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PERFORMANCE THROUGH INNOVATION
BARCLAYS GLOBAL INVESTORS

To Peter Hallahan
Fax Number 02 6277 5719
From Justin Wood/Raewyn Williams
cc Preetha Manoharan, IFSA
Total Pages 3
Date 21 May 2007
Subject **Inquiry into Tax Laws Amendment (2007 Measures No.3) Bill 2007**

With reference to the above inquiry, we are pleased to present the attached submission.

Yours sincerely,



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Mr Peter Hallahan
Committee Secretary
Senate Economics Committee
Department of the Senate
Parliament House
Canberra ACT 2600

BARCLAYS GLOBAL INVESTORS

Dear Mr Hallahan

Inquiry into the provisions of the Tax Laws Amendment (2007 Measures No. 3) Bill 2007

We thank you for the opportunity to lodge a submission on *Tax Laws Amendment (2007 Measures No.3) Bill 2007*. Our comments relate to Schedule 10 of the Bill, which relates to the new withholding tax arrangements for managed fund distributions to non resident investors.

About Barclays Global Investors

Barclays Global Investors ("BGI") is an institutional investment manager operating over 70 Managed Investment Schemes in the Australian market for the benefit of Australian institutional investors (predominantly complying superannuation funds) as well as non-resident investors. Currently, BGI manages over AUD 45 billion in funds across a range of index, active and total return strategies.

BGI is headquartered in San Francisco, USA and is a wholly owned subsidiary of the Barclays Bank group in the UK. The BGI group has ten offices worldwide including Sydney, Tokyo, Hong Kong and Singapore in the Asia-Pacific region.

Proposed withholding tax rules

We are concerned about the introduction of a 30% withholding rate on distributions to non-residents. Non-resident investors will not always understand which distribution components attract this withholding tax, since these depend upon Australian source rules and Australian distinctions between revenue and capital. BGI considers that the present system, which couples tax rule uncertainty

with a high withholding tax rate, will be a major deterrent to foreign investment in Australian managed funds.


We believe that Australia needs a flat and final rate that is competitive and removes the need for complex tax administration. The proposed 30% rate is non-final and permits the investor to offset it with deductions - which may produce the same net Australian tax cost as a reduced flat rate. We concur with IFSA's view that what matters to foreign investors is the headline rate, minimising the compliance costs of lodging an Australian tax return, as well as the time that it takes to obtain a refund.

In respect of the proposed rate, our nearest competitors have far more competitive rates of withholding: Japan has a withholding tax rate of 7% (and 0% for super funds), Singapore imposes 0% for individuals and 10% for other investors and Hong Kong has an effective rate of 15%.

BGI believes that if Australia does not adopt an international system with a more competitive tax rate and greater certainty, foreign investors will continue have limited investment in Australian managed funds.

We would urge the Committee to recommend a review into the benefits of a flat and final withholding rate of 12.5%.

Yours sincerely



Justin Wood

Head of Strategic Solutions & Client Advisory Group