

5.1 Income Tax

Under income tax law a missionary who is a resident of Australia will be taxed on their worldwide income. This raises the possibility of double taxation in relation to foreign source income where the income will be taxed at its source and then taxed again in the country of residence.

Australian legislation provides for unilateral relief on foreign employment income from international double taxation utilising either:

- (a) the Exemption Method; or
- (b) the Tax Offset Method

(a) Exemption Method (Section 23 AG Income tax Assessment Act)

This section provides exemption for foreign employment income earned by an Australian resident working overseas as an employee for a continuous period of 91 days. It is limited to income from particular employment.

Your foreign employment income is exempt from tax in Australia if **all** of the following apply:

1. you are a resident of Australia;
2. you are engaged in continuous foreign service as an employee for 91 days or more;
3. your foreign service is directly attributable to **any** of the following:
 - a) delivery of Australian official development assistance by your employer
 - b) activities of your employer in operating a public fund declared by the Treasurer to be a developing country relief fund;
 - c) activities of your employer in operating a public fund established and maintained to provide monetary relief to people in a developing foreign country who are distressed as a result of a disaster (a public disaster relief fund);
 - d) activities of your employer as a prescribed charitable or religious institution exempt from Australian income tax because it is located outside Australia or the institution is pursuing objectives outside Australia;**
 - e) deployment outside Australia by an Australian government (or an authority thereof) as a member of a disciplined force.

For the purpose of Regulation 50.50.02 of the Income Tax Assessment Act (1997), Missions Interlink is listed as a prescribed institution pursuing objectives principally outside Australia under 3(d) above. Missionary organisations which are full members of Missions Interlink and who make payments to their missionaries in relation to their overseas service would qualify for exemption from tax in Australia under the 23AG exemption.

Where S.23AG exemption applies

Most resident missionaries working overseas earning employment income and who were previously exempt will still most likely retain their exemption, **provided** their employer is recognised as being a prescribed institution under the Act.

Employers are not required to withhold PAYG tax from earnings; however individuals are generally still required to disclose foreign employment income **even** if it is exempt from tax. This is shown at item 20 (label "N") on the tax return. The ATO use this figure to calculate the rate of tax which will apply to your taxable Australian source income.

Where S.23AG exemption does not apply

Employers should withhold PAYG tax from employment payments and disclose these amounts on the new foreign employment payment summary and issue this to the employee at the year-end.

ⁱ This Guide is available for purchase from Missions Interlink admin@missionsinterlink.org.au