



23 January 2009

Committee Secretary
Senate Economics Committee
Department of the Senate
PO Box 6100
Parliament House
CANBERRA ACT 2600

By email: economics.sen@aph.gov.au

Dear Sir/Madam

**Inquiry into the Tax Laws Amendment
(Taxation of Financial Arrangements) Bill 2008**

The Australian Financial Markets Association (AFMA) welcomes the opportunity to contribute comments to the Committee's inquiry into the Tax Laws Amendment (Taxation of Financial Arrangements) Bill 2008. AFMA represents the interests of participants in Australia's wholesale banking and financial markets. Our members include Australian and foreign banks, securities companies, treasury corporations, traders across a wide range of markets and industry service providers.

AFMA believes legislation to modernise Australia's rules for the taxation of financial arrangements (TOFA) is an important tax reform priority. This long overdue modernisation of the tax system would enhance its efficiency and effectiveness for financial institutions; produce compliance cost savings for taxpayers and a more meaningful revenue integrity check for the Australian Tax Office (ATO). The current divergence between financial institutions' financial accounts and tax records imposes a high administrative cost and greater operational risk for banks and securities companies, as well as complicating the administration of the tax system.

Australia's current method for taxing financial arrangements is out of step with international practice. This creates tax compliance problems for the conduct of international business in Australia, as the information outputs of global reporting systems do not align with the Australian tax requirements. Hence, the introduction of modern tax arrangements would improve our competitiveness as an international financial centre.

The objectives of the TOFA legislation are consistent with the Government's broader commitment to reduce business regulation costs, where possible.

The TOFA process has been ongoing for over 15 years now, with many disappointments along the way in term of progress towards its legislative

Australian Financial Markets Association

ABN 69 793 968 987

Level 3, Plaza Building, 95 Pitt Street GPO Box 3655 Sydney NSW 2001

Tel: +612 9776 7955 Fax: +61 2 9776 4488

Email: info@afma.com.au Web: www.afma.com.au

implementation. Therefore, it is important that a concrete foundation for a more effective tax regime for financial transactions is now put in place by enactment of the Bill. Moreover, this would assist taxpayers by enabling them to prepare to meet their compliance obligations under the new tax regime on a more certain and informed basis.

Against this backdrop, AFMA welcomes the introduction of the Tax Laws Amendment (Taxation of Financial Arrangements) Bill and encourages the Committee to recommend its enactment by Parliament.

In addition, we would like to note that the Bill encapsulates a series of technical tax rules that affect a very broad range of financial transactions. While the substantive aspects of the approach and related provisions have been settled in an acceptable manner, there are some matters of detail that require careful analysis to assess the full implications of the Bill from a compliance perspective. Consultation with Treasury and the ATO in relation to these matters is ongoing and we would ask the Committee to support this process and recommend that the associated matters of detail should be dealt with in a timely and effective manner, including through refinements to the provisions where necessary.

Should we be of further assistance, please do not hesitate to contact me at dlynch@afma.com.au or (02) 9776 7991. Thank you for your consideration of our submission.

Yours sincerely

A handwritten signature in black ink, appearing to read "David Lynch".

David Lynch
Head of Policy & Markets