

Submission number 2014/20

14 May 2014

Draft Taxation Ruling TR 2014/D2

The Association of Superannuation Funds of Australia (ASFA) provided a supplementary submission to the Australian Taxation office with respect to the Draft Taxation Ruling TR 2014/D2 – Income tax: the application of the foreign income tax offset limit under section 770-75 of the *Income Tax Assessment Act 1997* to foreign currency hedging transactions (“the Draft Ruling”).

The purpose of the supplementary submission is to provide further support for our earlier submission and in particular to illustrate the complexity involved in the trading of foreign currencies and specifically with respect to determining the source of the gain.

Information on how these markets operate is provided so that an appreciation can be gained of the difficulty that would be faced by taxpayers in applying the principles of the Draft Ruling.

In support of the ASFA position a graph is included showing the cumulative spot changes in each of the three major time zones. The Figure clearly shows the persistent difference between London and Sydney trading.

Information is also provided on ASFA’s belief that, as a general principle, Australian investors should have access to foreign exchange liquidity when it is needed and available to implement currency hedges and that this is particularly true of the Australian superannuation market due to its large size and high level of offshore investment.

The supplementary submission concludes that as the Foreign Exchange market continues to be concentrated in a few locations, thus allowing a wide range of market participants to access the greatest liquidity and to ensure that risk management strategies are executed in the most efficient manner, an ATO policy position that encouraged taxpayers to self-impose a restriction on this access would inevitably lead to sub-optimal outcomes.