

Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Budget Estimates, 2 - 3 November 2005

Question: SBT 17

Topic: TLAB3

Hansard Page: E59

Senator Sherry asked:

Wasn't part of TLAB3 in June to correct matters around the international tax bill? I think it was in schedule 2.

Answer:

Schedule 2 in *Tax Laws Amendment (2005 Measures No.3) Act 2005* (formerly 'TLAB3') addresses an outcome resulting from the *New International Tax Arrangements (Participation Exemption and Other Measures) Act 2004*. This Act expanded existing exemptions for certain foreign dividends and foreign branch profits of Australian companies and was the subject of extensive business consultation. However, in combination with tax treaty rules, expanding the foreign branch profits exemption meant that certain profits might not be taxed in either a foreign country or in Australia.

The amendment ensures the expanded foreign branch profits exemption does not apply to the profits of Australian companies operating ships or aircraft internationally. This reduces the problems for those Australian companies in allocating the appropriate income and expenses between their various foreign branches and Australian operations. The amendment means those companies would continue to be taxed in Australia in the way they were before the commencement of the expanded foreign branch profits exemption.