



Policy costing

Interest withholding tax for financial institutions	
Person/party requesting the costing:	Senator Andrew Bragg, Senator for New South Wales
Date costing completed:	7 April 2021
Expiry date of the costing:	Release of the next economic and fiscal outlook report.
Status at time of request:	Submitted outside the caretaker period <input checked="" type="checkbox"/> Confidential <input type="checkbox"/> Not confidential
Summary of proposal: This proposal would eliminate the following withholding tax on interest paid by financial institutions operating in Australia to foreign residents. <ul style="list-style-type: none">• The standard interest withholding tax levied at the rate of 10 per cent• The reduced interest withholding tax charged on Australian branches borrowing from their foreign parents as outlined in the <i>Australia as a Finance & Technology Centre Advisory Group (AFTCAG) Report</i>. The proposal would have effect from 1 July 2022.	

Costing overview

This proposal would be expected to decrease the fiscal balance by \$1,220.2 million and decrease the underlying cash balance by \$1,170.2 million over the 2020-21 Budget forward estimates period. On a fiscal balance basis this impact reflects a decrease in administered revenue of \$1,220.0 million and an increase in departmental expenses of \$0.2 million.

The proposal would be expected to have an impact beyond the 2020-21 Budget forward estimates period. A breakdown of the financial implications over the period to 2030-31 is provided at [Attachment A](#).

The differences between the fiscal and underlying cash balance impacts reflect timing differences between when an interest withholding tax liability is recognised and when the tax is paid.

There would be an increase in departmental expenses for the Australian Taxation Office associated with implementing the proposal. These estimates were based on the departmental cost profile for the 2010-11 Budget measure *Stronger, fairer, simpler tax reform – phasing down interest withholding tax on financial institutions*.

The financial impact of the proposal is very sensitive to the assumption that the aggregate effective withholding tax rate would be 3.5 per cent, based on the *Australia's Future Tax System (Henry Tax Review)* report of 2009. This assumption is quite uncertain as there is insufficient data on the jurisdictions where foreign financial institutions are located to make a more precise estimate.

Table 1: Interest withholding tax for financial institutions – Financial implications (\$m)^{(a)(b)}

	2020–21	2021–22	2022–23	2023–24	Total to 2023–24
Fiscal balance	-	-	-580.1	-640.1	-1,220.2
Underlying cash balance	-	-	-530.1	-640.1	-1,170.2

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.

Key assumptions

The Parliamentary Budget Office has made the following assumptions in costing this proposal.

- The aggregate effective tax rate applied to interest payments made by Australia-based financial institutions to foreign financial service providers would be 3.5 per cent.
- Interest withholding taxes foregone as a result of the proposal would grow over the period to 2030-31 in line with the average growth rate of relevant variation items in the *2020 Tax Benchmarks and Variations Statement*.

Methodology

The total interest withholding tax foregone was calculated as the sum of the following:

- the effective interest withholding tax under international tax treaties
- the reduced interest withholding tax charged on Australian branches borrowing from their foreign parents.

Both of these were estimated by calculating the additional concessionality of these items that would arise as a result of the proposal, based on the relevant variation items in the *2020 Tax Benchmarks and Variations Statement*.

Revenue estimates have been rounded to the nearest \$1 million.

Departmental expense estimates have been rounded to the nearest \$100,000.

Data sources

Australia as a Finance & Technology Centre Advisory Group, 2021. *Australia as a Finance & Technology Centre Advisory Group Report*.

Commonwealth of Australia, 2009. *Australia's Future Tax System – Part Two Volume 1 of 2*, Commonwealth of Australia: Canberra.

Commonwealth of Australia, 2010. 2010-11 Budget, Canberra: Commonwealth of Australia.

Commonwealth of Australia, 2020. *2020-21 Budget*, Canberra: Commonwealth of Australia.

Commonwealth of Australia, 2020. *2020-21 Mid-Year Economic and Fiscal Outlook*, Commonwealth of Australia: Canberra.

The Treasury, 2020. *Tax Benchmarks and Variations Statement 2019*, Commonwealth of Australia: Canberra.

The Treasury, 2021. *Tax Benchmarks and Variations Statement 2020*, Commonwealth of Australia: Canberra.

Attachment A – Interest withholding tax for financial institutions – financial implications

Table A1: Interest withholding tax for financial institutions – Fiscal balance (\$m)^{(a)(b)}

	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	2030–31	Total to 2023–24	Total to 2030–31
Administered revenue	-	-	-580.0	-640.0	-710.0	-780.0	-860.0	-950.0	-1,040.0	-1,150.0	-1,270.0	-1,220.0	-7,970.0
Departmental expenses	-	-	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.9
Total	-	-	-580.1	-640.1	-710.1	-780.1	-860.1	-950.1	-1,040.1	-1,150.1	-1,270.1	-1,220.2	-7,970.9

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.

Table A2: Interest withholding tax for financial institutions – Underlying cash balance (\$m)^{(a)(b)}

	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	2030–31	Total to 2023–24	Total to 2030–31
Administered receipts	-	-	-530.0	-640.0	-700.0	-770.0	-850.0	-940.0	-1,030.0	-1,140.0	-1,260.0	-1,170.0	-7,860.0
Departmental payments	-	-	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.9
Total	-	-	-530.1	-640.1	-700.1	-770.1	-850.1	-940.1	-1,030.1	-1,140.1	-1,260.1	-1,170.2	-7,860.9

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.