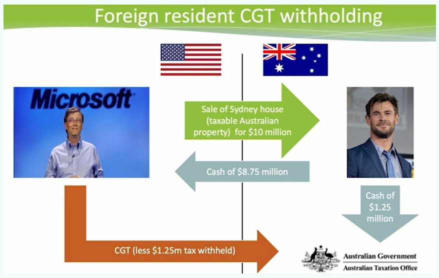
m2.26 Double Tax Arrangement - DTA



m2.27E Withholding Tax Regime



m2.27E Foreign Resident CGT Withholding - Exercise



Rates Applied:

*Capital Gains = **12.5%** (contract price >= $750k) if foreign resident seller

m2.29E Foreign Currency Conversion

m2.29E Forex REalisation Event (s.775)

5 MAIN TYPE OF FRE (FOREX REALISATION EVENTS):

1. FRE 1 – when you dispose of FX, or a right to receive FX, to another entity.
2. **FRE 2** – when you cease to have a **right** to receive FX (otherwise than through disposal to another entity).
3. FRE 3 – when you cease to have an obligation to receive FX.
4. **FRE 4** – when you cease to have an **obligation** to pay FX.
5. FRE 5 – when you cease to have a right to pay FX.

s775 - Forex Realisation is under a Revenue Account:
1. Forex **Gain** ▸ **Assessable Income**
2. Forex **Loss** ▸ **Deductions**

m2.29E Forex Tax Treatment - FRE

Foreign exchange realisation event (FRE)	Examples
FRE 1 – Disposal of foreign currency or right to receive foreign currency (s.775-40)	• Taxpayer converts amount of foreign currency into Australian dollars (CGT Event A1)
FRE 2 – Ceasing to have a right to receive foreign currency (s.775-45)	• Taxpayer receives repayment of foreign currency-denominated loan • Taxpayer receives foreign currency payment from trade debtor
FRE 3 – Ceasing to have an obligation to receive foreign currency (s.775-50)	• Taxpayer closes out a derivatives contract
FRE 4 – Ceasing to have an obligation to pay foreign currency (s.775-55)	• Taxpayer repays a foreign currency-denominated borrowing • Taxpayer makes foreign currency payment to trade creditor
FRE 5 – Ceasing to have a right to pay foreign currency (s.775-60)	• Taxpayer exercises an option contract

m2.29E Forex Realisation Event - #02

Sales income	GBP 1,000 / 0.47
(derived when invoiced)	= AUD 2,127
Amount received	GBP 1,000 / 0.45
	= AUD 2,222
Forex Realisation Event 2	AUD 2,222 – AUD 2,127
FRE 2 Gain	**= AUD 95**
	Assessable income (s.775-15)

Events arise from:
1. the **Right** expires - e.g., withdrawal from the foreign currency-denominated account
2. the **Right to Receive** is extinguished. cash is received from overseas debtor under sales contract denominated in foreign currency.

m2.29E Forex Realisation Event - #04

Stock purchase deduction	USD 1,000 / 0.65
(debt incurred per s.8-1)	= AUD 1,538
Amount paid	USD 1,000 / 0.70
	= AUD 1,428
Forex Realisation Event 4	AUD 1,538 – AUD 1,428
FRE 4 Gain	**= AUD 110**
	Assessable income (s.775-15)

Event Sample:
1. the **Obligation** expires
2. the Forex currency is **Paid** e.g. Obligation to pay is extinguished.

m2.29E Exception to Div 775

Short-term forex gains and losses on the acquisition of capital assets are an exception to the Division 775 rules and the gain instead will reduce the cost base (and reduced cost base) of the capital asset. For non-depreciating capital assets, this is the case when the time between the date of acquisition and the due date for payment is less than 12 months.