

**Business
Coalition for
Tax
Reform**

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16 May 2007

The Hon Mr Peter Costello MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer,

**TAX LAWS AMENDMENT (2007 MEASURES NO. 3) BILL 2007
PROPOSED WITHHOLDING RATES FOR MANAGED FUND
DISTRIBUTIONS MADE TO FOREIGN RESIDENTS**

The Business Coalition for Tax Reform (BCTR) is highly concerned that the proposed new withholding rate in respect of distributions made by Australian managed funds to foreign residents is being set at a rate that will perpetuate the competitive disadvantage this key industry currently faces.

The BCTR is Australia's peak business tax group comprising a range of industry associations drawn from all sectors of the economy and representing small, medium and large businesses. BCTR members share the common objectives of creating and implementing a better tax system that enhances both international and domestic business competitiveness and fairness, and which assists in creating a business climate that is conducive to investment, growth, job creation and private saving.

Whilst clarification of the withholding tax regime for distributions made to non-residents was welcome when it was announced in May 2006, the critical issue was always going to be that both the high rate of withholding, and complexity of administration arrangements for a non-final tax, would deter non-residents from making further investments in the Australian market.

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As you would be aware, the managed funds industry is one of Australia's most successful and fastest growing industries outside the resources sector, with more than \$1 trillion under management. Australian managed funds are recognised in the region for their expertise and their consistent high levels of performance, resulting in Australia having the fourth largest pool of managed investments in the world, according to the Investment Companies Institute (ICI). As such, we have an opportunity to significantly contribute to Australia's economic growth, by attracting additional foreign capital.

The proposed 30 per cent rate of withholding is likely to make foreign investors think again before investing with Australian fund managers. Further, the administrative cost and complexity of requiring non-residents to reclaim the amount withheld by lodging an Australian tax return, does not signal to the global market that Australia is 'open for business'. Other competitor countries have rates which are significantly lower than our proposed 30 per cent rate, the most common one being 12.5 per cent. In the contest for attracting international investment, the Australian managed funds business needs to be given the opportunity to compete on a more or less equal basis with our competitor countries,

The BCTR strongly urges the government to reduce the proposed rate of withholding to a flat and final rate that is internationally competitive, so that the Australian funds management industry can continue to flourish and grow. Accordingly, we recommend that a flat and final withholding tax of 12.5% be introduced.

Yours sincerely,



John Stanhope
Chairman
Business Coalition for Tax Reform

Cc.

The Hon Mr Peter Dutton MP - Assistant Treasurer and Minister for Revenue
The Hon John Howard MP - Prime Minister
Committee Secretary - Senate Economics Committee