Australian Government

The Treasury

29 April, 2004

Dr Sarah Bachelard
Secretary
Senate Economics Legislation Committee
Parliament House
Canberra ACT 2600

Dear Dr Bachelard

I refer to a hearing of the Senate Economics Legislation Committee on 1 April 2004, concerning the New International Tax Arrangements Bill 2003. In the course of that hearing Senator Wong sought answers to a number of questions which were taken on notice.

Questions

a) What was the revenue saving from not proceeding with a previously announced measure to provide a franking credit for foreign dividend withholding tax?

b) Did the net costs of the Review of International Tax Arrangements (RITA) as published in 2003-2004 budget papers, include offsets additional to the franking credit for foreign dividend withholding tax?

c) What is the cost to revenue of the controlled foreign company (CFC) measure eliminating attribution of most of the income of a CFC in a broad-exemption listed country?

d) Was there any revision to the forward estimates in the Mid-Year Economic Fiscal Outlook for the RITA measures?

Answer

The 2003-04 Budget Paper No. 2 (pages 28 & 29) showed a net aggregate costing for all RITA measures ($270m over the forward estimates period), and stated that the costing included the cost of a proposed tax treaty with the United Kingdom and savings from not proceeding with a previously announced measure to provide franking credits for foreign dividend withholding tax paid.

The saving from not proceeding with the franking credit for foreign dividend withholding tax measure was the subject of a question on notice to the Committee sitting in consideration of estimates on 4 June 2003 and was answered in evidence in Hansard at page E293. The $270 million budget cost does not reflect any additional savings, with the exception of one minor measure which has a small positive impact over the forward estimates period because of a timing change only.

The RITA tax measures are the subject of consultation to refine the scope, mechanisms and implementation of the measures. As such, individual costings are subject to change as the measure develops into legislation. Accordingly, separate final costings have been provided for each component of RITA as each is finalised and as part of the normal introduction of legislation and

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processes for the scrutiny of treaties. The most significant RITA costs have now been published. The remaining RITA measures have not been the subject of consultation as yet so final costings cannot be provided at this stage. Nevertheless, it is expected that the remaining specific RITA measures will have an "order-of-magnitude" cost of no more than around $50 million over the forward estimates period (including the cost to revenue of the controlled foreign company measure referred to in (c) above). This does not include costs relating to a number of RITA issues which the Treasurer announced would be subject to further review (for example, a long term review of the Foreign Investment Funds rules).

Yours sincerely

signed by R Jones

for
Neil Motteram
A/g General Manager
International Tax and Treaties Division